

# News Release

22 February 2010

## BAA (SP) Limited

### Results for the year ended 31 December 2009

BAA (SP) Limited owns BAA's two London airports of Heathrow and Stansted. Throughout this document, BAA (SP) Limited and its subsidiaries are referred to as the Group.

- **Adjusted EBITDA up 17.1% driven by increased revenues and strong cost control**
- **Revenues up 8.3% reflecting resilient traffic, higher tariffs and strong retail performance**
- **Passenger traffic down 3.8% at 85.9 million; Heathrow's 1.5% fall outperformed competitors**
- **Improved operational performance with higher service standards, including better punctuality**
- **£1.5 billion sale of Gatwick completed on 3 December 2009**
- **DfT's recent announcement on regulation removes key uncertainties for airport investment**
- **£500 million equity injection strengthens the Group's long term financial profile**
- **Return to bond markets for first time since 2006 raising over £900 million including the largest inflation-linked bond issued by any corporate since 2007**
- **£2.1 billion bank debt repayment means no significant debt maturities in 2010**
- **Pre-tax loss of £821.9 million after approximately £665 million of non-cash charges including:**
  - **£217.8 million exceptional item relating to increased pension scheme deficits**
  - **£277.3 million in losses related to the sale of Gatwick**
  - **£117.4 million of fair value losses on financial instruments**

At or for year ended 31 December	2009	2008	Change (%)
<i>(figures in £m unless otherwise stated)</i>			
Revenues <sup>(1)</sup>	1,977.6	1,826.5	8.3
Adjusted EBITDA <sup>(1)(2)</sup>	885.2	756.2	17.1
Cash generated from operations <sup>(1)</sup>	802.3	681.5	17.7
Adjusted pre-tax loss <sup>(3)</sup>	(156.5)	(189.6)	17.5
Pre-tax loss	(821.9)	(324.2)	(153.5)
Net debt <sup>(4)</sup>	8,579.0	9,426.0	(9.0)
Regulatory Asset Base	11,743.9	12,470.2	(5.8)
Passengers (m)	85.9	89.2	(3.8)
Net retail income per passenger	£4.72	£4.45	6.1

(1) Figures are for continuing operations only, i.e. excluding Gatwick

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

(3) Adjusted pre-tax loss is before exceptional items, fair value adjustments and the loss on disposal of Gatwick

(4) Nominal value of net debt excluding intra-BAA group loans and restricted cash and including index-linked derivative accretion

Colin Matthews, Chief Executive Officer of BAA, said:

"BAA made substantial progress in 2009, against a difficult economic backdrop. We sold Gatwick airport, returned to the debt capital markets and our future regulation is clearer. Our operational performance is improving and we will invest more than £1 billion this year to upgrade our airports.

Our financial performance remains resilient, especially at Heathrow, which benefits from its position as the UK's only hub airport, higher retail spending by passengers and strong cost control.

We expect 2010 to present further economic challenges for the industry as a whole, and we will remain focused on improving our efficiency and the service we offer customers."

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There will be a conference call today at 9.30 am (UK time) for bondholders and bank lenders to the Group, participants in BAA (SH) Limited's subordinated debt facility and credit analysts to discuss the results for the year ended 31 December 2009. The call will be hosted by Colin Matthews and Jose Leo, BAA's Chief Executive Officer and Chief Financial Officer respectively. Dial-in details for the call are: Conference ID: 54015620; UK free phone: 0800 694 8016; UK local/standard international: +44 (0)1452 557535. It will also be possible to view online the presentation as it is used during the call at:

<https://www.livemeeting.com/cc/webconnect/join?id=7RP23M&role=attend>

(to access this site you may need to use the meeting ID: 7RP23M)

## BAA (SP) Limited

### Results for the year ended 31 December 2009

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#### 1. Basis of presentation of results

The commentary on operating and financial performance in this document focuses, unless otherwise indicated, on the Group's continuing businesses at Heathrow and Stansted reflecting the completion on 3 December 2009 of the sale of Gatwick airport. This enables a more meaningful comparison of performance between 2008 and 2009 and provides an appropriate basis for assessing performance as 2010 progresses.

The financial results of Gatwick for the period to 3 December 2009 are included within discontinued operations in the financial information set out in Appendix 1.

#### 2. Key business developments

##### 2.1 Passenger traffic

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

<i>(figures in millions unless otherwise stated)</i>	<b>2009</b>	2008	Change (%) <sup>(1)</sup>
<b>Passengers by airport</b>			
Heathrow	<b>65.9</b>	66.9	(1.5)
Stansted	<b>20.0</b>	22.3	(10.7)
<b>Passengers by market served</b>			
UK	<b>7.2</b>	7.9	(9.6)
Europe <sup>(2)</sup>	<b>43.5</b>	46.1	(5.6)
Long haul	<b>35.2</b>	35.2	(0.2)
<b>Total passengers<sup>(1)</sup></b>	<b>85.9</b>	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).

## 2.2 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. 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.

### 2.2.1 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.

### 2.2.2 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.

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.

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.

### 2.3 Gatwick disposal

On 3 December 2009, BAA 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.

### 2.4 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.

### 2.5 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.

### **3 Financial review**

#### **3.1 Basis of preparation**

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'). 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. Consolidated financial information is set out in Appendix 1 in which Gatwick is treated as a discontinued operation given its sale.

In the year ended 31 December 2009, the period covered by this financial 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 in sections 3.2.2 to 3.2.6 focuses on the Group's continuing operations excluding Gatwick.** A detailed analysis of turnover and operating costs both by airport and activity for continuing operations is set out in Appendix 2.

#### **3.2 Profit and loss account**

##### **3.2.1 Introduction**

The profit and loss account below provides more detailed disclosure than the statutory format in Appendix 1 in order to provide a better understanding of the results of the Group's continuing operations.

<i>Year ended 31 December</i>	<b>2009</b> £m	2008 £m
<b>Group turnover – total</b>	<b>2,417.9</b>	2,291.9
Group turnover – discontinued operations	<b>(440.3)</b>	(465.4)
<b>Group turnover – continuing operations</b>	<b>1,977.6</b>	1,826.5
Adjusted Operating Costs – continuing operations <sup>(1)</sup>	<b>(1,092.4)</b>	(1,070.3)
<b>Adjusted EBITDA – continuing operations<sup>(2)</sup></b>	<b>885.2</b>	756.2
Operating costs – exceptional – pensions – continuing operations <sup>(3)</sup>	<b>(217.8)</b>	(13.9)
Operating costs – exceptional – other – continuing operations <sup>(3)</sup>	<b>0.5</b>	(18.8)
<b>EBITDA – continuing operations</b>	<b>667.9</b>	723.5
Depreciation – ordinary – continuing operations	<b>(452.7)</b>	(379.9)
Depreciation – exceptional – continuing operations <sup>(3)</sup>	<b>(54.6)</b>	(83.6)
<b>Operating profit – continuing operations</b>	<b>160.6</b>	260.0
Operating profit – discontinued operations	<b>95.1</b>	104.0
<b>Operating profit – total</b>	<b>255.7</b>	364.0
<b>Loss on disposal of Gatwick airport – discontinued operations</b>	<b>(277.3)</b>	-
Net interest payable and similar charges – ordinary	<b>(682.9)</b>	(661.4)
Net interest payable and similar charges – exceptional	-	(142.6)
Fair value (loss)/gain on financial instruments	<b>(117.4)</b>	115.8
Total net interest payable and similar charges	<b>(800.3)</b>	(688.2)
<b>Loss on ordinary activities before taxation</b>	<b>(821.9)</b>	(324.2)
<b>Tax credit on loss on ordinary activities</b>	<b>137.9</b>	123.1
<b>Loss on ordinary activities after taxation</b>	<b>(684.0)</b>	(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

(3) See section 3.2.5 for further discussion of exceptional items

### 3.2.2 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 sections 3.2.2.1 and 3.2.2.3), turnover increased 5.3% to £1,929.9 million.

<b>Continuing operations</b> <i>Year ended 31 December</i>	<b>2009</b> £m	2008 £m	Change (%)
Aeronautical income	<b>1,092.7</b>	980.4	11.5
Retail income	<b>439.5</b>	419.3	4.8
Other income	<b>445.4</b>	426.8	4.4
<b>Total turnover</b>	<b>1,977.6</b>	1,826.5	8.3

#### 3.2.2.1 Aeronautical income

Aeronautical income by airport

<b>Continuing operations</b> <i>Year ended 31 December</i>	<b>2009</b> £m	2008 £m	Change (%)
Heathrow	<b>960.7</b>	835.3	15.0
Stansted	<b>132.0</b>	145.1	(9.0)
<b>Total</b>	<b>1,092.7</b>	980.4	11.5

Aeronautical income increased 11.5% to £1,092.7 million (2008: £980.4 million). This 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%.

### 3.2.2.2 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. This performance was based on gross retail income of £439.5 million (2008: £419.3 million) and net retail income of £404.9 million (2008: £396.8 million).

Net retail income per passenger by airport

<b>Continuing operations</b> <i>Year ended 31 December</i>	<b>2009</b>	2008	Change (%) <sup>(1)</sup>
Heathrow	<b>£4.93</b>	£4.62	6.7
Stansted	<b>£4.00</b>	£3.92	2.0
<b>Total<sup>(1)</sup></b>	<b>£4.72</b>	£4.45	6.1

(1) These figures have been calculated using un-rounded numbers

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 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 in section 2.1.

### 3.2.2.3 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%.

### 3.2.3 Adjusted Operating Costs

Adjusted Operating Costs exclude depreciation and exceptional items. Appendix 2 provides a detailed analysis of Adjusted Operating Costs by both airport and activity. 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 right hand column of the table below.



<b>Continuing operations</b>	<b>2009</b>	<b>2008</b>
<i>Year ended 31 December</i>	<b>£m</b>	<b>£m</b>
Employment costs	<b>290.9</b>	340.5
Maintenance expenditure	<b>147.3</b>	133.9
Utility costs	<b>125.5</b>	93.4
Rents and rates	<b>128.9</b>	104.9
General expenses	<b>235.5</b>	228.7
Retail expenditure	<b>34.6</b>	22.5
Intra-group charges/other	<b>129.7</b>	146.4
<b>Total</b>	<b>1,092.4</b>	<b>1,070.3</b>

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 sections 3.2.2.1 and 3.2.2.3). 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 in 2009 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.

#### **Continuing operations**

*Figures in £m unless otherwise stated*

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)
2009 underlying Adjusted Operating Costs	1,052.1
2008 reported Adjusted Operating Costs	1,070.3
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.

#### 3.2.4 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.

### 3.2.5 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.

### 3.2.6 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) referred to in section 3.2.5. A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

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

### 3.2.7 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.

### 3.2.8 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%).

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.

### 3.3 Cash flow

#### 3.3.1 Summary cash flow

<i>Year ended 31 December</i>	<b>2009</b>	2008
	<b>£m</b>	£m
Net cash inflow from operating activities - continuing operations	<b>802.3</b>	681.5
Net cash inflow from operating activities - discontinued operations	<b>170.3</b>	144.9
Net cash inflow from operating activities - total	<b>972.6</b>	826.4
Net interest paid	<b>(512.9)</b>	(100.8)
Taxation – Group relief	<b>24.0</b>	21.0
Cash flow after interest and tax	<b>483.7</b>	746.6
Net capital expenditure	<b>(1,002.8)</b>	(1,031.7)
Disposal of Gatwick Airport Limited (net)	<b>1,379.6</b>	-
Acquisition of Heathrow Express Operating Company Limited	<b>-</b>	(3.8)
Net cash inflow/(outflow) before management of liquid resources and financing	<b>860.5</b>	(288.9)
Management of liquid resources	<b>(77.4)</b>	(157.0)
Derivative interest prepayment	<b>(114.2)</b>	-
Cancellation of derivatives	<b>(43.3)</b>	-
Proceeds of equity issue	<b>282.6</b>	-
Other financing flows	<b>(929.2)</b>	470.9
<b>(Decrease)/increase in cash</b>	<b>(21.0)</b>	25.0

#### 3.3.2 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.

#### 3.3.3 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.

### 3.4 Financing

#### 3.4.1 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 (see section 3.4.2) offset partially by capital investment in the Group's airports.

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.

### 3.4.2 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.

### 3.4.3 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 <sup>(1)</sup> £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 in section 3.4.5.

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.

#### 3.4.4 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.

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.

#### 3.4.5 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 cashflow 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.

#### 3.5 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, Adjusted EBITDA and cash flow.

## Appendix 1 – Financial information

### BAA (SP) Limited

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

	Year ended 31 December 2009 £m	Restated Year ended 31 December 2008 <sup>1</sup> £m
Turnover – continuing operations	1,977.6	1,826.5
Turnover – discontinued operations	440.3	465.4
<b>Total turnover</b>	<b>2,417.9</b>	<b>2,291.9</b>
Operating costs – ordinary	(1,891.5)	(1,820.1)
Operating costs – exceptional: pensions	(217.8)	(17.1)
Operating costs – exceptional: other	(52.9)	(90.7)
Total operating costs	(2,162.2)	(1,927.9)
Operating profit – continuing operations	160.6	260.0
Operating profit – discontinued operations	95.1	104.0
<b>Total operating profit</b>	<b>255.7</b>	<b>364.0</b>
Loss on disposal of Gatwick airport – discontinued operations	(277.3)	-
Interest receivable	154.7	111.5
Interest payable and similar charges – ordinary	(837.6)	(772.9)
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)
<b>Loss on ordinary activities before taxation</b>	<b>(821.9)</b>	<b>(324.2)</b>
Tax credit on loss on ordinary activities	137.9	123.1
<b>Loss on ordinary activities after taxation</b>	<b>(684.0)</b>	<b>(201.1)</b>

<sup>1</sup> 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 balance sheet**  
**as at 31 December 2009**

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

<sup>1</sup> 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 summary cash flow statement for the year ended 31 December 2009

	Year ended 31 December 2009	Restated Year ended 31 December 2008 <sup>1</sup>
	£m	£m
Operating profit – continuing operations	160.6	260.0
<i>Adjustments for:</i>		
Depreciation (including exceptional depreciation)	507.3	463.5
(Gain)/loss on disposal of tangible 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
Decrease in provisions	2.9	5.0
Difference between pension charge and cash contributions	186.0	16.3
<b>Net cash inflow from operating activities – continuing</b>	<b>802.3</b>	<b>681.5</b>
<b>Net cash inflow from operating activities – discontinued</b>	<b>170.3</b>	<b>144.9</b>
Net interest paid	(512.9)	(100.8)
Taxation - Group relief	24.0	21.0
Net capital expenditure	(1,002.8)	(1,031.7)
Disposal of Gatwick Airport Limited	1,418.6	-
Cash transferred on disposal of Gatwick Airport Limited	(39.0)	-
Acquisition of Heathrow Express Operating Company Limited	-	(3.8)
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>	<b>860.5</b>	<b>(288.9)</b>
Management of liquid resources	(77.4)	(157.0)
Prepayment of derivative interest	(114.2)	-
Cancellation of derivatives	(43.3)	-
Issuance of ordinary share capital	282.6	-
Other financing flows	(929.2)	470.9
<b>(Decrease)/increase in net cash</b>	<b>(21.0)</b>	<b>25.0</b>

<sup>1</sup> 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 consolidated financial statements for the year ended 31 December 2009**

#### **1. General information**

The financial information set out herein does not constitute the Company's statutory financial statements for the year ended 31 December 2009. The annual financial information presented in this announcement for the year ended 31 December 2009 is based on, and is consistent with, that in BAA (SP) Limited's ('the Group') audited financial statements for the year ended 31 December 2009. The auditor's report on the 2009 financial statements is unqualified.

#### **Basis of preparation**

This financial information has 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).

#### **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, consolidated cash flow summary 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'.

#### **Basis of consolidation**

During 2008 the Group was formed as part of the reorganisation and re-financing of the wider BAA group. Merger accounting has been applied in relation to the group reorganisation.

## 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 31 December 2009 £m	Restated Year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Restated Year ended 31 December 2008 £m	31 December 2009 £m	Restated 31 December 2008 <sup>1</sup> £m
<b>Continuing operations</b>						
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 <sup>2</sup>	-	-	5.5	3.9	(1,789.7)	(2,349.5)
Other adjustments <sup>3</sup>	-	-	-	-	(0.2)	(0.3)
	<b>1,977.6</b>	<b>1,826.5</b>	<b>160.6</b>	<b>260.0</b>	<b>826.0</b>	<b>200.3</b>
<b>Discontinued operations</b>						
Gatwick	440.3	465.4	95.1	104.0	-	937.8
<b>Total</b>	<b>2,417.9</b>	<b>2,291.9</b>	<b>255.7</b>	<b>364.0</b>	<b>826.0</b>	<b>1,138.1</b>

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

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

<sup>3</sup> 'Other adjustments' relate to the elimination of inter-company transactions and consolidation adjustments.

## 2. Segment information (continued)

### 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.

Year ended 31 December 2009	Adjusted EBITDA £m	Exceptional items £m	Depreciation <sup>1</sup> £m	Operating profit £m
<b>Continuing operations</b>				
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
	<b>885.2</b>	<b>(271.9)</b>	<b>(452.7)</b>	<b>160.6</b>
<b>Discontinued operations</b>				
Gatwick	157.3	1.2	(63.4)	95.1
<b>Total</b>	<b>1,042.5</b>	<b>(270.7)</b>	<b>(516.1)</b>	<b>255.7</b>

Year ended 31 December 2008 <sup>2</sup>	Adjusted EBITDA £m	Exceptional items £m	Depreciation <sup>1</sup> £m	Operating profit £m
<b>Continuing operations</b>				
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
	<b>756.2</b>	<b>(116.3)</b>	<b>(379.9)</b>	<b>260.0</b>
<b>Discontinued operations</b>				
Gatwick	159.9	8.5	(64.4)	104.0
<b>Total</b>	<b>916.1</b>	<b>(107.8)</b>	<b>(444.3)</b>	<b>364.0</b>

<sup>1</sup> Depreciation excluding exceptional accelerated depreciation.

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

### Exceptional items

Under the Shared Services Agreement ('SSA') the current period service cost for the BAA Airports Limited pension schemes are recharged to the Group's airports. Cash contributions are made directly to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited. Each airport also has a legal obligation to fund its relevant share of any pension deficit related to BAA Airports Limited pension plans under the SSA. Costs have been allocated to the Group on the basis of pensionable pay base.

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').

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

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

The year ended 31 December 2008 also included Terminal 5 launch / operational readiness costs of £21.8 million. No costs have been incurred in 2009.

### 3. Interest receivable and interest payable and similar charges

	Year ended 31 December 2009 £m	Restated Year ended 31 December 2008 £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
<b>Interest receivable</b>	<b>154.7</b>	<b>111.5</b>
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 <sup>1</sup>	(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)
<b>Interest payable and similar charges</b>	<b>(861.5)</b>	<b>(872.6)</b>
Interest capitalised	23.9	99.7
<b>Interest payable and similar charges – ordinary</b>	<b>(837.6)</b>	<b>(772.9)</b>
<b>Interest payable and similar charges – exceptional<sup>2</sup></b>	<b>-</b>	<b>(142.6)</b>
<b>Net interest payable before fair value (loss)/gain</b>	<b>(682.9)</b>	<b>(804.0)</b>
Interest rate swaps: cash flow hedges <sup>3</sup>	21.1	(24.1)
Interest rate swaps: not in hedge relationship	1.9	(26.0)
Cross-currency swaps: cash flow hedge <sup>3</sup>	(12.0)	34.8
Index-linked swaps: not in hedge relationship <sup>1</sup>	(125.8)	123.3
Fair value re-measurements of foreign exchange contracts and currency balances	(2.6)	7.8
<b>Fair value (loss)/gain on financial instruments</b>	<b>(117.4)</b>	<b>115.8</b>
<b>Net interest payable</b>	<b>(800.3)</b>	<b>(688.2)</b>

<sup>1</sup> 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'.

<sup>2</sup> 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.

<sup>3</sup> Hedge ineffectiveness on derivatives in a hedge relationship.

### 4. Tax on profit on ordinary activities

The tax credit for the year ended 31 December 2009 was £137.9 million (2008: £123.1 million). Based on a loss before tax for the year of £821.9 million (2008: £324.2 million), this results in an effective tax rate of 16.8% (2008: 37.9%).

## 5. Borrowings

Within 'Creditors: amounts falling due within one year' are borrowings and financial derivatives of £41.4 million and £0.1 million respectively (2008: £43.3 million and £13.1 million respectively).

Within 'Creditors: amounts falling due after more than one year' are borrowings and financial derivatives of £10,488.6 million and £337.7 million respectively (2008: £11,364.3 million and £653.1million respectively).

	31 December 2009	31 December 2008
	£m	£m
<b>Current borrowings</b>		
<b>Secured</b>		
Bank loans – EIB	41.4	43.3
<b>Total current borrowings</b>	<b>41.4</b>	<b>43.3</b>
<b>Non-current borrowings</b>		
<b>Secured</b>		
Syndicated term facility	2,253.8	4,323.0
Capital expenditure facility	700.0	250.0
Bank loans – EIB	330.5	371.6
	<b>3,284.3</b>	<b>4,944.6</b>
<b>Secured</b>		
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	-
	<b>5,638.5</b>	<b>4,853.9</b>
<b>Unsecured</b>		
BAA (SP) Limited debenture payable to BAA (SH) Limited	1,565.8	1,565.8
<b>Total non-current borrowings</b>	<b>10,488.6</b>	<b>11,364.3</b>
<b>Total current and non-current borrowings</b>	<b>10,530.0</b>	<b>11,407.6</b>

## 6. 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 one year	(1.5)
Provisions for liabilities and charges	(46.0)
<b>Net assets disposed</b>	<b>1,622.7</b>
Add disposal costs	73.2
Carrying value of disposed operations	1,695.9
Consideration satisfied by cash	(1,418.6)
<b>Loss on disposal of Gatwick airport</b>	<b>(277.3)</b>

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 Airports Limited defined benefit pension scheme once the final number of Gatwick employees who choose to join their new employer's scheme is determined. The remainder of the sale proceeds were utilised to fund transaction costs including mainly 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.

## Appendix 2

### Analysis of turnover and operating costs for the year ended 31 December 2009

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
<b>Turnover</b>					
Aeronautical income	960.7	-	<b>960.7</b>	132.0	<b>1,092.7</b>
Retail income	351.5	-	<b>351.5</b>	88.0	<b>439.5</b>
Car parking	65.2	-	<b>65.2</b>	36.4	<b>101.6</b>
Duty and tax-free	87.1	-	<b>87.1</b>	13.5	<b>100.6</b>
Airside specialist shops	60.5	-	<b>60.5</b>	5.8	<b>66.3</b>
Bureaux de change	34.2	-	<b>34.2</b>	8.4	<b>42.6</b>
Catering	25.9	-	<b>25.9</b>	9.6	<b>35.5</b>
Landside shops and bookshops	20.2	-	<b>20.2</b>	6.2	<b>26.4</b>
Advertising	29.0	-	<b>29.0</b>	2.6	<b>31.6</b>
Car rental	12.1	-	<b>12.1</b>	2.2	<b>14.3</b>
Other	17.3	-	<b>17.3</b>	3.3	<b>20.6</b>
Operational facilities and utilities income	141.0	-	<b>141.0</b>	10.6	<b>151.6</b>
Property rental income	98.6	-	<b>98.6</b>	8.1	<b>106.7</b>
Rail income	91.5	-	<b>91.5</b>		<b>91.5</b>
Other income	85.7	-	<b>85.7</b>	4.3	<b>90.0</b>
HEX inter-company elimination	(54.9)	60.5	<b>5.6</b>	-	<b>5.6</b>
<b>Total income</b>	<b>1,674.1</b>	<b>60.5</b>	<b>1,734.6</b>	<b>243.0</b>	<b>1,977.6</b>
<b>Operating costs</b>					
Employment costs	226.3	17.8	<b>244.1</b>	46.8	<b>290.9</b>
Maintenance expenditure	119.5	18.1	<b>137.6</b>	9.7	<b>147.3</b>
Utility costs	104.3	-	<b>104.3</b>	21.2	<b>125.5</b>
Rents and rates	114.6	2.1	<b>116.7</b>	12.2	<b>128.9</b>
General expenses	192.5	13.9	<b>206.4</b>	29.1	<b>235.5</b>
Retail expenditure	26.4	-	<b>26.4</b>	8.2	<b>34.6</b>
Intra-group charges/other	173.8	3.0	<b>176.8</b>	13.4	<b>190.2</b>
HEX inter-company elimination	(60.5)	-	<b>(60.5)</b>	-	<b>(60.5)</b>
<b>Adjusted Operating Costs</b>	<b>896.9</b>	<b>54.9</b>	<b>951.8</b>	<b>140.6</b>	<b>1,092.4</b>
Depreciation	414.1	-	<b>414.1</b>	38.6	<b>452.7</b>
Exceptional items	235.4	0.1	<b>235.5</b>	36.4	<b>271.9</b>
<b>Total operating costs</b>	<b>1,546.4</b>	<b>55.0</b>	<b>1,601.4</b>	<b>215.6</b>	<b>1,817.0</b>
<b>Adjusted EBITDA</b>	<b>777.2</b>	<b>5.6</b>	<b>782.8</b>	<b>102.4</b>	<b>885.2</b>



## Analysis of turnover and operating costs for the year ended 31 December 2008

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
<b>Turnover</b>					
Aeronautical income	835.3	-	<b>835.3</b>	145.1	<b>980.4</b>
Retail income	328.5	-	<b>328.5</b>	90.8	<b>419.3</b>
Car parking	66.8	-	<b>66.8</b>	40.3	<b>107.1</b>
Duty and tax-free	78.4	-	<b>78.4</b>	11.6	<b>90.0</b>
Airside specialist shops	56.5	-	<b>56.5</b>	5.5	<b>62.0</b>
Bureaux de change	28.4	-	<b>28.4</b>	8.4	<b>36.8</b>
Catering	26.1	-	<b>26.1</b>	10.0	<b>36.1</b>
Landside shops and bookshops	20.6	-	<b>20.6</b>	6.7	<b>27.3</b>
Advertising	25.5	-	<b>25.5</b>	2.9	<b>28.4</b>
Car rental	9.9	-	<b>9.9</b>	2.4	<b>12.3</b>
Other	16.3	-	<b>16.3</b>	3.0	<b>19.3</b>
Operational facilities and utilities income	130.7	-	<b>130.7</b>	12.0	<b>142.7</b>
Property rental income	90.1	-	<b>90.1</b>	7.3	<b>97.4</b>
Rail income	86.1	-	<b>86.1</b>	-	<b>86.1</b>
Other income	92.6	-	<b>92.6</b>	3.6	<b>96.2</b>
HEX inter-company elimination	(51.6)	56.0	<b>4.4</b>	-	<b>4.4</b>
<b>Total income</b>	<b>1,511.7</b>	<b>56.0</b>	<b>1,567.7</b>	<b>258.8</b>	<b>1,826.5</b>
<b>Operating costs</b>					
Employment costs	269.3	18.2	<b>287.5</b>	53.0	<b>340.5</b>
Maintenance expenditure	108.8	16.2	<b>125.0</b>	8.9	<b>133.9</b>
Utility costs	80.6	0.1	<b>80.7</b>	12.7	<b>93.4</b>
Rents and rates	92.0	1.6	<b>93.6</b>	11.3	<b>104.9</b>
General expenses	187.3	13.6	<b>200.9</b>	27.8	<b>228.7</b>
Retail expenditure	19.3	-	<b>19.3</b>	3.2	<b>22.5</b>
Intra-group charges/other	176.0	1.9	<b>177.9</b>	24.5	<b>202.4</b>
HEX inter-company elimination	(56.0)	-	<b>(56.0)</b>	-	<b>(56.0)</b>
<b>Adjusted Operating Costs</b>	<b>877.3</b>	<b>51.6</b>	<b>928.9</b>	<b>141.4</b>	<b>1,070.3</b>
Depreciation	346.3	0.5	<b>346.8</b>	33.1	<b>379.9</b>
Exceptional items	113.2	-	<b>113.2</b>	3.1	<b>116.3</b>
<b>Total operating costs</b>	<b>1,336.8</b>	<b>52.1</b>	<b>1,388.9</b>	<b>177.6</b>	<b>1,566.5</b>
<b>Adjusted EBITDA</b>	<b>634.4</b>	<b>4.4</b>	<b>638.8</b>	<b>117.4</b>	<b>756.2</b>

For the period prior to its acquisition by the Group on 7 August 2008, HEX Opco's costs have been re-allocated out of intra-group charges to reflect the underlying nature of its costs in order to provide a more meaningful comparison of individual cost categories between 2008 and 2009.