

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

BAA (SP) Limited

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BAA (SP) Limited

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BAA (SP) Limited

BUSINESS REVIEW

BAA (SP) Limited ('BAA SP' or 'the Group') is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service between Heathrow and Paddington, London. The Group also owned Gatwick airport until 3 December 2009. BAA (SP) Limited is an indirect subsidiary of BAA Limited ('BAA Group').

The financial statements of the Group have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

This business review is presented under three sections:

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

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

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

MANAGEMENT REVIEW

Review of 2009

Transforming the Group's airports

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

Service standards

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

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

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 Group 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.

BAA (SP) Limited

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.

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

Passenger traffic trends

Passenger traffic for the year ended 31 December 2009 at Heathrow and Stansted is analysed below.

	Year ended 31 December 2009	Year ended 31 December 2008	Change (%) ¹
Passengers by airport (millions)			
Heathrow	65.9	66.9	(1.5)
Stansted	20.0	22.3	(10.7)
Total passengers¹	85.9	89.2	(3.8)
Passengers by market served (millions)			
UK	7.2	7.9	(9.6)
Europe ²	43.5	46.1	(5.6)
Long haul	35.2	35.2	(0.2)
Total passengers¹	85.9	89.2	(3.8)

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

² Includes North African charter traffic

In the year ended 31 December 2009, the combined passenger traffic at Heathrow and Stansted declined 3.8% to 85.9 million (2008: 89.2 million) reflecting the macroeconomic environment. The rate of decline moderated substantially as 2009 progressed, from 8.3% in the first quarter to 0.5% in the final quarter.

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

Heathrow's traffic performance 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%).

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

Across the Group's two airports, emerging market long haul traffic increased 1.6% to 20.4 million (2008: 20.1 million) driven by performance at Heathrow as well as the launch of new low cost long haul services at Stansted. In 2009, overall European traffic declined 5.6% to 43.5 million (2008: 46.1 million) with scheduled traffic reducing 5.3%. Domestic traffic accounts for only 8% of Heathrow and Stansted's total traffic and during 2009 it declined 9.6% to 7.2 million passengers (2008: 7.9 million).

BAA (SP) Limited

MANAGEMENT REVIEW (continued)

Review of 2009 (continued)

Regulatory developments

Gatwick disposal

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

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

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

The decision's key structural remedy called for the disposal of 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 judgment. The date for the appeal has not yet been set.

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

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

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

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

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

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

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

BAA (SP) Limited

MANAGEMENT REVIEW (continued)

Review of 2009 (continued)

Regulatory developments (continued)

Aeronautical charges at Stansted for five years to 31 March 2014

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

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

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

Government decision on adding capacity at Heathrow

In January 2009, the UK Government announced that it was satisfied that the conditions for the development of Runway 3, set out in the White Paper 'The Future of Air Transport' published in 2003, could be met thereby further confirming the Government's support for a third runway.

Outlook

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

Developments since beginning of 2010

In January 2010, the combined passenger traffic at Heathrow and Stansted declined 1.5% to 6.0 million (2009: 6.1 million) with traffic at Heathrow in particular affected by adverse weather conditions. Heathrow's traffic declined 0.5% but 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 Group issued 217,370,315 ordinary shares to BAA (SH) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share.

BAA (SP) Limited

FINANCIAL REVIEW

Basis of preparation of statutory results

BAA (SP) Limited is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service. The Group also owned Gatwick airport until 3 December 2009. The Group's statutory accounts are prepared under UK GAAP including the adoption of merger accounting.

Basis of presentation of financial results

In the year ended 31 December 2009, the period covered by this review, the Group (including Gatwick) increased total turnover by 5.5% to £2,417.9 million (2008: £2,291.9 million) whilst operating profit was £255.7 million (2008: £364.0 million).

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

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Group turnover – total	2,417.9	2,291.9
Group turnover – discontinued operations	(440.3)	(465.4)
Group turnover – continuing operations	1,977.6	1,826.5
Adjusted Operating Costs – continuing operations ¹	(1,092.4)	(1,070.3)
Adjusted EBITDA – continuing operations²	885.2	756.2
Operating costs – exceptional: pensions – continuing operations	(217.8)	(13.9)
Operating costs – exceptional: other – continuing operations	0.5	(18.8)
EBITDA – continuing operations	667.9	723.5
Depreciation – ordinary – continuing operations	(452.7)	(379.9)
Depreciation – exceptional – continuing operations	(54.6)	(83.6)
Operating profit – continuing operations	160.6	260.0
Operating profit – discontinued operations	95.1	104.0
Operating profit – total	255.7	364.0
Loss on disposal of Gatwick airport – discontinued operations	(277.3)	-
Net interest payable and similar charges – ordinary	(682.9)	(661.4)
Net interest payable and similar charges – exceptional	-	(142.6)
Fair value (loss)/gain on financial instruments	(117.4)	115.8
Total net interest payable and similar charges	(800.3)	(688.2)
Loss on ordinary activities before taxation	(821.9)	(324.2)
Tax credit on loss on ordinary activities	137.9	123.1
Loss on ordinary activities after taxation	(684.0)	(201.1)

¹ Adjusted Operating Costs are stated before depreciation and exceptional items

² Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Turnover

In the year ended 31 December 2009, turnover from continuing operations increased 8.3% to £1,977.6 million (2008: £1,826.5 million). This reflects increases of 11.5% in aeronautical income, 4.8% in gross retail income and 4.4% in other income. On a like-for-like basis (the relevant adjustments are discussed in more detail in 'Aeronautical income' and 'Other income' below), turnover increased 5.3% to £1,929.9 million.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Aeronautical income	1,092.7	980.4	11.5
Retail income	439.5	419.3	4.8
Other income	445.4	426.8	4.4
Total	1,977.6	1,826.5	8.3

Aeronautical income

Aeronautical income increased by 11.5% to £1,092.7 million (2008: £980.4 million). Average aeronautical income per passenger increased by 15.9% to £12.73 (2008: £10.99).

	Aeronautical income			Per passenger		
	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %	Year ended 31 December 2009 £	Year ended 31 December 2008 £	Change ¹ %
Heathrow	960.7	835.3	15.0	14.58	12.48	16.8
Stansted	132.0	145.1	(9.0)	6.62	6.50	1.9
Total	1,092.7	980.4	11.5	12.73	10.99	15.9

¹ Percentage change calculated using un-rounded aeronautical income per passenger

Growth in aeronautical income was driven by the revised tariffs at Heathrow from 1 April 2008 but also reflected the phased introduction of the new tariffs over the first year of the new regulatory period. The change in aeronautical income at Stansted reflected the decline in passenger traffic with tariffs remaining flat. After adjusting for £32.4 million of income related to the provision of aerodrome navigation services by National Air Traffic Services ('NATS') in the first quarter of 2009 (as such income was not applicable in the first quarter of 2008), and phasing of the increased Heathrow tariffs that impact reported aeronautical income in both 2008 and 2009, aeronautical income is estimated to have increased 6.2%.

Retail income

The Group's retail business delivered a strong performance in 2009 given the general economic environment. For the year ended 31 December 2009, net retail income (i.e. gross retail income less car park management charges) ('NRI') per passenger increased 6.1% to £4.72 (2008: £4.45) due to a very strong performance by Heathrow.

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 %
Retail income	439.5	419.3	4.8
Less: retail expenditure	(34.6)	(22.5)	53.8
Net retail income	404.9	396.8	2.0
Passengers (million) ¹	85.9	89.2	(3.8)
Net retail income per passenger ^{1 2}	£4.72	£4.45	6.1

¹ Percentage change calculated using un-rounded numbers

² Net retail income per passenger calculated using un-rounded passenger numbers

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Analysis of net retail income

	Year ended	Year ended	Change
	31 December 2009	31 December 2008	
	£m	£m	%
Car parking	67.0	84.6	(20.8)
Duty and tax-free	100.6	90.0	11.8
Airside specialist shops	66.3	62.0	6.9
Bureaux de change	42.6	36.8	15.8
Catering	35.5	36.1	(1.7)
Landside shops and bookshops	26.4	27.3	(3.3)
Advertising	31.6	28.4	11.3
Car rental	14.3	12.3	16.3
Other	20.6	19.3	6.7
Total	404.9	396.8	2.0

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 sterling.

Stansted's retail income declined 3.1% to £88.0 million (2008: £90.8 million), a resilient performance given passenger trends meaning that NRI per passenger actually increased 2.0% to £4.00 (2008: £3.92). Performance was driven by significant growth in duty and tax-free shopping.

At both Heathrow and Stansted, 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, in the case of Heathrow, increased transfer passengers as discussed above in 'Passenger traffic trends'.

Other income

Income from activities other than aeronautical and retail increased 4.4% to £445.4 million (2008: £426.8 million). This included a 9.5% increase in property rental income to £106.7 million (2008: £97.4 million) and an increase in rail income of 6.3% to £91.5 million (2008: £86.1 million). Other income includes £2.8 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. Adjusting for this, other income increased 3.7%.

Adjusted Operating Costs

Adjusted Operating Costs exclude depreciation and exceptional items. In order to provide a more meaningful comparison of trends in individual cost categories between 2008 and 2009, the discussion below is based on re-allocating Adjusted Operating Costs for 2008 related to Heathrow Express Operating Company Limited for the period prior to its acquisition by the Group on 7 August 2008 out of intra-group charges to reflect the underlying nature of its costs as set out in the figures for 2008 below.

	Year ended	Year ended	Change
	31 December 2009	31 December 2008	
	£m	£m	%
Employment costs	290.9	340.5	(14.6)
Maintenance expenditure	147.3	133.9	10.0
Utility costs	125.5	93.4	34.4
Rents and rates	128.9	104.9	22.9
General expenses	235.5	228.7	3.0
Retail expenditure	34.6	22.5	53.8
Intra-group charges/other	129.7	146.4	(11.4)
Total	1,092.4	1,070.3	2.1

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Adjusted Operating Costs (continued)

In the year ended 31 December 2009, Adjusted Operating Costs increased 2.1% to £1,092.4 million (2008: £1,070.3 million). This reflected mainly an increase in rents and rates due to higher rates and additional properties, higher utility costs caused primarily by increased electricity costs and growth in general expenses driven by higher NATS and PRM costs (that are recovered in aeronautical income and other income discussed in 'Turnover'). These increases were offset by a significant 14.6% 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 Group under shared service arrangements.

The substantial progress made by the Group 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 1.7% to £1,052.1 million as illustrated in the table below.

	£m
2009 reported Adjusted Operating Costs	1,092.4
NATS and PRM costs in the first quarter of 2009	(19.2)
Incremental Terminal 5 costs	(21.1)
<hr/>	
2009 underlying Adjusted Operating Costs	1,052.1
2008 reported Adjusted Operating Costs	1,070.3
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Change in underlying Adjusted Operating Costs	(1.7%)

The adjustment for NATS and PRM costs resulted in underlying general expenses declining 8%, partly reflecting significantly lower service quality rebates, reinforcing the benefits of the Group's improved operational standards.

Adjusted EBITDA

Adjusted EBITDA for the Group's continuing operations in the year ended 31 December 2009 increased 17.1% to £885.2 million (2008: £756.2 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 3.8% reduction in passengers
- Cost control resulting in Adjusted Operating Costs increasing well below the rate of turnover growth

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 22.5% to £782.8 million (2008: £638.8 million) primarily reflecting increased aeronautical income. Stansted's Adjusted EBITDA declined 12.8% to £102.4 million (2008: £117.4 million) primarily reflecting the impact of lower passenger traffic on aeronautical income.

Operating costs - exceptional

There were £271.9 million in net pre-tax exceptional items in the year ended 31 December 2009 (2008: £116.3 million). These included a £217.8 million non-cash charge relating primarily to the Group'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 year end deficit takes into account the projected impact of the transfer out of the scheme of Gatwick employees who decide to join their new employer's scheme. However, the deficit at the end of 2009 does not reflect the benefit of the commutation payment into the scheme that may arise due to the Gatwick sale that would reduce commensurately the scheme's deficit, assuming no other changes. The Group's agreed annual cash payments to the scheme are approximately £70 million until the end of 2011.

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.

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Operating profit

The Group recorded an operating profit from continuing activities for the year ended 31 December 2009 of £160.6 million (2008: £260.0 million). Relative to Adjusted EBITDA, operating profit includes £452.7 million in depreciation (2008: £379.9 million) with the increase from 2008 driven by additional depreciation following Terminal 5 being brought into use from March 2008. In addition, it reflects £271.9 million in net operating exceptional costs (2008: £116.3 million). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

	Year ended 31 December 2009	Year ended 31 December 2008	Change
	£m	£m	%
Adjusted EBITDA	885.2	756.2	17.1
Depreciation	(452.7)	(379.9)	(19.2)
Exceptional items – pensions	(217.8)	(13.9)	(1,466.9)
Exceptional items – accelerated depreciation	(54.6)	(83.6)	34.7
Exceptional items – other	0.5	(18.8)	n/a
Operating profit	160.6	260.0	(38.2)

Loss on disposal of Gatwick airport

There was a £277.3 million loss on disposal of Gatwick reflecting the difference between the sale price and its carrying value. This comprised an initial £225.0 million impairment charge and an additional loss of £52.3 million recognised following completion of the sale.

Taxation

The tax credit recognised for the period was £137.9 million (2008: £123.1 million). Based on a loss before tax for the period of £821.9 million (2008: £324.2 million), this results in an effective tax rate of 16.8% (2008: 37.9%). Refer to Note 8 of the Financial Statements.

The tax credit recognised for the period is less than implied by the statutory rate of 28% (2008: 28.5%) primarily due to the loss on disposal of Gatwick airport of £277.3 million, which has no associated tax credit as, for taxation purposes, the disposal qualifies for Substantial Shareholding Exemption.

Dividend

No dividend was paid or declared in the year ended 31 December 2009 (2008: £704.7 million).

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Summary cash flow

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Net cash inflow from operating activities – continuing operations	802.3	681.5
Net cash inflow from operating activities – discontinued operations	170.3	144.9
Net cash inflow from operating activities – total	972.6	826.4
Net interest paid	(512.9)	(100.8)
Taxation – Group relief	24.0	21.0
Cash flow after interest and tax	483.7	746.6
Net capital expenditure	(1,002.8)	(1,031.7)
Disposal of Gatwick airport	1,418.6	-
Cash transferred on disposal of Gatwick airport	(39.0)	-
Acquisition of Heathrow Express Operating Company Limited	-	(3.8)
Net cash inflow/(outflow) before management of liquid resources and financing	860.5	(288.9)
Management of liquid resources	(77.4)	(157.0)
Derivative interest prepayment	(114.2)	-
Cancellation of derivatives	(43.3)	-
Proceeds of equity issue	282.6	-
Other financing flows ¹	(929.2)	470.9
(Decrease)/increase in cash	(21.0)	25.0

¹ Refer to the Consolidated cash flow statement in the financial statements for further details

Cash flow from operating activities

Net cash inflow from continuing operations in the year ended 31 December 2009 increased 17.7% to £802.3 million (2008: £681.5 million). Net cash inflow from continuing operations is after utilising £18.3 million in reorganisation provisions charged as exceptional items in prior years. It also reflects pension cash costs being £31.8 million higher than pension costs charged to the profit and loss account. Excluding these items, net cash inflow from continuing operations was £852.4 million which compares with Adjusted EBITDA of £885.2 million.

Capital expenditure

In the year ended 31 December 2009, the Group invested £1,002.8 million in capital expenditure (2008: £1,031.7 million) with £817.8 million at Heathrow, £127.1 million at Gatwick and £57.9 million at Stansted. The major projects at Heathrow included construction of a tunnel between Terminals 3 and 5 for an integrated baggage system. Work also continued on constructing Terminal 5C, the second satellite for Terminal 5, whilst the first phase of Terminal 2B, the satellite building for the new Terminal 2 was completed and became operational. There were various other projects in the rest of the Heathrow campus, such as the Terminal 4 refurbishment and improvement of check-in capacity associated with airline relocations.

Stansted's capital expenditure comprised £35.1 million on modernising existing infrastructure and £22.8 million under blight compensation schemes related to the proposed development of a second runway.

Net debt and liquidity

The analysis below focuses on external debt and excludes the debenture between BAA (SP) Limited and BAA (SH) Limited. It also excludes £143.0 million in restricted cash which is held in escrow from the disposal of Gatwick to meet potential pension commutation payments.

At 31 December 2009, the Group's total nominal net debt was £8,579.0 million (2008: £9,426.0 million) whilst the accounting value of net debt was £8,725.7 million (2008: £9,659.7 million). The significant debt reduction in 2009 reflects strong post-interest cash flow together with receipt of proceeds from the sale of Gatwick and an equity injection offset partially by capital investment in the Group's airports.

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Net debt and liquidity (continued)

The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two well received bond issues that generated proceeds of approximately £925 million for the Group. This has resulted in nominal debt outstanding under bond issues at 31 December 2009 of £5,434.3 million (2008: £4,498.9 million).

The proceeds from these bond issues together with approximately £1.2 billion of the proceeds from the sale of Gatwick were utilised in repaying the bank refinancing facility such that the nominal value outstanding at 31 December 2009 was £2,283.4 million (2008: £4,400.0 million). At 31 December 2009, the Group also had £1,074.2 million (2008: £667.5 million) of nominal debt outstanding under various other bank debt facilities. In addition, index-linked derivative accretion of £25.6 million (2008: £41.8 million) is included in nominal net debt for the purposes of calculating gearing ratios under the Group's financing arrangements.

At 31 December 2009, the Group had cash and cash equivalents of £238.5 million (2008: £182.1 million), excluding £143.0 million in restricted cash held in escrow from the Gatwick disposal to meet potential pension commutation payments.

The average cost of the Group's external debt at 31 December 2009 was 5.81% (2008: 6.04%) after all hedging including the real cost of index-linked hedges.

Following the repayment of the refinancing facility referred to above, the Group has no significant debt maturities in 2010. The Group is strongly cash generative with £483.7 million of surplus cash flow after payment of interest in 2009. At 31 December 2009, the Group had approximately £2.3 billion in cash resources and undrawn bank facilities. Together, these sources of funding provide the Group with significant liquidity to meet its financing requirements for the foreseeable future.

Equity injection

In November 2009, a £500 million equity injection into the Group was announced. The funds were provided primarily from existing financial resources of FGP Topco Limited, the Group's ultimate holding company, jointly owned by BAA's three controlling shareholders, as well as new equity injected into BAA by its shareholders. The proceeds of the equity injection are intended to strengthen the Group's long term financial ratios by paying down debt and restructuring the Group's derivative portfolio to reduce interest costs. By 31 December 2009, £282.6 million of this investment had been completed and the remaining funds were injected in January 2010.

Regulatory Asset Base ('RAB')

Set out below are RAB figures for the Group's airports at 31 December 2008 and 31 December 2009. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	Stansted ¹ £m	Total £m
31 December 2008	9,661.5	1,231.1	10,892.6
31 December 2009	10,452.9	1,291.0	11,743.9

¹ Figure at 31 December 2008 amended from £1,222 million originally disclosed due to review in producing March 2009 regulatory accounts

Gatwick's RAB at 31 December 2008 was £1,577.6 million meaning the Group's total RAB was £12,470.2 million, the relevant figure for calculating the gearing ratios at that date.

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

Net interest payable and net interest paid

In the year ended 31 December 2009, the Group's net interest payable was £682.9 million (2008: £661.4 million) excluding exceptional interest payable and fair value gains or losses on financial instruments. Excluding £23.9 million in capitalised interest (2008: £99.7 million) and £84.3 million in non-cash amortisation of financing fees and bond fair value adjustments (2008: £35.9 million), underlying interest payable reduced to £622.5 million (2008: £725.2 million).

Exceptional costs included within interest payable in 2008 were £142.6 million related to facility and arrangement fees incurred in relation to the refinancing completed in August 2008. Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £117.4 million (2008: £115.8 million gain) primarily driven by movements in the index-linked swap curve.

BAA (SP) Limited

FINANCIAL REVIEW (continued)

Net interest payable and net interest paid (continued)

Net interest paid in the year ended 31 December 2009 was £512.9 million (2008: £100.8 million). This consisted of £383.3 million paid primarily in relation to external debt and £129.6 million under the debenture between BAA (SP) Limited and BAA (SH) Limited. The significantly lower interest paid in 2008 is due to the fact that prior to the refinancing completed in August 2008 there was only intra-group debt on which interest was being accrued but not paid. Total net interest paid for the year ended 31 December 2009 used for the purposes of calculating interest cover ratios under the Group's financing agreements was £497.5 million whilst senior net interest paid was £455.5 million. The variance between £497.5 million and the £512.9 million in the cash flow statement is due to exclusion of £129.6 million of interest paid on the debenture between BAA (SP) Limited and BAA (SH) Limited and inclusion of £114.2 million in derivative interest prepayment included in financing flows in the statutory cash flow statement.

Net interest paid is lower than net interest payable primarily due to an amortisation charge in 2009 of £139.6 million in net interest payable relating to derivative interest prepaid in 2008. In addition, there is the non-cash amortisation of financing fees and bond fair value adjustments offset by capitalised interest, both referred to above.

Financial ratios

The Group is operating comfortably within required financial ratios.

At 31 December 2009, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 0.674x and 0.731x compared with trigger levels of 0.70x and 0.85x. Further, the Group has the flexibility to manage the senior gearing ratio utilising the currently undrawn junior debt tranche of the capital expenditure facility up to the lower of £400 million and the level of senior debt drawings.

In the year ended 31 December 2009, the Group's senior and junior interest cover ratios (the ratio of cash flow from operations less tax paid and 2% of RAB to interest paid) were 1.620x and 1.483x compared with trigger levels of 1.40x and 1.20x.

BAA (SP) Limited

RISK MANAGEMENT

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

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

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

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

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

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

Safety and security risks

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

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

Regulatory environment, legal and reputational risks

Civil Aviation Authority ('CAA') regulation

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

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

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Group breaching these regulations. Refer to the 'Management review' section for details on the current DfT regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

BAA (SP) Limited

RISK MANAGEMENT (continued)

Regulatory environment, legal and reputational risks (continued)

Capacity shortfall

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

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

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

Environment

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

Commercial and financial risks

Capital projects

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

Changes in demand

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

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the BAA Group is recognised. The BAA Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The 2010 Pay negotiations started in December 2009. The BAA Group could also be exposed in the short-term to the effect of industrial action at key clients (i.e. airlines).

Treasury

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

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

BAA (SP) Limited

RISK MANAGEMENT (continued)

Commercial and financial risks (continued)

Treasury (continued)

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

(a) Interest rates

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

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

(b) Foreign currency

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

(c) Funding and liquidity

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

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

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

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

By order of the Board



Jose Leo
Director

22 February 2010

BAA (SP) Limited

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 principal activity of BAA (SP) Limited is as the holding company of BAA (AH) Limited, owner of the designated airports (Heathrow and Stansted airports) and BAA Funding Limited, the bond issuer of the Group.

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 16.

RESULTS AND DIVIDENDS

The loss after taxation for the financial year amounted to £684.0 million (2008: £201.1 million). No dividends were paid during the year (2008: £704.7 million). The statutory results for the year are set out on page 21.

DIRECTORS

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

Jose Leo	
Frederick Maroudas	Appointed 31 July 2009
Luis Sanchez Salmeron	Resigned 31 July 2009

EMPLOYMENT POLICIES

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

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

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

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

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows, and an intranet. The Group also operates frameworks for consultation and is committed to managing people through change fairly.

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

PAYMENT POLICIES

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

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

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

BAA (SP) Limited

REPORT OF THE DIRECTORS (continued)

DONATIONS

The Group's charitable donations for the year amounted to £0.3 million (2008: £0.4 million). The main beneficiaries of charitable donations, the relevant amounts donated and the main activity of these beneficiaries are as follows:

Heathrow Travel Care	£152,000	Provides counselling and assistance to passengers and airport staff
Gatwick Airport Community Trust	£130,000	Independent charity directing funds back into the community that is affected by the airport and its continuing growth

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group actively manages all identified corporate risks. Details of the Group's risk management policies can be found on pages 14 to 16 in the Risk Management section of the Business Review.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on pages 15 to 16 in the Risk Management section of the Business Review.

DIRECTORS' INDEMNITY

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

DISCLOSURE OF INFORMATION FOR AUDITORS

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



Sha Mei Ooi
Company Secretary

22 February 2010

Company registration number: 06458621

BAA (SP) Limited

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company 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 group and the company and of the profit or loss of the group for that period.

In preparing those consolidated financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

22 February 2010

BAA (SP) Limited

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

We have audited the Group financial statements of BAA (SP) Limited for the year ended 31 December 2009 which comprise the Consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Consolidated note of historical cost profits and losses, Consolidated reconciliation of movements in shareholders' funds, Consolidated balance sheet, Consolidated cash flow statement, the Accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group 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 Group financial statements sufficient to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Group financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of the Group's loss and cash flows 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 matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of BAA (SP) Limited for the year ended 31 December 2009.



Paul Cragg (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

22 February 2010

BAA (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Restated Year ended 31 December 2008 ¹ £m
Turnover – continuing operations	2	1,977.6	1,826.5
Turnover – discontinued operations	2	440.3	465.4
Total turnover	2	2,417.9	2,291.9
Operating costs – ordinary	3	(1,891.5)	(1,820.1)
Operating costs – exceptional: pensions	5	(217.8)	(17.1)
Operating costs – exceptional: other	5	(52.9)	(90.7)
Total operating costs		(2,162.2)	(1,927.9)
Operating profit – continuing operations	2	160.6	260.0
Operating profit – discontinued operations	2	95.1	104.0
Total operating profit	2	255.7	364.0
Loss on disposal of Gatwick airport – discontinued operations	6	(277.3)	-
Interest receivable	7	154.7	111.5
Interest payable and similar charges – ordinary	7	(837.6)	(772.9)
Interest payable and similar charges – exceptional	7	-	(142.6)
Fair value (loss)/gain on financial instruments	7	(117.4)	115.8
Total net interest payable and similar charges		(800.3)	(688.2)
Loss on ordinary activities before taxation		(821.9)	(324.2)
Tax credit on loss on ordinary activities	8	137.9	123.1
Loss on ordinary activities after taxation	26	(684.0)	(201.1)

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

BAA (SP) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss for the financial year	26	(684.0)	(201.1)
Unrealised loss and adjustments on revaluation of investment properties	23	(130.3)	(192.2)
Realised loss on revaluation of tangible fixed assets	23	(0.6)	-
Gains/(losses) on cash flow hedges taken directly to equity	25	305.1	(444.6)
Deferred tax arising on cash flow hedge (gains)/losses	25	(85.5)	124.5
Realisation of profit and loss reserve – tangible fixed assets	26	0.6	-
		89.3	(512.3)
Total recognised losses for the year		(594.7)	(713.4)

Consolidated note of historical cost profits and losses for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Reported loss on ordinary activities before taxation		(821.9)	(324.2)
Adjusted for:			
Realisation of revaluation reserve – Gatwick disposal	23	461.7	-
Historical cost loss on ordinary activities before taxation		(360.2)	(324.2)
Historical cost loss on ordinary activities after taxation		(222.3)	(201.1)

The effects of fair value accounting for derivative financial instruments have been excluded from the reconciliation of the reported loss on ordinary activities before taxation to the equivalent historical cost amount.

Consolidated reconciliation of movements in shareholder's funds for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss for the financial year	26	(684.0)	(201.1)
Dividends on shares classified in shareholder's funds	9	-	(704.7)
Other recognised gains and losses relating to the year (net)		89.3	(512.3)
Proceeds of ordinary shares issued for cash	21	0.6	-
Premium on ordinary shares issued	22	282.0	-
Net movement in shareholder's funds		(312.1)	(1,418.1)
Opening shareholder's funds		1,138.1	2,556.2
Closing shareholder's funds		826.0	1,138.1

BAA (SP) Limited

Consolidated balance sheet at 31 December 2009

	Note	31 December 2009 £m	31 December 2008 ¹ £m
Fixed assets			
Tangible fixed assets	10	11,473.8	12,910.1
Financial assets – derivative financial instruments	19	683.0	960.5
Total fixed assets		12,156.8	13,870.6
Current assets			
Stocks	11	4.9	7.9
Debtors: due within one year	12	303.2	402.1
Financial assets – derivative financial instruments	19	0.3	7.6
Current asset investments	13	234.5	157.1
Restricted cash	14	143.0	-
Cash at bank and in hand	15	4.0	25.0
Total current assets		689.9	599.7
Current liabilities			
Creditors: amounts falling due within one year	16	(558.6)	(753.2)
Net current assets/(liabilities)		131.3	(153.5)
Total assets less current liabilities		12,288.1	13,717.1
Creditors: amounts falling due after more than one year	17	(10,830.9)	(12,024.8)
Deferred tax	20	(291.4)	(393.0)
Provisions for liabilities and charges	20	(339.8)	(161.2)
Net assets		826.0	1,138.1
Capital and reserves			
Called up share capital	21	10.6	10.0
Share premium reserve	22	282.0	-
Revaluation reserve	23	1,442.4	2,035.0
Merger reserve	24	(4,535.6)	(5,629.6)
Fair value reserve	25	(100.5)	(320.1)
Profit and loss reserve	26	3,727.1	5,042.8
Total shareholder's funds		826.0	1,138.1

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

The financial statements set out on pages 21 to 57 were approved by the Board of directors and authorised for issue on 22 February 2010 and signed on behalf of the Board.



Jose Leo
Director



Frederick Maroudas
Director

BAA (SP) Limited

Consolidated cash flow statement for the year ended 31 December 2009

		Year ended 31 December 2009 £m	Restated Year ended 31 December 2008 ¹ £m
Net cash inflow from operating activities	31	972.6	826.4
Return on investment and servicing of finance			
Interest received		0.3	1.4
Interest paid		<u>(513.2)</u>	<u>(102.2)</u>
Net cash outflow from returns on investments and servicing of finance		(512.9)	(100.8)
Taxation – Group relief		24.0	21.0
Capital expenditure and financial investment			
Purchase of tangible fixed assets	10	(1,003.0)	(1,032.9)
Sale of tangible fixed assets		<u>0.2</u>	<u>1.2</u>
Net cash outflow for capital expenditure and financial investment		(1,002.8)	(1,031.7)
Acquisition and disposals			
Disposal of subsidiary	28	1,418.6	-
Cash at bank and in hand transferred on disposal of subsidiary	28	(39.0)	-
Acquisition of subsidiary	27	<u>-</u>	<u>(3.8)</u>
Net cash inflow/(outflow) from acquisitions and disposals		1,379.6	(3.8)
Net cash inflow/(outflow) before use of liquid resources and financing		860.5	(288.9)
Management of liquid resources			
Increase in short term deposits	13	(77.4)	(157.0)
Net cash outflow from management of liquid resources		(77.4)	(157.0)
Financing			
Issuance of bonds (net of issuance costs)	18	923.7	-
(Repayment)/drawdown of syndicated term facility	18	(2,116.6)	4,400.0
Drawdown of capital expenditure facility	18	450.0	250.0
Repayment of EIB facility	18	(43.3)	(17.6)
Drawdown of EIB facility	18	-	435.0
Payment of loan arrangement fees	18	-	(14.8)
Prepayment of derivative interest		(114.2)	-
Cancellation of derivatives		(43.3)	-
Restricted cash	14	(143.0)	-
Issuance of ordinary share capital	21	282.6	-
Decrease in amounts owed to group		<u>-</u>	<u>(4,581.7)</u>
Net cash (outflow)/inflow from financing		(804.1)	470.9
(Decrease)/increase in net cash	15	(21.0)	25.0
Reconciliation to net debt			
Net debt at 1 January	31	(11,225.5)	(10,042.3)
(Decrease)/increase in net cash	15	(21.0)	25.0
Movement in liquid resources	13	77.4	157.0
Movement in borrowings	18	786.2	(5,052.6)
Movement in intercompany borrowings	18	-	4,264.9
Other non-cash changes	31	(84.2)	(143.0)
Fair value adjustments	31	175.6	(434.5)
Net debt at 31 December	31	(10,291.5)	(11,225.5)

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

BAA (SP) Limited

Notes to the financial statements

1 Accounting policies

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

Basis of preparation

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

Going concern

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

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

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (refer Note 18).

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

Changes in accounting policies and disclosures

Comparative balances for 31 December 2008 have been presented using millions rounded to one decimal place. This treatment varies from 31 December 2008 where balances were rounded to the nearest million. This has resulted in some immaterial rounding differences.

Discontinued operations

Gatwick airport has been classified as discontinued operations due to its disposal on 3 December 2009. Comparative balances have been restated in the consolidated profit and loss account and associated notes.

Accretion on index-linked financial instruments

Following a £235.0 million index-linked bond issuance in December 2009, the Group has changed the way accretion on index-linked swaps is presented in the profit and loss account. Accretion on index-linked swaps was previously included within the fair value gain or loss on financial instruments. Accounting standards for index-linked bonds require accretion to be classified as a part of their finance cost. Management considers that classifying accretion for both instruments consistently through 'Interest payable and similar charges' will improve presentation of the Group's profit and loss account. Comparatives have been restated to present the results on a consistent basis. The new treatment resulted in a £41.8 million reclassification in 2008 from 'Fair value losses on financial instruments' to 'Interest payable and similar charges'. The current year result is a £16.2 million gain recognised in the Group's 'Interest payable and similar charges'.

BAA (SP) Limited

1 Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of BAA (SP) Limited ('the Company') and all its subsidiaries ('the Group').

The Company was incorporated on 20 December 2007. On 31 January 2008, the Company entered into a sale and purchase agreement to purchase the entire issued share capital of BAA (AH) Limited from BAA Limited. The consideration was satisfied by:

- a) the allotment and issue by the Company to BAA Limited of 4,588,184,000 ordinary shares of £1 each credited as fully paid in the capital of the Company; and
- b) the issue by the Company to BAA Limited of a loan note with a principal amount of £1,600,000,000.

On 29 February 2008, the Company purchased additional shares of BAA (AH) Limited that was satisfied by the allotment and issue by the Company of 685,371,176 ordinary shares of £1 each credited as fully paid in the capital of the Company. At the time of this transaction, BAA (AH) Limited was the owner of the Designated Airports.

In order to present a true and fair view of the Group the abovementioned transaction (the 'Transaction') has been accounted for in accordance with Financial Reporting Standard ('FRS') 6 'Acquisitions and Mergers' and the principles of merger accounting. This represents a departure from the provisions of the Companies Act 2006 which sets out the conditions for merger accounting based on the assumption that a merger is effected through the issue of equity shares.

Schedule 4A to the Companies Act 2006 and FRS 6 'Acquisitions and Mergers' require that acquisition accounting be adopted where all the conditions laid down for merger accounting are not satisfied. These conditions were not all satisfied because the fair value of the non-equity element of the consideration (the loan note) given by the Company for the shares in BAA (AH) Limited exceeded 10% of the nominal value of the share element of the consideration.

However, in the opinion of the directors, the Transaction was a group reconstruction rather than an acquisition, since the shareholders of the Company are the same as the former shareholders of BAA (AH) Limited and the rights of each shareholder, relative to the others, are unchanged and no minority interest in the net assets of the Group is altered. In addition, the purpose of the transaction was not to move value out of the Group and return to shareholders, but rather to reorganise the assets and liabilities within the existing group. Therefore the directors consider that to record the Transaction as an acquisition by the Company, attributing fair values to the assets and liabilities of the Group and reflecting only the post transaction results within these financial statements, would fail to give a true and fair view of the Group's results and financial position.

Accordingly, having regard to the overriding requirement under section 227(6) of the Companies Act 2006 for the financial statements to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in drawing up these financial statements. The main consequence of adopting merger rather than acquisition accounting is that the balance sheet of the merged group includes the assets and liabilities of each of the Group's subsidiaries at their carrying values prior to the merger, subject to any adjustments to achieve uniformity of accounting policies, rather than at their fair values at the date of the merger.

Had merger accounting not been adopted in the preparation of these financial statements goodwill of approximately £3.5 billion, with an useful economic life of 20 years would have been recorded in the consolidated balance sheet, with an associated amortisation charge for the period from merger to 31 December 2009 of £334.6 million (2008: £152.1 million). These approximations have been made based on the fair value of the underlying airport assets and goodwill recognised at the June 2006 acquisition of the BAA Group by a consortium led by Ferrovial, the Company's ultimate parent entity, having adjusted the goodwill recorded under International Financial Reporting Standards ('IFRS') to add back the intangible assets recognised separately under IFRS that would have been subsumed into goodwill under UK GAAP.

The Group applied acquisition accounting on the acquisition of Heathrow Express Operating Company Limited (HEX) which took place on 7 August 2008 as this was not deemed to have been a part of the initial group reconstruction process.

BAA (SP) Limited

1 Accounting policies (continued)

Turnover

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

Aeronautical

- 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
- Other traffic charges

Retail

- Concession fee based upon turnover certificate supplied by concessionaires

Other

- Property letting sales, recognised on a straight-line basis over the term of the rental period
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale
- Usage charges made for operational systems (eg check-in desks), recognised as each service period is provided
- Other charges levied for passenger and baggage operation when these services are rendered
- Other invoiced sales, recognised on the performance of the service
- 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 Group'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 Group's liability to fund the BAA Airports Limited defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item. Refer to the accounting policy for details of the Shared Services Agreement.

Discontinued operations

Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are expected to be sold before the earlier of three months after the balance sheet date and the date on which the financial statements are signed.

Tangible fixed assets

Operational assets

Terminal complexes, airfield assets, plant and equipment, rail assets and Group occupied properties are stated at cost less accumulated depreciation and impairment losses. Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management, and directly attributable overheads. 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 Group. The Group reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

BAA (SP) Limited

1 Accounting policies (continued)

Tangible fixed assets (continued)

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.

Depreciation

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

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

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

BAA (SP) Limited

1 Accounting policies (continued)

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the 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 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.

Group as a lessor

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

Group 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.

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 purpose of the 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 of term deposits less than one year (other than cash) and investments in money market managed funds.

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

BAA (SP) Limited

1 Accounting policies (continued)

Foreign currency

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

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

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

Provisions

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

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.

BAA (SP) Limited

1 Accounting policies (continued)

Classification of financial instruments issued by the Group

Following the adoption of FRS 25 'Financial Instruments: Disclosure and Presentation', financial instruments issued by the Group are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium reserve exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

The Group is exempt from reporting information under FRS 29 'Financial Instruments: Disclosures' as its immediate parent, BAA (SH) Limited, prepared group accounts in accordance with IFRS 7 'Financial Instruments: Disclosures'.

Issue costs and arrangement fees

Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

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 instruments not been issued. These are accounted for as a deduction from the fair value 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 and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair value estimates are calculated using a discounted cash flow methodology and market available information, excluding the initial credit and execution costs.

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

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

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

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

BAA (SP) Limited

1 Accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

Fair value hedge

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

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

Cash flow hedge

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

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

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

Derivatives at fair value through the profit and loss account

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

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within interest payable and other similar charges in the profit and loss account. The interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account.

Dividend distribution

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

Share capital

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

Shared Services Agreement

All employees of the Group's airports are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Group. 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 airports entered into a Shared Services Agreement ('SSA') with BAA Airports Limited by which the latter became the shared services provider for the Group providing the airports with operational staff and corporate services.

Operational staff

BAA Airports Limited charges the airports 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.

BAA (SP) Limited

1 Accounting policies (continued)

Shared Services Agreement (continued)

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 airports.

Pension costs

Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Group's airports and Heathrow Express Operating Company Limited (HEX) on the basis of their pensionable pay base. This charge is included within ordinary staff pension costs (refer Note 3).

Cash contributions are made directly by the Group's airports and HEX 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, each airport and HEX also have a legal obligation since August 2008 to fund their share of the BAA Airports Limited pension deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits ('URBS') (pension related liabilities) under the SSA. These provisions are based on the Group's share of the actuarial deficit. The share of the deficit has been allocated 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.

Related party disclosures

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Group 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 (SH) Limited for the year ended 31 December 2009 (immediate parent entity). They are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2009.

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

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Significant accounting judgements and estimates

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

Capitalisation of costs incurred prior to planning permission being obtained

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

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

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

As at 31 December 2009, the costs capitalised in respect of the development of SG2 are £83.3 million in relation to planning application preparation and £106.4 million in respect of the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. Despite the delays in the start date for the inquiry, BAA believes that it is highly probable given overall Government policy and expected increases in passenger numbers over time, that planning permission for a second runway at Stansted will be obtained and the project will be developed such that future benefits will flow to the Group. If Government policy was to change such that the planning consents for the development of SG2 become less likely, elements of the costs currently capitalised may need to be written off through the profit and loss account.

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

As at 31 December 2009, approximately £10.0 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. BAA believes that it is highly probable, given overall Government policy, DfT announcements regarding the development of R3, airline community support and the expected increases in passenger numbers over time, that planning permission for a third runway at Heathrow will be obtained.

Investment properties

Investment properties were valued at fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors, and Strutt and Parker, 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 70 percent of the investment properties comprise car parks and airside assets at the Group's airports that are considered less vulnerable to market volatility than the overall market. Given recent declines in property prices, independent valuations were obtained for 100 percent of the investment properties.

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

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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.

Significant accounting judgements and estimates (continued)

Hedge accounting

From 1 October 2008, certain interest rate swaps were designated in a cash flow hedge relationship to hedge exposure to variability in cash flows of existing liabilities and forecast transactions, based on management expectation that it is highly probable these derivatives will match future sterling funding issuances which will occur to refinance existing debt. As at 31 December 2009, £98.1 million of fair value losses (2008: £300.9 million) on these derivatives have been deferred into the cash flow hedge reserve.

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

Fair value of derivative financial instruments

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

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2 Segment information

The Group's primary reporting format is business segments. The operating businesses are primarily the individual airports, which are organised and managed separately. All turnover originated in the UK.

	Turnover		Operating profit		Net assets	
	Year ended	Restated Year ended	Year ended	Restated Year ended		Restated
	31 December 2009 £m	31 December 2008 £m	31 December 2009 £m	31 December 2008 £m	31 December 2009 £m	31 December 2008 ¹ £m
Continuing operations						
Heathrow	1,734.6	1,567.7	127.7	174.9	1,563.7	1,508.8
Stansted	243.0	258.8	27.4	81.2	1,052.2	1,041.3
Other entities ²	-	-	5.5	3.9	(1,789.7)	(2,349.5)
Other adjustments ³	-	-	-	-	(0.2)	(0.3)
	1,977.6	1,826.5	160.6	260.0	826.0	200.3
Discontinued operations						
Gatwick	440.3	465.4	95.1	104.0	-	937.8
Total	2,417.9	2,291.9	255.7	364.0	826.0	1,138.1

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

² The 'Other entities' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent entity BAA (SP) Limited.

³ 'Other adjustments' relates to the elimination of inter-company transactions and consolidation adjustments.

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the individual airports and to assist better comparison with the prior year. Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.

For the year ended 31 December 2009	Adjusted EBITDA £m	Exceptional items £m	Depreciation ¹ £m	Operating profit £m
Continuing operations				
Heathrow	777.2	(235.4)	(414.1)	127.7
Stansted	102.4	(36.4)	(38.6)	27.4
Other entities and adjustments	5.6	(0.1)	-	5.5
	885.2	(271.9)	(452.7)	160.6
Discontinued operations				
Gatwick	157.3	1.2	(63.4)	95.1
Total	1,042.5	(270.7)	(516.1)	255.7
For the year ended 31 December 2008 ² Restated	Adjusted EBITDA £m	Exceptional items £m	Depreciation ¹ £m	Operating profit £m
Continuing operations				
Heathrow	634.4	(113.2)	(346.3)	174.9
Stansted	117.4	(3.1)	(33.1)	81.2
Other entities and adjustments	4.4	-	(0.5)	3.9
	756.2	(116.3)	(379.9)	260.0
Discontinued operations				
Gatwick	159.9	8.5	(64.4)	104.0
Total	916.1	(107.8)	(444.3)	364.0

¹ Depreciation excluding exceptional accelerated depreciation, refer to Note 5.

² The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

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3 Operating costs – ordinary

	Year ended 31 December 2009			Year ended 31 December 2008 ¹		
	Continuing £m	Discontinued £m	Total £m	Restated		Total £m
				Continuing £m	Discontinued £m	
Wages and salaries	238.7	81.5	320.2	262.6	80.2	342.8
Social security	19.5	6.3	25.8	20.5	6.1	26.6
Pensions	18.5	4.9	23.4	36.6	13.0	49.6
Other staff related	10.5	4.5	15.0	17.4	5.0	22.4
Share based payments	3.7	-	3.7	3.4	0.9	4.3
Employment costs²	290.9	97.2	388.1	340.5	105.2	445.7
Maintenance expenditure	147.3	24.0	171.3	133.9	29.2	163.1
Utility costs	125.5	27.2	152.7	93.4	25.9	119.3
Rent and rates	128.9	22.1	151.0	104.9	24.6	129.5
General expenses	131.4	43.8	175.2	140.2	31.8	172.0
Retail expenditure	34.6	14.1	48.7	22.5	14.5	37.0
Intra - group charges/other	129.8	26.5	156.3	145.6	46.9	192.5
Police	38.6	12.1	50.7	41.4	13.8	55.2
Air navigation charges	65.5	16.0	81.5	47.1	13.6	60.7
Depreciation	452.7	63.4	516.1	379.9	64.4	444.3
(Gain)/loss on disposal of tangible fixed assets	(0.1)	-	(0.1)	0.8	-	0.8
	1,545.1	346.4	1,891.5	1,450.2	369.9	1,820.1

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

² Employment costs includes recharges from BAA Airports Limited for employee services to the Group. Refer to the Shared Services Agreement accounting policy in Note 1.

	Year ended 31 December 2009			Year ended 31 December 2008 ¹		
	Continuing £m	Discontinued £m	Total £m	Restated		Total £m
				Continuing £m	Discontinued £m	
Operating costs include:						
Rentals under operating leases						
- Plant and machinery	33.4	6.1	39.5	30.4	7.1	37.5
- Other operating leases	31.5	0.8	32.3	17.2	0.7	17.9
Services provided by the Group's auditor						
- Fee payable for the audit	0.2	0.1	0.3	0.2	0.1	0.3
- Other services pursuant to legislation	0.1	-	0.1	-	-	-
- Other services: IT review	0.8	-	0.8	-	-	-
: Prospectus	0.6	-	0.6	-	-	-
: Other	0.1	-	0.1	-	-	-

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

In 2008 services provided by the auditors in relation to the wider BAA Group's refinancing were borne by BAA Limited.

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4 Employee information and Directors' emoluments

Employee numbers

The Group has no employees. However, all staff costs for the Group's operations are borne by BAA Airports Limited which recharges all such costs directly to the Group's subsidiaries. The average number of employees of BAA Airports Limited engaged in the Group's continuing operations during the year was 6,885 (2008: 7,122). The number of employees engaged in discontinued operations was 2,274 (2008: 2,186).

Directors' remuneration

None of the directors who served BAA (SP) Limited during the year received emoluments for services to the Company.

L Sanchez Salmeron was a director of both BAA Airports Limited and BAA Limited until 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed in both 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 for which he was a director. F Maroudas 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.

In accordance with a long-term incentive scheme, a cash amount was awarded in November 2009 to one director (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.

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

5 Operating costs - exceptional

	Year ended 31 December 2009			Year ended 31 December 2008 ¹		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Restated Discontinued £m	Total £m
Operating costs – exceptional: pensions						
Pension cost ²	217.8	-	217.8	13.9	3.2	17.1
Operating costs – exceptional: other						
Reorganisation income ³	(0.5)	(1.2)	(1.7)	(3.0)	(11.7)	(14.7)
Heathrow Terminals 1 and 2 accelerated depreciation ⁴	54.6	-	54.6	83.6	-	83.6
Heathrow Terminal 5 launch / operational readiness costs	-	-	-	21.8	-	21.8
	271.9	(1.2)	270.7	116.3	(8.5)	107.8

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

² During 2009 total exceptional pension costs of £217.8 million (2008: £17.1 million) were incurred. £216.1 million (2008: £nil) was in relation to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme and £1.7 million (2008: £17.1 million) in relation to UURBS, in accordance with the Shared Services Agreement ('SSA'). For more information on pension costs charged refer to Note 1 Accounting policies.

³ £1.7 million (2008: £14.7 million) was credited in the year ended 31 December 2009 due to provisions that were no longer required.

⁴ 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 to 31 December 2009 (2008: £83.6 million) to reflect the shortened useful lives of the assets.

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6 Loss on disposal of Gatwick

Discontinued operations

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss on disposal of Gatwick airport (Note 28)	277.3	-
Taxation	-	-

On 3 December 2009, the BAA Group sold Gatwick for cash consideration of £1,445.0 million and deferred consideration of up to £55.0 million conditional on future traffic performance and the acquirer's future capital structure. Sale proceeds were used primarily to repay bank debt. In addition, at 31 December 2009, £143.0 million of the proceeds were being held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. The remainder of the sale proceeds are being utilised to fund transaction costs including legal and other advisory fees and directly attributable separation costs.

The loss on disposal of Gatwick airport includes an impairment charge of £225.0 million that was recognised in 2009, prior to disposal, as a result of the carrying value of Gatwick airport's assets being greater than their expected recoverable amount less disposal costs at the time.

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7 Interest and similar items

	Year ended 31 December 2009	Restated Year ended 31 December 2008
	£m	£m
Interest receivable on derivatives not in hedge relationship	154.2	84.1
Interest receivable from other group undertakings	0.3	26.0
Interest on bank deposits	0.2	1.4
Interest receivable	154.7	111.5
Interest on borrowings		
Bonds and related hedging instruments	(332.5)	(115.7)
Bank loans and overdrafts and related hedging instruments	(313.3)	(150.5)
Interest payable on derivatives not in hedge relationship ¹	(98.5)	(95.0)
Facility fees	(26.8)	(12.7)
Interest on BAA (SP) Limited debenture	(86.8)	(145.2)
Interest payable to other group undertakings	(0.3)	(338.5)
Unwinding of discount on Terminal 5 land purchase and other provisions	(3.3)	(15.0)
Interest payable and similar charges	(861.5)	(872.6)
Interest capitalised	23.9	99.7
Interest payable and similar charges – ordinary	(837.6)	(772.9)
Interest payable and similar charges – exceptional²	-	(142.6)
Net interest payable before fair value (loss)/gain	(682.9)	(804.0)
Interest rate swaps: cash flow hedges ³	21.1	(24.1)
Interest rate swaps: not in hedge relationship	1.9	(26.0)
Cross-currency swaps: cash flow hedge ³	(12.0)	34.8
Index-linked swaps: not in hedge relationship ¹	(125.8)	123.3
Fair value re-measurements of foreign exchange contracts and currency balances	(2.6)	7.8
Fair value (loss)/gain on financial instruments	(117.4)	115.8
Total net interest payable and similar charges	(800.3)	(688.2)

¹ The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures for the inflation accretion on RPI swaps recognised in 'Interest payable on derivatives not in hedge relationship' from 'Index-linked swaps: not in hedge relationship'.

² Fees of £142.6 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 were 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 18.

³ Hedge ineffectiveness on derivatives in hedge relationship.

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 2.87% (2008: 6.92%) to expenditure incurred on such assets.

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8 Tax on profit on ordinary activities

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current tax		
Current tax (charge)/credit at 28% (2008: 28.5%)	(9.2)	43.2
Adjustments in respect to prior years	1.1	18.5
	(8.1)	61.7
Deferred tax		
Origination and reversal of timing differences	149.8	52.1
Adjustments in respect to prior years	(3.8)	9.3
Tax credit on loss on ordinary activities	137.9	123.1

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 28% (2008: 28.5%). The actual tax charge for the current period and prior period 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	821.9	324.2
Tax calculated at the UK statutory rate of 28% (2008: 28.5%)	230.1	92.4
Effect of:		
Permanent differences	(12.4)	3.2
Non taxable income	0.5	0.7
Depreciation for the year in excess of capital allowances	(88.6)	(114.3)
Capitalised interest	6.1	27.5
Loss on Gatwick disposal	(77.6)	-
Impact of change in tax rate	-	0.6
Other short term timing differences	(67.3)	33.1
Adjustments in respect of current tax of previous periods	1.1	18.5
Current tax (charge)/credit for the year	(8.1)	61.7

Other than the unprovided deferred tax discussed in Note 20, there are no items which would materially affect the future tax charge.

9 Dividends paid or proposed

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Equity dividends declared and paid during the year		
Interim dividends paid	-	704.7
	-	704.7

The Company paid an interim dividend of 13.4p per ordinary share, amounting to £704.7 million, on 18 August 2008. No dividends were declared or paid in 2009.

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10 Tangible fixed assets

	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Rail assets £m	Group occupied assets £m	Plant, equipment and other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation									
Balance 1 January 2009	2,693.3	113.7	8,466.4	1,298.5	1,356.9	93.9	586.9	1,588.6	16,198.2
Additions	-	-	4.1	0.2	-	-	4.0	911.4	919.7
Transfers to completed assets	22.4	-	808.6	31.3	4.6	7.4	106.7	(981.0)	-
Interest capitalised	-	-	-	-	-	-	-	23.9	23.9
Disposals	-	-	(163.7)	(3.3)	-	(0.7)	(11.0)	-	(178.7)
Disposal of operations	(609.5)	(3.6)	(1,345.2)	(194.0)	-	(22.0)	(133.4)	(185.2)	(2,492.9)
Reclassifications	12.6	(10.3)	3.4	(0.1)	-	16.1	-	(21.7)	-
Inter company transfers	-	-	-	-	-	-	2.7	-	2.7
Revaluation	(123.1)	(11.1)	-	-	-	-	-	-	(134.2)
Revaluation adjustment (refer Note 23)	-	-	(3.1)	-	-	7.0	-	-	3.9
Balance 31 December 2009	1,995.7	88.7	7,770.5	1,132.6	1,361.5	101.7	555.9	1,336.0	14,342.6
Depreciation									
Balance 1 January 2009	-	-	(2,386.4)	(289.6)	(210.1)	(28.4)	(373.6)	-	(3,288.1)
Charge	-	-	(409.3)	(43.7)	(41.1)	(4.7)	(71.9)	-	(570.7)
Impairment	-	-	(155.2)	(24.6)	-	(3.3)	(8.3)	(33.6)	(225.0)
Disposals	-	-	163.7	3.3	-	0.7	10.8	-	178.5
Disposal of operations	-	-	786.2	105.9	-	10.0	102.9	33.6	1,038.6
Inter company transfers	-	-	-	-	-	-	(2.1)	-	(2.1)
Balance 31 December 2009	-	-	(2,001.0)	(248.7)	(251.2)	(25.7)	(342.2)	-	(2,868.8)
Net book value 31 December 2009	1,995.7	88.7	5,769.5	883.9	1,110.3	76.0	213.7	1,336.0	11,473.8
Net book value 31 December 2008	2,693.3	113.7	6,080.0	1,008.9	1,146.8	65.5	213.3	1,588.6	12,910.1

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10 Tangible fixed 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 £2,072.6 million (2008: £2,794.8 million) and by Strutt & Parker, Chartered Surveyors at £11.8 million (2008: £12.2 million), resulting in a total valuation of £2,084.4 million (2008: £2,807.0 million). The decrease is primarily due to the disposal of Gatwick airport. 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 £134.2 million (2008: £190.0 million) has been recognised in the revaluation reserve.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, have been shown at cost less accumulated depreciation.

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £959.4 million (2008: £1,039.5 million). £23.9 million (2008: £99.7 million) has been capitalised in the period at a capitalisation rate of 2.87% (2008: 6.92%) based on a weighted average cost of borrowings.

Capitalised interest of £23.9 million (2008: £99.7 million) has been treated as tax deductible in the period. 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 £641.3 million (2008: £772.4 million).

BAA Group occupied properties

Group occupied properties are freehold except for certain short leasehold properties with a net book value at 31 December 2009 of £20.6 million (2008: £20.2 million).

Assets in the course of construction

Assets in the course of construction include £189.7 million (2008: £166.9 million) in respect of the development of a second runway and related infrastructure at Stansted, and £10.3 million in respect of a third runway and related infrastructure at Heathrow. With respect to Stansted, the costs consist of £83.3 million (2008: £79.4 million) incurred in relation to the planning application preparation and £106.4 million (2008: £87.5 million) in relation to the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. This includes a provision of £4.7 million (2008: £4.6 million) for additional payments once planning permission has been obtained. Costs capitalised in respect of the third runway at Heathrow relate solely to planning and development costs, with no purchases of domestic properties or land having yet taken place as at 31 December 2009. Assets in the course of construction also include the second satellite under construction for Terminal 5 (T5C), the remaining phases of the satellite building for Terminal 2 as well as Terminal 4 Extension and Terminal 3 refurbishments at Heathrow.

Land acquisition

Tangible fixed assets include £104.8 million (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.

Leased assets

The Group has assets rented to third parties under operating leases as follows:

	As at	As at
	31 December	31 December
	2009	2008
	£m	£m
Cost or valuation	2,784.6	3,464.4
Accumulated depreciation	(167.0)	(194.8)
Net book amount	2,617.6	3,269.6

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

BAA (SP) Limited

11 Stocks

	As at 31 December 2009 £m	As at 31 December 2008 £m
Raw materials and consumables	4.9	7.9

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.

12 Debtors: due within one year

	As at 31 December 2009 £m	Restated As at 31 December 2008 ¹ £m
Trade debtors	182.4	239.4
Prepayments	28.2	34.4
Other debtors	19.7	41.1
Amounts owed by group undertakings ²	36.5	59.0
Amounts owed by group undertakings – pensions ³	36.4	6.0
Group relief receivable	-	22.2
	303.2	402.1

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 largely relate to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports that will be remitted to the airports in due course. This amount is payable on demand and accrues interest at Bank of England base rate +1.5%.

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 Group's airports and HEX to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited.

13 Current asset investments

	As at 31 December 2009 £m	As at 31 December 2008 £m
Short term deposits	234.5	157.1

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: £40.1 million, £117.0 million and £nil respectively).

BAA (SP) Limited

14 Restricted cash

	As at 31 December 2009 £m	As at 31 December 2008 £m
Restricted cash	143.0	-

At 31 December 2009, £143.0 million of the proceeds from the sale of Gatwick airport were being held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. For more details regarding the Gatwick disposal refer to Note 6 Loss on disposal of Gatwick and Note 28 Disposal of subsidiary.

15 Cash at bank and in hand

	As at 31 December 2009 £m	As at 31 December 2008 £m
Cash at bank and in hand	4.0	25.0

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

16 Creditors: amounts falling due within one year

	As at 31 December 2009 £m	Restated As at 31 December 2008 ¹ £m
Deferred income	30.1	55.4
Interest accruals	154.0	170.6
Trade creditors ²	108.8	146.2
Corporation tax	18.6	9.7
Other tax and social security	6.3	9.1
Group relief payable	10.4	-
Other creditors	2.8	14.7
Amounts owed to group undertakings ³	0.5	38.7
Capital creditors	185.6	252.4
Borrowings (refer Note 18)	41.4	43.3
Derivative financial instruments (refer Note 19)	0.1	13.1
	558.6	753.2

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

² Trade creditors are non-interest bearing and are generally on 30-day terms.

³ Amounts owed to group undertakings largely relate to external payments made by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports.

BAA (SP) Limited

17 Creditors: amounts falling due after more than one year

	As at 31 December 2009 £m	Restated As at 31 December 2008 ¹ £m
Deferred income	4.6	7.4
Borrowings (refer Note 18)	10,488.6	11,364.3
Derivative financial instruments (refer Note 19)	337.7	653.1
	10,830.9	12,024.8

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

18 Borrowings

	As at 31 December 2009 £m	As at 31 December 2008 £m
Current borrowings		
Secured		
Bank loans – EIB	41.4	43.3
Total current borrowings	41.4	43.3
Non-current borrowings		
Secured		
Syndicated term facility	2,253.8	4,323.0
Capital expenditure facility	700.0	250.0
Bank loans – EIB	330.5	371.6
	3,284.3	4,944.6
Secured		
Bonds		
3.975% €1,000 million due 2012	841.8	893.2
5.850% £400 million due 2013	368.3	363.2
4.600% €750 million due 2014	612.7	656.3
12.450% £300 million due 2016	377.3	386.8
4.600% €750 million due 2018	582.2	627.7
9.200% £250 million due 2021	284.9	286.8
5.225% £750 million due 2023	611.5	605.5
6.750% £700 million due 2026	689.1	-
7.075% £200 million due 2028	197.4	197.3
6.450% £900 million due 2031	838.3	837.1
3.334%+RPI £235 million due 2039	235.0	-
	5,638.5	4,853.9
Unsecured		
BAA (SP) Limited debenture payable to BAA (SH) Limited	1,565.8	1,565.8
Total non-current borrowings	10,488.6	11,364.3
Total current and non-current borrowings	10,530.0	11,407.6

Syndicated term facility

The syndicated term facility has decreased during the year mainly due to the application of the proceeds from bond issues together with part of the proceeds from the sale of Gatwick airport in prepaying the facility.

BAA (SP) Limited

18 Borrowings (continued)

Bonds

The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two bond issues that generated proceeds of £923.7 million (net of issuance costs).

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

Fair value of borrowings	31 December 2009		31 December 2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Long term debt	10,488.6	10,821.4	11,364.3	10,231.6

The fair value of short-term borrowings approximates book value. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Securities and guarantees

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

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

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

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

Liquidity

As at 31 December 2009, the Group had cash and liquid resources of £238.5 million (2008: £182.1 million) and undrawn committed facilities of £2,050.0 million (2008: £2,500.0 million).

BAA (SP) Limited

19 Derivative financial instruments

2009	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts – no hedge accounting	9.5	0.3	(0.1)	0.2
Interest rate swaps – no hedge accounting	0.1	-	-	-
	9.6	0.3	(0.1)	0.2
Non-current				
Interest rate swaps – cash flow hedge	4,225.4	3.4	(165.8)	(162.4)
Cross-currency swaps – cash flow hedge	1,703.3	651.5	-	651.5
Index-linked swaps – no hedge accounting	2,205.9	28.1	(171.9)	(143.8)
	8,134.6	683.0	(337.7)	345.3
At 31 December 2009	8,144.2	683.3	(337.8)	345.5

Restated 2008 ¹	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts – no hedge accounting	45.3	7.6	(0.2)	7.4
Interest rate swaps – no hedge accounting	200.1	-	(12.9)	(12.9)
	245.4	7.6	(13.1)	(5.5)
Non-current				
Interest rate swaps – cash flow hedge	4,225.4	71.7	(341.3)	(269.6)
Cross-currency swaps – cash flow hedge	1,703.3	757.7	-	757.7
Index-linked swaps – no hedge accounting	2,205.9	131.1	(311.8)	(180.7)
	8,134.6	960.5	(653.1)	307.4
At 31 December 2008	8,380.0	968.1	(666.2)	301.9

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

Interest rate swaps

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

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

Cross-currency swaps

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

Foreign exchange contracts

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

Fair value of derivative financial instruments

The valuation technique used by the Group is a discounted cash flow methodology. In 2009, the Group has revisited the input data used in the discounted cash flow methodology to exclude the initial credit and execution costs. This change in estimates impacted the fair value of derivatives by a gain of £82.2 million with a corresponding entry in the profit and loss account within 'Fair value (loss)/gain on financial instruments'. This amount will be reversed through the profit and loss account over the life of the derivatives.

BAA (SP) Limited

20 Provisions for liabilities and charges

	Deferred taxation (a) £m	Obligations under land purchase (b) £m	Reorganisation costs (c) £m	Pension (d) £m	Disposal of operations (e) £m	Other (f) £m	Total £m
Balance 1 January 2009	393.0	110.5	27.7	17.1	-	5.9	554.2
Utilised	-	(1.8)	(18.3)	-	-	(1.4)	(21.5)
Charged to profit and loss account	-	-	-	217.8	34.8	24.5	277.1
Released to profit and loss account	(146.0)	-	(1.2)	-	-	-	(147.2)
Release of provision to tangible fixed assets	-	(74.2)	-	-	-	-	(74.2)
Charged to the statement of total recognised gains and losses for the year	85.5	-	-	-	-	-	85.5
Disposal of operations	(41.1)	-	-	(3.1)	-	(1.8)	(46.0)
Unwinding of discount charged and capitalised	-	3.0	-	-	-	0.3	3.3
Balance 31 December 2009	291.4	37.5	8.2	231.8	34.8	27.5	631.2

(a) Deferred taxation

Analysis of the deferred tax balances is as follows:

	As at 31 December 2009 £m	As at 31 December 2008 £m
Excess of capital allowances over depreciation	369.6	487.7
Other timing differences	(78.2)	(94.7)
	291.4	393.0
	Un-provided As at 31 December 2009 £m	Un-provided As at 31 December 2008 £m
Tax on chargeable gains if investment properties were sold at their current valuations	314.5	444.8
Tax on rolled over gains if replacement assets were sold at their current valuations	9.9	12.5
	324.4	457.3

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

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 for is £324.4 million (2008: £457.3 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

BAA (SP) Limited

20 Provisions for liabilities and charges (continued)

(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 Heathrow to the vendor by the end of January 2010 as discussed in further detail within Note 10 Tangible fixed assets.

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

	As at 31 December 2009 £m	As at 31 December 2008 £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 Group reorganisation programmes are for severance and pension payments only. All amounts are expected to be utilised in 2010.

(d) Pension

A provision of £231.8 million (2008: £17.1 million) is held in relation to pensions, representing the legal obligation the Group's airports and HEX have under the Shared Services Agreement to fund their share of BAA Airports Limited pension deficit and related pension liabilities. £216.1 million (2008: £nil) of the provision relates to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme. £15.7 million (2008: £17.1 million) is held for historical accumulated past service pension costs borne by 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.

(e) Disposal of operations

A provision of £34.8 million (2008: £nil) is held for costs associated with the disposal of Gatwick airport.

(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.

A provision of £4.7 million (2008: £4.6 million) is held for additional payments due under a compensation scheme once planning permission has been obtained for the second runway and related infrastructure at Stansted Airport.

BAA (SP) Limited

21 Called up share capital

	As at 31 December 2009 £	As at 31 December 2008 £
Authorised		
9,000,000,000 ordinary shares of £0.0019 each	17,100,000	17,100,000
Allotted and fully paid		
At 1 January 2009 - 5,273,555,178 ordinary shares of £0.0019 each	10,019,755	10,019,755
Issue of 260,000,000 ordinary shares of £0.0019 each	494,000	-
Issue of 22,629,685 ordinary shares of £0.0019 each	42,996	-
At 31 December 2009 - 5,556,184,863 ordinary shares of £0.0019 each	10,556,751	10,019,755

On 13 November 2009, the Company issued 260,000,000 ordinary shares of £0.0019 each, at £1.00 each to BAA (SH) Limited. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (AH) Limited.

A further 22,629,685 ordinary shares of £0.0019 each were issued at £1.00 each to BAA (SH) Limited on 4 December 2009. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (AH) Limited.

22 Share premium reserve

	£m
At 1 January 2009	-
Arising on issue on 13 November 2009	259.5
Arising on issue on 4 December 2009	22.5
At 31 December 2009	282.0

23 Revaluation reserve

	£m
At 1 January 2009	2,035.0
Transfer between reserves – profit and loss reserve (refer Note 26)	(0.6)
Revaluation adjustments	3.9
Unrealised loss on revaluation of investment properties	(134.2)
Realisation of revaluation reserve – Gatwick airport disposal	(461.7)
At 31 December 2009	1,442.4

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

24 Merger reserve

	£m
At 1 January 2009	(5,629.6)
Realisation of merger reserve – Gatwick airport disposal	1,094.0
At 31 December 2009	(4,535.6)

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25 Fair value reserve

	£m
At 1 January 2009	(320.1)
Cash flow hedges	
Fair value gains	305.1
Deferred tax on fair value gains	(85.5)
At 31 December 2009	(100.5)

26 Profit and loss reserve

	£m
At 1 January 2009	5,042.8
Loss for the year	(684.0)
Transfer between reserves – revaluation reserve (refer Note 23)	0.6
Realisation of profit and loss reserves – Gatwick airport disposal	(632.3)
At 31 December 2009	3,727.1

With the disposal of Gatwick airport, £632.3 million of profit and loss reserves were realised due to £1,094.0 million of merger reserves offset by revaluation losses of £461.7 million.

27 Acquisition of subsidiary

On 7 August 2008 Heathrow airport acquired, from BAA Airports Limited, a fellow group company, the ownership of Heathrow Express Operating Company Limited ('HEX') at the deemed fair market value of £3.8 million, equivalent to the net book value of HEX. The purchase consideration was settled in cash.

As a result of the management contract between the two entities, rail income and associated costs, and the management re-charge from HEX were already recognised in the financial statements of Heathrow and the Group. Therefore, the only impact subsequent to acquisition is the elimination of the management re-charge which is equivalent to 10% of the costs incurred in HEX. The elimination of the HEX management charge from the date of acquisition to 31 December 2008, increased the operating profit of the Group by £3.5 million.

BAA (SP) Limited

28 Disposal of subsidiary

Disposal of Gatwick airport

	Year ended 31 December 2009 £m
Tangible fixed assets	1,679.3
Stocks	3.3
Debtors: due within one year	35.2
Cash at bank and in hand	39.0
Creditors: amounts falling due within one year	(86.6)
Creditors: amounts falling due after more than one year	(1.5)
Provisions for liabilities and charges	(46.0)
Net assets disposed	1,622.7
Add disposal costs	73.2
Carrying value of disposed operations	1,695.9
Consideration satisfied by cash	(1,418.6)
Loss on disposal of Gatwick	(277.3)

For more details regarding the Gatwick disposal refer to Note 6 Loss on disposal of Gatwick.

Gatwick Airport Limited contributed £170.3 million to the net operating cash flows, paid £6.1 million in respect of net returns on investments and servicing of finance and paid £24.9 million in respect of taxation.

29 Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £264.7 million at 31 December 2009 (2008: £325.5 million).

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 Group. 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 Group may be obligated to settle its share of these amounts in the future, 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.

30 Commitments

Non-cancellable operating lease commitments – Group as a lessee

Annual commitments under non-cancellable operating leases expiring:

	As at 31 December 2009		As at 31 December 2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.2	0.1	1.7	0.5
Within two to five years	1.5	1.1	2.9	1.3
After five years	9.9	54.4	9.8	43.9
	11.6	55.6	14.4	45.7

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

BAA (SP) Limited

30 Commitments (continued)

Non-cancellable operating lease commitments – Group as a lessee (continued)

A significant portion of the £55.6 million (2008: £45.7 million) operating lease commitments classified as 'Other' relate to electricity supply equipment at the airports leased under an agreement with London Electricity Supply. The lease has 74 years remaining.

Electricity supply contract

The Group has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Group until March 2012. Such commitments are for the normal purchase, sale or usage and hence are accounted as ordinary purchase contracts. At 31 December 2009 the estimated minimum commitment for the future purchase of electricity under this contract totalled £131.0 million (2008: £181.0 million).

Group commitments for capital expenditure

	As at 31 December 2009 £m	As at 31 December 2008 £m
Contracted for, but not accrued:		
Heathrow Airport - Terminal 5C	105.5	6.5
Heathrow Airport - Terminal 2A Building	10.9	-
Heathrow Airport - Northwest stands and taxi lanes	9.5	-
Heathrow Airport - Terminal 2B Phase 2	7.5	-
Heathrow Airport - Eastern Apron	5.6	5.9
Heathrow Airport - Terminal 4 airline relocations	2.9	5.6
Heathrow Airport - Terminal 2B North East Stands	-	5.4
Heathrow Airport - Post Terminal 5 transfer	-	15.8
Gatwick Airport - Landside Inter Terminal Transit System	-	14.3
	141.9	53.5
Other projects	29.8	70.9
	171.7	124.4

The figures in the above table are contractual commitments to purchase goods and services at balance sheet date. The Group has in place long-term capital expenditure programmes at its airports. The Group's submission to the CAA in respect of quinquennium 5 included capital expenditure for Heathrow is £4,542 million (in 2007/08 prices). In line with commitments with the regulator, capital expenditure expected for Heathrow during 2010 amounts to £1,004.1 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project. The capital programme included in Stansted's current price determination foresees total investment of £125 million until the end of March 2014. Capital expenditure expected for Stansted during 2010 amounts to £39.6 million.

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

In relation to the development of a second runway at Stansted, at 31 December 2009 the Group has capitalised costs, within runway development costs are £83.3 million in relation to planning application preparation and £106.4 million in respect of the purchase of domestic properties and land under voluntary schemes for those people living near Stansted Airport whose homes will be affected by the airport expansion under voluntary schemes (the Home Value Guarantee Scheme (HVGS), the Home Owners Support Scheme and the Special Cases Scheme). The current estimate of the net cost of the blight compensation schemes is up to £110.0 million. Total value to 31 December 2009 is £106.4 million (2008: £87.5 million), including a £4.7 million provision for additional payments which will become due once planning permission is obtained for the second runway.

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

BAA (SP) Limited

30 Commitments (continued)

Group commitments for capital expenditure (continued)

These schemes were the subject of extensive public consultation by BAA. The terms and conditions of the scheme were published by Heathrow Airport Limited in 2005. The intention at that time was to “trigger” access to the schemes when BAA announced its intention to submit a planning application for the third runway. Following the January 2009 Government announcement confirming policy support for a third runway, the BAA Board decided to allow home owners covered by PMSB to sell their properties under the scheme for one year. The current estimate for the cost of the PMSB is up to £300.0 million. As at 31 December 2009, no properties have been acquired under the scheme.

The Group is also required by the Government to offer noise mitigation measures relating to existing airport activities. Based on the Group’s evaluation, payments under current noise schemes are estimated at £31.0 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 Group 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 Group’s airports. The regime commits the Group to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62.0 million, over the five years from 2008. The Government is expected to consult on proposals for the post 2012 night flights regime during 2010. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

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

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

Other commitments

In July 2008, the Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute £70.0 million per annum for a period of three years ending 31 December 2011. The Group expects to contribute its share of this amount to the pension plan in the year ending 31 December 2010.

BAA (SP) Limited

31 Notes to the consolidated cash flow statement

(a) Net cash inflow from operating activities

	Year ended 31 December 2009 £m	Restated Year ended 31 December 2008 ¹ £m
Continuing operations		
Operating profit	160.6	260.0
<i>Adjustments for:</i>		
Depreciation (including exceptional depreciation)	507.3	463.5
(Gain)/loss on disposal of fixed assets	(0.1)	0.8
<i>Working capital changes:</i>		
Decrease/(increase) in stock and debtors	16.6	(137.2)
(Decrease)/increase in creditors	(71.0)	73.1
Increase in provisions	2.9	5.0
Difference between pension charge and cash contributions	186.0	16.3
Net cash inflow from continuing operations	802.3	681.5
Discontinued operations		
Operating profit	95.1	104.0
<i>Adjustments for:</i>		
Depreciation	63.4	64.4
<i>Working capital changes:</i>		
Decrease/(increase) in stock and debtors	31.7	(19.7)
(Decrease)/increase in creditors	(17.1)	4.5
Decrease in provisions	(1.1)	(13.6)
Difference between pension charge and cash contributions	(1.7)	5.3
Net cash inflow from discontinued operations	170.3	144.9
Total net cash inflow from operating activities	972.6	826.4

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

(b) Reconciliation in net debt

	As at 1 January 2009 £m	Cash flow £m	Other non- cash changes £m	Fair value movements £m	As at 31 December 2009 £m
Cash at hand and in bank	25.0	(21.0)	-	-	4.0
Debt due within one year	(43.3)	1,043.3	(1,041.4)	-	(41.4)
Debt due after more than one year	(11,364.3)	(257.1)	957.2	175.6	(10,488.6)
Liquid resources	157.1	77.4	-	-	234.5
Net debt	(11,225.5)	842.6	(84.2)	175.6	(10,291.5)

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

BAA (SP) Limited

31 Notes to the consolidated cash flow statement (continued)

(c) Major non-cash transactions

As part of the refinancing in August 2008, non-cash transactions included the settlement of the outstanding intercompany debt and the novation of bonds and related derivatives into the Group. The consideration for the purchase of BAA (AH) Limited was satisfied by the issuance of share capital and the BAA SP debenture. Refer to the Note 1 Accounting policies – basis of consolidation for further detail.

32 Cash flow relating to exceptional items

Operating cash flows include under continuing operations an outflow of £18.3 million (2008: £8.0 million) for re-organisation costs and £nil million (2008: £21.8 million) for Terminal 5 operational readiness costs.

33 Ultimate parent undertaking and controlling party

The immediate parent undertaking is BAA (SH) 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 Group's results are also included in the audited consolidated financial statements of BAA (SH) 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 Limited and FGP Topco Limited for the year ended 31 December 2009.

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

34 Subsidiaries

The Company's subsidiaries are as follows:

Holding companies

BAA (AH) Limited

Airport owners and operators

Heathrow Airport Limited †

Stansted Airport Limited †

Other

BAA Funding Limited #

Heathrow Express Operating Company Limited †

Heathrow Airport Communities Insulation Board Limited †

† Held by a subsidiary undertaking

Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom. All subsidiaries of BAA (SP) Limited are consolidated within the Group.

35 Post balance sheet events

In January 2010, the £500 million equity injection announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares to BAA (SH) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share. The proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares in BAA (AH) Limited with a nominal value of £0.0015 each and at a premium of £0.9985 per ordinary share.

BAA (SP) Limited

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

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

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

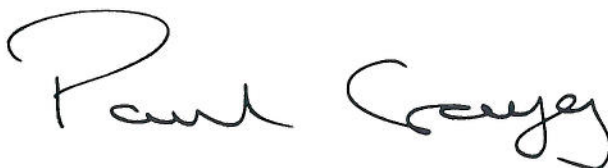
Matters on which we are required to report by exception

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

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

Other matter

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



Paul Cragg (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 February 2010

BAA (SP) Limited

Company balance sheet at 31 December 2009

	Note	31 December 2009 £m	Restated 31 December 2008 ¹ £m
Fixed assets			
Investments in subsidiaries	3	5,828.2	6,873.6
Current assets			
Debtors: due within one year	4	34.1	25.0
: due after more than one year	4	600.0	-
Cash at bank and in hand		-	23.0
		634.1	48.0
Creditors: amounts falling due within one year	5	(30.4)	(566.9)
Net current assets/(liabilities)		603.7	(518.9)
Total assets less current liabilities		6,431.9	6,354.7
Creditors: amounts falling due after more than one year	6	(2,565.3)	(1,906.3)
Net assets		3,866.6	4,448.4
Capital and reserves			
Called up share capital	7	10.6	10.0
Share premium reserve	8	282.0	-
Profit and loss reserve	9	3,574.0	4,438.4
Total shareholder's funds		3,866.6	4,448.4

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

The financial statements set out on pages 59 to 65 were approved by the Board of directors and authorised for issue on 22 February 2010 and signed on behalf of the Board.



José Leo
Director



Frederick Maroudas
Director

BAA (SP) Limited

Notes to the financial statements

1 Accounting policies

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

Basis of preparation

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

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

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

Turnover

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

Interest

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

Investments in subsidiaries

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

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

Debtors

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

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Borrowings

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

Current and deferred taxation

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

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

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

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

BAA (SP) Limited

1 Accounting policies (continued)

Dividend distribution

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

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.

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 (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. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are related to, or part of the FGP Topco Limited group.

2 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The loss of the Company for the year attributable to shareholders was £864.4 million (2008: loss of £120.5 million).

3 Investments in subsidiaries

	£m
Balance at 1 January 2009 at cost	6,873.6
Additions	282.6
Impairment	(1,328.0)
At 31 December 2009	5,828.2

On 13 November 2009 and 4 December 2009, the Company injected additional share capital of £260.0 million and £22.6 million respectively in BAA (AH) Limited.

During the year ended 31 December 2009, there was an impairment charge of £1,328.0 million, resulting from the Directors' review of the carrying value of the investments in subsidiaries.

The Company's subsidiaries are as follows:

Holding companies

BAA (AH) Limited

Airport owners and operators

Heathrow Airport Limited†

Stansted Airport Limited†

BAA (SP) Limited

3 Investments in subsidiaries (continued)

Other

BAA Funding Limited[#]

Heathrow Express Operating Company Limited[†]

Heathrow Airport Communities Insulation Board Limited [†]

[†] Held by a subsidiary undertaking

[#] Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom.

On 3 December 2009, the BAA Group sold Gatwick for cash consideration of £1,445.0 million and deferred consideration of up to £55.0 million conditional on future traffic performance and the acquirer's future capital structure.

The investment in Gatwick Airport Limited was held by a subsidiary undertaking of the Company. Further details regarding the disposal are disclosed within the accounts of BAA (SP) Limited and BAA (AH) Limited.

4 Debtors

	As at 31 December 2009 £m	As at 31 December 2008 £m
Due within one year:		
Amounts owed by group undertakings - interest receivable	2.5	-
Group relief receivable	31.6	25.0
	34.1	25.0
Due after more than one year:		
Amounts owed by group undertakings - interest bearing ¹	600.0	-
	634.1	25.0

¹ Amounts owed by group undertakings represents a £600.0 million loan to Stansted Airport Limited attracting floating rate interest based on a 6 month LIBOR + 6.73% margin as at 31 December 2009. The loan is repayable on demand, however as there is no intention of the Company to do so, it is classified as non-current.

5 Creditors: amounts falling due within one year

	As at 31 December 2009 £m	As at 31 December 2008 £m
Amounts owed to group undertakings - interest payable	30.4	82.2
Amounts owed to group undertakings - interest bearing ¹	-	484.7
	30.4	566.9

¹ The loan payable to Gatwick Airport Limited was repaid in full on the disposal of this entity in December 2009.

BAA (SP) Limited

6 Creditors: amounts falling due after more than one year

	As at 31 December 2009 £m	As at 31 December 2008 £m
Amounts owed to group undertakings - interest bearing ¹	999.5	340.5
Debenture payable to BAA (SH) Limited ²	1,565.8	1,565.8
	2,565.3	1,906.3

¹ Amounts owed to group undertakings in 2009 represent a £316.9 million loan payable to Stansted Airport Limited and a £682.6 million loan payable to Heathrow Airport Limited. All loans have a fixed interest rate of 7.57% and are repayable on demand, however management do not expect this balance will be called upon within 12 months from 31 December 2009 resulting in its classification as non-current.

² The current balance payable by the Company to BAA (SH) Limited is used to fund interest up to BAA (SH) Limited to pay the external interest on the Subordinated Facility owed by that company. The interest on the Debenture is set at 0.01% above the rate of the Subordinated Facility. As at 31 December 2009, the rate on the debenture was 4.57%. The debenture has a final redemption date of May 2011.

The fair value of the Company borrowings approximates their book value:

Fair value of borrowings	31 December 2009		31 December 2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Long-term debt	2,565.3	2,565.3	1,906.3	1,906.3

7 Share capital

	£
Authorised	
At 1 January 2009 and 31 December 2009: 9,000,000,000 ordinary shares of £0.0019 each	17,100,000
Called up, allotted and fully paid	
In issue at 1 January 2009: 5,273,555,178 ordinary shares of £0.0019 each	10,019,755
Issue of 260,000,000 ordinary shares of £0.0019 each	494,000
Issue of 22,629,685 ordinary shares of £0.0019 each	42,996
In issue at 31 December 2009: 5,556,184,863 ordinary shares of £0.0019 each	10,556,751

On 13 November 2009, the company issued 260,000,000 ordinary shares of £0.0019 each, at £1.00 each to BAA (SH) Limited. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (AH) Limited.

A further 22,629,685 ordinary shares of £0.0019 were issued at £1.00 each to BAA (SH) Limited on 4 December 2009. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (AH) Limited.

BAA (SP) Limited

8 Share premium reserve

	£m
Balance at 1 January 2009	-
Arising on issue of 13 November 2009	259.5
Arising on issue of 4 December 2009	22.5
Balance at 31 December 2009	282.0

The premium on shares issued in the year arose on the issue of 260,000,000 ordinary shares on 13 November 2009 at £1.00 each with a par value of £0.0019 each and again on the issue of 22,629,685 ordinary shares on 4 December 2009 at £1.00 each with a par value of £0.0019 each.

9 Profit and loss reserve

	£m
Balance at 1 January 2009	4,438.4
Loss for the financial year	(864.4)
Balance at 31 December 2009	3,574.0

10 Dividends paid and proposed

Details of dividends paid for the year are provided in Note 9 of the BAA (SP) Limited Group financial statements.

11 Auditors' remuneration

Auditors' remuneration paid to PricewaterhouseCoopers LLP for the performance of the statutory audit amounted to £20,000 (2008: £20,000).

Details of fees for other services are provided in Note 3 of the BAA (SP) Limited Group financial statements.

12 Employee information and Directors' remuneration

Employee numbers

The Company has no employees.

Directors' remuneration

None of the directors who served BAA (SP) Limited during the year received emoluments from the Company.

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

Further details of directors' remuneration for the year are provided in Note 4 of the BAA (SP) Limited Group financial statements.

BAA (SP) Limited

13 Ultimate parent undertaking

The immediate parent undertaking is BAA (SH) 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 Ferrovia 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 Ferrovia 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 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 and BAA (SH) Limited may be obtained by writing to the Company Secretary at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

14 Post balance sheet events

In January 2010, the £500 million equity injection announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares to BAA (SH) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share. The proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares in BAA (AH) Limited with a nominal value of £0.0015 each and at a premium of £0.9985 per ordinary share.

Registered office

BAA (SP) Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England No. 6458621