

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

Registration Number: 05757208

BAA Limited

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BAA Limited

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BAA Limited

Business review

BAA Limited ('BAA' or the 'Group') is the holding company of a group of companies that provide and manage regulated (the "Designated") and non regulated (the "Non Designated") airport facilities in the UK and overseas. The Group is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

This business review is presented in three sections:

Management review – overview of the year ended 31 December 2009, along with the key factors likely to impact the Group in 2010.

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2009 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered.

Risk management – outline of the Group's approach to risk management, sources of assurance and highlight of the key business risks identified by the Group Executive Committee.

Management review

Review of 2009

Transforming BAA's airports

The Group has continued to implement its strategy to deliver sustained improvement in passengers' experience and airlines' operations through improved service standards and substantial investment in modern airport facilities. In particular, the Group's strategic objective is to make Heathrow into Europe's hub of choice by making every journey better. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of the Group's airports and supporting their long term growth ambitions.

Service standards

The Group continues to focus on delivering consistently high service standards across its airports, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency.

Operational performance improved significantly in 2009. At Heathrow, the proportion of aircraft departing within 15 minutes of schedule increased to 77% (2008: 69%) and at Stansted, increased to 82% (2008: 79%). This was despite the significant impact on performance during December from both adverse winter weather across much of the northern hemisphere and new security requirements implemented on flights to the US following the Delta Air Lines terrorist incident on 25 December 2009.

Other key operational and service standards improved. At Heathrow, the proportion of baggage not accompanying passengers on their journeys almost halved whilst 97.9% of passengers (2008: 95.5%) passed through security in less than five minutes.

These improvements in service standards are reflected in recent results in the independent Airport Service Quality ('ASQ') surveys produced by Airports Council International in which Heathrow has improved its ranking amongst the five largest airports in Europe over the last two years, now ranking second. Heathrow's overall passenger satisfaction score in this survey was 3.78 in the fourth quarter of 2009 compared to 3.42 and 3.70 in 2007 and 2008 respectively.

Operational improvements were also achieved across the Group's airports in Edinburgh, Glasgow, Aberdeen and Southampton. For example, across all these airports, the proportion of aircraft departing within 15 minutes of schedule increased to 84% (2008: 81%). In addition, across these airports the simple average ASQ score was 3.93 in the fourth quarter of 2009 compared to 3.97 for the same period of 2008, with the slight reduction reflecting performance at Edinburgh which is attributable to disruption caused by the terminal extension project discussed below.

Developing modern airport facilities

During 2009, there have been a number of significant milestones achieved as the Group continues to invest in transforming its airport facilities.

At Heathrow, works are well underway for the construction of the main Terminal 2 building including completion of the first phase of its future satellite building. In addition, demolition of the Queen's Building has been completed and the existing Terminal 2 was closed in late 2009 prior to its demolition. The first phase of the new terminal will have a capacity of 20 million passengers per annum. A second phase will extend the terminal into the existing Terminal 1 site, increasing capacity to 30 million passengers per annum. The new Terminal 2 will produce 40% less carbon than the buildings it replaces.

Extensive refurbishment of Terminal 4 continued with completion of new forecourt and check-in facilities and ongoing work in the central search area and the immigration hall. Passengers now enjoy a new, modern airport building offering improved facilities and higher service standards. Significant sums are being invested in developing what will be the largest integrated baggage handling system in the world including construction of a 1.8 kilometre tunnel between Terminals 3 and 5. Tunnelling work was completed in August 2009 and the tunnel is currently being fitted out. Work continues on construction of Terminal 5C, the second satellite terminal for Terminal 5, that remains on schedule to be completed in early 2011.

During 2009, a total of 37 airline relocations occurred at Heathrow particularly reflecting the closing of Terminal 2 and increased utilisation of Terminal 4's refurbished facilities.

At Stansted, the main focus of investment on existing facilities was upgrading and reconfiguring car parks. The existing terminal's modernisation programme also made good progress. Work also continued towards securing planning approval for a second runway although its intensity reduced reflecting delays in the public enquiry on the proposals; Stansted continued to purchase properties that would be blighted when the second runway proceeds.

Outside the Group's London Airports, the majority of investment has been at Edinburgh where the transformation programme focused particularly on the extension of the terminal, increasing its capacity, providing an enhanced retail offering and improving the security search areas. In November 2009 the first phase of the terminal extension opened.

Aberdeen airport's investment programme in 2009 focused on completion of extensive new car parking facilities and resurfacing and extension works on the runway and taxiway.

At Glasgow airport, after the successful opening of the £30 million first phase in the extension of its terminal in 2008, investment in 2009 focused on refurbishment projects in the terminal areas.

BAA Limited

Management review *continued*

Passenger traffic trends

Passenger traffic for the year ended 31 December 2009 across the Group's airports is analysed below:

	Year ended 31 December 2009	Year ended 31 December 2008	Change (%) ¹
Passengers by airport (millions)			
Heathrow	65.9	66.9	(1.5)
Stansted	20.0	22.3	(10.7)
Total Designated Airport passengers¹	85.9	89.2	(3.8)
Glasgow	7.2	8.1	(11.3)
Edinburgh	9.0	9.0	0.6
Aberdeen	3.0	3.3	(9.4)
Southampton	1.8	2.0	(8.2)
Total Non-Designated Airport passengers¹	21.1	22.4	(6.0)
Total UK passengers¹	106.9	111.6	(4.2)
Naples	5.3	5.6	(5.6)
Total BAA passengers¹	112.2	117.2	(4.3)
Passengers by market served (all UK airports) (millions)			
UK	19.2	20.9	(8.5)
Europe ²	51.4	54.2	(5.3)
Long haul	36.4	36.5	(0.2)
Total passengers¹	106.9	111.6	(4.2)

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

² Includes North African charter traffic.

In the year ended 31 December 2009, the combined passenger traffic across the Group's airports declined 4.3% to 112.2 million (2008: 117.2 million) reflecting the macroeconomic environment. The rate of decline moderated substantially as 2009 progressed, from 9.1% in the first quarter to 0.8% in the final quarter.

Heathrow delivered the most resilient performance of the major European airports with passenger numbers declining only 1.5% to 65.9 million (2008: 66.9 million) against an average decline of 5.6% amongst the next four largest airports in Europe. Heathrow benefited particularly from the strength of its position as a major global hub airport for long haul traffic which has been the best performing segment of the aviation industry. Traffic with markets such as India and the Middle East grew strongly, at 10.0% and 10.4% respectively. As a result, 52.9% (2008: 52.2%) of Heathrow's traffic is now on long haul routes.

Heathrow's traffic performance also improved as the year progressed with year on year growth of 0.3% and 1.1% recorded in the third and fourth quarters respectively. This recovery reflected growth in both emerging market long haul and European scheduled traffic. 2009 saw significantly higher capacity utilisation at Heathrow with the number of passengers per air transport movement up 1.3% compared to 2008. Another key driver of Heathrow's performance was an increased proportion of transfer passengers (2009: 37.4%; 2008: 35.9%).

At Stansted, passenger traffic declined 10.7% to 20.0 million (2008: 22.3 million). As at Heathrow, year on year traffic performance improved as the year progressed with a 14.6% decline in the first quarter moderating to a 5.7% decline in the final quarter.

Across the Group's other four UK airports, Edinburgh saw the strongest performance and was the only one of the Group's airports to record growth in 2009, of 0.6% to 9.0 million passengers (2008: 9.0 million). This reflected contrasting performance in its two largest market segments, with a 7.0% decline in domestic traffic more than offset by very strong growth of 21.1% in scheduled European traffic, due to the launch of a significant range of new services by Ryanair.

Glasgow saw passenger traffic decline 11.3% to 7.2 million (2008: 8.1 million) reflecting a weak charter market although it outperformed in a west of Scotland airport market where competition intensified in the face of reducing services and passenger demand. At Aberdeen, passenger traffic declined 9.4% to 3.0 million (2008: 3.3 million) whilst Southampton experienced a fall of 8.2% to 1.8 million (2008: 2.0 million).

Across the Group's six UK airports, emerging market long haul traffic increased 1.8% to 21.0 million (2008: 20.7 million) driven by performance at Heathrow as well as the launch of new low cost long haul services at Stansted and strong growth in such traffic at Glasgow. In 2009, overall European traffic declined 5.3% to 51.4 million (2008: 54.2 million) with scheduled traffic reducing 4.3%. Domestic traffic accounts for 18% of total traffic across the Group's UK airports and, during 2009, declined 8.5% to 19.2 million passengers (2008: 20.9 million).

At Naples airport, passenger traffic declined 5.6% to 5.3 million (2008: 5.6 million) with domestic passengers representing 55.6% of total passengers. The year ended strongly reflecting the most significant rebound in traffic performance across the Group with a decline of 16.4% in the first quarter transformed into growth of 7.1% by the fourth quarter.

Gatwick disposal

On 3 December 2009 the Group completed the sale of Gatwick airport for cash consideration of £1,445 million and deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure. Sale proceeds were used primarily to repay bank debt.

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

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

The decision's key structural remedy called for the disposal of Gatwick and Stansted to different purchasers as well as one of either Edinburgh or Glasgow airport within two years. It was expected that these airports would be sold in sequence, beginning with Gatwick followed by Stansted, followed by either Edinburgh or Glasgow. It also suggested behavioural remedies including strengthening consultation processes and provisions on non-discrimination and quality of service at Heathrow airport and improved consultation with airlines over the capital expenditure programme and the publication of certain other financial and other information by Aberdeen airport. The CC also made recommendations relating to regulation and policy matters to other governmental bodies including that the UK government consider the adoption of a licence-based regime of economic regulation of UK airports.

BAA Limited

Management review *continued*

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

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

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

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

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

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

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

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

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

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

Aeronautical charges at Stansted for five years to 31 March 2014

In March 2009, the CAA issued its final price determination on aeronautical charges to apply at Stansted airport for the five years to 31 March 2014. Key features of the CAA's proposals include a permitted pre-tax real return on capital of 7.1%. It recommended that maximum allowable aeronautical charges remain flat at £6.53 (in 2009/10 prices) per passenger for two years and increase up to £6.85 by 2013/14.

The CAA's recommendations were based on a capital plan of approximately £90 million, in 2007/08 prices, primarily on Stansted's existing facilities over the five years to 31 March 2014.

Whilst the CAA excluded £37 million of expenditure on Stansted Generation 2 ('SG2') incurred during the previous quinquennium, it accepted that expenditure in the current quinquennium up to receipt of planning consent of £40 million can be included in the Regulatory Asset Base ('RAB'). Construction expenditure on SG2 is excluded from the RAB at this stage, however in the event of planning approval being received during the five year period to 31 March 2014, Stansted Airport has the opportunity to request a mid-quinquennium review.

Government decision on adding capacity at Heathrow

In January 2009, the UK Government announced that it was satisfied that the conditions for the development of Runway 3 set out in the White Paper could be met thereby further confirming the Government's support for a third runway.

Outlook

The Group expects 2010 to present further significant challenges. However, a modest recovery in passenger traffic volumes is expected which will support corresponding growth in revenue, EBITDA and cash flow.

Developments since beginning of 2010

In January 2010, the combined passenger traffic across the Group's airports declined 2.5% to 7.5 million (2009: 7.7 million) with performance affected by adverse weather conditions. Without the weather disruption, it is estimated that traffic would have increased by 0.3%. The majority of the weather related traffic reduction occurred at Heathrow where a reported traffic decline of 0.5% is estimated to have translated into growth of 2.5% on an adjusted basis.

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Financial review

Introduction

The following financial review, based on the consolidated financial statements of the Group, provides commentary on the performance of the Group's seven airports, and includes some operations such as retail income from businesses related to the Group's operation as an airport operator. Consistent with statutory accounting and IFRS, the business review presented excludes operations that have been disposed of during the year, or have been classified as held-for-sale by management (refer below).

Basis of preparation of statutory results

A number of significant events which are highlighted in the "Management Review" have impacted the way in which the statutory financial results for 2009 have been presented:

- *Discontinued operations* - these include the following:
 - i. Gatwick: the Group announced plans to sell Gatwick airport and classified it as held-for-sale for the year ended 31 December 2008. The entity was sold on 3 December 2009, and the financial results to this date, including loss on disposal, are disclosed as discontinued operations in the statutory accounts in accordance with IFRS;
 - ii. Airport Property Partnership ('APP') and BAA USA (Holdings) Inc ('BAA USA'): during the year management classified the Group's interest in these operations as held-for-sale. The results and performance of these interests are also included in discontinued operations at year end.
- *Exceptional items and certain re-measurements* - these include the following:
 - i. £83 million of fair value losses arising from the revaluation of investment property;
 - ii. £82 million of fair value losses on financial instruments;
 - iii. £55 million relating to accelerated depreciation on Heathrow Terminals 1 and 2.

Basis of preparation of financial results

In order to provide a more meaningful comparison of Group performance between 2008 and 2009 and an appropriate basis for assessing ongoing performance, the information presented under revenue, aeronautical income, retail income, other income, Adjusted operating costs, EBITDA, exceptional items and operating profit focuses on the Group's continuing operations.

Summary performance

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m	Change %
Continuing operations			
Revenue	2,263	2,087	8.4
Adjusted operating costs	(1,255)	(1,174)	(6.9)
Adjusted EBITDA	1,008	913	10.4
Exceptional items	-	(19)	100.0
EBITDA	1,008	894	12.8
Fair value losses on investment properties	(83)	(178)	53.4
Fair value losses on financial instruments	(1)	(9)	88.9
Depreciation and amortisation - ordinary	(541)	(459)	(17.9)
Depreciation - exceptional	(55)	(84)	34.5
Operating profit - continuing operations	328	164	100.0
Net finance cost	72	(1,090)	106.6
Fair value losses on financial instruments	(81)	(241)	66.4
Share of profit of associates and joint ventures	(2)	-	-
Profit/(loss) before tax	317	(1,167)	127.2
Taxation	105	(808)	113.0
Profit/(loss) for the year from continuing operations	422	(1,975)	121.4
Net (loss)/profit from discontinued operations	(583)	29	(2,110.3)
Consolidated loss for the year	(161)	(1,946)	91.7

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

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Financial review *continued*

Revenue

In the year ended 31 December 2009, revenue from continuing operations increased 8.4% to £2,263 million (2008: £2,087 million). This reflects an 11.2% growth in aeronautical income, a 4.3% increase in gross retail income compared to the year ended 31 December 2008 and a 6.1% increase in other income. On a like-for-like basis (the relevant adjustments are discussed in more detail in 'Aeronautical income' and 'Other income' below), revenue increased 5.2% to £2,195 million.

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m	Change %
Aeronautical income	1,258	1,131	11.2
Retail income	532	510	4.3
Other income	473	446	6.1
Total¹	2,263	2,087	8.4

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

Aeronautical income

Aeronautical income increased 11.2% to £1,258 million (2008: £1,131 million). Average aeronautical income per passenger increased 16.2% to £11.21 (2008: £9.65).

Aeronautical charges summary (by airport)

	Aeronautical income			Per passenger ¹		
	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %	Year ended 31 December 2009 £	Year ended 31 December 2008 £	Change %
Heathrow	961	835	15.1	14.58	12.48	16.8
Stansted	132	145	(9.0)	6.62	6.50	1.8
Total designated airports	1,093	980	11.5	12.73	10.99	15.8
Edinburgh	55	49	12.2	6.11	5.44	12.3
Glasgow	42	41	2.4	5.83	5.06	15.2
Aberdeen	27	23	17.4	9.04	6.97	29.7
Southampton	16	15	6.7	8.89	7.50	18.6
Total non-designated airports	140	128	9.4	6.64	5.72	16.1
Total UK airports	1,233	1,108	11.3	11.53	9.93	16.1
Naples	25	23	8.7	4.72	4.11	14.8
Total airports	1,258	1,131	11.2	11.21	9.65	16.2

¹ Figures calculated using unrounded aeronautical income and passenger numbers.

Growth in the Group's reported aeronautical income was driven by the revised tariffs at Heathrow from 1 April 2008 as well as reflecting the phased introduction of the new tariffs over the first year of the new regulatory period. It was also affected by income related to the provision of aerodrome navigation services by National Air Traffic Services ('NATS') that became relevant from 1 April 2008 at Heathrow, Stansted and Southampton and 1 April 2009 at Edinburgh, Glasgow and Aberdeen. After adjusting for the different periods when NATS related income was applicable and the phasing of the increased Heathrow tariffs, aeronautical income is estimated to have increased 4.6% to £1,190 million (2008: £1,138 million) and income per passenger is estimated to have increased 9.5% to £10.63 (2008: £9.71).

At the designated airports, reported aeronautical income increased 10.7% to £1,093 million (2008: £987 million) whilst income per passenger increased 15.8% to £12.73 (2008: £10.99). On an underlying basis, determined as outlined above, aeronautical income increased 6.8% to £1,047 million (2008: £980 million) and income per passenger increased 10.4% to £12.21 (2008: £11.06).

At the Group's non-designated UK airports, reported aeronautical income increased 9.4% to £140 million (2008: 128 million) whilst income per passenger increased 16.1% to £6.64 (2008: £5.72). On an underlying basis, determined as described above, aeronautical income declined 7.8% to £118 million and income per passenger was marginally below the prior year at £5.58 (2008: £5.60).

Retail income

The Group's retail business delivered a strong performance in 2009 given the general economic environment. For the year ended 31 December 2009, net retail income (i.e. gross retail income less car park management charges) ('NRI') per passenger increased 5.3% to £4.38 (2008: £4.16) with performance driven by Heathrow. Duty and tax-free airside specialist shops performed strongly across all airports.

BAA Limited

Financial review *continued*

Retail income *continued*

The tables below reconcile gross retail income with net retail income and analyse net retail income by activity.

Reconciliation of gross retail income with net retail income and net retail income per passenger

Figures in £m unless otherwise stated	Year ended 31 December 2009	Restated ¹ Year ended 31 December 2008	Change %
UK airports' gross retail income	511	490	4.3
Naples gross and net retail income	14	14	-
Other UK gross retail income	7	6	16.7
Total gross retail income	532	510	4.3
Total cost of sales	(42)	(25)	68.0
Total net retail income	490	485	1.0
UK fixed wing passengers (million)	106.4	111.1	(4.2)
Naples passengers (million)	5.3	5.6	(5.4)
Total passengers (million)	111.7	116.7	(4.3)
Net retail income per passenger	£4.38	£4.16	5.3

¹ Comparative information restated to include retail performance of BAA USA in discontinued operations.

Analysis of net retail income

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m	Change%
UK			
Car parking	91	111	(18.0)
Duty and tax-free	114	102	11.8
Airside specialist shops	68	64	6.3
Bureaux de change	46	41	12.2
Catering	43	44	(2.3)
Landside shops and bookshops	32	34	(5.9)
Advertising	36	32	12.5
Car rental	20	18	11.1
Other	22	21	4.8
Total UK	472	467	1.1
Naples	14	14	-
UK Other	4	4	-
Total¹	490	485	1.0

¹ Comparative information restated to include retail performance of BAA USA in discontinued operations.

In 2009, Heathrow generated its highest level of retail income since intra-EU duty free shopping was abolished in 1999, with gross retail income up 7.0% to £351 million (2008: £328 million) and NRI per passenger increasing 6.7% to £4.93 (2008: £4.62). Most areas of the retail business performed well, with the main growth drivers being in duty and tax-free shopping, airside specialist shops, bureaux de change and advertising. The strong in-terminal shopping performance reflected a higher proportion of intra-terminal transfer passengers, providing longer departure lounge dwell times for such passengers, as well as increased passenger numbers benefiting from Terminal 5's high quality retail facilities. It also reflected the improved value of the offer resulting from the depreciation of sterling.

Stansted's retail income declined 2.2% to £88 million (2008: £90 million), a resilient performance given passenger trends meaning that NRI per passenger actually increased 2.0% to £4.00 (2008: £3.92). Performance was driven by significant growth in duty and tax-free shopping.

Across the Group's UK non-designated airports, retail income declined 1.4% to £72 million (2008: £72 million) whilst net retail income per passenger increased 3.1% to £3.20 (2008: £3.10). Net retail income per passenger increased particularly at Aberdeen due to strong in-terminal performance and resilience relative to the rest of the Group in car parking due to the opening of additional car parking capacity during the year.

Across the Group's airports, the relative strength of in-terminal retail activities was partially offset by lower car parking income due to economic conditions encouraging passengers to use alternative transport to travel to and from the airports, an increase in lower yielding advance car park booking and, in the case of Heathrow, increased transfer passengers as discussed above in 'Passenger traffic trends'.

Other income

Income from activities other than aeronautical and retail increased 6.1% to £473 million (2008: £446 million). This included a 7.8% increase in property rental income to £125 million (2008: £116 million) and an increase in rail income of 5.8% to £91 million (2008: £86 million).

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Financial review *continued*

Adjusted Group operating costs

Adjusted operating costs exclude depreciation and exceptional items to provide a more meaningful comparison of the Groups recurring expenditure year-on-year.

	Year ended 31 December 2009	Restated ¹ Year ended 31 December 2008	Change
	£m	£m	%
Employment costs	476	560	(15.0)
Maintenance expenditure	200	187	7.0
Utility costs	140	106	32.1
Rent and rates	142	123	15.4
General expenses	334	267	25.1
Retail expenditure	42	25	68.0
Capitalised costs	(79)	(94)	(16.0)
Total	1,255	1,174	6.9

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

In the year ended 31 December 2009, adjusted operating costs increased 6.9% to £1,255 million (2008: £1,174 million). This reflected mainly an increase in rents and rates due to higher rates and additional properties, higher utility costs caused primarily by increased electricity costs and growth in general expenses driven by higher NATS and PRM costs (that are recovered in aeronautical income and other income discussed in 'Revenue'). The 68.0% increase in retail expenditure to £42 million (2008: £25 million) was due to the full year impact of the transition to car park management contracts from concession agreements.

These increases were offset by a significant 15.0% reduction in employment costs due to a number of factors such as fewer senior managers, lower recruitment costs, lower pensions costs and reduced bonus payments.

The progress made by the Group in controlling operating costs is more accurately reflected by adjusting particularly for the fact that both Terminal 5 costs and NATS and PRM costs were relevant for different periods in 2008 and 2009. Terminal 5 costs were relevant for 12 months in 2009 compared with nine months in 2008. The same was true in respect of NATS and PRM costs at Heathrow, Stansted and Southampton whilst at the Scottish airports NATS and PRM costs were relevant for nine months in 2009 but not at all in 2008. Reflecting these factors, adjusted operating costs increased 1.6% to £1,193 million as illustrated in the table below:

	£m
2009 reported Adjusted operating costs	1,255
NATS and PRM costs (2009)	(41)
Incremental Terminal 5 costs	(21)
2009 underlying Adjusted operating costs	1,193
2008 reported Adjusted operating costs	1,174
Change in underlying Adjusted operating costs	1.6%

Adjusted EBITDA

Adjusted EBITDA for the Group's continuing operations in the year ended 31 December 2009 increased 10.4% to £1,008 million (2008: £913 million). The key drivers of the positive development in adjusted EBITDA were:

- Increased aeronautical tariffs driving higher aeronautical income
- Robust performance enabling increased retail income despite a 4.3% reduction in passengers
- Cost control resulting in adjusted operating costs increasing below the rate of revenue growth

Exceptional items (including depreciation)

Exceptional items are based on statutory results rather than adjusted results and relate to continuing operations.

There was a total of £55 million in net pre-tax exceptional charges in the year ended 31 December 2009 (2008: £103 million), related to accelerated depreciation due to the shortened lives of Terminals 1 and 2 at Heathrow given the new Heathrow Terminal 2A development.

Fair value losses on investment property valuation

Investment properties were valued at a fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors, and Strutt and Parker, Chartered Surveyors and King Sturge, Valuers and Surveyors. Investment property comprises mainly car parks and airside assets at the Group's airports and are considered less vulnerable to market volatility. The investment property valuation as at 31 December 2009 resulted in a loss of £83 million (2008: £178 million loss). Refer to Note 10 of the financial statements.

Fair value losses on financial instruments

A net fair value loss of £81 million on financial instruments has been recognised as financing costs in the income statement (2008: £241 million loss). This loss related primarily to index-linked swaps which are internally designated to hedge the Group's bond issues which do not achieve hedge accounting under IFRS as the accounting standards do not contemplate achieving hedge accounting using these products. The index-linked swaps also provide a commercial hedge of the Group's RPI linked revenue.

Financial derivatives recognised in operating profit have given rise to a net fair value loss through the income statement of £1 million (2008: £9 million loss). The current year loss attributed to movements on the Group's electricity derivatives.

Depreciation and amortisation

Depreciation and amortisation for the year ended 31 December 2009, excluding exceptional charges, was 17.9% higher at £541 million (2008: £459 million) driven by additional depreciation following Terminal 5 being brought into use from March 2008.

BAA Limited

Financial review *continued*

Net finance income

Net finance income is discussed together with net interest paid under 'Net finance income and net interest paid'.

Taxation

The tax credit recognised for the year was £105 million (2008: tax charge of £808 million). Based on a profit before tax for the year of £317 million (2008: £1,167 million loss), this results in an effective tax rate of -33.1% (2008: 28.8% before exceptional tax charge). The recognition of a tax credit instead of a tax charge at the statutory rate of 28% (2008: 28.5%) is primarily due to non assessable income arising in the year (Refer to Note 6 of the financial statements).

Net loss from discontinued operations

There was a £669 million loss on disposal, relating to Gatwick's sale reflecting the difference between the sale price and its carrying value. This comprised an initial £601 million impairment charge and an additional loss of £68 million determined following completion of the sale.

Dividend

No dividend was paid or declared in the year ended 31 December 2009 (2008: £nil).

Pensions

The retirement benefit obligations as at 31 December 2009 have been calculated on a consistent basis with the previous year, with updates provided on market-based assumptions.

As at 31 December 2009, the present value of retirement benefit obligations less the fair value of plan assets was a deficit of £278 million (2008: £75 million surplus) reflecting the BAA defined benefit pension scheme moving to a deficit of £256 million (2008: £95 million surplus). The movement into deficit of the BAA defined benefit pension scheme was due to increased liabilities reflecting a lower discount rate and a higher forecast inflation curve.

The year end deficit takes into account the projected impact of the transfer out of the scheme of Gatwick employees who decide to join their new employer's scheme. However, the deficit at the end of 2009 does not reflect the benefit of the commutation payment into the scheme that may arise due to the Gatwick sale that would reduce commensurately the scheme's deficit, assuming no other changes. The Group's annual cash contributions to the scheme are fixed at £80 million until the end of 2011.

Summary cash flow

	Year ended 31 December 2009 £m	Restated ³ Year ended 31 December 2008 £m
Cash generated from continuing operations	948	818
Tax paid	(3)	(6)
Net cash generated from discontinued operations	174	167
Net cash flow from operations	1,119	979
Capital expenditure	(968)	(1,045)
Investing activities of discontinued operations ¹	1,258	515
Proceeds from issue of ordinary shares	-	400
Net interest paid	(516)	(807)
Proceeds from sale of assets ²	-	38
Net movement in bonds	925	(4)
Net movement in borrowings	(447)	(193)
Restricted cash	(143)	-
Other	(157)	(627)
Financing activities of discontinued operations	(1,093)	1,015
Net increase in cash and cash equivalents	(22)	271

¹ Includes proceeds from disposals of operations.

² Excluding proceeds from disposals of operations.

³ Comparative information restated to include APP and BAA USA in discontinued operations.

Cash flow from operating activities

Net cash inflow from continuing operations in the year ended 31 December 2009 increased 15.9% to £948 million (2008: £818 million). Net cash inflow from continuing operations reflects pension cash costs being £52 million higher than pension costs charged to the income statement. Excluding this, net cash inflow from continuing operations was £1,000 million which compares with EBITDA of £1,008 million.

Capital expenditure

In the year ended 31 December 2009, the Group invested £968 million in capital expenditure for continuing operations (2008: £1,045 million) with £818 million at Heathrow, £58 million at Stansted, £71 million on other airports outside of London and £21 million on intangible assets.

The major projects at Heathrow included construction of a tunnel between Terminals 3 and 5 for an integrated baggage system. Work also continued on constructing Terminal 5C, the second satellite for Terminal 5, whilst the first phase of Terminal 2B, the satellite building for the new Terminal 2 was completed and became operational. There were various other projects in the rest of the Heathrow campus, such as the Terminal 4 refurbishment and improvement of check-in capacity associated with airline relocations.

Stansted's capital expenditure comprised of £35 million on modernising existing infrastructure and £23 million under blight compensation schemes related to the proposed development of a second runway.

Outside the Group's London Airports, the majority of investment has been at Edinburgh where the transformation programme focused particularly on the extension of the terminal, increasing its capacity, providing an enhanced retail offering and improving the security search areas. In November 2009 the first phase of the terminal extension opened.

BAA Limited

Financial review *continued*

Capital expenditure *continued*

Aberdeen airport's investment programme in 2009 focused on completion of extensive new car parking facilities and resurfacing and extension works on the runway and taxiway.

At Glasgow airport, after the successful opening of the £30 million first phase in the extension of its terminal in 2008, investment in 2009 focused on refurbishment projects in the terminal areas.

Net debt and liquidity

The analysis below focuses on external debt within the Group's continuing operations and excludes £181 million in restricted cash including £143 million held in escrow from the disposal of Gatwick to meet potential pension commutation payments primarily into the BAA defined benefit scheme.

At 31 December 2009, the Group's total nominal net debt was £11,092 million (2008: £10,889 million) whilst the accounting value of net debt (excluding accrued interest) was £11,721 million (2008: £11,679 million).

The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two well received bond issues that generated proceeds of approximately £925 million for the Group. This has resulted in nominal debt outstanding under bond issues at 31 December 2009 of £5,434 million (2008: £4,499million).

The proceeds from these bond issues together with approximately £1.2 billion of the proceeds from the sale of Gatwick were utilised in repaying the bank refinancing facility such that the nominal value outstanding at 31 December 2009 was £2,283 million (2008: £3,350 million or £4,400 million including £1,050 million held at Gatwick). At 31 December 2009, the Group also had £3,729 million (2008: £3,361 million) of nominal debt outstanding under various other bank debt facilities.

At 31 December 2009, the Group had cash and cash equivalents of £354 million (2008: £321 million), excluding £181 million in restricted cash including £143 million held in escrow from the Gatwick disposal primarily to meet potential pension payments into the BAA defined benefit pension scheme.

The average cost of the Group's external debt at 31 December 2009 was 5.7% (2008: 6.6%) after all hedging including the real cost of index-linked hedges.

Following the repayment of the refinancing facility referred to above, the Group has no significant debt maturities in 2010. The Group is cash positive with £429 million of surplus cash flow after payment of interest in 2009. At 31 December 2009, the Group had approximately £2.6 billion in cash resources and undrawn bank facilities. Together, these sources of funding provide the Group with significant liquidity to meet its financing requirements for the foreseeable future.

Equity injection

In November 2009, a £500 million equity injection into the Designated Airports was announced. The funds were provided primarily from existing financial resources of FGP Topco Limited, the Group's ultimate holding company, jointly owned by the Group's three controlling shareholders, as well as new equity injected into the Group by its shareholders. The proceeds of the equity injection are intended to strengthen the Designated Airports' long term financial ratios by paying down debt and restructuring their derivative portfolio to reduce interest costs. By 31 December 2009, £283 million of this investment had been completed, of which £255 million came from funds held by FGP Topco, and the remaining funds were injected in January 2010.

Regulatory Asset Base ('RAB')

Set out below are RAB figures for the Group's two regulated airports at 31 December 2008 and 31 December 2009.

	Heathrow £m	Stansted £m	Total £m
31 December 2008	9,662	1,231	10,893
31 December 2009	10,453	1,291	11,744

During 2009, growth in the combined RAB for Heathrow and Stansted reflected the addition of approximately £845 million in capital expenditure partially offset by regulatory depreciation of around £470 million. Variation in RAB profiling adjustments added a further £205 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £275 million over the year.

Net interest income and interest paid

In the year to 31 December 2009, the Group's net finance income before certain re-measurements were £72 million (2008: £1,090 million loss), which included £731 million interest receivable on Group borrowing, £161 million in finance income and £22 million in capitalised interest. This was offset by £722 million of interest payable on external bond and bank debt and related derivatives, and £120 million in other items most of which relate to derivatives not in a hedging relationship. Refer to Note 5 of the financial statements. The key element of the £1,162 million increase in net finance income between 2008 and 2009 was a £838 million gain from interest payable waived by ADI Finance 2 Limited.

Net interest paid in the year to 31 December 2009 was £516 million (2008: £807 million). The reduction in net interest paid between 2008 and 2009 reflects primarily the benefit of lower interest rates applying to floating rate debt, an increased benefit of interest payments in 2009 and higher bond coupon payments in 2008 due to part of coupons that would normally have been paid in 2009 actually being paid at the time of refinancing in 2008. In addition, £114 million in derivative interest prepayment and £43m of mark-to market settlement on swap cancellations were paid as part of optimisation of derivative structure in December 2009.

Net interest has been paid despite the net interest income, primarily due to the interest waived on the loan from ADI Finance 2 Limited.

Accounting and reporting policies and procedures

This annual report complies with the European regulation to report consolidated financial statements in conformity with ('IFRS') from 1 April 2005 onwards. The consolidated results in the financial statements for the year ended 31 December 2009 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2008. The BAA Limited entity ('the Company') accounts are stated under UK GAAP. The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the financial statements.

BAA Limited

Risk management

Risk management is a key element of the BAA Group operations. Risk is centrally managed for the Group as part of corporate services provided under the Shared Services Agreement ('SSA') (refer to Note 1 Accounting policies). In addition the Group 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 relates to the Executive Committee and Board of BAA Limited.

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

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

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

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

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

Safety and security risks

Safety and security risks are regarded as an important risk 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 Group 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.

Regulatory environment, legal and reputational risks

Civil Aviation Authority ('CAA') regulation

As noted previously, the Group's operations at Heathrow and Stansted airports are subject to regulatory review by the CAA and CC every five years. The risk of an adverse outcome from the five-yearly review is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters. Further, a settlement was reached for Stansted airport during the year regarding the five years ended 31 March 2014.

Part of the regulatory framework is the Group's involvement in constructive engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to participate at all stages of the constructive engagement process and to be represented on all fora – eg joint steering groups. When feedback is sought or processes measured, independent third parties are utilised for data gathering and analysis to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.

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 Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Group breaching these regulations. Refer to the 'Management review' section for details on the current DfT regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Capacity shortfall

Failure to secure necessary planning permissions could lead to the Group having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. The Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in Government consultations and other advisory groups. In addition, investment in additional capacity at the Group's airports will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements.

Existing planning approvals provide for approximate passenger traffic growth at Heathrow (including Terminal 5) to 90 million and Stansted to around 35 million. In 2007 the Group announced details of its development proposal for Stansted Generation 2 ('SG2') which includes the provision of a second runway and terminal and will have an initial capacity for about 10 million passengers per annum.

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

Environment

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

Commercial and financial risks

Capital projects

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

BAA Limited

Risk management *continued*

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

Treasury

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 spot and forward/swap transactions to protect against interest rate and currency risks.

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

(a) Interest rates

The Group maintains a mix of fixed and floating rate debt. As at 31 December 2009, fixed rate debt represented 83% of the Group's total debt.

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

(b) Foreign currency

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

(c) Funding and liquidity

The Group operates separate financing programmes for its Designated airports, (Heathrow and Stansted), and for its Non Designated airports, (including Edinburgh, Glasgow, Aberdeen, and Southampton).

1. Designated airports

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

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

The Designated airports have positive cash flows before capital expenditure and maintain at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2009, cash at bank was £239 million undrawn headroom under the bank credit facilities was £2,050 million; and undrawn headroom under the bank liquidity facilities was £600 million.

The Group also has a £1.56 billion subordinated debt facility secured by a second lien over the Designated airports. The facility matures in April 2011.

2. Non Designated airports

The Group's Non Designated airports are financed through a £1.26 billion bank facility. The Non Designated airports group is cash positive before capital expenditure. As at 31 December 2009, cash at bank was £29 million and undrawn headroom under the bank credit facilities was £207 million.

(d) Counterparty credit

The 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 Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A- / A-1. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with a credit rating below BBB+ / A.

By order of the Board



Colin Matthews
Director
26 February 2010

BAA Limited

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2009 ('the year').

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision and management of airport facilities in the UK and overseas. The Group is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks and likely future developments are reported in the Business Review on pages 2 to 12.

RESULTS AND DIVIDENDS

The loss after taxation for the financial year amounted to £161 million (2008: £1,946 million). No dividends were paid during the year. The statutory results for the year are set out on page 17.

DIRECTORS

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

Sir Nigel Rudd (Non-executive Chairman)	
Colin Matthews	
Luis Sánchez	Resigned 31 July 2009
Eng Seng Ang	Resigned 17 September 2009
Ghislain Gauthier	Resigned 30 November 2009
Íñigo Meirás	
Stuart Baldwin	
Lord John Stevens	
José Leo	
José María Pérez	Resigned 14 December 2009
Nicolás Villén	
Renaud Faucher	
Richard Drouin	
Wilfried Kaffenberger	Appointed 17 September 2009
Ernesto Lopez	Appointed 1 October 2009

EMPLOYMENT POLICIES

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

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

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

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

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows, and an intranet. The Group also operate frameworks for consultation in all the businesses where it has a majority shareholding. The Group is committed to managing people through change fairly.

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

PAYMENT POLICIES

The Company complies with the UK Government's better payment practice code which states that responsible companies should:

- Agree payment terms at the outset of a transaction and adhere to them
- Provide suppliers with clear guidance on payment procedures
- Pay bills in accordance with any contract agreed or as required by law
- Advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company's trade payables balance during the year was £nil (2008: £nil).

DONATIONS

The Group's charitable donations for the year amounted to £1,001,313 (2008: £1,309,320). The main beneficiaries of charitable donations, the relevant amounts donated and the main activity of these beneficiaries are as follows:

Charity: BAA Communities Trust	£620,510	Provides support for local community projects close to BAA's airports
Charity: Heathrow Travelcare	£151,815	Provides counselling or assistance to passengers and airport staff

The Group incurs expenditure which may be classified as political donations under the Political Parties, Elections and Referendums Act 2000. At the 2006 Annual General Meeting, the Group obtained a renewed shareholders' approval under this Act to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. In the Group's view there was no expenditure in the year to 31 December 2009 that falls within this category.

BAA Limited

Report of the directors *continued*

PRINCIPAL RISKS AND UNCERTAINTIES

The Group actively manages all identified corporate risks. Details of the Group's risk management policies can be found on pages 11 to 12 in the Risk Management section of the Business Review.

FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on page 12 in the Risk Management section of the Business Review.

DIRECTORS' INDEMNITY

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

DISCLOSURE OF INFORMATION FOR AUDITORS

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

AUDITORS

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

COMPANY REGISTRATION NUMBER

The company registration number for BAA Limited is 05757208.

By order of the Board



Carol Hui
Company Secretary

26 February 2010

Registered Office:

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

BAA Limited

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). 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 Group and of the profit or loss of the Group for that period.

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

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent financial statements respectively; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Group. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 16 for the Group and page 67 for the parent company.

By order of the Board



Carol Hui
Company Secretary

26 February 2010

BAA Limited

Independent auditors' report to the members of BAA Limited

We have audited the Group financial statements of BAA Limited for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow statement, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group'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

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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 Group financial statements are prepared is consistent with the Group financial statements.

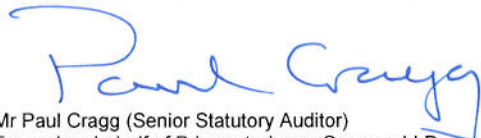
Matters on which we are required to report by exception

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:

- 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.

Other matter

We have reported separately on the parent company financial statements of BAA Limited for the year ended 31 December 2009.



Mr Paul Cragg (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2010

BAA Limited

Consolidated income statement for the year ended 31 December 2009

	Note	Year ended 31 December 2009			Restated ¹ Year ended 31 December 2008		
		Before certain re-measurements £m	Certain re-measurements ⁴ £m	Total £m	Before certain re-measurements £m	Certain re-measurements ⁴ £m	Total £m
Continuing operations							
Revenue	1	2,263	-	2,263	2,087	-	2,087
Operating costs	2	(1,851)	-	(1,851)	(1,736)	-	(1,736)
Other operating income							
Fair value loss on investment properties	10	-	(83)	(83)	-	(178)	(178)
Fair value loss on financial instruments	5b	-	(1)	(1)	-	(9)	(9)
Operating profit / (loss)	1	412	(84)	328	351	(187)	164
<i>Analysed as:</i>							
Operating profit before exceptional items		467	(84)	383	454	(187)	267
Exceptional items	4	(55)	-	(55)	(103)	-	(103)
Financing							
Finance income	5a	892	-	892	196	-	196
Finance costs	5a	(820)	-	(820)	(1,286)	-	(1,286)
Fair value loss on financial instruments	5b	-	(81)	(81)	-	(241)	(241)
		72	(81)	(9)	(1,090)	(241)	(1,331)
Share of profit of associates and joint ventures		(2)	-	(2)	-	-	-
Profit/(loss) before tax		482	(165)	317	(739)	(428)	(1,167)
Taxation – ordinary	6	59	46	105	201	135	336
Taxation – exceptional ²	6	-	-	-	(1,144)	-	(1,144)
Taxation	6	59	46	105	(943)	135	(808)
Profit/(loss) for the year from continuing operations		541	(119)	422	(1,682)	(293)	(1,975)
Net loss from discontinued operations ³	7a	(547)	(36)	(583)	32	(3)	29
Consolidated loss for the year		(6)	(155)	(161)	(1,650)	(296)	(1,946)
Attributable to:							
Equity holders of parent		(6)	(155)	(161)	(1,652)	(296)	(1,948)
Minority interest		-	-	-	2	-	2

¹ Comparatives restated to include APP and BAA USA in discontinued operations.

² The exceptional tax charge relates to an exceptional tax item rather than the tax effect of the exceptional items. Exceptional tax charges for the year ended 31 December 2008 included £1,250 million due to the abolition of Industrial Buildings Allowance, of which £106 million related to discontinued operations.

³ Includes the results of Gatwick, APP, BAA USA and for 2008 World Duty Free, as a result of their classification as discontinued operations.

⁴ Certain re-measurements consist of fair value gains and losses on investment property revaluations and disposals and the gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship, together with the related tax impact of these items.

BAA Limited

Consolidated statement of comprehensive income for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
(Loss) / profit for the year		(161)	(1,946)
Other comprehensive income:			
Available-for-sale investments			
Gain/(loss) taken to equity	30	8	(5)
Transferred to income statement	30	-	2
Cash flow hedges			
Gains taken to equity	30	14	4
Transferred to income statement	30	234	(315)
Acquisition of subsidiary	34	3	-
Share based payments	30	6	5
Actuarial loss	30	(290)	(43)
Net movement in currency translation reserve	30	(7) ¹	19 ¹
Indexation of operating land	30	3	3
Other compressive income for the financial year net of tax		(29)	(330)
Total comprehensive income for the year		(190)	(2,276)
Attributable to:			
Equity holders of the parent		(192)	(2,282)
Minority interest		2	6
		(190)	(2,276)

¹ Includes minority interest of £1 million loss (2008: £4 million gain).

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 30.

BAA Limited

Consolidated statement of financial position as at 31 December 2009

	Note	31 December 2009 £m	Restated ¹ 31 December 2008 £m	Restated ¹ 1 January 2008 £m
Assets				
Non-current assets				
Property, plant and equipment	9	11,174	10,931	11,632
Investment properties	10	2,448	2,533	3,139
Intangible assets	11	4,145	4,168	4,696
Investments in associates	13	-	62	8
Available-for-sale investments	12	29	19	47
Derivative financial instruments	19	693	961	103
Retirement benefit surplus	22	-	95	144
Trade and other receivables	15	223	213	74
		18,712	18,982	19,843
Current assets				
Inventories	14	6	6	9
Trade and other receivables	15	292	340	307
Derivative financial instruments	19	-	9	20
Restricted cash	16	181	81	15
Cash and cash equivalents	17	354	321	125
		833	757	476
Assets classified as held-for-sale	26	103	2,383	637
Total assets		19,648	22,122	20,956
Liabilities				
Non-current liabilities				
Borrowings	18	(12,280)	(17,011)	(11,781)
Derivative financial instruments	19	(504)	(884)	(135)
Deferred income tax liabilities	21	(2,263)	(2,403)	(1,973)
Retirement benefit obligations	22	(278)	(20)	(22)
Provisions	24	(26)	(110)	(105)
Trade and other payables	25	(6)	(9)	(16)
		(15,357)	(20,437)	(14,032)
Current liabilities				
Borrowings	18	(1,116)	(1,060)	(5,850)
Derivative financial instruments	19	-	-	(1)
Provisions	24	(91)	(64)	(95)
Current income tax liabilities		(127)	(77)	(71)
Trade and other payables	25	(545)	(613)	(633)
		(1,879)	(1,814)	(6,650)
Liabilities associated with assets classified as held-for-sale	26	(4)	(1,533)	(60)
Total liabilities		(17,240)	(23,784)	(20,742)
Net assets/(liabilities)		2,408	(1,662)	214
Equity				
Capital and reserves				
Ordinary shares	27	4,300	40	-
Share premium	28	364	364	4
Fair value and other reserves	29	(147)	(397)	(96)
Retained earnings	31	(2,130)	(1,688)	293
Total shareholders' equity		2,387	(1,681)	201
Minority interest in equity		21	19	13
Total equity		2,408	(1,662)	214

¹ Comparatives restated for a change in accounting policy relating to the Group's investments in joint ventures. The investment in APP has been equity accounted for and as such, prior to being treated as an asset classified as held-for-sale, was presented as a one line investment in the statement of financial position. IAS 1 requires disclosure of restated opening balances, being 1 January 2008, when there is a change in accounting policy as disclosed above.

The financial statements set out on pages 17 to 65 were approved by the Board of directors and authorised for issue on 26 February 2010 and signed on behalf of the Board.



Colin Matthews
Director



Jose Leo
Director

BAA Limited

Consolidated statement of changes in equity for the year ended 31 December 2009

	Note	Attributable to owners of the company				Minority interest £m	Total equity £m	
		Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m			
Balance at 1 January 2008		-	4	(96)	293	201	13	214
Comprehensive income:								
Profit or (loss)		-	-	-	(1,948)	(1,948)	2	(1,946)
Other comprehensive income:								
Profit / (loss) on re-measurement of the following -								
Available for sale financial assets	30	-	-	(3)	-	(3)	-	(3)
Cash flow hedges net of tax	30	-	-	(311)	-	(311)	-	(311)
Currency translation	30	-	-	13	2	15	4	19
Share-based payments	30	-	-	-	5	5	-	5
Indexation of operating land	30	-	-	-	3	3	-	3
Actuarial loss on pensions	30	-	-	-	(59)	(59)	-	(59)
Tax on actuarial gain on pensions	30	-	-	-	16	16	-	16
Total comprehensive income		-	-	(301)	(1,981)	(2,282)	6	(2,276)
Transactions with owners:								
Share capital movements		40	-	-	-	40	-	40
Premium on issued shares		-	360	-	-	360	-	360
Total transactions with owners		40	360	-	-	400	-	400
Balance at 1 January 2009		40	364	(397)	(1,688)	(1,681)	19	(1,662)
Comprehensive income:								
Profit or (loss)		-	-	-	(161)	(161)	-	(161)
Other comprehensive income:								
Profit / (loss) on re-measurement of the following -								
Available for sale financial assets	30	-	-	8	-	8	-	8
Cash flow hedges net of tax	30	-	-	248	-	248	-	248
Currency translation	30	-	-	(6)	-	(6)	(1)	(7)
Indexation of operating land	30	-	-	-	3	3	-	3
Share-based payments	30	-	-	-	6	6	-	6
Actuarial loss on pensions	30	-	-	-	(404)	(404)	-	(404)
Tax on actuarial gain on pensions	30	-	-	-	114	114	-	114
Acquisition of subsidiary	30	-	-	-	-	-	3	3
Total comprehensive income		-	-	250	(442)	(192)	2	(190)
Transactions with owners:								
Share capital movements	27	4,260	-	-	-	4,260	-	4,260
Total transactions with owners		4,260	-	-	-	4,260	-	4,260
Balance at 31 December 2009		4,300	364	(147)	(2,130)	2,387	21	2,408

BAA Limited

Consolidated cash flow statement for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Operating activities			
Cash generated from continuing operations	33	948	818
Income taxes paid		(3)	(6)
Cash generated from discontinued operations		174	167
Net cash from operating activities		1,119	979
Investing activities			
Purchase of:			
Property, plant and equipment		(930)	(755)
Investment properties		(17)	(262)
Intangible assets		(21)	(28)
Proceeds from available-for-sale investments		-	24
Proceeds on redemption of loan note		-	14
Investing activities of discontinued operations and disposal proceeds		1,258	515
Net cash (used in) / provided by investing activities		290	(492)
Financing activities			
Proceeds from issue of ordinary shares	33	-	400
Proceeds from issuing bonds	33	925	-
Prepayment of derivative interest	33	(114)	(303)
Swap cancellations	33	(43)	-
Interest paid	33	(522)	(828)
Interest received	33	6	21
Proceeds from borrowings	33	456	6,097
Proceeds from parent borrowings	33	255	-
Repayment of borrowings	33	(1,157)	(6,294)
Payment of loan/bond arrangement costs	33	(1)	(324)
Restricted cash	33	(143)	-
Financing activities of discontinued operations		(1,093)	1,015
Net cash used in financing activities		(1,431)	(216)
Net increase in cash and cash equivalents		(22)	271
Cash and cash equivalents at beginning of year		417	146
Cash and cash equivalents at end of year	17	395	417

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009

Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Primary financial statements format

The IFRS primary financial statements are presented in accordance with IAS 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses (including those of associates). These items are:

- i Fair value gains and losses on investment property revaluations and disposals;
- ii Derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship;
- iii The associated tax impacts of the items in (i) and (ii) above.

Basis of accounting

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

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

Consequently the directors have reviewed the cash flow projections of the Group taking into account:

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall 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 (Note 18).

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

Changes in accounting policy and disclosures

Changes in accounting policy

(a) Transition to equity accounting for interests in joint ventures

In 2009 the Group changed its accounting policy for its joint ventures which relates specifically to Airport Property Partnership ('APP'). Previously APP's results were aggregated using the proportional consolidation method. The interests in APP are now equity accounted resulting in a one line investment in the statement of financial position with movements taken to the annual income statement, similar to the Group's historic accounting for its investments in associates. The decision to change to equity accounting was based on the interests in APP no longer being considered core assets of the Group. This new method of presentation provides a true and fair view of the Groups interests in joint ventures and is in line with the future introduction of IFRS 3 (Revised) 'Business Combinations' as applicable for accounting periods commencing on or after 1 July 2009. IFRS 3 (Revised) requires all business combinations after 1 July 2009 to be accounted for using the equity method. Subsequent to equity accounting, APP has been marketed for sale and meets the criteria for presentation as a discontinued operation and asset held-for-sale at year end.

(b) Accretion on index-linked financial instruments

Following a £235 million index-linked bond issue in 2009, the Group has changed the way accretion on index-linked swaps is presented in the income statement. Accretion on index-linked swaps was previously included within the fair value gain or loss on derivative financial instruments. Accounting standards for index-linked bonds require accretion to be classified as a part of their finance cost. Management considers that classifying accretion for both instruments consistently through finance costs will improve presentation of the Group's income statement. Comparatives have been restated to present the results on a consistent basis. The new treatment resulted in a £42 million reclassification from 'Fair value losses on financial instruments' to 'Net finance costs' in 2008. The current year result is a £16 million gain recognised in the Group's 'Net finance costs'.

New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS's as of 1 January 2009:

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009.
The amendment required enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosure, there is no impact on the income statement for the year.
- IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009.
The revised standard prohibits the presentation of items of income and expenses the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owners changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on the income statement for the year.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

New and amended standards adopted by the Group continued

- IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.
- IFRS 8, 'Operating Segments' (effective from 1 January 2009) requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14, 'Segmental Reporting'. As the new guidance only impacts presentation aspects, there is no impact on the income statement for the year.
- IFRIC 12, 'Service Concession Arrangements' – (effective from 1 January 2009) addresses the accounting by operators of public-private service concession arrangements. The group has assessed the impact of this interpretation and has concluded that it does not have a significant impact on the Group's financial statements.

Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRIC 17, 'Distributions of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- IFRS 3 (revised), 'Business combinations', (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.
- IAS 38 (amendment), 'Intangible assets'. The Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not have a material impact on the Group's financial statements.
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The Group will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other asset for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- IFRS 2 (amendments), 'Group cash-settled and share based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2' and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments', (effective on or after 1 July 2010). This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 41 of IAS 39. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss. It is not expected to have a material impact on the Group financial statements.
- IFRS 9, 'Financial instruments'. The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The IASB sees this first instalment on classification and measurement of financial assets as a stepping stone to future improvements in the financial reporting of financial instruments and is committed to completing its work on classification and measurement of financial instruments expeditiously. The new guidance is not expected to have a material impact on the Group's financial statements.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

Business combinations

Basis of consolidation

The Group financial statements consolidate the financial statements of BAA Limited and all its subsidiaries together with any share of profits (net of interest and tax) and net assets of joint ventures and associate undertakings accounted for using the equity method.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition of subsidiaries by the Group is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair values at the acquisition date.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed to or from the Group.

Inter-group balances and transactions of the continuing operations are eliminated during the consolidation process. Transactions between continuing and discontinued operations that are expected to continue post sale are not eliminated from continuing operations in order to present the continuing operations on a basis consistent with the underlying trading.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Transaction with minority interests

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to minority interests in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover losses.

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Investments in associates and joint ventures

The equity method of accounting is used in respect to the Group's interest in associates and joint ventures. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Interests are carried at cost in the statement of financial position less any impairment in the value of underlying assets. The Group's share of post acquisition profits and losses are included in the income statement net of interest and tax.

Segment reporting

For the purposes of Group reporting, the reportable segments are consistent with those operating segments reported upon on a monthly basis to the chief operating decision-maker. The chief operating decision maker is considered to have responsibility for allocating resources and assessing performance of the operating segments and has been identified as the Board.

The Group's operating segments are organised according to their regulatory environment, type of operation and geographic location. The operating segments are primarily the individual airports, and Heathrow Express ('HEX') which are organised and managed separately on the basis of the above operating environment. As such, the following operating segments are reported to the Board on a monthly basis:

- Designated group (price regulated airports of Heathrow and Stansted and rail operations HEX);
- Non-designated group (Edinburgh, Glasgow, Aberdeen and Southampton);
- Other Airports (Naples);
- Other operations (Corporate activities, BAA Lynton and other commercial operations);
- Discontinued operations (Gatwick, Airport Property Partnership ('APP') and BAA USA (Holdings) Inc ('BAA USA')).

Revenue

Revenue is recognised in accordance with IAS 18 'Revenue' and comprises:

Aeronautical

- Passenger charges based on the number of departing passengers on departure;
- Aircraft landing charges levied according to weight on landing;
- Aircraft parking charges based on a combination of weight and time parked;
- Other charges levied for passenger and baggage operation when these services are rendered.

Retail

- World Duty Free income is recognised as each sale is transacted, net of value added tax ('VAT');
- Concession fees from retail and commercial concessionaires at or around airports are based upon turnover certificates supplied by concessionaires.

Property and operational facilities

- Property letting sales, recognised on a straight-line basis over the term of the rental period;
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale;
- Usage charges made for operational systems (eg check-in desks), recognised as each service period is provided;
- Other invoiced sales, recognised on the performance of the service.

Other

- Revenue from ticket sales, recognised at the time of travel.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

Revenue *continued*

Government grants

On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. No such grants have been received in 2009 in relation to any UK airports. Grants received are treated as deferred income until such time as the terms of the grant are satisfied at which time it is recognised as revenue in the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and ready for use. Such borrowing costs are capitalised once planning permission has been obtained and/or where projects are in the early stages of planning but the directors are satisfied that the necessary consents will be received. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Exceptional items

The Group presents, on the face of the income statement, disclosure for 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 Group's financial performance.

Such events may include gains or losses on the disposal of businesses or assets that do not qualify as discontinued operations, major reorganisation of businesses, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project. Additional details of exceptional items are provided as and when required as set out in Note 4.

Assets classified as held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management are committed to the sale, and the sale is expected to be completed within one year of the date of classification.

During the current year both APP and BAA USA have been classified as held-for-sale as management have demonstrated commitment to the sales through initial marketing proceedings and identification of potential buyers.

Non-current assets (and disposal groups) classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Discontinued operations

Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are classified as held-for-sale at year end. The financial performance and cash flows of discontinued operations are separately reported within Note 7 'Discontinued Operations'.

Intangible assets

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Identifiable assets, liabilities and contingent liabilities are grouped in cash generating units being individual designated and non-designated airports and other operations which are organised and managed separately. Goodwill arising on acquisition of subsidiaries is capitalised as an intangible asset and carried at cost less accumulated impairment losses. Goodwill is subject to an impairment review at least annually, or more frequently if there is an indication that the carrying value of goodwill may be impaired and indicators of potential impairment are ordinarily market based. Any impairment is recognised immediately in the income statement. An impairment loss recognised in respect of goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Right to operate

Right to operate relates to the non-designated airports permission to levy charges indefinitely on airline carriers for the use of airport infrastructure. Right to operate is not amortised but is subject to an annual impairment test. Any impairment loss is charged immediately in the income statement. An impairment loss recognised in respect of this indefinite life intangible asset is not reversed in a subsequent period.

Internally-generated intangible assets

Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- An intangible asset is created that can be separately identified
- It is probable that the intangible asset created will generate future economic benefits
- The development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Asset management contracts

Intangible assets in respect of airport asset management contracts represent the right to operate externally-owned airports and certain assets for the period of the contracts and are amortised on a straight-line basis over the remaining lives of the contracts, subject to impairment.

Other intangible assets

Intangible assets acquired separately or as a result of a business acquisition are capitalised at cost and fair value respectively. Where amortisation is charged on these assets, the expense is taken to the income statement through operating costs.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

Intangible assets *continued*

Indefinite-lived assets

Assets with an indefinite useful life are considered to be those assets that are expected to indefinitely contribute to the generation of cash flows. Intangible assets with an indefinite useful life are not amortised but are subjected to an impairment test on at least an annual basis.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the statement of financial position date, as determined at the interim and full-year reporting dates by the directors and by external valuers at least once every five years. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Property, plant and equipment

Operational assets

Terminal complexes, airfield assets, plant and equipment, rail assets and Group occupied properties are stated at cost less accumulated depreciation and impairment losses.

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management, and directly attributable overheads. Projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Depreciation

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

Terminal complexes	Fixed asset lives
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Railways	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Computer software	3–7 years
Other land and buildings	
Short leasehold properties	Over period of lease

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

Impairment of assets (excluding goodwill)

The Group 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 Group estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal 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 income statement 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.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

Property, plant and equipment *continued*

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.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Deferred Income

Contractual income is treated as deferred income and released to the income statement over the life of the contract.

Provisions

Provisions are recognised when the Group 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.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts, where offset is allowed.

Restricted cash

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

Financial instruments

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any provision for impairment.

Investments

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

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

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

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

Financial instruments *continued*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

Bond issue costs

Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables

Trade and other payables are not interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

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

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

The Group designates certain derivatives as either:

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

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

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

(a) Fair value hedge

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

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

(b) Cash flow hedge

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

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

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

(c) Derivatives at fair value through the income statement

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their gross amount in finance costs and finance income in the income statement.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Accounting policies *continued*

Current and deferred income tax *continued*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Share capital

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

Employee benefits

Pension obligations

Employees in certain subsidiaries or those joining the Group after 15 June 2008 are members of a separate defined contribution schemes. The pension costs charged to the income statement are the contributions payable by the Group during the period. The Group has no further payment obligations once the contributions have been paid.

The Group's UK main pension fund is a defined benefit scheme which is self-administered. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments or changes in actuarial assumptions are charged or credited in the statement of comprehensive income in the period in which they arise. Past service cost is recognised immediately in the income statement to the extent that the benefits are already vested, otherwise it is amortised on a straight-line basis over the average period until the benefits become vested.

The amount of income or expenditure recognised in the income statement as staff costs, in relation to the defined benefit scheme, comprises the service cost of the pension provision relating to the period, past service costs recognised in accordance with the above policy, the interest cost (being the increase in the present value of scheme liabilities since the benefits are closer to settlement) and the Group's long-term expected return on assets (based on the market value of the scheme assets at the start of the period, amended for expected changes in the period resulting from benefits payable and contributions receivable by the scheme).

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the scheme plus any unrecognised past service cost.

Share based payments

The fair value of employee services received in exchange for the grant of options under the ESOP (see Note 23) is recognised as an expense over the vesting period of the options with the corresponding entry recorded in equity. The fair value of the options granted is measured using a binomial model adjusted by taking into account the exercise price, volatility, the term during which the benefits may be exercised, expected dividends, a risk-free interest rate and the expected timing of the exercise.

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

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

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

Dividend distribution

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

Foreign currency

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

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in equity within the fair value reserve.

The results of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (Sterling) are translated into Sterling at the average exchange rate and the statement of financial positions are translated at period-end exchange rates. Exchange differences arising on retranslation are taken directly to a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the period-end closing exchange rate.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Significant accounting judgements and estimates

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

Capitalisation of costs incurred prior to planning permission being obtained

The White Paper 'The Future of Air Transport' ('the White Paper'), published in 2003, sets out the Government's policy for the development of airport capacity in the UK. It indicated a second runway at Stansted ('SG2') as the preferred location for the first new runway in the South East of England with a third runway at Heathrow ('R3') as the preferred location for the second new runway.

The Government published a progress report on the implementation of the White Paper in 2006 when it re-affirmed support for SG2. In 2007 BAA published its decision on the airport development proposal and submitted its planning application for the development of SG2 to Uttlesford District Council on 11 March 2008.

The planning inquiry for SG2 was scheduled to commence on 15 April 2009 but it has been delayed by the Government pending clarification of the future ownership of Stansted given the disposal remedy included in the Competition Commission's ('CC') decision in its investigation on the supply of UK airport services by BAA. Whilst BAA has been successful in its appeal against the CC's decision, Stansted's future ownership is yet to be clarified.

As at 31 December 2009, the costs capitalised in respect of the development of SG2 are £83 million in relation to planning application preparation and £107 million in respect of the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. Despite the delays in the start date for the inquiry, BAA believes that it is highly probable given overall Government policy and expected increases in passenger numbers over time, that planning permission for a second runway at Stansted will be obtained and the project will be developed such that future benefits will flow to the Group. If Government policy was to change such that the planning consents for the development of SG2 become less likely, elements of the costs currently capitalised may need to be written off through the profit and loss account.

In 2006, the Government re-affirmed its support for a third runway at Heathrow being the South East of England's second new runway to be developed. The Department for Transport (DfT) released a report in 2007 entitled 'Adding Capacity at Heathrow Airport' with further consultation to follow on the development. The resulting consultation reported on noise and air quality and surface access implications and had invited comments on proposals for making better use of the existing two runways until R3 was developed. A further consultation document, the 'Impact Assessment' was prepared by the DfT which found that even after accounting for the costs of climate change, development of a three-runway Heathrow would bring benefits if potential capacity were fully realised. In January 2009, the UK Government announced that it was satisfied that the conditions for the development of R3 set out in the White Paper could be met thereby further confirming the Government's support for a third runway. The Government at this time also set a target of 2005 levels for UK aviation emissions to be met by 2050. The Committee on Climate Change, an independent body of experts advising the Government on how the UK can make the transition to a low-carbon economy, reported during December 2009 that the development of a third runway at Heathrow is not incompatible with meeting the year 2050 target for UK aviation emissions to reduce back to 2005 levels.

As at 31 December 2009, approximately £10 million in preliminary costs have been capitalised in relation to the development of the third runway at Heathrow relating to planning and development costs, including internal time and advisory fees with no purchases of domestic properties or land within the proposed boundaries having taken place to date. BAA believes that it is highly probable, given overall Government policy, DfT announcements regarding the development of R3, airline community support and the expected increases in passenger numbers over time, that planning permission for a third runway at Heathrow will be obtained.

Investment properties

Investment properties were valued at a fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors, Strutt and Parker, Chartered Surveyors and King Sturge, Valuers and Surveyors. The valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 70% of the investment properties comprise car parks and airside assets at the Group's airports that are considered less vulnerable to market volatility than the overall market. Given recent declines in property prices, independent valuations were obtained for 100 percent of the investment properties.

Estimated impairment of goodwill and indefinite life intangible assets

The Group annually tests whether goodwill and indefinite life intangible assets has suffered any impairment, as stated in the Accounting Policies. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell. These calculations require the use of assumptions, the details of which have been disclosed in Note 11, together with sensitivity analysis where appropriate.

Taxation

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

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and future returns on pension scheme assets and charges to the income statement. The factors have been determined in consultation with the Group's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the statement of comprehensive income. Further details are available within Note 22.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

Significant accounting judgements and estimates *continued*

Hedge accounting

From 1 October 2008, certain interest rate swaps were designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions, based on management expectation that it is highly probable these derivatives will match future sterling funding issuances which will occur to refinance existing debt. As at 31 December 2009, £125 million of fair value losses (2008: £346 million) on these derivatives, have been deferred into the cash flow hedge reserve.

Management assesses on a regular basis the extent to which terms of future financing are expected to match the profiles of the hedges, and adjusts the accounting accordingly. Any such change in the expected financing may require the recycling of the cash flow hedge reserve through the income statement.

Fair value of derivative financial instruments

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

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the Board for allocating resources and assessing performance. These segments are organised according to their regulatory environment type of operation and geographic location and are largely split between the 'designated' and 'non-designated' airports groups.

The 'other airports' segment consists of Naples airport.

The 'other operations' segment consists of corporate activities, BAA Lynton, and other commercial operations.

The performance of the above segments is measured on a revenue and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

The reportable segments derive their revenues from a number of sources including aeronautical, retail, property and facilities (including property income and utilities income), and other (includes railway income) products and services and this information is also provided to the board on a monthly basis.

During the year the Group formally disposed of Gatwick and classified BAA USA and the residual interests in APP as assets held-for-sale on the statement of financial position. The performance of these disposal groups is distinguished from the performance of continuing Group operations in the annual reports through classification as discontinued operations.

Table (a) details total revenue from external customers to 31 December 2009 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2008.

Table (c) details depreciation and amortisation, fair value adjustments and profit and loss on disposals by reportable segment. The fair value adjustment information is not provided to the board by reportable segment, but is included in this note to the accounts as additional information.

Table (d) details asset, liability and capital expenditure information by reportable segment. The assets and liabilities information by segment is not provided to the board.

Table (e) revenue and non-current asset information by geographic segment.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

1 Segment information *continued*

Segment information for the year ended 31 December 2009 is as follows:

Table (a)	Segment revenue					EBITDA		
	Aero- nautical £m	Retail £m	Property & facilities £m	Other £m	Total revenue from external customers £m	Pre exceptional items £m	Exceptional items ² £m	Post exceptional items £m
Designated group	1,093	439	259	149	1,940	885	-	885
Heathrow	961	351	240	54	1,606	744	-	744
Heathrow Express	-	-	-	91	91	39	-	39
Stansted	132	88	19	4	243	102	-	102
Non-designated group	140	72	29	13	254	107	-	107
Edinburgh	55	29	10	4	98	46	-	46
Glasgow	42	24	11	4	81	33	-	33
Aberdeen	27	10	7	4	48	19	-	19
Southampton	16	9	1	1	27	9	-	9
Other airports	25	14	7	6	52	16	-	16
Other operations	-	7	-	10	17	-	-	-
Total	1,258	532	295	178	2,263	1,008	-	1,008
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation								(596)
Operating profit (before certain re-measurements)								412
Fair value loss on investment properties (certain re-measurements)								(83)
Finance income								892
Finance costs								(820)
Fair value loss on financial instruments (certain re-measurements)								(82)
Share of profit of associates and joint ventures ¹								(2)
Profit before tax								317
Taxation – ordinary								59
Taxation – ordinary (certain re-measurements)								46
Taxation								105
Profit for the year – continuing operations								422
Net loss from discontinued operations ³								(583)
Consolidated loss for the year								(161)

¹ Represents the results of Advanced Transport Systems ('ATS') as detailed within Note 35.

² Exceptional items for statutory reporting purposes includes £55 million accelerated depreciation as compared to £nil million for segmental reporting.

³ Includes the results for Gatwick, APP, and BAA USA.

Revenues of approximately £549 million (2008: £594 million) are derived from a single external customer of which £52 million relates to discontinued operations (2008: £62 million). These revenues are included in the Heathrow, Edinburgh, Glasgow and Aberdeen segments above.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

1 Segment information *continued*

Segment information for the year ended 31 December 2008 is as follows:

Table (b)	Segment revenue restated ¹					EBITDA restated ¹		
	Aero- nautical £m	Retail £m	Property & facilities £m	Other £m	Total revenue from external customers £m	Pre exceptional items £m	Exceptional items ² £m	Post exceptional items £m
Designated group	980	418	240	148	1,786	734	3	737
Heathrow	835	328	221	58	1,442	581	4	585
Heathrow Express ³	-	-	-	86	86	36	-	36
Stansted	145	90	19	4	258	117	(1)	116
Non-designated group	128	72	28	11	239	117	-	117
Edinburgh	49	27	9	5	90	48	-	48
Glasgow	41	27	10	4	82	42	-	42
Aberdeen	23	9	7	2	41	19	-	19
Southampton	15	9	2	-	26	8	-	8
Other airports	23	14	6	6	49	14	-	14
Other operations	-	6	-	7	13	26	-	26
Total	1,131	510	274	172	2,087	891	3	894
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation								(543)
Operating profit (before certain re-measurements)								351
Reconciliation to statutory information								
Fair value loss on investment properties (certain re-measurements) ¹								(178)
Finance income								196
Finance costs ¹								(1,286)
Fair value loss on financial instruments (certain re-measurements) ¹								(250)
Loss before tax								(1,167)
Taxation – ordinary								201
Taxation – ordinary (certain re-measurements)								135
Taxation – exceptional								(1,144)
Taxation								(808)
Loss for the year – continuing operations								(1,975)
Net profit from discontinued operations ³								29
Consolidated loss for the year								(1,946)

¹ Information restated to include APP and BAA USA in discontinued operations, and to reflect the reclassification of the accretion on index-linked swaps from fair value loss on financial instruments to finance costs (Note 5).

² Exceptional items for statutory reporting purposes includes £103 million (refer Note 4) as compared to £3 million for segmental reporting for a credit in relation to provisions that are no longer required.

³ Includes the results of Gatwick, World Duty Free, APP and BAA USA.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

1 Segment information *continued*

Table (c)	31 December 2009			31 December 2008 Restated ¹		
	Depreciation & amortisation ² £m	Fair value gains / (losses) ³ £m	Profit/(loss) on Disposal £m	Depreciation & amortisation ² £m	Fair value gains / (losses) ³ £m	Profit / (loss) on disposals £m
Designated group	527	(93)	-	486	(147)	-
Heathrow	446	(52)	-	414	(59)	-
Heathrow Express	41	-	-	37	-	-
Stansted	40	(41)	-	35	(88)	-
Non-designated group	56	12	-	51	(27)	-
Edinburgh	22	24	-	20	(9)	-
Glasgow	21	(3)	-	20	(9)	-
Aberdeen	8	(6)	-	7	(7)	-
Southampton	5	(3)	-	4	(2)	-
Other airports	9	-	-	5	-	-
Other operations	4	(2)	-	1	(4)	-
Continuing operations	596	(83)	-	543	(178)	-
Discontinued operations	3	(49)	(683)	52	(202)	250
Total Group	599	(132)	(683)	595	(380)	250

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

² Includes intangible amortisation of £41 million (2008: £43 million) and for Heathrow includes exceptional depreciation of £55 million (2008: £84 million) refer to Note 4.

³ Reflects fair value gains and losses on investment properties only.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

1 Segment information *continued*

Table (d)	31 December 2009			31 December 2008 Restated ¹		
	Assets ² £m	Liabilities £m	Capital expenditure ³ £m	Assets ² £m	Liabilities £m	Capital expenditure £m
Designated group	15,491	(482)	769	15,359	(598)	892
Heathrow	12,599	(440)	703	12,396	(548)	779
Heathrow Express	1,132	(7)	14	1,168	(6)	14
Stansted	1,760	(35)	52	1,795	(44)	99
Non-designated group	2,391	(42)	69	2,369	(45)	85
Edinburgh	909	(17)	37	871	(17)	43
Glasgow	854	(14)	10	869	(15)	25
Aberdeen	361	(6)	18	359	(8)	10
Southampton	267	(5)	4	270	(5)	7
Other airports	201	(76)	15	208	(79)	37
Other operations	205	(68)	-	255	(74)	22
Classified as held for sale ³	100	(4)	155	2,368	(500)	146
Total	18,388	(672)	1,008	20,559	(1,296)	1,182
Investment in equity accounted associates and joint ventures ¹	-	-	-	62	-	-
Other interests	-	-	-	62	-	-
Total operations	18,388	(672)	1,008	20,621	(1,296)	1,182
Unallocated assets and liabilities:						
Cash, borrowings ⁴ and available-for-sale investments	567	(13,396)		436	(19,104)	
Derivative financial instruments	693	(504)		970	(884)	
Retirement benefit surplus/(obligations)	-	(278)		95	(20)	
Taxation	-	(2,390)		-	(2,480)	
Group	19,648	(17,240)	1,008	22,122	(23,784)	1,182

¹ Prior year restated for changes in accounting policy in relation to joint ventures equity accounting.

² Segment assets include primarily airport runways and facilities as well as goodwill and right to operate allocated to the reportable segments.

³ Includes discontinued operations in respect of capital expenditure and excludes borrowings of £nil (2008: £1,033 million) and cash of £3 million (2008: £15 million).

⁴ Includes held for sale cash of £3 million (2008: £15 million) and borrowings of £nil (2008: £1,033 million) in respect of discontinued operations.

Table (e)

The Group's geographical analysis of revenue and non-current assets, allocated based on the country in which the customer and assets are located are as follows:

	31 December 2009		31 December 2008 restated ¹	
	Revenue £m	Non-current assets £m	Revenue £m	Non-current assets £m
UK ²	2,211	17,833	2,038	17,680
International ³	52	186	49	184
Total Operations	2,263	18,019⁴	2,087	17,864 ⁴
Investment in equity accounted associates and joint ventures		-		62
Un-allocated assets		693⁵		1,056 ⁵
Group assets		18,712		18,982

¹ Comparative information restated to include APP and BAA USA within discontinued operations. There is no requirement to restate items in the statement of financial position.

² BAA Limited is domiciled in the UK.

³ No individual country's revenue or assets are considered material and so have not been disclosed separately.

⁴ Excluding derivative financial instruments, deferred tax assets, post-employment benefit assets.

⁵ Unallocated assets is comprised of derivative financial instruments, deferred tax assets, post-employment benefit assets.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

2 Operating costs – continuing operations

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Operating costs (including exceptional items) include the following:		
Employment costs		
Wages and salaries	352	386
Social security	33	36
Pensions	27	39
Share-based payments	6	5
Contract and agency staff	38	58
Other staff related	20	41
	476	565
Depreciation, amortisation and impairment charges		
Depreciation of property, plant and equipment		
Amortisation of intangible assets	555	500
Software	27	27
Retail contracts	14	16
	596	543
Other operating costs		
Loss on sale of:		
Property, plant and equipment	-	1
Retail expenditure	42	25
Retail marketing	9	13
Maintenance and cleaning	200	194
Insurance	18	19
Other marketing and communications	13	17
Rent and rates	142	123
Utilities	140	107
Police	44	47
Air navigation charges	89	63
General expenses	161	113
	(79)	(94)
Own work capitalised ²	(79)	(94)
Total operating costs	1,851	1,736
Analysed as:		
Adjusted operating costs	1,796	1,633
Exceptional costs	55	103
	1,851	1,736

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

² Own work capitalised includes £65 million (2008: £69 million) in relation to staff costs, including contract and agency staff.

Exceptional items included within operating costs are analysed in Note 4.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
The aforementioned charges include:		
Rentals under operating leases		
Plant and machinery	40	38
Other	36	30
	76	68
Property lease and sub lease charges		
Minimum lease payments	36	30

Property operating costs include £10 million (2008: £11 million) in respect of coaching and management fees relating to the provision of car parking facilities for airline and other airport workers. This amount is recovered through the sale of airport passes and is included within property and facilities income (Notes 1(a) and 1(b)).

Auditors' remuneration

Auditors' remuneration relates to fees paid to PricewaterhouseCoopers LLP.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Fees payable to the Company's auditors of its subsidiaries for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	1.1	0.9
Other services pursuant to legislation	0.1	0.1
Taxation services	-	0.1
Corporate finance ¹	0.8	4.0
IT review	0.8	-
Other services	0.3	0.2
	3.1	5.3

¹ Includes professional fees for services provided in relation to refinancing activities in 2008.

Auditors' remuneration includes services provided to both continuing and discontinued operations.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

3 Employee information

a) Employee numbers

The average monthly number of employees (including executive directors) within the Group was as follows:

	Year ended 31 December 2009	Restated ¹ Year ended 31 December 2008
Continuing operations		
United Kingdom		
Airports	8,903	9,316
BAA Lynton	9	18
Other operations	430	440
International		
Europe	409	387
Discontinued operations		
<i>United Kingdom</i>		
Airports ²	2,274	2,186
<i>International</i>		
BAA USA	28	26
	12,053	12,373

¹ Comparative information restated to include BAA USA in discontinued operations. No restatement for APP is required as no Group employees work for APP.

² The employee numbers are for Gatwick and have been calculated for the 11 months prior to the date of disposal.

b) Employees and directors

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Key management compensation¹		
Salaries and short-term employee benefits	7,129	7,555
Termination benefits	872	3,094
Sum paid to related parties for key management services	1,200	1,200
Share-based payments	-	711
Post-employment benefit contributions	-	464
	9,201	13,024

¹ Key management includes executive directors and members of the executive team of BAA Limited who control and direct the Group's operational activities and resources. All the remuneration of the directors and members of the executive team was paid by BAA Airports Limited during the year.

c) Directors' remuneration

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Aggregate emoluments	2,162	1,046
Value of company pension contributions to defined contribution scheme	174	53
Sums paid to related parties for directors' services	1,200	696
	3,536	1,795

During the year, none of the directors (2008: none) had retirement benefits accruing to them under a defined benefit pension scheme.

During the year, one of the directors (2008: one) had retirement benefits accruing to them under a defined contribution pension scheme.

Of the directors in office during the year ended 31 December 2009, eleven (2008: four) did not receive any emoluments during the year.

Highest paid director

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentives schemes	994	461
Defined contribution scheme		
Value of company pension contributions to defined contribution scheme	174	-

In accordance with a long term incentive scheme, a cash amount was awarded in November 2009 to the highest paid director which vest in 2012 contingent on achieving or surpassing EBITDA targets over a three year period. As financial performance is uncertain at this stage the above emoluments do not contain any value in relation to this award.

During both the current and the prior years, the highest paid director had no retirement benefits accruing to them under either a defined benefit pension scheme or defined contribution pension scheme.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

4 Exceptional items

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Reorganisation costs (including severance and redundancy)	-	3
Heathrow Terminals 1 and 2 accelerated depreciation ¹	(55)	(84)
Heathrow Terminal 5 launch / operational readiness costs	-	(22)
Total exceptional items before income tax	(55)	(103)
Tax credit on exceptional items	15	29
Total exceptional items	(40)	(74)

¹ With the anticipated development of Terminal 2A, Terminals 1 and 2 at Heathrow airport will be demolished necessitating an additional depreciation charge of £55 million in the year ended 31 December 2009 (2008: £84 million) to reflect the shortened useful lives of the assets.

5 Financing – continuing operations

a) Net finance costs

	Note	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Finance income			
Interest and fee income from available for sale financial assets		2	1
Income from other financial assets		6	6
Interest receivable on derivatives not in hedge relationship		151	177
Interest on deposits and money market funds		2	12
Interest on Group borrowings		731 ²	-
		892	196
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments		(289)	(261)
Bank loans & overdrafts and related hedging instruments		(433)	(561)
Interest payable on derivatives not in hedge relationship		(85)	(174) ³
Facility fees		(32)	(56)
Interest on Group borrowings		-	(319)
Unwinding of discount on Terminal 5 land purchase and other provisions	24	(3)	(15)
Total borrowing costs		(842)	(1,386)
Less: capitalised borrowing costs	9	22	100
		(820)	(1,286)
Net finance costs before certain re-measurements		72	(1,090)

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

² In April 2009 ADI Finance 2 Limited waived accrued interest payable by the Group on the downstream loan for the period between the date the downstream loan was made in June 2006 and 31 March 2009 which resulted in £838 million gain (refer to Note 18).

³ Restated for change in accounting for accretion on index-linked swaps.

The net finance costs above are for continuing operations only. Finance income and finance costs for discontinued operations are disclosed in Note 7 'Discontinued operations'.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 2.87% (2008: 6.90%) to expenditure incurred on such assets.

b) Fair value (losses)/gains on financial instruments

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Embedded derivatives in electricity purchase contracts	(1)	(9)
Fair value loss in operating profit	(1)	(9)
Interest rate swaps: cash flow hedges ²	23	(19)
Interest rate swaps: not in hedge relationship	-	(42)
Cross currency interest rate swaps: cash flow hedge ²	(18)	25
Index linked swaps: not in hedge relationship	(126)	(141) ³
Equity swap	43	(74)
Fair value re-measurements of foreign exchange contracts and currency balances	(3)	10
Fair value loss in finance costs	(81)	(241)
Total fair value loss on financial instruments	(82)	(250)

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

² Hedge ineffectiveness on derivatives in a hedge relationship.

³ Restated for change in accounting for accretion on index-linked swaps.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

6 Taxation – continuing operations

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
UK Corporation Tax		
Current at 28% (2008: 28.5%)	(8)	(107)
Over provision in respect of prior years	16	8
Deferred Tax		
Current year	(78)	(216)
Prior year	(40)	(24)
Overseas Tax		
Current	5	3
Deferred	-	-
Ordinary taxation credit for the year	(105)	(336)
Deferred Tax		
Current year	-	1,144
Exceptional taxation charge for the year	-	1,144

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Profit/(loss) before tax	317	(1,167)
The tax on the Group's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting losses of the Group:		
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 28% (2008: 28.5%)	89	(333)
Adjustments in respect of current income tax of previous years	16	8
Change in UK Corporation tax rate – impact on deferred tax assets and liabilities	-	2
(Non assessable income) /non deductible expenses – net	(170)	11
Adjustments in respect of deferred income tax of previous years	(40)	(24)
Ordinary taxation credit for the year	(105)	(336)
Deferred tax – impact of the abolition of industrial building allowances	-	1,144
Exceptional taxation charge for the year	-	1,144

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement, in particular the UK Government announced that Industrial Buildings Allowance ('IBAs') would be abolished over three years from 1 April 2008. As a consequence, the Group recognised an exceptional accounting loss in the form of a deferred tax charge amounting to £1.25 billion in 2008 (£106 million of which related to discontinued activities). In effect, the accounting charge reflected as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

7 Discontinued operations

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale during the year. In accordance with IFRS 5 - 'Non-current assets held-for-sale and discontinued operations', the results and cash flows of this 'disposal group' are reported separately from the performance of continuing operations at each reporting date.

Gatwick was sold on 3 December 2009 and the results up to the date of disposal are reported in (a) below.

BAA USA (Holdings) Inc ('BAA USA') is held by BAA (NDH2) Limited (refer Note 35). BAA USA and its subsidiary undertakings have been classified as held-for-sale by management and reported as discontinued in table (a) below. The Group interest consists of management rights to commercial retail space the nature of which are immediately for sale. The combined interests represent a separate geographical location of business activities that can be separately reported from the Group's continuing operations and are classified as held-for-sale on this basis.

The Group's interest in Airport Property Partnership ('APP') has been classified as held-for-sale by management and reported as discontinued in (a) below.

a) Net profit from discontinued operations

	Year ended 31 December 2009			Restated ¹ Year ended 31 December 2008		
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	463	-	463	530	-	530
Operating costs						
Depreciation and amortisation	(3)	-	(3)	(52)	-	(52)
Other	(267)	-	(267)	(351)	-	(351)
Other Items						
Fair value losses on investment property	-	(49)	(49)	-	(43)	(43)
Operating profit from discontinued operations	193	(49)	144	127	(43)	84
<i>Analysed as:</i>						
Operating profit before exceptional items	193	(49)	144	118	(43)	75
Exceptional items	-	-	-	9	-	9
Financing						
Financing costs	(67)	-	(67)	(38)	-	(38)
Net Finance Costs	(67)	-	(67)	(38)	-	(38)
(Loss)/profit on disposal of operations	(683) ²	-	(683)	226	24	250
Share of profit/(losses) from associates and joint ventures	26	-	26	(153)	-	(153)
(Loss)/profit before tax from discontinued operations	(531)	(49)	(580)	162	(19)	143
Taxation – ordinary	(16)	13	(3)	(24)	16	(8)
Taxation – exceptional	-	-	-	(106)	-	(106)
Tax charge on profit of discontinued operations	(16)	13	(3)	(130)	16	(114)
Net (loss)/profit from discontinued operations	(547)	(36)	(583)	32	(3)	29

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

² Includes £601 million impairment charge on investment in Gatwick up to the date of disposal, £68 million loss on disposal of Gatwick, and £14 million write off of loan notes due from the acquirer of APP assets in the prior year.

b) Disposal of businesses

On 3 December 2009, the Group sold Gatwick for cash consideration of £1,445 million and deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure. Sale proceeds were used primarily to repay bank debt. In addition, at 31 December 2009, £143 million of the proceeds were being held in escrow to be used primarily to settle a commutation payment into the BAA defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. The remainder of the sale proceeds are being utilised to fund transaction costs including legal and other advisory fees and directly attributable separation costs.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

7 Discontinued operations *continued*

b) Disposal of businesses *continued*

The loss on disposal arising is detailed below:

	£m
Property, plant and equipment	1,284
Investment property	635
Goodwill	489
Intangible assets	23
Other assets	56
Cash and cash equivalents	39
Deferred income tax liabilities	(393)
Other liabilities	(92)
Net assets	2,041
Add:	
Disposal costs	73
Carrying value of disposed operations	2,114
Consideration:	
Cash and cash equivalents	(1,445)
Loss on disposal	669

The loss on disposal of Gatwick includes an impairment charge of £601 million that was recognised in 2009 prior to disposal as a result of the carrying value of Gatwick airport's assets being greater than their expected recoverable amount less disposal costs at the time.

8 Dividends

No dividends were paid or proposed in the year (2008: £nil).

9 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
Balance 1 January 2008		4,457	1,129	149	89	555	5,801	12,180
Additions		12	-	8	-	-	845	865
Net transfers from/(to) investment properties	10	-	-	-	2	-	(9)	(7)
Transfers from/(to) completed assets		3,801	349	112	19	685	(4,966)	-
Borrowing costs capitalised		-	-	-	-	-	104	104
Disposals		(4)	-	(2)	-	-	-	(6)
Reclassifications		125	-	(10)	(12)	-	(103)	-
Currency translation		12	-	16	3	-	11	42
Transferred to assets held-for-sale	26	(982)	(136)	(51)	(25)	-	(74)	(1,268)
Balance 1 January 2009		7,421	1,342	222	76	1,240	1,609	11,910
Additions		7	-	10	-	-	804	821
Acquisitions		-	-	-	-	-	1	1
Net transfers from/(to) investment properties	10	3	-	-	19	-	(21)	1
Transfers from/(to) completed assets	5	878	34	100	6	5	(1,023)	-
Borrowing costs capitalised		-	-	-	-	-	22	22
Disposals		(90)	(3)	(5)	(10)	-	(1)	(109)
Currency translation		(4)	-	(5)	(1)	-	(6)	(16)
Transferred to assets held-for-sale	26	-	-	(18)	-	-	(9)	(27)
Balance 31 December 2009		8,215	1,373	304	90	1,245	1,376	12,603
Depreciation								
Balance 1 January 2008		(412)	(72)	(30)	(6)	(28)	-	(548)
Charge		(412)	(55)	(42)	(6)	(37)	-	(552)
Disposals		3	-	2	-	-	-	5
Reclassifications		2	-	21	(9)	(14)	-	-
Currency translation		(7)	-	(8)	(1)	-	-	(16)
Transferred to assets held-for-sale	26	106	14	10	2	-	-	132
Balance 1 January 2009		(720)	(113)	(47)	(20)	(79)	-	(979)
Charge		(404)	(56)	(52)	(6)	(41)	-	(559)
Disposals		86	3	4	4	-	-	97
Currency translation		2	-	3	-	-	-	5
Transferred to assets held-for-sale	26	-	-	7	-	-	-	7
Balance 31 December 2009		(1,036)	(166)	(85)	(22)	(120)	-	(1,429)
Net book value 31 December 2009		7,179	1,207	219	68	1,125	1,376	11,174
Net book value 31 December 2008		6,701	1,229	175	56	1,161	1,609	10,931

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

9 Property, plant and equipment *continued*

Property, plant and equipment includes £105 million (2008: £179 million) for the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated and the acquisition cost represents the present value of the payment to be made by the end of January 2010. Previously the estimated deferred payments were to be made over 30 years (from the date of acquisition) to the vendor in compensation for relocation. However, a full and final settlement, extinguishing all further payment obligations has been agreed, resulting in a decrease to the acquisition cost.

Assets in the course of construction include £190 million (2008: £167 million) in respect of the development of a second runway and related infrastructure at Stansted and £10 million in respect of a third runway and related infrastructure at Heathrow. With respect to Stansted, the costs consist of £83 million (2008: £79 million) incurred in relation to the planning application preparation and £107 million (2008: £88 million) in relation to the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. This includes a provision of £5 million (2008: £5 million) for additional payments once planning permission has been obtained. Costs capitalised in respect of the third runway at Heathrow relate solely to planning and development costs, with no purchases of domestic properties or land having taken place as at 31 December 2009. Assets in the course of construction also include the second satellite under construction for Terminal 5 (T5C), the remaining phases of the satellite building for Terminal 2 as well as Terminal 4 extension and Terminal 3 refurbishments at Heathrow.

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £21 million (2008: £22 million).

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,238 million (2008: £1,297 million). Borrowing costs were capitalised at an average rate of 2.87% (2008: 6.92%).

A tax deduction of £22 million (2008: £100 million) for capitalised borrowing costs, excluding the unwinding of the provision for the obligation for Terminal 5 land purchase, was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 18.

10 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
Balance 1 January 2008 (restated)¹		3,131	8	3,139
Additions		252	10	262
Net transfers from operational assets	9	7	-	7
Valuation loss		(221)	-	(221)
Transfer to assets held-for-sale	26	(651)	(3)	(654)
Balance 1 January 2009		2,518	15	2,533
Additions		-	21	21
Transferred to/(from) completed assets		27	(27)	-
Net transfers to operational assets	9	(1)	-	(1)
Disposals		(22)	-	(22)
Valuation loss		(83)	-	(83)
Balance 31 December 2009		2,439	9	2,448

¹ Comparatives restated for change in accounting policy for joint venture interests in APP.

Airport investment properties were valued at fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors and Strutt and Parker, Chartered Surveyors.

Details of valuations performed are provided below:

	Note	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Drivers Jonas		2,436	3,175
King Sturge		-	169
Strutt & Parker		12	12
At professional valuation		2,448	3,356
At directors' valuation		-	-
		2,448	3,356
Transfer to assets held-for-sale	26	-	(654)
Transfer to equity accounted for property interests ¹		-	(169)
		2,448	2,533

¹ Comparatives restated for change in accounting policy for joint venture interests in APP.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

10 Investment properties *continued*

All valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the realisability or remittance of income or proceeds on disposal.

Void areas amounted to 9,210 m² in the year (2008: 45,537m²) representing 0.65% (2008: 2.37%) of the Group's investment property portfolio.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £4 million (2008: £4 million) for which a similar amount is included within operating costs.

Included in investment properties are assets with a carrying value of £50 million (2008: £75 million) which the Group has provided as security for the £30 million debentures due 2017 on behalf of a subsidiary. Security granted by the Group over its assets, including investment properties, is disclosed in Note 18.

11 Intangible assets

	Note	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost							
Balance 1 January 2008		3,865	624	90	163	7	4,749
Additions		-	-	28	-	-	28
Disposals		-	-	-	-	-	-
Transferred to assets held-for-sale	26	(489)	-	-	(31)	-	(520)
Balance 1 January 2009		3,376	624	118	132	7	4,257
Additions		-	-	18	-	-	18
Acquisitions		3	-	-	-	5	8
Disposals		-	-	(4)	-	(2)	(6)
Transferred to assets held-for-sale	26	-	-	-	-	(5)	(5)
Balance 31 December 2009		3,379	624	132	132	5	4,272
Amortisation							
Balance 1 January 2008		-	-	(26)	(27)	-	(53)
Charge for the year		-	-	(27)	(16)	-	(43)
Disposals		-	-	-	7	-	7
Balance 1 January 2009		-	-	(53)	(36)	-	(89)
Charge for the year		-	-	(27)	(14)	-	(41)
Disposals		-	-	3	-	-	3
Balance 31 December 2009		-	-	(77)	(50)	-	(127)
Net book value 31 December 2009		3,379	624	55	82	5	4,145
Net book value 31 December 2008		3,376	624	65	96	7	4,168

Goodwill and right to operate

Goodwill relates to the excess of the purchase consideration paid over the carrying values of the net assets of BAA plc which was acquired in June 2006 and represents the potential for long term growth in the infrastructure and passenger traffic. Acquisitions in the current year relate to additional goodwill arising on acquiring a controlling interest in ATS.

Right to operate relates to the non-designated airports' permission to levy charges on airline carriers for the use of airport infrastructure.

Goodwill and right to operate are allocated to the Group's cash-generating units (CGUs), identified as the individual airports. A summary of the allocation is presented below:

Business segments	31 December 2009			
	Right to operate £m	UK £m	Goodwill International £m	Total £m
Designated airports	-	3,003	-	3,003
Heathrow	-	2,753	-	2,753
Stansted	-	250	-	250
Non designated airports	624	309	-	309
Edinburgh	147	223	-	223
Glasgow	280	-	-	-
Aberdeen	107	52	-	52
Southampton	90	34	-	34
Other airports	-	-	64	64
Other operations	-	3	-	3
Total	624	3,315	64	3,379

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

11 Intangible assets *continued*

Goodwill and right to operate *continued*

The recoverable amount of the airports has been calculated using the fair value less cost to sell methodology. Fair value less cost to sell for the airports has been calculated based on discounted cash flow projections of the business plans for those airports over the period until year 2056, using the Adjusted Present Value (APV) methodology. Management believes this is an appropriate period for a cash flow model to provide the real value of such a growing infrastructure business with very significant expected capital expenditure and this methodology reflects the fair value of such businesses. Cash flows have been discounted at mid period and the residual value applied on the last year of the model has been calculated applying the Gordon-Shapiro formula with a 1.5% perpetuity growth.

An impairment test is a comparison of the carrying value of the assets of a cash generating unit (CGU), that is the individual airports, to their recoverable amount described above and calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, an impairment exists. As at 31 December 2009, all goodwill was tested for impairment, with no impairment charges resulting. The only impairment arising during the year was in relation to Gatwick which is discussed further in note 7 to the financial statements.

Designated group

The calculation of the business plan for the designated airports (Heathrow and Stansted) was done through the 'Building Blocks' approach, in the same way the CAA and CC applies it. The profitability of these regulated assets, using this approach, is determined by the existing Regulatory Asset Base (RAB), the future Capital Investment Programme, the regulatory return and the current economic climate and its impact on passenger numbers. The starting point of the projection for Heathrow and Stansted is the Board approved business plan extending until December 2012.

Key assumptions

In determining the recoverable amount of the airports, it is necessary to make a series of assumptions to estimate future cash flows. In each case, these key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of key information. The key assumptions used in determining the recoverable amounts are:

- **Operational projections**
The operational projections used were those approved by BAA's Board for the period until 2012. For future quinquennia, EBITDA projections for the designated airports are generated using the long term operational model which simulates the potential outcome of future settlements and is affected by forecast passenger numbers, the projected capital investment program, non aeronautical revenue and cost expectations, the forecast return allowed by the regulator and macroeconomic factors such as RPI and COPI.
- **Capital expenditure**
From 2013 onwards, a series of major projects have been included for the maintenance and replacement capital expenditure base line, in order to add capacity to the existing infrastructure to meet the Government's passenger growth expectations and at the same time maintain the quality of the assets. Current plans are to spend over £13.5 billion (in 2007/08 prices) over the next 10 years at the designated airports. These cost assumptions are consistent with the Department for Transport 'White Paper 2003 & 2006', the 'Stansted-G2' and the 'Adding Capacity at Heathrow' Consultation Papers and the airports' Master Plans. The capital investment program for the designated airports includes the investment required by the R3 and SG2 projects at Heathrow and Stansted respectively. The longer term passenger growth rates assumes support of the need for future capital expenditure to increase capacity at these airports.
- **Return from regulators and discount rate**
The rate of return from regulators for the period until December 2012 has been consistent with the latest regulatory outcomes at 6.2% for Heathrow and 7.1% for Stansted. For periods beyond December 2012, the rate of return from regulators has been increased considering recent regulatory settlements in the UK, since it is expected any market participant would take note of the different objective elements in the calculation of the WACC. The unlevered discount rates applied to the operational cash flows for the calculation of the recoverable amount of the designated airports ranges from 7.73% to 8.50%.
- **Cost of debt**
Long term assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.
- **Financing structure**
It has been assumed that the current capital structure of the group will be maintained in the long term and that any potential purchaser would be able to put in place a similar financing structure with a similar cost.

Sensitivity analysis

Changes in the key assumptions noted above have been reviewed for sensitivity analysis. As at 31 December 2009, the most relevant impact from sensitivities are those related to the increase of capacity and future passenger demand at Heathrow and Stansted. A potential scenario where a third runway at Heathrow or a second runway at Stansted (SG2) were not to be built could lead to a future recognition of an impairment loss at those airports.

Non-designated group

The business plan for the non-designated airports and other operations was prepared in December 2009 and it reflects the management view of the assets in the short-term and the current economic climate and its impact on passenger numbers. The business plan up to December 2012 has been approved by the Board. EBITDA projections for 2012 and beyond, are generated by relevant operational models, reflecting the main drivers of each line on the income statement and passenger forecasts. The recoverable amount of assets held for sale is based on the management's best sale price estimations calculated on the basis of the long term model projections and financing structure.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

11 Intangible assets *continued*

Goodwill and right to operate *continued*

Key assumptions

The key assumptions used in determining the recoverable amounts for the non-designated airports are:

- **Passenger growth**
Passenger growth is the main driver for developing a sustainable and profitable business plan driving aeronautical and non-aeronautical revenue. Passenger growth is assumed to be 4.0% on average over the medium term and 3.0% over the long term. Passenger forecasts and operational projections for the period till December 2012 have been updated in line with most recent approved business plan for all airports. A growth in passenger numbers is forecast for the non-designated airports, driven by the improvement in general economic conditions after two years of flat, or declining, numbers.
- **Capital expenditure**
The capital expenditure programme to 2018 is determined by each airport. Forecasts beyond 2018 are driven by high level ratios (revenue and operating expense per passenger) and longer-term investment programmes reflect the replacement of existing assets as they depreciate, together with capacity expansion plans in line with the airports' master plans and the Government's The Future of Air Transport White Paper published in 2003.
- **Short and long term growth rates**
RPI and COPI projections for the period to December 2012 have been updated for recent forecast trends. Long-term average RPI and COPI remains unchanged at 2.5%.
- **Discount rate**
The discount rate for non-designated airports has been calculated applying market references and assuming a 0.70 unlevered beta. The unlevered discount rate applied for the calculation of recoverable amount of the non designated airports and other operations is 8.2%. The assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Sensitivity analysis

Changes in key assumptions noted above have been reviewed for sensitivity analysis. As at 31 December 2009, the date of the Group's impairment test, the estimated recoverable amount of Aberdeen exceeded its carrying value. The estimated recoverable amounts of Edinburgh, Glasgow and Southampton airports equalled their carrying values and, consequentially, any adverse change in key assumptions would, in isolation, cause an impairment loss to be recognised.

Other airports

As at 31 December 2009, the date of the Group's impairment test, other airports have significant headroom unlikely to be eroded by any reasonable change in key assumptions.

Software costs

The capitalised computer software costs principally relate to operating and financial software. These assets are being amortised over a period of between three and seven years. Amortisation for the year has been charged through operating costs.

Software costs include assets in the course of construction of £20 million (2008: £12 million).

Retail contracts

Retail contracts are being amortised over the expected remaining life of the contract or, in the case of key tenants, a maximum of 15 years. Amortisation for the period has been charged through operating costs.

12 Available-for-sale investments

	Note	31 December 2009 £m	31 December 2008 £m
Unlisted securities			
Opening balance		19	47
Disposals ¹		-	(22)
Revaluation surplus/(loss) transferred to equity	29	10	(6)
		29	19

¹ Comparative includes part disposal of unit trusts held in APP, an equity accounted investment that resumed its classification as held-for-sale (refer Note 26).

Available-for-sale investments include £27 million (2008: £17 million) in respect of a 4.19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2032. A rate of 10.0% (2008: 8.0%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its available-for-sale investments is included in Note 20.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

13 Investments in associates and joint ventures

At 31 December 2009, the Group's principal joint venture (which is not listed) is:

	% of share capital held	Activity	Country of incorporation
Airport Property Partnership ('APP')	50	Property development and management	United Kingdom

The Group implemented a change of accounting policy in 2009 with regard to its holding in APP and ceased proportional consolidation of its share in APP's net assets and income. The investment is now equity accounted for as a one line investment on the statement of financial position.

Comparative information, including the statement of financial position, is restated for the change in accounting policy, which commenced from 1 January 2008. The impact of APP on the Group's financial position at 31 December 2008 was to increase reported 'Investments in associates and joint ventures' by £55 million from £7 million to £62 million. The £55 million represented the closing net asset position of APP at this date. Losses of £153 million were aggregated from the operating results of the Group and reported as a one-line 'share in the losses of associates and joint ventures'.

Comparative information, except for the statement of financial position, is restated for investments classified as held-for-sale. The investment in APP has been classified as held-for-sale by management during the current year. The equity accounted losses of £153 million were re-classified to discontinued in the prior year in accordance with the requirements of IFRS 5 – 'Non-current assets-held-for-sale and discontinued operations'.

The table below summarises the financial position and results of the Group's investment in associates and joint ventures, accounted for using the equity method.

Share of statement of financial position	Note	Year ended	Year ended ¹
		31 December 2009	31 December 2008
		£m	£m
Non-current assets		199	188
Current assets		11	14
Non-current liabilities		(130)	(131)
Current liabilities		(8)	(12)
Net assets		72	59
Transferred to held-for-sale	26	(72)	-
Share of revenue and profit / (loss)		£m	£m
Revenue		20	24
Revaluation on investment property		17	(159)
Net profit after tax		24	(153)
Net profit reconciled as follows:			
Discontinued operations	7a	26	(153)
Continuing operations ²		(2)	-
		24	(153)

¹ Comparative includes the net assets and results of ATS which is now a consolidated entity (Note 35). The investment is not significant to the combined net assets and results tabled above.

² Results of associate ATS to the date of the Group gaining control.

14 Inventories

	31 December 2009	31 December 2008
	£m	£m
Consumables	6	6

The total amount of inventories consumed in the year relating to continuing operations was £6 million (2008: £1 million) and relating to discontinued operations was £1 million (2008: £49 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

15 Trade and other receivables

	31 December 2009	Restated ¹ 31 December 2008
	£m	£m
Non-current		
Other receivables	9	2
Prepayments	65	74
Amounts owed from parent entity	90	79
Related party amounts	59	58
Total non-current	223	213
Current		
Trade receivables	217	236
Less: Provision for impairment	(4)	(3)
Trade receivables – net	213	233
Prepayments	41	43
Other receivables	38	63
Related party amounts	-	1
Total current	292	340

¹ Comparatives restated for change in accounting policy for joint venture interests in APP.

Non-current related party amounts represent loan notes due from Caisse de dépôt et placement du Québec that were received on disposal of Budapest Airport.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

15 Trade and other receivables *continued*

Non-current prepayments of £65 million represent refinancing fees paid in 2008 on facilities not yet drawn and future bond issuances (2008: £74 million). Refinancing fees paid on facilities are amortised on a straight-line basis over the term of the facility whereas fees paid for future bond issuances will be allocated to the bonds when issued and amortised using the effective interest rate method.

The fair value of loans, trade and other receivables are not materially different from the carrying value.

Unless otherwise stated, trade and other receivables do not contain impaired assets.

Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security.

As at 31 December 2009, trade receivables of £144 million (2008: £135 million) were fully performing. Trade receivables of £69 million (2008: £98 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2009 £m	31 December 2008 £m
Up to 3 months	47	90
over 3 months	22	8
	69	98

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 1 January 2009	3
Provision for receivables impairment	2
Receivables written off during the year as uncollectible	(1)
At 31 December 2009	4

As at 31 December 2009, trade receivables of £9 million (2008: £5 million) were considered for impairment of which £4 million (2008: £3 million) was provided for, with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery. The ageing of these receivables is as follows:

	31 December 2009 £m	31 December 2008 £m
3 to 6 months	9	5
	9	5

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 20 'financial instruments'.

16 Restricted cash

	31 December 2009 £m	Restated 31 December 2008 £m
Cash account	174	21
Money market funds	-	7
Short-term deposits	7	53
	181	81

At 31 December 2009, £143 million of the proceeds from the sale of Gatwick airport were being held in a escrow to be used primarily to settle a commutation payment into the Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. For more details regarding the Gatwick disposal (refer to Note 7).

Included in the above cash balance is a further £31 million of restricted cash (2008: £21 million) and restricted short-term deposits of £7 million (2008: £53 million). There were no money market funds held at reporting date (2008: £7 million).

17 Cash and cash equivalents

	31 December 2009 £m	Restated 31 December 2008 £m
Cash at bank and in hand	79	100
Money market funds	-	79
Short-term deposits	275	142
	354	321

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. There are no money market funds held at reporting date (2008: £79 million). The fair value of cash and cash equivalents approximate their book value.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

17 Cash and cash equivalents *continued*

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, excluding Gatwick disposal proceeds held in escrow, held for the purpose of meeting short-term cash commitments, and consist of:

	Note	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Cash at bank and in hand		110	121
Money market funds		-	86
Short-term deposits		282	195
Cash classified as held-for-sale	26	3	15
		395	417

¹ Restated as a result of the change in accounting policy for interests in joint ventures (APP).

At 31 December 2009, cash and cash equivalents classified as held-for-sale includes balances held by BAA USA (refer to Note 26).

18 Borrowings

		31 December 2009 £m	Restated ¹ 31 December 2008 £m
Current			
Secured			
Bank loans		41	43
Unsecured			
Senior loan notes		-	43
Bank loans		9	13
		50	99
Borrowings from parent ²		850	-
Total current (excluding interest payable)		900	99
Interest payable		160	174
Interest payable to parent		56	787
Total current		1,116	1,060
Non-current			
Secured			
Bonds:			
3.975% €1,000 million due 2012		872	936
5.850% £400 million due 2013		395	395
4.600% €750 million due 2014		652	703
12.450% £300 million due 2016		403	416
4.600% €750 million due 2018		647	698
9.200% £250 million due 2021		321	325
5.225% £750 million due 2023		724	722
6.750% £700 million due 2026		684	-
7.075% £200 million due 2028		234	235
6.450% £900 million due 2031		1,001	1,003
3.334% +RPI £235 million due 2039		233	-
Total BAA Funding Limited bonds		6,166	5,433
Bank loans – Designated airports		3,236	3,857
Bank loans – Non-designated airports		1,025	1,019
Subordinated facility		1,555	1,549
£30 million Debentures due 2017		41	42
Unsecured			
Other bank loans		2	1
Total bank loans		5,859	6,468
		12,025	11,901
Borrowings from parent ²		255	5,110
Total non-current		12,280	17,011
Total current and non-current (excluding interest payable)		13,180	17,110

¹ Comparatives adjusted for change in accounting policy for joint venture interest in APP

² On 22 April 2009, £4,260 million of an existing loan from ADI Finance 2 Limited was converted into share capital (refer to Note 27). Cumulative interest payable accrued to that date for £838 million was waived (refer to Note 5). In addition, in November 2009, the Group entered into a further loan with ADI Finance 2 Limited whereby ADI Finance 2 Limited lent £255 million to the Group on an interest free basis.

Bonds

The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two bond issues that generated proceeds of £924 million (net of issuance costs).

The bonds are all issued by BAA Funding Limited. The maturity dates listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and BAA Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements, the bonds have a legal maturity that is two years later.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

18 Borrowings *continued*

Fair value of borrowings	31 December 2009		31 December 2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Long term debt	12,025	12,037	11,901	10,271
Borrowings from parent	255	255	5,110	5,110
	12,280	12,292	17,011	15,381

The fair value of current borrowings approximates book value. Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Security and guarantees

Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations under their financing arrangements and to the Subordinated Creditors under the subordinated facility held by BAA (SH) Limited. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

BAA (DSH) Limited, ADI Finance 2 Limited, BAA Limited, BAA Airports Holdco Limited and BAA Airports Limited are also guarantors under the subordinated facility. All the guarantors, apart from ADI Finance 2 Limited, are party to transaction security which secures liabilities arising under the subordinated facility.

BAA Pension Trustee Company Limited (the BAA Pension Trustee) has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Obligors.

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

BAA Funding Limited has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company 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.

BAA (Non Des Topco) Limited and each of its subsidiaries (other than BAA Lynton Limited), together the Non-Designated Obligors, have provided security over their assets to secure their obligations to the lenders under their financing arrangements. Each of the Non-Designated Obligors, other than BAA (Non Des Topco) Limited, have provided a cross-guarantee of the obligations of the other Non-Designated Obligors. The BAA Pension Trustee has a right to receive up to £50 million out of the proceeds of enforcement of the security granted by the Non-Designated Obligors, such right ranking *pari passu* with the senior lenders to the Non-Designated Obligors.

BAA (Non Des Topco) Limited has provided an indemnity to BAA Pension Trustee Company Limited in respect of pension liabilities.

The £30 million debenture held by BAA Lynton Limited is secured on certain properties and other assets of the Group with a fair value of £50 million.

Additional disclosures on risk management and hedging of borrowings are included in Notes 19 and 20.

19 Derivative financial instruments

2009	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts - no hedge accounting	10	-	-	-
	10	-	-	-
Non-current				
Equity swaps - no hedge accounting	155	10	(80)	(70)
Interest rate swaps - cash flow hedge	5,088	3	(252)	(249)
Cross-currency swaps - cash flow hedge	1,703	652	-	652
Index-linked swaps - no hedge accounting	2,206	28	(172)	(144)
	9,152	693	(504)	189
At 31 December 2009	9,162	693	(504)	189
2008 ¹	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Embedded derivative in electricity purchase contract	12	2	-	2
Foreign exchange contracts - no hedge accounting	46	7	-	7
	58	9	-	9
Non-current				
Equity swaps - no hedge accounting	170	-	(117)	(117)
Interest rate swaps - cash flow hedge	5,288	72	(455)	(383)
Cross-currency swaps - cash flow hedge	1,703	758	-	758
Index-linked swaps - no hedge accounting	2,206	131	(312)	(181)
	9,367	961	(884)	77
At 31 December 2008	9,425	970	(884)	86

¹ Comparatives restated for the change in accounting policy for joint venture interests in APP.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

19 Derivative financial instruments *continued*

Equity swap

The Group has entered into a number of equity swaps to hedge Ferrovial share price risk under the Group's Executive Share Option Plan ('ESOP') refer Note 23 'Share based payments'. The total ESOP derivative portfolio consists of 11.7 million shares at a total mark to market liability of £70 million as at 31 December 2009 (2008: £117 million).

Embedded derivative in electricity purchase contract

The Group has entered into electricity purchase contracts which allow it to fix the future purchase price of electricity. These contracts allow the Group to unlock the fixed price for an agreed minimum volume. The nature of the contracts gives rise to embedded derivatives, which are recognised in the balance sheet at their fair value. The movements in the fair value are recognised in operating expenses.

Interest rate swaps

Interest rate swaps are maintained by the Group, and designated as cash flow hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed borrowings. The gains and losses deferred in equity on the cash flow hedges described above will be continuously released to the income statement over the period of the hedged risk.

Index-linked swaps have been entered into to economically hedge debt instruments and RPI linked revenue.

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on Euro-denominated bond issues. The gains and losses deferred in equity on these swaps will be continuously released to the income statement over the period to maturity of the hedged bonds.

Foreign exchange contracts

Foreign exchange forward and swap contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

Fair value of derivative financial instruments

The valuation technique used by the Group is a discounted cash flow methodology. In 2009, the Group has revisited the input data used in the discounted cash flow methodology to exclude the initial credit and execution costs. This change in estimates impacted the fair value of derivatives by a gain of £82 million with a corresponding entry in the income statement within 'Fair value (losses)/gains on financial instruments'. This amount will be reversed through the income statement over the life of the derivatives.

20 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, cash and short-term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into hedging transactions, principally interest rate swaps, cross currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The Group has also entered into equity swaps to hedge share price risk under its ESOP.

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

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing these risks which are summarised below.

Foreign exchange risk

The Group has overseas operations which give rise to limited exposure to foreign currency risk arising primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and investments in foreign operations. The Group does not hedge the translation risk related to investments in foreign operations.

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge all interest and principal payments, subject to a de minimis limit. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

As at 31 December 2009, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £12 million and £15 million respectively (2008: £2 million decrease and £3 million increase respectively).

As at 31 December 2009, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, there would have been nil impact on annual pre-tax profit (2008: £0.3 million increase and £0.4 million decrease respectively).

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group and classified on the consolidated balance sheet as available-for-sale.

The Group is exposed to share price risk of its ultimate parent, Ferrovial, S.A., arising from its ESOP programme. The Group uses equity swaps to manage this exposure. As at 31 December 2009, if the Ferrovial share price had strengthened or weakened by 10%, annual pre-tax profit for the year would have increased or decreased by £9 million (2008: £5 million).

The Group is exposed to the risk of an increase in the prices of commodities, in particular electricity, used within its operations. To manage the risk the Group enters into electricity purchase contracts which allow the Group to fix the future purchase price of electricity. As at 31 December 2009, if the electricity price had strengthened or weakened by 10%, there would be nil impact on annual pre-tax profit (2008: £1 million decrease or increase).

The Group is exposed to RPI risk on its index linked bond and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2009, with all other variables remaining constant, if the RPI had increased or decreased by 10%, annual pre-tax profit would have decreased or increased by £76 million and £74 million respectively (2008: £54 million decrease and £53 million increase respectively).

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

20 Financial instruments *continued*

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 70% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for forecast issuance of debt.

As at 31 December 2009, the Group's fixed floating interest rate profile, after hedging, on net debt was 83:17 (2008: 76:24).

As at 31 December 2009, each 0.50% change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the finance cost, interest charge and mark-to-market valuation of derivatives:

	31 December 2009		31 December 2008	
	Income statement impact £m	Equity impact £m	Income statement impact £m	Equity impact £m
0.50% increase	28	175	17	224
0.50% decrease	(30)	(186)	(19)	(245)

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The 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 and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A-/A-1.

As at 31 December 2009, the Group had total credit risk with derivative counterparties of its interest rate swaps, index-linked swaps and cross-currency swaps of £683 million (2008: £961 million). The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with short- and long-term credit ratings below A-2/F1 and BBB+/A, respectively.

Financial assets past due but not impaired are disclosed in Note 15 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2009 was £1,576 million (2008: £1,748 million).

Liquidity risk

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 Group is not exposed to excessive refinancing risk in any one year.

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at 31 December:

	31 December 2009 £m	31 December 2008 £m
Floating rate facilities		
Expiring in more than two years	2,257	2,713
	2,257	2,713

As at 31 December 2009, overdraft facilities of £29 million were available (2008: £21 million).

The table below analyses the gross undiscounted contractual cash flows on the Group's financial liabilities and net settled derivative financial instruments as at 31 December to the maturity date.

	31 December 2009			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	51	1,824	4,473	5,102
Borrowing interest payments	517	476	1,094	2,659
Derivative financial instruments	13	41	273	914
Trade payables	215	-	-	-

	31 December 2008			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	97	1,044	6,410	4,710
Borrowing interest payments	665	630	1,300	2,217
Derivative financial instruments	(56)	11	181	373
Trade payables	247	-	-	-

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

20 Financial instruments *continued*

Liquidity risk *continued*

The tables below analyse the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December 2009 and 31 December 2008 to the contractual maturity date.

	31 December 2009			
	Less than one	One to two	Two to five	Greater than
	year	years	years	five years
	£m	£m	£m	£m
Cross-currency derivative payments	36	54	125	100
Cross-currency derivative receipts	(96)	(96)	(219)	(122)

	31 December 2008			
	Less than one	One to two	Two to five	Greater than
	year	years	years	five years
	£m	£m	£m	£m
Cross-currency derivative payments	44	44	167	144
Cross-currency derivative receipts	(104)	(104)	(274)	(198)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group regularly reviews and maintains or adjusts its capital structure as appropriate in order to achieve these objectives.

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to the Regulatory Asset Base ('RAB') (for the Group's regulated businesses) and net debt to Adjusted RAB (which is RAB for the Group's regulated business plus a proxy for RAB for its unregulated businesses). Net debt is external nominal consolidated net debt at the entity within the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels, including BAA (SH) Limited and BAA (SP) Limited. Gearing ratios of each of these as are set out below:

	31 December 2009	31 December 2008
Net debt to RAB at BAA (SH) Limited	0.86	0.88
Net total debt to RAB at BAA (SP) Limited	0.73	0.76
Net senior debt to RAB at BAA (SP) Limited	0.67	0.68

The decrease in most gearing ratios in 2009 is largely the result of strong cash flow and the impact of inflation on the RAB.

Financial Instruments by category

The Group's financial instruments as classified in the financial statements as at 31 December, can be analysed under the following IAS 39 categories:

	31 December 2009				
	Loans and	Assets at fair	Derivatives	Available-for-	Total
	receivables	value through	qualifying for	sale	
£m	income	hedge	£m	£m	
	statement	accounting	£m	£m	£m
Available-for-sale financial assets	-	-	-	29	29
Derivative financial instruments	-	38	655	-	693
Cash and cash equivalents	535	-	-	-	535
Trade receivables	213	-	-	-	213
Other receivables	106	-	-	-	106
Total financial assets	854	38	655	29	1,576

	31 December 2009			
	Liabilities at	Derivatives	Other	Total
	fair value	qualifying for	financial	
	through	hedge	liabilities	
	income	accounting	£m	
	statement	£m	£m	
Borrowings	-	-	(13,180)	(13,180)
Derivative financial instruments	(252)	(252)	-	(504)
Trade payables	-	-	(215)	(215)
Total financial liabilities	(252)	(252)	(13,395)	(13,899)

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

20 Financial instruments *continued*

Financial Instruments by category *continued*

31 December 2008					
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for- sale £m	Total £m
Available-for-sale financial assets	-	-	-	19	19
Derivative financial instruments	-	140	830	-	970
Cash and cash equivalents	402	-	-	-	402
Trade receivables	233	-	-	-	233
Other receivables	124	-	-	-	124
Total financial assets	759	140	830	19	1,748

31 December 2008					
		Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings		-	-	(17,110)	(17,110)
Derivative financial instruments		(429)	(455)	-	(884)
Trade payables		-	-	(247)	(247)
Total financial liabilities		(429)	(455)	(17,357)	(18,241)

At 31 December 2009, the company has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by the following fair value measurement hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2009:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	38	-	38
Derivatives qualifying for hedge accounting	-	655	-	655
Available-for-sale financial assets	-	-	29	29
Total Assets	-	693	29	722
Liabilities				
Liabilities at fair value through income statement	-	(252)	-	(252)
Derivatives qualifying for hedge accounting	-	(252)	-	(252)
Total Liabilities	-	(504)	-	(504)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

20 Financial instruments *continued*

The following table presents the changes in Level 3 instruments for the year ended 31 December 2009:

	Note	£m
Balance at 1 January 2009		19
Gains recognised in:		
Equity	29	10
Balance at 31 December 2009		29

21 Deferred income tax

The net movement on the deferred income tax account is as follows:

	Note	2009 £m	2008 £m
Balance 1 January		2,403	1,973
Transfer from asset held-for-sale		-	2
Transfer of subsidiary to asset held-for-sale	26	-	(391)
Disposal of operations		(2)	-
Credited to income statement		(118)	(259) ¹
Impact of abolition of Industrial Buildings Allowances – charged to income statement ²	6	-	1,250 ²
Charged / (credited) to equity	30	(20)	(172)
Balance 31 December		2,263	2,403

¹ Includes £19 million credit to income statement relating to discontinued activities.

² A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement, in particular the UK Government announced that Industrial Buildings Allowance ('IBA's') would be abolished over three years from 1 April 2008. As a consequence, the Group recognised an exceptional accounting loss in the form of a deferred tax charge amounting to £1.25 billion in 2008 (£106m of which related to discontinued activities). In effect, the accounting charge reflected as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Revaluations of property, plant, and equipment £m	Fair value of retail contracts and right to operate £m	Provision for sale of overseas subsidiary £m	Obligations under land purchase £m	Other £m	Total £m
Balance 1 January 2009	1,988	476	134	200	10	26	75	2,909
(Credited)/charged to income statement	(60)	(20)	-	(4)	-	-	(4)	(88)
Disposal of operations	(21)	13	-	-	-	-	6	(2)
(Credited)/charged to equity	-	-	(3)	-	-	-	2	(1)
Balance 31 December 2009	1,907	469	131	196	10	26	79	2,818

Deferred income tax assets

	Capital losses £m	Non Trade Deficit £m	IAS 32/39 £m	Fair value of long term borrowings £m	Fair value uplift of bonds £m	Obligations under land lease £m	Post employment benefits £m	Other £m	Total £m
Balance 1 January 2009	17	169	153	81	80	26	(21)	1	506
Credited/(charged) to the income statement	-	45	9	(8)	-	-	(16)	-	30
Credited/(charged) to equity	-	-	(95)	-	-	-	114	-	19
Balance 31 December 2009	17	214	67	73	80	26	77	1	555

Deferred income tax credited/(charged) to equity during the year is as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Fair value reserves in shareholders' equity		
Cash flow hedge reserve	(95)	152
Available-for-sale investments	(2)	1
Indexation - operational land	3	3
Retirement benefit obligations	114	16

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

22 Retirement benefit obligations

(a) BAA Pension Scheme

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
BAA Pension Scheme	44	56
Defined contribution schemes	-	1
Additional provision for unfunded pensions	1	2
Total operating charge to employment costs	45	59

	31 December 2009 £m	31 December 2008 £m
BAA Pension Scheme	(256)	95
Unfunded pension obligations	(18)	(15)
Post-retirement medical benefits	(4)	(5)
Net (liability)/asset recognised in the statement of financial position	(278)	75

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

The value placed on the liabilities of the scheme as at 31 December 2009 is based on the results of the initial results of detailed calculations as at 30 September 2009 adjusted to reflect expected bulk transfers in respect of the sale of Gatwick and with reference to the results of the formal valuation as at 30 September 2008. The value placed on the liabilities of the scheme as at 31 December 2009 is based on the results of the actuarial valuation undertaken at 30 September 2008. The liabilities have been updated by Mercer Limited, to take account of changes in economic and demographic assumptions, in accordance with IAS 19 - Employee Benefits. The Scheme assets are stated at their bid value at 31 December 2009, adjusted to reflect the expected bulk transfer payment in respect of the sale of Gatwick, and bid value at 31 December 2008. The Group's accounting policy is to recognise actuarial gains and losses as they occur in the statement of comprehensive income.

The financial assumptions used to calculate scheme assets and liabilities under IAS 19 are:

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

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 24.8 years and 25.9 years from age 60 for a 40 year old male non-pensioner. The assumptions are the same as those used at 31 December 2008.

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

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

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

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

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

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 6.6% assumption (2008: 6.6%).

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

22 Retirement benefit obligations *continued*

The amounts recognised in the income statement are as follows:

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

Analysis of the amounts recognised in the statement of comprehensive income:

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

The actual return on plan assets was £74 million (2008: £200 million).

The actuarial loss of £404 million (2008: £59 million) in the year ended 31 December 2009 resulted primarily from:

- A reduction in the discount rate assumption to 5.7% (2008: 6.0%) increasing the present value of the defined benefit obligation by £110 million.
- An increase in the inflation rate assumption to 3.7% (2008: 2.9%) increasing the present value of the defined benefit obligation by £290 million.

The target asset allocation is 40:60 equity to bonds.

The amounts recognised in the statement of financial position are as follows:

	31 December 2009	31 December 2008
	£m	£m
Fair value of plan assets		
Equities	635	946
Bonds	1,131	1,113
Other	263	23
Total fair value of plan assets	2,029	2,082
Present value of benefit obligation	(2,285)	(1,987)
Gross (deficit) / surplus in scheme at 31 December	(256)	95
(Liability)/asset recognised in the statement of financial position	(256)	95

The pension scheme surplus at 31 December 2008 is recognised as an asset as it is recoverable by the Group under the Scheme rules.

Analysis of movement in the benefit obligation:

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

The Group has an agreement with the Trustees to contribute £80 million per annum plus the cost of augmentation of members' benefits under the Scheme following redundancy. The Group currently expects to contribute £80 million to the scheme in the year ending 31 December 2010.

Analysis of defined benefit obligation:

	31 December 2009	31 December 2008
	£m	£m
Plans that are wholly or partly funded	(2,285)	(1,987)
Plans that are wholly unfunded	(22)	(20)
Total	(2,307)	(2,007)

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

22 Retirement benefit obligations *continued*

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

	31 December 2009 £m	31 December 2008 £m
Fair value of plan assets at beginning of year	2,082	2,267
Expected return on plan assets	145	143
Actuarial loss	(71)	(343)
Employer contributions (including benefits paid and reimbursed)	96	70
Members' contributions	15	16
Bulk transferred assets for Gatwick	(152)	-
Benefits paid (by fund)	(86)	(71)
Fair value of plan assets at end of year	2,029	2,082

History of experience gains and losses:

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	9 months to 31 December 2006	Year ended 31 March 2006
Difference between the expected and actual return on scheme assets:					
Amount £m	(71)	(343)	(4)	(57)	274
Percentage of scheme assets	(3.5)	(16.5)	(0.2)	(2.7)	13.3
Experience gains and losses on benefit obligations:					
Amount £m	67	28	130	(8)	14
Percentage of scheme liabilities	2.9	1.2	6.1	(0.3)	0.6
Total amount recognised in the statement of comprehensive income:					
Amount £m	(404)	(59)	375	(58)	72
Percentage of benefit obligation	(17.8)	(3.0)	17.7	(2.4)	3.3

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

Sensitivity analysis based on change in discount rate	Annual impact in income statement £m		Impact in equity £m	
	Before tax	After tax	Before tax	After tax
+0.50% discount rate	12.4	8.9	185.2	133.3
-0.50% discount rate	(13.4)	(9.6)	(205.1)	(147.7)

b) Other pension and post-retirement liabilities

The Group operates a defined contribution scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution schemes in respect of employees of Heathrow Express Operating Company Limited and BAA Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £2 million (2008: £1 million).

The Group also provides unfunded pensions in respect of directors and senior employees whose benefits are restricted by the Scheme rules. The cost of these arrangements expensed against operating profit in the year is £1 million (2008: £2 million). The Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £4 million (2008: £5 million) is included in the statement of financial position, along with provision for unfunded pension obligations of £18 million (2008: £15 million). The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

23 Share based payments

The Group operates an Executive Share Option Plan ('ESOP') which provides awards of options over Ferrovial S.A shares that are generally reserved for full time directors and other senior employees. The option plans are recorded as equity settled in accordance with the grant being made by the ultimate parent company. Options are granted with a fixed exercise price equal to the market price of the shares at the date of grant.

During the year the ultimate parent company of the Group changed as a result of the merger of Grupo Ferrovial S.A. (Grupo Ferrovial) and Cintra Concesiones de Infraestructuras de Transporte S.A. (Cintra) which was implemented by Cintra acquiring Grupo Ferrovial. The exchange ratio under the merger was four Cintra shares for each Grupo Ferrovial share. The merged entity was renamed Ferrovial S.A. (Ferrovial) and it succeeded Grupo Ferrovial as the obligated entity in relation to options granted under the ESOP.

The impact of the merger on unexpired options granted under the ESOP is as follows:

Option grant date	Number of options granted Ferrovial (new)	Grant price and exercise price (€) Ferrovial (new)	Number of options granted Grupo Ferrovial (legacy)	Grant price and exercise price (€) Grupo Ferrovial (legacy)
February 2007 ¹	1,192,228	19.64	298,057	78.54
July 2007 ²	4,511,072	18.45	1,127,768	73.80
November 2007 ²	337,176	15.29	84,294	61.14
July 2008	5,450,584	10.83	1,362,646	43.30
November 2008	1,056,936	6.02	264,232	24.07

¹ The performance conditions for the February 2007 unapproved option were not met and as a result 978,073 options expired during the year.

² The performance conditions for options granted in July 2007 and November 2007 were partially met.

The exercise period for each of the issues above commences three years from the option grant date and lasts for three years. Vesting of the options is subject to continued employment and the Group achieving targeted levels earnings before interest, tax, depreciation and amortisation ('EBITDA').

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

23 Share based payments *continued*

These remuneration schemes are measured and recognised in the income statement as indicated in the Group's accounting policies note. Staff costs charged to the income statement during the year in relation to the ESOP were £6 million (2008: £5 million). The amount charged in 2008 was calculated assuming an estimated option life of six years, three years time to vest, risk free rate of 4.7% and expected dividend yield of 1.93%.

Ferrovial share price risk related to the ESOP is managed using equity swaps as discussed in Note 19.

The decision was taken in July 2009 to close the ESOP and so no further awards will be made. A Performance Cash Plan has been introduced to replace the ESOP.

24 Provisions

	Note	Disposal of operations £m	Reorganisation £m	Obligations under land purchase £m	Other £m	Total £m
Balance 1 January 2009		2	54	111	7	174
Utilised		-	(40)	(2)	-	(42)
Charged to income statement		35	-	-	24	59
Released		(2)	-	(74)	(1)	(77)
Unwinding of discount charged and capitalised	5	-	-	3	-	3
Balance 31 December 2009		35	14	38	30	117
Current		35	14	38	4	91
Non-current		-	-	-	26	26
Balance 31 December 2009		35	14	38	30	117
Current		2	54	8	-	64
Non-current		-	-	103	7	110
Balance 31 December 2008		2	54	111	7	174

Disposal of operations

A provision of £35 million (2008: £nil) is held for costs associated with the disposal of Gatwick.

Reorganisation

Costs associated with the Group reorganisation programme are for severance and pension payments only. All amounts are expected to be utilised in 2010.

Obligations under land purchase

This provision relates to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land were relocated, and the initial provision was made in the amount of the present value of the estimated payments to be made over the course of 30 years as per the agreement. However, agreement has been reached over a full and final payment settlement of £38 million, payable by Heathrow to the vendor by the end of January 2010 as discussed in further detail in Note 9.

The provision of £38 million (2008: £111 million), net of discount, is expected to be utilised as follows:

	31 December 2009 £m	31 December 2008 £m
Within one year	38	8
One to two years	-	7
Two to five years	-	22
Five to ten years	-	26
Over ten years	-	48
	38	111

Other

A provision is held for onerous contracts relating to energy purchases and property contracts that were identified as onerous during the year ended 31 December 2009. All amounts are expected to be utilised within five years. A provision is held for additional payments due under a compensation scheme once planning permission has been obtained for the second runway and related infrastructure at Stansted Airport.

25 Trade and other payables

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Non-current		
Deferred income	5	9
Other payables	1	-
Total non-current	6	9
Current		
Trade payables	215	247
Other tax and social security	11	13
Other payables	120	114
Capital payables	197	239
Related party amounts	2	-
Total current	545	613

¹ Comparatives adjusted for change in accounting policy for joint venture interests in APP.

Trade payables are non-interest bearing and are generally on 30-day terms.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

26 Assets held-for-sale

	Note	31 December 2009 £m	31 December 2008 ¹ £m	1 January 2008 ² £m
Goodwill	11	-	489	293
Intangible assets (excluding goodwill)	11	5	24	-
Property, plant and equipment	9	20	1,136	35
Investment property	10	-	654	-
Investments in associates and joint ventures	13	72	-	272
Inventories		-	3	24
Trade and other receivables		3	62	5
Cash and cash equivalents	17	3	15	6
Deferred tax assets		-	-	2
Total assets classified as held-for-sale		103	2,383	637
Trade and other payables		(4)	(90)	(49)
Non-current borrowings		-	(1,033)	-
Group relief payable		-	(16)	-
Deferred tax liabilities	21	-	(391)	-
Provisions		-	(3)	-
Group relief payable		-	-	(11)
Total liabilities classified as held-for-sale		(4)	(1,533)	(60)
Net assets of disposal group		99	850	577

¹ No requirement exists under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' to restate the prior year statement of financial position and as such the 2008 figures above are consistent with the prior year financial statements and reflect the closing statement of financial position of Gatwick only.

² Comparatives adjusted for change in accounting policy for joint venture interests in APP.

The Gatwick disposal occurred on 3 December 2009. Therefore assets held-for-sale at 31 December 2009 represent the net assets of BAA USA and the equity interest in APP only. At 31 December 2009 the Group had committed to the sale of these interests which represent separate geographical locations and or commercial operations. The interests are immediately for sale and the transactions are expected to be completed during 2010.

27 Share capital

	Ordinary shares of 10p each
Authorised	£
At 1 January 2009 - 400,000,100 ordinary shares of 10p each	40,000,010
42,600,000,000 increase in authorised ordinary shares of 10p each	4,260,000,000
At 31 December 2009 - 43,000,000,100 ordinary shares of 10p each	4,300,000,010

On 22 April 2009, the authorised share capital was increased by £4,260,000,000 by the creation of 42,600,000,000 shares of 10p each.

Allotted and fully paid

At 1 January 2009 - 400,000,004 ordinary shares of 10p each	40,000,000
Issue of 42,598,461,930 ordinary shares of 10p each	4,259,846,193
At 31 December 2009 42,998,461,934 ordinary shares of 10p each	4,299,846,193

On 22 April 2009, the issued share capital was increased by £4,259,846,193 by the issue of 42,598,461,930 ordinary shares of 10p each (refer to Note 18).

28 Share premium

	£m
Balance at 1 January 2009 and 31 December 2009	364

29 Fair value and other reserves

	Cash flow hedge reserve £m	Available for sale investments £m	Currency translation reserve £m	Total £m
Balance 1 January 2009	(419)	3	19	(397)
Cash flow hedges:				
Fair value gains	20	10	-	30
Transferred to income statement	325	-	-	325
Deferred tax on fair value gains	(95)	(2)	-	(97)
Current tax on fair value gains	(2)	-	-	(2)
Currency translation	-	-	(6)	(6)
Balance 31 December 2009	(171)	11	13	(147)

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

30 Tax relating to components of other comprehensive income

	2009			2008		
	Before tax £m	Tax (charge) credit £m	After tax £m	Before tax £m	Tax (charge) credit £m	After tax £m
Available-for-sale investments						
Gain/(loss) taken to equity	10	(2)	8	(6)	1	(5)
Transferred to income statement	-	-	-	2	-	2
Cash flow hedges						
Gains taken to equity	20	(6)	14	5	(1)	4
Transferred to income statement	325	(91)	234	(438)	123	(315)
Share based payments	6	-	6	5	-	5
Actuarial loss	(404)	114	(290)	(59)	16	(43)
Net movement in currency translation reserve	(7)	-	(7)	19	-	19
Indexation of operating land	-	3	3	-	3	3
Acquisition of subsidiary	3	-	3	-	-	-
Other comprehensive income	(47)	18	(29)	(472)	142	(330)
Current tax	-	(2)	-	-	(30)	-
Deferred tax (Note 21)	-	20	-	-	172	-
	-	18	-	-	142	-

31 Retained earnings

	£m
Balance 1 January 2009	(1,688)
Net loss for the year	(161)
Share-based payments	6
Indexation of operating land	3
Actuarial loss on pensions	(404)
Tax on actuarial loss on pensions	114
Balance 31 December 2009	(2,130)

32 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

Total future minimum rentals payable as at the year end are as follows:

	31 December 2009		31 December 2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	29	45	30	47
Within two to five years	111	189	119	179
After five years	151	2,142	130	2,621
	291	2,376	279	2,847

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating leases.

A significant portion of the £2.4 billion commitments classified as 'other' relates to electricity supply equipment at the airports leased an agreement with London Electricity Supply ('LES'). The lease has 74 years remaining. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to LES as neither the Group nor LES are able to split the base fee between a 'capital' and 'maintenance' charge.

Non-cancellable operating lease commitments – Group as a lessor

Total future minimum rentals receivable as at the year end are as follows:

	31 December 2009		31 December 2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	86	-	77	-
Within two to five years	274	-	229	-
After five years	1,667	-	1,506	-
	2,027	-	1,812	-

The Group uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Public car parks and car rental facilities are operated under concession agreements subject to minimum guaranteed payments, the amounts for which are included above.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

32 Commitments and contingent liabilities *continued*

Non-cancellable electricity purchase commitment

Total future minimum electricity payments as at the year end are as follows:

	31 December 2009 £m	31 December 2008 £m
Within one year	64	55
Within two to five years	82	146
After five years	-	-
	146	201

The Group has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Group until March 2012. Such commitments are for the normal purchase, sale or usage of electricity and hence are accounted for as ordinary purchase contracts.

Group commitments for property, plant and equipment

	31 December 2009 £m	31 December 2008 £m
Contracted for, but not accrued:		
Terminal 5C - Heathrow	106	6
T2A Building - Heathrow	11	-
North west stands and taxi lanes - Heathrow	10	-
Terminal 2B Phase 2 - Heathrow	8	-
Departure lounge extension - Edinburgh	7	-
Eastern Apron - Heathrow	6	6
Terminal 4 airline relocations - Heathrow	3	6
Terminal 2B North East stands - Heathrow	-	5
Post T5 Transfer - Heathrow	-	16
Landside Inter Terminal Transit System -Gatwick	-	14
	151	53
Other projects	30	78
	181	131

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at its airports. BAA's submission to the CAA in respect of quinquennium 5 included capital expenditure for Heathrow of £4,542 million (2007/08 prices). In line with commitments with the regulator, capital expenditure expected for Heathrow during 2010 amounts to £1,004 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project. The capital programme included in Stansted's current price determination foresees total investment of £125 million until the end of March 2014. Capital expenditure expected for Stansted during 2010 amounts to £40 million.

The Group is pursuing the development of a second runway at Stansted, consistent with the Government's policy for runway development in the UK. The development of Stansted is still the subject of a planning inquiry and has been delayed pending clarification of the future ownership of Stansted given the disposal remedy included in the Competition Commission's ('CC') decision in its investigation on the supply of UK airport services by BAA.

In relation to the development of a second runway at Stansted, at 31 December 2009 the Group has capitalised costs, within runway development costs are £83 million in relation to planning application preparation and £107 million in respect of the purchase of domestic properties and land under voluntary schemes for those people living near Stansted Airport whose homes will be affected by the airport expansion (the Home Value Guarantee Scheme), the Home Owners Support Scheme and the Special Cases Scheme). The current estimate of the net cost of the blight compensation schemes is up to £110 million. Total value to 31 December 2009 is £107 million (2008: £88 million), including a £5 million provision for additional payments which will become due once planning permission is obtained for the second runway.

As part of its commitment to the development of a third runway at Heathrow, the Group is operating two voluntary blight schemes (the Property Market Support Bond (PMSB) for those properties within the indicative boundary of Runway 3/Terminal 6 and the Home Owners Support Scheme for those properties within the 66db leq contour for aircraft noise associated with Runway 3).

These schemes were the subject of extensive public consultation by BAA. The terms and conditions of the scheme were published by Heathrow Airport Limited in 2005. The intention at that time was to "trigger" access to the schemes when BAA announced its intention to submit a planning application for the third runway. Following the January 2009 Government announcement confirming policy support for a third runway the BAA Board decided to allow home owners covered by PMSB to sell their properties under the scheme for one year. The current estimate for the cost of the PMSB is up to £300 million. As at 31 December 2009, no properties had been acquired under the scheme.

The Group is also required by the Government to offer noise mitigation measures relating to existing airport activities. Based on the Group's evaluation, payments under current noise schemes are estimated at £31 million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings and assistance with the costs of relocation for dwelling owners. BAA is committed to reviewing these schemes in 2010.

In June 2006, the Government announced its conclusions for the 2006-2012 night flights regime at BAA's London airports. The regime commits BAA to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62 million over the five years from 2008. The Government is expected to consult on proposals for the post 2012 night flights regime during 2010. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

In addition, there are live blight schemes to support the housing market in areas identified for potential future runways at Glasgow and Edinburgh airports. Obligations under these schemes will only crystallise once the Group announces its intention to pursue a planning application for a new runway which is unlikely to occur in the short-term.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

32 Commitments and contingent liabilities *continued*

Group commitments for property, plant and equipment *continued*

The January 2009 Government Announcement for Adding Capacity at Heathrow requires the Group to review existing insulation and mitigation schemes; and to consider extending its noise insulation schemes to all community buildings and households in the new 57dBA contour that will experience an increase in noise of 3dBA or more.

Until further consultation is carried out with the local communities, the significance of the Group's obligations in implementing these schemes is uncertain.

Other Commitments

In July 2008, the Group reached agreement with the Trustees of the BAA Airports Limited defined benefit pension scheme to contribute £80 million per annum until December 2011 plus the cost of augmentation of members' benefits under the scheme following redundancy. The Group currently expects to contribute £80 million to the Scheme in the year ending 31 December 2010.

Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £273 million at 31 December 2009 (2008: £325 million).

33 Notes to the consolidated cash flow statement

(a) Reconciliation of net profit before tax to cash generated from continuing operations

	Note	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Operating activities			
Net profit/(loss) before tax		317	(1,167)
<i>Adjustments for:</i>			
Finance income	5a	(892)	(196)
Finance costs	5a	820	1,286
Fair value loss on financial instruments	5b	82	250
Depreciation ²	2	500	416
Amortisation	2	41	43
Loss on disposal of property, plant and equipment and related assets	2	-	1
Exceptional costs ²	4	55	84
Fair value loss on investment properties		83	178
Share-based payments		6	8
Decrease/(increase) in trade and other receivables		31	(100)
Decrease in inventories		-	3
(Decrease)/increase in trade and other payables		(30)	46
Decrease in provisions		(12)	(17)
Decrease in deferred income		(1)	(4)
Increase in retirement benefit obligations		(52)	(13)
Cash generated from continuing operations		948	818

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

² Heathrow Terminals 1 and 2 accelerated depreciation reported as exceptional items.

(b) Financing – continuing operations

		Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Proceeds from issue of shares		-	400
Proceeds from bank facilities		456	5,662
Proceeds from EIB loans		-	435
Proceeds from issuing bonds		925	-
Proceeds from parent borrowings		255	-
Repayment of bank facilities		(1,071)	(5,428)
Repayment of Subordinate facility		-	(406)
Repayment of Senior loan Notes		(43)	(32)
Repayment of Bonds		-	(4)
Repayment of EIB loans		(43)	(428)
Proceeds from other borrowings		-	4
Payment of loan/bond arrangement costs		(1)	(324)
Prepayment of derivative interest		(114)	(303)
Cancellation of derivatives		(43)	-
Restricted cash		(143)	-
Interest paid		(522)	(828)
Interest received		6	21
		(338)	(1,231)

¹ Comparative information restated to include APP and BAA USA in discontinued operations.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

34 Related party transactions

During the year the Group entered into the following transactions with related parties:

	Year ended 31 December 2009 Sale of goods and services £m	Year ended 31 December 2008 Sale of goods and services £m
Caisse de dépôt et placement du Québec	6	6
Swissport/Groundstar	2	4
	8	10

	Year ended 31 December 2009 Purchase of goods and services £m	Year ended 31 December 2008 Purchase of goods and services £m
Ferrovial	1	8
Ferrovial Agroman	96	23
Caisse de dépôt et placement du Québec	1	1
Amey Airport Services Limited	4	1
Amey Community Limited	1	-
ADI Finance 2 Limited ¹	56	318
	159	351

¹ Interest accrued not paid to ADI Finance 2 Limited.

Balances outstanding with related parties were as follows:

	31 December 2009		31 December 2008	
	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Caisse de dépôt et placement du Québec	59 ¹	-	58 ¹	-
Ferrovial	-	1	-	-
Ferrovial Agroman	-	1	-	-
Swissport/Groundstar	-	-	1	-
ADI Finance 2 Limited	90	1,105 ²	79	5,110 ²
	149	1,107	138	5,110

¹ Relates to loan notes and associated interest – see Note 15.

² Relates to borrowings from parent, excluding interest – see Note 18.

Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is ADI Finance 2 Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Finecofer S.L. (55.9%) (as successor to Lernamara S.L. and Ferrovial Infraestructuras S.A.), Britannia Airport Partners L.P. (26.5%) (a Caisse de dépôt et placement du Québec-controlled vehicle); and Baker Street Investment Pte Ltd (17.6%) (an investment vehicle of the Government of Singapore Investment Corporation). The ultimate parent entity of the majority shareholder is Ferrovial S.A.

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

35 Principal subsidiaries and joint ventures

Subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding companies

BAA Airports Limited †	BAA Funding Limited †#
BAA Airports Holdco Limited	BAA (Non Des Topco) Limited
BAA (NDH 1) Limited †	BAA (NDH2) Limited
BAA (AH) Limited †	BAA (SP) Limited †
BAA (SH) Limited †	BAA (DSH) Limited †
BAA Business Support Centre Limited†	

Airport owners and operators

Heathrow Airport Limited†	Aberdeen Airport Limited†
Stansted Airport Limited†	Southampton International Airport Limited†
Glasgow Airport Limited†	Societa Gestione Servizi Aeroporti Campani†* (65% holding)
Edinburgh Airport Limited†	

† Held by a subsidiary undertaking

* Incorporated in Italy

Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

35 Principal subsidiaries and joint ventures *continued*

Acquisition of subsidiaries

On 19 October 2009, BAA Enterprises Limited, a wholly owned subsidiary of the Group, acquired 1.5 million Class A convertible preference shares in Advanced Transport Systems Limited ('ATS'), a company incorporated in England and Wales. The preference shares are convertible at the Group's discretion. The transaction increased the Group's interest in ATS from 37.5% to 51.7% and, at the same time, the Board of ATS was reduced from six to four directors, two of which are BAA personnel. As a result the Group's level of influence in the entity has changed and the results of ATS have been consolidated into the Group since 19 October 2009.

Cash paid in gaining control was £1.5 million. The fair value of the net assets of ATS at the time was £3.1 million. No goodwill arose as a result of the business combination and goodwill of £2.8 million is carried forward in the Group's statement of financial position.

Goodwill is subject to an annual impairment review (see Note 11).

The assets of ATS form an integral part of Heathrow's development and future standing as a modern airport facility and are combined in this cash generating unit for the purposes of annual impairment reviews undertaken by the Group. There has been no impairment charge taken to the income statement in the year ended 31 December 2009 (2008: £nil).

36 Subsequent events

In January 2010, the Company drew £210,000,000 under a £1,000,000,000 loan facility with ADI Finance 2 Limited on an interest free basis for a 10 year period with a specific provision to convert to equity. The proceeds were utilised by the Company to purchase an additional 210,000,000 ordinary shares with a nominal value of £1.00 each in BAA Airports Holdco Limited.

Also during January 2010, ADI Finance 2 Limited released and discharged the Company from all its obligations and liabilities associated with a £850 million loan which has been in place between the two entities since April 2009. As a result, the balance of the loan and all accrued interest on it were waived.

On 20 January 2010, the High Court approved a capital reduction whereby the Company's share capital reduced by £1,633,941.53 by reducing the nominal value of each ordinary share from 10 pence to 6.2 pence and the Company's share premium account of £364,485,000 was cancelled.

On 25 January 2010, the Company's wholly owned subsidiary, BAA Airports Holdco Limited declared an interim dividend of £502,856,059 and entered into a deed of set-off with the Company to offset the dividend paid against the amount payable by the Company as at that day (being an amount equal to the dividend).

There were no other significant events post balance sheet date.

BAA Limited

Financial statements

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BAA Limited

Independent auditors' report to the members of BAA Limited

We have audited the parent company financial statements of BAA Limited for the year ended 31 December 2009 which comprise the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent 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 parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Other matter

We have reported separately on the Group financial statements of BAA Limited for the year ended 31 December 2009.



Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2010

BAA Limited

Company balance sheet as at 31 December 2009

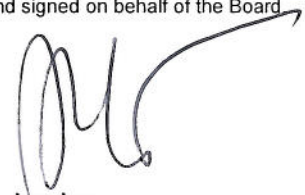
	Notes	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Fixed assets			
Investments in subsidiaries	2	4,226	5,600
		4,226	5,600
Current assets			
Debtors: due within one year	3	120	231
: due after more than one year	3	1,453	1,397
Cash at bank and in hand		1	1
		1,574	1,629
Creditors: amounts falling due within one year	4	(1,413)	(1,430)
Net current assets		161	199
Creditors: amounts falling due after more than one year	5	(255)	(5,110)
Net assets		4,132	689
Capital and reserves			
Called up share capital	7	4,300	40
Share premium reserve	8	364	364
Profit and loss reserve	9	(532)	285
Total shareholders' funds		4,132	689

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

The financial statements were approved by the Board of directors and authorised for issue on 26 February 2010 and signed on behalf of the Board



Colin Matthews
Director



Jose Leo
Director

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared under the historical cost convention, except for financial instruments, and in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UKGAAP')).

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Turnover

Turnover is recognised in accordance with Financial Reporting Standard ('FRS') 5 'Reporting the substance of transactions', net of VAT.

Interest

Interest payable and receivable is charged or credited to the profit and loss account as incurred.

Investments in subsidiaries

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

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

Debtors

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Current and deferred taxation

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

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

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

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

Share capital

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

Cash flow statement and related party transactions

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2009. The results are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2009 (the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

The Company is also 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.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

1 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The loss of the Company for the year attributable to shareholders was £817 million (2008: profit of £1,159 million).

2 Investments in subsidiaries

	Total £m
Balance at 1 January 2009 at cost	5,600
Additions	255
Impairment	(1,629)
Balance at 31 December 2009	4,226

Details of principal subsidiary undertakings are provided in Note 35 of the BAA Limited Group financial statements.

Included above is an impairment charge of £1,629 million has been recognised upon the reassessment of the carrying values of investments in subsidiaries. Furthermore, an additional £255 million was invested in the subsidiary, BAA Airports Holdco Limited, through the purchase of 255,000,000 ordinary shares at par value of £1.

3 Debtors

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Due within one year		
Interest receivable	50	37
Other debtors	6	7
Group relief receivable	22	187
Amounts owed from group undertakings	42	-
	120	231
Due after more than one year		
Amounts owed from parent undertaking ²	90	79
Amounts owed from group undertakings ³	1,148	1,148
Deferred tax asset	215	170
	1,453	1,397
Total debtors	1,573	1,628

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

² Amounts owed from parent undertaking represents a loan to ADI Finance 2 Limited and is on an interest free basis. The loan is repayable on demand, however as there is no intention of the Company to do so, it is classified as non-current.

³ Amounts owed by group undertakings represents a loan to BAA (Non Des Topco) Limited attracting fixed rate interest of 9.02%. The loan is repayable on demand, however as there is no intention of the Company to do so, it is classified as non-current.

Deferred tax asset

Provision has been made for deferred tax in accordance with FRS 19. The amount provided in the accounts is detailed below:

	31 December 2009 £m	31 December 2008 £m
Surplus non trade deficit	215	170

4 Creditors: amounts falling due within one year

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Loan from parent undertaking (Note 6)	850	-
Loan from subsidiary undertaking (Note 6)	484	507
Amounts owed to group undertakings	-	73
Borrowings (Note 6)	-	43
Interest payable to parent undertaking ²	56	787
Interest payable to subsidiaries	19	16
Other creditors	4	4
Creditors: amounts falling due within one year	1,413	1,430

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

² On 22 April 2009, an existing loan from ADI Finance 2 Limited was converted into share capital (Note 7). Cumulative interest payable accrued to that date of £838 million was waived.

The amounts owed to group undertakings are repayable on demand and accrue interest at varying rates.

5 Creditors: amounts falling after more than one year

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Loan from parent undertaking (Note 6)	255	5,110
Creditors: amounts falling due after more than one year	255	5,110

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

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

6 Borrowings

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Current		
Unsecured:		
Senior loan notes	-	43
Loan from parent undertaking ²	850	-
Loan from subsidiary undertaking ³	484	507
Total current	1,334	550
Non-current		
Unsecured:		
Loan from parent undertaking ²	255	5,110
Total non current	255	5,110
Total	1,589	5,660

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

² On 22 April 2009, £4,260 million of an existing loan from ADI Finance 2 Limited was converted into share capital (refer to Note 27 of the Group financial statements). Cumulative interest payable accrued to that date of £838 million was waived (refer to Note 5). The remaining £850 million loan has a final maturity date of June 2016 and bears a floating interest rate based on the Toggle facility all in rate plus a margin of 0.125%. This loan was waived in January 2010 (refer to Note 15) and is therefore classified as current borrowings. In addition, in November 2009, the Company entered into a further 10 year loan with ADI Finance 2 Limited whereby ADI Finance 2 Limited lent £255 million to the Company on an interest free basis which is repayable on demand, however management do not expect this balance will be called upon within 12 months from 31 December 2009 resulting in its classification as non-current.

³ The loan from subsidiary undertakings is with BAA Airports Holdco Limited and incurs fixed rate interest of 9.02% per annum and is repayable on demand.

The fair value of current borrowings approximates to their book value. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

7 Share capital

	Ordinary shares of 10p each £
Authorised	
At 1 January 2009 - 400,000,100 ordinary shares of 10p each	40,000,010
42,600,000,000 increase in authorised ordinary shares of 10p each	4,260,000,000
At 31 December 2009 - 43,000,000,100 ordinary shares of 10p each	4,300,000,010

On 22 April 2009, the authorised share capital was increased by £4,260,000,000 by the creation of 42,600,000,000 shares of 10p each.

Allotted and fully paid

At 1 January 2009 - 400,000,004 ordinary shares of 10p each	40,000,000
Issue of 42,598,461,930 ordinary shares of 10p each	4,259,846,193
At 31 December 2009 42,998,461,934 ordinary shares of 10p each	4,299,846,193

On 22 April 2009, the issued share capital was increased by £4,259,846,193 by the issue of 42,598,461,930 ordinary shares of 10p each (refer Note 18 of the Group financial statements).

8 Share premium reserve

Balance at 1 January 2009 and 31 December 2009	£m 364
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9 Profit and loss reserve

	£m
Balance at 1 January 2009	285
Loss for the financial year	(817)
Balance at 31 December 2009	(532)

10 Dividends paid and proposed

No dividend was paid or proposed during the year (2008: £nil).

11 Auditor's remuneration

Auditor's remuneration paid to PricewaterhouseCoopers LLP for the performance of the statutory audit amounted to £nil (2008: £nil).

Details of fees for other services are provided in Note 2 of the BAA Limited Group financial statements.

12 Employee information and Directors' remuneration

Employee numbers

The Company has no employees (2008: nil).

Directors' remuneration

None of the directors who served BAA Limited during the year received emoluments from the Company.

During the year, one of the directors (2008: one) had retirement benefits accruing to them under a defined contribution pension scheme.

Details of directors' remuneration for the year are provided in Note 3 of the Group financial statements.

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2009 *continued*

13 Related party transactions

The Company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the FGP Topco Limited Group.

14 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is ADI Finance 2 Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Finecofer S.L. (55.9%) (as successor to Lernamara S.L. and Ferrovial Infraestructuras S.A.), Britannia Airport Partners L.P. (26.5%) (a Caisse de dépôt et placement du Québec-controlled vehicle); and Baker Street Investment Pte Ltd (17.6%) (an investment vehicle of the Government of Singapore Investment Corporation). The ultimate parent entity of the majority shareholder is Ferrovial S.A. (Spain).

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

15 Subsequent events

In January 2010, the Company drew £210,000,000 under a £1,000,000,000 loan facility with ADI Finance 2 Limited on an interest free basis for a 10 year period with a specific provision to convert to equity. The proceeds were utilised by the Company to purchase an additional 210,000,000 ordinary shares with a nominal value of £1.00 each in BAA Airports Holdco Limited.

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There were no other significant events post balance date

16 Registered office

BAA Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England No. 05757208