Heathrow Express Operating Company Limited

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

Company registration number: 03145133

Heathrow Express Operating Company Limited

Contents

Heathrow Express Operating Company Limited

Officers and professional advisers

Directors
Nicholas Cullen
Benjamin Harding
Mark Murphy
Richard Robinson
Robert Smallwood

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Independent auditors
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Chartered Accountants and Statutory Auditors
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Heathrow Express Operating Company Limited

Directors' report

The Directors present their annual report and the audited financial statements for Heathrow Express Operating Company Limited (the 'Company') for the year ended 31 December 2010.

Principal activities
The Company operates the express rail service between Heathrow Airport and Central London. The Company's parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the Company but the day to day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow. For providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs.

Results and dividends
The profit after taxation for the financial year amounted to £4.3 million (2009: £4.2 million). No ordinary dividend was proposed or paid during the year (2009: £nil). The statutory results for the year are set out on page 8.

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

During the year the Heathrow Express service carried a total of 5.36 million passengers, 11.8% higher than the previous year's total of 4.79 million. Heathrow Connect passenger numbers were steady carrying 0.56 million passengers, marginally down from 0.62 million in 2009. The combined passenger numbers for both services increased by 9.4% from 5.41 million in 2009 to 5.92 million in 2010 against a backdrop of a reduction in passengers at Heathrow Airport of 0.2%. Two main drivers for the year on year increase were the introduction of mobile sales personnel at Heathrow Airport and an increase in the proportion of origin and destination traffic at the airport from 62.6% to 64.5% increasing the available market size. Cost savings were also made through in-sourcing contracted staff.

The Heathrow Express Quality Service Measure (QSM) score (Friendliness, Appearance, Availability) increased once again to 91.2% (2009: 88.5%) continuing the Company's commitment to an improvement to the customer experience. Operational performance continued to improve with the Heathrow Express Public Performance Measure (PPM) increasing to 95.31% (2009: 95.1%) and punctuality of 90.2% (2009: 91.2%).

With economic uncertainty set to continue in 2011 the Company will continue to explore all opportunities to increase passenger numbers and revenues while managing costs effectively.

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

Michael Brown	Resigned 9 March 2010
Nicholas Cullen	Appointed 9 March 2010
Benjamin Harding	Resigned 9 February 2010, reappointed 1 January 2011
Mark Murphy	Appointed 9 February 2010
Richard Robinson	
Robert Smallwood	

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's employment policies are designed to balance the needs of the business, the customer and the employee and to enable it to attract, recruit and retain high performing individuals from the diverse communities that it provides services to.

The Company remains committed to encouraging diversity and fair and consistent practices in all stages of the employee life cycle, from recruitment onwards. The Company's Diversity policy takes account of relevant legislation and full consideration and support is given to employees who become disabled or require flexible working arrangements in order to remain employed.

Opportunities for development and progression are available to all and learning and development activities receive a high priority to continuously improve the performance of individuals and teams and to retain talented individuals.

The Company places great emphasis and allocates substantial resource to ensure that the views of employees are sought and employees are engaged in delivering against business objectives.

Collective consultation takes place with two rail unions, ASLEF (Association of Locomotive Engineers and Firemen) and the RMT (Rail, Maritime and Transport workers union), for a large proportion of the Company's employees. In addition regular formal and informal consultation processes exist for consulting with all employees directly, including working parties, training days for operational employees, employee surveys and line manager briefings.

Employment policies *continued*
A number of internal communications tools exist, such as daily newsletters, a company intranet/extranet site and employee briefing processes, the aims of which are to ensure employees have both the knowledge to effectively carry out their day to day activities but also to further understand the importance of their actions in achieving financial and service performance targets.

Reward and recognition practices also seek to align individual performance to Company objectives and financial targets for employees, managers and senior managers. Bonuses paid to employees and managers are linked to performance against financial targets.

Supplier 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 7 days purchases outstanding at 31 December 2010 (2009: 5 days) based on the average daily amount invoiced by suppliers during the year.

Risk management
Risk management is a key element of the BAA Limited Group's (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 ('SSA') (refer to the Accounting policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely following the BAA Group's guidelines. The Executive Committee and Board referred to in the notes below relate 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 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 Company 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 Company also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe. Governance and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

Risk management *continued*

Security risks

Security risks are regarded as important risks to manage throughout the BAA Group. The Company mitigates this risk by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company works closely with government agencies, including the police and 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.

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 Company 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 Company works closely with a range of stakeholders to ensure that the BAA Group reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risk management objectives and policies

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 Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The 2011 pay negotiations started in November 2010.

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 BAA (SP) Limited group (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.

Directors' report *continued*

Risk management *continued*
Commercial and financial risk management objectives and policies continued
Treasury continued
(c) Funding and liquidity *continued*
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 asset 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 asset 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 asset 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.

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

Richard Robinson
Director

18 March 2011

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' responsibility 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

Richard Robinson
Director

18 March 2011

Heathrow Express Operating Company Limited

Independent auditors' report to the members of Heathrow Express Operating Company Limited

We have audited the financial statements of Heathrow Express Operating Company 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, and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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.

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

18 March 2011

Heathrow Express Operating Company Limited

Profit and loss account for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Turnover		**61,881**	60,215
Operating costs - ordinary	*1*	**(56,257)**	(54,442)
Operating gain/(costs) – exceptional	*2*	**111**	(299)
Total operating costs		**(56,146)**	(54,741)
Operating profit		**5,735**	5,474
Net interest receivable and similar income	*3*	**195**	401
Profit on ordinary activities before taxation		**5,930**	5,875
Tax charge on profit on ordinary activities	*4*	**(1,667)**	(1,654)
Profit on ordinary activities after taxation	*11*	**4,263**	4,221

All profits 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.

Heathrow Express Operating Company Limited

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

	Note	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Profit for the financial year	*11*	**4,263**	4,221
Capital contribution	*11*	**115**	-
Tax on capital contribution	*6,11*	**(31)**	-
Net movement in shareholder's funds		**4,347**	4,221
Opening shareholder's funds		**8,341**	4,120
Closing shareholder's funds		**12,688**	8,341

Heathrow Express Operating Company Limited

Balance sheet as at 31 December 2010

	Note	31 December 2010 £'000	Restated[1] 31 December 2009 £'000
Fixed assets			
Tangible fixed assets	*5*	**51**	72
Total fixed assets		**51**	72
Current assets			
Debtors: due within one year	*6*	**22,241**	13,848
: due after more than one year	*6*	**137**	377
Cash at bank and in hand	*7*	**788**	2,157
Total current assets		**23,166**	16,382
Current liabilities			
Creditors: amounts falling due within one year	*8*	**(10,456)**	(7,814)
Net current assets		**12,710**	8,568
Total assets less current liabilities		**12,761**	8,640
Provisions for liabilities and charges	*9*	**(73)**	(299)
Net assets		**12,688**	8,341
Capital and reserves			
Called up share capital	*10*	**-**	-
Profit and loss reserve	*11*	**12,688**	8,341
Total shareholder's funds		**12,688**	8,341

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

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) were approved by the Board of Directors and authorised for issue on 18 March 2011. They were signed on its behalf by:

Richard Robinson
Director

Nicholas Cullen
Director

Accounting policies for the year ended 31 December 2010

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

Basis of preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets 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 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.

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

All revenue was received from Heathrow Airport Limited and represents the costs incurred providing the rail service on behalf of Heathrow Airport Limited plus a 10% management fee, net of VAT.

All fare and commercial revenue is collected on behalf of Heathrow Airport Limited by the Company and transferred directly to Heathrow Airport Limited.

Exceptional items
The Company presents, on the face of the profit and loss account, disclosure of exceptional items. Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Company's financial performance. Details of exceptional items are provided as and when required as set out in Note 2.

Provisions to recognise the Company's liability to fund the BAA Limited group (the 'BAA Group') defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item. Refer to the Shared Services Agreement accounting policy.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Tangible fixed assets
Rolling stock and all major assets used by the service are owned by Heathrow Airport Limited and depreciated by it.

Assets owned by the Company are stated at cost less accumulated depreciation.

Depreciation is provided on these operational assets, mainly office and computer equipment, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows:

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

Accounting policies for the year ended 31 December 2010 *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.

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

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

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

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 to offset exists.

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

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.

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

Pension costs – defined contribution pension scheme
The main pension fund for the Company is a defined contribution group personal pension plan. Pension costs are based on a fixed percentage of salary, up to a maximum of 5% for employees under 40 years of age and up to 9.6% for employees over 40 years of age, which is agreed at the commencement of their contract and continues to be paid whilst employed by the Company. The costs are charged to the profit and loss account on the basis of costs incurred during the year. This charge is included within ordinary staff pension costs.

As detailed under the Shared Services Agreement, certain employees are members of the BAA Group defined benefit pension scheme. Full details of this scheme are disclosed in the financial statements of BAA Airports Limited for the year ended 31 December 2010.

Shared Services Agreement ('SSA')
On 18 August 2008, the Company entered into a SSA with BAA Airports Limited by which the latter became the shared services provider of corporate services.

Corporate and centralised services
BAA Airports Limited also provides centralised support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the Company.

Pension costs – defined benefit pension scheme
Under the SSA the current period service cost for the BAA Group pension schemes are recharged to the Company on the basis of its pensionable pay base. This charge is included within ordinary staff pension costs.

In addition, the Company also has a legal obligation since August 2008 to fund its share of the BAA Group pension deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits (pension related liabilities) under the SSA. These provisions are based on the Company's share of the actuarial deficit. The share of the deficit has been allocated to the Company on the basis of pensionable salaries of those employees being in the defined benefit pension scheme and recorded as an exceptional item due to its unusual nature. These provisions are recorded as Provisions for liabilities and charges, and will only be settled when the cash outflows are requested by BAA Airports Limited.

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.

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

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 (formerly BAA (SH) Limited) 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. However, transactions and balances in relation to the provision of services under the SSA between the Company and subsidiaries of the FGP Topco Limited Group are disclosed in the notes to the financial statements.

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

1 Operating costs – ordinary

	Year ended 31 December 2010 £'000	Restated[1] Year ended 31 December 2009 £'000
Wages and salaries	**16,187**	14,414
Social security	**1,569**	1,305
Pension[2]	**417**	400
Other staff related costs	**1,380**	1,350
Share-based payments	**-**	95
Employment costs	**19,553**	17,564
Maintenance expenditure	**15,499**	15,941
Utility costs	**2,314**	2,314
Rents and rates	**2,371**	2,071
General expenses[3]	**13,704**	13,652
Intra-group charges/other[4]	**2,779**	2,995
Depreciation	**37**	38
	56,257	54,442

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures.
[2] Pension includes £342,000 (2009: £296,000) of pension costs related to the Company's defined contribution pension scheme and £75,000 (2009: £104,000) which are recharges from BAA Airports Limited in relation to the BAA Group defined benefit pension scheme. Refer to the Accounting policies.
[3] General expenses include the costs for track access to Network Rail, police, insurance, and marketing expenditure.
[4] Intra-group charges were for electricity, corporate management fee, IT, car parking and telephones.

Rentals under operating leases

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Operating costs include:		
Plant and machinery	**109**	122
Other operating leases	**7,890**	7,549

Auditors' remuneration

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Fees payable to the Company's auditors for the audit for the Company's annual accounts[1]		
Audit of the Company pursuant to legislation	**23**	16
Fees payable to the Company's auditors and their associates for other services for other services specific to the Company		
Information technology review	**-**	11
Total fees	**23**	27

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

Employee information

The average number of employees during the year of the Company was 411 (2009: 365). Employees numbers increased due to insourcing of Heathrow Connect on board staff and the introduction of mobile sales assistants into the business.

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

1 Operating costs – ordinary *continued*
Directors' remuneration

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Directors' remuneration		
Aggregate remuneration	**158**	174
Value of Company pension contribution to defined benefit pension scheme	**15**	20
	173	194

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Number of directors who:		
are members of a defined benefit pension scheme	**2**	2
are members of a defined contribution pension scheme	**1**	-

Mark Murphy was paid by, but is not a director of, Heathrow Airport Limited. Nicholas Cullen and Michael Brown were directors of a number of companies within the BAA Group, including Heathrow Airport Limited, during the year. Their remuneration was paid by Heathrow Airport 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 two of the six directors who held office during 2010 which vests in 2012 contingent on achieving or surpassing certain EBITDA targets of the BAA Group over a three year period. As the financial performance is uncertain at this stage no value in relation to this award is disclosed.

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

2 Operating gain/(costs) - exceptional

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Pension credit/(charge)	**111**	(299)

During 2010 an exceptional pension credit of £111,000 (2009: £299,000 charge) was incurred in relation to the push down of the Company's share of the reduction in the deficit on the BAA Group defined benefit pension scheme. For more information on pension costs charged in accordance with the SSA refer to the Accounting policies.

3 Net interest receivable and similar income

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Interest receivable from group undertaking	**193**	399
Interest receivable on bank deposits	**2**	2
Net interest receivable and similar income	**195**	401

4 Tax on profit on ordinary activities

	Note	**Year end 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Current tax			
Group relief payable		**1,639**	1,876
Adjustments in respect of prior periods		**(181)**	48
Total current tax		**1,458**	1,924
Deferred tax			
Origination and reversal of timing differences		**196**	(270)
Change in tax rate - impact on deferred tax assets and liabilities		**13**	-
Total deferred tax	*6*	**209**	(270)
Tax charge on profit on ordinary activities		**1,667**	1,654

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

4 Tax on profit on ordinary activities *continued*

Reconciliation of tax charge

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit on ordinary activities before tax	**5,930**	5,875
Tax on profit on ordinary activities at 28% (2009: 28%)	**1,661**	1,645
Effect of:		
Permanent differences	**3**	6
Capital allowances for the year in excess of depreciation	**(15)**	(20)
Other short term timing differences	**(10)**	245
Adjustments in respect of prior periods	**(181)**	48
Current tax charge for the year	**1,458**	1,924

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.

5 Tangible fixed assets

	Plant, equipment & other assets £'000
Cost	
1 January 2010	1,145
Additions at cost	16
Disposals[1]	(959)
31 December 2010	**202**
Depreciation	
1 January 2010	(1,073)
Charge for the year	(37)
Disposals	959
31 December 2010	**(151)**
Net book value 31 December 2010	**51**
Net book value 31 December 2009	72

[1] In July 2010, the Company completed a review of tangible fixed assets and all fully depreciated items were written off. There were no gains on any of these disposals.

6 Debtors

	31 December 2010 £'000	31 December 2009 £'000
Due within one year		
Trade debtors	**5,241**	4,733
Amounts owed by group undertakings[1]	**14,953**	6,981
Other debtors	**2,047**	2,134
	22,241	13,848
Due after more than one year		
Deferred tax asset	**137**	377
	137	377
Total debtors	**22,378**	14,225

[1] Amounts owed by group undertakings are repayable on demand and accrue interest at Bank of England base rate +1.5%. £11,838,000 (2009: £7,422,000) is owed by Heathrow Airport Limited and primarily represents reimbursement of cost plus management fee. The remaining amount of £3,115,000 (2009: creditor of £441,000) is owed by BAA Airports Limited due to VAT repayments and other miscellaneous charges.

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

6 Debtors *continued*

Deferred tax

	Note	£'000
1 January 2010		377
Charged to profit and loss account		(209)
Charged to profit and loss reserve	*11*	(31)
31 December 2010		**137**

Analysis of the deferred tax asset balances is as follows:

	31 December 2010 £'000	31 December 2009 £'000
Excess of capital allowances over depreciation	**88**	107
Other timing differences	**49**	270
	137	377

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

The effect of the changes enacted in the Finance (No.2) Act 2010 has been to reduce the deferred tax asset at 31 December 2010 by £13,000 with a corresponding increase in tax charge for the year of £13,000 as shown at Note 4. This decrease in the asset is due to the reduction in the UK Corporation tax rate from 28% to 27% with effect from 1 April 2011.

7 Cash at bank and in hand

	31 December 2010 £'000	31 December 2009 £'000
Cash at bank and in hand	**788**	2,157

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

8 Creditors: amounts falling due within one year

	31 December 2010 £'000	31 December 2009 £'000
Bank overdraft	**1,276**	7
Trade creditors	**166**	208
Accruals and deferred income	**7,321**	6,321
Corporation tax payable	**257**	257
Group relief payable	**835**	537
Other tax and social security	**472**	361
Other creditors	**129**	123
	10,456	7,814

9 Provisions for liabilities and charges

	Note	£'000
1 January 2010		299
Capital contribution	*11*	(115)
Credited to profit and loss account	*2*	(111)
31 December 2010		**73**

This provision represents the legal obligation the Company has under the SSA to fund its share of the BAA Group pension deficit and related pension liabilities, and will only be settled when the cash outflow is requested by BAA Airports Limited.

The provision relates to the push down of the Company's share of the deficit on the BAA Group defined benefit pension scheme. The provision has decreased because of the reduction in the deficit which is partly due to updated actuarial assumptions, particularly higher than expected investment returns. In addition, a commutation payment was made into the scheme in June 2010 by BAA (AH) Limited following the disposal of Gatwick Airport Limited. This has been reflected as a capital contribution in the profit and loss reserve.

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

10 Called up share capital

	£
Authorised	
At 1 January 2010 and 31 December 2010:	
100 ordinary shares of £1 each	**100**
Called up, allotted and fully paid	
At 1 January 2010 and 31 December 2010:	
2 ordinary shares of £1 each	**2**

11 Reserves

	Profit and loss reserve £'000
1 January 2010	8,341
Profit for the financial year	4,263
Capital contribution	115
Tax charge on capital contribution	(31)
31 December 2010	**12,688**

The capital contribution relates to the reduction in the share of the deficit of the BAA Group defined benefit pension scheme following the commutation payment made by BAA (AH) Limited into the scheme after the disposal of Gatwick Airport Limited.

12 Commitments

Commitments under operating leases

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

	31 December 2010		31 December 2009	
	Land & buildings £'000	**Other leases £'000**	Land & buildings £'000	Other leases £'000
Leases which expire:				
within one year	**-**	**69**	-	65
within two to five years	**-**	**40**	-	58
after five years	**417**	**7,474**	417	7,131
	417	**7,583**	417	7,407

13 Contingent liabilities

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

The Company, together with Heathrow Airport Limited and Stansted Airport Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

Under the SSA hedging costs properly incurred by BAA Airports Limited in relation to the Executive Share Option Plan ('ESOP') may be recharged to the Company. At 31 December 2010, the ESOP swaps held in BAA Airports Limited had a fair value loss of £75.6 million (2009: £69.9 million). The Company may be obligated to settle its share of these amounts in the future which is approximately £1.6 million, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability.

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

14 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Airport 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.

15 Post balance sheet events

There were no significant post balance sheet events.