BAA Limited
Annual report and financial statements
for the year ended 31 December 2011

Company registration number: 05757208

BAA Limited

Contents

Officers and professional advisers	1
Business review	
Management review	2
Financial review	8
Internal controls and risk management	17
Directors' report	21
Directors' responsibilities statement	24
Independent auditor's report on the Group financial statements	25
Group financial statements	
Consolidated income statement	26
Consolidated statement of comprehensive income	27
Consolidated statement of financial position	28
Consolidated statement of changes in equity	29
Consolidated statement of cash flows	30
Accounting policies	31
Significant accounting judgements and estimates	42
Notes to the Group financial statements	43
Independent auditor's report on the Company financial statements	85
Company financial statements	
Company balance sheet	86
Accounting policies	87
Notes to the Company financial statements	88

BAA Limited

Officers and professional advisers

Directors
Sir Anthony Nigel Rudd
Colin Matthews
Santiago Olivares
José Leo
Nicolás Villén
Renaud Faucher
Wilfried Kaffenberger
Ernesto López
Richard Drouin
Stuart Baldwin
David Begg
Rachel Lomax
Christopher Beale

Secretary
Carol Hui

Registered office
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Bankers
The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

BAA Limited

Business review

BAA Limited ('BAA' or the 'Company') 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 BAA group (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 2011, along with the key factors likely to impact the Group in 2012;
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2011 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 control 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 2011
Key features of the year
2011 was a successful year for the Group with an overall recovery in traffic, including record traffic for Heathrow and Edinburgh, and improvements in service standards. These factors, combined with higher tariffs at Heathrow, robust retail performance and continued cost control enabled the Group to deliver a strong financial performance despite a challenging macro-economic background. This robust performance enabled the Group to continue investing in enhancing its airport infrastructure, particularly at Heathrow.

Heathrow, the Group's largest airport, enjoyed a strong year including achieving an all time annual traffic record of 69.4 million passengers compared with the previous record of 67.9 million set in 2007. Heathrow also used a record 99.2% of its maximum permitted annual arrivals and departures in 2011. This means the airport is effectively operating at full capacity, preventing airlines from developing new routes from the UK to emerging market destinations such as Manila, Shenzhen and Jakarta.

There have recently been signs of the UK government acknowledging the problem. Ministers are shortly to consult on the future of UK aviation including specifically the issue of hub capacity constraints. At this time a third runway at Heathrow is not one of the options being considered. However, an increasing number of aviation stakeholders and commentators believe that all options for increasing aviation hub capacity should be considered and that both short and long term solutions must be developed.

Heathrow also maintained its recent momentum in improving important operational metrics. This included delivering its best punctuality performance in over a decade and achieving its highest ever overall passenger satisfaction. In addition, the airport's ability to respond to adverse weather and other disruptions has been significantly enhanced as a result of progress in implementing the recommendations of the Begg Report produced following the disruption caused by winter weather in December 2010. Improvements in service standards were not limited to Heathrow, underlined, for example, by Edinburgh airport recently being ranked second of all European airports for overall passenger satisfaction.

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. Nearly £1 billion was invested in 2011, including over £900 million at Heathrow. The superstructure of the new Terminal 2 building was substantially complete by the end of 2011 and the next two years will be spent fitting out the new facility and undertaking operational readiness activities prior to operations commencing during 2014.

In October 2011, the Group announced the proposed disposal of Edinburgh airport as a result of the Competition Commission's ('CC') requirement for BAA to dispose of certain of its airports. Edinburgh has been one of the Group's best performing businesses in recent years and achieved an all time annual traffic record of 9.4 million in 2011. The disposal process formally commenced in early 2012 and the Group expects the sale to conclude by the summer of this year. The Group has continued to challenge the CC's requirement that it must sell Stansted airport. BAA issued proceedings at the Competition Appeal Tribunal ('CAT'), for the judicial review of the CC's decision regarding material changes in circumstances since the CC's report of March 2009. The hearing to consider the case was held in December 2011 and in February 2012 the CAT rejected BAA's request. BAA is currently considering its position in light of the CAT's decision.

During the year, Heathrow's current regulatory period was extended by one year to 31 March 2014 to provide more time for new legislation related to the economic regulation of UK airports to be implemented and then utilised in establishing the terms of Heathrow's next regulatory settlement. The draft Civil Aviation Bill was published in late 2011 and introduced into Parliament in early 2012.

Management review *continued*

Key features of the year continued

Further progress has been made in strengthening the Group's capital structure through a number of financings that have raised approximately £3 billion in the last 12 months. The highlight was the inaugural US$1 billion bond issue completed in June 2011. This has enabled the Group to decide in principle to commence paying dividends to its ultimate shareholders in 2012 for the first time since it was acquired by the Ferrovial-led consortium in 2006.

Passenger traffic trends

Passenger traffic for the year ended 31 December 2011 across the Group's airports is analysed below:

	Year ended 31 December 2011	Year ended 31 December 2010	Change (%)[1]
Passengers by airport (millions)			
Heathrow	**69.4**	65.7	5.5
Stansted	**18.0**	18.6	(2.8)
Total Designated airport passengers[1]	**87.4**	84.3	3.7
Edinburgh	**9.4**	8.6	9.2
Glasgow	**6.9**	6.5	5.1
Aberdeen	**3.1**	2.8	11.8
Southampton	**1.8**	1.7	1.6
Total Non-Designated airport passengers[1]	**21.1**	19.6	7.5
Total passengers[1]	**108.5**	103.9	4.4
Passengers by market served (all airports) (millions)			
UK	**17.7**	17.6	0.5
Europe[2]	**52.9**	50.4	5.1
Long haul	**37.9**	36.0	5.4
Total passengers[1]	**108.5**	103.9	4.4

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

In the year ended 31 December 2011, the Group's passenger traffic increased 4.4% to 108.5 million (2010: 103.9 million), with Heathrow and Edinburgh achieving all time annual traffic records of 69.4 million and 9.4 million passengers respectively. Reported year on year performance partly reflects no recurrence of the exceptional events in 2010 particularly closure of airspace due to volcanic ash, airline industrial action affecting various Group airports and severe winter weather. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events are estimated to have resulted in the loss of up to 3.6 million passengers. Adjusting for these factors, the Group's traffic is estimated to have increased by at least 0.9% in 2011.

Traffic increased across all market segments with significant increases in European and long haul traffic, based on Heathrow's performance. In contrast there was only a modest increase in domestic traffic despite the weak 2010 comparable due to the disruptions outlined above. Domestic performance saw a significant divergence between the London airports (Heathrow: -2.9%; Stansted: -15.8%) and the non-London airports (+4.6%) with the London airport performance reflecting in part cessation of services between Heathrow and Glasgow and between Stansted and Belfast and Newcastle.

In 2011, Heathrow's total traffic increased 5.5% to 69.4 million passengers (2010: 65.7 million). In achieving an all time annual traffic record, it reported eight monthly records with July being the busiest month. Adjusting for 2010's disruptions outlined above, which resulted in Heathrow losing up to 2.4 million passengers, its traffic is estimated to have increased by at least 1.9% in 2011.

Heathrow's performance reflects its position as a major European hub and its broad international links, in both European and long haul markets. Growth was particularly strong with countries such as the United States, Germany (particularly Frankfurt, Berlin and Munich), Switzerland, France and Brazil. Of Heathrow's major markets, European traffic showed the most significant year on year growth, increasing 7.6% to 28.5 million passengers (2010: 26.5 million). North Atlantic traffic also performed robustly increasing 7.5% to 15.8 million passengers (2010: 14.7 million) driven by the success of American Airlines' and British Airways' joint transatlantic services launched in March 2011 and new routes introduced by Delta Air Lines. However, Heathrow's domestic traffic lagged the airport's overall performance, declining 2.9% to 4.7 million passengers (2010: 4.8 million).

The proportion of origin and destination traffic at Heathrow remained constant in 2011 versus 2010 at 65%. Heathrow also operated 99.2% of its maximum allowed 480,000 annual arrivals and departures meaning it effectively operated at full capacity. At the same time it also experienced the highest ever load factor on aircraft operating to and from the airport of 75.2% (2010: 75.1%).

Management review *continued*

Passenger traffic trends continued

Stansted's traffic declined 2.8% to 18.0 million passengers (2010: 18.6 million). This reflects no recurrence of the volcanic ash and severe winter weather disruptions in 2010 that resulted in the loss of approximately 0.4 million passengers. Adjusting for this, Stansted's traffic declined 5.0%, reflecting airlines' redeployment of capacity from the UK to other European markets. Much of the decline was in the domestic market, which declined 15.8%. Excluding the domestic market, traffic was down 1.5% to 16.6 million passengers (2010: 16.8 million). Further, Stansted experienced record load factors through most of 2011 (80.8% compared to 78.8% in 2010) whilst traffic declined, suggesting gradually more positive demand dynamics.

Across the Group's four other airports of Edinburgh, Glasgow, Aberdeen and Southampton, reported traffic increased 7.5% to 21.1 million (2010: 19.6 million). Adjusting for the three disruptions in 2010 outlined above, their traffic is estimated to have increased by at least 3.3%. Performance was particularly strong at the three Scottish airports, with Edinburgh achieving an all time annual traffic record, partly reflecting their success in replacing services previously provided by flyglobespan that went bankrupt in late 2009 and contributed to declines in traffic in 2010.

At Edinburgh, traffic increased 9.2% to 9.4 million (2010: 8.6 million) reflecting particularly strong growth in European services. At Glasgow, traffic increased 5.1% to 6.9 million (2010: 6.5 million) with the airport benefiting from a significant increase in capacity provided by Jet2 that has replaced much of the capacity lost through the flyglobespan bankruptcy. At Aberdeen, traffic increased 11.8% to 3.1 million (2010: 2.8 million) with significant growth through the year amongst major airline customers such as SAS, British Airways and bmi. It has also benefited from the opening of its runway extension in October 2011 with, for example, Lufthansa introducing daily flights to Frankfurt from the end of October 2011. Southampton airport experienced a 1.6% increase in traffic to 1.8 million (2010: 1.7 million) with growth constrained principally by Flybe's (the airport's major airline customer) greater focus on yield rather than volume.

Transforming the Group'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.

Heathrow is the third largest airport in the world and the largest globally for international traffic with 7 of the top 10 long haul intercontinental routes passing through the airport. Reflecting this pivotal market position, the Group's key strategic objective is to enhance Heathrow's leading position in the global aviation industry and particularly its long-standing role as the UK's gateway to the world.

Substantial progress in delivering this objective is being made with the UK's largest private sector investment programme rapidly transforming passengers' and airlines' experience of using Heathrow. Terminal 5 was the airport's first new terminal for over 20 years when it opened in 2008 and is now rated by passengers as the best airport terminal in Europe. It is the global hub of British Airways who have achieved significant efficiency gains from this world class facility.

Airlines strongly support continued significant investment in Heathrow to underpin its long term future. The current focus is on the construction of the new Terminal 2 which is due to open in 2014. Once open, around 70% of passengers using Heathrow will enjoy some of the newest airport facilities in the world.

Alongside the transformation of Heathrow's infrastructure, there has also been consistent improvement in service standards. Further clear progress was made during 2011, a particularly notable achievement given both record traffic volumes and the challenges of building the new Terminal 2 in the live operating environment of one of the world's largest airports. Most importantly, during 2011 Heathrow achieved its highest ever overall passenger satisfaction in the Airport Service Quality ('ASQ') survey, consolidating its position in the top two of the five biggest European airports on this measure.

Improvements in service standards were not limited to Heathrow. For example, in 2011 four of the Group's other five airports achieved their highest levels of departure punctuality in over a decade, whilst three of these airports also achieved their highest average ASQ survey scores for overall passenger satisfaction in 2011. In addition, several of these airports achieved other significant independent endorsements of their service and quality standards.

Investment in modern airport facilities

The Group's capital investment programme continues to be focused on the transformation of Heathrow. Significant milestones have been achieved in the last year with the main projects including construction work on Terminal 2 and baggage systems as well as completion of Terminal 5C. Over £900 million was invested at Heathrow in 2011 with over 50% of the spend relating to the new Terminal 2. The level of investment is expected to increase substantially over 2012 and 2013 as progress is made towards opening Terminal 2. This will support thousands of high value jobs over the next few years.

Management review *continued*

Investment in modern airport facilities continued
In relation to the new Terminal 2, at the beginning of 2011, the main terminal building consisted of a small part of its steel framework but rapid development means the terminal superstructure is now complete and the building weather-tight. This has enabled significant progress to be made on the terminal's interior including completion of the floor structures and installation of major mechanical and electrical equipment. Fit out of terminal systems is also underway including outbound baggage systems, escalators and travelators.

Extensive work on the terminal's aircraft stands has included installation of fuel, drainage, water, electrical and communications services. Construction of the concrete pavement also commenced.

Significant progress was also made during 2011 on building the second phase of Terminal 2's satellite building (Terminal 2B) with construction of the extensive basement structures to house the tracked transit train and baggage systems. This will connect the satellite to the main building, once the main terminal's second phase is constructed. Construction of the satellite's steel framework commenced in 2011 with the northern section weather tight by the end of the year and the southern section due to be completed in the coming months. The whole second phase of the satellite building is expected to be weather-tight in late 2012. During 2012 construction of the satellite's aircraft stands and taxiways is expected to commence.

Contracts were signed in March 2011 for the construction of Terminal 2's multi-storey car park and work on site commenced in May 2011. The first columns for the car park's arrivals and departures ramps have been constructed. Design work for the car park structure is complete.

Terminal 5C became operational in June 2011 providing Terminal 5 with an additional 12 pier served stands linked to the main Terminal 5 building by a tracked transit train system. One of the key benefits of Terminal 5C is to reduce the incidence of passengers having to be transported by bus between Terminal 5 and their aircraft and the proportion of aircraft operating from remote stands at Terminal 5 has reduced from nearly 20% prior to Terminal 5C's opening to just over 10% at the end of 2011.

In relation to Heathrow's baggage systems, 2011 saw the final stages of the construction and commissioning of the underground automated baggage transfer system between Terminals 3 and 5. Operational trials are currently taking place with full live operation of the facility expected shortly.

Elsewhere in Heathrow's baggage investment programme, the most significant development during 2011 was the commencement of construction of a new integrated baggage system for Terminal 3.

Following the severe winter weather in late 2010 and early 2011, the Group has made significant capital investments across its airports to ensure their resilience in these conditions is enhanced. This included Heathrow completing nearly £20 million in capital investment in implementing the recommendations of the subsequent winter resilience enquiry. Amongst other things, this has enabled the airport to increase substantially the number of vehicles available for snow clearance. Further investment is expected relating to airport resilience in 2012, for example in relation to a new command and control centre at Heathrow.

Outside Heathrow, the Group's most significant investment was the construction of a runway extension at Aberdeen enabling airlines to offer new routes from the airport. Other investments at these airports included security search process improvement, upgrade of the airport operating system and new air bridges at Stansted. At Edinburgh there were airside security, taxiway works and car park infrastructure improvements whilst at Glasgow and Southampton there was boiler and fire equipment replacement respectively.

Service standards
At Heathrow, the year saw strong performance across many key service areas and these improvements have been reflected in higher than ever passenger satisfaction scores in independent surveys. The absence in 2011 of the major weather related disruption seen in 2010 contributed to this performance but there was also significant success in driving underlying improvements.

In relation to individual service standards, Heathrow achieved its highest annual departure punctuality, as measured by the proportion of aircraft departing within 15 minutes of schedule, in over a decade of 79% (2010: 71%). Other than less weather disruption, the performance reflects initiatives such as closer monitoring of performance with airlines and NATS, greater scrutiny of underperforming airlines, reducing flows in peak periods of the day, more resilient operating procedures in poor weather, improved co-ordination with other local airspace users and enhanced infrastructure flexibility following completion of Terminal 5C and additional taxiways capable of handling the largest aircraft such as the A380.

Heathrow's baggage misconnect rate improved to 15 bags per 1,000 passengers (2010: 18) during 2011 with its best ever monthly baggage misconnect performance in April (11 bags per 1,000 passengers) and consistently good performance across the year.

Management review *continued*

Service standards continued

On security queuing, passengers passed through central security within the period prescribed under Heathrow's service quality rebate scheme 96.9% (2010: 97.5%) of the time compared with the 95.0% service standard. The service standard is measured monthly at an individual terminal level and there were two breaches in the year, both at Terminal 5 (in July and December), partly reflecting record traffic flows. Additional security lines are being introduced to mitigate the risk of this happening in future.

It is clear from independent surveys that passengers are noticing these improvements with Heathrow achieving in 2011 its highest ever overall passenger satisfaction (and 3 of its 4 highest ever scores) in the global ASQ survey (produced by Airports Council International). The average of its quarterly scores in this survey during 2011 was 3.88 (2010: 3.84). These results consolidate Heathrow's position in the top two of the five biggest European airports on this measure.

In July 2011, the South East Airports Taskforce, sponsored by the Department for Transport, recommended that consideration be given to Heathrow having greater operational freedom to prevent or mitigate disruption. For example, this might involve simultaneous use of both runways for arrivals and departures in such circumstances, within the existing overall cap on aircraft movements. An initial trial of runway use in this manner concludes in February 2012 with another trial expected during summer 2012. If implemented permanently, such measures should improve areas such as punctuality and baggage misconnects as well as bringing environmental benefits such as reduced stacking.

Heathrow's ability to respond to adverse weather conditions and other disruptions has been significantly enhanced during 2011 as a result of progress on implementing the recommendations of the Begg Report produced following the disruption caused by winter weather in December 2010.

At Stansted, departure punctuality also improved significantly to 88% (2010: 78%). The strength of this performance is reflected by the fact that Stansted was recognised by FlightStats as the third best performing airport globally for departure punctuality during November 2011. In addition, passengers passed through central security within the period prescribed under its service quality rebate scheme 97.9% (2010: 98.2%) of the time compared with the 95.0% service standard. Stansted also won several notable international awards in 2011, including the Skytrax 'world's best low-cost airport' award.

At the Group's four other airports of Edinburgh, Glasgow, Aberdeen and Southampton there were also some notable improvements in service standards as well as significant independent endorsement of their service and quality standards, reflecting their focus on continuously improving the service they provide to airlines and passengers.

Edinburgh, Glasgow and Aberdeen achieved their highest levels of departure punctuality in over a decade, whilst Edinburgh, Glasgow and Southampton achieved their highest average ASQ survey score for overall passenger satisfaction in 2011. Edinburgh was also ranked second of all European airports for overall passenger satisfaction in the 2011 ASQ Awards having also recently been named as the "Best European Airport – 5m-10m Passengers" in the annual Airports Council International Europe awards. In addition, Southampton won the "Top UK Airport Award" at the 2011 Wanderlust readers' travel awards.

Regulatory and governmental developments

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

There have been a number of developments in relation to the Competition Commission's ('CC') inquiry into the supply of UK airport services by BAA since the beginning of 2011. In February 2011, BAA was refused permission to appeal to the Supreme Court against the CC's March 2009 requirement that certain airports, including Stansted and either Edinburgh or Glasgow, be sold. In July 2011, the CC determined that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision. In September 2011, BAA issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the CC's decision regarding changes in circumstances. The hearing to consider the case was held in December 2011 and in February 2012 the CAT rejected BAA's request. BAA is currently considering its position in light of the CAT's decision.

Meanwhile, in October 2011, the CC decided to reverse the order of disposals so that the disposal of either Edinburgh or Glasgow would precede that of Stansted. As a result, BAA decided to sell Edinburgh airport and has commenced its disposal process.

UK aviation policy developments

On election in 2010, the new UK government ruled out the development of any new runways in South East England, an area with chronic airport capacity issues given Heathrow and Gatwick, the UK's two largest airports, are the world's busiest two runway and single runway airports respectively with Heathrow operating at 99.2% of its maximum permitted capacity in 2011. This has severely restricted route development to key emerging market destinations such as Manila, Shenzen and Jakarta.

Management review *continued*

Regulatory and governmental developments continued

Since the election, there has been increasing debate about the need for the UK economy to be rebalanced towards manufacturing and to focus on developing trade with faster growing emerging market economies that are increasingly the engine of global economic growth. In parallel, there has been greater recognition of the need to stimulate economic growth and job creation. Modernisation of the UK's transport infrastructure is seen as a key enabler and contributor to this process. In the context of the aviation sector, it is also increasingly accepted that the development of hub airport capacity, as uniquely provided by Heathrow, is the optimal way to ensure the UK enjoys the connectivity with emerging market economies that will support the UK's long-term economic prosperity.

There have recently been signs of the UK government acknowledging the airport capacity issue and seeking to improve connectivity with emerging markets. Ministers are shortly to begin a consultation on the future of aviation in the UK that is intended to address specifically the issue of hub airport capacity constraints. At this time a third runway at Heathrow is not one of the options being considered. However, an increasing number of stakeholders and commentators believe that all options for increasing aviation hub capacity should be considered and that both short and long term solutions must be developed.

Modernisation of economic regulation of UK airports

In March 2011, the Government confirmed its intention to implement reforms to the framework for the economic regulation of UK airports, as set out in its July 2010 statement, which largely built on proposals published by the Department for Transport in December 2009. Reflecting a desire that the terms of Heathrow's next regulatory settlement are established using the new regulatory framework, following consultation with Heathrow and its airline community, the Civil Aviation Authority announced the extension of Heathrow's current regulatory period by one year from 31 March 2013 to 31 March 2014. During the one year extension, Heathrow's aeronautical tariffs will continue to be determined using the existing RPI + 7.5% formula. In addition, Heathrow agreed with its airline community a cap on its capital programme for the extension year of £735 million (in 2007/08 prices).

In November 2011, the Government moved to the next stage in implementing the proposed new regulatory framework with publication of the draft Civil Aviation Bill for pre-legislative scrutiny including by the Transport Select Committee. The bill was introduced into Parliament on 19 January 2012.

Developments since beginning of 2012

In January 2012, passenger traffic across the Group's airports increased 0.5% to 7.5 million (2011: 7.5 million) with Heathrow delivering an all time record for January of 5.2 million passengers.

Outlook

This year is expected to see strong growth in turnover, Adjusted EBITDA and operating cash flow driven principally by increases in aeronautical tariffs at Heathrow and Stansted. Heathrow also intends to make significant progress on the construction of the new Terminal 2 with capital investment forecast to increase materially on 2011. The Group is also focused on ensuring it delivers on the important role in the overall London 2012 Games experience that particularly Heathrow and Stansted will play as the arrival and departure point for most athletes and visitors.

Passenger traffic in the early weeks of 2012 has been consistent with expectations with Heathrow achieving record traffic in January. Therefore at this stage the Group is on track to deliver the expected further improvement in financial performance in 2012.

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 2011 have been presented:

- *discontinued operations*
  - On 19 October 2011, as a result of the CC's decision on its investigation into the Group's ownership of UK airports, the Group announced plans to sell Edinburgh airport and therefore it has been classified as held-for-sale at the year end. As required under IFRS, the results and performance of Edinburgh airport are included in the results and cash flows of discontinued operations which are reported separately at the foot of the Group's income statement.
  - *discontinued operations exceptional items and certain re-measurements - these include the following:*
  - £7 million of fair value gains arising from the revaluation of investment properties related to Edinburgh airport; and
  - £101 million exceptional impairment charge against goodwill related to Edinburgh airport.

- *continuing operations exceptional items and certain re-measurements - these include the following:*
  - £30 million net gain due to:
    - £26 million gain resulting from the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements;
    - £15 million gain in relation to the settlement of a loan previously written off;
    - £11 million in relation to an accelerated depreciation and impairment charge incurred on the Airtrack rail project which the Group has decided not to pursue;
  - £49 million of fair value gains arising from the revaluation of investment properties;
  - £69 million relating to impairment charges against other intangible assets and property, plant and equipment for Southampton and Aberdeen airports; and
  - £31 million of fair value losses on financial instruments.

Basis of presentation of financial results

In order to provide a clearer indication of the Group's performance between 2010 and 2011, consistent with that in the 2010 financial review, the information presented below focuses on the adjusted performance of the Group's continuing operations combined with Edinburgh airport (the 'combined operations'). The review presented excludes other operations that have been disposed of during prior years (ie Airport Property Partnership ('APP'), BAA USA (Holdings) Inc ('BAA USA'), BAA Italia S.p.A. ('BAA Italia') and Gatwick airport). A reconciliation from the statutory results has been provided below.

Summary performance

	Year ended 31 December 2011		
	Statutory-continuing	**Edinburgh airport**	**Combined operations**
	£m	**£m**	**£m**
Revenue	2,414	110	2,524
Operating costs	(1,778)	(82)	(1,860)
Exceptional gains	30	-	30
Fair value gain on investment properties	49	7	56
Operating profit	**715**	**35**	**750**
Exceptional impairment	(69)	(101)	(170)
Net finance costs	(821)	-	(821)
Fair value loss on financial instruments	(31)	-	(31)
Loss before tax	**(206)**	**(66)**	**(272)**
Tax credit	215	3	218
Profit/(loss) after tax	**9**	**(63)**	**(54)**
Profit for the year from other discontinued operations[1]			24
Consolidated loss for the year			**(30)**

[1] Includes the results of APP, BAA USA, BAA Italia and Gatwick airport as a result of their classification as discontinued operations.

Financial review *continued*

Summary performance *continued*

	Year ended 31 December 2010		
	Statutory-continuing £m	**Edinburgh airport £m**	**Combined operations £m**
Revenue	2,213	99	2,312
Operating costs	(1,716)	(75)	(1,791)
Exceptional losses	(31)	-	(31)
Fair value gain on investment properties	52	22	74
Operating profit	**518**	**46**	**564**
Exceptional impairment	(483)	-	(483)
Net finance costs	(770)	-	(770)
Fair value loss on financial instruments	(41)	-	(41)
(Loss)/profit before tax	**(776)**	**46**	**(730)**
Tax credit/(charge)	226	(3)	223
(Loss)/profit after tax	**(550)**	**43**	**(507)**
Profit for the year from other discontinued operations[1]			74
Consolidated loss for the year			**(433)**

[1] Includes the results of APP, BAA USA, BAA Italia and Gatwick airport as a result of their classification as discontinued operations.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Combined operations			
Revenue	**2,524**	2,312	9.2
Adjusted operating costs[1]	**(1,277)**	(1,230)	3.8
Adjusted EBITDA[2]	**1,247**	1,082	15.2
Exceptional items	**41**	(12)	(441.7)
EBITDA	**1,288**	1,070	20.4
Fair value gain on investment properties	**56**	74	(24.3)
Depreciation and amortisation - ordinary	**(583)**	(561)	3.9
Depreciation and impairment - exceptional	**(11)**	(19)	(42.1)
Operating profit	**750**	564	33.0
Exceptional impairment	**(170)**	(483)	(64.8)
Net finance cost	**(821)**	(770)	6.6
Fair value loss on financial instruments	**(31)**	(41)	(24.4)
Loss before tax	**(272)**	(730)	(62.7)
Tax credit	**218**	223	2.2
Loss for the year from combined operations	**(54)**	(507)	(89.3)
Net profit from other discontinued operations[3]	**24**	74	(67.6)
Consolidated (loss) for the year	**(30)**	(433)	(93.1)

[1] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
[2] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.
[3] Includes the results of APP, BAA USA, BAA Italia and Gatwick airport as a result of their classification as discontinued operations.

Revenue

In the year ended 31 December 2011, revenue increased 9.2% to £2,524 million (2010: £2,312 million). This reflects increases of 13.6% and 8.3% in aeronautical and retail income respectively and a 1.0% decrease in other income.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Aeronautical income	**1,425**	1,254	13.6
Retail income	**602**	556	8.3
Other income	**497**	502	(1.0)
Total	**2,524**	2,312	9.2

Financial review *continued*

Aeronautical income

Aeronautical income increased 13.6% to £1,425 million (2010: £1,254 million). Average aeronautical income per passenger increased 8.7% to £13.12 (2010: £12.07).

Aeronautical income summary (by airport)

	Aeronautical income			Per passenger[1]		
	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %	**Year ended 31 December 2011 £**	Year ended 31 December 2010 £	Change %
Heathrow	**1,150**	991	16.0	**16.57**	15.08	9.9
Stansted	**127**	124	2.4	**7.03**	6.67	5.4
Total Designated airports	**1,277**	1,115	14.5	**14.60**	13.22	10.4
Edinburgh	**59**	54	9.3	**6.23**	6.27	(0.7)
Glasgow	**42**	41	2.4	**6.13**	6.33	(3.2)
Aberdeen	**31**	28	10.7	**9.99**	10.19	(1.9)
Southampton	**16**	16	-	**9.34**	9.14	2.1
Total Non-Designated Airports	**148**	139	6.5	**7.01**	7.10	(1.3)
Total airports	**1,425**	1,254	13.6	**13.12**	12.07	8.7

[1] Figures calculated using un-rounded numbers.

Growth in the Group's aeronautical income largely reflects the increase in passenger traffic, due to both no recurrence of 2010's volcanic ash, strike and severe winter weather disruptions and underlying traffic growth, as well as increased tariffs at Heathrow.

At the Designated airports, aeronautical income increased 14.5% to £1,277 million (2010: £1,115 million) whilst income per passenger increased 10.4% to £14.60 (2010: £13.22). At Heathrow, the growth primarily reflects passenger traffic trends as well as the headline 6.2% and 12.2% increases in its tariffs from 1 April 2010 and 1 April 2011 respectively. This has been partially offset by lower than expected yields since April 2011, particularly due to a different passenger mix (higher proportion of European traffic) and a higher proportion of quieter aircraft than assumed when tariffs for the current regulatory year were determined. These factors led to aeronautical income being approximately £25 million lower than expected during the year ended 31 December 2011. This shortfall (or yield dilution) is expected to be recovered through the 'K factor' true-up mechanism in the year commencing 1 April 2013.

At Stansted, with its year on year decline in traffic, growth in aeronautical income reflects principally the fact that whilst the change in the headline tariff for the year to 31 March 2011 was -1.3%, from 1 April 2011 it was 6.33%.

At the Group's Non-Designated airports, aeronautical income increased 6.5% to £148 million (2010: £139 million) whilst income per passenger decreased 1.3% to £7.01 (2010: £7.10). The reduction in income per passenger for the Non-Designated airports reflects the use of volume related rebates at these airports to drive traffic growth and, at Glasgow, the withdrawal of the bmi's Heathrow service.

Retail income

The Group's retail business performed well with net retail income (i.e. gross retail income less retail expenditure) ('NRI') per passenger increasing 4.0% to £5.24 (2010: £5.04).

This performance was based on gross retail income increasing 8.3% to £602 million (2010: £556 million) and NRI increasing 8.6% to £567 million (2010: £522 million). By category the performance was led by duty and tax-free, airside specialist shops, car parking and catering whilst by airport the Group's performance was driven by Heathrow and Edinburgh.

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 2011**	Year ended 31 December 2010	Change %
Airports' gross retail income	**601**	552	8.9
Other gross retail income	**1**	4	(75)
Total gross retail income	**602**	556	8.3
Total retail expenditure	**(35)**	(34)	2.9
Total net retail income	**567**	522	8.6
Fixed wing passengers (million)[1, 2]	**108.0**	103.5	4.4
Net retail income per passenger[2]	**£5.24**	£5.04	4.0

[1] Excludes helicopter passengers at Aberdeen airport that have no direct access to retail facilities.
[2] Figures calculated using un-rounded numbers.

Financial review *continued*

Analysis of net retail income

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Car parking	**113**	101	11.9
Duty and tax-free	**141**	127	11.0
Airside specialist shops	**95**	86	10.5
Bureaux de change	**52**	48	8.3
Catering	**54**	49	10.2
Landside shops and bookshops	**31**	30	3.3
Advertising	**33**	34	(2.9)
Car rental	**23**	22	4.5
Other	**25**	25	-
Total	**567**	522	8.6

At Heathrow, gross retail income increased 10.7% to £435 million (2010: £393 million) and NRI per passenger increased 5.3% to £5.95 (2010: £5.64). The performance was led by duty and tax-free, airside specialist shops, catering and car parking. The strong in-terminal performance has been delivered whilst undertaking a major refurbishment of Terminal 3's retail facilities where disruption was at its height during the summer months. Year on year trading performance also benefited from a further shift in passenger mix from domestic to international passengers.

Strength in duty and tax-free partly reflects the new walk through area in the World Duty Free store in Terminal 3 and extension of the store in Terminal 5. In airside specialist shops, strong trading in the luxury segment has continued in recent months despite the more difficult macroeconomic environment. Catering had a buoyant year reflecting active rebalancing of the portfolio towards premium outlets, enhanced contractual terms and focus on the speed of service. Strength in car parking reflected increased usage, tariff increases and strength in premium services (short stay, business and valet parking services).

Stansted's gross retail income increased 0.1% to £83 million (2010: £83 million), a good performance given passenger trends which meant that NRI per passenger increased 3.4% to £4.16 (2010: £4.02). Growth in Stansted's retail income reflects performance particularly in car parking due to achieving higher yields per user with bureaux de change and advertising also supporting the recent positive retail performance.

Across the Group's Non-Designated airports, gross retail income increased 7.9% to £82 million (2010: £76 million) whilst net retail income per passenger decreased slightly, by 0.1% to £3.76 (2010: £3.77). The weaker performance has been driven by refurbishment of landside retail facilities at Glasgow, the re-opening of South West Trains' car park adjacent to Southampton airport and an increase in car park running costs at Aberdeen offset by strong growth at Edinburgh, the effect of the departure lounge extension having been open for a full year in 2011.

Other income

Income from activities other than aeronautical and retail decreased 1.0% to £497 million (2010: £502 million). This was driven by a reduction in income from the agreements with Gatwick to provide transitional services to £5 million (2010: £19 million) resulting from the conclusion of most of these in 2010. This was offset by rail income increasing 7.8% to £111 million (2010: £103 million) due to passenger numbers increasing 5.1% to 6.2 million (2010: 5.9 million) and higher revenues from increased passenger volumes on the Piccadilly line extension to Terminal 5. Additionally property income increased 1.6% to £126 million (2010: £124 million) reflecting rent reviews implemented in April 2011 whilst operational facilities and utilities income declined 0.6% to £171 million (2010: £172 million) largely due to reduced consumption by third parties.

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 2011 £m	Year ended 31 December 2010 £m	Change %
Employment costs	**518**	501	3.4
Maintenance expenditure	**188**	181	3.9
Utility costs	**124**	128	(3.1)
Rents and rates	**146**	133	9.8
General expenses	**352**	339	3.8
Retail expenditure	**35**	34	2.9
Capitalised costs	**(86)**	(86)	-
Total	**1,277**	1,230	3.8

Financial review *continued*

Adjusted operating costs *continued*

In the year ended 31 December 2011, adjusted operating costs increased 3.8% to £1,277 million (2010: £1,230 million). The main drivers of increased adjusted operating costs were higher rents and rates, employment costs and general expenses. Rents and rates increased 9.8% to £146 million (2010: £133 million) reflecting mainly a five yearly revaluation effective from April 2010, an annual rates increase from April 2011 and no recurrence of the rates rebate recorded in 2010. Employment costs increased 3.4% to £518 million (2010: £501 million), reflecting principally pay rises and increased headcount. Headcount increases were most significant at Heathrow (additional airfield security personnel) and Heathrow Express (additional mobile sales assistants) although there were savings due to reduced headcount across a number of central functions mainly as a result of outsourcing. General expenses increased 3.8% to £352 million (2010: £339 million), largely the result of masterplanning, process re-engineering activities and the write off of previously capitalised costs.

Partially offsetting the increased employment and rents and rates costs was a reduction in utility costs towards the end of the year, due to the mild autumn, and reduced unit prices. In addition, general expenses and maintenance costs reflect no recurrence of the previously reported cost of the severe winter weather in December 2010.

During 2011, the Group outsourced to Capgemini a range of IT services previously provided by the Group's own IT department. The services, which include application management, support of end user devices, IT infrastructure management and telecoms support are provided under an initial five year contract. During 2011, the one-off incremental costs of transition were offset by cost savings under the new outsourcing arrangements.

Adjusted EBITDA

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Designated airports	**1,133**	967	17.2%
Non-Designated airports including Edinburgh	**106**	104	1.9%
Other operation	**8**	11	(27.3%)
Total	**1,247**	1,082	15.2%

Adjusted EBITDA for the Group in the year ended 31 December 2011 increased 15.2% to £1,247 million (2010: £1,082 million). The significant increase in Adjusted EBITDA from 2010 reflects improved underlying traffic, increased aeronautical and retail income per passenger, continued cost control and no recurrence of 2010's volcanic ash, strike and weather disruptions. This resulted in an Adjusted EBITDA margin of 49.4% (2010: 46.8%). Taking into account the financial impact of disruptions in 2010, previously estimated at £67 million, Adjusted EBITDA increased 8.5% to £1,247 million (2010: £1,149 million).

Exceptional items (including depreciation and impairment charges)

There was a total net £140 million pre-tax charge (2010: £514 million) to the income statement in respect of exceptional items, including impairment charges and other one-off items for the combined operations in the year ended 31 December 2011 with a £30 million credit (2010: £31 million charge) included in operating profit and a charge of £170 million (2010: £483 million) below operating profit.

Items within operating profit included a credit of £26 million (2010: £nil) due to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements.

There was a further credit of £15 million (2010: £nil) in respect of the settlement in 2011 of a loan previously written off. These items were offset by an accelerated depreciation and impairment charge of £11 million relating to the Airtrack rail project which the Group has decided not to pursue. The accelerated depreciation charge incurred in 2010 related to the shortened lives of certain assets at Heathrow given the new Terminal 2 development.

In addition, there were £170 million in impairment charges below operating profit in 2011. These related to intangible assets and property plant and equipment being impaired in relation to Edinburgh, Aberdeen and Southampton airports reflecting the fact that the carrying value of these assets exceeded their estimated recoverable amount based on their latest business plans.

Fair value gain on investment property valuation

Investment properties were valued at a fair value at 31 December 2010 and 2011 by CB Richard Ellis, 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 2011 resulted in a gain of £56 million (2010: £74 million). Refer to Note 9 of the financial statements.

Financial review *continued*

Fair value loss on financial instruments
A net fair value loss of £31 million (2010: £41 million) 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 2011, excluding exceptional charges, was 3.9% higher at £583 million (2010: £561 million) driven by depreciation commencing on Heathrow Terminal 5C, the second satellite to Terminal 5, during the course of the year. It also reflects higher depreciation on Heathrow Terminal 1 asset additions given the impact on their economic life of the expected second phase of Terminal 2. There was also the full year effect of depreciation of investment in 2010 on IT assets and Heathrow baggage search equipment, the refurbished Heathrow Terminal 4 check-in facilities and bringing into use, initially connected to Terminal 1, the first phase of the satellite building for the new Terminal 2.

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 £218 million (2010: £223 million). Based on a loss before tax for the year of £272 million (2010: £730 million), this results in an effective tax credit rate of 80.1% (2010: 30.5%).

The Finance Act 2011 enacted a reduction in the main rate of UK corporation tax from 27% to 26% with effect from 1 April 2011 and from 26% to 25% with effect from 1 April 2012. As a result, the Group's deferred tax balances, which were provided at 27%, have been re-measured to the rate of 25% in the year ended 31 December 2011. This has resulted in a reduction in the net deferred tax liability of £151 million, with £160 million credited to the income statement and £9 million charged to equity.

Excluding the impact of the change in tax rate, the tax credit recognised for the year on ordinary activities of £58 million (2010: £136 million) results in an effective tax credit rate of 21.3% (2010: 18.6%). The tax credit is less than implied by the statutory rate of 26.5% (2010: 28%) primarily due to the non-deductibility of goodwill impairment for tax purposes netted against the release of prior year deferred tax provisions.

Net profit from other discontinued operations
There was a net profit from other discontinued operations of £24 million (2010: £74 million). Other discontinued operations include Gatwick airport, BAA USA, BAA Italia and APP.

Dividend
A dividend of £49 million was paid in the year ended 31 December 2011 (2010: £nil).

Pensions
At 31 December 2011, the BAA Group defined benefit pension scheme had a surplus of £39 million as measured under IAS 19. This compares with a scheme deficit of £44 million at 31 December 2010. The change from a scheme deficit to a surplus is due principally to employer cash contributions being greater than the current service charge since the increase in the value of the scheme assets was offset by increased liabilities. It also reflects a £26 million credit due to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements.

The scheme's trustees have recently concluded the triennial valuation of the defined benefit pension scheme and agreed with the BAA group a schedule of cash contributions to be made to the scheme by the BAA group from January 2012. The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated using the trustees' actuarial assumptions.

As part of the triennial valuation process, the BAA group will pay £97 million per annum into the scheme from 2012 to 2014. This compares with a total contribution of £80 million per annum paid from 2009 to 2011. The amount being paid in each of the next three years includes £24 million which is aimed to eliminate the deficit over a period of 9 years.

Financial review *continued*

Summary cash flow – combined operations

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Cash generated from combined operations[1]	**1,163**	1,056
Taxation	**(5)**	2
Net cash generated from other discontinued operations[2]	**(4)**	18
Net cash flow from operating activities	**1,154**	1,076
Capital expenditure[3]	**(912)**	(887)
Investing activities of other discontinued operations[4]	**55**	108
Dividends paid	**(49)**	-
Net interest paid	**(440)**	(460)
Settlement of accretion on index-linked swaps	**(15)**	-
Proceeds from issuance of bonds	**1,508**	1,155
Net movement in other borrowings	**(1,447)**	(999)
Restricted cash	**-**	143
Cancellation of derivatives and prepayment of derivative interest	**(114)**	(111)
Financing activities of other discontinued operations	**-**	(3)
Net (decrease)/increase in cash and cash equivalents	**(260)**	22

1 Includes £50 million (2010: £41 million) in relation to Edinburgh airport.
2 Includes the results of APP, BAA USA, BAA Italia and Gatwick airport as a result of their classification as discontinued operations.
3 Includes £17 million (2010: £24 million) in relation to Edinburgh airport.
4 In 2011 includes deferred consideration in relation to the sale of Budapest airport and costs relating to the disposal of Gatwick airport whilst in 2010 includes amounts relating to Gatwick airport, APP, BAA USA and BAA Italia.

Cash flow from operating activities

Net cash inflow from combined operations in the year ended 31 December 2011 increased 10.1% to £1,163 million (2010: £1,056 million) which compares with Adjusted EBITDA of £1,247 million (2010: £1,082 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 £46 million and certain working capital movements.

The improvement in operating cash flow between 2010 and 2011 reflects the increase in Adjusted EBITDA offset by working capital performance.

Capital expenditure

In the year ended 31 December 2011, the cash flow impact of the Group's capital investment programme was £912 million in capital expenditure for combined operations (2010: £887 million) with £843 million at Heathrow, £22 million at Stansted and £47 million at its other airports.

The most significant areas of capital expenditure at Heathrow were on the new main Terminal 2 building, the second phase of the satellite building for the new Terminal 2, information technology, the transfer baggage tunnel between Terminals 3 and 5 and Terminal 5C.

The Group's most significant investment was the construction of a runway extension at Aberdeen airport enabling airlines to offer new routes from the airport. In addition, at Edinburgh, there was an investment in airside security, taxiway works and car park infrastructure improvements.

Net debt and liquidity

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 2011, the Group's nominal net debt increased 5.4% to £11,636 million at 31 December 2011 from £11,043 million at 31 December 2010. The increase in net debt primarily reflects two factors: capital investment at Heathrow exceeding the Group's post-interest cash flow after payment of interest and repayment by the Company of £250 million of its intercompany loan from ADI Finance 2 Limited.

The Group's nominal net debt at 31 December 2011 comprised £8,133 million outstanding under bond issues, £3,625 million outstanding under various loan facilities and cash at bank and term deposits of £122 million (compared to cash and cash equivalents of £128 million shown on the balance sheet). Nominal net debt comprised £10,643 million at BAA (SH) group level (i.e. related to BAA's London airports), £1,059 million at BAA (NDH1) Limited group level (i.e. principally related to BAA's four other airports) and £66 million of net cash elsewhere in the Group.

The accounting value (which excludes index-linked derivative accretion and includes balance sheet cash and current asset investments) of the Group's net debt at 31 December 2011 excluding accrued interest was £12,157 million (2010: £11,574 million).

Financial review *continued*

Net debt and liquidity *continued*

The average cost of the Group's external gross debt at 31 December 2011 was 4.53% (2010: 4.71%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2011 was 6.49% (2010: 5.74%).The increase in the average cost of debt (including index-linked accretion) is the result of a number of factors including the replacement of short-term bank debt with higher cost bond debt and the impact of high current inflation on the accretion payable on index-linked swaps and bonds.

At 31 December 2011, the Group had approximately £1.7 billion in undrawn bank facilities and cash resources. Since the beginning of 2012, the Group has raised approximately £1.5 billion (see "Recent financing activity" below for more details) and also repaid a Euro-denominated bond that reached maturity in February 2012 amounting to £680 million in Sterling terms. Taking into account these transactions, the Group currently has sufficient liquidity to meet all its obligations in full including capital investment, debt service costs and debt maturities until the final maturity of the London airports' revolving capital expenditure facility in August 2013. On completing the refinancing of this facility, the Group's liquidity horizon is expected to extend significantly.

Recent financing activities
During 2011, the Group strengthened its capital structure by completing approximately £1.5 billion in long-term bond issues. The highlight of this activity was the Group's debut US$1 billion bond completed successfully in June 2011 despite testing market conditions. This was an important strategic development, diversifying the Group's financing options by providing access to a substantial new investor base. The transaction provides a platform from which to develop over time a significant US dollar issuance programme that supplements issuance programmes in other currencies.

In addition, two sterling bond issues were completed in May 2011 raising close to £900 million. Together, these three new issues enabled the Group to repay in full its bank refinancing facility in September 2011.

Since the beginning of 2012, the Group has continued to be active in the capital markets, completing a number of transactions. These have been a CHF400 million bond issue placed with a largely new investor base for the Group in Switzerland, a €700 million bond, a £600 million bond and a €50 million private placement. In addition, a €1,000 million bond was repaid in February 2012.

In the remainder of 2012, the financing priorities for the Group will be to increase further the undrawn balance under the London airports' £2.7 billion revolving capital expenditure facility principally through continued capital markets issuance, potentially including further currency diversification beyond Sterling, Euro, US dollars and Swiss francs. The Group also intends to complete the refinancing of the London airports' capital expenditure facility (extending its term significantly beyond the current maturity date of August 2013). Finally, the Company expects to make further repayments of its intra-group loan with ADI Finance 2 Limited to facilitate the repayment of accrued interest under the toggle facility held at ADI Finance 1 Limited, which in turn is expected to enable dividend payments to be made to the Group's ultimate shareholders.

Regulatory Asset Base ('RAB')
Set out below are RAB figures for Heathrow and Stansted at 31 December 2010 and 31 December 2011. RAB figures are utilised in calculating gearing ratios under certain of the Group's financing agreements.

	Heathrow £m	Stansted £m	Total £m
31 December 2010	11,449	1,327	12,776
31 December 2011	12,490	1,360	13,850

The increase in the total RAB during 2011 reflected the addition of approximately £935 million in capital expenditure partially offset by regulatory depreciation of around £555 million. Variation in RAB profiling adjustments added a further £75 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £620 million during the year.

Net finance costs and net interest paid
In the year ended 31 December 2011, the Group's net finance costs before certain re-measurements were £821 million (2010: £770 million).

Net finance costs included £1,054 million (2010: £931 million) of interest on external bond and bank debt and related derivatives and £27 million (2010: £31 million) of financing facility fees and other items. These charges were partially offset by £232 million (2010: £173 million) in finance income and £28 million (2010: £23 million) in capitalised interest.

Underlying net finance costs were £819 million (2010: £735million), after adjusting for £28 million (2010: £23 million) in capitalised interest and £30 million (2010: £58 million) in non-cash amortisation of financing fees and bond fair value adjustments. The increased underlying net finance costs in 2011 is due to a number of factors, including the overall increase in net debt and the average cost of debt, both referred to in "Net debt and liquidity" above.

Financial review *continued*

Net finance costs and net interest paid *continued*
Net interest paid in the year ended 31 December 2011 was £440 million (2010: £460 million). This consisted of £375 million (2010: £398 million) net interest paid on debt at BAA (SH) group level, £75 million (2010: £68 million) net interest paid on debt at BAA (NDH1) group level and £10 million (2010: £6 million) net interest received elsewhere in the Group. The lower interest paid at BAA (SH) group is primarily due to the benefit to net interest paid of additional index-linked swaps entered into since November 2010 partially offset by the impact of refinancing of loan facilities with bonds and new loan facilities on which coupons were first paid in 2011. The increase in net interest paid at BAA (NDH1) group is primarily due to the timing of interest payments such that in 2011 payments made related to interest accrued over nearly 15 months.

Net interest paid is lower than net finance costs primarily due to an amortisation charge of £62 million (2010: £141 million) in net finance costs relating to prepayments of derivative interest made in earlier periods and a £247 million non-cash charge (2010: £119 million) 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 2011 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2010. 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.

Internal controls and risk management

Internal control and risk management are key elements of the Group's corporate operations. Risk is centrally managed within the Group as part of the 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 below relate to the Executive Committee, Board and AAC of BAA Limited. Of the four members of the AAC all, including the Chair, are 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 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 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 both budgets and forecasts on key metrics;
- AAC review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items
  - compliance with accounting, legal, regulatory and lending requirements
  - critical accounting policies and the going concern assumption
  - significant areas of judgement;
- independent review of controls by the Internal Audit function, reporting directly to the AAC; and
- a confidential whistleblowing process.

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 auditor's independence or objectivity;
- discusses with the external auditor, before the audit commences, the nature and the scope of the audit and reviews the auditor's 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 auditor i.e. independent of the Company's executive directors; and
- reviews the scope, operations and reports of the Group's Internal Audit 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, operations and finance in pursuit of the 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 inherent and residual level. The process takes into account 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 Internal Audit 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.

Internal controls and risk management *continued*

Risk management *continued*
Assurance is provided through management reporting processes and a specialist compliance audit function, reporting directly to the Sustainability and Operational Risk Committee (2010: Health, Safety, Security and Environment Committee).

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 the business. BAA also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe. Governance, led by the Senior Management Team, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

Security risks
Security risks are regarded as critical 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 Group works closely with government agencies, including the police and UK Border Agency building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

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 economic regulatory review by the CAA 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 engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to be represented on engagement fora – eg joint steering groups. When feedback is sought or processes are 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 process to modernise the economic regulation of UK airports 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 regulated 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.

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 it reacts effectively to the challenges posed by the environmental agenda.

Internal controls and risk management *continued*

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 Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The 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 Heathrow pay agreement reached in early 2011 established the pay structure for 2011, 2012 and 2013 - the next pay negotiations are planned for January 2014. 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, baggage handlers and the UK Border Agency.

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 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 contracts 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 2011, fixed rate debt after hedging with derivatives represented 85% of the Group's total external nominal debt.

(b) Inflation
The Group mitigates the risk of mismatch between its Designated airports' aeronautical income and 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.

(c) 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.

(d) 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, various other loan 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 Audit and Assurance Committee, the Board and the Executive Committee.

Internal controls and risk management *continued*

The BAA (SH) platform is rated BB+/Ba3 and supports both loan 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 2011, cash and cash equivalents were £34 million, undrawn headroom under bank credit facilities was £1,355 million and undrawn headroom under bank liquidity facility was £524 million.

2. Non-Designated airports

The Group's Non-Designated airports are financed with term loan and revolving bank facilities totalling £1,232 million. The Non-Designated airports group is cash positive after capital expenditure. As at 31 December 2011, cash and cash equivalents were £27 million (excluding £21 million in restricted cash) and undrawn headroom under bank credit facilities was £176 million.

(e) 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 short-term 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 long-term credit rating below BBB+(S&P)/A(Fitch).

On behalf of the Board

Colin Matthews
Director

22 February 2012

BAA Limited

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011.

Principal activities
The principal activity of the Group is 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 20.

Results and dividends
The loss after taxation for the financial year amounted to £30 million (2010: £433 million). A dividend of £49 million was paid during the year (2010: £nil). The statutory results for the year are set out on page 26.

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

Sir Nigel Rudd (Chairman)	
Colin Matthews	
Santiago Olivares	
Iñigo Meirás	Resigned 26 October 2011
Stuart Baldwin	
José Leo	
Nicolás Villén	
Renaud Faucher	
Richard Drouin	
Wilfried Kaffenberger	
Ernesto Lopez	
David Begg	
Rachel Lomax	
Christopher Beale	Appointed 26 October 2011

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 BAA 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 24 days purchases outstanding at 31 December 2011 (2010: 14 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 (2010: £1 million). The main beneficiaries of charitable donations, the relevant amounts donated and the main activity of these beneficiaries are as follows:

BAA Communities Trust	£725,000	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.
Heathrow Travelcare	£155,000	Provides counselling or assistance to passengers and airport staff.

The Group may incur expenditure which could be classified as political donations under the Political Parties, Elections and Referendums Act 2000 and Part 14 of the Companies Act 2006. The Group obtained a renewed shareholders' approval in February 2012 to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. In the Group's view there was no expenditure in the year to 31 December 2011 (2010: £nil) that falls within this category.

Internal controls and risk management
The Group actively manages all identified corporate risks through BAA Limited's corporate operations 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 17 to 20 in the Internal controls 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 19 to 20 of the Internal controls and risk management section of the Business review and in Note 18 of the Group financial statements.

Subsequent events
In February 2012, the Competition Appeal Tribunal ('CAT') rejected BAA's request that it should review the Competition Commission's July 2011 decision that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision, particularly that BAA should dispose of Stansted airport. BAA is currently considering its position in light of the CAT's decision.

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 judgement is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

Auditor
Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485.

BAA Limited

Directors' report *continued*

Statement of disclosure of information to the Auditor

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 auditor is 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 auditor is 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 2012

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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.

On behalf of the Board

Carol Hui
Company Secretary

22 February 2012

Independent auditor's report to the members of BAA Limited

We have audited the Group financial statements of BAA Limited for the year ended 31 December 2011 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 34. 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 auditor's 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 auditor

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

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 2011 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 2011.

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

22 February 2012

BAA Limited

Consolidated income statement for the year ended 31 December 2011

	Note	Year ended 31 December 2011 Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m	Restated[1] Year ended 31 December 2010 Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m
Continuing operations							
Revenue	*1*	**2,414**	**-**	**2,414**	2,213	-	2,213
Operating costs	*2*	**(1,748)**	**-**	**(1,748)**	(1,747)	-	(1,747)
Other operating items							
Fair value gain on investment properties	*9*	**-**	**49**	**49**	-	52	52
Operating profit	*1*	**666**	**49**	**715**	466	52	518
Analysed as:							
Operating profit before exceptional items		**636**	**49**	**685**	497	52	549
Exceptional items	*3*	**30**	**-**	**30**	(31)	-	(31)
Exceptional impairment	*3*	**(69)**	**-**	**(69)**	(483)	-	(483)
Financing							
Finance income	*4a*	**232**	**-**	**232**	173	-	173
Finance costs	*4a*	**(1,053)**	**-**	**(1,053)**	(943)	-	(943)
Fair value loss on financial instruments	*4b*	**-**	**(31)**	**(31)**	-	(41)	(41)
		(821)	**(31)**	**(852)**	(770)	(41)	(811)
Loss before tax		**(224)**	**18**	**(206)**	(787)	11	(776)
Taxation		**79**	**(12)**	**67**	146	(1)	145
Change in tax rate		**125**	**23**	**148**	69	12	81
Taxation	*5*	**204**	**11**	**215**	215	11	226
(Loss)/profit for the year from continuing operations		**(20)**	**29**	**9**	(572)	22	(550)
Net (loss)/profit from discontinued operations[3]	*6*	**(46)**	**7**	**(39)**	98	19	117
Consolidated (loss)/ profit for the year		**(66)**	**36**	**(30)**	(474)	41	(433)
Attributable to:							
Equity holders of the parent							
Continuing operations		**(20)**	**29**	**9**	(572)	22	(550)
Discontinued operations		**(46)**	**7**	**(39)**	98	19	117
		(66)	**36**	**(30)**	(474)	41	(433)

[1] Information restated to include Edinburgh airport 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 Edinburgh airport, APP, BAA USA, BAA Italia and Gatwick airport as a result of their classification as discontinued operations.

BAA Limited

Consolidated statement of comprehensive income for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Restated[1] Year ended 31 December 2010 £m
Loss for the year		**(30)**	(433)
Other comprehensive income:			
Available-for-sale investments			
(Loss)/gain taken to equity	*27*	**(2)**	1
Cash flow hedges			
Losses taken to equity	*27*	**(344)**	(226)
Transferred to income statement	*27*	**109**	148
Actuarial gain	*27*	**3**	17
Net movement in currency translation reserve	*27*	**7**	(1)
Change in tax rate	*27*	**(9)**	(6)
Tax relating to indexation of operating land	27	**4**	-
Disposal of operation	*27*	**-**	(27)
Other comprehensive loss for the year net of tax		**(232)**	(94)
Total comprehensive loss for the year		**(262)**	(527)
Attributable to:			
Equity holders of the parent		**(262)**	(506)
Non-controlling interest		**-**	(21)
		(262)	(527)

[1] The presentation of certain balances for the year ended 31 December 2010 has been restated to be consistent with current year disclosures in relation to the presentation of tax balances.

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 27.

BAA Limited

Consolidated statement of financial position as at 31 December 2011

	Note	**31 December 2011 £m**	31 December 2010 £m
Assets			
Non-current assets			
Property, plant and equipment	*8*	**11,035**	11,113
Investment properties	*9*	**2,535**	2,625
Intangible assets	*10*	**3,301**	3,731
Available-for-sale investments	*11*	**27**	29
Retirement benefit surplus	*20*	**39**	-
Derivative financial instruments	*17*	**381**	560
Trade and other receivables	*13*	**105**	132
		17,423	18,190
Current assets			
Inventories	*12*	**9**	7
Trade and other receivables	*13*	**302**	345
Derivative financial instruments	*17*	**171**	-
Restricted cash	*14*	**29**	37
Cash and cash equivalents	*15*	**128**	380
		639	769
Assets classified as held-for-sale	*24*	**901**	-
Total assets		**18,963**	18,959
Liabilities			
Non-current liabilities			
Borrowings	*16*	**(11,626)**	(12,379)
Derivative financial instruments	*17*	**(1,298)**	(779)
Deferred income tax liabilities	*19*	**(1,560)**	(2,040)
Other pension and post-retirement benefit obligations	*20*	**(29)**	(67)
Provisions	*22*	**(6)**	(8)
Trade and other payables	*23*	**(1)**	(3)
		(14,520)	(15,276)
Current liabilities			
Borrowings	*16*	**(1,080)**	(205)
Provisions	22	**(16)**	(39)
Current income tax liabilities		**(137)**	(153)
Trade and other payables	*23*	**(549)**	(495)
		(1,782)	(892)
Liabilities associated with assets classified as held-for-sale	*24*	**(181)**	-
Total liabilities		**(16,483)**	(16,168)
Net assets		**2,480**	2,791
Equity			
Capital and reserves			
Share capital	*25*	**2,666**	2,666
Fair value and other reserves	*26*	**(470)**	(234)
Retained earnings	*28*	**284**	359
Total shareholder's equity		**2,480**	2,791
Non-controlling interest in equity		**-**	-
Total equity		**2,480**	2,791

These financial statements of BAA Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 22 February 2012. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

BAA Limited

Consolidated statement of changes in equity as at 31 December 2011

	Note	Share capital £m	Share premium £m	Restated[1] Other reserves £m	Restated[1] Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
		Attributable to owners of the Company						
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	*27*	-	-	1	-	1	-	**1**
Cash flow hedges net of tax	*27*	-	-	(78)	-	(78)	-	**(78)**
Currency translation	*27*	-	-	(1)	-	(1)	-	**(1)**
Actuarial gain on pensions net of tax	*27*	-	-	-	17	17	-	**17**
Change in tax rate	*27*	-	-	(3)	(3)	(6)	-	**(6)**
Disposal of operation	*27*	-	-	(6)	-	(6)	(21)	**(27)**
Total comprehensive income		**-**	**-**	**(87)**	**(419)**	**(506)**	**(21)**	**(527)**
Transactions with owners:								
Share capital movements		(1,634)	-	-	1,634	-	-	**-**
Cancellation of share premium		-	(364)	-	364	-	**-**	**-**
Capital contribution		-	-	-	910	910	-	**910**
Total transactions with owners		(1,634)	(364)	-	2,908	910	-	910
1 January 2011		2,666	-	(234)	359	2,791	-	2,791
Comprehensive income:								
Loss for the year		**-**	**-**	**-**	**(30)**	**(30)**	**-**	**(30)**
Other comprehensive income:								
Loss on re-measurement of the following:								
Available-for-sale investments	*27*	**-**	**-**	**(2)**	**-**	**(2)**	**-**	**(2)**
Cash flow hedges net of tax	*27*	**-**	**-**	**(235)**	**-**	**(235)**	**-**	**(235)**
Currency translation	*27*	**-**	**-**	**7**	**-**	**7**	**-**	**7**
Actuarial gain on pensions net of tax	*27*	**-**	**-**	**-**	**3**	**3**	**-**	**3**
Change in tax rate	*27*	**-**	**-**	**(6)**	**(3)**	**(9)**	**-**	**(9)**
Tax relating to indexation of operating land	*27*	**-**	**-**	**-**	**4**	**4**	**-**	**4**
Dividends paid	*28*				**(49)**	**(49)**		**(49)**
Total comprehensive income		**-**	**-**	**(236)**	**(75)**	**(311)**	**-**	**(311)**
Transactions with owners:								
Share capital movements		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital contribution		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2011		**2,666**	**-**	**(470)**	**284**	**2,480**	**-**	**2,480**

[1] The presentation of certain balances for the year ended 31 December 2010 has been restated to be consistent with current year disclosures in relation to the presentation of tax balances.

BAA Limited

Consolidated statement of cash flows for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £m	Restated[1] Year ended 31 December 2010 £m
Cash flows from operating activities			
Cash generated from continuing operations	*30*	**1,113**	1,015
Taxation			
Income taxes paid		**-**	(2)
Group relief (paid)/received		**(5)**	4
Cash generated from discontinued operations		**46**	59
Net cash from operating activities		**1,154**	1,076
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(855)**	(844)
Investment properties		**(29)**	-
Intangible assets		**(11)**	(19)
Investing activities of discontinued operations and disposal proceeds		**38**	84
Net cash used in investing activities		**(857)**	(779)
Cash flow from financing activities			
Dividends paid		**(49)**	-
Proceeds from issuance of bonds		**1,508**	1,155
Drawdown of Class B facility		**-**	625
Drawdown of capital expenditure facilities		**119**	607
Drawdown of subordinated facilities		**50**	175
Repayment of facilities and other items		**(1,366)**	(2,616)
(Decrease)/increase in amount owed to parent		**(250)**	210
Prepayment of derivative interest		**-**	(37)
Cancellation of derivatives		**(114)**	(74)
Settlement of accretion on index-linked swaps		**(15)**	-
Interest paid		**(449)**	(466)
Interest received		**9**	6
Restricted cash		**-**	143
Financing activities of discontinued operations		**-**	(3)
Net cash used in financing activities		**(557)**	(275)
Net (decrease)/increase in cash and cash equivalents		**(260)**	22
Cash and cash equivalents at beginning of year		**417**	395
Cash and cash equivalents at end of year	*15*	**157**	417

[1] Information restated to include Edinburgh airport in discontinued operations.

Accounting policies for the year ended 31 December 2011

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

Basis of accounting

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

Primary financial statements format

The primary financial statements are presented in accordance with '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.

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 Net Debt and Liquidity and Recent financing activities in the Financial review).

Although the Group is in a net current liability position, the Directors have as a result of the review and having made appropriate enquiries of management 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 as of 1 January 2011, none of which have had a material impact on the Group's financial statements.

- Amendment to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets
  Amends the disclosure requirements where financial assets are transferred through a contractual right to receive the cash flows of that financial asset or assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

- Amendment to IAS 24 Related Party Disclosures
  The amendments to IAS 24 were limited in scope and provide relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions.

- Amendment to IAS 32 Classification of Rights Issues
  The amendments to IAS 32, Classification of Rights Issues, changed certain definitions and presentation requirements.

- Amendment to IFRIC 14 Prepayments to a Minimum Funding Requirements
  The amendments to IFRIC 14, which is itself an interpretation of IAS 19 Employee Benefits, applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

Accounting policies for the year ended 31 December 2011 *continued*

Changes in accounting policy and disclosures *continued*

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
  IFRIC 19 provides guidance on how an entity should account for transactions where a creditor accepts an entity's shares or other equity instruments to settle a financial liability in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IAS 32 Financial Instruments: Presentation.

- Improvements to IFRSs issued by the IASB in May 2010 and endorsed by the EU on 18 February 2011

(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 endorsed by the EU):

- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 (amended) Financial Statement Presentation
- IAS 12 (amended) Deferred tax: Recovery of Underlying Assets
- IAS 19 (amended) Employee Benefits
- IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities
- IFRS 7 (amended) Disclosures - Offsetting Financial Assets and Financial Liabilities

On 16 December 2011 the IASB deferred the mandatory effective date of IFRS 9 to 1 January 2015. The adoption of IFRS 9 will impact both the measurement and disclosures of financial instruments. No decision has been made by the Group regarding early adoption.

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.

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.

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.

Transaction 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.

Basis of consolidation *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 of BAA Limited.

The Group's operating segments are organised according to their regulatory environment, type of operation, geographic location and funding arrangements. 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 (Glasgow, Aberdeen and Southampton airports);
- other operations (corporate activities, BAA Lynton Limited and other commercial operations); and
- discontinued operations (Edinburgh airport, Airport Property Partnership ('APP'), BAA USA (Holdings) Inc ('BAA USA'), BAA Italia S.p.A. ('BAA Italia') and Gatwick airport).

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 noise, emissions and weight recognised on landing.
- Aircraft parking charges based on a combination of weight and time parked as provided.
- 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 and are recognised in the period to which they relate.
- 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 rentals, 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 2011 (2010: £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
On the face of the income statement, the Group presents exceptional items. Exceptional items are material items of income or expense that, because of their size or incidence, 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.

Accounting policies for the year ended 31 December 2011 *continued*

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.

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.

Property, plant and equipment *continued*

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.

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.

Investment properties *continued*

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.

Leases *continued*

Group as a lessee continued

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

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. 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.

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.

Financial instruments *continued*

Investments continued

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

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

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

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

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the 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.

Accounting policies for the year ended 31 December 2011 *continued*

Financial instruments *continued*

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 for changes in credit risk

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. Where material, the credit risk associated with the Group's derivatives is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit associated with the derivative has clearly changed based on market transactions and prices.

Embedded derivatives

As required by IAS 39 *Financial Instruments: Recognition and Measurement* embedded derivatives are assessed on the initial recognition of the underlying host contract. Where the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract no bifurcation of the embedded derivative from the host contract is undertaken.

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's primary UK pension fund is a self administered defined benefit scheme now closed to new employees. The defined benefit obligation or surplus is calculated quarterly by independent actuaries using the projected unit credit method. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the statement of financial position. Any difference between the expected return on assets and that actually achieved is recognised in the statement of comprehensive income as an actuarial gain or loss along with differences which arise from experience or assumption changes.

The amount of income or expenditure recognised in the income statement as employment costs, in relation to the defined benefit pension scheme, comprises the current service costs, past service costs, the interest cost less the Group's long-term expected return on assets.

Accounting policies for the year ended 31 December 2011 *continued*

Employee benefits *continued*

Pension obligations continued

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. In addition, the Group provides post-retirement medical benefits to certain pensioners.

Further information on pension arrangements is set out in note 20.

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. Interim dividends are recognised when paid.

Foreign currency

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

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are 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.

Accounting policies for the year ended 31 December 2011 *continued*

Foreign currency *continued*
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 for the year ended 31 December 2011

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 2011 and 31 December 2010 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors. Strutt & Parker were responsible solely for the valuation of residential property at Stansted. The valuations were prepared in accordance with relevant accounting standards 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 have been obtained for 100% of the investment properties. Approximately 76% 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.

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. Further details are available within Note 20.

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 will probably be 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 2011, £594 million of fair value losses (2010: £272 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 calculated using a discounted cash flow approach and using inputs based on observable market data. Where material, the credit risk associated with the derivatives is reflected in its calculation methodology. Judgement is used to determine whether the credit risk associated with the derivatives has changed materially over time based on market transactions and prices and, where this is the case, the credit factor is adjusted in the valuation calculation

Classification of disposal group as held for sale
The group exercises judgement to determine when groups of assets are actively marketed in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. Assets, or groups of assets, are considered to be actively marketed once there is a board approval and an expectation of the disposal has been raised in those directly affected by the disposal.

Notes to the financial statements for the year ended 31 December 2011

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, geographic location and funding arrangements and are largely split between the 'Designated' and 'Non-Designated' groups.

The 'other operations' segment consists of corporate activities, BAA Lynton Limited 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 Edinburgh airport as assets held-for-sale. The performance of this disposal group is distinguished from the performance of continuing Group operations in the annual report through classification as discontinued operations.

Table (a) details total revenue from external customers for the year ended 31 December 2011 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 2010.

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 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.

Section (e) details revenue and non-current asset information by geographical segment.

Notes to the financial statements for the year ended 31 December 2011 *continued*

1 Segment information *continued*

Table (a)

Year ended 31 December 2011	Segment revenue					EBITDA		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items[1] £m	Post exceptional items £m
Designated group								
Heathrow	1,150	436	250	59	**1,895**	982	-	**982**
Heathrow Express	-	-	-	111	**111**	64	-	**64**
Stansted	127	83	18	6	**234**	87	-	**87**
	1,277	**519**	**268**	**176**	**2,240**	**1,133**	**-**	**1,133**
Non-Designated group								
Glasgow	42	26	11	4	**83**	30	-	**30**
Aberdeen	31	10	7	5	**53**	18	-	**18**
Southampton	16	9	2	1	**28**	10	-	**10**
	89	**45**	**20**	**10**	**164**	**58**	**-**	**58**
Other operations	-	1	-	9	**10**	8	41	**49**
Total	**1,366**	**565**	**288**	**195**	**2,414**	**1,199**	**41**	**1,240**

Reconciliation to statutory information	
Unallocated income and expenses	
Depreciation and amortisation (Note 1 table 1 (c))	**(574)**
Operating profit (before certain re-measurements)	**666**
Fair value gain on investment properties (certain re-measurements)	**49**
Exceptional impairment	**(69)**
Finance income	**232**
Finance costs	**(1,053)**
Fair value loss on financial instruments (certain re-measurements)	**(31)**
Loss before tax	**(206)**
Taxation	**204**
Taxation (certain re-measurements)	**11**
Taxation	**215**
Profit for the year – continuing operations	**9**
Loss from discontinued operations (Note 6)	**(39)**
Consolidated loss for the year	**(30)**

[1] Operating exceptional items for statutory reporting purposes include £11 million in relation to an accelerated depreciation and impairment charge incurred on the Airtrack rail project which the Group has decided not to pursue (included within depreciation and amortisation above) as compared to £nil for segmental reporting.

Revenues of approximately £564 million (2010: £499 million) were derived from a single external customer by the Group's continuing operations and are included in the Heathrow, Stansted, Glasgow and Aberdeen segments above. A further £8 million (2010: £9 million) was derived from the same customer by discontinued operations.

Notes to the financial statements for the year ended 31 December 2011 *continued*

1 Segment information *continued*

Table (b)

Year ended 31 December 2010	Segment revenue restated[1]					EBITDA restated[1]		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items[2] £m	Post exceptional items £m
Designated group								
Heathrow	991	393	249	57	1,690	825	(12)	813
Heathrow Express	-	-	-	103	103	56	-	56
Stansted	124	83	18	4	229	86	-	86
	1,115	476	267	164	2,022	967	(12)	955
Non-Designated group								
Glasgow	41	26	11	3	81	30	-	30
Aberdeen	28	9	7	4	48	15	-	15
Southampton	16	9	2	1	28	10	-	10
	85	44	20	8	157	55	-	55
Other operations	-	4	-	30	34	11	-	11
Total	1,200	524	287	202	2,213	1,033	(12)	1,021

	£m
Reconciliation to statutory information	
Unallocated income and expenses	
Depreciation and amortisation (Note 1 table 1 (c))	(555)
Operating profit (before certain re-measurements)	466
Fair value gain on investment properties (certain re-measurements)	52
Exceptional impairment	(483)
Finance income	173
Finance costs	(943)
Fair value loss on financial instruments (certain re-measurements)	(41)
Loss before tax	(776)
Taxation	215
Taxation (certain re-measurements)	11
Taxation	226
Loss for the year – continuing operations	(550)
Profit from discontinued operations (Note 6)	117
Consolidated loss for the year	(433)

[1] Information restated to include Edinburgh airport in discontinued operations.
[2] 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.

Notes to the financial statements for the year ended 31 December 2011 *continued*

1 Segment information *continued*

Table (c)

	31 December 2011			31 December 2010 restated[1]		
	Depreciation & amortisation[2]	**Fair value gain/ (loss)[3]**	**Profit on disposals**	Depreciation & amortisation[2]	Fair value gain/ (loss)[3]	Profit on disposals
	£m	**£m**	**£m**	£m	£m	£m
Designated group						
Heathrow	**458**	**47**	**-**	432	35	-
Heathrow Express	**40**	**-**	**-**	41	-	-
Stansted	**42**	**(1)**	**-**	41	(4)	-
	540	**46**	**-**	514	31	-
Non-Designated group						
Glasgow	**21**	**3**	**-**	21	3	-
Aberdeen	**6**	**1**	**-**	11	7	-
Southampton	**5**	**(1)**	**-**	5	11	-
	32	**3**	**-**	37	21	-
Other operations	**2**	**-**	**-**	4	-	-
Continuing operations	**574**	**49**	**-**	555	52	-
Discontinued operations	**20**	**7**	**9**	28	22	47
Total Group	**594**	**56**	**9**	583	74	47

1 Information restated to include Edinburgh airport in discontinued operations.
2 Includes intangible asset amortisation of £24 million (2010: £37 million), and for Heathrow includes £11 million in relation to an accelerated depreciation and impairment charge (2010: £19 million accelerated depreciation) incurred on the Airtrack rail project which the Group has decided not to pursue. Refer to Note 3.
3 Reflects fair value gains and losses on investment properties only.

Table (d)

	31 December 2011			31 December 2010		
	Assets[1]	**Liabilities**	**Capital expenditure**	Assets[1]	Liabilities	Restated[2] Capital expenditure
	£m	**£m**	**£m**	£m	£m	£m
Designated group						
Heathrow	**13,511**	**(441)**	**904**	12,954	(409)	768
Heathrow Express	**1,052**	**(6)**	**11**	1,098	(8)	11
Stansted	**1,581**	**(31)**	**19**	1,610	(27)	19
	16,144	**(478)**	**934**	15,662	(444)	798
Non-Designated group						
Edinburgh[3]				934	(19)	-
Glasgow	**580**	**(21)**	**11**	672	(17)	12
Aberdeen	**311**	**(9)**	**12**	310	(6)	4
Southampton	**130**	**(6)**	**3**	181	(5)	5
	1,021	**(36)**	**26**	2,097	(47)	21
Other operations	**122**	**(56)**	**-**	194	(54)	-
Assets classified as held for sale[3]	**901**	**(181)**	**13**	-	-	47
Total operations	**18,188**	**(751)**	**973**	17,953	(545)	866
Unallocated assets and liabilities**:**						
Cash, borrowings and available-for-sale investment	**184**	**(12,706)**		446	(12,584)	
Derivative financial instruments	**552**	**(1,298)**		560	(779)	
Retirement benefit surplus/(obligations)	**39**	**(29)**		-	(67)	
Taxation	**-**	**(1,697)**		-	(2,193)	
Total Group	**18,963**	**(16,481)**	**973**	18,959	(16,168)	866

1 Segment assets include primarily airport runways and facilities as well as goodwill and right to operate allocated to the reportable segments.
2 Information restated to include Edinburgh airport in discontinued operations.
3 At 31 December 2011 the assets and liabilities of Edinburgh airport have been classified within Assets classified as held for sale.

Notes to the financial statements for the year ended 31 December 2011 *continued*

1 Segment information *continued*

Section (e)
BAA Limited is domiciled in the UK. All revenue from external customers comes from the UK which for the year ended 31 December 2011 was £2,414 million (2010: £2,213 million as restated to include Edinburgh airport in discontinued operations). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

The total of non-current assets excluding derivative financial instruments, deferred tax assets and post-employment benefit assets was £17,003 million (2010: £17,630 million). There are no non-current assets held outside the UK (2010: £nil).

Notes to the financial statements for the year ended 31 December 2011 *continued*

2 Operating costs – continuing operations

	Year ended 31 December 2011 £m	Restated[1] Year ended 31 December 2010 £m
Operating costs (including exceptional items) include the following:		
Employment costs		
Wages and salaries	**369**	352
Social security	**35**	31
Pensions	**13**	48
Share-based payments	**1**	3
Contract and agency staff	**23**	37
Other staff related	**27**	28
	468	499
Depreciation, amortisation and impairment		
Property, plant and equipment	**551**	518
Intangible assets	**23**	37
	574	555
Other operating costs		
Retail expenditure	**33**	32
Retail marketing	**6**	12
Maintenance expenditure	**183**	175
Insurance	**18**	21
Other marketing and communications	**18**	12
Rents and rates	**141**	129
Utility costs	**120**	125
Police	**39**	39
Aerodrome navigation service charges	**84**	86
General expenses	**150**	147
Own work capitalised[2]	**(86)**	(85)
Total operating costs	**1,748**	1,747
Analysed as:		
Adjusted operating costs	**1,215**	1,180
Depreciation and amortisation	**563**	536
Exceptional (income)/costs[3]	**(30)**	31
Total operating costs	**1,748**	1,747

1 Information restated to include Edinburgh airport in discontinued operations.
2 Own work capitalised includes £68 million (2010: £70 million) in relation to employment costs, including contract and agency staff.
3 Exceptional costs includes £11 million in relation to an accelerated depreciation and impairment charge (2010: £19 million accelerated depreciation), a gain of £15 million (2010: £nil) in relation to settlement of a loan previously written off and a gain of £26 million in relation to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements. Refer to Note 3.

Rentals under operating leases

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Operating costs include:		
Plant and machinery	**35**	35
Other	**18**	18
	53	53
Property lease and sub lease charges – minimum lease payments	**18**	18

2 Operating costs – continuing operations *continued*
Auditor's remuneration

	Year ended 31 December 2011	Year ended 31 December 2010
	£m	£m
Fees payable to the Company's auditor for the audit of the Group's annual accounts		
The audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.5
Total audit fees	**0.5**	0.5
Fees payable to the Company's auditor and their associates for other services to the Group		
Other services pursuant to legislation	**-**	-
Half year review	**0.1**	0.1
Tax services	**0.2**	0.1
Information technology services – pre-appointment[1]	**-**	0.9
Information technology services – post-appointment[1]	**0.2**	0.2
Corporate finance services[2]	**0.4**	0.2
Other services	**0.1**	0.1
Total non-audit fees	**1.0**	1.6
Total fees[3]	**1.5**	2.1

1 Prior to Deloitte LLP's appointment as auditor, 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.
2 Corporate finance fees largely relate to Reporting accountant work (required to be performed by the auditor) associated with supporting the raising of external finance within the group.
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 2011	Restated[1] Year ended 31 December 2010
Continuing operations		
United Kingdom		
Airports	**7,192**	7,083
Other operations	**1,391**	1,593
Discontinued operations		
United Kingdom		
Airports	**454**	431
International		
BAA Italia	**-**	414
BAA USA	**-**	17
	9,037	9,538

1 Information restated to include Edinburgh airport in discontinued operations and to present certain employees consistent with current year disclosures.

Notes to the financial statements for the year ended 31 December 2011 *continued*

2 Operating costs – continuing operations *continued*

Management and directors remuneration

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Key management compensation[1]		
Salaries and short-term employee benefits[2, 3]	**8,387**	6,617
Sum paid to related parties for directors' services	**1,200**	1,200
Termination benefits	**398**	-
	9,985	7,817

[1] Key management for 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.
[2] For the year ended 31 December 2011, salaries and benefits includes accrued salaries, allowances, director fees, bonuses and amounts payable under long term incentive plans ('LTIP').
[3] £1,571,000, of bonus was paid in cash in 2011 (2010: £1,067,774).

Key management participates in various Long Term Incentive Performance Cash Plans operated by BAA Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three to five year period. For the year ended 31 December 2011, key management's compensation includes £670,000 payable in 2012 (2010: nil) in respect of the 2009 Plan after certain targets were met over the three year period from 2009 to 2011. As the financial performance in respect of the 2010 and 2011 Plans is uncertain at this stage, no value in relation to these awards is included above.

Directors' remuneration

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Aggregate emoluments[1, 2]	**3,472**	2,139
Value of company pension contributions to defined contribution scheme	**-**	52
Sums paid to related parties for directors' services	**1,200**	1,200
	4,672	3,391

[1] For the year ended 31 December 2011 aggregate emoluments includes accrued salaries, allowances, director fees, bonuses and amounts payable under long term incentive plans ('LTIP').
[2] £128,000 of bonus was paid in cash in 2011 (2010: £53,000).

The directors participate in various Long Term Incentive Performance Cash Plans operated by BAA Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three to five year period. For the year ended 31 December 2011, the directors' remuneration includes £254,000 payable in 2012 (2010: nil) in respect of the 2009 Plan after certain targets were met over the three year period from 2009 to 2011.As the financial performance in respect of the 2010 and 2011 Plans is uncertain at this stage, no value in relation to these awards is included above.

During the year, none of the directors (2010: none) had retirement benefits accruing to them under a defined benefit scheme and none of the directors (2010: one) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2010: none) exercised any share options during the year in respect of their services to the Group and no shares (2010: none) were received or became receivable under long term incentive plans.

Highest paid director

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Salary and allowances	**1,060**	971
Value of company pension contributions to defined contribution scheme	**-**	52
Bonus accrued	**735**	-
Amount received under Company LTIP	**254**	-
	2,049	1,023

Notes to the financial statements for the year ended 31 December 2011 *continued*

2 Operating costs – continuing operations *continued*

In 2011 no company pension contributions were made in respect of the highest paid director (2010: £52,000) but an amount was instead paid within salary and allowances. During the year, the highest paid director had no retirement benefits accruing to him under a defined benefit scheme and no retirement benefits accruing to him under a defined contribution scheme.

No bonus was paid in 2010. No bonus was paid in 2011 as it was waived by the highest paid director. A bonus has been accrued in 2011 (£735,000) which will be paid in 2012.

The highest paid director participates in various Long Term Incentive Performance Cash Plans operated by BAA Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three to five year period. For the year ended 31 December 2011, the highest paid director's remuneration includes £254,000 payable in 2012 (2010: nil) in respect of the 2009 Plan after certain targets were met over the three year period from 2009 to 2011. As the financial performance in respect of the 2010 and 2011 Plans is uncertain at this stage, no value in relation to these awards is included above.

3 Exceptional items - continuing operations

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Accelerated depreciation and impairment		**(11)**	(19)
Settlement of a loan previously written off		**15**	-
Past service credit	*20a*	**26**	-
Reorganisation costs		**-**	(12)
Total operating exceptional items before income tax		**30**	(31)
Impairment of property, plant and equipment	*8*	**(23)**	(149)
Impairment of intangible assets	*10*	**(46)**	(334)
Total non-operating exceptional items before income tax		**(69)**	(483)
Tax credit on exceptional items		**7**	75
Total exceptional items after tax		**(32)**	(439)

The accelerated depreciation and impairment charge of £11 million was in relation to the Airtrack rail project which the Group has decided not to pursue. The £19 million accelerated depreciation charge in 2010 was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development.

The exceptional income of £15 million (2010: £nil) related to the settlement of a loan previously written off.

The past service credit of £26 million (2010: £nil) related to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements (see note 20a).

The £69 million impairment charges related to other intangible assets and property, plant and equipment being impaired in relation to Aberdeen and Southampton airports reflecting the fact that the carrying value of these assets exceeded their estimated recoverable amount based on their latest business plans.

Notes to the financial statements for the year ended 31 December 2011 *continued*

4 Financing – continuing operations
(a) Net finance costs

	Note	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Finance income			
Income from available-for-sale investments		**2**	2
Income from other financial assets		**3**	6
Interest receivable on derivatives not in hedge relationship		**225**	164
Interest on deposits		**2**	1
		232	173
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[1]		**(445)**	(353)
Bank loans and overdrafts and related hedging instruments		**(259)**	(362)
Interest payable on derivatives not in hedge relationship[2]		**(350)**	(216)
Facility fees		**(27)**	(31)
Interest on Group borrowings		**-**	(4)
Total borrowing costs		**(1,081)**	(966)
Less: capitalised borrowing costs[3]	*8*	**28**	23
		(1,053)	(943)
Net finance costs before certain re-measurements		**(821)**	(770)

[1] Includes total accretion loss of £15 million (2010: £12 million) arising from index-linked bonds.
[2] Includes total accretion loss of £232 million (2010: £107 million) arising from index-linked swaps.
[3] Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) are calculated by applying an average capitalisation rate of 2.13% (2010: 2.22%) to expenditure incurred on such assets.

(b) Fair value loss on financial instruments

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Interest rate swaps: cash flow hedge[1]	**3**	(6)
Cross-currency swaps: cash flow hedge[1]	**12**	6
Cross-currency swaps: fair value hedge[1]	**31**	-
Index-linked swaps: not in hedge relationship	**(89)**	(35)
Equity swaps	**20**	(5)
Fair value re-measurements of foreign exchange contracts and currency balances	**(8)**	(1)
Total fair value loss on financial instruments	**(31)**	(41)

[1] Hedge ineffectiveness on derivatives in hedge relationships.

Notes to the financial statements for the year ended 31 December 2011 *continued*

5 Taxation – continuing operations

	Year ended 31 December 2011 £m	Restated[1] Year ended 31 December 2010 £m
UK corporation tax		
Current tax at 26.5% (2010: 28%)	**9**	8
Over provision in respect of prior years	**(10)**	-
Deferred tax		
Current year	**(59)**	(149)
Prior year	**(7)**	(9)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**(148)**	(81)
Overseas tax		
Current	**-**	5
Ordinary taxation credit for the year	**(215)**	(226)

[1] Information restated to include Edinburgh airport in discontinued operations.

	Year ended 31 December 2011 £m	Restated[1] Year ended 31 December 2010 £m
Loss before tax	**(206)**	(776)

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

Reconciliation of the tax credit		
Tax calculated at the UK statutory rate of 26.5% (2010: 28%)	**(55)**	(217)
Adjustments in respect of current income tax of previous years	**(10)**	-
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**(148)**	(81)
Non deductible expenses	**5**	81[2]
Adjustments in respect of deferred income tax of previous years	**(7)**	(9)
Ordinary taxation credit for the year	**(215)**	(226)

[1] Information restated to include Edinburgh airport in discontinued operations.
[2] Non deductible expenses include the non tax deductible impairment of goodwill.

The tax credit recognised for the year was £215 million (2010: £226 million). Based on a loss before tax for the year of £206 million (2010: £776 million), this results in an effective tax credit rate of 104.4% (2010: 29.1%).

The Finance Act 2011 enacted a reduction in the main rate of UK corporation tax from 27% to 26% with effect from 1 April 2011 and from 26% to 25% with effect from 1 April 2012. As a result, the Group's deferred tax balances, which were provided at 27%, have been re-measured to the rate of 25% in the year ended 31 December 2011. This has resulted in a reduction in the net deferred tax liability of £138 million, with £148 million credited to the income statement and £10 million charged to equity.

Excluding the impact of the change in tax rate, the tax credit recognised for the year on ordinary activities of £67 million (2010: £145 million) results in an effective tax credit rate of 32.5% (2010: 18.7%). The tax credit is more than implied by the statutory rate of 26.5% (2010: 28%) primarily due to the release of prior year deferred tax provisions.

Notes to the financial statements for the year ended 31 December 2011 *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.

During 2011, Edinburgh airport was classified as held-for-sale and the comparatives have been restated to reflect this. The disposal process formally commenced in early 2012 and the Group expects the sale to conclude by the summer of 2012.

Net (loss)/profit from discontinued operations

	Year ended 31 December 2011			Restated[1] Year ended 31 December 2010		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	**110**	**-**	**110**	176	-	176
Operating costs						
Depreciation and amortisation	**(20)**	**-**	**(20)**	(28)	-	(28)
Other	**(62)**	**-**	**(62)**	(99)	-	(99)
Other items						
Fair value gains on investment property	**-**	**7**	**7**	-	22	22
Operating profit from discontinued operations	**28**	**7**	**35**	49	22	71
Analysed as:						
Operating profit before exceptional items	**28**	**7**	**35**	49	22	71
Exceptional items	**-**	**-**	**-**	-	-	-
Exceptional impairment[2]	**(101)**	**-**	**(101)**	-	-	-
Profit on disposal of operations[3]	**9**	**-**	**9**	47	-	47
Share of profit from associates and joint ventures	**-**	**-**	**-**	11	-	11
(Loss)/profit before tax from discontinued operations	**(64)**	**7**	**(57)**	107	22	129
Tax credit/(charge) on (loss)/profit of discontinued operations	**18**	**-**	**18**	(9)	(3)	(12)
Net (loss)/profit from discontinued operations	**(46)**	**7**	**(39)**	98	19	117

[1] Information restated to include Edinburgh airport in discontinued operations. In 2010, information also included results for APP, BAA USA and BAA Italia.
[2] This related to the impairment of goodwill in Edinburgh airport reflecting the fact that the carrying value of its assets exceeded its estimated recoverable amount based on its latest business plan (refer to Note 10).
[3] Attributable to the disposals of APP (and related entities), BAA USA, BAA Italia and Gatwick airport.

The net assets of the Edinburgh airport discontinued operations have been provided in note 24.

7 Dividends

Dividends of £49 million were paid in the year (2010: £nil).

8 Property, plant and equipment

	Note	Terminal complexes	Airfields	Plant and equipment	Other land and buildings	Rail	Assets in the course of construction	Total
		£m	£m	£m	£m	£m	£m	£m
Cost								
1 January 2010		8,215	1,373	304	90	1,245	1,376	**12,603**
Additions		11	-	13	-	-	821	**845**
Net transfers from/(to) 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		(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)**
1 January 2011		**8,305**	**1,493**	**309**	**88**	**1,251**	**1,570**	**13,016**
Additions		3	-	9	-	-	920	**932**
Transfers from/(to) completed assets		538	18	71	7	14	(648)	**-**
Borrowing costs capitalised	*4*	-	-	-	-	-	28	**28**
Disposals		(1)	-	-	(1)	-	-	**(2)**
Transfers from/(to) investment properties		-	-	-	6	-	-	**6**
Transferred to assets held-for-sale	*24*	(405)	(150)	(35)	(7)	-	(25)	**(622)**
31 December 2011		**8,440**	**1,361**	**354**	**93**	**1,265**	**1,845**	**13,358**
Depreciation								
1 January 2010		(1,036)	(166)	(85)	(22)	(120)	-	(1,429)
Charge		(384)	(59)	(55)	(8)	(40)	-	(546)
Impairment		-	-	-	-	-	(149)	(149)
Disposals		19	1	17	1	-	149	187
Disposal of operations		20	-	10	1	-	-	31
Reclassifications		(4)	4	-	-	-	-	-
Currency translation		2	-	1	-	-	-	3
1 January 2011		**(1,383)**	**(220)**	**(112)**	**(28)**	**(160)**	**-**	**(1,903)**
Charge		(390)	(54)	(66)	(7)	(53)	-	**(570)**
Impairment	*10*	(16)	(7)	-	-	-	-	**(23)**
Disposals		1	-	1	-	-	-	**2**
Reclassifications		-	1	(1)	-	-	-	**-**
Transferred to assets held-for-sale	*24*	105	41	23	2	-	-	**171**
31 December 2011		**(1,683)**	**(239)**	**(155)**	**(33)**	**(213)**	**-**	**(2,323)**
Net book value								
31 December 2011		**6,757**	**1,122**	**199**	**60**	**1,052**	**1,845**	**11,035**
31 December 2010		6,922	1,273	197	60	1,091	1,570	11,113

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £17 million (2010: £20 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. They also include the baggage system between Terminals 3 and 5 to transport baggage for transfer passengers.

Impairment

The 2011 impairment of £23 million reflected that the carrying value of these assets exceeded their estimated recoverable amount based on their latest business plans (refer to Note 10).

The 2010 impairment of £149 million related to the write-off of planning application costs and the write down in the value of domestic properties and land purchased by Heathrow and Stansted airports for development of future runways prior to the change in the UK government and its policy towards runway developments.

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,280 million (2010: £1,260 million). Borrowing costs were capitalised at an average rate of 2.13% (2010: 2.22%).

A tax deduction of £28 million (2010: £23 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.

Notes to the financial statements for the year ended 31 December 2011 *continued*

8 Property, plant and equipment *continued*

Borrowing costs capitalised continued

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 16.

9 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2010		2,439	9	**2,448**
Transferred to completed assets		3	(3)	**-**
Net transfers to property, plant and equipment	*8*	103	-	**103**
Valuation gain[1]		74	-	**74**
1 January 2011		**2,619**	**6**	**2,625**
Additions		28	1	**29**
Transferred to completed assets		2	(2)	**-**
Disposals		(5)	-	**(5)**
Net transfers to property, plant and equipment	*8*	(6)	-	**(6)**
Valuation gain[2]		53	-	**53**
Transferred to assets held-for-sale		(161)	-	**(161)**
31 December 2011		**2,530**	**5**	**2,535**

[1] £22 million related to Edinburgh airport.
[2] £4 million related to Edinburgh airport prior to its classification as discontinued operations in 2011. A further £3 million valuation gain at Edinburgh airport was recorded subsequently (Note 6).

Airport investment properties were valued at fair value at 31 December 2010 and 2011 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors. In both years Strutt & Parker were responsible solely for the valuations of residential property at Stansted.

Details of valuations performed are provided below:

	31 December 2011 £m	31 December 2010 £m
CB Richard Ellis	**2,612[1]**	2,538
Strutt & Parker	**87**	87
At professional valuation	**2,699**	2,625

[1] £164 million related to investment properties held by Edinburgh airport, which have been classified as discontinued operations (see note 24).

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.

The group has historically had a low level of void properties.

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 (2010: £2 million) for which a similar amount is included within operating costs.

Included in investment properties are assets with a fair value of £58 million (2010: £59 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 16.

10 Intangible assets

	Note	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost							
1 January 2010		3,379	624	132	132	5	**4,272**
Additions		-	-	19	-	2	**21**
Disposals		-	-	(5)	-	-	**(5)**
Disposal of operations		(64)	-	-	-	-	**(64)**
1 January 2011		**3,315**	**624**	**146**	**132**	**7**	**4,224**
Additions		-	-	12	-	-	**12**
Transferred to assets held-for-sale	*24*	(223)	(147)	-	(5)	-	**(375)**
31 December 2011		**3,092**	**477**	**158**	**127**	**7**	**3,861**
Amortisation							
1 January 2010		-	-	(77)	(50)	-	**(127)**
Charge for the year		-	-	(23)	(14)	-	**(37)**
Impairment		(89)	(243)	-	-	(2)	**(334)**
Disposals		-	-	5	-	-	**5**
1 January 2011		**(89)**	**(243)**	**(95)**	**(64)**	**(2)**	**(493)**
Charge for the year		-	-	(9)	(14)	(1)	**(24)**
Impairment		(101)	(46)	-	-	-	**(147)**
Transferred to assets held-for-sale	*24*	101	-	-	3	-	**104**
31 December 2011		**(89)**	**(289)**	**(104)**	**(75)**	**(3)**	**(560)**
Net book value							
31 December 2011		**3,003**	**188**	**54**	**52**	**4**	**3,301**
31 December 2010		3,226	381	51	68	5	3,731

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 Limited 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 regulated airports' permission to levy charges on airline carriers for the use of airport infrastructure.

Goodwill and right to operate are allocated to the Group's cash-generating units (CGUs), identified as the individual airports.

A summary of the allocation at 31 December 2010 reconciled to 31 December 2011 is presented below:

	31 December 2010		Impairment charge		Transfers[1]	31 December 2011	
Business segments	**Right to operate £m**	**Goodwill £m**	**Right to operate £m**	**Goodwill £m**	**£m**	**Right to operate £m**	**Goodwill £m**
UK							
Regulated airports	-	3,003	-	-	-	**-**	**3,003**
Heathrow	-	2,753	-	-	-	**-**	**2,753**
Stansted	-	250	-	-	-	**-**	**250**
Non-regulated airports	381	223	(46)	(101)	(269)	**188**	**-**
Edinburgh	147	223	-	(101)	(269)	**-**	**-**
Glasgow	101	-	-	-	-	**101**	**-**
Aberdeen	107	-	(20)	-	-	**87**	**-**
Southampton	26	-	(26)	-	-	**-**	**-**
	381	3,226	(46)	(101)	(269)	**188**	**3,003**

[1] Transferred to assets held-for-sale.

The recoverable amount of the airports has been calculated using the fair value less cost to sell methodology. Fair value for the airports has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant business plans over the period until year 2056. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection 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 calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, impairment exists. Carrying values of goodwill and right to operate for each airport were tested for impairment as at 31 December 2011. Any resulting impairment charges were applied firstly to goodwill and, where no goodwill remained, to right to operate. No impairment charges resulted for Heathrow, Stansted and Glasgow. However, impairment charges were booked for the remainder of the airports, which resulted in a £20 million right to operate reduction for Aberdeen and £101 million goodwill reduction for Edinburgh. In addition, £49 million was impaired for Southampton, of which £26 million went against right to operate and £23 million against property, plant and equipment (refer to Note 8).

Regulated group

The business plan extending until December 2013, which was approved by the Board in December 2011, is the starting point of the projection for Heathrow and Stansted. For future regulatory periods the business plans for Heathrow and Stansted are prepared on the basis of the 'Building Blocks' approach, in the same way the CAA applies it in the five yearly regulatory reviews. The profitability of these regulated assets, using this approach, is determined by the existing Regulatory Asset Base (RAB), the future Capital Investment Programme and the regulatory return, and traffic forecast.

Key assumptions

In determining the fair value of the airports, management makes a number of assumptions based on recent experience and consistent with relevant external sources of information. The key assumptions used in determining the recoverable amounts are:

- Capital expenditure
  From 2014 onwards, a series of major projects covering the maintenance and replacement of existing assets as well as, in order to add capacity to the existing infrastructure to meet forecast demand while maintaining the quality of the service, have been included. Current plans are to spend approximately £9 billion (in current prices) over the next 10 years at the regulated airports.

- Return allowed by the regulator and discount rates
  The assumptions made for the return allowed by the regulator for future five yearly regulatory periods reflects management's view of the airports' cost of capital and expectations of the result of future price determinations. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount is 8.4% (2010: 8.1%) for Heathrow and 9.1% (2010: 8.8%) for Stansted.

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

Sensitivity analysis

The sensitivity of the airports' fair value to changes in key assumptions has been tested. The most relevant impacts are those related to the increase of capacity for Heathrow, and to the assumed allowed regulatory return and future passenger demand for both airports. Given Stansted's tight headroom as at 31 December 2011, should any of the key assumptions relating to that airport change significantly, an impairment charge might have to be recognised.

Non-designated group

The detailed business plan for the non regulated airports up to December 2016 was approved by the Board in December 2011. Projections beyond 2016 have been prepared using long term operational models which consider passenger estimates prepared by the Forecasting and Statistics team, and high level drivers of revenues and operational costs. The fair value of assets held for sale is based on the management's best sale price estimations calculated on the basis of the long term projections and financing structure.

10 Intangible assets *continued*

Goodwill and right to operate continued

Key assumptions

The key assumptions used in determining the fair value of the non regulated airports are:

- Passenger growth
  Passenger growth is assumed to be 3% on average over the medium term and 2% over the long term.

- 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.

- Inflation
  RPI and COPI projections for the period to December 2015 have been updated for recent forecast trends. Long-term average RPI and COPI have been set at 3%.

- Discount rate
  The discount rate for non regulated 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 regulated airports and other operations is 8.8%. The assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Sensitivity analysis

As at 31 December 2011, the estimated fair value or recoverable amounts of Aberdeen, Edinburgh and Southampton airport equalled their impaired carrying values. Any adverse change in key assumptions for those 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 £33 million (2010: £29 million).

11 Available-for-sale investments

	Note	**31 December 2011 £m**	31 December 2010 £m
Unlisted securities			
Opening balance		**29**	29
Transferred to income statement		**-**	(1)
(Loss)/gain recognised in equity	*26*	**(2)**	1
		27	29

Available-for-sale investments relates to the Group's 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% (2010: 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 18.

12 Inventories

	31 December 2011 £m	31 December 2010 £m
Consumables	**9**	7

The total amount of inventories consumed in the year relating to continuing operations was £4 million (2010: £9 million) and relating to discontinued operations was £1 million (2010: £1 million).

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

13 Trade and other receivables

	31 December 2011 £m	31 December 2010 £m
Non-current		
Other receivables	1	3
Prepayments[1]	11	36
Amounts owed by parent entity	93	93
	105	132
Current		
Trade receivables	200	179
Less: Provision for impairment	(3)	(4)
Trade receivables – net	197	175
Prepayments	38	53
Other receivables	67	54
Related party amounts[2]	-	63
	302	345

[1] In 2011, non-current prepayments include £11 million refinancing fees paid in 2008 on facilities not yet drawn. Refinancing fees paid on facilities are amortised over the term of the facility. Non-current prepayments in 2010 also included amounts (£36 million) in respect of future bond issuances which were fully utilised during 2011.
[2] Related party amounts represented loan notes due from Caisse de dépôt et placement du Québec that were received on disposal of Budapest Airport. The loan notes were repaid in June 2011.

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 2011, trade receivables of £158 million (2010: £140 million) were fully performing. Trade receivables of £36 million (2010: £22 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 2011 £m	Restated[1] 31 December 2010 £m
Fully performing	158	140
Past due but not impaired		
Not impaired but overdue by less than 30 days	28	17
Not impaired but overdue by between 30 and 60 days	4	3
Not impaired but overdue by more than 60 days	4	2
	36	22
Considered for impairment		
Overdue by more than 90 days	6	17

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

	2011 £m	2010 £m
1 January	4	4
Provision for receivables impairment	-	1
Receivables written off during the year as uncollectible	(1)	(1)
31 December	3	4

[1] The presentation of certain balances as at 31 December 2010 has been restated to be consistent with current year disclosures.

As at 31 December 2011, trade receivables of £6 million (2010: £17 million) were considered for impairment of which an amount of £3 million (2010: £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 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 18.

14 Restricted cash

	31 December 2011 £m	31 December 2010 £m
Cash account	**26**	29
Short-term deposits	**3**	8
	29	37

Restricted cash related primarily to cash held separately to cover three months of interest on the Non-Designated airports facility, based on its first utilisation in 2008.

15 Cash and cash equivalents

	31 December 2011 £m	31 December 2010 £m
Cash at bank and in hand	**88**	114
Short-term deposits	**40**	266
	128	380

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 approximates their book value.

For the purposes of the consolidated 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 consist of:

	31 December 2011 £m	31 December 2010 £m
Cash at bank and in hand	**114**	143
Short-term deposits	**43**	274
	157	417

16 Borrowings

	31 December 2011 £m	31 December 2010 £m
Current		
Secured		
Bank loans	**39**	39
BAA Funding Limited bonds:		
3.975% €1,000 million due 2012	**835**	-
Unsecured		
Bank loans	**-**	1
Total current (excluding interest payable)	**874**	40
Interest payable	**206**	165
Total current	**1,080**	205
Non-current		
Secured		
BAA Funding Limited bonds:		
3.975% €1,000 million due 2012	**-**	849
5.850% £400 million due 2013	**396**	396
4.600% €750 million due 2014	**615**	628
12.450% £300 million due 2016	**374**	389
4.125% €500 million due 2016	**394**	408
4.600% €750 million due 2018	**612**	627
6.250% £400 million due 2018	**392**	392
9.200% £250 million due 2021	**311**	316
4.875% US$1,000 million due 2021	**675**	-
5.225% £750 million due 2023	**727**	725
6.750% £700 million due 2026	**681**	680
7.075% £200 million due 2028	**232**	233
6.450% £900 million due 2031	**996**	998
3.334% +RPI £365 million (2010: £235 million) due 2039	**413**	243
5.875% £750 million due 2041	**730**	-
Total BAA Funding Limited bonds	**7,548**	6,884
BAA (SH) plc bonds:		
7.125% £325 million due 2017	**318**	317
Total bonds	**7,866**	7,201
Bank loans – Designated airports	**2,244**	3,465
Bank loans – Non-Designated airports	**1,042**	1,036
Subordinated facilities	**220**	171
£30 million debenture due 2017	**38**	39
Unsecured		
Other bank loans	**1**	2
Total bank loans	**3,545**	4,713
Total external borrowings	**11,411**	11,914
Borrowings from parent	**215**	465
Total non-current	**11,626**	12,379
Total borrowings (excluding interest payable)	**12,500**	12,419

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 that is two years later, except for the 6.250% £400 million 2018 bond, the scheduled redemption date of which coincides with its legal maturity date.

Fair value of borrowings

	31 December 2011		31 December 2010	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Long-term debt	**11,411**	**11,915**	11,914	12,149
Borrowings from parent	**215**	**215**	465	465
	11,626	**12,130**	12,379	12,614

16 Borrowings *continued*

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.

The average cost of the Group's external gross debt at 31 December 2011 was 4.53% (2010: 4.71%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2011 was 6.49% (2010: 5.74%).The increase in the average cost of debt (including index-linked accretion) is the result of a number of factors including the replacement of short-term bank debt with higher cost bond debt and the impact of high current inflation on the accretion payable on index-linked swaps and bonds.

Security and guarantees

Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations under their financing agreements. Each Obligor has also provided a guarantee 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 any such bonds issued since 18 August 2008, which at 31 December 2011 included just 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 granted security over their assets to secure their obligations under their financing agreements. Each Non-Designated Obligor, other than BAA (Non Des Topco) Limited, has 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 £60 million.

Additional disclosures on risk management and hedging of borrowings are included in Notes 17 and 18.

17 Derivative financial instruments

31 December 2011	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Cross-currency swaps – cash-flow hedge	**680**	**171**	**-**	**171**
Foreign exchange contracts - no hedge accounting	**6**	**-**	**-**	**-**
	686	**171**	**-**	**171**
Non-current				
Equity swaps - no hedge accounting	**146**	**12**	**(67)**	**(55)**
Interest rate swaps - cash flow hedge	**4,054**	**-**	**(583)**	**(583)**
Cross-currency swaps - cash flow hedge	**510**	**118**	**-**	**118**
Cross-currency swaps - fair value hedge	**1,568**	**251**	**(5)**	**246**
Index-linked swaps - no hedge accounting	**5,254**	**-**	**(643)**	**(643)**
	11,532	**381**	**(1,298)**	**(917)**
Total	**12,218**	**552**	**(1,298)**	**(746)**

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)**

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 21. The total ESOP derivative portfolio consists of 11.7 million shares at a total mark to market liability of £55 million as at 31 December 2011 (2010: £76 million).

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 its foreign currency-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.

18 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.

18 Financial instruments *continued*

Financial risk management objectives and policies continued

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

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 each of the 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 2011, 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 £1 million and £1 million respectively (2010: £8 million decrease and £10 million increase respectively).

As at 31 December 2011, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, annual pre-tax profit would have increased or decreased by £1 million and £nil respectively (2010: £nil impact).

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 Ferrovial, S.A., arising from its ESOP programme. The Group uses equity swaps to manage this exposure. As at 31 December 2011, if the Ferrovial share price had strengthened or weakened by 10%, annual pre-tax profit would have increased or decreased by £9 million (2010: £7 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 2011, 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 £207 million and £200 million respectively (2010: £171 million decrease and £165 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 also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

As at 31 December 2011, the Group's fixed floating interest rate profile, after hedging, on gross debt was 85:15 (2010: 76:24).

As at 31 December 2011, 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:

	31 December 2011		31 December 2010	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.50% increase	**56**	**178**	58	169
0.50% decrease	**(60)**	**(189)**	(60)	(139)

18 Financial instruments *continued*

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 short-term 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 long-term credit rating below BBB+(S&P)/A(Fitch).

As at 31 December 2011, the Group had total credit risk with derivative counterparties of its interest rate swaps, index-linked swaps and cross-currency swaps of £540 million (2010: £552 million).

Financial assets past due but not impaired are disclosed in Note 13. The maximum exposure to credit risk as at 31 December 2011 is £978 million (2010: £1,281 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. Further details of the risk management objectives and policies can be found on pages 19 to 20 of the Internal controls and risk management section of the Business review.

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

	31 December 2011 £m	31 December 2010 £m
Floating rate facilities		
Expiring in one to two years	**1,355**	-
Expiring in more than two years	**176**	1,650
	1,531	1,650

As at 31 December 2011, overdraft facilities of £10 million were available (2010: £10 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 contractual maturity date.

	31 December 2011			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**720**	**1,831**	**3,220**	**6,031**
Borrowing interest payments	**596**	**553**	**1,371**	**3,586**
Derivative financial instruments	**(103)**	**116**	**118**	**(259)**
Trade payables[1]	**222**	**-**	**-**	**-**
Capital payables[1]	**256**	**-**	**-**	**-**

[1] Includes £10 million (2010: £nil) trade payables and £4 million (2010: £nil) capital payables classified as assets held-for-sale. Refer note 24.

	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	-	-	-

18 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 2011			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**93**	**75**	**205**	**145**
Cross-currency derivative receipts	**(140)**	**(106)**	**(261)**	**(215)**

	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	7
Cross-currency derivative receipts	(111)	(111)	(201)	(106

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. Gearing is measured by reference to the ratio of net debt to Regulatory Asset Base ('RAB') (for the Group's regulated businesses) and net debt to earnings before interest, tax, depreciation and amortisation ('EBITDA') (for the Group's unregulated businesses). Net debt is the external consolidated nominal net debt within the part of Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels including BAA (SH) plc, BAA (SP) Limited and BAA (NDH1) Limited.

	31 December 2011	31 December 2010
Net debt to RAB at BAA (SH) group	**0.79**	0.81
Total net debt to RAB at BAA (SP) group	**0.75**	0.78
Senior net debt to RAB at BAA (SP) group	**0.68**	0.69
Net debts to EBITDA at BAA (NDH1) group	**9.70**	10.87

The decrease in gearing ratios at BAA (SH) group and BAA (SP) group is largely the result of cash flow being retained in the business and the impact of inflation on the RAB. The decrease in gearing ratios at BAA (NDH1) group is principally the result of the increase in EBITDA (including discontinued operations) to £108 million in the year ending 31 December 2011 (2010: £99 million) due primarily to no recurrence of 2010's volcanic ash, strike and severe winter weather disruptions.

18 Financial instruments *continued*

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 categories:

	31 December 2011				
	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	**-**	**-**	**-**	**27**	**27**
Derivative financial instruments	**-**	**12**	**540**	**-**	**552**
Cash and cash equivalents	**157**	**-**	**-**	**-**	**157**
Trade receivables[1]	**206**	**-**	**-**	**-**	**206**
Other receivables	**36**	**-**	**-**	**-**	**36**
Total financial assets	**399**	**12**	**540**	**27**	**978**

	31 December 2011			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings	**-**	**-**	**(12,500)**	**(12,500)**
Derivative financial instruments	**(710)**	**(588)**	**-**	**(1,298)**
Trade payables[1]	**-**	**-**	**(222)**	**(222)**
Capital payables[1]	**-**	**-**	**(256)**	**(256)**
Total financial liabilities	**(710)**	**(588)**	**(12,978)**	**(14,276)**

[1] Includes £9 million (2010: £nil), trade receivables, £10 million (2010: £nil) trade payables and £4 million (2010: £nil) capital payables classified as assets held-for-sale. Refer to note 24.

	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)

18 Financial instruments *continued*

Financial instruments by category continued

At 31 December 2011, 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 tables below present the Group's assets and liabilities that are measured at fair value as at 31 December:

	31 December 2011			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets	**-**			
Assets at fair value through income statement	**-**	**12**	**-**	**12**
Derivatives qualifying for hedge accounting	**-**	**540**	**-**	**540**
Available-for-sale investments	**-**	**-**	**27**	**27**
Total assets		**552**	**27**	**579**
Liabilities				
Liabilities at fair value through income statement	**-**	**(710)**	**-**	**(710)**
Derivatives qualifying for hedge accounting	**-**	**(588)**	**-**	**(588)**
Total liabilities	**-**	**(1,298)**	**-**	**(1,298)**

	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
Total assets	-	560	29	589
Liabilities				
Liabilities at fair value through income statement	-	(380)	-	(380)
Derivatives qualifying for hedge accounting	-	(399)	-	(399)
Total liabilities	-	(779)	-	(779)

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.

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

18 Financial instruments *continued*

Fair value estimation continued

- 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 2011 £m**	31 December 2010 £m
1 January		**29**	29
(Loss)/gain recognised in equity	*26*	**(2)**	1
Transferred to income statement		**-**	(1)
31 December		**27**	29

19 Deferred income tax

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

	Note	**2011 £m**	2010 £m
1 January		**(2,040)**	(2,263)
Credited to income statement[1]		**80**	155
Credited to income statement – change in tax rate[2]		**160**	88
Credited/(Charged) to equity	*27*	**83**	(13)
(Charged) to equity – change in tax rate	*27*	**(9)**	(6)
Re-allocation to current tax		**6**	-
Transfers to held-for-sale	*24*	**160**	-
Disposal of operations		**-**	(1)
31 December		**(1,560)**	(2,040)

[1] Includes £13 million tax credit (2010: £4 million tax charge) relating to discontinued operations.
[2] Includes £12 million (2010: £6 million) tax credit relating to discontinued operations.

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**	**Post employment benefits £m**	**Other £m**	**Total £m**
1 January 2011	**(1,723)**	**(437)**	**(125)**	**(119)**	**(10)**	**-**	**(66)**	**(2,480)**
Credited/(Charged) to income statement	**138**	**(20)**	**-**	**14**	**2**	**-**	**9**	**143**
Credited to income statement - Change in tax rate	**128**	**24**	**10**	**8**	**2**	**-**	**4**	**176**
Credited to equity	**-**	**-**	**4**	**-**	**-**	**-**	**-**	**4**
Credited/(Charged) to equity – Change in tax rate	**-**	**8**	**(1)**	**-**	**-**	**-**	**-**	**7**
Transfers to held-for-sale	**81**	**29**	**10**	**37**	**-**	**-**	**2**	**159**
Re-allocation to current tax	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**6**
Transfers from deferred tax asset	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
31 December 2011	**(1,376)**	**(396)**	**(102)**	**(60)**	**-**	**(1)**	**(51)**	**(1,986)**

19 Deferred income tax continued

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	Post employment benefits £m	Total £m
1 January 2011	16	167	110	77	53	17	**440**
(Charged) to income statement	-	(19)	(16)	(1)	(11)	(16)	**(63)**
Credited/(Charged) to income statement – Change in tax rate	(1)	(12)	(1)	(6)	(4)	8	**(16)**
Credited/(Charged) to equity	-	-	80	-	-	(1)	**79**
(Charged) to equity – Change in tax rate	-	-	(6)	-	-	(10)	**(16)**
Transfers to held-for-sale	-	-	-	-	-	1	**1**
Transfers to deferred tax liabilities	-	-	-	-	-	1	**1**
31 December 2011	**15**	**136**	**167**	**70**	**38**	**-**	**426**

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Fair value reserves in shareholders' equity		
Cash flow hedge reserve	**80**	32
Tax relating to indexation of operating land	**4**	-
Retirement benefit obligations	**(1)**	(45)
Change in tax rate	**(9)**	(6)
	74	(19)

The Finance Act 2011 enacted a reduction in the main rate of UK corporation tax from 27% to 26% with effect from 1 April 2011 and from 26% to 25% with effect from 1 April 2012. As a result, the Group's deferred tax balances, which were provided at 27%, have been re-measured to the rate of 25% in the year ended 31 December 2011. This has resulted in a reduction in the net deferred tax liability of £151 million, with £160 million credited to the income statement and £9 million charged to equity.

20 Retirement benefit obligations

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
BAA Pension Scheme (Note 20 (a))	**12**	40
Defined contribution schemes	**5**	3
Additional provision for unfunded schemes	**1**	1
Total operating charge to employment costs	**18**	44

[1] Included within the total operating charge to employment costs are costs associated with discontinued operations. Employment costs relating to the BAA Pension scheme include costs related to discontinued operations of £5 million (2010: £4 million credit).

	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m
Fair value of plan assets at end of year	**2,691**	2,359	2,029	2,082	2,267
Benefit obligation at end of year	**(2,652)**	(2,403)	(2,285)	(1,987)	(2,123)
Surplus/(deficit) in BAA Pension Scheme	**39**	(44)	(256)	95	144
Unfunded pension obligations	**(23)**	(19)	(18)	(15)	(18)
Post-retirement medical benefits	**(6)**	(4)	(4)	(5)	(4)

(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.

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

The value placed on the liabilities of the scheme as at 31 December 2011 is based on a roll forward of the detailed valuation calculations carried out by the Trustees as at 30 September 2010 based on individual member data. The liabilities have been calculated 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 2011. 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 2011	31 December 2010
	%	%
Rate of increase in pensionable salaries	**4.6**	5.1
Increase to deferred benefits during deferment	**2.4**	3.6
Increase to pensions in payment:		
Open section	**3.0**	3.5
Closed section	**3.1**	3.6
Discount rate	**4.8**	5.5
Inflation assumption	**3.1**	3.6
Expected return on plan assets:		
Equities	**7.5**	7.9
Bonds	**4.4**	5.2
Cash	**3.0**	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 26.7 years (2010: 25.9 years) and 28.2 years (2010: 27.9 years) from age 60 for a 40 year old male non-pensioner.

The accounting standard requires that the discount rate used to discount the liability, be determined by reference to market yields at the reporting date on high quality corporate bond 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 assumption for the salary growth and pension increase assumptions. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds.

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

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

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

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.4% assumption (2010: 6.3%).

The target asset allocation consistent with the scheme investment policy is 30:70 growth assets to matching assets.

Notes to the financial statements for the year ended 31 December 2011 *continued*

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

The amounts recognised in the income statement are as follows:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Current service cost	**55**	49
Finance cost on benefit obligation	**131**	129
Expected return on plan assets	**(148)**	(138)
Past service cost (Note 3)	**(26)**[1]	-
Total operating charge to employment costs	**12**	40

[1] During the year, the Trustees of the Scheme announced to members that benefit increases for certain members, primarily deferred benefits during deferment, would in future increase in line with CPI rather than RPI inflation. This follows the Government's announcement in July 2010 on a change to statutory minimum pension increases. The reduction in benefit obligation of £26 million has been recorded as a negative past service cost and included in exceptional items (refer to Note 3).

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Actual return less expected return on plan assets	**174**	75
Experience gains and losses arising on the benefit obligation	**(70)**	20
Changes in assumptions underlying the present value of the benefit obligation	**(94)**	(33)
Actuarial gain recognised in the Statement of comprehensive income[1,2] (Note 27)	**10**	62

[1] The total actuarial gain recognised in the Statement of comprehensive income before tax is £4 million (2010: £62 million). This is made up by a £10 million (2010: £62 million) actuarial gain on the defined benefit scheme offset by a £6 million (2010: £nil) actuarial loss on the other pension and post-retirement liabilities (refer to Note 20 section (b) below).
[2] Total cumulative actuarial gains and losses recognised in equity were £74 million loss (2010: £84 million).

The actual return on plan assets was £322 million (2010: £213 million).

The actuarial loss of £94 million (2010: loss of £33 million) arising from changes in assumptions in the year ended 31 December 2011 resulted primarily from:

- a reduction in the real discount rate by 0.2%, increasing the present value of the defined benefit obligation by £80 million; and
- changes in the demographic assumptions following a detailed assessment of scheme experience carried out by the Trustees as part of the 30 September 2010 actuarial valuation, increasing the present value of the defined benefit obligation by £14 million. In particular, the base mortality assumption was updated to SAPS tables and future improvements are in line with the latest CMI projections using a long term rate of improvements of 1%.

Experience loss of £70 million (2010: gain of £20 million) arose primarily due to updating the Scheme membership data underlying the IAS 19 calculation.

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

	31 December 2011 £m	31 December 2010 £m
Fair value of plan assets		
Equities	**515**	521
Bonds	**1,030**	978
Other	**1,146**[1]	860
Total fair value of plan assets	**2,691**	2,359
Present value of benefit obligation	**(2,652)**	(2,403)
Gross surplus/(deficit) in scheme at 31 December	**39**	(44)
Asset/(liability) recognised in the Statement of financial position	**39**	(44)

[1] Other assets includes £192 million of hedge funds and £707 million of interest rate and inflation instruments.

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

	31 December 2011 £m	31 December 2010 £m
Benefit obligation at beginning of year	**2,403**	2,285
Movement in the year:		
Current service cost	**55**	49
Past service cost	**(26)**	-
Finance cost	**131**	129
Members' contributions	**10**	12
Actuarial loss	**164**	13
Benefits paid (by fund and company)	**(85)**	(85)
Benefit obligation at end of year	**2,652**	**2,403**

The Group had an agreement with the Trustees to contribute £80 million per annum plus the cost of augmentation of members' benefits under the Scheme following redundancy during 2011. As part of the triennial review of the Scheme completed in 2011 based on the Scheme's valuation as at 30 September 2010 it was agreed that the new contribution will be £97 million per annum commencing from 1 January 2012.

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

	31 December 2011 £m	31 December 2010 £m
Fair value of plan assets at beginning of year	**2,359**	2,029
Expected return on plan assets	**148**	138
Actuarial gain	**174**	75
Employer contributions (including benefits paid and reimbursed)	**85**	85
Members' contributions	**10**	12
Gatwick commutation payment	**-**	105
Benefits paid (by fund and company)	**(85)**	(85)
Fair value of plan assets at end of year	**2,691**	2,359

History of experience gains and (losses):

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007
Difference between the expected and actual return on scheme assets:					
Amount £m	**174**	75	(71)	(343)	(4)
Percentage of scheme assets	**6.5**	3.2	(3.5)	(16.5)	(0.2)
Experience gains and losses on benefit obligations:					
Amount £m	**(70)**	20	67	28	130
Percentage of scheme liabilities	**(2.6)**	0.8	2.9	1.2	6.1
Total amount recognised in the statement of comprehensive income:					
Amount £m	**10**	62	(404)	(59)	375
Percentage of benefit obligation	**0.4**	2.6	(17.8)	(3.0)	17.7

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	9	6	219	158
-0.50% discount rate	(11)	(8)	(250)	(180)

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

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	(11)	(8)	(248)	(179)
-0.50% inflation rate	9	6	202	145

A change in the mortality assumption causing a 1 year increase in life expectancy would have a £67 million impact on the defined benefit obligation and a £2 million impact on the forward looking service cost.

(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 £5 million (2010: £3 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. In addition the Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £6 million (2010: £4 million) is included in the statement of financial position, along with provision for unfunded pension obligations of £23 million (2010: £19 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.

21 Share-based payments

Until 2009 the Group operated an Executive Share Option Plan ('ESOP') to provide awards of options over Ferrovial S.A. (a shareholder of the Company) 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.

Options were granted with a fixed exercise price equal to the market price of the shares at the date of grant. The exercise period for each of the issues commenced 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 level EBITDA.

Ferrovial share price risk related to the ESOP is managed using equity swaps as discussed in Note 18. The table below shows the options outstanding:

Option grant date	**Number of options over Ferrovial shares outstanding at 31 December 2010**	**Expired/forfeited during the year**	**Exercised during the year**	**31 December 2011**	**Grant price and exercise price (€)**
July 2007	885,271	(326,038)	-	**559,233**	18.45
November 2007	73,347	(27,332)	-	**46,015**	15.29
July 2008	3,562,820	(2,724,188)	-	**838,632**	10.83
November 2008	530,592	(366,794)	(66,096)	**97,702**	6.02

The performance conditions for all options granted were partially met.

The 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 3 years from the date of the award subject to financial performance conditions having been met.

Notes to the financial statements for the year ended 31 December 2011 *continued*

22 Provisions

	Disposal of operations £m	Reorganisation £m	Other £m	Total £m
1 January 2011	18	12	17	**47**
Utilised	(6)	(11)	(9)	**(26)**
Charged to income statement	-	7	-	**7**
Released	(8)	-	-	**(8)**
Transfer in	-	-	2	**2**
31 December 2011	**4**	**8**	**10**	**22**
Current	4	8	4	**16**
Non-current	-	-	6	**6**
31 December 2011	**4**	**8**	**10**	**22**
Current	18	12	9	**39**
Non-current	-	-	8	**8**
31 December 2010	**18**	**12**	**17**	**47**

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 2012.

Reorganisation costs
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. These costs are for severance and pension payments only and are expected to be utilised in early 2012.

Other
These provision are largely due to onerous contracts primarily relating to energy purchases and property leases. All amounts are expected to be utilised within three years.

23 Trade and other payables

	31 December 2011 £m	31 December 2010 £m
Non-current		
Deferred income	**1**	3
	1	3
Current		
Deferred income	**40**	42
Trade payables	**212**	226
Other tax and social security	**11**	10
Other payables	**34**	22
Capital payables	**252**	195
	549	495

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

24 Assets held-for-sale

	Note	31 December 2011 £m	31 December 2010 £m
Intangible assets	*10*	**271**	-
Property, plant and equipment	*8*	**456**	-
Investment properties	*9*	**164**	
Trade and other receivables	*13*	**10**	-
Assets classified as held-for-sale		**901**	-
Deferred tax liabilities	*19*	**(160)**	-
Current income tax liabilities		**(4)**	-
Trade and other payables		**(17)**	-
Liabilities classified as held-for-sale		**(181)**	-
Net assets of disposal group		**720**	-

24 Assets held-for-sale *continued*

On 19 October 2011, as a result of the Competition Commission's decision on its investigation into the Group's ownership of UK airports, the Group announced plans to sell Edinburgh airport and therefore it has been classified as held-for-sale at the year end. As required under IFRS, the results and performance of Edinburgh airport are included in the results and cash flows of discontinued operations at the year end (see note 6).

Movements in the normal course of business have occurred following the classification of Edinburgh airport to held-for-sale.

Trade receivables of £8 million were fully performing. A further £1 million were past due, up to 3 months, but not impaired and £1 million was considered for impairment of which £nil was provided for as it is expected to be fully recovered.

25 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**	-
43,000,000,100 ordinary shares	2,666,000,006	-
31 December 2011	**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**	-
42,998,461,934 ordinary shares	2,665,904,640	-
31 December 2011	**2,665,904,640**	**-**

26 Fair value and other reserves

	Cash flow hedge reserve £m	**Available-for-sale investments £m**	**Currency translation reserve £m**	**Total £m**
1 January 2011	(252)	12	6	**(234)**
Fair value losses	(458)	(2)	-	**(460)**
Transferred to income statement	145	-	-	**145**
Deferred tax on fair value losses	80	-	-	**80**
Current tax on fair value gains	(2)	-	-	**(2)**
Change in tax rate	(6)	-	-	**(6)**
Currency translation	-	-	7	**7**
31 December 2011	**(493)**	**10**	**13**	**(470)**

Notes to the financial statements for the year ended 31 December 2011 *continued*

27 Tax relating to components of comprehensive income

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

	Year ended 31 December 2011			Year ended 31 December 2010		
	Before tax £m	Tax credit /(charge) £m	After tax £m	Before tax £m	Tax credit /(charge) £m	After tax £m
Available-for-sale investments						
Gain taken to equity	(2)	-	(2)	1	-	1
Cash flow hedges						
(Loss)/gain taken to equity	(458)	114	(344)	(311)	85	(226)
Transferred to income statement	145	(36)	109	203	(55)	148
Actuarial gain/(loss)	4	(1)	3	62	(45)	17
Net movement in currency translation reserve	7	-	7	(1)	-	(1)
Change in tax rate	-	(9)	(9)	-	(6)	(6)
Tax relating to indexation of operating land	-	4	4	-	-	-
Disposal of operation	-	-	-	(27)	-	(27)
Other comprehensive income	(304)	72	(232)	(73)	(21)	(94)
Current tax	-	(2)	-	-	(2)	-
Deferred tax (Note 19)	-	74	-	-	(19)	-
	-	72	-	-	(21)	-

28 Retained earnings

	£m
1 January 2011	359
Net loss for the year	(30)
Actuarial gain on pensions	4
Tax on actuarial gain on pensions	(1)
Change in tax rate	(3)
Tax relating to indexation of operating land	4
Dividends paid	(49)
31 December 2011	284

29 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 2011		31 December 2010	
	Land and Buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	14	50	14	46
Within two to five years	49	208	50	196
After five years	32	996	37	836
	95	1,254	101	1,078

29 Commitments and contingent liabilities *continued*

Non-cancellable operating lease commitments – Group as a lessee

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 £1.3 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 2011		31 December 2010	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**80**	**-**	87	-
Within two to five years	**248**	**-**	288	-
After five years	**1,747**	**-**	1,827	-
	2,075	**-**	2,202	-

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 2011 £m	31 December 2010 £m
Within one year	**34**	63
Within two to five years	**5**	39
	39	102

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.

29 Commitments and contingent liabilities *continued*

Group commitments for property, plant and equipment

	31 December 2011 £m	31 December 2010 £m
Contracted for, but not accrued:		
Terminal 2A building – Heathrow	**631**	788
Terminal 2B phase 2 - Heathrow	**288**	447
Terminal 2 Multi Storey car park -Heathrow	**69**	-
Terminal 3 integrated baggage system - Heathrow	**39**	64
Eastern Campus ICS - Heathrow	**35**	-
Terminal 1 transfer baggage system - Heathrow	**13**	-
Rolling Stock Refresh/Rebrand - Heathrow Express	**11**	-
Minor asset replacement/refurbishment - Heathrow	**10**	-
Eastern Campus Leadership Team - Heathrow	**8**	1
Energy infrastructure - Heathrow	**7**	30
Taxiway Golf Rehabilitation Works (Phase 1) - Glasgow	**4**	-
Major Foam Tenders - Stansted	**3**	-
Terminal 1 baggage prolongation programme - Heathrow	**-**	31
Terminal 3/5 transfer baggage system - Heathrow	**-**	24
Terminal 5C – Heathrow	**-**	18
	1,118	1,403
Other projects	**48**	61
	1,166	1,464

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 £5,136 million (2007/08 prices) including a maximum of £735 million in the extra year (to 31 March 2014) added to Heathrow's current regulatory period during 2011. Capital expenditure at Heathrow in 2012 is forecast to be approximately £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 at Stansted in 2012 is forecast to be approximately £20 million.

Other commitments

The Group operates or in the recent past has operated blight compensation schemes relating to properties that might be affected by potential future runway developments at certain of its airports. At both Heathrow and Stansted, there were schemes in operation as a result of the potential development of new runways but these schemes were closed following the change in government policy in relation to runway developments in South East England that occurred in 2010. Nevertheless, some residual commitments to purchase properties made before the relevant schemes were closed were fulfilled during 2011. All commitments have now been fulfilled at Stansted although commitments to purchase the final 26 properties near Heathrow remained outstanding at 31 December 2011. Properties purchased under these schemes are included within investment properties at a value of £125 million as at 31 December 2011 (2010: £108 million).

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.

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 the Group publically consulted on proposed amendments in 2011. During the course of 2012 the Group expects to announce the outcome of the review and public consultation and launch any amendments to the current schemes.

In June 2006, the government announced its conclusions for the 2006-2012 night flights regime at the Group's airports. The regime committed the Group to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62 million over the five years from 2008. The government was expected to consult on proposals for the post 2012 night flights regime during 2011. However that public consultation has been delayed and is now not expected until the end of 2012. Consequently a "rollover" of the existing restrictions is expected to be announced early in 2012. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

29 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.

The trustees of the BAA Group's defined benefit pension scheme have recently concluded the triennial valuation of the scheme and agreed with the Group a schedule of cash contributions to be made to the scheme by the Group from January 2012. The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated using the trustees' actuarial assumptions.

As part of the triennial valuation process, the Group will pay £97 million per annum into the scheme from 2012 to 2014. This compares with a total contribution of £80 million per annum paid from 2009 to 2011. The amount being paid in each of the next three years includes £24 million which is aimed to eliminate the deficit over a period of 9 years.

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 2011 (2010: £260 million).

30 Notes to the consolidated statement of cash flows

Reconciliation of net loss before tax to cash generated from continuing operations

	Note	**Year ended 31 December 2011 £m**	Restated[1] Year ended 31 December 2010 £m
Operating activities			
Loss before tax		**(206)**	(776)
Adjustments for:			
Finance income	*4a*	**(232)**	(173)
Finance costs	*4a*	**1,053**	943
Fair value losses on financial instruments	*4b*	**31**	41
Depreciation	*2*	**540**	499
Amortisation	*2*	**23**	37
Exceptional depreciation and impairment	*3*	**11**	19
Impairment charge	*3*	**69**	483
Fair value (gains) on investment properties		**(49)**	(52)
Share-based payments		**1**	3
(Increase)/decrease in trade and other receivables		**(29)**	10
Increase in inventories		**(2)**	(1)
(Decrease)/increase in trade and other payables		**(10)**	29
Decrease in provisions		**(13)**	(12)
Decrease in deferred income		**(2)**	(3)
Difference between pension charge and cash contributions		**(72)**	(32)
Cash generated from continuing operations		**1,113**	1,015

[1] Information restated to include Edinburgh airport in discontinued operations.

31 Related party transactions

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

	Year ended 31 December 2011 Sale of goods and services £m	Year ended 31 December 2010 Sale of goods and services £m
Caisse de dépôt et placement du Québec	**3**	6
Swissport/Groundstar	**1**	5
	4	11

Notes to the financial statements for the year ended 31 December 2011 *continued*

31 Related party transactions *continued*

	Year ended 31 December 2011 Purchase of goods and services £m	Year ended 31 December 2010 Purchase of goods and services £m
Ferrovial	**6**	4
Ferrovial Agroman	**47**	59
Amey Airport Services Limited	**1**	1
Amey Community Limited	**28**	18
HETCo	**223**	116
ADI Finance 2 Limited[1]	**-**	4
	305	202

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

Balances outstanding with related parties were as follows:

	31 December 2011		31 December 2010	
	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	-
Ferrovial Agroman	**-**	**-**	-	4
Amey Community Limited	**-**	**2**	-	2
HETCo	**-**	**32**	-	22
ADI Finance 2 Limited	**93**	**215[2]**	93	465[2]
	93	**249**	156	493

[1] Relates to loan notes excluding interest (Note 13).
[2] Relates to borrowings from parent, excluding interest (Note 16).

Related party transactions are conducted on an arms-length basis, with no security provided on the balances.

32 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 Hubco Netherlands B.V. (49.99%) (an indirect subsidiary of Ferrovial S.A., Spain), Britannia Airport Partners L.P. (26.48%) (a Caisse de dépôt et placement du Québec-controlled vehicle), Baker Street Investment Pte Ltd (17.65%) (an investment vehicle of the Government of Singapore Investment Corporation) and Alinda Airports UK L.P. and Alinda Airports L.P. (5.88%) (investment vehicles managed by Alinda Capital Partners).

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.

33 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

33 Principal subsidiaries *continued*

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.

34 Subsequent events

In February 2012, the Competition Appeal Tribunal ('CAT') rejected BAA's request that it should review the Competition Commission's July 2011 decision that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision, particularly that BAA should dispose of Stansted airport. BAA is currently considering its position in light of the CAT's decision.

BAA Limited

Contents

Independent auditor's report on the Company financial statements 85

Company financial statements
Company balance sheet 86
Accounting policies 87
Notes to the Company financial statements 88

Independent auditor's report to the members of BAA Limited

We have audited the parent company financial statements of BAA Limited for the year ended 31 December 2011 which comprise the Company balance Sheet, the Accounting policies and the related notes 1 to 13. 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 auditor's 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 auditor

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the 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 2011.

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

22 February 2012

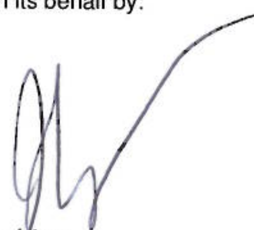
BAA Limited

Company balance sheet as at 31 December 2011

	Notes	**31 December 2011 £m**	31 December 2010 £m
Fixed assets			
Investments in subsidiaries	2	**4,436**	4,436
		4,436	4,436
Current assets			
Debtors : due within one year	3	**6**	36
: due after more than one year	3	**592**	1,288
Current asset investments		**-**	11
Cash at bank and in hand		**20**	16
Total current assets		**618**	1,351
Creditors: amounts falling due within one year	4	**(3)**	(4)
Net current assets		**615**	1,347
Total assets less current liabilities		**5,051**	5,783
Creditors: amounts falling due after more than one year	5	**(215)**	(465)
Net assets		**4,836**	5,318
Capital and reserves			
Called up share capital	6	**2,666**	2,666
Profit and loss reserve	7	**2,170**	2,652
Total shareholder's funds		**4,836**	5,318

The financial statements of BAA Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 22 February 2012. 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 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 impairment.

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

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.

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

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 and BAA Limited for the year ended 31 December 2011 (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.

Notes to the financial statements for the year ended 31 December 2011 continued

1 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The loss of the Company for the year attributable to shareholders was £433 million (2010: £276 million profit).

2 Investments in subsidiaries

	£m
1 January 2011 and 31 December 2011	**4,436**

Details of principal subsidiary undertakings are provided in Note 33 of the BAA Limited consolidated financial statements.

3 Debtors

	31 December 2011 £m	31 December 2010 £m
Due within one year		
Interest receivable	**-**	10
Other debtors	**6**	-
Group relief receivable	**-**	26
	6	36
Due after more than one year		
Amounts owed by parent undertaking[1]	**93**	93
Amounts owed by group undertakings[2]	**334**	1,028
Amounts owed by group undertakings – interest free	**28**	-
Deferred tax asset	**137**	167
	592	1,288
Total debtors	**598**	1,324

[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 £312 million (2010: £1,007 million) and BAA Airports Holdco Limited of £22 million (2010: £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 2011 £m	31 December 2010 £m
Surplus non trade deficit	**137**	167

4 Creditors: amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Other creditors	**3**	4

5 Creditors: amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Loan from parent undertaking	**215**	465

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**	**-**
43,000,000,100 ordinary shares	2,666,000,006	**-**
31 December 2011	**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**	**-**
42,998,461,934 ordinary shares	2,665,904,640	-
31 December 2011	**2,665,904,640**	**-**

7 Profit and loss reserve

	£m
1 January 2011	**2,652**
Dividends paid	**(49)**
Loss for the financial year	**(433)**
31 December 2011	**2,170**

8 Dividends paid and proposed

Dividends of £49 million were paid during the year (2010: £nil).

9 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.

10 Employee information and directors' remuneration

Employee numbers

The Company has no employees (2010: nil).

Directors' remuneration

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

11 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.

12 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 Hubco Netherlands B.V. (49.99%) (an indirect subsidiary of Ferrovial S.A., Spain), Britannia Airport Partners L.P. (26.48%) (a Caisse de dépôt et placement du Québec-controlled vehicle), Baker Street Investment Pte Ltd (17.65%) (an investment vehicle of the Government of Singapore Investment Corporation) and Alinda Airports UK L.P. and Alinda Airports L.P. (5.88%) investment vehicles managed by Alinda Capital Partners).

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.

13 Subsequent events

In February 2012, the Competition Appeal Tribunal ('CAT') rejected BAA's request that it should review the Competition Commission's July 2011 decision that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision, particularly that BAA should dispose of Stansted airport. BAA is currently considering its position in light of the CAT's decision.

Registered office

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