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

Company registration number: 05757208

BAA Limited

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BAA Limited

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BAA Limited

Business review

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

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

This business review is presented in three sections:
Management review – overview of the year ended 31 December 2010, along with the key factors likely to impact the Group in 2011.
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2010 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.
Internal controls and risk management – outline of the BAA Group's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee.

Management review

Review of 2010

Key features of the year

2010 was marked by contrasting fortunes for the Group. The global economic recovery underway following the credit crisis gained momentum, resulting in strong underlying growth in passenger traffic at Heathrow. Heathrow's performance reflects its significantly greater exposure to global economic trends than other UK airports given it is the UK's only hub airport and handles approximately 70% of all UK long haul air traffic. Whilst performance at the Group's other airports continued to reflect a subdued UK economy, the improving trends affecting Heathrow enabled the Group to deliver a good financial performance despite a number of exceptional external events.

The first of these was the closure of UK and European airspace due to ash from a volcanic eruption in Iceland which resulted in all the Group's airports closing from 15 April 2010 to 20 April 2010. Further, during the first half of the year, British Airways' cabin crew took industrial action on 22 days which resulted in a total of 34 days of service disruption at four of the Group's six airports including Heathrow.

Finally, the airports experienced the disruptive effects of the coldest December in the UK since records began, being particularly affected in early December and in the week leading up to Christmas. Severe winter weather was also experienced across much of north west Europe and the north eastern seaboard of the US at various times during the month that also had an impact on traffic at the Group's airports. Given the degree of disruption caused at Heathrow by the weather immediately before Christmas, BAA appointed an external international panel of experts, led by BAA non-executive director Professor David Begg, to establish what lessons could be learnt from the disruption in order that the airport can better prepare and respond to future adverse weather conditions. The panel is due to report in March 2011.

During 2010, the UK's new coalition government reversed the previous government's support for new runways at Heathrow and Stansted and as a result the airports stopped pursuing planning applications for their third and second runways respectively.

The Group continued significant investment at Heathrow with good progress made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years after a period of over twenty years since Terminal 4 opened. Nearly £900 million was invested across the Group in 2010, including over £800 million at Heathrow.

During 2010, the Group also concluded the strategic refocusing of its business away from non-core and international assets to its UK airports through the sale of its interests in the Airport Property Partnership ('APP') joint venture, US airport retail management and Naples airport in Italy. The net proceeds of these disposals have been largely utilised in reducing the Group's debt.

Significant progress was made in 2010 in extending the Group's debt maturities, with a wide range of investors attracted to supporting Heathrow's long-term investment plans through five major new debt financings completed by the Group that raised approximately £2.0 billion. This enabled repayment of the majority of the Group's short-term maturities and enhanced BAA's overall capital structure.

Passenger traffic trends

Passenger traffic for the year ended 31 December 2010 across the Group's airports is analysed below:

	Year ended 31 December 2010	Year ended 31 December 2009	Change (%)[1]
Passengers by airport (millions)			
Heathrow	**65.7**	65.9	(0.2)
Stansted	**18.6**	20.0	(7.0)
Total Designated Airport passengers[1]	**84.3**	85.9	(1.8)
Edinburgh	**8.6**	9.0	(5.0)
Glasgow	**6.5**	7.2	(9.6)
Aberdeen	**2.8**	3.0	(7.4)
Southampton	**1.7**	1.8	(3.2)
Total Non-Designated Airport passengers[1]	**19.6**	21.1	(6.8)
Total passengers[1]	**103.9**	106.9	(2.8)
Passengers by market served (all airports) (millions)			
UK	**17.6**	19.2	(8.2)
Europe[2]	**50.4**	51.4	(2.0)
Long haul	**36.0**	36.4	(1.1)
Total passengers[1]	**103.9**	106.9	(2.8)

[1] These figures have been calculated using un-rounded passenger numbers.
[2] Includes North African charter traffic.

Management review *continued*

Passenger traffic trends continued
In the year ended 31 December 2010, passenger traffic across the Group's airports declined 2.8% to 103.9 million (2009: 106.9 million). Year on year performance reflects a number of exceptional events including closure of airspace due to volcanic ash, airline industrial action affecting various Group airports and severe winter weather as well as the macroeconomic environment. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events resulted in the loss of up to an estimated 3.6 million passengers of which 2.4 million were at Heathrow. Adjusting for these factors, the Group’s traffic is estimated to have increased by up to 0.6%. In addition to these three events, the Group’s Scottish airports were affected by the bankruptcy of flyglobespan in late 2009 although the subsequent impact on traffic was difficult to estimate.

At Heathrow, where traffic trends are more influenced by global economic factors than the Group’s other airports, reported traffic declined 0.2% to 65.7 million (2009: 65.9 million) but adjusting for the factors outlined above, its traffic is estimated to have increased by up to 3.4%. Heathrow's underlying growth accelerated as the year progressed driven particularly by European scheduled traffic and renewed confidence amongst business travellers. The strength of Heathrow’s underlying performance is reflected in it achieving several all time traffic records including the busiest day in history, the two busiest months ever and five successive months from July to November achieving record traffic for that particular month.

Recent growth at Heathrow has been led by origin and destination traffic that increased to 65% of Heathrow's total traffic in the year ended 31 December 2010 (2009: 63%).

European traffic led the recovery in Heathrow’s reported traffic during 2010, increasing 2.6% to 26.5 million (2009: 25.8 million) despite the disruptions noted above. Heathrow’s long haul traffic declined slightly, by 1.2% to 34.4 million (2009: 34.9 million) with North Atlantic traffic performing better than other long haul traffic. Of particular note, within Europe, Heathrow’s traffic with Switzerland increased by 14.5%, Italy by 12.0% and Germany by 7.6% whilst in emerging markets such as South America and South Asia there were increases of 8.1% and 1.1% respectively. Whilst Heathrow’s domestic traffic declined 7.9% to 4.8 million (2009: 5.3 million) there was a noticeable recovery in the second half. The overall decline in domestic traffic partly reflects airlines’ tendency to focus service reductions on their domestic route network when there is disruption such as industrial action and adverse weather.

Stansted’s reported traffic declined 7.0% to 18.6 million (2009: 20.0 million). Adjusting for disruption due to volcanic ash and severe winter weather, its traffic is estimated to have fallen no more than 4.8%. The underlying decline reflects inter-related capacity reductions by airlines and renewed economic uncertainty in the UK that particularly affected the outbound leisure market, a key part of Stansted's traffic.

Across the Group’s four other airports of Edinburgh, Glasgow, Aberdeen and Southampton, reported traffic declined 6.8% to 19.6 million (2009: 21.1 million). Adjusting for the various exceptional events referred to above, their traffic is estimated to have declined no more than 2.9%. The underlying decline reflects the difficult macroeconomic environment which was exacerbated particularly by the bankruptcy of flyglobespan at the end of 2009 that affected the three Scottish airports. The relative outperformance of Southampton was due to it being unaffected by either the British Airways industrial action or the flyglobespan bankruptcy.

Transforming BAA’s airports
The Group has continued to implement its strategy to improve passengers’ experience and airlines’ operations through sustained substantial investment in modern airport facilities and improved service standards. 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.

In particular, the Group's key strategic objective is to ensure Heathrow becomes the UK's gateway to the world and Europe's hub of choice by making every journey better. Significant progress has been made in delivering this objective over the last few years with the opening of Terminal 5 which passengers rate amongst the best airport terminals in Europe. Heathrow’s significant investment continued in 2010 and in particular good progress was made in constructing the new Terminal 2 which will be Heathrow’s second new terminal in recent years after a period of over twenty years since Terminal 4 opened. In addition, the Group will continue to invest in its other airports to enhance their facilities and meet the expected rise in demand for air travel.

There has also been consistent improvement in service standards, most clearly illustrated by Heathrow moving from being ranked fourth as recently as 2008 for overall passenger satisfaction amongst the top five European airports to being in the top two consistently through 2010.

Investment in modern airport facilities
The Group's capital investment programme continues to be focused on the transformation of Heathrow, particularly on delivering modern terminal facilities and other investments targeting improvements in the passenger experience. The main projects in 2010 included construction work on the new Terminal 2 and integrated baggage systems and near completion of Terminal 5C. Over £800 million was invested at Heathrow in 2010 and the level of investment is expected to increase substantially over 2011 and 2012 particularly as work on construction of the new Terminal 2 intensifies.

In relation to the new Terminal 2, significant progress was made in 2010 following closure of the previous terminal in late 2009. Demolition of the old terminal was completed in September 2010. The scope of the new terminal was clarified in consultation with airlines including in relation to the specification of the multi-storey car park and how it is connected to the terminal and the existing road system as well as the scope of the baggage systems. Good progress was also made in constructing the new terminal that is now clearly visible to airport users. By the end of 2010, six of the building’s 12 steel cores had been erected and the first roof sections were in place. The shell of the main Terminal 2 building is expected to be completed in early 2012. Following completion of the first phase of the terminal’s satellite building in 2009 (which is currently in use via Terminal 1), site clearance works in 2010 enabled work to commence on the second phase of the satellite building. The initial focus has been on constructing the basement to house the tracked transit system station and tunnels that will connect the satellite to the main terminal building.

Construction activities at Terminal 5C (Terminal 5's second satellite building) are largely complete and operational readiness activities have commenced in conjunction with British Airways. It is anticipated that the new satellite will be fully operational before the peak summer traffic season in 2011. On opening, the satellite building, which is already providing remote stand capability for Terminal 5, will provide an additional 12 pier served stands, improving the passenger experience by reducing the frequency with which passengers have to be transported in buses between Terminal 5 and their aircraft.

Management review *continued*

Investment in modern airport facilities continued

The new Heathrow transfer baggage tunnel linking Terminals 3 and 5 has now been fitted out with an automated baggage transfer system. Work continues to complete the interface building between the tunnel and the Central Terminal Area.

At Stansted, levels of investment are subdued reflecting limited investment in the current regulatory period on the existing facilities and the ending of work on a potential new runway given the new UK government's opposition to the development of new runways in the South East of England. The modest investment on existing facilities is focused largely on refurbishing infrastructure and other areas such as planning and security compliance.

At the Group's Non-Designated airports, the majority of investment was at Edinburgh where work continued on its terminal extension project that had seen an initial phase delivered in 2009 that included additional retail space and two new aircraft stands. In 2010, the second phase of the terminal extension was completed, delivering a further aircraft stand, additional specialist shops and catering units and a larger central security search facility. Completion of the terminal extension is expected in 2011 which overall will increase Edinburgh airport's capacity to 13 million passengers annually.

At Glasgow, a more limited investment programme than in recent years saw a focus on upgrading existing facilities rather than the recent terminal and retail expansion projects. The main projects included terminal forecourt security protection, taxiway rehabilitation and upgrade of runway approach lights. At both Aberdeen and Southampton there was work on installing new airport operating systems. Southampton also upgraded significant parts of its terminal roof, retail facilities and terminal forecourt security. Aberdeen's other investment was limited with its larger projects being on its helicopter taxiway and its international arrivals area.

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.

Heathrow's strong focus on operational performance in recent years continues to be reflected in the improving trend in its ratings for overall passenger satisfaction in Airport Council International's Airport Service Quality ('ASQ') survey. In the survey for the fourth quarter of 2010, Heathrow achieved an overall passenger satisfaction score of 3.80 compared to 3.78 for the same quarter of 2009, maintaining its position in the top two of the major European hub airports that it achieved throughout 2010.

In the year ended 31 December 2010 many service standards across the Group's airports were influenced by the exceptional external events discussed above.

In relation to departure punctuality, the proportion of aircraft departing within 15 minutes of schedule at Heathrow was 71% (2009: 77%) and at Stansted was 78% (2009: 82%). Punctuality statistics were affected in 2010 across the European aviation industry by two periods of prolonged severe winter weather in January and December and extensive European air traffic control strikes. More specific to Heathrow, its punctuality was also affected by the British Airways industrial action in the first half of the year.

Heathrow's baggage misconnect rate improved to 18 per 1,000 passengers (2009: 19). The improvement on 2009 is notable given the challenges faced during two periods of prolonged severe winter weather in January and December and from the record levels of passenger traffic through the third quarter of 2010.

On security queuing, passengers passed through central security within periods prescribed under service quality rebate schemes 97.5% (2009: 97.9%) of the time at Heathrow and 98.2% (2009: 99.4%) of the time at Stansted. This compares with 95.0% service standards in both cases.

Operational performance remained relatively stable across the Group's airports in Edinburgh, Glasgow, Aberdeen and Southampton. For example, across all these airports, the proportion of aircraft departing within 15 minutes of schedule decreased slightly to 82.5% (2009: 84.0%). In addition, across these airports the simple average overall passenger satisfaction score in the ASQ survey for the fourth quarter of 2010 was 3.99 compared to 3.93 for the same period of 2009. This was the highest average score these airports have achieved with improvements at Edinburgh, Aberdeen and Southampton offset by performance at Glasgow.

Disposals

During 2010, the Group concluded the strategic refocusing of its business away from non-core and international assets to its UK airports through the sale of its interests in the APP joint venture, BAA USA (Holdings) Inc ('BAA USA') and Societe Gestione Servizi Aeroporti S.p.A. ('BAA Italia').

On 22 June 2010, the Group completed the disposal of its interest in APP (and related entities), which owned industrial warehouses around Heathrow, Stansted, Edinburgh and Gatwick airports, to subsidiaries of Segro plc for £244 million (£111 million after deducting the Group's share of APP's debt).

On 30 July 2010, the Group completed the disposal of BAA USA, which managed retail activities at Baltimore, Boston, Cleveland and Pittsburgh airports in the US, to AMU Holdings Inc., a wholly-owned subsidiary of Prospect Capital Corporation, for US$50 million (£34 million).

On 21 December 2010, the Group completed the disposal of its Italian business, being principally its 65% shareholding in Societe Gestione Servizi Aeroporti SPA, the owner of Naples International Airport, to an entity controlled by F2i SGR S.p.A., for €147 million (£125 million).

The net proceeds from these disposals have been retained by the Group and largely utilised in reducing debt including the use of £100 million in repaying part of the £1.57 billion debt facility previously held at BAA (SH) plc (formerly BAA (SH) Limited) ('BAA (SH)') that is discussed on page 12.

Management review *continued*

Regulatory developments

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

In March 2009, the Competition Commission ('CC') published its final decision in relation to its investigation into the supply of UK airport services by BAA. The key structural remedy called for the disposal of certain airports including Gatwick and Stansted and either Edinburgh or Glasgow. Gatwick has since been sold.

The CC's decision was initially overturned by the Competition Appeals Tribunal but was upheld by the Court of Appeal in October 2010 and, in February 2011, BAA was refused permission to appeal to the Supreme Court BAA is disappointed by this decision and continues to make the case to the CC that the circumstances in which they found reason to force the sale of certain of its airports have changed significantly since early 2009 and should certainly be reviewed given the policy of the new UK coalition government to rule out new runway capacity in the South East of England.

Following the Court of Appeal decision, interim undertakings relating to the governance and monitoring of Stansted as well as Edinburgh and Glasgow airports have been reinstated and the CC is considering responses to a consultation as to whether there have been material changes in circumstances that might lead to it amending the scope of the remedies requiring that BAA divest Stansted airport as well as either Edinburgh or Glasgow airport contained in its final decision in March 2009. The CC has indicated that it expects to issue its provisional decision on its consultation during March 2011.

Airport economic regulation review and potential extension of Heathrow's current regulatory period

The new UK government confirmed its approach to reforming the economic regulation of airports that built on proposals published by the Department for Transport in December 2009. It provides clarity on the package of measures to be included in the proposed new Airport Economic Regulation bill (the 'Bill') to promote both the interests of passengers and investment in the UK's airports. The measures, which were announced in July 2010, will provide important reassurance for the Group's debt investors. They include:

- a primary duty for the Civil Aviation Authority ('CAA') to promote the interests of passengers. It will also have a supplementary duty to ensure that licence holders are able to finance their activities;
- a minimum credit worthiness requirement for licensed airports;
- ring fencing provisions similar to those in place in other regulated sectors but with initial derogations from some of the provisions (including restrictions on the granting of security to lenders) where the costs of introduction would exceed their benefits;
- a requirement on the CAA to apply agreed tests when considering the removal of an airport's derogations and an appeals process that is aligned with the wider licence modification process; and
- a requirement for airports to put in place continuity of service plans.

The government also confirmed the earlier decision not to bring in a special administration regime and that it will not change the basis on which the current price caps at Heathrow and Stansted are set.

In February 2011, the CAA launched a consultation on the potential extension of Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the Bill is unlikely to be introduced into parliament before the 2012 session and the CAA's desire that the Bill is enacted prior to determining the terms for the next regulatory period. The consultation is due to conclude in March 2011.

Government announcements on new runways and high speed rail

The UK's new coalition government announced that it will not support the development of new runways in the South East of England but confirmed its support for the proposed high speed rail link between London and Birmingham together with closer assessment of the merits of a direct connection to Heathrow.

The Group expects a direct high speed rail link to Heathrow would reduce journey times from the Midlands and north of England thereby increasing demand to use Heathrow by capturing UK passengers that currently travel via other European hubs. Capacity should also be increased by allowing domestic slots serviced by relatively small aircraft to be rotated onto long haul routes serviced by larger aircraft.

As a result of the government's position on runways, in May 2010 Heathrow and Stansted stopped pursuing planning applications for new runways. The decision on runways is expected to reduce financing requirements over the next few years. As a result of this decision, the Group made impairment charges in respect of runway planning application costs and the value of properties and land purchased in relation to potential future runway development. These accounting charges will not impact the airports' regulatory asset bases, the Group's financial ratios or the generation of future cash flows. In addition, the airports' exposure to passenger volume risk is limited by the five year regulatory cycle. In any event further growth is expected without new runways even at Heathrow where higher load factors and capacity utilisation and increased use of larger aircraft provide growth opportunities.

Management review *continued*

Developments since beginning of 2011
In January 2011, combined passenger traffic across the Group's airports increased 3.8% to 7.5 million (2010: 7.2 million) due partly to underlying growth and partly adverse weather conditions that impacted performance in January 2010 more than in 2011. Adjusting for the weather disruption in both January 2010 and January 2011, it is estimated that traffic would have increased between 1.5% and 2.0%.

In January 2011, Capgemini was selected as preferred supplier for the outsourcing of a range of IT services currently provided by the BAA Group's own IT department. These services, which include application management, support of end user devices, IT infrastructure management and telecoms support, will be provided under an initial five year contract. The arrangement will involve a transition programme during 2011 which will include the transfer (to Capgemini), retention or redundancy of employees within the BAA Group's IT department and result in one off incremental operating costs during 2011. It is intended that the outsourcing will not change the ownership of BAA's IT assets.

In February 2011, the CAA launched a consultation regarding the potential extension of the current Heathrow regulatory period by one year to 31 March 2014. The intention of the extension is principally to provide more time for the new Airport Economic Regulation bill to be implemented so that it can be utilised as a basis for determining the terms of the settlement for the next regulatory period. BAA is currently in discussion with the Heathrow airline community and the CAA about this potential extension. The consultation is due to conclude in March 2011.

From 1 April 2011, Heathrow airport will be restructuring how it recovers the maximum allowable yield for its aeronautical income. Whilst there will be no change in the overall amount of income earned, the proposals will encourage better environmental performance and reinforce Heathrow's position as the UK's only hub airport. The main changes will see the departing passenger charge amended from three tiers for domestic, Irish and international passengers to two tiers for European and intercontinental passengers, the introduction of discounts for transfer passengers and a significant increase in the minimum departure charge per aircraft.

Outlook
The Group expects the recovery in underlying passenger traffic seen in 2010 to continue in 2011 with good growth at Heathrow and the Group's Non-Designated airports partially offset by a further traffic decline at Stansted. 2011 is also expected to see higher aeronautical tariffs, particularly at Heathrow, and further improvements in retail income. Whilst increased revenue will be partially offset by increased operating costs, particularly associated with the one-off cost of various IT, operational and commercial initiatives that will deliver future operational and financial benefits, this year is expected to see growth in revenue, Adjusted EBITDA and operating cash flow. There is also expected to be a significant step up in investment at Heathrow.

Traffic trends in the early weeks of 2011 have been consistent with the Group's expectations and therefore at this stage of the year the Group is on track to deliver the expected growth.

BAA Limited

Financial review

Introduction
The following financial review, based on the consolidated financial statements of the Group, provides commentary on the performance of the Group's six airports, and includes some operations such as retail income and other income from businesses related to the Group's operations. Consistent with statutory accounting and IFRS, the business review presented excludes operations that have been disposed of during the current or prior years (refer below).

Basis of preparation of statutory results
A number of significant events which are highlighted in the Management review and Financial review have impacted the way in which the statutory financial results for 2010 have been presented:

- *discontinued operations* - these include disposals of the following:
  - Airport Property Partnership ('APP');
  - BAA USA (Holdings) Inc ('BAA USA'); and
  - BAA's Italian business, being principally its 65% shareholding in Societe Gestione Servizi Aeroporti S.p.A ('BAA Italia')

  The results and performance of these interests to the date of disposal, together with the resulting gain or loss are included in the results and cash flows of discontinued operations at the year end.

- *exceptional items and certain re-measurements* - these include the following:
  - £334 million relating to impairment charges against goodwill and other intangibles;
  - £149 million relating to the write-off of runway planning application costs and write down of properties and land purchased in relation to potential future runway development prior to their transfer to investment property;
  - £74 million of fair value gains arising from the revaluation of investment property;
  - £41 million of fair value losses on financial instruments;
  - £19 million relating to accelerated depreciation on Heathrow Terminal 1; and
  - £12 million relating to reorganisation costs (including severance and redundancy).

Basis of preparation of financial results
In order to provide a more meaningful comparison of the Group's performance between 2009 and 2010, the information presented under revenue, aeronautical income, retail income, other income, adjusted operating costs, Adjusted EBITDA and exceptional items focuses on the Group's continuing operations.

Summary performance

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m	Change %
Continuing operations			
Revenue	**2,312**	2,210	4.6
Adjusted operating costs[2]	**(1,230)**	(1,218)	1.0
Adjusted EBITDA[3]	**1,082**	992	9.1
Exceptional items	**(12)**	-	-
EBITDA	**1,070**	992	7.9
Fair value gain/(loss) on investment properties	**74**	(83)	(189.2)
Fair value loss on financial instruments	**-**	(1)	(100.0)
Depreciation and amortisation - ordinary	**(561)**	(532)	5.5
Depreciation - exceptional	**(19)**	(55)	(65.5)
Operating profit - continuing operations	**564**	321	75.7
Exceptional impairment	**(483)**	-	-
Net finance cost/(income)	**(770)**	73	(1,154.8)
Fair value losses on financial instruments	**(41)**	(81)	(49.4)
Share of loss of associates and joint ventures	**-**	(2)	(100.0)
(Loss)/profit before tax	**(730)**	311	(334.7)
Tax credit	**223**	109	104.6
(Loss)/profit for the year from continuing operations	**(507)**	420	(220.7)
Net profit/(loss) from discontinued operations	**74**	(581)	(112.7)
Consolidated loss for the year	**(433)**	(161)	168.9

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
[3] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.

BAA Limited

Financial review *continued*

Revenue
In the year ended 31 December 2010, revenue from continuing operations increased 4.6% to £2,312 million (2009: £2,210 million). This reflects a 1.7% growth in aeronautical income, a 7.3% increase in gross retail income and a 9.4% increase in other income.

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m	Change %
Aeronautical income	**1,254**	1,233	1.7
Retail income	**556**	518	7.3
Other income	**502**	459	9.4
Total	**2,312**	2,210	4.6

[1] Comparative information restated to include BAA Italia in discontinued operations.

Aeronautical income
Aeronautical income increased 1.7% to £1,254 million (2009: £1,233 million). Average aeronautical income per passenger increased 4.7% to £12.07 (2009: £11.53).

Aeronautical income summary (by airport)

	Aeronautical income			**Per passenger[1]**		
	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %	**Year ended 31 December 2010 £**	Year ended 31 December 2009 £	Change %
Heathrow	**991**	961	3.1	**15.08**	14.58	3.4
Stansted	**124**	132	(6.1)	**6.67**	6.62	0.8
Total Designated airports	**1,115**	1,093	2.0	**13.22**	12.73	3.8
Edinburgh	**54**	55	(1.8)	**6.27**	6.11	2.6
Glasgow	**41**	42	(2.4)	**6.33**	5.83	8.6
Aberdeen	**28**	27	3.7	**10.19**	9.04	12.7
Southampton	**16**	16	-	**9.14**	8.89	2.8
Total Non-Designated airports	**139**	140	(0.7)	**7.10**	6.64	6.9
Total airports	**1,254**	1,233	1.7	**12.07**	11.53	4.7

[1] Figures calculated using un-rounded numbers.

Growth in the Group's reported aeronautical income was driven by the increase in tariffs at Heathrow that occurred on both 1 April 2009 and 2010. This was offset across all airports by the combined effects of disruption caused by volcanic ash, airline industrial action and severe winter weather as well as underlying macroeconomic factors that, for example, resulted in the bankruptcy of flyglobespan in late 2009. Year on year growth at Heathrow was reduced by the delay in introducing higher tariffs applying from 1 April 2008 that boosted aeronautical income in 2009 by an estimated £13 million above underlying levels.

At the Designated airports, reported aeronautical income increased 2.0% to £1,115 million (2009: £1,093 million) whilst income per passenger increased 3.8% to £13.22 (2009: £12.73).

At the Group's Non-Designated airports, reported aeronautical income decreased 0.7% to £139 million (2009: £140 million) whilst income per passenger increased 6.9% to £7.10 (2009: £6.64). The more significant increase in income per passenger for the Non-Designated airports relative to the Designated airports reflects both the full year effect (in 2009 only applied for nine months) and the increased level of National Air Traffic Services ('NATS') costs charged to airlines.

Retail income
The Group's retail business delivered an exceptional performance in 2010 given both the reduction in passenger traffic and the general economic environment. The strength of passenger demand for the retail offering is reflected in net retail income (i.e. gross retail income less retail expenditure) ('NRI') per passenger increasing 12.8% to £5.04 (2009: £4.47). By airport, the performance was driven by Heathrow and the Group's non-regulated airports whilst by retail category airside specialist shops and duty and tax-free performed particularly strongly.

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

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

Figures in £m unless otherwise stated	**Year ended 31 December 2010**	Restated[1] Year ended 31 December 2009	Change %
Airports' gross retail income	**552**	511	8.0
Other gross retail income	**4**	7	(42.9)
Total gross retail income	**556**	518	7.3
Total retail expenditure	**(34)**	(42)	(19.0)
Total net retail income	**522**	476	9.7
Fixed wing passengers (million)[2]	**103.5**	106.4	(2.7)
Net retail income per passenger[2]	**£5.04**	£4.47	12.8

[1] Comparative information restated to include the retail performance of BAA Italia in discontinued operations.
[2] Figures calculated using un-rounded numbers.

Financial review *continued*

Analysis of net retail income

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m	Change %
Car parking	**101**	91	11.0
Duty and tax-free	**127**	114	11.4
Airside specialist shops	**86**	68	26.5
Bureaux de change	**48**	46	4.3
Catering	**49**	43	14.0
Landside shops and bookshops	**30**	32	(6.3)
Advertising	**34**	36	(5.6)
Car rental	**22**	20	10.0
Other	**25**	26	(3.8)
Total	**522**	476	9.7

[1] Comparative information restated to include retail performance of BAA Italia in discontinued operations.

At Heathrow, gross retail income increased 12.0% to £393 million (2009: £351 million) and NRI per passenger increased 14.4% to £5.64 (2009: £4.93). Most areas of the retail business performed well, with the main growth drivers through the year being airside specialist shops and duty and tax-free. In addition, there were increasing signs of recovery in car parking as the year progressed.

Heathrow's excellent retail performance reflects the increase in the proportion of higher spending origin and destination passengers from 63% in 2009 to 65% in 2010. This benefits both the in-terminal and car parking elements of retail income. The performance also reflects the greater numbers of passengers utilising Terminal 4 following relocation of airlines prior to Terminal 2's closure who are benefiting from its upgraded retail facilities completed as part of the terminal's recent refurbishment. Further, various initiatives by the Group supported growth including advertising campaigns such as ‘West End for less’ highlighting the value proposition of Heathrow’s retail outlets, more in-terminal sales support and actively managing the mix of concessionaires. Growth in passenger spend was particularly strong in the luxury segment of Heathrow's airside retail outlets, consistent with recent trading performance reported by many luxury fashion retailers.

During 2010, the quality of Heathrow's retail offering was independently endorsed when it was the global winner of the Best Airport for Tax-Free Shopping award in the Business Traveller Awards 2010 and received a similar award in the Skytrax World Airports Awards.

Stansted's gross retail income declined 5.7% to £83 million (2009: £88 million), a resilient performance given passenger trends which meant that NRI per passenger increased 0.5% to £4.02 (2009: £4.00). Growth in Stansted's NRI per passenger reflects particularly performance in airside specialist shops and catering with net car parking income per passenger stabilising after a significant period of weakness.

Across the Group's Non-Designated airports, retail income increased 5.6% to £76 million (2009: £72 million) whilst net retail income per passenger increased significantly, by 17.8% to £3.77 (2009: £3.20). This strong performance was driven by a number of factors including Edinburgh’s car parking, catering and new car rental facilities and increased space and higher margins related to key concessions at Glasgow.

Other income

Income from activities other than aeronautical and retail increased 9.4% to £502 million (2009: £459 million). This reflects rail income increasing 13.2% to £103 million (2009: £91 million) due to passenger numbers increasing 9.4% to 5.9 million (2009: 5.4 million) as well as improved yields. Growth in rail passenger numbers reflects the shift in Heathrow airport passenger mix relative to the comparative period towards origin and destination traffic, introduction of additional rail ticket sales activities within the airport and disruptions to alternative rail services to and from central London.

Income from activities other than aeronautical and retail also reflects operational facilities income increasing 5.3% to £133 million (2009: £123 million) and £17 million of income from the provision of various transitional services to Gatwick airport that is largely non-recurring as most of the transitional services agreements terminated in 2010.

Underlying revenue

In the year ended 31 December 2010, revenue from continuing operations increased 4.6% to £2,312 million (2009: £2,210 million). To determine underlying revenue growth it is necessary to adjust for an additional £13 million in aeronautical income earned at Heathrow in 2009 above underlying levels due to phasing of tariff increases differing from the normal pattern and £17 million of non-recurring income generated in 2010 from the provision of various services to Gatwick airport under transitional services agreements.

Year on year revenue performance was also affected by the various exceptional external events that impacted the business during 2010. At the time of the airport closures caused by ash from an Icelandic volcano and the industrial action by British Airways’ cabin crew, the Group’s revenue was affected by a combined estimated £43 million. In addition, of the total impact on the Group’s profits of approximately £24 million from the severe winter weather in December, it is estimated that £15 million was due to reduced revenue.

Whilst recognising that some passengers whose journeys were affected by the disruption from volcanic ash and industrial action by British Airways’ cabin crew will have completed their planned journeys later in 2010, adjusting for the items outlined above, underlying revenue in the year ended 31 December 2010 is estimated to have increased by up to 7.1% to £2,354 million (2009: £2,198 million).

Financial review *continued*

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

	Year ended 31 December 2010	Restated[1] Year ended 31 December 2009	Change
	£m	£m	%
Employment costs	**501**	458	9.4
Maintenance expenditure	**181**	197	(8.1)
Utility costs	**128**	138	(7.2)
Rents and rates	**133**	142	(6.3)
General expenses	**339**	320	5.9
Retail expenditure	**34**	42	(19.0)
Capitalised costs	**(86)**	(79)	8.9
Total	**1,230**	1,218	1.0

[1]Comparative information restated to include BAA Italia in discontinued operations.

In the year ended 31 December 2010, adjusted operating costs increased 1.0% to £1,230 million (2009: £1,218 million). The main drivers of increased adjusted operating costs were higher employment costs and general expenses. Employment costs increased 9.4% to £501 million (2009: £458 million). The increase in employment costs was driven particularly by the reinstatement of performance related pay, additional defined benefit pension service charges of £17 million due to revised actuarial assumptions and central overheads being allocated across a smaller business base following recent disposals. General expenses increased 5.9% to £339 million (2009: £320 million) due principally to the full year effect of NATS related charges at the Group's Scottish airports that only applied for nine months in 2009.

The overall increase in adjusted operating costs was mitigated particularly by lower maintenance expenditure, reflecting closure of Terminal 2 in late 2009 and procurement savings, reduced utility costs and reduced rents and rates due to rationalisation of office space occupied by the Group supplemented by a rates rebate.

Adjusting for the increased pensions costs and re-allocated central overheads (£28 million was charged to Gatwick in 2009) together with the estimated £9 million cost associated with the severe winter weather in December 2010 (which arose for example from providing hotel accommodation, catering and other care for the substantial number of stranded passengers), underlying adjusted operating costs declined 3.4% to £1,204 million (2009: £1,246 million). The disruption caused by volcanic ash and airline industrial action did not materially affect adjusted operating costs.

Adjusted EBITDA
Adjusted EBITDA for the Group's continuing operations in the year ended 31 December 2010 increased 9.1% to £1,082 million (2009: £992 million), driven particularly by the £38 million increase in retail income and £43 million increase in other income with slightly higher aeronautical income being partially offset by marginally increased operating costs. This resulted in an Adjusted EBITDA margin of 46.0% (2009: 45.1%).

Exceptional items (including depreciation and impairment charges)
There was a total net £514 million pre-tax charge (2009: £55 million) to the Income statement in respect of exceptional items, including impairment charges and other one-off items for continuing operations in the year ended 31 December 2010 with a £31 million charge (2009: £55 million) included in operating profit and a charge of £483 million (2009: £nil) below operating profit.

Items within operating profit included a charge of £19 million (2009: £55 million) related to accelerated depreciation due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life was reassessed and extended. Further, there was a £12 million charge relating primarily to a restructuring process to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

In addition, there were £483 million in impairment charges below operating profit in 2010 related primarily to impairment of goodwill and right to operate at the Group's Non-Designated airports and the Group's decision not to pursue planning applications for new runways at Heathrow and Stansted. Goodwill and other intangibles were impaired by a total of £334 million including £329 million charged in relation to Glasgow, Aberdeen and Southampton airports reflecting the fact that the estimated recoverable amount of these assets exceeded their carrying value based on their latest business plans. The Group's decision not to pursue planning applications for new runways at Heathrow and Stansted reflects the fact that the UK's new coalition government does not support the development of new runways in the South East of England. As a result there was a total impairment charge of £149 million made of which £104 million related to the write-off of planning application costs and £45 million to the write down in the value of domestic properties and land purchased by both airports falling within the planned expanded airport boundaries prior to their transfer to investment properties. The accounting treatment related to the new runway related items has no impact on these costs being included in the airports' regulatory asset bases and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance (other than £37 million of Stansted planning application costs previously disallowed by the CAA).

Fair value gain on investment property valuation
Investment properties were valued at a fair value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors (2009: Drivers Jonas, Chartered Surveyors, and Strutt & Parker, Chartered Surveyors). Strutt & Parker were responsible solely for the valuation of residential properties at Stansted. Investment property comprises mainly car parks and airside assets at the Group's airports and is considered less vulnerable to market volatility. The investment property valuation as at 31 December 2010 resulted in a gain of £74 million (2009: £83 million loss). Refer to Note 9 of the financial statements.

BAA Limited

Financial review *continued*

Fair value losses on financial instruments
A net fair value loss of £41 million (2009: £81 million loss) on financial instruments has been recognised as financing costs in the Income statement. This loss related primarily to index-linked swaps internally designated to hedge the Group's bond issues which do not achieve hedge accounting under IFRS as the accounting standards do not contemplate achieving hedge accounting using these products. The index-linked swaps also provide a commercial hedge of the Group's RPI linked revenue.

Depreciation and amortisation
Depreciation and amortisation for the year ended 31 December 2010, excluding exceptional charges, was 5.5% higher at £561 million (2009: £532 million) due, for example, to depreciation commencing on significant recent investment in IT assets and Heathrow baggage search equipment, the refurbished Heathrow Terminal 4 check-in facilities, Edinburgh's departure lounge extension and bringing into use, initially connected to Terminal 1, the first phase of the satellite building for the new Terminal 2 at Heathrow.

Net finance costs
Net finance costs are discussed together with net interest paid under 'Net finance costs and net interest paid'.

Taxation
The tax credit recognised for the year was £223 million (2009: £109 million). Based on a loss before tax for the year of £730 million (2009: £311 million profit), this results in an effective tax rate of 30.5% (2009: -35.0%).

The Finance (No. 2) Act 2010 enacted a reduction in the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. As a result, the Group's deferred tax balances, which were provided at 28%, have been re-measured at the rate of 27% for the year ended 31 December 2010. This has resulted in a reduction in the net deferred tax liability of £82 million, with £88 million credited to the income statement and £6 million charged to reserves.

The tax credit recognised for the period is more than implied by the statutory rate of 28% (2009: 28%). This is primarily due to the change in tax rate as explained above and the non-deductibility for tax purposes of some of the impairment charges for the year. Refer to Note 5.

Net profit from discontinued operations
There was a net profit from discontinued operations of £74 million (2009: £581 million loss). This includes a £47 million profit on disposal of APP, BAA USA, BAA Italia and an adjustment to the loss on sale of Gatwick due to the pension transfer shortfall being lower than originally expected. It also reflects profits of £36 million generated prior to disposal of these interests partially offset by a £9 million tax charge. The loss in 2009 primarily reflects an impairment charge on the sale of Gatwick airport.

Dividend
No dividend was paid or declared in the year ended 31 December 2010 (2009: £nil).

Pensions
The retirement benefit obligations as at 31 December 2010 have been calculated on a consistent basis with the previous year, with updates provided on market-based assumptions.

As at 31 December 2010, the present value of retirement benefit obligations less the fair value of plan assets was a deficit of £67 million (2009: £278 million) reflecting the BAA defined benefit pension scheme deficit reducing to £44 million (2009: £256 million). The reduction in the scheme deficit is due principally to the benefit of the £105 million commutation payment into the scheme that arose due to the Gatwick sale and returns on the scheme assets increasing to £213 million compared to £74 million in 2009.

Summary cash flow

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Cash generated from continuing operations	**1,056**	925
Taxation	**2**	-
Net cash generated from discontinued operations	**18**	194
Net cash flow from operating activities	**1,076**	1,119
Capital expenditure	**(887)**	(956)
Investing activities of discontinued operations[2]	**108**	1,246
Net interest paid	**(460)**	(515)
Proceeds from issuance of bonds	**1,155**	925
Net movement in other borrowings	**(999)**	(442)
Restricted cash	**143**	(143)
Prepayment of derivative interest and cancellation of derivatives	**(111)**	(157)
Financing activities of discontinued operations	**(3)**	(1,099)
Net increase/(decrease) in cash and cash equivalents	**22**	(22)

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] Includes investing activities of discontinued operations prior to disposal, proceeds from disposals and Gatwick commutation payment.

Cash flow from operating activities
Net cash inflow from continuing operations in the year ended 31 December 2010 increased 14.2% to £1,056 million (2009: £925 million) which compares with Adjusted EBITDA of £1,082 million (2009: £992 million). Operating cash flow was less than Adjusted EBITDA mainly due to cash contributions to pension schemes exceeding the pension charge to the income statement by £39 million and the cash cost of the restructuring exceptional items partially offset by a positive working capital movement.

The improvement in operating cash flow between 2009 and 2010 reflects the increase in Adjusted EBITDA together with an improved working capital performance.

Financial review *continued*

Capital expenditure
In the year ended 31 December 2010, the Group invested £887 million in capital expenditure for continuing operations (2009: £956 million) with £819 million at Heathrow, £22 million at Stansted and £46 million at its other airports.

Investment at Heathrow focused on work on the new Terminal 2 and its satellite building which gained momentum through the year. It also reflects continued work on Terminal 5C which was nearing substantial completion at the year end. The third major Heathrow project during 2010 was the tunnel between Terminals 3 and 5 which will transport baggage for transfer passengers. Other investment included refurbishment of several areas in both Terminals 3 and 4 (security search, immigration hall and baggage reclaim) and further works on the taxiway system to enable the A380 aircraft to access all necessary airside areas.

There was modest investment at Stansted with the conclusion of expenditure on a potential new runway given the new UK government's opposition to the development of new runways in the South East of England and other investment focused on planning and security compliance and refurbishing existing infrastructure.

Within the Group's Non-Designated airports, the majority of investment was at Edinburgh where work continued on its terminal extension with a new aircraft stand, additional specialist shops and catering units and a larger central security search facility completed in 2010.

Across the Group's other three airports, investment was limited with the more significant projects including terminal forecourt security protection, taxiway rehabilitation and upgrade of runway approach lights at Glasgow and refurbishment of the helicopter taxiway and international arrivals area at Aberdeen whilst at Southampton there was upgrading of the terminal roof, retail facilities and terminal forecourt security protection.

Net debt
The analysis below focuses on the Group's external debt and excludes restricted cash. It also excludes index-linked derivative accretion that forms part of the derivative financial instruments in the Group's statement of financial position.

During 2010, the Group's nominal net debt declined 0.4% from £11,092 million at 31 December 2009 to £11,043 million at 31 December 2010 with the Group's surplus operating cash flow after interest payments and proceeds from non-core asset disposals funding all its extensive capital investment programme, which totalled £887 million in 2010.

The Group's nominal net debt at 31 December 2010 comprised £6,605 million outstanding under bond issues, £4,818 million outstanding under various bank facilities and cash and cash equivalents of £380 million. Nominal net debt comprised £10,269 million at BAA (SH) group level (i.e. related to BAA's London airports), £1,076 million at BAA (NDH1) Limited ('BAA (NDH1)') group level (i.e. principally related to BAA's four other UK airports) and £302 million of net cash elsewhere in the Group.

The accounting value of the Group's net debt at 31 December 2010 excluding accrued interest was £11,574 million (2009: £11,721 million).

The average cost of the Group's external gross debt at 31 December 2010 was 4.71% (2009: 5.68%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. The significant reduction in the cost of debt from the prior year reflects completion of approximately £2 billion in index-linked derivatives during 2010 on which only the real rate cost is included in determining the above cost of debt.

Financing activities
The Group continued to make strong progress in extending its debt maturities during 2010, attracting a wide range of investors to support its long-term investment plans at Heathrow through a number of major new debt financings. The Group raised approximately £2 billion of new financing, repaying the majority of its short-term maturities, including BAA (SH)'s previous £1.57 billion debt facility, and enhancing BAA's overall capital structure.

Major financings in 2010 included a £625 million four-year Class B loan facility, an inaugural £400 million eight-year Class B bond issue and a €500 million six-year Class A bond issue. Bond issuance proceeds were used, together with retained excess cash flow, to repay the refinancing facility to below £1.3 billion, as a result of which the previous block on dividend payments by BAA (SP) and its subsidiaries has been removed. The Group's capital structure was also enhanced by the completion in January 2010 of the equity injection announced in November 2009.

The Group took advantage of its significant recent deleveraging and increased debt headroom to upstream the proceeds of the Class B loan facility, together with drawings of £375 million under the London airports' revolving capital expenditure facility, from BAA (SP) to BAA (SH). BAA (SH) used the funds, together with £100 million injected from BAA's sale of its interest in the APP joint venture, to repay £1,100 million of its previous debt facility. Repayment of BAA (SH)'s previous debt facility was completed with a £175 million loan facility and £325 million bond issue.

The Group has no significant debt maturities in 2011. It expects, however, to continue to raise finance from the capital markets to fund its ongoing investment programme and meet its next major debt maturities in 2012. The Group also expects to increase the undrawn balance (£1.4 billion at 31 December 2010) under the London airports' £2.7 billion revolving capital expenditure facility. As in 2010, the Group expects to be active across a variety of markets, including not only Euro and Sterling but also US dollars.

Regulatory Asset Base ('RAB')
Set out below are RAB figures for Heathrow and Stansted at 31 December 2009 and 31 December 2010. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	Stansted £m	Total £m
31 December 2009	10,453	1,278	11,731
31 December 2010	11,449	1,327	12,776

The increase in the total RAB during 2010 reflected the addition of approximately £835 million in capital expenditure partially offset by regulatory depreciation of around £515 million. Variation in RAB profiling adjustments added a further £155 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £570 million over the period.

Financial review *continued*

Net finance cost and net interest paid
In the year ended 31 December 2010, the Group's net finance costs before certain re-measurements were £770 million (2009: £73 million income). The Group only reported net finance income in 2009 due to write-offs of interest on the Company's inter-company loan from ADI Finance 2 Limited. The remainder of the discussion below excludes interest on the inter-company loan, on which basis net finance costs for the year ended 31 December 2010 were £766 million (2009: £658 million).

Net finance costs included £931 million (2009: £812 million) of interest on external bond and bank debt and related derivatives and £35 million (2009: £35 million) of financing facility fees and other items. These charges were partially offset by £173 million (2009: £167 million) in finance income and £23 million (2009: £22 million) in capitalised interest. The increased net finance costs in 2010 largely reflect the net £123 million adverse movement in accretion under index-linked derivatives between 2009 and 2010 resulting from the shift from negative inflation in 2009 to positive inflation in 2010. Refer to Note 4 of the financial statements for more information.

Net interest paid in the year ended 31 December 2010 was £460 million (2008: £516 million). This consisted of £398 million (2009: £487 million) net interest paid on debt at BAA (SH) group level, £68 million (2009: £42 million) net interest paid on debt at BAA (NDH1) group level and £6 million (2009: £13 million) net interest received elsewhere in the Group. The reduction in net interest paid between 2009 and 2010 reflects higher average net debt prior to the sale of Gatwick towards the end of 2009 and reduced payments on derivatives in 2010 following interest prepayments and conversion of some swaps onto a forward starting basis. It also reflects higher interest paid in 2009 on the £1.57 billion debt facility previously held by BAA (SH) due to interest paid in January 2009 in respect of a longer than usual interest period that had started in August 2008 when interest rates were significantly higher than they have been since.

Net interest paid is lower than net finance costs primarily due to an amortisation charge of £141 million (2009: £144 million) in net finance costs relating to prepayments of derivative interest implemented principally in earlier periods and a £141 million non-cash charge (2009: £16 million credit) mainly relating to accretion on index-linked instruments. In addition, there is the non-cash amortisation of financing fees and bond fair value adjustments partially offset by capitalised interest.

Accounting and reporting policies and procedures
This annual report complies with the European regulation to report consolidated financial statements in conformity with IFRS from 1 April 2005 onwards. The consolidated results in the financial statements for the year ended 31 December 2010 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2009. The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the Group financial statements. The Company accounts are stated under UK GAAP.

BAA Limited

Internal controls and risk management

Internal control and risk management are key elements of the Group's corporate operations. Risk is centrally managed for the Group as part of corporate services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team which implements and manages risk closely setting the guidelines for the Group. The Executive Committee, Board and Audit and Assurance Committee ('AAC') referred to in the notes below relate to the Executive Committee, Board and AAC of BAA Limited respectively. Of the four members of the AAC all, including the Chair, are independent non-executive directors. Together they have appropriate competence in accounting and auditing.

Internal controls
The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company (see below) and for reviewing the effectiveness of the system. This is implemented by applying the Group internal control procedures, supported by a Code of Ethics Policy, a Professional Conduct Policy, appropriate segregation of duties controls, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the Group's internal control and risk management systems in relation to the financial reporting process of the Company and the preparation of the Group's consolidated financial statements include:
- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against budgets and previous forecasts on key metrics;
- Board review of interim and annual reporting, including press releases;
- independent review of controls by the Business Assurance function, reporting directly to the AAC; and
- a confidential whistleblowing process.

Before submission to the Board, the AAC reviews interim and annual financial statements, and any related press releases scrutinising amongst other items:
- compliance with accounting, legal, regulatory and lending requirements;
- critical accounting policies and the going concern assumption; and
- significant areas of judgement.

In addition, the AAC:
- considers the appointment of the external auditor, making appropriate recommendations to the Board, and assesses the independence of the external auditor;
- ensures that the provision of non-audit services does not impair the external auditors' independence or objectivity;
- discusses with the external auditor, before the audit commences, the nature and the scope of the audit and reviews the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- reviews external auditor management letters and responses from management;
- has a standing agenda to meet privately with the external auditors ie independent of the Company's executive directors; and
- reviews the scope, operations and reports of the Group's Business Assurance function on the effectiveness of systems for internal financial control, financial reporting and risk management.

Risk management
Risk management in the Group facilitates the identification, evaluation and effective management of the threats to the achievement of the Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed. Particular emphasis is given to safety, security, environment, reputation and finance in pursuit of 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 periodic review by the Group's Business Assurance function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

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

Safety risks
Health and safety is a core value of the business and the Group operates a safety management system built around risk assessment, inspection, asset stewardship, governance and assurance.

Risk assessment is undertaken for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by our business. The Group also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe. Governance, led by our Senior Management Team, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

Internal controls and risk management *continued*

Security risks

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

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

Regulatory environment, legal and reputational risks

Civil Aviation Authority ('CAA') economic regulation

As noted previously, the Group's operations at Heathrow and Stansted airports are currently subject to regulatory review by the CAA and Competition Commission normally every five years. The risk of an adverse outcome from these reviews is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters.

Part of the regulatory framework is the 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 throughout the constructive engagement process and to be represented on engagement fora – eg joint steering groups. When feedback is sought or processes measured, robust processes have been put in place 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 Department for Transport regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Capacity shortfall

Failure to secure necessary planning permissions could lead to the Group having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. The UK government's policy on airport capacity changes has a significant influence on the Group's ability to secure necessary planning permissions and develop capacity. 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 passenger traffic to grow to approximately 90 million and 35 million at Heathrow and Stansted respectively. The current terminal extension project at Edinburgh would allow it to handle up to 13 million passengers per annum.

Environmental risks

Environmental risk is managed throughout the Group as it has the potential to impact negatively upon the Group's reputation and jeopardise its licence to operate and to grow. The Group controls and mitigates these risks at a number of levels. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established. The 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

Operational disruption

There are a number of circumstances that can pose short-term risks to the normal operations of the Group's airports such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from the location of the Group's airports. These conditions can have a particularly significant impact on an airport such as Heathrow where, due to operating close to full capacity, there is negligible spare capacity to utilise in recovering from some of the above conditions. Where possible the Group seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

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 Group. Since it is not possible to identify the timing or period of such an effect, the 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 Group is recognised. The Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The 2011 pay negotiations started in late January 2011. The Group could also be exposed in the short-term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers and baggage handlers.

Internal controls and risk management *continued*

Commercial and financial risks continued

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 Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange spot and forward/swap transactions to protect against interest rate and currency risks.

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

(a) Interest rates

The Group maintains a mix of fixed and floating rate debt. As at 31 December 2010, fixed rate debt after hedging with derivatives represented 76% of the Group's total external nominal debt.

The Group mitigates the risk of mismatch between aeronautical income and its Designated 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 instruments.

(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 exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

(c) Funding and liquidity

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

1. Designated airports

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

The BAA (SH) platform is rated BB+/Ba3 and supports both bank and bond debt.

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

The Designated airports have positive cashflows before capital expenditure and maintain at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2010, cash at bank was £67 million, undrawn headroom under bank credit facilities was £1,450 million and undrawn headroom under the bank liquidity facilities was £524 million.

2. Non-Designated airports

The Group's Non-Designated airports are financed through a £1.26 billion bank facility. The Non-Designated airports group is cash positive after capital expenditure. As at 31 December 2010, cash at bank was £29 million and undrawn headroom under bank credit facilities was £200 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-2/F1. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a credit rating below BBB+/A.

On behalf of the Board

Colin Matthews
Director

22 February 2011

BAA Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

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

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, 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 £433 million (2009: £161 million). No dividends were paid during the year (2009: £nil). 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:

Sir Nigel Rudd (Independent Non-Executive Chairman)	
Colin Matthews	
Iñigo Meirás	
Stuart Baldwin	
Lord John Stevens	Resigned 31 December 2010
José Leo	
Nicolás Villén	
Renaud Faucher	
Richard Drouin	
Wilfried Kaffenberger	
Ernesto Lopez	
Santiago Jose Olivares	Appointed 23 March 2010
David Begg (Independent Non-Executive Director)	Appointed 24 November 2010
Rachel Lomax (Independent Non-Executive Director)	Appointed 24 November 2010

Company secretary
The company secretary who served during the year and since the year end is Carol Hui.

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 on 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, 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 Group performance.

Supplier payment policies
The Group 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 Group had 14 days purchases outstanding at 31 December 2010 (2009: 7 days) based on the average daily amount invoiced by suppliers during the year.

Donations

The Group's charitable donations for the year amounted to £1 million (2009: £1 million). The main beneficiaries of charitable donations, the relevant amounts donated and the main activities of these beneficiaries are as follows:

Charity: BAA Communities Trust	£700,000	Provides support for local community projects close to BAA's airports with a priority on funding projects linked to education, the environment and economic generation.
Charity: Heathrow Travelcare	£150,000	Provides counselling or assistance to passengers and airport staff.

The Group incurs expenditure which may be classified as political donations under the Political Parties, Elections and Referendums Act 2000. At the 2006 Annual General Meeting, the Group obtained a renewed shareholders' approval under this Act to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. In the Group's view there was no expenditure in the year ended 31 December 2010 (2009: £nil) that falls within this category.

Internal controls and risk management

The Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Group's internal control and risk management policies can be found on pages 14 to 15 in the Internal control and 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 Internal control and risk management section of the Business review.

Subsequent events

On 17 February 2011, BAA was refused permission to appeal to the Supreme Court ('SC') in what would have been the latest stage of a legal process underway since the Competition Commission ('CC') published in March 2009 its decision relating to its investigation into the supply of UK airport services by BAA. The CC's key structural remedy called for the disposal of certain airports including Stansted and either Edinburgh or Glasgow. The consequences of the SC's decision for airport disposals are unclear as the CC has stated that it does not expect to publish until March 2011 its provisional decision from its recent consultation as to whether there have been material changes in circumstances since its original decision in March 2009 that might lead it to amend the scope of the remedies requiring BAA to dispose of certain airports. In addition, BAA continues to consider its options in terms of next steps in this process.

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which 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.

Auditors

Pursuant to the provision of section 485(4) of the Companies Act 2006, an ordinary resolution was made by the directors to appoint Deloitte LLP as Auditors of the Company for the year ended 31 December 2010.

Statement of disclosure of information to the Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

Carol Hui
Company Secretary

22 February 2011

Company registration number: 05757208

BAA Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with IFRS as adopted by the European Union and the 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 Company and of the profit or loss of the Group and Company for that period.

In preparing the Group financial statements, International Accounting Standard ('IAS') 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the parent company financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the BAA website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the Board

Carol Hui
Company Secretary

22 February 2011

BAA Limited

Independent auditors' report to the members of BAA Limited

We have audited the Group financial statements of BAA Limited for the year ended 31 December 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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.

Scope of the audit of the financial statements

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

Opinion 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 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

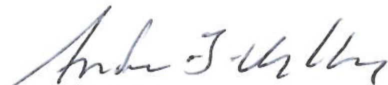
Matters on which we are required to report by exception

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:

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

Other matter

We have reported separately on the parent company financial statements of BAA Limited for the year ended 31 December 2010.



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

22 February 2011

BAA Limited

Consolidated income statement for the year ended 31 December 2010

	Note	Year ended 31 December 2010 Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m	Restated[1] Year ended 31 December 2009 Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m
Continuing operations							
Revenue	*1*	**2,312**	**-**	**2,312**	2,210	-	2,210
Operating costs	*2*	**(1,822)**	**-**	**(1,822)**	(1,805)	-	(1,805)
Other operating income							
Fair value gain/(loss) on investment properties	*9*	**-**	**74**	**74**	-	(83)	(83)
Fair value loss on financial instruments	*4b*	**-**	**-**	**-**	-	(1)	(1)
Operating profit/(loss)	*1*	**490**	**74**	**564**	405	(84)	321
Analysed as:							
Operating profit before exceptional items		**521**	**74**	**595**	460	(84)	376
Exceptional items	*3*	**(31)**	**-**	**(31)**	(55)	-	(55)
Exceptional impairment	*3*	**(483)**	**-**	**(483)**	-	-	-
Financing							
Finance income	*4a*	**173**	**-**	**173**	898	-	898
Finance costs	*4a*	**(943)**	**-**	**(943)**	(825)	-	(825)
Fair value loss on financial instruments	*4b*	**-**	**(41)**	**(41)**	-	(81)	(81)
		(770)	**(41)**	**(811)**	73	(81)	(8)
Share of loss of associates and joint ventures	*12*	**-**	**-**	**-**	(2)	-	(2)
(Loss)/profit before tax		**(763)**	**33**	**(730)**	476	(165)	311
Taxation – ordinary		**140**	**(5)**	**135**	63	46	109
Change in tax rate		**75**	**13**	**88**	-	-	-
Taxation	*5*	**215**	**8**	**223**	63	46	109
(Loss)/profit for the year from continuing operations		**(548)**	**41**	**(507)**	539	(119)	420
Net profit/(loss) from discontinued operations[3]	*6a*	**74**	**-**	**74**	(545)	(36)	(581)
Consolidated (loss)/profit for the year		**(474)**	**41**	**(433)**	(6)	(155)	(161)
Attributable to:							
Equity holders of parent		**(474)**	**41**	**(433)**	(6)	(155)	(161)

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] Certain re-measurements consist of fair value gains and losses on investment property revaluations and disposals, gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship and the related tax impact of these items.
[3] Includes the results of APP, BAA USA, BAA Italia and Gatwick, as a result of their classification as discontinued operations.

BAA Limited

Consolidated statement of comprehensive income for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Loss for the year		**(433)**	(161)
Other comprehensive income:			
Available-for-sale investments			
Gain taken to equity	*29*	**1**	8
Cash flow hedges			
(Losses)/gains taken to equity	*29*	**(229)**	14
Transferred to income statement	*29*	**148**	234
Acquisition of subsidiary	*29*	**-**	3
Actuarial gain/(loss)	*29*	**10**	(290)
Net movement in currency translation reserve	*29*	**(1)**	(7)
Indexation of operating land	*29*	**-**	3
Change in tax rate on investment properties	*29*	**4**	-
Disposal of operation	*29*	**(27)**	-
Other comprehensive income for the year net of tax		**(94)**	(35)
Total comprehensive income for the year		**(527)**	(196)
Attributable to:			
Equity holders of the parent		**(506)**	(198)
Non-controlling interest		**(21)**	2
		(527)	(196)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 29.

BAA Limited

Consolidated statement of financial position as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**11,113**	11,174
Investment properties	9	**2,625**	2,448
Intangible assets	10	**3,731**	4,145
Available-for-sale investments	11	**29**	29
Derivative financial instruments	18	**560**	693
Trade and other receivables	14	**132**	223
		18,190	18,712
Current assets			
Inventories	13	**7**	6
Trade and other receivables	14	**345**	292
Restricted cash	15	**37**	181
Cash and cash equivalents	16	**380**	354
		769	833
Assets classified as held-for-sale	25	**-**	103
Total assets		**18,959**	19,648
Liabilities			
Non-current liabilities			
Borrowings	17	**(12,379)**	(12,280)
Derivative financial instruments	18	**(779)**	(504)
Deferred income tax liabilities	20	**(2,040)**	(2,263)
Retirement benefit obligations	21	**(67)**	(278)
Provisions	23	**(8)**	(26)
Trade and other payables	24	**(3)**	(6)
		(15,276)	(15,357)
Current liabilities			
Borrowings	17	**(205)**	(1,116)
Provisions	23	**(39)**	(91)
Current income tax liabilities		**(153)**	(127)
Trade and other payables	24	**(495)**	(545)
		(892)	(1,879)
Liabilities associated with assets classified as held-for-sale	25	**-**	(4)
Total liabilities		**(16,168)**	(17,240)
Net assets		**2,791**	2,408
Equity			
Capital and reserves			
Share capital	26	**2,666**	4,300
Share premium	27	**-**	364
Fair value and other reserves	28	**(234)**	(147)
Retained earnings	30	**359**	(2,130)
Total shareholder's equity		**2,791**	2,387
Non-controlling interest in equity		**-**	21
Total equity		**2,791**	2,408

These financial statements of BAA Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 22 February 2011. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

BAA Limited

Consolidated statement of changes in equity for the year ended 31 December 2010

	Note	Attributable to owners of the Company						
		Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
1 January 2009		40	364	(397)	(1,682)[1]	(1,675)	19	(1,656)
Comprehensive income:								
Loss for the year		-	-	-	(161)	(161)	-	(161)
Other comprehensive income:								
Profit/(loss) on re-measurement of the following:								
Available-for-sale investments	*29*	-	-	8	-	8	-	8
Cash flow hedges net of tax	*29*	-	-	248	-	248	-	248
Currency translation	*29*	-	-	(6)	-	(6)	(1)	(7)
Indexation of operating land	*29*	-	-	-	3	3	-	3
Actuarial loss on pensions	*29*	-	-	-	(404)	(404)	-	(404)
Tax on actuarial loss on pensions	*29*	-	-	-	114	114	-	114
Acquisition of subsidiary	*29*	-	-	-	-	-	3	3
Total comprehensive income		-	-	250	(448)	(198)	2	(196)
Transactions with owners:								
Share capital movements		4,260	-	-	-	4,260	-	4,260
Total transactions with owners		4,260	-	-	-	4,260	-	4,260
1 January 2010		4,300	364	(147)	(2,130)	2,387	21	2,408
Comprehensive income:								
Loss for the year		-	-	-	(433)	(433)	-	**(433)**
Other comprehensive income:								
Profit/(loss) on re-measurement of the following:								
Available-for-sale investments	*29*	-	-	1	-	1	-	**1**
Cash flow hedges net of tax	*29*	-	-	(81)	-	(81)	-	**(81)**
Currency translation	*29*	-	-	(1)	-	(1)	-	**(1)**
Actuarial gain on pensions	*29*	-	-	-	62	62	-	**62**
Tax on actuarial gain on pensions	*29*	-	-	-	(52)	(52)	-	**(52)**
Change in tax rate on investment properties	*29*	-	-	-	4	4	-	**4**
Disposal of operation	*29*	-	-	(6)	-	(6)	(21)	**(27)**
Total comprehensive income		**-**	**-**	**(87)**	**(419)**	**(506)**	**(21)**	**(527)**
Transactions with owners:								
Share capital movements	*26*	(1,634)	-	-	1,634	-	-	**-**
Cancellation of share premium	*27*	-	(364)	-	364	-	-	**-**
Capital contribution	*30*	-	-	-	910	910	-	**910**
Total transactions with owners		**(1,634)**	**(364)**	**-**	**2,908**	**910**	**-**	**910**
31 December 2010		**2,666**	**-**	**(234)**	**359**	**2,791**	**-**	**2,791**

[1] Retrospectively adjusted by £6 million for change in accounting policy in relation to the amendment of IFRS 2 – see Note 22.

BAA Limited

Consolidated statement of cash flows for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Restated[1] Year ended 31 December 2009 £m
Cash flows from operating activities			
Cash generated from continuing operations	*32*	**1,056**	925
Taxation			
Income taxes paid		**(2)**	-
Group relief received		**4**	-
Cash generated from discontinued operations		**18**	194
Net cash from operating activities		**1,076**	1,119
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(868)**	(918)
Investment properties		**-**	(17)
Intangible assets		**(19)**	(21)
Investing activities of discontinued operations and disposal proceeds		**108**	1,246
Net cash (used in)/from investing activities		**(779)**	290
Cash flows from financing activities			
Proceeds from issuance of bonds	*32*	**1,155**	925
Drawdown of Class B facility	*32*	**625**	-
Drawdown of capital expenditure facilities	*32*	**607**	456
Drawdown of subordinated facility	*32*	**175**	-
Repayment of facilities and other items	*32*	**(2,616)**	(1,153)
Proceeds from parent borrowings	*32*	**210**	255
Prepayment of derivative interest	*32*	**(37)**	(114)
Cancellation of derivatives	*32*	**(74)**	(43)
Interest paid	*32*	**(466)**	(521)
Interest received	*32*	**6**	6
Restricted cash	*32*	**143**	(143)
Financing activities of discontinued operations		**(3)**	(1,099)
Net cash used in financing activities		**(275)**	(1,431)
Net increase/(decrease) in cash and cash equivalents		**22**	(22)
Cash and cash equivalents at beginning of year		**395**	417
Cash and cash equivalents at end of year	*16*	**417**	395

[1] Comparative information restated to include BAA Italia in discontinued operations.

Accounting policies

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

Primary financial statements format
The primary financial statements are presented in accordance with International Financial Reporting Standards ('IFRS') and International Accounting Standard ('IAS') 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses (including those of associates). These items are:
i fair value gains and losses on investment property revaluations and disposals;
ii derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and
iii the associated tax impacts of the items in (i) and (ii) above.

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

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

Consequently the directors have reviewed the cash flow projections of the Group taking into account:
- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (refer to Finance activities in the Financial review).

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 Statement of financial position signing date.

Changes in accounting policy and disclosures
(a) New and amended standards adopted by the Group
The Group has adopted the following new and amended IFRS's as of 1 January 2010, none of which have had a material impact on the Group's financial statements.

- IFRS 3(2008) Business Combinations, IAS 27(2008) Consolidated and Separate Financial Statements and IAS 28(2008) Investments in Associates
  This standard has introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3(2008) has also introduced additional disclosure requirements for acquisitions.

- Amendment to IFRS 2 Share-based Payment
  IFRS 2 has been amended, following the issue of IFRS 3(2008), to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2.

- Amendment to IAS 17 Leases
  IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17.

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement
  IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard.

- IFRIC 17 Distributions of Non-cash Assets to Owners
  The Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled.

- IFRS 2 (amended) Group Cash-settled Share-based Payment Transactions
  The amendment clarifies the accounting for share-based payment transactions between group entities.

(b) Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group
The following standards, amendments and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):
- IFRS 9 Financial Instruments
- IAS 24 (amended) Related Party Disclosures
- IAS 32 (amended) Classification of Rights Issues
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 (amended) Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs (May 2010)

Accounting policies *continued*

Changes in accounting policy and disclosures continued

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

The adoption of IFRS 9 will impact both the measurement and disclosures of financial instruments. No decision will be made by the Group on early adoption until all phases of the standard are complete.

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

Business combinations

Basis of consolidation

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

Subsidiaries

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

The acquisition of subsidiaries by the Group is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. All acquisition-related costs are expensed.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information during the 'measurement period', which cannot exceed one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of contingent consideration classified as equity are not recognised.

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 'Share-based Payment'; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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

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

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in income statement as a bargain purchase gain.

Transactions with non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Investments in associates and joint ventures

The equity method of accounting is used in respect to the Group's investment in associates and joint ventures. Associates are all entities over which the Group has significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

Investments are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Accounting policies *continued*

Business combinations *continued*
Investments in associates and joint ventures continued
Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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

The Group's operating segments are organised according to their regulatory environment, type of operation and geographic location. The operating segments are primarily the individual airports and the Heathrow Express ('HEX') which are organised and managed separately on the basis of the above operating environment. As such, the following operating segments are reported to the Board on a monthly basis:
- Designated group (price regulated airports of Heathrow and Stansted and HEX rail operations);
- Non-Designated group (Edinburgh, Glasgow, Aberdeen and Southampton);
- other operations (corporate activities, BAA Lynton and other commercial operations); and
- discontinued operations (Gatwick (2009), Airport Property Partnership ('APP'), BAA USA (Holdings) Inc ('BAA USA') and BAA Italia S.p.A. ('BAA Italia')).

Revenue
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

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

Retail
- Concession fees from retail and commercial concessionaires at or around airports are based upon turnover certificates supplied by concessionaires.
- Car parking income is recognised at the time of exiting the car park in accordance with operator management fee arrangements.

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

Other
- Revenue from rail ticket sales, recognised at the time of travel.
- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery.

Government grants
On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. No such grants have been received in 2010 (2009: £nil) in relation to any UK airports. Grants received are treated as deferred income until such time as the terms of the grant are satisfied at which time they are recognised as revenue in the period.

Exceptional items
The Group presents, on the face of the income statement, disclosure of exceptional items. Exceptional items are material items of income or expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Group's financial performance.

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

Additional details of exceptional items are provided as and when required as set out in Note 3.

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

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

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

Accounting policies *continued*

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

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

Discontinued operations
Discontinued operations consist of business segments and other significant non-core assets that have either been sold during the year or are classified as held-for-sale at year end.

Property, plant and equipment
Operational assets
Terminal complexes, airfield assets, plant and equipment, rail assets and other land and buildings are stated at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

Accounting policies *continued*

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

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

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

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

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

Internally-generated intangible assets
Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:
- an intangible asset is created that can be separately identified; and
- it is probable that the intangible asset created will generate future economic benefits; and
- the development cost of the intangible asset can be measured reliably.

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

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

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

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

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

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

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

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

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

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

Accounting policies *continued*

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

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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

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

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

Deferred income
Contractual income is treated as deferred income and released to the income statement as earned.

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.

Restructurings
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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

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

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

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

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

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

Accounting policies *continued*

Financial instruments *continued*

Investments continued

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

Financial liabilities and equity

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

Borrowings

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

Bond issue costs

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

Trade and other payables

Trade and other payables are non interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedging activities

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

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

The Group designates certain derivatives as either:

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

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

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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 rate method is used is amortised in the income statement 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 income statement.

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

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

Derivatives at fair value through the income statement

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

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

Accounting policies *continued*

Employee benefits

Pension obligations

The Group operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution pension schemes in respect of employees of Heathrow Express Operating Company Limited and BAA Business Support Centre Limited. The total cost of defined contribution pension arrangements are fully expensed as employment costs. The Group has no further payment obligations once the contributions have been paid.

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

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

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

The Group also provides unfunded pensions in respect of a limited number of former directors and current senior employees whose benefits are restricted by the Scheme rules. The cost of these arrangements is expensed as employment costs. In addition, the Group provides post-retirement medical benefits to certain pensioners.

Share based payments

The option plans are accounted for as cash-settled share-based payment transactions in accordance with the grant being made over Ferrovial S.A. shares and the Group has an obligation to settle the share-based payment transaction.

For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At each statement of financial position date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in the income statement for the year.

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

Current and deferred income tax

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

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

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

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

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

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

Share capital

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

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.

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 retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are recognised in equity within the fair value reserve.

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

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates at the reporting date.

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 believes that the following areas present the greatest level of uncertainty.

Investment properties

Investment properties were valued at a fair value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors (2009: Drivers Jonas, Chartered Surveyors and Strutt & Parker, Chartered Surveyors). Strutt & Parker were responsible solely for the valuation of residential properties at Stansted. The valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Independent valuations were obtained for 100% of the investment properties. Approximately 75% 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. In November 2010, following a change in strategy in respect of residential properties and land acquired for the purposes of runway developments, £107 million of properties and land previously recorded in Assets in the Course of Construction were transferred to Investment Property. This is on the basis that residential properties are proposed to be held for the longer term and achieve revenue through rentals or, with respect to Stansted properties, potential future disposal where the properties lie outside the projected future airport boundary.

Estimated impairment of goodwill and indefinite life intangible assets

The Group annually tests whether goodwill has suffered any impairment, as stated in the Accounting policies. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell. These calculations require the use of assumptions, the details of which have been disclosed in Note 10, together with sensitivity analysis where appropriate.

Pensions

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

Taxation

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

Hedge accounting

Interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions. This is based on management's expectation that it is highly probable that future sterling funding issuances will be used to refinance existing debt. As at 31 December 2010, £272 million of fair value losses (2009: £125 million) on these derivatives have been deferred into the cash flow hedge reserve.

Management compares on a regular basis existing hedging arrangements against expectations for future financing. If there were significant changes in the expected quantum of future sterling financing, this may require the recycling of the cash flow hedge reserve through the income statement.

Fair value of derivative financial instruments

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

1 Segment information

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

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

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

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

During the year, the Group classified BAA Italia as assets held-for-sale. During 2009, the Group formally disposed of Gatwick and classified BAA USA and the residual interests in APP as assets held-for-sale on the statement of financial position. The performance of these disposal groups is distinguished from the performance of continuing Group operations in the annual reports through classification as discontinued operations.

Table (a) details total revenue from external customers for the year ended 31 December 2010 and is broken down into aeronautical, retail, property and facilities and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2009.

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

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

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

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

1 Segment information *continued*

Table (a)	Segment revenue					EBITDA		
Year ended 31 December 2010	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total revenue from external customers £m	Pre exceptional items £m	Operating exceptional items[1] £m	Post exceptional items £m
Designated group	**1,115**	**476**	**267**	**164**	**2,022**	**967**	**(12)**	**955**
Heathrow	991	393	249	57	**1,690**	825	(12)	**813**
Heathrow Express	-	-	-	103	**103**	56	-	**56**
Stansted	124	83	18	4	**229**	86	-	**86**
Non-Designated group	**139**	**76**	**29**	**12**	**256**	**99**	**-**	**99**
Edinburgh	54	32	9	4	**99**	44	-	**44**
Glasgow	41	26	11	3	**81**	30	-	**30**
Aberdeen	28	9	7	4	**48**	15	-	**15**
Southampton	16	9	2	1	**28**	10	-	**10**
Other operations	-	4	-	30	**34**	16	-	**16**
Total	**1,254**	**556**	**296**	**206**	**2,312**	**1,082**	**(12)**	**1,070**

Reconciliation to statutory information

Unallocated income and expenses	
Depreciation and amortisation	**(580)**
Operating profit (before certain re-measurements)	**490**
Fair value gain on investment properties (certain re-measurements)	**74**
Exceptional impairment	**(483)**
Finance income	**173**
Finance costs	**(943)**
Fair value loss on financial instruments (certain re-measurements)	**(41)**
Loss before tax	**(730)**
Taxation – ordinary	**215**
Taxation – ordinary (certain re-measurements)	**8**
Taxation	**223**
Loss for the year – continuing operations	**(507)**
Net profit from discontinued operations[2]	**74**
Consolidated loss for the year	**(433)**

[1] Operating exceptional items for statutory reporting purposes include £19 million accelerated depreciation (included within depreciation and amortisation above) as compared to £nil for segmental reporting.
[2] Includes the results for APP, BAA USA and BAA Italia.

Revenues of approximately £506 million (2009: £497 million) were derived from a single external customer by the Group's continuing operations and are included in the Heathrow, Stansted, Edinburgh, Glasgow and Aberdeen segments above. A further £2 million (2009: £53 million) were derived from the same customer by discontinued operations.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

1 Segment information *continued*

Table (b) Year ended 31 December 2009	Segment revenue restated[1] Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total revenue from external customers £m	EBITDA restated[1] Pre exceptional items £m	Operating exceptional items[2] £m	Post exceptional items £m
Designated group	1,093	439	259	149	1,940	885	-	885
Heathrow	961	351	240	54	1,606	744	-	744
Heathrow Express	-	-	-	91	91	39	-	39
Stansted	132	88	19	4	243	102	-	102
Non-Designated group	140	72	29	13	254	107	-	107
Edinburgh	55	29	10	4	98	46	-	46
Glasgow	42	24	11	4	81	33	-	33
Aberdeen	27	10	7	4	48	19	-	19
Southampton	16	9	1	1	27	9	-	9
Other operations	-	7	-	9	16	-		-
Total	1,233	518	288	171	2,210	992	-	992
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation								(587)
Operating profit (before certain re-measurements)								405
Reconciliation to statutory information								
Fair value loss on investment properties (certain re-measurements)								(83)
Finance income								898
Finance costs								(825)
Fair value loss on financial instruments (certain re-measurements)								(82)
Share of profit of associates and joint ventures								(2)
Profit before tax								311
Taxation – ordinary								63
Taxation – ordinary (certain re-measurements)								46
Taxation								109
Profit for the year – continuing operations								420
Net profit from discontinued operations[3]								(581)
Consolidated loss for the year								(161)

[1] Information restated to include BAA Italia in discontinued operations.
[2] Operating exceptional items for statutory reporting purposes include £55 million accelerated depreciation (included within depreciation and amortisation above) as compared to £nil for segmental reporting.
[3] Includes the results of Gatwick, APP, BAA USA and BAA Italia.

1 Segment information *continued*

Table (c)	31 December 2010			31 December 2009 restated[1]		
	Depreciation & amortisation[2]	**Fair value gains/ (loss)[3]**	**Profit on disposals**	Depreciation & amortisation[2]	Fair value gains/ (loss)[3]	Loss on disposals
	£m	**£m**	**£m**	£m	£m	£m
Designated group	**514**	**31**	**-**	527	(93)	-
Heathrow	**432**	**35**	**-**	446	(52)	-
Heathrow Express	**41**		**-**	41	-	-
Stansted	**41**	**(4)**	**-**	40	(41)	-
Non-Designated group	**62**	**43**	**-**	56	12	-
Edinburgh	**25**	**22**	**-**	22	24	-
Glasgow	**21**	**3**	**-**	21	(3)	-
Aberdeen	**11**	**7**	**-**	8	(6)	-
Southampton	**5**	**11**	**-**	5	(3)	-
Other operations	**4**	**-**	**-**	4	(2)	-
Continuing operations	**580**	**74**	**-**	587	(83)	-
Discontinued operations	**3**	**-**	**47**	13	(49)	(683)
Total Group	**583**	**74**	**47**	600	(132)	(683)

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] Includes intangible asset amortisation of £37 million (2009: £41 million) and for Heathrow includes exceptional depreciation of £19 million (2009: £55 million) refer to Note 3.
[3] Reflects fair value gains and losses on investment properties only.

Table (d)	31 December 2010			31 December 2009		
	Assets[1]	**Liabilities**	**Capital expenditure**	Assets[1]	Liabilities	Capital expenditure
	£m	**£m**	**£m**	£m	£m	£m
Designated group	**15,662**	**(444)**	**798**	15,491	(482)	769
Heathrow	**12,954**	**(409)**	**768**	12,599	(440)	703
Heathrow Express	**1,098**	**(8)**	**11**	1,132	(7)	14
Stansted	**1,610**	**(27)**	**19**	1,760	(35)	52
Non-Designated group	**2,097**	**(47)**	**47**	2,391	(42)	69
Edinburgh	**934**	**(19)**	**26**	909	(17)	37
Glasgow	**672**	**(17)**	**12**	854	(14)	10
Aberdeen	**310**	**(6)**	**4**	361	(6)	18
Southampton	**181**	**(5)**	**5**	267	(5)	4
Other airports	**-**	**-**	**-**	201	(76)	15
Other operations	**194**	**(54)**	**-**	205	(68)	-
Classified as held for sale[2]	**-**	**-**	**21**	100	(4)	155
Total operations	**17,953**	**(545)**	**866**	18,388	(672)	1,008
Unallocated assets and liabilities:						
Cash, borrowings and available-for-sale investments[3]	**446**	**(12,584)**		567	(13,396)	
Derivative financial instruments	**560**	**(779)**		693	(504)	
Retirement benefit obligations	**-**	**(67)**		-	(278)	
Taxation	**-**	**(2,193)**		-	(2,390)	
Total Group	**18,959**	**(16,168)**	**866**	19,648	(17,240)	1,008

[1] Segment assets include primarily airport runways and facilities as well as goodwill and right to operate allocated to the reportable segments.
[2] Includes discontinued operations in respect of capital expenditure and excludes cash of £nil (2009: £3 million).
[3] Includes held for sale cash of £nil (2009: £3 million) in respect of discontinued operations.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

1 Segment information *continued*
Table (e)
The Group's geographical analysis of revenue and non-current assets, allocated based on the country in which the customer and assets are located is as follows:

	31 December 2010		31 December 2009 restated[1]	
	Revenue £m	**Non-current assets £m**	Revenue £m	Non-current assets £m
UK[2]	**2,312**	**17,630**	2,210	17,833
International[3]	**-**	**-**	-	186
Total operations	**2,312**	**17,630[4]**	2,210	18,019[4]
Un-allocated assets[5]		**560**		693
Total Group		**18,190**		18,712

[1] Comparative information restated to include BAA Italia in discontinued operations. There is no requirement to restate items in the Statement of financial position.
[2] BAA Limited is domiciled in the UK.
[3] No individual country's revenue or assets are considered material and so have not been disclosed separately.
[4] Excluding derivative financial instruments, deferred tax assets and post-employment benefit assets.
[5] Unallocated assets consist of derivative financial instruments, deferred tax assets and post-employment benefit assets.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

2 Operating costs – continuing operations

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Operating costs (including exceptional items) include the following:		
Employment costs		
Wages and salaries	**367**	339
Social security	**32**	29
Pensions	**44**	27
Share-based payments	**3**	6
Contract and agency staff	**37**	38
Other staff related	**30**	19
	513	458
Depreciation and amortisation		
Depreciation of property, plant and equipment	**543**	546
Amortisation of intangible assets		
Software	**23**	27
Retail contracts	**14**	14
	580	587
Other operating costs		
Retail expenditure	**34**	42
Retail marketing	**12**	9
Maintenance expenditure	**181**	197
Insurance	**22**	18
Other marketing and communications	**12**	13
Rents and rates	**133**	142
Utility costs	**128**	138
Police	**42**	44
Aerodrome navigation service charges	**97**	89
General expenses	**154**	147
Own work capitalised[2]	**(86)**	(79)
Total operating costs	**1,822**	1,805
Analysed as:		
Adjusted operating costs	**1,230**	1,218
Depreciation and amortisation (excluding exceptional depreciation)	**561**	532
Exceptional costs[3]	**31**	55
Total operating costs	**1,822**	1,805

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] Own work capitalised includes £71 million (2009: £65 million) in relation to employment costs, including contract and agency staff.
[3] Exceptional costs includes £19 million (2009: £55 million) accelerated depreciation and £12 million (2009: £nil) exceptional reorganisation costs. Refer to Note 3.

Rentals under operating leases

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Operating costs include:		
Plant and machinery	**35**	40
Other	**18**	36
	53	76
Property lease and sub lease charges – minimum lease payments	**18**	36

2 Operating costs – continuing operations *continued*

Auditors' remuneration

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Fees payable to the Company's auditors for the audit of the Group's annual accounts[1]		
The audit of the Company's subsidiaries pursuant to legislation	**0.5**	1.1
Total audit fees	**0.5**	1.1
Fees payable to the Company's auditors and their associates for other services to the Group		
Other services pursuant to legislation	**-**	0.1
Half year review	**0.1**	-
Tax services	**0.1**	-
Information technology services – pre-appointment[2]	**0.9**	0.8
Information technology services – post-appointment[2]	**0.2**	-
Corporate finance services	**0.2**	0.8
Other services	**0.1**	0.3
Total non-audit fees	**1.6**	2.0
Total fees[3]	**2.1**	3.1

[1] Auditor remuneration for the year ended 31 December 2010 relates to Deloitte LLP following their appointment on 1 April 2010 as statutory auditor for the year ended 31 December 2010 (2009: PricewaterhouseCoopers LLP).
[2] Prior to Deloitte LLP's appointment as auditors, Deloitte MCS Limited were engaged to assist management with the implementation of a new reporting and consolidation system. The majority of the work performed by Deloitte MCS Limited was undertaken before appointment of Deloitte LLP as external auditor on 1 April 2010.
[3] Auditor remuneration includes services provided for both continuing and discontinued operations.

Employee numbers

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

	Year ended 31 December 2010	Restated[1] Year ended 31 December 2009
Continuing operations		
United Kingdom		
Airports	**7,925**	8,103
Other operations	**1,182**	1,239
Discontinued operations		
United Kingdom		
Airports[2]	**-**	2,274
International		
BAA Italia	**414**	409
BAA USA	**17**	28
	9,538	12,053

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] The employee numbers in 2009 are for Gatwick and were calculated for the 11 months prior to the date of disposal.

Employees and directors

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Key management compensation[1]		
Salaries and short-term employee benefits	**6,617**	7,129
Sum paid to related parties for key management services	**1,200**	1,200
Termination benefits	**-**	872
	7,817	9,201

[1] Key management of the Company is the Board of Directors and members of the Executive Committee of BAA Limited who control and direct the BAA Group's operational activities and resources.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

2 Operating costs – continuing operations *continued*
Directors' remuneration

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Aggregate emoluments	**2,139**	2,162
Value of company pension contributions to defined contribution scheme	**52**	174
Sums paid to related parties for directors' services	**1,200**	1,200
	3,391	3,536

During the year, none of the directors (2009: none) had retirement benefits accruing to them under a defined benefit pension scheme and one of the directors (2009: one) had retirement benefits accruing to them under a defined contribution pension scheme.

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

Highest paid director

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Aggregate emoluments[1]	**971**	820
Value of company pension contributions to defined contribution scheme[1]	**52**	174
	1,023	994

[1] During the year the highest paid director ceased making contributions to the BAA defined contribution pension scheme. Since then, equivalent cash payments have been made to the director and are included within aggregate emoluments for the year.

In accordance with a long-term incentive scheme, a cash amount could be awarded to the highest paid director which would vest in 2012 contingent on achieving or surpassing EBITDA targets over a three year period. As the financial performance is uncertain at this stage no value in relation to this award is disclosed.

3 Exceptional items

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Accelerated depreciation		**(19)**	(55)
Reorganisation costs		**(12)**	-
Total operating exceptional items before income tax		**(31)**	(55)
Impairment of property, plant and equipment	*8*	**(149)**	-
Impairment of intangible assets	*10*	**(334)**	-
Total non-operating exceptional items before income tax		**(483)**	**-**
Tax credit on exceptional items		**75**	15
Total exceptional items		**(439)**	(40)

The £19 million (2009: £55 million) accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life was reassessed and extended.

The reorganisation costs of £12 million in 2010 related primarily to a restructuring process to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

4 Financing – continuing operations
(a) Net finance income

	Note	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Finance income			
Income from available-for-sale investments		**2**	2
Income from other financial assets		**6**	6
Interest receivable on derivatives not in hedge relationship		**164**	157
Interest on deposits		**1**	2
Interest on Group borrowings[2]		**-**	731
		173	898
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[3]		**(353)**	(289)
Bank loans and overdrafts and related hedging instruments		**(362)**	(433)
Interest payable on derivatives not in hedge relationship[3]		**(216)**	(90)
Facility fees		**(31)**	(32)
Unwinding of discount on provisions		**-**	(3)
Interest on Group borrowings		**(4)**	-
Total borrowing costs		**(966)**	(847)
Less: capitalised borrowing costs	*8*	**23**	22
		(943)	(825)
Net finance (costs)/income before certain re-measurements		**(770)**	73

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] In 2009, ADI Finance 2 Limited waived accrued interest payable by the Group on the downstream loan for the period between the date the downstream loan was made in June 2006 and 31 March 2009 which resulted in an £838 million gain.
[3] Includes total accretion of £119 million loss (2009: £16 million gain), of which £12 million loss (2009: £nil) arises from index-linked bonds and £107 million loss (2009: £16 million gain) from index-linked swaps.

The net finance income above is for continuing operations only. Finance income and finance costs for discontinued operations are disclosed in Note 6.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 2.22% (2009: 2.87%) to expenditure incurred on such assets.

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Embedded derivatives in electricity purchase contracts	**-**	(1)
Fair value losses in operating profit	**-**	(1)
Interest rate swaps: cash flow hedge[1]	**(6)**	23
Cross-currency swaps: cash flow hedge[1]	**6**	(18)
Index-linked swaps: not in hedge relationship	**(35)**	(126)
Equity swaps	**(5)**	43
Fair value re-measurements of foreign exchange contracts and currency balances	**(1)**	(3)
Fair value losses in finance costs	**(41)**	(81)
Total fair value loss on financial instruments	**(41)**	(82)

[1] Hedge ineffectiveness on derivatives in a hedge relationship.

5 Taxation – continuing operations

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
UK corporation tax		
Current tax at 28% (2009: 28%)	**15**	(6)
Over provision in respect of prior years	**-**	16
Deferred tax		
Current year	**(145)**	(79)
Prior year	**(10)**	(40)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**(88)**	-
Overseas tax		
Current	**5**	-
Ordinary taxation credit for the year	**(223)**	(109)

[1] Comparative information restated to include BAA Italia in discontinued operations.

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
(Loss)/profit before tax	**(730)**	311

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting (losses)/profits of the Group:

Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 28% (2009: 28%)	**(204)**	87
Adjustments in respect of current income tax of previous years	**-**	16
Change in UK corporation tax rate – impact on deferred tax assets and liabilities[2]	**(88)**	-
Non deductible expenses/(net non assessable income)[3]	**79**	(172)
Adjustments in respect of deferred income tax of previous years	**(10)**	(40)
Ordinary taxation credit for the year	**(223)**	(109)

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] The Finance (No. 2) Act 2010 enacted a reduction in the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. As a result, the Group's deferred tax balances, which were provided at 28%, have been re-measured at the rate of 27% for the year ended 31 December 2010. This has resulted in a reduction in the net deferred tax liability of £82 million, with £88 million credited to the income statement and £6 million charged to reserves.
[3] Non deductible expenses in 2010 include the non tax deductible impairment of property, plant and equipment, together with goodwill. In 2009, net non assessable income includes the non taxable waiver of interest on the intercompany loan (Note 4).

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

6 Discontinued operations

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

In 2009, Gatwick Airport Limited ('Gatwick') was sold and the results up to the date of disposal (3 December 2009) are reported in (a) below.

In 2009, BAA USA and its subsidiary undertakings and the Group's interest in APP were classified as held-for-sale by management. During 2010, BAA Italia was classified as held-for-sale and the comparatives have been restated to reflect this. All of these operations were disposed of during 2010 (see (b) for details) and their results up until they were disposed of are reported in (a) below.

(a) Net profit/(loss) from discontinued operations

	Year ended 31 December 2010			Restated[1] Year ended 31 December 2009		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	**77**	**-**	**77**	516	-	516
Operating costs						
Depreciation and amortisation	**(3)**	**-**	**(3)**	(13)	-	(13)
Other	**(49)**	**-**	**(49)**	(303)	-	(303)
Other items						
Fair value loss on investment property	**-**	**-**	**-**	-	(49)	(49)
Operating profit/(loss) from discontinued operations	**25**	**-**	**25**	200	(49)	151
Analysed as:						
Operating profit before exceptional items	**25**	**-**	**25**	200	(49)	151
Exceptional items	**-**	**-**	**-**	-	-	-
Financing						
Financing costs	**-**	**-**	**-**	(68)	-	(68)
Net finance costs	**-**	**-**	**-**	(68)	-	(68)
Profit/(loss) on disposal of operations	**47**[2]	**-**	**47**[2]	(683)[3]	-	(683)[3]
Share of profit from associates and joint ventures	**11**	**-**	**11**	26	-	26
Profit/(loss) before tax from discontinued operations	**83**	**-**	**83**	(525)	(49)	(574)
Tax (charge)/credit on profit/(loss) of discontinued operations	**(9)**	**-**	**(9)**	(20)	13	(7)
Net profit/(loss) from discontinued operations	**74**	**-**	**74**	(545)	(36)	(581)

[1] Comparative information restated to include BAA Italia in discontinued operations.
[2] Attributable to the disposals of APP (and related entities), BAA USA and BAA Italia and an adjustment to the loss on sale of Gatwick due to the pension transfer shortfall being lower than originally estimated.
[3] Largely comprises a £601 million impairment charge on the investment in Gatwick up to the date of disposal and a £68 million loss on disposal of Gatwick.

6 Discontinued operations *continued*

(b) Disposal of businesses

During 2010, the Group concluded the strategic refocusing of its business away from non-core and international assets to its UK airports through the sale of its interests in the APP joint venture, US airport retail management and Naples airport in Italy.

The gain on disposal arising from these transactions is detailed below:

Statement of financial position	£m
Property, plant and equipment	144
Investment property	190
Goodwill	64
Intangible assets	5
Other assets	50
Cash and cash equivalents	9
Borrowings	(126)
Derivative financial instruments	(9)
Other liabilities	(102)
Net assets	**225**
Deduct:	
Recycled foreign currency reserve	(6)
Minority interest	(21)
Add:	
Recycled hedge reserve	12
Disposal costs	14
Carrying value of disposed operations	**224**
Consideration:	
Cash and cash equivalents	(271)
Gain on disposal	**47**

On 22 June 2010, the Group completed the disposal of its interest in APP and related entities to subsidiaries of Segro plc for £244 million (£111 million after deducting the Group's share of APP's debt and other assumed liabilities).

On 30 July 2010, the Group completed the disposal of BAA USA, which managed retail activities at Baltimore, Boston, Cleveland and Pittsburgh airports in the US, to AMU Holdings Inc., a wholly-owned subsidiary of Prospect Capital Corporation, for US$50 million (£34 million).

On 21 December 2010, the Group completed the disposal of its Italian business, being principally its 65% shareholding in Societe Gestione Servizi Aeroporti SPA, the owner of Naples International Airport, to an entity controlled by F2i SGR SpA, for €147 million (£125 million).

The impact of these subsidiaries and associates on the Group's results in the current and prior periods are disclosed in Note 6(a) above. The cash flows attributable to these entities to the date of disposal are separately disclosed in the Consolidated statement of cash flows on page 25.

The net proceeds from these disposals have been retained by the Group and largely utilised in reducing debt including the use of £100 million in repaying part of the £1.57 billion debt facility previously held at BAA (SH) plc (formerly BAA (SH) Limited) ('BAA (SH)').

7 Dividends

No dividends were paid or proposed in the year (2009: £nil).

8 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2009		7,421	1,342	222	76	1,240	1,609	**11,910**
Additions		7	-	10	-	-	804	**821**
Acquisitions		-	-	-	-	-	1	**1**
Net transfers from/(to) investment properties	*9*	3	-	-	19	-	(21)	**1**
Transfers from/(to) completed assets		878	34	100	6	5	(1,023)	**-**
Borrowing costs capitalised	*4*	-	-	-	-	-	22	**22**
Disposals		(90)	(3)	(5)	(10)	-	(1)	**(109)**
Currency translation		(4)	-	(5)	(1)	-	(6)	**(16)**
Transferred to assets held-for-sale	*25*	-	-	(18)	-	-	(9)	**(27)**
1 January 2010		**8,215**	**1,373**	**304**	**90**	**1,245**	**1,376**	**12,603**
Additions		11	-	13	-	-	821	**845**
Net transfers (to)/from investment properties	*9*	(1)	-	-	5	-	(107)	**(103)**
Transfers from/(to) completed assets		205	128	38	2	6	(379)	**-**
Borrowing costs capitalised	*4*	-	-	-	-	-	23	**23**
Disposals[1]		(19)	(1)	(18)	(1)	-	(149)	**(188)**
Disposal of operations		(109)	-	(25)	(7)	-	(14)	**(155)**
Reclassifications		8	(7)	(1)	-	-	-	**-**
Currency translation		(5)	-	(2)	(1)	-	(1)	**(9)**
31 December 2010		**8,305**	**1,493**	**309**	**88**	**1,251**	**1,570**	**13,016**
Depreciation								
1 January 2009		(720)	(113)	(47)	(20)	(79)	-	**(979)**
Charge		(404)	(56)	(52)	(6)	(41)	-	**(559)**
Disposals		86	3	4	4	-	-	**97**
Currency translation		2	-	3	-	-	-	**5**
Transferred to assets held-for-sale	*25*	-	-	7	-	-	-	**7**
1 January 2010		**(1,036)**	**(166)**	**(85)**	**(22)**	**(120)**	**-**	**(1,429)**
Charge		(384)	(59)	(55)	(8)	(40)	-	**(546)**
Impairment		-	-	-	-	-	(149)	**(149)**
Disposals[1]		19	1	17	1	-	149	**187**
Disposal of operations		20	-	10	1	-	-	**31**
Reclassifications		(4)	4	-	-	-	-	**-**
Currency translation		2	-	1	-	-	-	**3**
31 December 2010		**(1,383)**	**(220)**	**(112)**	**(28)**	**(160)**	**-**	**(1,903)**
Net book value 31 December 2010		**6,922**	**1,273**	**197**	**60**	**1,091**	**1,570**	**11,113**
Net book value 31 December 2009		7,179	1,207	219	68	1,125	1,376	11,174

[1] Disposals of assets in the course of construction removes the effect of the exceptional impairment charge for the write-off of planning application costs and write down in value of domestic properties and land at the reporting date balance. This is consistent with the transfer of the domestic properties and land, previously purchased by Heathrow and Stansted in relation to runway developments, to investment properties prior to the reporting date.

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £20 million (2009: £21 million).

Assets in the course of construction

Assets in the course of construction primarily consist of projects at Heathrow for work on the new Terminal 2 and its satellite building, together with the substantial completion of work on Terminal 5C. In addition, the tunnel between Terminals 3 and 5 to transport baggage for transfer passengers is underway.

Impairment

As a result of the change in UK government and its policy towards runway developments, BAA announced on 24 May 2010 that it was withdrawing its planning permission applications for Stansted Generation 2 and ceasing work on the development of the planning application for a third runway at Heathrow. As a result there was a total impairment charge of £149 million made of which £104 million related to the write-off of planning application costs and £45 million to the write down in the value of domestic properties and land purchased by both airports for development of future runways prior to their transfer to investment properties. The accounting treatment has no impact on these costs being included in the airports' regulatory asset bases and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance (other than £37 million of Stansted planning application costs previously disallowed by the CAA).

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,260 million (2009: £1,238 million). Borrowing costs were capitalised at an average rate of 2.22% (2009: 2.87%).

A tax deduction of £23 million (2009: £22 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 17.

9 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2009		2,518	15	**2,533**
Additions		-	21	**21**
Transferred to completed assets		27	(27)	**-**
Net transfers to property, plant and equipment	*8*	(1)	-	**(1)**
Disposals		(22)	-	**(22)**
Valuation loss		(83)	-	**(83)**
1 January 2010		**2,439**	**9**	**2,448**
Additions		-	-	**-**
Transferred to completed assets		3	(3)	**-**
Net transfers from property, plant and equipment	*8*	103	-	**103**
Valuation gain		74	-	**74**
31 December 2010		**2,619**	**6**	**2,625**

Airport investment properties were valued at fair value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors (2009: Drivers Jonas, Chartered Surveyors and Strutt & Parker, Chartered Surveyors). Strutt & Parker were responsible solely for the valuation of residential properties at Stansted.

Details of valuations performed are provided below:

	31 December 2010 £m	31 December 2009 £m
CB Richard Ellis	**2,538**	-
Drivers Jonas	**-**	2,436
Strutt & Parker	**87**	12
At professional valuation	**2,625**	2,448

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

Void areas amounted to 13,448m^2 at the reporting date (2009: 9,210m^2) representing 0.94% (2009: 0.65%) of the Group's investment property portfolio.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £2 million (2009: £4 million) for which a similar amount is included within operating costs.

Included in investment properties are assets with a carrying value of £59 million (2009: £48 million) which the Group has provided as security for the £30 million debentures due 2017 on behalf of a subsidiary. Security granted by the Group over its assets, including investment properties, is disclosed in Note 17.

10 Intangible assets

	Note	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost							
1 January 2009		3,376	624	118	132	7	**4,257**
Additions		-	-	18	-	-	**18**
Acquisitions		3	-	-	-	5	**8**
Disposals		-	-	(4)	-	(2)	**(6)**
Transferred to assets held-for-sale	*25*	-	-	-	-	(5)	**(5)**
1 January 2010		**3,379**	**624**	**132**	**132**	**5**	**4,272**
Additions		-	-	19	-	2	**21**
Disposals		-	-	(5)	-	-	**(5)**
Disposal of operations		(64)	-	-	-	-	**(64)**
31 December 2010		**3,315**	**624**	**146**	**132**	**7**	**4,224**
Amortisation							
1 January 2009		-	-	(53)	(36)	-	**(89)**
Charge for the year		-	-	(27)	(14)	-	**(41)**
Disposals		-	-	3	-	-	**3**
1 January 2010		**-**	**-**	**(77)**	**(50)**	**-**	**(127)**
Charge for the year		-	-	(23)	(14)	-	**(37)**
Impairment		(89)	(243)	-	-	(2)	**(334)**
Disposals		-	-	5	-	-	**5**
31 December 2010		**(89)**	**(243)**	**(95)**	**(64)**	**(2)**	**(493)**
Net book value 31 December 2010		**3,226**	**381**	**51**	**68**	**5**	**3,731**
Net book value 31 December 2009		3,379	624	55	82	5	4,145

Goodwill and right to operate

Goodwill relates to the excess of the purchase consideration paid over the carrying values of the net assets of BAA plc which was acquired in June 2006 and represents the potential for long-term growth in the infrastructure and passenger traffic.

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

Goodwill and right to operate are allocated to the Group's cash-generating units ('CGU'), identified as the individual airports. A summary of the allocation at 31 December 2009 reconciled to 31 December 2010 is presented below:

	31 December 2009		Impairment charge			31 December 2010	
Business segments	**Right to operate £m**	**Goodwill £m**	**Right to operate £m**	**Goodwill £m**	**Transfers[1] £m**	**Right to operate £m**	**Goodwill £m**
UK							
Designated airports	-	3,003	-	-	-	**-**	**3,003**
Heathrow	-	2,753	-	-	-	**-**	**2,753**
Stansted	-	250	-	-	-	**-**	**250**
Non-Designated airports	624	309	(243)	(86)	-	**381**	**223**
Edinburgh	147	223	-	-	-	**147**	**223**
Glasgow	280	-	(179)	-	-	**101**	**-**
Aberdeen	107	52	-	(52)	-	**107**	**-**
Southampton	90	34	(64)	(34)	-	**26**	**-**
Other operations	-	3	-	(3)	-	**-**	**-**
International							
Other airports	-	64	-	-	(64)	**-**	**-**
	624	3,379	(243)	(89)	(64)	**381**	**3,226**

[1] Transferred to assets held-for-sale and subsequently disposed of.

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

10 Intangible assets *continued*

Goodwill and right to operate continued

An impairment test is a comparison of the carrying value of the assets of a CGU, that is, the individual airports, to their recoverable amount described above and calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, impairment exists. As at 31 December 2010, goodwill and right to operate carrying values for each airport were tested for impairment. Any resulting impairment charges were applied firstly to goodwill, and where nil goodwill remained, to right to operate assets. No impairment charges resulted for Heathrow, Stansted or Edinburgh although there was a significant reduction in headroom at both Stansted and Edinburgh. However impairment charges have been booked for the remainder of the airports, mainly as a result of the review of the operational drivers updated in light of current performance and the increase in the discount rate. These charges resulted in Glasgow reducing its right to operate value by £179 million, Aberdeen reducing its goodwill value by £52 million and Southampton reducing its goodwill and right to operate values by £34 million and £64 million respectively. Other operations goodwill was considered impaired based on the most recently available financial information and other airports, consisting of Naples, was transferred to discontinued operations and subsequently disposed of during the year.

Designated group

The calculation of the business plan for the Designated airports (Heathrow and Stansted) was done through the 'Building Blocks' approach, in the same way the CAA and CC applies it. The profitability of these regulated assets, using this approach, is determined by the existing Regulatory Asset Base ('RAB'), the future Capital Investment Programme, the regulatory return and the current economic climate and its impact on passenger numbers. The starting point of the projection for Heathrow and Stansted is the Board approved business plan extending until December 2012 and 2013 respectively.

Key assumptions

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

- Operational projections
  The operational projections used were those approved by BAA's Board for the period until 2012 for Heathrow and 2013 for Stansted. For future regulatory periods, EBITDA projections for the Designated airports are generated using the long-term operational model which simulates the potential outcome of future regulatory settlements and is affected by forecast passenger numbers, the projected capital investment programme, non aeronautical revenue and cost expectations, the forecast return allowed by the regulator and macroeconomic factors such as RPI and COPI.

- Capital expenditure
  From 2013 onwards, a series of major projects have been included for the maintenance and replacement capital expenditure base line, in order to add capacity to the existing infrastructure to meet forecast demand in line with the industry's expectations and at the same time maintain the quality of the assets. Current plans are to spend over £10.5 billion (in 2007/08 prices) over the next 10 years at the Designated airports. Management believes that the expansion of capacity at Heathrow is the only credible answer to the unattended forecast demand in the South East of England and therefore Heathrow's capital investment programme includes the investment required by the third runway project at Heathrow, which has been delayed when compared to 2009 assumptions. However, investment in a second runway at Stansted is excluded from the Stansted valuation following government decisions and latest management views.

- Return from regulators and discount rate
  The rate of return utilised for the period until December 2012 has been consistent with the latest regulatory outcomes at 6.2% (2009: 6.2%) for Heathrow and 7.1% (2009: 7.1%) for Stansted. For periods beyond December 2012, the rate of return has been increased considering recent regulatory settlements in the UK, since it is expected any market participant would take note of the different objective elements in the calculation of the WACC. The unlevered discount rates applied to the operational cash flows for the calculation of the recoverable amount of the Designated airports ranges from 8.14% (2009: 7.73%) to 8.80% (2009: 8.50%).

- Cost of debt
  Long-term assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

- Financing structure
  It has been assumed that the current capital structure of the Group will be maintained in the long-term and that any potential purchaser would be able to put in place a similar financing structure with a similar cost.

Sensitivity analysis

Changes in the key assumptions noted above have been reviewed for sensitivity analysis. As at 31 December 2010, the most relevant impact from the sensitivities are those related to the increase of capacity and future passenger demand at Heathrow and Stansted.

Non-Designated group

The business plan for the Non-Designated airports and other operations was prepared in December 2010 and reflects the management view of the assets in the short-term and the current economic climate and its impact on passenger numbers. The business plan up to December 2015 has been approved by the Board. EBITDA projections for 2015 and beyond have been prepared using long-term operational models which consider passenger estimates prepared by BAA's Forecasting and Statistics team, future capital investment plans and the estimated income and expense for each year. The recoverable amount of assets held for sale is based on management's best sale price estimations calculated on the basis of the long-term model projections and financing structure.

10 Intangible assets *continued*

Goodwill and right to operate continued

Key assumptions

The key assumptions used in determining the recoverable amounts for the Non-Designated airports are:

- Passenger growth
  Passenger growth is the main driver for developing a sustainable and profitable business plan driving aeronautical and non-aeronautical revenue. Annual passenger growth is assumed to be 3.0% (2009: 4.0%) on average over the medium term and 2.0% (2009: 3.0%) over the long-term based on revised estimations of capacity expansion.

- Capital expenditure
  The capital expenditure programme to 2018 is determined by each airport. Forecasts beyond 2018 are driven by high level ratios (revenue and operating expense per passenger) and longer-term investment programmes reflect the replacement of existing assets as they depreciate, together with capacity expansion plans in line with the airports' master plans.

- Short- and long-term growth rates
  RPI and COPI projections for the period to December 2015 have been updated for recent forecast trends. Long-term average RPI and COPI remains unchanged at 2.75%.

- Discount rate
  The discount rate for the Non-Designated airports has been calculated applying market references and assuming a 0.70 unlevered beta. The unlevered discount rate applied for the calculation of recoverable amount of the Non-Designated airports and other operations is 8.59% (2009: 8.20%). The assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Sensitivity analysis

Changes in key assumptions noted above have been reviewed for sensitivity analysis. As at 31 December 2010, the estimated recoverable amounts of Aberdeen, Glasgow and Southampton airport equalled their impaired carrying values. Any adverse change in key assumptions for the Non-Designated airports would, in isolation, cause a further impairment loss to be recognised.

Software costs

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

Software costs include assets in the course of construction of £29 million (2009: £20 million).

11 Available-for-sale investments

	Note	**31 December 2010 £m**	31 December 2009 £m
Unlisted securities			
Opening balance		**29**	19
Disposals		**(1)**	-
Revaluation surplus transferred to equity	*28*	**1**	10
		29	29

Available-for-sale investments include £29 million (2009: £28 million) in respect of a 4.19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 10.0% (2009: 10.0%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its available-for-sale investments is included in Note 19.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

12 Investments in associates and joint ventures

On 22 June 2010, the Group completed the sale of its 50% stake in APP – its principal joint venture, see Note 6 for disposal details.

In 2009 in accordance with the requirements of IFRS 5 'Non-current assets-held-for-sale and discontinued operations', the investment in APP was classified as held-for-sale by management and the equity accounted losses of £129 million were classified in discontinued operations. Up until the date of disposal the investment was equity accounted for as a one line investment on the statement of financial position and the equity accounted profit of £11 million is included in discontinued operations for the year ended 31 December 2010.

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

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Share of statement of financial position			
Non-current assets		**-**	199
Current assets		**-**	11
Non-current liabilities		**-**	(130)
Current liabilities		**-**	(8)
Net assets		**-**	72
Transferred to held-for-sale	*25*	**-**	(72)
Share of revenue and profit/(loss)			
Revenue		**8**	20
Revaluation on investment property		**7**	17
Net profit after tax		**11**	24
Net profit reconciled as follows:			
Discontinued operations	*6a*	**11**	26
Continuing operations		**-**	(2)[1]
		11	24

[1] Results of associate Ultra PRT Limited (formerly Advanced Transport Systems Limited) to the date of the Group gaining control.

13 Inventories

	31 December 2010 £m	31 December 2009 £m
Consumables	**7**	6

The total amount of inventories consumed in the year relating to continuing operations was £9 million (2009: £6 million) and relating to discontinued operations was £nil (2009: £1 million).

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

14 Trade and other receivables

	31 December 2010 £m	31 December 2009 £m
Non-current		
Other receivables	**3**	9
Prepayments[1]	**36**	65
Amounts owed by parent entity	**93**	90
Related party amounts[2]	**-**	59
	132	223
Current		
Trade receivables	**179**	217
Less: Provision for impairment	**(4)**	(4)
Trade receivables – net	**175**	213
Prepayments	**53**	41
Other receivables	**54**	38
Related party amounts[2]	**63**	-
	345	292

[1] Non-current prepayments of £36 million represent refinancing fees paid in 2008 on facilities not yet drawn and future bond issuances (2009: £65 million). Refinancing fees paid on facilities are amortised over the term of the facility whereas fees paid for future bond issuances will be allocated to the bonds when issued and amortised using the effective interest rate method.

[2] Related party amounts represent loan notes due from Caisse de dépôt et placement du Québec that were received on disposal of Budapest Airport with maturity in June 2011.

14 Trade and other receivables *continued*

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

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

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

As at 31 December 2010, trade receivables of £160 million (2009: £144 million) were fully performing. Trade receivables of £2 million (2009: £64 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2010 £m	31 December 2009 £m
Up to 3 months	**2**	47
Over 3 months	**-**	17
	2	64

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

	31 December 2010 £m	31 December 2009 £m
At 1 January	**4**	3
Provision for receivables impairment	**1**	2
Receivables written off during the year as uncollectible	**(1)**	(1)
At 31 December	**4**	4

As at 31 December 2010, trade receivables of £17 million (2009: £9 million) were considered for impairment of which £4 million (2009: £4 million) was provided for, with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' in the Income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery.

The ageing of these receivables is as follows:

	31 December 2010 £m	31 December 2009 £m
Over 3 months	**17**	9

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 19.

15 Restricted cash

	31 December 2010 £m	31 December 2009 £m
Cash account	**29**	174
Short-term deposits	**8**	7
	37	181

At 31 December 2009, £143 million of proceeds from the sale of Gatwick airport were being held in escrow to be used primarily to settle a commutation payment into the Group's defined benefit pension scheme which was settled during 2010.

16 Cash and cash equivalents

	31 December 2010 £m	31 December 2009 £m
Cash at bank and in hand	**114**	79
Short-term deposits	**266**	275
	380	354

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximate their book value.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less (excluding Gatwick disposal proceeds held in escrow in 2009), held for the purpose of meeting short-term cash commitments, and consist of:

	Note	**31 December 2010 £m**	31 December 2009 £m
Cash at bank and in hand		**143**	110
Short-term deposits		**274**	282
Cash classified as held-for-sale	*25*	**-**	3
		417	395

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

17 Borrowings

	31 December 2010 £m	31 December 2009 £m
Current		
Secured		
Bank loans	**39**	41
Unsecured		
Bank loans	**1**	9
	40	50
Borrowings from parent	**-**	850
Total current (excluding interest payable)	**40**	900
Interest payable	**165**	160
Interest payable to parent	**-**	56
Total current	**205**	1,116
Non-current		
Secured		
BAA Funding Limited bonds:		
3.975% €1,000 million due 2012	**849**	872
5.850% £400 million due 2013	**396**	395
4.600% €750 million due 2014	**628**	652
12.450% £300 million due 2016	**389**	403
4.125% €500 million due 2016	**408**	-
4.600% €750 million due 2018	**627**	647
6.250% £400 million due 2018	**392**	-
9.200% £250 million due 2021	**316**	321
5.225% £750 million due 2023	**725**	724
6.750% £700 million due 2026	**680**	684
7.075% £200 million due 2028	**233**	234
6.450% £900 million due 2031	**998**	1,001
3.334% +RPI £235 million due 2039	**243**	233
Total BAA Funding Limited bonds	**6,884**	6,166
BAA (SH) plc bonds:		
7.125% £325 million due 2017	**317**	-
Total bonds	**7,201**	6,166
Bank loans – Designated airports	**3,465**	3,236
Bank loans – Non-Designated airports	**1,036**	1,025
Subordinated facility	**171**	1,555
£30 million debenture due 2017	**39**	41
Unsecured		
Other bank loans	**2**	2
Total bank loans	**4,713**	5,859
Total external borrowings	**11,914**	12,025
Borrowings from parent	**465**	255
Total non-current	**12,379**	12,280
Total borrowings (excluding interest payable)	**12,419**	13,180

The average cost of the Group's external gross debt at 31 December 2010 was 4.71% (2009: 5.68%), taking into account the impact of interest rate, cross currency and index-linked hedges but excluding index-linked accretion. The significant reduction in the cost of debt from the prior year reflects completion of approximately £2 billion in index-linked derivatives during 2010 on which only the real rate cost is included in determining the above cost of debt.

BAA Funding Limited bonds

The maturity dates of the BAA Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and BAA Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity which is two years later, except for the 6.250% £400 million 2018 bond, the redemption date of which coincides with its legal maturity date.

Fair value of borrowings

	31 December 2010		31 December 2009	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Long-term debt	**11,914**	**12,149**	12,025	12,037
Borrowings from parent	**465**	**465**	255	255
	12,379	**12,614**	12,280	12,292

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

17 Borrowings *continued*

Security and guarantees

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

BAA (DSH) Limited and BAA (SH) plc have also granted security over their assets to secure their obligations under their financing agreements.

BAA Pension Trust Company Limited (the 'BAA Pension Trustee') is a Borrower Secured Creditor and has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

BAA Airports Limited has provided a guarantee to Deutsche Trustee Company Limited (the 'Bond Trustee') for itself and on behalf of the BAA Guaranteed Bondholders in respect of bonds issued by BAA Funding Limited with scheduled redemption dates up to and including 15 February 2018 (other than the 4.125% €500 million bond due 2016).

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 their liabilities under the Borrower Account Bank Agreement.

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

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

The £30 million debenture held by BAA Lynton Limited has a principal value of £30 million and is secured on certain properties and other assets of the Group with a fair value of £62 million.

Additional disclosures on risk management and hedging of borrowings are included in Notes 18 and 19.

18 Derivative financial instruments

31 December 2010	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts - no hedge accounting	10	-	-	**-**
	10	**-**	**-**	**-**
Non-current				
Equity swaps - no hedge accounting	150	8	(84)	**(76)**
Interest rate swaps - cash flow hedge	3,863	-	(380)	**(380)**
Cross-currency swaps - cash flow hedge	1,190	358	-	**358**
Cross-currency swaps – fair value hedge	947	192	(19)	**173**
Index-linked swaps - no hedge accounting	4,114	2	(296)	**(294)**
	10,264	**560**	**(779)**	**(219)**
Total	**10,274**	**560**	**(779)**	**(219)**

31 December 2009	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts - no hedge accounting	10	-	-	-
	10	-	-	-
Non-current				
Equity swaps - no hedge accounting	155	10	(80)	(70)
Interest rate swaps - cash flow hedge	5,088	3	(252)	(249)
Cross-currency swaps - cash flow hedge	1,703	652	-	652
Index-linked swaps – no hedge accounting	2,206	28	(172)	(144)
	9,152	693	(504)	189
Total	9,162	693	(504)	189

Equity swaps

The Group has entered into a number of equity swaps to hedge Ferrovial share price risk under the Group's Executive Share Option Plan ('ESOP') refer to Note 22. The total ESOP derivative portfolio consists of 11.7 million shares at a total mark to market liability of £76 million as at 31 December 2010 (2009: £70 million).

18 Derivative financial instruments *continued*

Interest rate swaps

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

Index linked swaps

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

Cross-currency swaps

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

Foreign exchange contracts

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

19 Financial instruments

Financial risk management objectives and policies

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

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

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

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

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

Foreign exchange risk

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

As at 31 December 2010, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £8 million and £10 million respectively (2009: £12 million decrease and £15 million increase respectively).

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group and classified on the Consolidated statement of financial position as available-for-sale.

The Group is exposed to share price risk of its ultimate parent, Ferrovial, S.A., arising from its ESOP programme. The Group uses equity swaps to manage this exposure. As at 31 December 2010, if the Ferrovial share price had strengthened or weakened by 10%, annual pre-tax profit would have increased or decreased by £7 million (2009: £9 million).

The Group is exposed to RPI risk on its index linked bond and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2010, with all other variables remaining constant, if the RPI had increased or decreased by 10%, annual pre-tax profit would have decreased or increased by £171 million and £165 million respectively (2009: £76 million decrease and £74 million increase respectively).

Cash flow and fair value interest rate risk

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

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

As at 31 December 2010, the Group's fixed floating interest rate profile, after hedging, on net debt was 76:24 (2009: 83:17).

As at 31 December 2010, each 0.50% change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the finance income, finance cost and mark-to-market valuation of derivatives:

19 Financial instruments *continued*
Cash flow and fair value interest rate risk continued

	31 December 2010		31 December 2009	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.50% increase	**58**	**169**	28	175
0.50% decrease	**(60)**	**(139)**	(30)	(186)

Credit risk
Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings below A-2/F1. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with credit ratings below BBB+/A.

As at 31 December 2010, the Group had total credit risk with derivative counterparties of its interest rate swaps, index-linked swaps and cross-currency swaps of £552 million (2009: £683 million).

Financial assets past due but not impaired comprise trade and other receivables and are disclosed in Note 14.

The maximum exposure to credit risk as at 31 December 2010 is £1,281 million (2009: £1,576 million).

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

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

	31 December 2010 £m	31 December 2009 £m
Floating rate facilities		
Expiring in more than two years	**1,650**	2,257
	1,650	2,257

As at 31 December 2010, overdraft facilities of £10 million were available (2009: £29 million).

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

	31 December 2010			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**40**	**1,250**	**4,951**	**5,184**
Borrowing interest payments	**528**	**524**	**1,276**	**2,516**
Derivative financial instruments	**(39)**	**(21)**	**186**	**307**
Trade payables	**226**	**-**	**-**	**-**
Capital payables	**195**	**-**	**-**	**-**

	31 December 2009			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	51	1,824	4,473	5,102
Borrowing interest payments	517	476	1,094	2,659
Derivative financial instruments	13	41	273	914
Trade payables	205	-	-	-
Capital payables	197	-	-	-

19 Financial instruments *continued*

Liquidity risk continued

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

	31 December 2010			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**59**	**59**	**116**	**76**
Cross-currency derivative receipts	**(111)**	**(111)**	**(201)**	**(106)**

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

Capital risk management

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

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

There are gearing covenants in financing agreements at various levels, including the BAA (SH) and BAA (SP) consolidated groups. Actual gearing ratios at each of these levels are set out below:

	31 December 2010	31 December 2009
Net debt to RAB at BAA (SH) group	**0.81**	0.86
Total net debt to RAB at BAA (SP) group	**0.78**	0.73
Senior net debt to RAB at BAA (SP) group	**0.69**	0.67

The decrease in gearing ratio at BAA (SH) group in 2010 is largely the result of cash flow being retained in the business and the impact of inflation on the RAB. The increase in total and senior net debt to RAB at BAA (SP) occurred due to payment of £1,000 million from BAA (SP) to BAA (SH) to enable repayment of the same amount of debt at BAA (SH) as well as (in the case of senior debt) treasury management to optimise use of the Group's lower cost senior debt.

Financial instruments by category

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

	31 December 2010				
	Loans and receivables £m	**Assets at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Available-for- sale £m**	**Total £m**
Available-for-sale investments	**-**	**-**	**-**	**29**	**29**
Derivative financial instruments	**-**	**10**	**550**	**-**	**560**
Cash and cash equivalents	**417**	**-**	**-**	**-**	**417**
Trade receivables	**175**	**-**	**-**	**-**	**175**
Other receivables	**100**	**-**	**-**	**-**	**100**
Total financial assets	**692**	**10**	**550**	**29**	**1,281**

	31 December 2010			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings	**-**	**-**	**(12,419)**	**(12,419)**
Derivative financial instruments	**(380)**	**(399)**	**-**	**(779)**
Trade payables	**-**	**-**	**(226)**	**(226)**
Capital payables	**-**	**-**	**(195)**	**(195)**
Total financial liabilities	**(380)**	**(399)**	**(12,840)**	**(13,619)**

19 Financial instruments *continued*

Financial Instruments by category continued

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

	31 December 2009			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	-	(13,180)	(13,180)
Derivative financial instruments	(252)	(252)	-	(504)
Trade payables	-	-	(205)	(205)
Capital payables	-	-	(197)	(197)
Total financial liabilities	(252)	(252)	(13,582)	(14,086)

At 31 December 2010, the Group has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation

Financial instruments that are measured in the Statement of financial position at fair value are classified by the following fair value measurement hierarchy:

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

The following tables present the Group's assets and liabilities that are measured at fair value as at 31 December:

	31 December 2010			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Assets at fair value through income statement	**-**	**10**	**-**	**10**
Derivatives qualifying for hedge accounting	**-**	**550**	**-**	**550**
Available-for-sale investments	**-**	**-**	**29**	**29**
	-	**560**	**29**	**589**
Liabilities				
Liabilities at fair value through income statement	**-**	**(380)**	**-**	**(380)**
Derivatives qualifying for hedge accounting	**-**	**(399)**	**-**	**(399)**
	-	**(779)**	**-**	**(779)**

	31 December 2009			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	38	-	38
Derivatives qualifying for hedge accounting	-	655	-	655
Available-for-sale investments	-	-	29	29
	-	693	29	722
Liabilities				
Liabilities at fair value through income statement	-	(252)	-	(252)
Derivatives qualifying for hedge accounting	-	(252)	-	(252)
	-	(504)	-	(504)

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

19 Financial instruments *continued*

Fair value estimation continued

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

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

Specific valuation techniques used to value financial instruments include:

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

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

	Note	**31 December 2010 £m**	31 December 2009 £m
1 January		**29**	19
Gains recognised in equity	*28*	**1**	10
Transferred to income statement		**(1)**	-
31 December		**29**	29

20 Deferred income tax

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

	Note	**2010 £m**	2009 £m
1 January		**2,263**	2,403
Disposal of operations		**1**	(2)
Credited to income statement		**(243)**	(118)
Tax charged/(credited) to equity	*29*	**13**	(20)
Change in UK corporation tax rate – charge to equity	*29*	**6**	-
31 December		**2,040**	2,263

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	**Revaluations of investment property to fair value £m**	**Revaluations of property, plant, and equipment £m**	**Fair value of retail contracts and right to operate £m**	**Provision for sale of overseas subsidiary £m**	**Obligations under land purchase £m**	**Other £m**	**Total £m**
1 January 2010	1,907	469	131	196	10	26	79	2,818
Credited to income statement	(107)	(15)	-	(70)	-	(25)	(13)	**(230)**
Credited to equity	-	(4)	-	-	-	-	-	**(4)**
Change in tax rate	(68)	(13)	(6)	(7)	-	(1)	(4)	**(99)**
Transfers	(9)	-	-	-	-	-	4	**(5)**
31 December 2010	**1,723**	**437**	**125**	**119**	**10**	**-**	**66**	**2,480**

Deferred income tax assets

	Capital losses £m	**Non Trade Deficit £m**	**IAS 32/39 £m**	**Fair value of long-term borrowings £m**	**Fair value uplift of bonds £m**	**Obligations under land lease £m**	**Post employment benefits £m**	**Other £m**	**Total £m**
1 January 2010	17	214	67	73	80	26	77	1	555
Credited/(charged) to the income statement	-	(40)	14	-	(12)	(25)	(12)	-	**(75)**
Credited/(charged) to equity	-	-	29	-	-	-	(52)	-	**(23)**
Change in tax rate	(1)	(7)	-	(3)	(3)	(1)	4	-	**(11)**
Disposal of operations	-	-	-	-	-	-	-	(1)	**(1)**
Transfers	-	-	-	7	(12)	-	-	-	**(5)**
31 December 2010	**16**	**167**	**110**	**77**	**53**	**-**	**17**	**-**	**440**

20 Deferred income tax *continued*

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Fair value reserves in shareholders' equity		
Cash flow hedge reserve	**32**	(95)
Available-for-sale investments	**-**	(2)
Indexation - operating land	**-**	3
Retirement benefit obligations	**(45)**	114
Change in tax rate	**(6)**	-
	(19)	20

The Finance (No. 2) Act 2010 enacted a reduction in the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. As a result, the Group's deferred tax balances, which were provided at 28%, have been re-measured at the rate of 27% for the year ended 31 December 2010. This has resulted in a reduction in the net deferred tax liability of £82 million, with £88 million credited to the Income statement and £6 million charged to reserves.

21 Retirement benefit obligations

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
BAA Pension Scheme	**40**	44[1]
Defined contribution schemes	**3**	2
Additional provision for unfunded pensions	**1**	1
Total operating charge to employment costs	**44**	47

[1] Included in BAA Pension scheme is an amount of £15 million relating to pension abatement costs, which have been charged to the income statement in prior years.

	31 December 2010 £m	31 December 2009 £m
BAA Pension Scheme	**(44)**	(256)
Unfunded pension obligations	**(19)**	(18)
Post-retirement medical benefits	**(4)**	(4)
Net liability recognised in the statement of financial position	**(67)**	(278)

(a) BAA Pension Scheme

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

The value placed on the liabilities of the scheme as at 31 December 2010 is based on a roll forward of detailed calculations carried out by the Scheme Actuary as at 30 September 2009. These were based on individual member data, approximately adjusted for the impact of the Gatwick transfer. The liabilities have been updated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS 19 - Employee Benefits. The Scheme assets are stated at their bid value at 31 December 2010. The Group's accounting policy is to recognise actuarial gains and losses as they occur in the statement of comprehensive income.

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

	31 December 2010 %	31 December 2009 %
Rate of increase in pensionable salaries	**5.1**	5.2
Increase to deferred benefits during deferment	**3.6**	3.7
Increase to pensions in payment:		
Open section	**3.5**	3.6
Closed section	**3.6**	3.7
Discount rate	**5.5**	5.7
Inflation assumption	**3.6**	3.7
Expected return on plan assets		
Equities	**7.9**	8.2
Bonds	**5.2**	5.5
Other	**0.5**	0.5

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 25.9 years (2009: 24.8 years) and 27.9 years (2009: 25.9 years) from age 60 for a 40 year old male non-pensioner.

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

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

21 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

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

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

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

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 6.3% assumption (2009: 6.6%).

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

The amounts recognised in the income statement are as follows:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current service cost	**49**	54
Finance cost on benefit obligation	**129**	120
Expected return on plan assets	**(138)**	(145)
Curtailment gain	**-**	(25)
Settlement loss	**-**	25
Past service cost	**-**	15
Total operating charge to employment costs	**40**	44

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Actual return less expected return on plan assets	**75**	(71)
Experience gains and losses arising on the benefit obligation	**20**	67
Changes in assumptions underlying the present value of the benefit obligation	**(33)**	(400)
Actuarial gain/(loss) recognised in the statement of comprehensive income	**62**	(404)

The actual return on plan assets was £213 million (2009: £74 million).

The actuarial loss of £33 million (2009: loss of £400 million) arising from changes in assumptions in the year ended 31 December 2010 resulted primarily from:

- a reduction in the discount rate assumption to 5.5% (2009: 5.7%) increasing the present value of the defined benefit obligation by £68 million.
- a reduction in the inflation rate assumption to 3.6% (2009: 3.7%) reducing the present value of the defined benefit obligation by £43 million.
- a net increase of £8 million is mainly due to the changes in demographic assumptions which includes the introduction of 1% underpin to the future improvement of mortality assumption.

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

	31 December 2010 £m	31 December 2009 £m
Fair value of plan assets		
Equities	**521**	635
Bonds	**978**	1,131
Other	**860**	263
Total fair value of plan assets	**2,359**	2,029
Present value of benefit obligation	**(2,403)**	(2,285)
Gross deficit in scheme at 31 December	**(44)**	(256)
Liability recognised in the statement of financial position	**(44)**	(256)

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

21 Retirement benefit obligations *continued*
(a) BAA Pension Scheme *continued*
Analysis of movement in the benefit obligation:

	31 December 2010 £m	31 December 2009 £m
Benefit obligation at beginning of year	**2,285**	1,987
Movement in the year:		
Current service cost	**49**	54
Finance cost	**129**	120
Members' contributions	**12**	15
Past service cost	**-**	15
Actuarial loss	**13**	333
Curtailment gain	**-**	(25)
Transferred liabilities of Gatwick	**-**	(128)
Benefits paid (by fund and company)	**(85)**	(86)
Benefit obligation at end of year	**2,403**	2,285

The Group has an agreement with the Trustees to contribute £80 million per annum plus the cost of augmentation of members' benefits under the Scheme following redundancy. The Group currently expects to contribute £80 million to the scheme in the year ending 31 December 2011.

Analysis of defined benefit obligation:

	31 December 2010 £m	31 December 2009 £m
Plans that are wholly or partly funded	**(2,403)**	(2,285)
Plans that are wholly unfunded	**(23)**	(22)
	(2,426)	(2,307)

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

	31 December 2010 £m	31 December 2009 £m
Fair value of plan assets at beginning of year	**2,029**	2,082
Expected return on plan assets	**138**	145
Actuarial gain/(loss)	**75**	(71)
Employer contributions (including benefits paid and reimbursed)	**85**	96
Members' contributions	**12**	15
Gatwick commutation payment	**105**	-
Bulk transferred assets for Gatwick	**-**	(152)
Benefits paid (by fund and company)	**(85)**	(86)
Fair value of plan assets at end of year	**2,359**	2,029

History of experience gains and losses:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	9 months to 31 March 2006
Difference between the expected and actual return on scheme assets:					
Amount £m	**75**	(71)	(343)	(4)	(57)
Percentage of scheme assets	**3.2**	(3.5)	(16.5)	(0.2)	(2.7)
Experience gains and losses on benefit obligations:					
Amount £m	**20**	67	28	130	(8)
Percentage of scheme liabilities	**0.8**	2.9	1.2	6.1	(0.3)
Total amount recognised in the statement of comprehensive income:					
Amount £m	**62**	(404)	(59)	375	(58)
Percentage of benefit obligation	**2.6**	(17.8)	(3.0)	17.7	(2.4)

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

	Annual impact in income statement £m		**Impact in equity £m**	
Sensitivity analysis based on change in discount rate	Before tax	After tax	Before tax	After tax
+0.50% discount rate	7	5	217	156
-0.50% discount rate	(8)	(6)	(250)	(180)

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

	Annual impact in income statement £m		**Impact in equity £m**	
Sensitivity analysis based on change in inflation rate	Before tax	After tax	Before tax	After tax
+0.50% inflation rate	(8)	(6)	(235)	(169)
-0.50% inflation rate	7	5	207	149

A change in the mortality assumption causing a 1 year increase in life expectancy would have a £61 million impact on the retirement benefit obligation and a £2 million impact on the forward looking service cost.

21 Retirement benefit obligations *continued*

(b) Other pension and post-retirement liabilities

The Group operates a defined contribution scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution schemes in respect of employees of Heathrow Express Operating Company Limited and BAA Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £3 million (2009: £2 million).

The Group also provides unfunded pensions in respect of a limited number of former directors and current senior employees whose benefits are restricted by the Scheme rules. The cost of these arrangements expensed against operating profit in the year is £1 million (2009: £1 million). The Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £4 million (2009: £4 million) is included in the statement of financial position, along with provision for unfunded pension obligations of £19 million (2009: £18 million). The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

22 Share-based payments

The Group historically operated an ESOP to provide awards of options over Ferrovial S.A. shares that were generally reserved for full time directors and other senior employees. This plan was closed in 2009 and replaced by a Performance Cash Plan.

Due to the amendment of IFRS 2 in June 2009, there has been a change in accounting policy and option plans are now accounted for as cash-settled share-based payment transactions in accordance with the grant being made over Ferrovial S.A. shares and the Group has an obligation to settle the share-based payment transaction. This has been retrospectively adjusted for in the primary statements.

Options are granted with a fixed exercise price equal to the market price of the shares at the date of grant. The table below shows the options outstanding:

Option grant date	Number of options over Ferrovial shares outstanding at 31 December 2009	Expired/forfeited during the year	Number of options over Ferrovial shares outstanding at 31 December 2010	Grant price and exercise price (€)
February 2007	1,192,228	(1,192,228)	**-**	**19.64**
July 2007	4,511,072	(3,625,801)	**885,271**	**18.45**
November 2007	337,176	(263,829)	**73,347**	**15.29**
July 2008	5,450,584	(1,887,764)	**3,562,820**	**10.83**
November 2008	1,056,936	(526,344)	**530,592**	**6.02**

The exercise period for each of the issues above commences three years from the option grant date and lasts for three years. Vesting of the options is subject to continued employment and the Group achieving targeted levels of EBITDA.

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

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

A Performance Cash Plan provides senior managers with an annual award related to a percentage of their basic salary (dependent on grade). A percentage of the award will be paid as a cash lump sum to participants three years from the date of the award subject to financial performance conditions having been met.

23 Provisions

	Disposal of operations £m	Reorganisation £m	Obligations under land purchase £m	Other £m	Total £m
1 January 2010	35	14	38	30	**117**
Utilised	(20)	(9)	(38)	(11)	**(78)**
Charged to income statement	3	7	-	5	**15**
Released	-	-	-	(7)	**(7)**
31 December 2010	**18**	**12**	**-**	**17**	**47**
Current	18	12	-	9	**39**
Non-current	-	-	-	8	**8**
31 December 2010	**18**	**12**	**-**	**17**	**47**
Current	35	14	38	4	91
Non-current	-	-	-	26	26
31 December 2009	35	14	38	30	117

Disposal of operations

A provision is held for costs associated with the Group's disposed operations at Gatwick and Naples airports. All amounts are expected to be utilised in 2011.

Reorganisation

The costs associated with the Group's reorganisation programmes primarily relate to various restructuring processes designed to reduce the size and cost of overhead functions following the sale of Gatwick airport in December 2009. These costs are for severance and pension payments only and are expected to be utilised in 2011.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

23 Provision *continued*

Obligations under land purchase

This provision related to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land were relocated and agreement was reached in January 2010 for a full and final payment of £38 million to be paid by Heathrow to the vendor. This amount was settled during the year.

Other

A provision is held for onerous contracts primarily relating to energy purchases and property leases. All amounts are expected to be utilised within four years.

24 Trade and other payables

	31 December 2010 £m	31 December 2009 £m
Non-current		
Deferred income	**3**	6
	3	6
Current		
Deferred income	**42**	83
Trade payables	**226**	205
Other tax and social security	**10**	11
Other payables	**22**	49
Capital payables	**195**	197
	495	545

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

25 Assets held-for-sale

All operations classed as discontinued during the current or prior year were disposed of during 2010, refer to note 6. Assets held-for-sale at 31 December 2009 relate to APP and BAA USA.

	Note	**31 December 2010 £m**	31 December 2009 £m
Intangible assets (excluding goodwill)	*10*	**-**	5
Property, plant and equipment	*8*	**-**	20
Investments in associates and joint ventures	*12*	**-**	72
Trade and other receivables	*14*	**-**	3
Cash and cash equivalents	*16*	**-**	3
Total assets classified as held-for-sale		**-**	103
Trade and other payables	*24*	**-**	(4)
Total liabilities classified as held-for-sale		**-**	(4)
Net assets of disposal group		**-**	99

26 Share capital

	Ordinary shares of 6.2p each	Ordinary shares of 10p each
Authorised		
1 January 2010		
43,000,000,100 ordinary shares of 10p each	**-**	4,300,000,010
Re-nominalisation from ordinary shares of 10p each to ordinary shares of 6.2p each	**2,666,000,006**	(4,300,000,010)
31 December 2010	**2,666,000,006**	**-**
Allotted and fully paid		
1 January 2010		
42,998,461,934 ordinary shares of 10p each	**-**	4,299,846,193
Re-nominalisation from ordinary shares of 10p each to ordinary shares of 6.2p each	**2,665,904,640**	(4,299,846,193)
31 December 2010	**2,665,904,640**	**-**

On 20 January 2010, the High Court of Justice approved the special resolution, passed on 20 January 2010, requesting the reduction in the nominal value of each ordinary share issued. The share capital for the Company reduced from £4,299,846,193 divided into 42,998,461,934 ordinary shares of 10p each to £2,665,904,640 divided into 42,998,461,934 ordinary shares of 6.2p each.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

27 Share premium

	£m
1 January 2010	364
Cancellation of share premium	(364)
31 December 2010	**-**

On 20 January 2010, the High Court of Justice approved the special resolution, passed on 20 January 2010, requesting the Company's share premium account to be cancelled.

28 Fair value and other reserves

	Cash flow hedge reserve £m	Available for sale investments £m	Currency translation reserve £m	Total £m
1 January 2010	(171)	11	13	**(147)**
Fair value (losses)/gains	(311)	1	-	**(310)**
Transferred to income statement	203	-	-	**203**
Deferred tax on fair value losses	32	-	-	**32**
Current tax on fair value gains	(2)	-	-	**(2)**
Change in tax rate	(3)	-	-	**(3)**
Currency translation	-	-	(1)	**(1)**
Disposal of operation	-	-	(6)	**(6)**
31 December 2010	**(252)**	**12**	**6**	**(234)**

29 Tax relating to components of other comprehensive income

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	Year ended 31 December 2010			Year ended 31 December 2009		
	Before tax £m	**Tax (charge) /credit £m**	**After tax £m**	Before tax £m	Tax (charge) /credit £m	After tax £m
Available-for-sale investments						
Gain taken to equity	**1**	**-**	**1**	10	(2)	8
Cash flow hedges						
(Loss)/gains taken to equity	**(311)**	**82**[1]	**(229)**	20	(6)	14
Transferred to income statement	**203**	**(55)**	**148**	325	(91)	234
Acquisition of subsidiary	**-**	**-**	**-**	3	-	3
Actuarial gain/(loss)	**62**	**(52)**[1]	**10**	(404)	114	(290)
Net movement in currency translation reserve	**(1)**	**-**	**(1)**	(7)	-	(7)
Indexation of operating land	**-**	**-**	**-**	-	3	3
Change in tax rate on investment properties	**-**	**4**[1]	**4**	-	-	-
Disposal of operation	**(27)**	**-**	**(27)**	-	-	-
Other comprehensive income	**(73)**	**(21)**	**(94)**	(53)	18	(35)
Current tax	**-**	**(2)**	**-**	-	(2)	-
Deferred tax (Note 20)	**-**	**(19)**[1]	**-**	-	20	-
	-	**(21)**	**-**	-	18	-

[1] The tax (charge)/credit is net of a £3 million charge for losses taken to equity, a £7 million charge for actuarial gains and a £4 million credit for investment properties resulting from the change in tax rate from 28% to 27% effective 1 April 2011.

30 Retained earnings

	£m
1 January 2010	**(2,130)**
Net loss for the year	**(433)**
Capital reduction and cancellation of share premium	**1,998**
Capital contribution[1]	**910**
Actuarial gain on pensions	**62**
Tax on actuarial gain on pensions[2]	**(52)**
Change in tax rate on investment properties	**4**
31 December 2010	**359**

[1] On 22 January 2010, ADI Finance 2 Limited waived the principal and interest on the downstream loan, which has been treated as a capital contribution.

[2] Includes £7 million charge for change in tax rate from 28% to 27% effective 1 April 2011.

31 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

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

	31 December 2010		31 December 2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other[1] £m
Within one year	**14**	**46**	29	45
Within two to five years	**50**	**196**	111	189
After five years	**37**	**836**	151	884
	101	**1,078**	291	1,118

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

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

A significant portion of the £1.1 billion commitments classified as 'other' relates to electricity supply equipment at the airports leased on agreement with UK Power Networks Services Ltd ('UPNS'). The lease expires in 2083. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UPNS as neither the Group nor UPNS are able to split the base fee between a 'capital' and 'maintenance' charge. The commitment has been discounted at the Group's incremental borrowing rate.

Non-cancellable operating lease commitments – Group as a lessor

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

	31 December 2010		31 December 2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**87**	**-**	86	-
Within two to five years	**288**	**-**	274	-
After five years	**1,827**	**-**	1,667	-
	2,202	**-**	2,027	-

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

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Concession contracts on the public car parks have largely been replaced by operator management fee arrangements across the Group's airports.

Non-cancellable electricity purchase commitment

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

	31 December 2010 £m	31 December 2009 £m
Within one year	**63**	64
Within two to five years	**39**	82
	102	146

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 2013. Such commitments are for the normal purchase, sale or usage of electricity and hence are accounted for as ordinary purchase contracts.

31 Commitments and contingent liabilities *continued*
Group commitments for property, plant and equipment

	31 December 2010 £m	31 December 2009 £m
Contracted for, but not accrued:		
T2A building - Heathrow	**788**	11
Terminal 2B phase 2 - Heathrow	**447**	8
T3 integrated baggage system - Heathrow	**64**	1
T1 baggage prolongation programme - Heathrow	**31**	-
Energy infrastructure - Heathrow	**30**	-
Post T5 transfer baggage system - Heathrow	**24**	-
Terminal 5C - Heathrow	**18**	106
Airside road and taxi lane underpass - Heathrow	**15**	-
T3 immigration hall - Heathrow	**15**	-
T5 phase 2 airfield and stand works – Heathrow	**5**	-
Control post programme – Heathrow	**4**	-
T4 baggage works - Heathrow	**4**	-
North west stands and taxi lanes - Heathrow	-	10
Departure lounge extension - Edinburgh	-	7
Eastern apron - Heathrow	-	6
	1,445	149
Other projects	**19**	32
	1,464	181

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at its airports. BAA's submission to the CAA in respect of the current regulatory period included capital expenditure for Heathrow of £4,401 million (2007/08 prices). In line with commitments with the regulator, capital expenditure at Heathrow in 2011 is forecast to be nearly £1.2 billion. 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 2011 amounts to £19 million.

Other commitments

During the year there was a change in UK government and subsequently a government policy change in relation to runway developments. BAA announced that it was withdrawing its planning permission applications for Stansted Generation 2 and ceasing work on the development of the planning application for a third runway at Heathrow. Stansted already holds domestic properties and land purchased under voluntary schemes for those people living near Stansted Airport whose homes would be affected by the previous government airport expansion plans (the Home Value Guarantee Scheme, the Home Owners Support Scheme and the Special Cases Scheme). All three schemes were closed to new applicants during the year. As at the reporting date three property acquisitions were still to be completed. The current estimate of the net cost of the blight compensation schemes is up to £110 million. Total value to 31 December 2010 is £108 million (2009: £107 million).

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

These schemes were the subject of extensive public consultation by BAA. The terms and conditions of the scheme were published by Heathrow Airport Limited in 2005. The intention at that time was to “trigger” access to the schemes when BAA announced its intention to submit a planning application for the third runway. Following the January 2009 government announcement confirming policy support for a third runway the BAA Board decided to accept applications from home owners covered by PMSB to sell their properties under the scheme for one year. However, following the change in UK government and its policy towards runway developments, together with BAA’s announcement that it was ceasing work on the development of the planning application for a third runway, no new applications have been accepted after 22 June 2010. The current estimate of the cost of purchasing properties through to completion of applications received up to 22 June 2010 at the reporting date is estimated to be £42 million.

The Group is also required by the government to offer noise mitigation measures relating to existing airport activities. Based on the Group’s evaluation, payments under current noise schemes are estimated at £31 million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings and assistance with the costs of relocation for dwelling owners. A review of the existing noise insulation and mitigation schemes commenced during 2010 and BAA is due to consult publicly during 2011.

In June 2006, the government announced its conclusions for the 2006-2012 night flights regime at the Group's London airports. The regime committed BAA to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62 million over the five years from 2008. The government is expected to consult on proposals for the post 2012 night flights regime during 2011. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

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

31 Commitments and contingent liabilities *continued*

Other commitments continued

The January 2009 government Announcement for Adding Capacity at Heathrow requires the Group to review existing insulation and mitigation schemes; and to consider extending its noise insulation schemes to all community buildings and households in the new 57dBA contour that will experience an increase in noise of 3dBA or more. Until further consultation is carried out with the local communities, the significance of the Group's obligations in implementing these schemes is uncertain.

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

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 £260 million at 31 December 2010 (2009: £273 million).

32 Notes to the consolidated cash flow statement

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

	Note	**Year ended 31 December 2010 £m**	Restated[1] Year ended 31 December 2009 £m
Operating activities			
Net (loss)/profit before tax		**(730)**	311
Adjustments for:			
Finance income	*4a*	**(173)**	(898)
Finance costs	*4a*	**943**	825
Fair value loss on financial instruments	*4b*	**41**	82
Depreciation	*2*	**524**	491
Amortisation	*2*	**37**	41
Exceptional depreciation	*3*	**19**	55
Impairment charge	*3*	**483**	-
Fair value (gains)/losses on investment properties		**(74)**	83
Share-based payments		**3**	6
Decrease in trade and other receivables		**10**	25
Increase in inventories		**(1)**	-
Increase/(decrease) in trade and other payables		**29**	(31)
Decrease in provisions		**(13)**	(12)
Decrease in deferred income		**(3)**	(1)
Difference between pension charge and cash contributions		**(39)**	(52)
Cash generated from continuing operations		**1,056**	925

[1] Comparative information restated to include BAA Italia in discontinued operations.

(b) Financing – continuing operations

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Proceeds from issuance of bonds	**1,155**	925
Drawdown of Class B facility	**625**	-
Drawdown of capital expenditure facilities	**607**	456
Drawdown of subordinated facility	**175**	-
Repayment of bank facilities	**(986)**	(1,066)
Repayment of subordinated facility	**(1,566)**	-
Repayment of EIB loans	**(41)**	(43)
Repayment of loan notes	**-**	(43)
Repayment of facilities and other items	**(23)**	(1)
Proceeds from parent borrowings	**210**	255
Prepayment of derivative interest	**(37)**	(114)
Cancellation of derivatives	**(74)**	(43)
Interest paid	**(466)**	(521)
Interest received	**6**	6
Restricted cash	**143**	(143)
Cash used in continuing operations	**(272)**	(332)

[1] Comparative information restated to include BAA Italia in discontinued operations.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

33 Related party transactions

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

	Year ended 31 December 2010 Sale of goods and services £m	Year ended 31 December 2009 Sale of goods and services £m
Caisse de dépôt et placement du Québec	**6**	6
Swissport/Groundstar	**5**	2
	11	8

	Year ended 31 December 2010 Purchase of goods and services £m	Year ended 31 December 2009 Purchase of goods and services £m
Ferrovial	**4**	1
Ferrovial Agroman	**59**	96
Caisse de dépôt et placement du Québec	**-**	1
Amey Airport Services Limited	**1**	4
Amey Community Limited	**18**	1
HETCo	**116**	-
ADI Finance 2 Limited[1]	**4**	56
	202	159

[1] Interest accrued not paid to ADI Finance 2 Limited.

Balances outstanding with related parties were as follows:

	31 December 2010		31 December 2009	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	Amounts owed by related parties £m	Amounts owed to related parties £m
Caisse de dépôt et placement du Québec[1]	**63**	**-**	59	-
Ferrovial	**-**	**-**	-	1
Ferrovial Agroman	**-**	**4**	-	1
Amey Community Limited	**-**	**2**	-	-
HETCo	**-**	**22**	-	-
ADI Finance 2 Limited	**93**	**465[2]**	90	1,105[2]
	156	**493**	149	1,107

[1] Relates to loan notes excluding interest (Note 14).
[2] Relates to borrowings from parent, excluding interest (Note 17).

34 Ultimate parent undertaking and controlling party

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

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

The ultimate parent entity of the majority shareholder is Ferrovial S.A. (Spain).

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

35 Principal subsidiaries

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

Holding companies

BAA Airports Limited †
BAA (NDH1) Limited †
BAA (SH) plc †
BAA Funding Limited †#
BAA (Non Des Topco) Limited
BAA (SP) Limited †

Airport owners and operators

Heathrow Airport Limited†
Stansted Airport Limited†
Edinburgh Airport Limited†
Glasgow Airport Limited†
Aberdeen Airport Limited†
Southampton International Airport Limited†

† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned, incorporated in Great Britain and registered in England and Wales. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

36 Subsequent events

On 17 February 2011, BAA was refused permission to appeal to the Supreme Court ('SC') in what would have been the latest stage of a legal process underway since the Competition Commission ('CC') published in March 2009 its decision relating to its investigation into the supply of UK airport services by BAA. The CC's key structural remedy called for the disposal of certain airports including Stansted and either Edinburgh or Glasgow. The consequences of the SC's decision for airport disposals are unclear as the CC has stated that it does not expect to publish until March 2011 its provisional decision from its recent consultation as to whether there have been material changes in circumstances since its original decision in March 2009 that might lead it to amend the scope of the remedies requiring BAA to dispose of certain airports. In addition, BAA continues to consider its options in terms of next steps in this process.

BAA Limited

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BAA Limited

Independent auditors' report to the members of BAA Limited

We have audited the parent company financial statements of BAA Limited for the year ended 31 December 2010 which comprise the Company balance Sheet, the Accounting policies and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of BAA Limited for the year ended 31 December 2010.

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

22 February 2011

BAA Limited

Company balance sheet as at 31 December 2010

	Notes	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Investments in subsidiaries	2	**4,436**	4,226
		4,436	4,226
Current assets			
Debtors : due within one year	3	**36**	120
: due after more than one year	3	**1,288**	1,453
Current asset investments		**11**	-
Cash at bank and in hand		**16**	1
Total current assets		**1,351**	1,574
Creditors: amounts falling due within one year	4	**(4)**	(1,413)
Net current assets		**1,347**	161
Total assets less current liabilities		**5,783**	4,387
Creditors: amounts falling due after more than one year	5	**(465)**	(255)
Net assets		**5,318**	4,132
Capital and reserves			
Called up share capital	6	**2,666**	4,300
Share premium reserve	7	**-**	364
Profit and loss reserve	8	**2,652**	(532)
Total shareholder's funds		**5,318**	4,132

These financial statements of BAA Limited (Company registered number: 05757208) were approved by the Board of directors and authorised for issue on 22 February 2011. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

Accounting policies

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

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

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.

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

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 rate method, less provision for impairment.

Cash and current asset investments
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

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.

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

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest method.

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

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

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

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

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

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2010. The results are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2010 (the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

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

BAA Limited

Notes to the Financial Statements for the year ended 31 December 2010

1 Company result for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £276 million (2009: £817 million loss).

2 Investments in subsidiaries

	Total £m
1 January 2010	4,226
Additions	210
31 December 2010	**4,436**

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

3 Debtors

	31 December 2010 £m	31 December 2009 £m
Due within one year		
Interest receivable	**10**	50
Other debtors	**-**	6
Group relief receivable	**26**	22
Amounts owed by group undertakings	**-**	42
	36	120
Due after more than one year		
Amounts owed by parent undertaking[1]	**93**	90
Amounts owed by group undertakings[2]	**1,028**	1,148
Deferred tax asset	**167**	215
	1,288	1,453
Total debtors	**1,324**	1,573

[1] Amounts owed by parent undertaking represent a loan to ADI Finance 2 Limited and is on an interest free basis.
[2] Amounts owed by group undertakings represent loans advanced to the Company's subsidiaries, BAA (Non Des Topco) Limited of £1,007 million and BAA Airports Holdco Limited of £21 million. The loans attract a fixed rate of interest of 9.02%.

Deferred tax asset

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

	31 December 2010 £m	31 December 2009 £m
Surplus non trade deficit	**167**	215

4 Creditors: amounts falling due within one year

	31 December 2010 £m	31 December 2009 £m
Amounts owed to parent undertaking[1]	**-**	850
Amounts owed to subsidiary undertaking[2]	**-**	484
Interest payable to parent undertaking[1]	**-**	56
Interest payable to subsidiaries	**-**	19
Other creditors	**4**	4
	4	1,413

[1] The £850 million loan was advanced by the Company's parent, ADI Finance 2 Limited and was bearing a floating interest rate based on the all in rate of the toggle facility held at ADI Finance 1 Limited, plus a margin of 0.125%. This loan and the interest payable relating to it was waived in January 2010 (refer to Note 30 of the Group's financial statements).
[2] The balance in 2009 represents a loan from the Company's wholly owned subsidiary, BAA Airports Holdco Limited. In January 2010, BAA Airports Holdco Limited declared an interim dividend and entered into a deed of set-off with the Company to offset the dividend against the amount payable by the Company (including accrued interest) at that date, being the amount equal to the dividend.

5 Creditors: amounts falling after more than one year

	31 December 2010 £m	31 December 2009 £m
Loan from parent undertaking[1]	**465**	255

[1] Loan from parent undertaking represents amount lent by ADI Finance 2 Limited to the Company on an interest free basis.

6 Share capital

	Ordinary shares of 6.2p each £	Ordinary shares of 10p each £
Authorised		
1 January 2010		
43,000,000,100 ordinary shares of 10p each	**-**	4,300,000,010
Re-nominalisation from ordinary shares of 10p each to ordinary shares of 6.2p each	**2,666,000,006**	(4,300,000,010)
31 December 2010	**2,666,000,006**	**-**
Allotted and fully paid		
1 January 2010		
42,998,461,934 ordinary shares of 10p each	**-**	4,299,846,193
Re-nominalisation from ordinary shares of 10p each to ordinary shares of 6.2p each	**2,665,904,640**	(4,299,846,193)
31 December 2010	**2,665,904,640**	**-**

On 20 January 2010, the High Court of Justice approved the special resolution, passed on 20 January 2010, requesting the reduction in the nominal value of each ordinary share issued. The share capital for the Company reduced from £4,299,846,193 divided into 42,998,461,934 ordinary shares at 10p each to £2,665,904,640 divided into 42,998,461,934 ordinary shares at 6.2p each.

7 Share premium reserve

	£m
1 January 2010	364
Cancellation of share premium	(364)
31 December 2010	**-**

On 20 January 2010, the High Court of Justice approved the special resolution, passed on 20 January 2010, requesting the Company's share premium account to be cancelled.

8 Profit and loss reserve

	£m
1 January 2010	**(532)**
Profit for the financial year	**276**
Capital reduction and cancellation of share premium	**1,998**
Capital contribution[1]	**910**
31 December 2010	**2,652**

[1] On 22 January 2010, ADI Finance 2 Limited waived the principal and interest on the downstream loan, which has been treated as a capital contribution.

9 Dividends paid and proposed

No dividend was paid or proposed during the year (2009: £nil).

10 Auditor's remuneration

Audit fees for the current and preceding financial year were borne by BAA Airports Limited.

Details of fees for other services are provided in Note 2 of the BAA Limited Group financial statements.

11 Employee information and directors' remuneration

Employee numbers

The Company has no employees (2009: nil).

Directors' remuneration

Details of directors' remuneration for the year are provided in Note 2 of the BAA Limited Group financial statements.

Notes to the Financial Statements for the year ended 31 December 2010 *continued*

12 Related party transactions

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

13 Ultimate parent undertaking and controlling party

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

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

The ultimate parent entity of the majority shareholder is Ferrovial S.A. (Spain).

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

14 Subsequent events

On 17 February 2011, BAA was refused permission to appeal to the Supreme Court ('SC') in what would have been the latest stage of a legal process underway since the Competition Commission ('CC') published in March 2009 its decision relating to its investigation into the supply of UK airport services by BAA. The CC's key structural remedy called for the disposal of certain airports including Stansted and either Edinburgh or Glasgow. The consequences of the SC's decision for airport disposals are unclear as the CC has stated that it does not expect to publish until March 2011 its provisional decision from its recent consultation as to whether there have been material changes in circumstances since its original decision in March 2009 that might lead it to amend the scope of the remedies requiring BAA to dispose of certain airports. In addition, BAA continues to consider its options in terms of next steps in this process.

15 Registered office

BAA Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number: 05757208