HEATHROW AIRPORT LIMITED

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

Company Registration Number 1991017

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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BUSINESS REVIEW

Heathrow Airport Limited (the 'Company') operates Heathrow Airport ('Heathrow') and Heathrow Express ('HEX'), the express rail service between Heathrow and Central London.

This business review is presented under three sections:

Management review – overview of the year ended 31 December 2009, along with the key factors likely to impact the Company 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 Company as at that date.

Risk management – outline of the BAA Limited Group's (the 'BAA Group') approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee which are managed by the Company.

MANAGEMENT REVIEW

Review of 2009

Transforming the BAA Group's airports
The BAA 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. For Heathrow in particular, the BAA 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 BAA Group's airports and supporting their long term growth ambitions.

Service standards
The BAA 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% in the year ended 31 December 2009 (2008: 69%). 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.

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 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.

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

At Heathrow, works are well underway for the construction of the new Terminal 2 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.

BUSINESS REVIEW (continued)

MANAGEMENT REVIEW (continued)

Review of 2009 (continued)

Developing modern airport facilities (continued)
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.

Passenger traffic trends
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 improved as the year progressed with year on year growth of 0.3% and 1.1% 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%).

During the year Heathrow Express service carried a total of 4.79 million passengers, 2.7% below the previous year’s total of 4.93 million. Heathrow Connect growth continued with passenger volumes increasing by 25% from 0.49 million passengers in 2008 to 0.62 million. The combined passenger numbers for both services fell marginally to 5.41 million in 2009 from 5.42 million in 2008.

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

The decision's key structural remedy called for the disposal of airports including Gatwick and Stansted.

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 request for permission to appeal be refused. However, the CC still has an opportunity to seek permission to appeal directly from the Court of Appeal.

BUSINESS REVIEW (continued)

MANAGEMENT REVIEW (continued)

Review of 2009 (continued)

Regulatory developments (continued)

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.

Heathrow Airport is 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 settlement applying to Heathrow until March 2013 will not be affected by the proposed changes to the regulatory framework.

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 'The Future of Air Transport' published in 2003, could be met thereby further confirming the Government's support for a third runway.

Outlook

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

Developments since beginning of 2010

In January 2010, the passenger traffic at Heathrow declined 0.5% to 4.8 million (2009: 4.9 million) with traffic affected by adverse weather conditions. Adjusting for approximately 145,000 passengers estimated to have been lost due to the adverse weather, growth is estimated to have been 2.5%.

In January 2010, the Company issued 217,370,315 ordinary shares with a nominal value of £1.00 each to BAA (AH) Limited.

BUSINESS REVIEW (continued)

FINANCIAL REVIEW

The following financial review provides commentary on the performance of the Company during 2009.

Basis of preparation of financial results
In order to provide a clearer indication of the performance of the Company, the following commentary on turnover, operating costs and operating profit is based on the adjusted performance (excluding exceptional items) of the Company.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Turnover	**1,745.2**	1,575.6
Adjusted operating costs	**(968.0)**	(941.2)
Adjusted EBITDA	**777.2**	634.4
Operating costs – exceptional	**(180.8)**	(29.6)
EBITDA	**596.4**	604.8
Depreciation – ordinary	**(414.1)**	(346.3)
Depreciation – exceptional	**(54.6)**	(83.6)
Operating profit	**127.7**	174.9

Turnover
In the year ended 31 December 2009, the Company's turnover increased 10.8% to £1,745.2 million (2008: £1,575.6 million). This reflects increases of 15.0% in aeronautical income, 7.0% increase in gross retail income and 5.1% increase in other sources of income compared to 2008, despite a 1.5% reduction in passengers.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Aeronautical income	**960.7**	835.3	15.0
Retail income	**351.5**	328.5	7.0
Operational facilities and utilities income	**141.0**	130.7	7.9
Property rental income	**98.6**	90.1	9.4
HEX rail income	**91.5**	86.1	6.3
Other income	**101.9**	104.9	(2.9)
Total turnover	**1,745.2**	1,575.6	10.8

Aeronautical income
Aeronautical income increased by 15.0% to £960.7 million (2008: £835.3 million). Average aeronautical income per passenger increased by 16.8% to £14.58 (2008: £12.48). Growth in aeronautical income was driven by the revised tariffs from 1 April 2008 but also reflected the phased introduction of the new tariffs over the first year of the new regulatory period. Aeronautical tariffs have increased on average 10.9% from 1 April 2009. In addition, £20.8 million of the increase relates to the full year aeronautical revenues related to the provision of aerodrome navigation services ('ANS') by National Air Traffic Services ('NATS'). Last year this revenue stream commenced in April 2008 as the service was previously charged to the airlines by NATS.

BUSINESS REVIEW (continued)

FINANCIAL REVIEW (continued)

Turnover (continued)

Retail income

The Company's gross retail income in the year ended 31 December 2009 increased 7.0% to £351.5 million (2008: £328.5 million). Net retail income ('NRI') which is after deduction of the costs of running the car parks increased 5.1% to £325.1 million (2008: £309.2 million) with an increase of 6.7% in NRI per passenger partly offset by a 1.5% reduction in passenger numbers.

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

Reconciliation of net retail income and net retail income per passenger

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %[1]
Retail turnover	**351.5**	328.5	7.0
Less: retail expenditure	**(26.4)**	(19.3)	36.8
Net retail income	**325.1**	309.2	5.1
Passengers (m)	**65.9**	66.9	(1.5)
Net retail income per passenger[2]	**£4.93**	£4.62	6.7

[1] Percentage change calculated using un-rounded numbers.
[2] Net retail income per passenger calculated using un-rounded passenger numbers.

Analysis of net retail income

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Car parking	**65.2**	66.8	(2.4)
Duty and tax-free	**87.1**	78.4	11.1
Airside specialist shops	**60.5**	56.5	7.1
Bureaux de change	**34.2**	28.4	20.4
Catering	**25.9**	26.1	(0.8)
Landside shops and bookshops	**20.2**	20.6	(1.9)
Advertising	**29.0**	25.5	13.7
Car rental	**12.1**	9.9	22.2
Other	**17.3**	16.3	6.1
Total	**351.5**	328.5	7.0

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 £351.5 million (2008: £328.5 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 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 the sterling.

At Heathrow, the 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 increased transfer passengers as discussed above in 'Passenger traffic trends'.

BUSINESS REVIEW (continued)

FINANCIAL REVIEW (continued)

Other sources of income
Other sources of income during the year increased 5.1% in the year ended 31 December 2009 to £433.0 million (2008: £411.8 million). This increase reflected in particular a 9.4% increase in property rental income to £98.6 million (2008: £90.1 million) mainly driven by the full year effect of Terminal 5. In addition, compared to 2008, operational facilities and utilities income increased 7.9% to £141.0 million (2008: £130.7 million), rail income from Heathrow Express increased 6.3% to £91.5 million (2008: £86.1 million) and other income decreased 2.9% to £101.9 million (2008: £104.9 million). Other income includes £2.5 million from the provision of services for Passengers with Reduced Mobility ('PRM') in the first quarter of 2009 that were not provided in the corresponding period of 2008 as it was directly sourced by the airlines.

Adjusted operating costs
Adjusted operating costs (excluding depreciation and exceptional items) are presented below as this better reflects the underlying performance of the business. In the year ended 31 December 2009 adjusted operating costs increased 2.8% to £968.0 million (2008: £941.2 million). Note that the costs presented in the table below include HEX operating costs plus a 7.5% management fee and are presented as part of Other intra-group charges.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Employment costs	**226.3**	269.3	(16.0)
Maintenance expenditure	**119.5**	108.8	9.8
Utility costs	**104.3**	80.6	29.4
Rents and rates	**114.6**	92.0	24.6
General expenses[1]	**192.6**	167.5	15.0
Retail expenditure	**26.4**	19.3	36.8
Intra-group charges/other	**184.4**	202.9	(9.1)
(Profit)/loss on disposal of tangible fixed assets	**(0.1)**	0.8	(112.5)
Total	**968.0**	941.2	2.8

[1] Net of capitalised costs of £17.2 million (2008: £31.4 million).

In the year ended 31 December 2009, adjusted operating costs increased 2.8% to £968.0 million (2008: £941.2 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 NATS and PRM costs (that are recovered in aeronautical income and other income discussed in 'Turnover'). These increases were offset by a significant 16.0% 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. There was also a reduction in intra-group charges particularly related to lower central overheads of the wider BAA Group charged to the Company under shared service arrangements.

The substantial progress made by the Company in reducing 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 a full year compared with nine months in 2008. On this basis, adjusted operating costs declined 1.1% to £931.2 million as illustrated in the table below.

	£m
2009 reported adjusted operating costs	968.0
NATS and PRM costs in the first quarter of 2009	(15.7)
Incremental Terminal 5 costs	(21.1)
2009 underlying adjusted operating costs	931.2
2008 reported adjusted operating costs	941.2
Change in underlying adjusted operating costs	(1.1%)

BUSINESS REVIEW (continued)

FINANCIAL REVIEW (continued)

Adjusted EBITDA

Adjusted EBITDA for the Company in the year ended 31 December 2009 increased 22.5% to £777.2 million (2008: £634.4 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 1.5% reduction in passengers
- Cost control resulting in adjusted operating costs increasing well below the rate of turnover growth

Operating costs – exceptional

There were £235.4 million in net pre-tax exceptional items in the year ended 31 December 2009 (2008: £113.2 million). These included a £181.3 million non-cash charge relating primarily to the Company's share of the change in the BAA Group's defined benefit pension scheme deficit. The emergence of a deficit during 2009 (the scheme was in surplus at the end of 2008) was due to increased liabilities reflecting a lower discount rate and a higher forecast inflation curve.

The remainder of the operating exceptional items primarily reflect a charge of £54.6 million (2008: £83.6 million) related to accelerated depreciation due to Terminal 1 and 2's shortened lives given the new Heathrow Terminal 2 development.

Operating profit

The Company recorded an operating profit for the year ended 31 December 2009 of £127.7 million (2008: £174.9 million). Relative to Adjusted EBITDA, operating profit includes £414.1 million in depreciation (2008: £346.3 million) with the increase from 2008 driven by additional depreciation following Terminal 5 being brought into use from March 2008. In addition, it reflects £235.4 million in net operating exceptional costs (2008: £113.2 million). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Adjusted EBITDA	**777.2**	634.4	22.5
Depreciation	**(414.1)**	(346.3)	19.6
Exceptional items – pensions	**(181.3)**	(11.8)	1,436.4
Exceptional items – accelerated depreciation	**(54.6)**	(83.6)	(34.7)
Exceptional items – other	**0.5**	(17.8)	(97.2)
Operating profit	**127.7**	174.9	(27.0)

Capital expenditure

Capital expenditure at Heathrow in 2009 was £817.8 million. 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.

Equity injection

In November 2009, a £500 million equity injection into the BAA (SP) Limited Group's Designated airports, which includes Heathrow and Stansted, was announced. The funds were provided primarily from existing financial resources of FGP Topco Limited, the Company's ultimate holding company, jointly owned by BAA Group's three controlling shareholders, as well as new equity injected into BAA 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, £282.6 million of this investment, of which £260.0 million relates to Heathrow, had been completed and the remaining funds were injected in January 2010.

BUSINESS REVIEW (continued)

FINANCIAL REVIEW (continued)

Regulatory Asset Base ('RAB')
Set out below are RAB figures of the Company at 31 December 2008 and 31 December 2009. RAB figures are utilised in calculating gearing ratios (Regulatory Asset Ratios ('RAR')) under the BAA Group's financing agreements.

	RAB £m
31 December 2008	9,661.5
31 December 2009	10,452.9

During 2009, growth in the RAB for Heathrow reflected the addition of approximately £792 million in capital expenditure (determined on a different basis to cash flow or balance sheet additions) partially offset by regulatory depreciation of around £430 million. Variation in RAB profiling adjustments added a further £185 million to the closing RAB whilst inflation since the start of the new regulatory year on 1 April 2009 resulted in a net positive indexation adjustment of approximately £247 million over the year.

RISK MANAGEMENT

Risk management is a key element of the BAA Limited Group's (the 'BAA Group') operations of which the Company forms part. Risk is centrally managed for the BAA Group as part of corporate services provided under the Shared Services Agreement ('SSA') (refer to Note 1 Accounting Policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely following the BAA Group's guidelines. The Executive Committee and Board referred to in the notes below relates to the Executive Committee and Board of BAA Limited.

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

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

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

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

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

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

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

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

Regulatory environment, legal and reputational risks

Civil Aviation Authority ('CAA') regulation

The Company's operations 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.

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

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Company breaching these regulations. Refer to the '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 Company having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. The Company 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 Company 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.

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 Company 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 BAA Group. To mitigate this risk, separate dedicated project teams (with relevant expertise and disciplines) 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 Company 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 Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Capital projects

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

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

Commercial and financial risks (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 Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The 2010 Pay negotiations started in December 2009. The Company could also be exposed in the short term to the effect of industrial actions at key clients (i.e. airlines).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

(a) Interest rates
The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2009, fixed rate debt after hedging with derivatives represented 97% of the SP Group's total external nominal debt.

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

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

(c) Funding and liquidity
The SP Group has established an investment grade financing platform for its airports. 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 SP Group is not exposed to excessive refinancing risk in any one year.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Funding and liquidity (continued)
The SP Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2009, cash at bank was £238.5 million, undrawn headroom under bank credit facilities was £2,050.0 million; and undrawn headroom under bank liquidity facilities was £600.0 million.

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

The SP Group maintains a prudent split of cash and 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.

On behalf of the Board

Jose Leo
Director

26 February 2010

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

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 £253.7 million (2008: loss of £237.1 million). No ordinary dividends were proposed or paid during the year (2008: £nil). 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:

Jose Leo	
Luis Sanchez Salmeron	Resigned 31 July 2009
Robert D Herga	Resigned 31 July 2009
Michael Brown	Appointed 31 July 2009
John Holland-Kaye	Appointed 31 July 2009
Steven Morgan	Appointed 31 July 2009
David Johnston	Appointed 31 July 2009, resigned 21 September 2009

EMPLOYMENT POLICIES

The Company has no direct employees. The staff are employed by BAA Airports Limited, the Company's intermediate parent company.

PAYMENT POLICY

The Company complies with the UK Government's Better Payment Practice Code which states that responsible companies should:

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

The Company had 7 days purchases outstanding at 31 December 2009 (2008: 13 days) based on the average daily amount invoiced by suppliers during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company actively manages all identified corporate risks. Details of the Company's risk management policies can be found on pages 9 to 12 in the Risk Management section of the Business Review.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management objectives and policies can be found on pages 11 to 12 of the Risk Management section in the Business Review.

REPORT OF THE DIRECTORS (continued)

DIRECTORS' INDEMNITY

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

DISCLOSURE OF INFORMATION FOR AUDITORS

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

AUDITORS

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

By order of the Board

Shu Mei Ooi
Company Secretary

26 February 2010

Company Registration Number 1991017

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

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

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Company. 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 report is approved, that:

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

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Shu Mei Ooi
Company Secretary

26 February 2010

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEATHROW AIRPORT LIMITED

We have audited the financial statements of Heathrow Airport Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholder's Funds, the Balance Sheet, the Accounting Policies 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 Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Paul Cragg

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

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Turnover – continuing operations	2	**1,745.2**	1,575.6
Operating costs - ordinary	3	**(1,382.1)**	(1,287.5)
Operating costs - exceptional	4	**(235.4)**	(113.2)
Total operating costs		**(1,617.5)**	(1,400.7)
Operating profit – continuing operations		**127.7**	174.9
Net interest payable and similar charges - ordinary	6	**(462.6)**	(444.2)
Net interest payable and similar charges - exceptional	6	**-**	(103.9)
Loss on ordinary activities before taxation		**(334.9)**	(373.2)
Tax credit on loss on ordinary activities	7	**81.2**	136.1
Loss on ordinary activities after taxation	18	**(253.7)**	(237.1)

The notes on pages 20 to 46 form an integral part of these financial statements.

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

There are no material differences between loss on ordinary activities before taxation and the retained loss for the year and their historical cost equivalents.

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

	Notes	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss for the financial year	18	**(253.7)**	(237.1)
Unrealised loss on revaluation of investment properties	8,18	**(47.7)**	(59.1)
Revaluation adjustment	8,18	**3.9**	(2.1)
Total recognised losses relating to the year		**(297.5)**	(298.3)

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

	Notes	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss for the financial year	18	**(253.7)**	(237.1)
Unrealised loss on revaluation of investment properties	8,18	**(47.7)**	(59.1)
Revaluation adjustment	8,18	**3.9**	(2.1)
Issue of ordinary share capital	17	**260.0**	-
Net movement in shareholder's funds		**(37.5)**	(298.3)
Opening shareholder's funds		**1,670.3**	1,968.6
Closing shareholder's funds		**1,632.8**	1,670.3

The notes on pages 20 to 46 form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2009

	Notes	31 December 2009 £m	Restated[1] 31 December 2008 £m
FIXED ASSETS			
Tangible assets	8	**10,066.9**	9,842.4
Investments	9	**3.8**	3.8
TOTAL FIXED ASSETS		**10,070.7**	9,846.2
CURRENT ASSETS			
Stocks	10	**3.1**	3.2
Debtors: due within one year	11	**463.7**	428.2
: due after more than one year	11	**701.5**	105.9
Current asset investments	12	**234.5**	142.1
Cash at bank and in hand		**0.1**	-
TOTAL CURRENT ASSETS		**1,402.9**	679.4
CREDITORS: amounts falling due within one year	13	**(532.0)**	(538.7)
NET CURRENT ASSETS		**870.9**	140.7
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,941.6**	9,986.9
CREDITORS: amounts falling due after more than one year	14	**(8,761.3)**	(7,762.5)
Provisions for liabilities and charges	16	**(547.5)**	(554.1)
NET ASSETS		**1,632.8**	1,670.3
CAPITAL AND RESERVES			
Called up share capital	17	**640.2**	380.2
Share premium reserve	18	**23.2**	23.2
Revaluation reserve	18	**1,023.0**	1,067.4
Profit and loss reserve	18	**(53.6)**	199.5
TOTAL SHAREHOLDER'S FUNDS		**1,632.8**	1,670.3

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

The notes on pages 20 to 46 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2010 and were signed on its behalf by:

Jose Leo
Director

John Holland-Kaye
Director

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

1. ACCOUNTING POLICIES

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

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')).

Going concern

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

Consequently the directors have reviewed the cash flow projections of the BAA (SP) Limited Group of which Heathrow forms part, taking into account:

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall BAA (SP) Limited Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets.

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

Consolidated financial statements

The Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of FGP Topco Limited and it and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2009. The results are also included in the consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2009 (intermediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA (SH) Limited and BAA Limited for the year ended 31 December 2009. FGP Topco Limited is a company registered in England and Wales.

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

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

1. ACCOUNTING POLICIES (continued)

Turnover

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

- Aeronautical income
  Passenger charges based on the number of departing passengers;
  Aircraft landing charges levied according to weight on landing;
  Aircraft parking charges based on a combination of weight and time parked; and
  Other traffic charges.

- Retail income
  Concession fee based upon turnover certificate supplied by concessionaires.

- Property rental income
  Property letting sales, recognised on a straight-line basis over the term of the rental period; and
  Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.

- Operational facilities and utilities income
  Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided;
  Other charges levied for passenger and baggage operation when these services are rendered; and
  Other invoiced sales, recognised on the performance of the service.

- Rail income
  Turnover from ticket sales, recognised at the time of travel.

Exceptional items

Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Company's financial performance.

Such events may include gains or losses on disposal of businesses or assets, major reorganisation of business, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project. Provisions to recognise the Company's liability to fund the BAA Airports Limited defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item. Refer to the accounting policy for details of the Shared Services Agreement.

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

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

(i) Operational assets

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

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

(ii) Investment properties

Investment property, which is property held to earn rentals and/or capital appreciation, is valued at the balance sheet date, as determined at the interim and full-year reporting dates by the directors and by external valuers at least once every five years. Any surplus or deficit on revaluation is transferred to the revaluation reserve with the exception of deficits below original cost which are expected to be permanent, which are charged to the profit and loss account.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits are recognised on completion.

In accordance with Statement of Standard Accounting Practice (‘SSAP’) 19, ‘Accounting for Investment Properties’, no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 2006 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

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

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets (continued)

(iii) Depreciation

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

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

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

1. ACCOUNTING POLICIES (continued)

Impairment of assets

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

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

Capitalisation of interest

Interest payable resulting from financing tangible fixed assets whilst in the course of construction is capitalised once planning permission has been obtained and a firm decision to proceed has been taken. Capitalisation of interest ceases once the asset is complete and ready for use. Interest may be capitalised in the early stages of planning where the directors are satisfied that the necessary planning, building and resource consents will be received. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

All other interest payable is recognised in the profit and loss account in the period in which it is incurred.

Leases

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

(i) Company as a lessor

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

(ii) Company as a lessee

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

Investments

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.

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

1. ACCOUNTING POLICIES (continued)

Stocks

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value.

Debtors

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

Cash and current asset investments

Cash, for the purposes of the summary cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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

Creditors

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

Deferred income

Contractual income is treated as deferred income and released to the profit and loss account over the life of the contract.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. 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.

The borrowings from group undertakings represent the balance of the Borrower Loan Agreement ('BLA') payable by the Company to BAA Funding Limited. The advances under the BLA are issued on substantially the same terms as the new bonds issued by BAA Funding Limited, taking into consideration the related hedging instruments. The advances are carried at amortised cost with interest expense recognised using the effective interest rate method. The nominal amount of the RPI borrowings is accreted for the RPI component recognised within interest payable in the profit and loss account.

Provisions

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

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

1. ACCOUNTING POLICIES (continued)

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.

Issue costs and arrangement fees

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instrument not been issued. These are accounted for as a deduction from the amount of consideration received and amortised under the effective interest rate method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred.

Derivative financial instruments

The derivative financial instruments utilised by the Company are interest rate swaps. These are used to manage the interest rate risk of borrowings. Interest receivable on the instruments is calculated using a variable interest rate whereas interest payable is based on a fixed interest rate. The purpose of the swaps is to hedge the risk that arises from the borrowings with variable interest rates.

The derivative financial instruments are hedge accounted in accordance with FRS 4 and consequently accounted for on an accruals basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship the interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account, respectively. The net interest receivable or payable accrual on derivatives is included in current debtors or current creditors on the balance sheet.

Derivative financial instruments novated from other companies within the BAA Limited Group are transferred at fair value prevailing on that date. Premiums payable or receivable are amortised on a straight-line basis over the term of the financial instruments.

Share capital

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

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

1. ACCOUNTING POLICIES (continued)

Shared Services Agreement

All employees are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Company. BAA Airports Limited is the administrator and sponsor of the related defined benefit pension plans and grants all employee benefits.

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

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

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

(iii) Pension costs
Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Company on the basis of its pensionable pay base. This charge is included within ordinary staff pension costs (refer to Note 3).

Cash contributions are made directly by the Company to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited and the related receivable from BAA Airports Limited, net of the current service cost charges to date, is recorded within Debtors - Amounts owed by group undertakings - pensions.

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

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 (SP) Limited for the year ended 31 December 2009 (intermediate parent entity and the smallest group to consolidate these financial statements for the full year). They are also included in the audited consolidated financial statements of BAA (SH) Limited and BAA Limited for the year ended 31 December 2009. 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)'. A summary cash flow statement has been included at Note 23 to satisfy non-Companies House filings.

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

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

1. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

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

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.

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 £10.0 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. The Company 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 fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors. These valuations were prepared in accordance with UK GAAP 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 80 percent of the investment properties comprise car parks and airside assets that are considered less vulnerable to market volatility than the overall market. Given recent declines in property prices, independent valuations were obtained for all investment properties.

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.

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

2. SEGMENTAL ANALYSIS

The directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and relates to continuing operations. Additional details of the turnover generated by each of the Company's key activities are given below:

Turnover	**Year ended 31 December 2009 £m**	Year ended 31 December 2008 £m
Aeronautical income	**960.7**	835.3
Retail income	**351.5**	328.5
Operational facilities and utilities income	**141.0**	130.7
Property rental income	**98.6**	90.1
HEX rail income[1]	**91.5**	86.1
Other income	**101.9**	104.9
	1,745.2	1,575.6

[1] The Company is entitled to all receipts relating to HEX, but the day-to-day operation of Heathrow Express is undertaken by Heathrow Express Operating Company Limited ('HEX Opco') on behalf of the Company for which a management fee is charged and included within 'Intra-group charges/other' – refer Note 3.

3. OPERATING COSTS – ORDINARY

	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Wages and salaries	**186.7**	205.1
Social security	**15.0**	16.0
Pension	**14.6**	31.1
Other staff related costs	**6.8**	14.1
Share-based payments	**3.2**	3.0
Employment costs[2]	**226.3**	269.3
Maintenance expenditure	**119.5**	108.8
Utility costs	**104.3**	80.6
Rents and rates	**114.6**	92.0
General expenses	**108.1**	95.2
Retail expenditure	**26.4**	19.3
Intra-group charges/other	**184.4**	202.9
Police costs	**31.4**	33.9
Air navigation charges	**53.1**	38.4
Depreciation	**414.1**	346.3
(Profit)/loss on disposal of tangible fixed assets	**(0.1)**	0.8
Total operating costs – ordinary	**1,382.1**	1,287.5

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Employment costs comprise recharges from BAA Airports Limited for employee services to the Company. Refer to the Shared Services Agreement accounting policy in Note 1.

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

3. OPERATING COSTS – ORDINARY (continued)

Operating costs include:	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Rentals under operating leases		
- Plant and machinery	**26.1**	27.3
- Other operating leases	**23.5**	16.6
Services provided by the Company's auditor		
- Fees payable for the audit	**0.1**	0.1
- Other services[1]	**0.9**	-

[1] Fees for other services comprise mainly £0.7 million in relation to an IT review.

Employee information

The Company has no employees. All staff costs are borne by BAA Airports Limited which recharges all such costs directly to the Company as a part of the SSA as described in the Accounting Policies under the 'Shared Services Agreement'. The average number of employees of BAA Airports Limited engaged in the operation of Heathrow Airport during the year was 5,407 (2008: 5,516). These numbers of employees do not include headcount related to central support functions for the Company which are rendered by BAA Airports Limited and charged as intra-group charges in accordance with the Shared Services Agreement.

4. OPERATING COSTS – EXCEPTIONAL

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Pension costs[1]	**181.3**	11.8
Exceptional depreciation[2]	**54.6**	83.6
Terminal 5 operational readiness costs	**-**	21.8
Reorganisation credit[3]	**(0.5)**	(4.0)
	235.4	113.2

[1] During 2009 total exceptional costs of £181.3 million (2008: £11.8 million) were incurred. £180.2 million (2008: £nil) was in relation to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme and £1.1 million (2008: £11.8 million) in relation to UURBS, in accordance with the SSA. For more information on pension costs charged refer to Note 1 Accounting policies.

[2] With the development of the new Terminal 2, the existing Terminals 1 and 2 at Heathrow airport will be demolished necessitating an additional depreciation charge of £54.6 million in the year ended 31 December 2009 (2008: £83.6 million) to reflect the shortened useful lives of the assets.

[3] A release of £0.5 million (2008: £4.0 million) was credited in the year ended 31 December 2009 due to provisions which were no longer required.

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

5. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Directors' emoluments		
Aggregate emoluments	**129**	249
Compensation for loss of office	**-**	373
	129	622

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Highest paid director's remuneration		
Total amount of emoluments and amounts (excluding shares) receivable under long term incentive schemes	**129**	622
Highest paid director's pension		
Accrued pension at end of the year	**-**	20

	Year ended 31 December 2009 Number	Year ended 31 December 2008 Number
Number of directors who:		
are members of a defined benefit pension scheme	**2**	2
are members of a defined contribution pension scheme	**3**	-

L Sanchez Salmeron was a director of BAA Airports Limited, BAA Limited and FGP Topco Limited until 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed in all three sets of financial statements for that period where relevant. J Leo was a director of BAA Limited for the year and BAA Airports Limited from 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed within the respective financial statements for the period he was a director. D Johnston was a director of BAA Airports Limited and is a director of Stansted Airport Limited. His remuneration was paid by BAA Airports Limited from 31 July 2009 until 21 September 2009 and by Stansted Airport Limited from 22 September 2009 and is disclosed in the respective financial statements for the period for which he was paid by each entity. J Holland-Kaye has been a director of BAA Airports Limited since his appointment on 31 July 2009 and an Executive Committee member of BAA Limited since 3 May 2009. His remuneration is paid by BAA Airports Limited and is disclosed in this entity for the period since his appointment and in BAA Limited for the period that he was a member of the Executive Committee of BAA Limited. S Morgan has been a director of BAA Airports Limited since his appointment on 21 September 2009 and his remuneration for the period since his appointment was paid by BAA Airports Limited and is included within the BAA Airports Limited disclosure. He has also been a member of the Executive Committee of BAA Limited since 2 February 2009 and his remuneration has been disclosed for the period since joining the Executive Committee of BAA Limited. R Herga was paid by, but is not a director of, BAA Airports Limited. The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided.

Six directors (2008: one) did not receive any emoluments in their capacity as a director of the Company.

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

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

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

6. NET INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Interest receivable		
Interest receivable from other group undertakings[1]	**10.4**	17.5
Interest receivable on bank deposits	**0.2**	1.0
	10.6	18.5
Interest payable		
Interest on borrowings from other group undertakings[2]	**(240.1)**	(444.4)
Interest on bank borrowings	**(123.3)**	(94.6)
Facility fees	**(21.0)**	(10.0)
Net interest (payable)/receivable on derivative financial instruments	**(95.2)**	11.8
Dividend payable on £0.01 irredeemable preference shares each 7.625p per share (2008: 9.564p per share)	**(1.7)**	(2.1)
Unwinding of discount on Terminal 5 land purchase and other provisions (Note 16)	**(3.3)**	(15.0)
	(484.6)	(554.3)
Derivative fair value amortisation	**(1.0)**	(0.5)
Mark to market loss on cancellation of derivatives	**(11.3)**	-
Foreign currency revaluation gains	**2.9**	0.5
Interest capitalised (Note 8)	**20.8**	91.6
Net interest payable and similar charges - ordinary	**(462.6)**	(444.2)
Net interest payable and similar charges - exceptional		
Refinancing fees written off	**-**	(103.9)
Net interest payable and similar charges	**(462.6)**	(548.1)

[1] These amounts relate to interest accrued on post refinancing balances due from BAA (SP) Limited. Refer to Note 11 for details.
[2] These amounts largely relate to interest due on the loan from BAA (AH) Limited and BLA advances from BAA Funding Limited. Refer to Note 15 for details.

Fees of £103.9 million were incurred during the year ended 31 December 2008 in relation to facility and arrangement fees that are expensed under UK GAAP. These costs are mainly upfront fees paid for the capital expenditure, working capital and liquidity facilities and costs attributed to future bond issuance. For further details of the borrowing facilities see Note 15.

Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 2.80% (2008: 6.89%) to expenditure incurred on such assets.

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

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	Note	**Year ended 31 December 2009 £m**	Year ended 31 December 2008 £m
Current tax			
Group relief payable/(receivable)		**41.8**	(39.1)
Adjustments in respect of prior periods		**(1.4)**	(19.9)
Total current tax		**40.4**	(59.0)
Deferred tax			
Origination and reversal of timing differences		**(121.6)**	(77.1)
Total deferred tax	16	**(121.6)**	(77.1)
Tax credit on loss on ordinary activities		**(81.2)**	(136.1)

Reconciliation of tax credit

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2008: 28.5%). The actual tax charge/(credit) for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss on ordinary activities before tax	**(334.9)**	(373.2)
Tax on loss on ordinary activities at 28% (2008: 28.5%)	**(93.8)**	(106.4)
Effect of:		
Permanent differences	**9.9**	(3.8)
Depreciation for the year in excess of capital allowances	**89.9**	96.8
Capitalised interest	**(5.8)**	(25.2)
Other short term timing differences	**41.6**	(0.5)
Adjustments to tax credit in respect of prior periods	**(1.4)**	(19.9)
Current tax charge/(credit) for the year	**40.4**	(59.0)

Other than the unprovided deferred tax discussed in Note 16, there are no items which would materially affect the future tax charge.

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

8. TANGIBLE ASSETS

	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Rail assets £m	Other land and buildings £m	Plant equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation									
1 January 2009	1,544.0	54.6	6,390.9	910.1	1,356.9	58.5	403.1	1,310.0	12,028.1
Additions at cost	-	-	4.1	0.2	-	-	3.9	708.9	717.1
Transfers to completed assets	14.3	-	779.2	29.4	4.6	4.5	96.9	(928.9)	-
Interest capitalised	-	-	-	-	-	-	-	20.8	20.8
Intercompany transfers	-	-	-	-	-	-	(2.9)	-	(2.9)
Disposals	-	-	(163.1)	(3.3)	-	(0.7)	(10.7)	-	(177.8)
Reclassifications	11.3	(10.4)	3.7	-	-	17.1	-	(21.7)	-
Revaluation deficit	(42.0)	(5.7)	-	-	-	-	-	-	(47.7)
Revaluation adjustment (Note 18)	-	-	(3.1)	-	-	7.0	-	-	3.9
31 December 2009	**1,527.6**	**38.5**	**7,011.7**	**936.4**	**1,361.5**	**86.4**	**490.3**	**1,089.1**	**12,541.5**
Depreciation									
1 January 2009	-	-	(1,533.2)	(160.1)	(210.1)	(20.8)	(261.5)	-	(2,185.7)
Charge for the year	-	-	(335.8)	(30.5)	(41.0)	(3.4)	(58.0)	-	(468.7)
Disposals	-	-	163.0	3.3	-	0.7	10.7	-	177.7
Intercompany transfers	-	-	-	-	-	-	2.1	-	2.1
31 December 2009	**-**	**-**	**(1,706.0)**	**(187.3)**	**(251.1)**	**(23.5)**	**(306.7)**	**-**	**(2,474.6)**
Net Book Value									
31 December 2009	**1,527.6**	**38.5**	**5,305.7**	**749.1**	**1,110.4**	**62.9**	**183.6**	**1,089.1**	**10,066.9**
31 December 2008	1,544.0	54.6	4,857.7	750.0	1,146.8	37.7	141.6	1,310.0	9,842.4

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

8. TANGIBLE ASSETS (continued)

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2009 by Drivers Jonas, Chartered Surveyors at £1,566.1 million (2008: £1,598.6 million). These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, *inter alia*, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a deficit of £47.7 million (2008: £59.1 million) has been recognised in the revaluation reserve.

Remaining terminal complexes, airfield infrastructure, plant and equipment and other land and buildings have been shown at historical cost.

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £896.1 million (2008: £918.6 million). £20.8 million (2008: £91.6 million) has been capitalised in the year at a capitalisation rate of 2.80% (2008: 6.89%) based on a weighted average cost of borrowings.

A tax deduction of £20.8 million (2008: £91.6 million) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2009 was £543.1 million (2008: £531.1 million).

Other land and buildings

Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2009 of £20.6 million (2008: £17.3 million).

Assets in the course of construction

Assets in the course of construction include £10.3 million in respect of a third runway and related infrastructure. Costs capitalised in respect of the third runway 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 includes 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.

Land acquisition

Tangible fixed assets includes £104.8 million (31 December 2008: £179.0 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.

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

8. TANGIBLE ASSETS (continued)

Leased assets

The Company had assets rented to third parties under operating leases as follows:

	31 December 2009 £m	31 December 2008 £m
Cost or valuation	**2,303.6**	2,136.6
Accumulated depreciation	**(162.6)**	(126.9)
Net book amount	**2,141.0**	2,009.7

A significant proportion of freehold property is occupied by third parties under concession and management agreements.

9. INVESTMENTS

	£m
Cost as at 1 January and 31 December 2009	**3.8**

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

In the opinion of the directors, the aggregate value of the shares in HEX is not less than the aggregate of the amount at which they are stated in the Company's balance sheet.

10. STOCKS

	31 December 2009 £m	31 December 2008 £m
Raw materials and consumables	**3.1**	3.2

The replacement cost of raw materials and consumables at 31 December 2009 and 31 December 2008 was not materially different from the amount at which they are included in the accounts.

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

11. DEBTORS

	31 December 2009 £m	Restated[1] 31 December 2008 £m
Due within one year:		
Trade debtors	**150.3**	172.0
Amounts owed by group undertakings – interest free[2]	**162.3**	40.9
Amounts owed by group undertakings – pensions[3]	**30.3**	3.9
Other debtors	**16.5**	27.9
Prepayments	**25.4**	25.1
Interest receivable	**5.6**	1.3
Group relief receivable	**-**	23.1
Net interest receivable on derivative financial instruments	**2.5**	33.9
Derivative interest prepayment	**70.8**	100.1
	463.7	428.2
Due after more than one year:		
Amounts owed by group undertakings – interest bearing[4]	**682.6**	45.8
Derivative financial instruments[5]	**5.0**	6.4
Derivative interest prepayment	**13.9**	53.7
	701.5	105.9
	1,165.2	534.1

1 The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
2 Amounts owed by group undertakings – interest free largely relates to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Company which will be remitted in due course.
3 Amounts owed by group undertakings – pensions is the receivable from BAA Airports Limited, net of current service cost charges to date, due to cash contributions made directly by the Company to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited.
4 Amounts owed by group undertakings – interest bearing represents a loan receivable from BAA (SP) Limited. It has a fixed interest rate of 7.57% and is repayable on demand however, as there is no intention of the Company to do so, it is classified as non-current. Increase in the period is related to the restructuring of intercompany and external loans in the BAA SP Group following Gatwick's disposal.
5 This relates to the unamortised portion of fair value of derivative financial instruments on the date of novation.

12. CURRENT ASSET INVESTMENTS

	31 December 2009 £m	31 December 2008 £m
Short term deposits	**234.5**	142.1

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short and long term credit ratings. Of these deposits, counterparties with a short term credit rating of A-1+ held assets of £145.7 million, A-1 held assets of £60.0 million and A-2 held assets of £28.8 million as at 31 December 2009 (2008: £32.1 million, £110.0 million and £nil respectively).

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

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2009 £m	31 December 2008 £m
Bank overdraft	**11.4**	11.0
Trade creditors[1]	**94.0**	92.5
Capital creditors	**175.1**	202.6
Amounts owed to group undertakings – interest free[2]	**9.1**	29.0
Borrowings from group undertakings (Note 15)	**59.0**	-
External borrowings (Note 15)	**41.4**	43.3
Corporation tax payable	**17.0**	7.8
Group relief payable	**40.5**	-
Other creditors	**1.4**	11.3
Other taxes and social security costs	**5.0**	5.4
Deferred income	**27.3**	46.7
Net interest payable on derivative financial instruments	**6.5**	0.2
Interest accrual	**44.3**	88.9
	532.0	538.7

1 Trade creditors are non-interest bearing and generally on 30-day terms
2 Amounts owed to group undertakings largely relates to external payments made by BAA Airports Limited under the Shared Services Agreement on behalf of the Company.

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

	31 December 2009 £m	31 December 2008 £m
Loans		
Loans from BAA Funding Limited (Note 15)	**5,402.0**	4,436.2
External borrowings (Note 15)	**3,284.3**	3,320.3
	8,686.3	7,756.5
Preference shares		
Redeemable preference shares	**0.1**	0.1
Irredeemable preference shares	**0.2**	0.2
Derivative financial instruments[1]	**72.0**	1.9
Deferred income	**2.7**	3.8
	8,761.3	7,762.5

1 This relates to the unamortised portion of fair value of derivative financial instrument on the date of novation.

The Company has 100,000 £1 redeemable preference shares in issue which carry an entitlement to an annual dividend fixed by reference to the prospective real redemption rate, based on projected inflation rate of 3%, of 2.5% index linked 2016 UK gilts, uplifted for movements in the RPI.

The preference shares of £1 are redeemable by the Company on 16 January 2016 at £1.37 per share, uplifted for movements in the RPI. On a return of capital on winding up or capital reduction, the holders of the preference shares shall be entitled to a sum calculated in accordance with the Articles of Association, in priority to any payment to the holders of any other class of shares other than the holders of irredeemable preference shares. The Company also has 21,960,014 irredeemable £0.01 preference shares in issue which carry an entitlement to an annual dividend, uplifted by reference to the RPI. The holder of the preference shares shall only be entitled to attend and vote at General Meetings at which a resolution is proposed to abrogate, vary or modify their rights, in which case preference and ordinary shares shall carry equal voting rights.

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

15. BORROWINGS

	31 December 2009 £m	31 December 2008 £m
Current borrowings		
Secured:		
Bank loans - EIB	**41.4**	43.3
Unsecured:		
Loan from BAA (AH) Limited	**59.0**	-
Total current borrowings	**100.4**	43.3
Non-current borrowings		
Secured:		
Borrower Loan Agreement advances from BAA Funding Limited	**5,402.0**	4,436.2
Refinancing Facility, Class A	**1,598.9**	2,208.4
Refinancing Facility, Class B	**654.9**	490.3
Capital Expenditure Facility	**700.0**	250.0
Bank loans - EIB	**330.5**	371.6
Total non-current	**8,686.3**	7,756.5
Total current and non-current borrowings	**8,786.7**	7,799.8

Refinancing Facilities

The Company forms part of the Designated Group which has a specific ring-fenced financing structure and where facility and covenants are at BAA (SP) Limited Group level. As such, when considering facility drawn down by the Company, available facilities and covenant testing, due consideration must be given to the amounts drawn by its fellow subsidiary company (Stansted Airport Limited).

In December 2009, following disposal of Gatwick Airport Limited ('Gatwick'), the outstanding balance of £1,050 million of facilities at Gatwick were novated to the Company. The proceeds from the bond issues together with part of the proceeds from the sale of Gatwick and part of the equity injection (Note 17) were utilised to prepay the refinancing facilities.

At 31 December 2009, the interest rate payable on these Facilities was equal to Libor plus a margin of 1.5% pa on the Senior Facility and 2.5% pa on the Junior Facility.

Borrowings from group undertakings

Unsecured borrowings from group undertakings represent the loan advanced by parent, BAA (AH) Limited, to the Company following the disposal of Gatwick in December 2009. The loan is repayable on demand and bears an interest rate of 7.57% pa.

In December 2009, following new bond issues by BAA Funding Limited, two further Borrower Loan Agreement ('BLA') advances were made to the Company for a total amount of £923.7 million (net of transaction costs).

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

15. BORROWINGS (continued)

The effective interest rate on the BLA advances, after taking into account related hedging instruments, varies between 6.485% and 8.099%.

All of the above facilities are carried at amortised cost.

The Company, together with Stansted Airport Limited, had £2.05 billion undrawn committed borrowing facilities available at 31 December 2009.

In addition, as at 31 December 2009, there was a gross overdraft limit between Heathrow Airport Limited and Stansted Airport Limited up to a maximum gross balance of £75.0 million.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax (a) £m	Obligations under land purchase (b) £m	Reorganisation costs (c) £m	Cross Border Lease (d) £m	Pension costs (e) £m	Other (f) £m	Total £m
1 January 2009	411.2	110.5	18.4	2.2	11.8	-	554.1
(Credited)/charged to profit and loss account (Notes 3,4,7)	(121.6)	-	-	-	181.3	21.0	80.7
Utilised in the year	-	(1.8)	(12.3)	(2.3)	-	-	(16.4)
Release of provision to tangible fixed assets	-	(74.2)	-	-	-	-	(74.2)
Unwinding of discount charged and capitalised (Note 6)	-	3.0	-	0.1	-	0.2	3.3
31 December 2009	**289.6**	**37.5**	**6.1**	**-**	**193.1**	**21.2**	**547.5**

(a) Deferred tax

Analysis of the deferred tax balances is as follows:

	31 December 2009 £m	31 December 2008 £m
Excess of capital allowances over depreciation	**331.8**	412.2
Other timing differences	**(42.2)**	(1.0)
	289.6	411.2

	Unprovided **31 December 2009 £m**	Unprovided 31 December 2008 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**212.4**	222.8
Tax on rolled-over gains if replacement assets were sold at their current valuations	**5.6**	5.7
	218.0	228.5

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

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

16. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(a) Deferred tax (continued)
No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided is £218.0 million (2008: £228.5 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

(b) 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 £37.5 million, payable by the Company to the vendor by the end of January 2010 as discussed in further detail within Note 8.

The provision of £37.5 million (2008: £110.5 million), net of discount, is expected to be utilised as follows:

	31 December 2009	31 December 2008
	£m	£m
Within one year	**37.5**	7.5
One to two years	**-**	7.3
Two to five years	**-**	22.1
Five to ten years	**-**	25.9
Over ten years	**-**	47.7
	37.5	110.5

(c) Reorganisation costs
Costs associated with the Company's reorganisation programme are for severance and pension payments only. All amounts are expected to be utilised in 2010.

(d) Cross Border Lease
A provision of £2.2 million was created in 2008 for the early termination of a lease agreement entered into by the Company in 1998 in relation to rolling stock owned by the Company and operated by its subsidiary company, Heathrow Express Operating Company Limited. On 13 January 2009, the lease agreement was terminated.

(e) Pension costs
A provision of £193.1 million (2008: £11.8 million) is held in relation to pensions, representing the legal obligation of the Company under the Shared Services Agreement to fund its share of the BAA Airports Limited pension deficit and related pension liabilities. £180.2 million (2008: £nil) of the provision relates to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme. £12.9 million (2008: £11.8 million) is held for historical accumulated past service pension costs borne BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits. These provisions will only be settled when the cash outflow is requested by BAA Airports Limited. For more information on pension costs charged, refer to Note 1 Accounting policies.

(f) 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.

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

17. CALLED UP SHARE CAPITAL

	£m
Authorised	
At 1 January 2009: 380,200,100 ordinary shares of £1 each	380.2
Increase of 260,000,000 in authorised ordinary shares of £1 each	260.0
At 31 December 2009: 640,200,100 ordinary shares of £1 each	**640.2**
Called up, allotted and fully paid	
At 1 January 2009: 380,200,002 ordinary shares of £1 each	380.2
Issue of 260,000,000 shares of £1 each	260.0
At 31 December 2009: 640,200,002 ordinary shares of £1 each	**640.2**

On 13 November 2009, the authorised share capital was increased by £260,000,000 by the creation of 260,000,000 ordinary shares of £1 each, as a result of the equity injection announced in November 2009. On the same day, the Company issued 260,000,000 ordinary shares of £1 each to BAA (AH) Limited.

18. RESERVES

	Share premium reserve £m	Revaluation reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2009	23.2	1,067.4	199.5	1,290.1
Loss for the financial year	-	-	(253.7)	(253.7)
Unrealised loss on revaluation of investment properties	-	(47.7)	-	(47.7)
Revaluation adjustment	-	3.9	-	3.9
Transfer between reserves	-	(0.6)	0.6	-
At 31 December 2009	**23.2**	**1,023.0**	**(53.6)**	**992.6**

During the year, previously recognised net valuation gains amounting to £3.9 million were released as a result of the reclassification of a number of investment properties to operational assets.

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

19. COMMITMENTS

Commitments for capital expenditure

Capital expenditure contracted commitments amount to £170.3 million (2008: £81.8 million).

	31 December 2009 £m	31 December 2008 £m
Contracted for, but not accrued:		
Terminal 5C	**105.5**	6.5
Terminal 2A Building	**10.9**	-
Northwest stands and taxi lanes	**9.5**	-
Terminal 2B Phase 2	**7.5**	-
Eastern Apron	**5.6**	5.9
Terminal 4 airline relocations	**2.9**	5.6
Terminal 2B North East Stands	**-**	5.4
Post Terminal 5 transfer	**-**	15.8
	141.9	39.2
Other projects	**28.4**	42.6
	170.3	81.8

Commitments under operating leases

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

	Land & buildings 31 December 2009 £m	**Other leases 31 December 2009 £m**	Land & buildings 31 December 2008 £m	Other leases 31 December 2008 £m
Leases which expire:				
- within one year	**0.1**	**0.1**	1.6	0.2
- within two to five years	**1.5**	**1.0**	2.6	1.0
- after five years	**9.5**	**26.8**	4.9	26.6
	11.1	**27.9**	9.1	27.8

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

A significant portion of the £26.8 million (2008: £26.6 million) operating lease commitments expiring after five years classified as 'Other' relates to electricity supply equipment at the airports leased under an agreement with London Electricity Supply. The lease has 74 years remaining.

Commitments under contractual obligations

The Company has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Company until March 2012. Such commitments are for the normal purchase, sale or usage and hence are accounted for as ordinary purchase contracts. At 31 December 2009 the estimated minimum commitment for the future purchase of electricity under this contract totalled £111.0 million (2008: £147.3 million).

Other commitments

As part of its commitment to the development of a third runway at Heathrow, the Company 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.

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

19. COMMITMENTS (continued)

Other commitments (continued)

These schemes were the subject of extensive public consultation by BAA. The terms and conditions of the scheme were published by the Company 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 £300.0 million. As at 31 December 2009, no properties have yet been acquired under the scheme.

The Company is also required by the Government to offer noise mitigation measures relating to existing airport activities. Based on the Company's evaluation, payments under current noise schemes are estimated at £31.0 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. The Company is committed to reviewing these schemes in 2010.

In June 2006, the Government announced its conclusions for the 2006-2012 night flights regime at the BAA Group's London airports. The regime commits the Company to introducing a new domestic noise insulation scheme to address the impact of night flights on local communities. The Company estimates that payments under this scheme will total £62.0 million, spread over the five year period commencing 2008. The Government is expected to consult on proposals for the post 2012 night flights regime during the course of 2010. Until this consultation process is complete, the Company is unable to quantify potential obligations under a future night flights regime.

The January 2009 Government announcement 'Adding Capacity at Heathrow' requires the BAA 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 BAA Group's obligations in implementing these schemes is uncertain.

In July 2008, the BAA Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute £80.0 million per annum for a period of three years ending 31 December 2011. This amount is apportioned to the operating companies of the BAA Group based on pensionable pay base and paid directly by them. The Company expects to contribute its share of this amount, estimated at approximately £60 million to the pension plan in the year ending 31 December 2010.

20. CONTINGENT LIABILITIES

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £48.6 million at 31 December 2009 (2008: £79.0 million).

In addition to the above, since August 2008, the Company together with Stansted Airport Limited has a jointly issued letter of credit amounting to £205.0 million under the Borrower Liquidity Facility Agreement, to cover interest payable to Supported Lenders.

The Company, together with 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 to the Borrower Secured Creditors under the August 2008 refinancing documents and to the Subordinated Creditors under the Subordinated Facility Agreement dated April 2006. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

The Company, together with 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.

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

20. CONTINGENT LIABILITIES (continued)

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 Company as an Obligor.

Under the SSA, hedging costs properly incurred by BAA Airports Limited in relation to the Employee Share Ownership Plan ('ESOP') may be recharged to the Company. At 31 December 2009, the ESOP swap held in BAA Airports Limited had a fair value loss of £69.9 million (2008: £117.1 million). The Company may be obligated to settle its share of these amounts in the future which is approximately £48.1 million, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability and included in the amount above.

21. ULTIMATE PARENT UNDERTAKING

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

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

The Company's results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2009, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of BAA (SH) Limited, BAA Limited and FGP Topco Limited for the year ended 31 December 2009.

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

22. POST BALANCE SHEET EVENTS

In January 2010, the £500 million equity injection into the BAA (SP) Limited Group, of which £477.4 million relates to Heathrow, announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares with a nominal value of £1.00 each to BAA (AH) Limited.

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

23. SUMMARY CASH FLOW STATEMENT

	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Operating profit	**127.7**	174.9
Adjustments for:		
Depreciation (including exceptional depreciation)	**468.7**	429.9
(Profit)/loss on disposal of tangible fixed assets	**(0.1)**	0.8
Working capital changes:		
Increase in stock and debtors	**(88.8)**	(123.5)
(Decrease)/increase in creditors	**(49.0)**	50.3
Increase/(decrease) in provisions	**4.6**	(10.7)
Difference between pension charge and cash contributions	**154.9**	15.3
Net cash inflow from operating activities	**618.0**	537.0
Net interest paid	**(325.2)**	(71.8)
Taxation		
Group relief received	**32.4**	16.0
Net capital expenditure	**(817.8)**	(803.3)
Acquisition of Heathrow Express Operating Company	**-**	(3.8)
Cash outflow before use of liquid resources and financing	**(492.6)**	(325.9)
Management of liquid resources		
Increase in short term deposits	**(92.4)**	(142.1)
Financing		
Drawdown of long term bank loans	**450.0**	3,391.7
Drawdown of short term bank loans	**-**	43.3
Repayment of short term bank loans	**(193.3)**	(17.6)
Repayment of long term bank loans	**(616.6)**	-
Payment of loan arrangement fees	**-**	(14.8)
Issuance of ordinary share capital	**260.0**	-
Cancellation of derivatives	**(43.3)**	-
Increase/(decrease) in amounts owed to group undertakings	**727.9**	(2,945.6)
Decrease in cash	**(0.3)**	(11.0)

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

Liquid resources are defined in Note 1 Accounting policies under 'Cash and current asset investments'.

There is an overdraft balance of £11.4 million included within creditors: amounts falling due within one year at 31 December 2009 (2008: £11.0 million).