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

Company registration number: 01991017

Heathrow Airport Limited

Contents

Officers and professional advisers	1
Business review	
Management review	2
Financial review	6
Risk management	11
Directors' report	14
Directors' responsibilities statement	16
Independent auditors' report	17
Financial statements	
Profit and loss account	18
Statement of total recognised gains and losses	19
Reconciliation of movements in shareholder's funds	19
Balance sheet	20
Accounting policies	21
Significant accounting judgements and estimates	28
Notes to the financial statements	29

Heathrow Airport Limited

Officers and professional advisers

Directors
José Leo
John Holland-Kaye
Steven Morgan
Nicholas Cullen

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

Independent auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
2 New Street Square
London
EC4A 3BZ

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

Heathrow Airport Limited

Business review

Heathrow Airport Limited (the 'Company') operates Heathrow Airport ('Heathrow') and Heathrow Express ('HEX'), the express rail service between Heathrow and Central London. The Company is entitled to all receipts and income relating to HEX but the day-to-day operation of HEX is undertaken by Heathrow Express Operating Company Limited on behalf of the Company.

The Company is a subsidiary of the BAA Limited Group (the 'BAA Group'). In addition, the Company's financial activities are aligned with BAA Limited, and also with BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements.

This business review is presented under three sections:
Management review – overview of the year ended 31 December 2010, along with the key factors likely to impact the Company in 2011.

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2010 and analysis of the financial position of the Company as at that date.

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

Management review

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

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

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

During 2010, the UK's new coalition government reversed the previous government's support for a new runway at Heathrow and as a result the Company stopped pursuing planning applications for a third runway.

The Company continued significant investment in the airport's facilities with good progress made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years after a period of over twenty years since Terminal 4 opened. Over £800 million was invested by the Company in the year ended 31 December 2010.

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

Passenger traffic trends
In the year ended 31 December 2010, Heathrow's reported traffic declined 0.2% to 65.7 million (2009: 65.9 million). Year on year performance reflects a number of exceptional events including closure of airspace due to volcanic ash, airline industrial action and severe winter weather as well as the macroeconomic environment. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events resulted in the loss of up to an estimated total of 2.4 million passengers. Adjusting for these factors, Heathrow's traffic is estimated to have increased by up to 3.4%. Heathrow's underlying growth accelerated as the year progressed driven particularly by European scheduled traffic and renewed confidence amongst business travellers. The strength of Heathrow's underlying performance is reflected in it achieving several all time traffic records including the busiest day in history, the two busiest months ever and five successive months from July to November achieving record traffic for that particular month.

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

Management review *continued*

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

Transforming Heathrow
The Company 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 Heathrow and supporting the Company's long term growth ambitions.

In particular, the Company's strategic objective is to ensure Heathrow becomes the UK's gateway to the world and Europe's hub of choice by making every journey better. Significant progress has been made in delivering this objective over the last few years with the opening of Terminal 5 which passengers rate amongst the best airport terminals in Europe. Heathrow's significant investment continued in 2010 and in particular good progress was made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years after a period of over twenty years since Terminal 4 opened.

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

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

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

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

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

Service standards
The Company continues to focus on delivering consistently high service standards at the airport, a key strategic priority, and monitors the relevant HEX quality measures. It also expects improving service standards to play a key part in driving cost efficiency.

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

Management review *continued*

Review of 2010 *continued*
Service standards continued
In the year ended 31 December 2010 many service standards at Heathrow were influenced by the exceptional events discussed above.

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

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

On security queuing, passengers passed through central security within periods prescribed under the airport's service quality rebate scheme 97.5% (2009: 97.9%) of the time. This compares with the 95.0% service standard.

The Heathrow Express Quality Service Measure (QSM) score (Friendliness, Appearance, Availability) increased once again to 91.2% (2009: 88.5%) continuing HEX's commitment to an improvement to the customer experience. Operational performance continued to improve with the Heathrow Express Public Performance Measure ('PPM') increasing to 95.31% (2009: 95.1%) and punctuality of 90.2% (2009: 91.2%).

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

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

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

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

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

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

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

Management review *continued*

Developments since beginning of 2011

In January 2011, passenger traffic at Heathrow increased 4.6% to 5.1 million (2010: 4.8 million) due partly to underlying growth and partly adverse weather conditions that impacted performance in January 2010 more than in 2011. Adjusting for the weather disruption in both January 2010 and January 2011, it is estimated that traffic would have increased between 2.0% and 2.5%.

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

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

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

Outlook

The Company expects the underlying recovery passenger traffic in 2010 to continue in 2011. 2011 is also expected to see higher aeronautical tariffs and further improvements in retail income. Whilst increased turnover will be partially offset by increased operating costs, particularly associated with the one-off cost of various IT, operational and commercial initiatives, this year is expected to see strong growth in turnover, Adjusted EBITDA and operating cash flow. There is also expected to be a significant step up in investment at Heathrow.

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

Heathrow Airport Limited

Financial review

The following financial review provides commentary on the performance of the Company during 2010.

Basis of presentation of financial results
The table below summarises the Company's financial performance in 2010 and includes comparative information for 2009.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Turnover	**1,855.5**	1,745.2
Adjusted operating costs[1]	**(980.4)**	(968.0)
Adjusted EBITDA[2]	**875.1**	777.2
Operating costs – exceptional	**62.0**	(180.8)
EBITDA	**937.1**	596.4
Depreciation – ordinary	**(436.4)**	(414.1)
Depreciation – exceptional	**(18.7)**	(54.6)
Operating profit	**482.0**	127.7

[1] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
[2] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.

Turnover
In the year ended 31 December 2010, the Company's turnover increased 6.3% to £1,855.5 million (2009: £1,745.2 million). This reflects increases of 3.2% in aeronautical income, 11.9% in retail income and 8.8% in other sources of income compared to 2009, despite a 0.2% reduction in passenger numbers.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Aeronautical income	**991.3**	960.7	3.2
Retail income	**393.2**	351.5	11.9
	1,384.5	1,312.2	5.5
Other sources of income:			
Operational facilities and utilities income	**149.4**	141.0	6.0
Property rental income	**100.1**	98.6	1.5
HEX rail income	**103.0**	91.5	12.6
Other income	**118.5**	101.9	16.3
Total other sources of income	**471.0**	433.0	8.8
Total turnover	**1,855.5**	1,745.2	6.3

Aeronautical income
Aeronautical income increased by 3.2% to £991.3 million (2009: £960.7 million). Aeronautical income per passenger increased 3.4% to £15.08 (2009: £14.58). Growth in aeronautical income was driven by the increase in tariffs that occurred on both 1 April 2009 and 2010 which was partially offset by the combined effects of disruption caused by volcanic ash, airline industrial action and severe winter weather. The delay in introducing higher tariffs from 1 April 2008 boosted aeronautical income in 2009 by an estimated £12.5 million above underlying levels. Adjusting for this, aeronautical income is estimated to have increased 4.5%.

Retail income
Heathrow's retail business delivered an exceptional performance in 2010 with improved demand for the retail offering reflected in net retail income ('NRI') per passenger increasing 14.4% to £5.64 (2009: £4.93). This performance was based on gross retail income increasing 11.9% to £393.2 million (2009: £351.5 million) and NRI increasing 14.1% to £371.1 million (2009: £325.1 million).

Financial review *continued*

Turnover ***continued***
Retail income continued
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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Gross retail income	**393.2**	351.5	11.9
Less: retail expenditure	**(22.1)**	(26.4)	(16.3)
Net retail income	**371.1**	325.1	14.1
Passengers (m) [1]	**65.7**	65.9	(0.2)
Net retail income per passenger[1,2]	**£5.64**	£4.93	14.4

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

Analysis of net retail income

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Car parking	**48.0**	38.8	23.7
Duty and tax-free	**101.1**	87.1	16.1
Airside specialist shops	**76.7**	60.5	26.8
Bureaux de change	**36.7**	34.2	7.3
Catering	**30.9**	25.9	19.3
Landside shops and bookshops	**20.3**	20.2	0.5
Advertising	**28.4**	29.0	(2.1)
Car rental	**12.7**	12.1	5.0
Other	**16.3**	17.3	(5.8)
Total	**371.1**	325.1	14.1

Most areas of the retail business performed well, with the main growth drivers through the year being airside specialist shops and duty and tax-free. In addition there were increasing signs of recovery in car parking as the year progressed.

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

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

Other sources of income
Other sources of income increased 8.8% to £471.0 million (2009: £433.0 million) in the year ended 31 December 2010. This reflects rail income increasing 12.6% to £103.0 million (2009: £91.5 million) due to passenger numbers increasing 9.4% to 5.92 million (2009: 5.41 million) as well as improved yields. Growth in rail passenger numbers reflects the shift in Heathrow passenger mix relative to the comparative period towards origin and destination traffic, introduction of additional rail ticket sales activities within the airport and disruptions to alternative rail services to and from central London.

Income from activities other than aeronautical and retail also reflects operational facilities and utilities income increasing 6.0% to £149.4 million (2009: £141.0 million) due primarily to under-recovery of check-in and baggage system costs in the prior year.

Financial review *continued*

Turnover *continued*
Other sources of income continued
In addition, other income increased 16.3% to £118.5 million (2009: £101.9 million) due to £16.5 million of income from the provision of various transitional services to Gatwick airport that is largely non-recurring as most of the transitional services agreements terminated in 2010. Adjusting for this factor, income from activities other than aeronautical and retail increased by an estimated 5.0%.

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Employment costs	**245.8**	226.3	8.6
Maintenance expenditure	**109.2**	119.5	(8.6)
Utility costs	**93.7**	104.3	(10.2)
Rents and rates	**101.6**	114.6	(11.3)
General expenses	**188.6**	192.6	(2.1)
Retail expenditure	**22.1**	26.4	(16.3)
Intra-group charges/other[1]	**219.1**	184.4	18.8
Loss/(profit) on disposal of tangible fixed assets	**0.3**	(0.1)	n/a
Total	**980.4**	968.0	1.3

[1] Intra-group charges/other include HEX operating costs plus a 10% mark-up and a mark-up of 7.5% on corporate and centralised services provided by BAA Airports Limited in accordance with the Shared Services Agreement.

The main drivers of increased adjusted operating costs were higher employment costs and higher intra-group charges/other. Employment costs increased 8.6% to £245.8 million (2009: £226.3 million), driven particularly by the reinstatement of performance-related pay as well as additional defined benefit pension service charges of £9.0 million, relative to last year, due to revised actuarial assumptions. Intra-group charges/other costs increased 18.8% to £219.1 million (2009: £184.4 million) primarily reflecting central overheads being allocated across a smaller business base following the sale of Gatwick (£27.8 million of central overheads were charged to Gatwick in the year ended 31 December 2009).

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

Adjusting for the increased pensions costs and re-allocated central overheads together with the estimated £7.1 million cost associated with the severe winter weather in December 2010 (which arose for example from providing hotel accommodation, catering and other care for the substantial number of stranded passengers), underlying adjusted operating costs declined 3.2% to £964.3 million (2009: £995.8 million). The disruption caused by volcanic ash and airline industrial action did not materially affect adjusted operating costs.

Adjusted EBITDA
In the year ended 31 December 2010 Adjusted EBITDA increased 12.6% to £875.1 million (2009: £777.2 million) resulting in an Adjusted EBITDA margin of 47.2% (2009: 44.5%).

Whilst recognising that some passengers whose journeys were affected by the disruption from volcanic ash and industrial action by British Airways cabin crew will have completed their planned journeys later in 2010, these two disruptions together with the severe winter weather in December reduced Adjusted EBITDA in the year ended 31 December 2010 by up to £53.1 million. Taking into account these factors together with re-allocating central overheads and additional aeronautical income in 2009 and Gatwick transitional services income and increased pension costs in 2010, it is estimated that underlying Adjusted EBITDA could have increased by up to 24.9% to £920.7 million (2009: £736.9 million), resulting in an underlying Adjusted EBITDA margin of 48.8% (2009: 42.5%).

Financial review *continued*

Exceptional items (including depreciation and impairment charges)
In the year ended 31 December 2010, there was a total net £13.4 million pre-tax credit (2009: £235.4 million pre-tax charge) to the profit and loss account in respect of exceptional items, including impairment charges and other one-off items, with a £43.3 million credit (2009: £235.4 million charge) included in operating profit and a charge of £29.9 million (2009: £nil) below operating profit.

Items within operating profit included a £74.7 million non-cash pension related credit (2009: £181.3 million charge) principally relating to the Company's share of the reduction in the BAA Group's defined benefit pension scheme deficit. The reduced pension scheme deficit reflects a number of factors discussed in more detail below in the Pension scheme section. In addition, there was a charge of £18.7 million (2009: £54.6 million) related to accelerated depreciation due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life was reassessed and extended. Finally, there was a £12.7 million charge relating primarily to a restructuring process to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

The exceptional items below operating profit in 2010 related to impairment charges arising from the Company’s decision not to pursue a planning application for a third runway at Heathrow given that the UK’s new coalition government does not support the development of new runways in the South East of England. There was a total impairment charge of £29.9 million made of which £21.3 million related to the write-off of planning application costs and £8.6 million to the write down in the value of domestic properties purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. This accounting treatment has no impact on these costs being included in the airport’s regulatory asset base and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance.

Operating profit
The Company recorded an operating profit for the year ended 31 December 2010 of £482.0 million (2009: £127.7 million). Relative to Adjusted EBITDA, operating profit includes £436.4 million in depreciation (2009: £414.1 million). In addition, it reflects a net £43.3 million exceptional credit included in operating profit (2009: £235.4 million charge). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Adjusted EBITDA	**875.1**	777.2	12.6
Depreciation	**(436.4)**	(414.1)	5.4
Exceptional items – pensions	**74.7**	(181.3)	n/a
Exceptional items – accelerated depreciation	**(18.7)**	(54.6)	(65.8)
Exceptional items – reorganisation	**(12.7)**	0.5	n/a
Operating profit	**482.0**	127.7	277.4

Capital expenditure
In the year ended 31 December 2010, the Company invested £818.7 million (2009: £817.8 million) in capital expenditure.

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

Pension scheme
At 31 December 2010, the BAA defined benefit pension scheme had a deficit of £43.6 million as measured under IAS 19, of which £30.5 million is attributable to the Company under the BAA group's shared services agreement. This compares with a total scheme deficit of £255.6 million at 31 December 2009. The reduction in the scheme deficit is due principally to the benefit of the £104.7 million commutation payment into the scheme that arose due to the Gatwick sale and returns on the scheme assets increasing to £213 million compared to £74 million in 2009.

Equity injection
On 28 January 2010, the Company issued 217,370,315 ordinary shares of £1 each to BAA (AH) Limited completing the £500 million equity injection into the BAA (SP) Limited Group which had been previously announced.

Financial review *continued*

Regulatory Asset Base ('RAB')
Set out below are RAB figures of the Company at 31 December 2009 and 31 December 2010. RAB figures are utilised in calculating gearing ratios (Regulatory Asset Ratios ('RAR')) under the BAA Group's financing agreements.

	RAB £m
31 December 2009	10,452.9
31 December 2010	11,448.7

The increase in the total RAB during 2010 reflected the addition of approximately £815 million in capital expenditure partially offset by regulatory depreciation of around £470 million. Variation in RAB profiling adjustments added a further £140 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £510 million over the period.

Accounting and reporting policies and procedures
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). The Company's accounting policies and areas of significant accounting judgements and estimates are detailed within the Company financial statements.

Risk management

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

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

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

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

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

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

Safety risks
Health and safety is a core value of the business and the Company 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. The Company also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe. Governance, led by our Senior Management Team, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

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

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

Regulatory environment, legal and other reputational risks
Civil Aviation Authority ('CAA') regulation
The Company's operations are currently subject to economic regulatory review by the CAA and CC 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. The current settlement was reached for Heathrow during 2008 regarding the five years to 31 March 2013.

Part of the regulatory framework is the Company's involvement in constructive engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to participate throughout the constructive engagement process and to be represented on engagement fora – eg joint steering groups. When feedback is sought or processes measured, robust processes have been put in place to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their on-going requirements are articulated and understood.

Risk management *continued*

Regulatory environment, legal and other reputational risks continued

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the Company breaching these regulations. Refer to the Management review section for details on the current Department for Transport regulatory review.

Capacity shortfall

Failure to secure necessary planning permissions could lead to the Company having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. The UK government's policy on airport capacity changes has a significant influence on the Company's ability to secure necessary planning permissions and develop capacity. The Company mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in government consultations and other advisory groups. In addition, investment in additional capacity at Heathrow 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 at Heathrow.

Environmental risks

Environmental risk is managed throughout the BAA Group as it has the potential to impact negatively upon the BAA Group's reputation and jeopardise its licence to operate and to grow. The Company 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 Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Operational disruption

There are a number of circumstances that can pose short term risks to the normal operations of Heathrow 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 airport. 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 Company seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

Capital projects

The Company recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Company mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction. The process is continually improved incorporating lessons 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 Company. Since it is not possible to identify the timing or period of such an effect, the Company carries out evaluations through a series of scenario planning exercises.

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the BAA Group is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The 2011 pay negotiations started in late January 2011. The Company could also be exposed in the short term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers and baggage handlers.

Treasury

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

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

Heathrow Airport Limited

Risk management *continued*

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

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

(a) Interest rates
The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2010, fixed rate debt after hedging with derivatives represented 79% of the SP Group's total external nominal debt.

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

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

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

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

The SP Group has positive cashflows before capital expenditure and maintains at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2010, the SP Group's cash and current asset investments were £47.1 million, undrawn headroom under the bank credit facilities was £1,450.0 million and undrawn headroom under the bank liquidity facilities was £524.5 million.

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

The SP Group maintains a prudent split of cash and current asset investments 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 current asset investments are placed with counterparties with credit ratings lower than A-2/ F1. The SP Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with long-term credit ratings below BBB+ / A.

On behalf of the Board

José Leo
Director

2 March 2011

Directors' report

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

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

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks and likely future developments are reported in the Business review on pages 2 to 13.

Results and dividends
The loss after taxation for the financial year amounted to £153.8 million (2009: £253.7 million). No ordinary dividends were proposed or paid during the year (2009: £nil). The statutory results for the year are set out on page 18.

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

José Leo	
John Holland-Kaye	
Steven Morgan	
Nicholas Cullen	appointed 9 March 2010
Michael Brown	resigned 9 March 2010

Company secretary
Pursuant to section 270 of the Companies Act 2006, a private company registered within England or Wales is not required to have a company secretary. The Company availed itself of this exemption and consequently on 31 August 2010 Shu Mei Ooi resigned.

Employment policies
The Company has no direct employees. The staff are employed by BAA Airports Limited, an intermediate parent company.

Supplier payment policy
The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should:

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

The Company had 15 days purchases outstanding at 31 December 2010 (2009: 7 days) based on the average daily amount invoiced by suppliers during the year.

Risk management
The Company actively manages all identified corporate risks. Details of the Company's risk management policies can be found on pages 11 to 13 in the Risk management section of the Business review.

Financial risk management objectives and policies
The Company's financial risk management objectives and policies, including hedging policies, can be found on pages 12 to 13 of the Risk management section of the Business review.

Director's 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.

Directors' report *continued*

Auditors

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

Statement of disclosure of information to the auditors

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

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

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

On behalf of the Board

José Leo
Director

2 March 2011

Company registration number: 01991017

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

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

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

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

The directors are responsible for the maintenance and integrity of the 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

José Leo
Director

2 March 2011

Independent auditors' report to the members of Heathrow Airport Limited

We have audited the financial statements of Heathrow Airport Limited for the year ended 31 December 2010 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Andrew J. Kelly

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

2 March 2011

Heathrow Airport Limited

Profit and loss account for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Turnover	*1*	**1,855.5**	1,745.2
Operating costs - ordinary	*2*	**(1,416.8)**	(1,382.1)
Operating gain/(costs) - exceptional	*3*	**43.3**	(235.4)
Total operating costs		**(1,373.5)**	(1,617.5)
Operating profit		**482.0**	127.7
Impairment of fixed assets - exceptional	*4*	**(29.9)**	-
Net interest payable and similar charges	*5*	**(575.6)**	(462.6)
Loss on ordinary activities before taxation		**(123.5)**	(334.9)
Tax (charge)/credit on loss on ordinary activities	*6*	**(30.3)**	81.2
Loss on ordinary activities after taxation	17	**(153.8)**	(253.7)

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

Statement of total recognised gains and losses for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Loss for the financial year	*17*	**(153.8)**	(253.7)
Unrealised gain/(loss) on revaluation of investment properties	*7,17*	**34.2**	(47.7)
Revaluation adjustment	*7,17*	**(2.0)**	3.9
Total recognised gains and losses relating to the year		**(121.6)**	(297.5)

Reconciliation of movements in shareholder's funds for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Loss for the financial year	*17*	**(153.8)**	(253.7)
Unrealised gain/(loss) on revaluation of investment properties	*7,17*	**34.2**	(47.7)
Revaluation adjustment	*7,17*	**(2.0)**	3.9
Capital contribution	*17*	**74.0**	-
Tax on capital contribution	*17*	**(20.0)**	-
Issue of ordinary share capital	*16*	**217.4**	260.0
Net movement in shareholder's funds		**149.8**	(37.5)
Opening shareholder's funds		**1,632.8**	1,670.3
Closing shareholder's funds		**1,782.6**	1,632.8

Heathrow Airport Limited

Balance sheet as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Tangible assets	*7*	**10,415.1**	10,066.9
Investments	*8*	**3.8**	3.8
Total fixed assets		**10,418.9**	10,070.7
Current assets			
Stocks	*9*	**3.6**	3.1
Debtors: due within one year	*10*	**432.8**	393.1
: due after more than one year	*10*	**1,729.5**	772.1
Current asset investments	*11*	**41.0**	234.5
Cash at bank and in hand		**-**	0.1
Total current assets		**2,206.9**	1,402.9
Current liabilities			
Creditors: amounts falling due within one year	*12*	**(546.6)**	(532.0)
Net current assets		**1,660.3**	870.9
Total assets less current liabilities		**12,079.2**	10,941.6
Creditors: amounts falling due after more than one year	*13*	**(9,947.1)**	(8,761.3)
Provisions for liabilities and charges	*15*	**(349.5)**	(547.5)
Net assets		**1,782.6**	1,632.8
Capital and reserves			
Called up share capital	*16*	**857.6**	640.2
Share premium reserve	*17*	**23.2**	23.2
Revaluation reserve	*17*	**1,055.2**	1,023.0
Profit and loss reserve	*17*	**(153.4)**	(53.6)
Total shareholder's funds		**1,782.6**	1,632.8

The financial statements of Heathrow Airport Limited (Company registration number: 01991017) were approved by the Board of Directors and authorised for issue on 2 March 2011. They were signed on its behalf by:

José Leo
Director

John Holland-Kaye
Director

Accounting policies for the year ended 31 December 2010

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

Basis of accounting

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

Going concern

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the BAA (SP) Group which is the smallest group to consolidate these financial statements and the level at which financial risks are managed for the Company.

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

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

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

Consolidated financial statements

The Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of FGP Topco Limited and it and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2010. The results are also included in the consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2010 (intermediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA (SH) plc (formerly BAA (SH) Limited) and BAA Limited for the year ended 31 December 2010. FGP Topco Limited is a company registered in England and Wales.

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

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.

Aeronautical income

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

Retail income

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

Property and operational facilities

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

Rail

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

Other

- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery.

Accounting policies for the year ended 31 December 2010 *continued*

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

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

Additional details of exceptional items are provided as and when required as set out in Notes 3 and 4.

Provisions to recognise the Company's liability to fund the BAA Airports Limited defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item. Refer to the Shared Services Agreement accounting policies.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest 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.

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

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

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

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

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

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

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

Tangible fixed assets *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, travelators	20 years
Other plant and equipment including runway Lighting and building plant	5 - 20 years
Tunnels, bridges and subways	50 - 100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Railways	
Rolling stock	8 - 40 years
Tunnels	100 years
Track metalwork	5 - 10 years
Track bases	50 years
Signals and electrification work	40 years
Other land and buildings	
Short leasehold properties	Over period of lease
Plant equipment and other assets	
Motor vehicles	4 - 8 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years

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

Impairment of assets (excluding investment in subsidiaries)

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

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

Accounting policies for the year ended 31 December 2010 *continued*

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.

Company as a lessee
Operating lease payments are recognised as an expense in the profit and loss account 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.

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

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

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

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

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

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

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

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

Amounts owed to group undertakings
Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

Deferred income
Contractual income is treated as deferred income and released to the profit and loss account as earned.

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

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

Accounting policies for the year ended 31 December 2010 *continued*

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

Restructurings
A restructuring provision is recognised when the Company 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 on-going 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 Company 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.

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

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

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

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

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

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

Shared Services Agreement ('SSA')
All employees of the Company are employed directly by BAA Airports Limited. BAA Airports Limited also acts as the provider of corporate and administrative services to the Company, grants all employee benefits and administers and sponsors the related defined benefit pension plans.

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

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

Accounting policies for the year ended 31 December 2010 *continued*

Shared Services Agreement *continued*
Corporate and centralised services
BAA Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the Company.

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

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

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

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 reporting 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 reporting 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 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.

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

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

Foreign currency
Transactions denominated in foreign currencies are translated into Sterling 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 profit and loss account.

Accounting policies for the year ended 31 December 2010 *continued*

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2010. The results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2010 (intermediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA (SH) plc and BAA Limited for the year ended 31 December 2010. 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)'. Instead, a summary cash flow statement has been provided on a voluntary basis and is included in a note to the financial statements.

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

Significant accounting judgements and estimates for the year ended 31 December 2010

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

Investment properties
Investment properties were valued at fair value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors (2009: Drivers Jonas, Chartered Surveyors). The valuations were prepared in accordance with UK GAAP and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Independent valuations were obtained for 100% of the investment properties. Approximately 75% of the investment properties comprise car parks and airside assets at Heathrow that are considered less vulnerable to market volatility than the overall market. In November 2010, following a change in strategy in respect of residential properties acquired for the purposes of runway developments, £30.2 million of properties previously recorded in Assets in the Course of Construction were transferred to Investment Property. This is on the basis that residential properties are currently proposed to be held for the longer term and achieve revenue through rentals.

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 UK tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax creditors.

Notes to the financial statements for the year ended 31 December 2010

1 Segment information

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Turnover		
Aeronautical income	**991.3**	960.7
Retail income	**393.2**	351.5
Operational facilities and utilities income	**149.4**	141.0
Property rental income	**100.1**	98.6
Heathrow Express rail income[1]	**103.0**	91.5
Other income	**118.5**	101.9
	1,855.5	1,745.2

[1] The Company is entitled to all receipts relating to Heathrow Express, but the day-to-day operation of Heathrow Express is undertaken by HEX on behalf of the Company for which a management fee is charged and included within 'Intra-group charges/other' in Note 2.

2 Operating costs - ordinary

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Wages and salaries	**196.4**	186.7
Social security	**15.5**	15.0
Pension	**24.2**	14.6
Other staff related costs	**5.9**	6.8
Share-based payments	**3.8**	3.2
Employment costs[1]	**245.8**	226.3
Maintenance expenditure	**109.2**	119.5
Utility costs	**93.7**	104.3
Rents and rates	**101.6**	114.6
General expenses	**108.7**	108.1
Retail expenditure	**22.1**	26.4
Intra-group charges/other	**219.1**	184.4
Police costs	**28.3**	31.4
Aerodrome navigation service charges	**51.6**	53.1
Depreciation	**436.4**	414.1
Loss/(gain) on disposal of tangible fixed assets	**0.3**	(0.1)
	1,416.8	1,382.1

[1] Employment costs include recharges from BAA Airports Limited for employee services to the Company. Refer to the SSA in the Accounting policies.

Rentals under operating leases

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Operating costs include:		
Plant and machinery	**26.1**	26.1
Other operating leases	**12.9**	23.5

Notes to the financial statements for the year ended 31 December 2010 *continued*

2 Operating costs - ordinary *continued*

Auditor's remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by BAA Airports Limited and recharged in accordance with the SSA as described within the Accounting policies.

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts:[1]		
Audit of the Company pursuant to legislation	**384**	97
Non audit fees payable to the Company's auditors and their associates for other services specific to the Company:[1]		
Other services pursuant to legislation	**-**	30
Information technology services - pre appointment [2]	**934**	-
Information technology services - post appointment [2]	**167**	-
Information technology review	**-**	688
Other services	**-**	227
Total non-audit fees	**1,101**	945
Total fees	**1,485**	1,042

[1] Auditor remuneration for the year ended 31 December 2010 relates to Deloitte LLP following their appointment on 1 April 2010 as statutory auditor (2009: PricewaterhouseCoopers LLP).

[2] Prior to Deloitte LLP's appointment as auditors, Deloitte MCS Limited were engaged to assist management with the implementation of a new reporting and consolidation system. The majority of the work performed by Deloitte MCS Limited was undertaken before appointment of Deloitte LLP as external auditor on 1 April 2010.

Employee information

The Company has no employees. However, staff costs are borne by BAA Airports Limited which recharges all such costs directly to the Company as a part of the SSA as described in the Accounting policies under the 'Shared Services Agreement'. The average number of employees of BAA Airports Limited engaged in the operation of Heathrow Airport during the year was 5,148 (2009: 5,407). The number of employees does not include headcount related to central support functions for the Company which are rendered by BAA Airports Limited and charged as intra-group charges in accordance with the SSA.

Directors' remuneration

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Directors' remuneration		
Aggregate remuneration	**915**	111
Value of company pension contributions to defined contribution scheme	**172**	18
	1,087	129

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Highest paid director's remuneration		
Aggregate remuneration	**353**	111
Value of company pension contributions to defined contribution scheme	**71**	18
	424	129

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Number of directors who:		
are members of a defined benefit pension scheme	**-**	2
are members of a defined contribution pension scheme	**3**	3

2 Operating costs - ordinary *continued*

Directors' remuneration continued

During 2010, the BAA Group's central management has continued to focus on the Company and decentralising the management of the other airports within the BAA Group. As a result, during 2010 all directors' services, except for one, have been apportioned to the Company, whereas in 2009 it was only possible to accurately apportion the remuneration of one director to the Company for the service provided.

José Leo was a director of a number of companies within the BAA Group, including BAA Airports Limited, during the year. His remuneration was paid by BAA Airports Limited. The directors do not believe it is possible to accurately apportion his remuneration to individual companies within the BAA Group based on services provided.

In accordance with a long term incentive scheme, a cash amount could be awarded to three of the five directors who held office during 2010 which vests in 2012 contingent on achieving or surpassing certain EBITDA targets of the BAA Group over a three year period. As the financial performance is uncertain at this stage no value in relation to this award is disclosed.

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

3 Operating (gain)/costs - exceptional

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Pension (credit)/cost	**(74.7)**	181.3
Reorganisation cost/(credit)	**12.7**	(0.5)
Accelerated depreciation	**18.7**	54.6
	(43.3)	235.4

During 2010, there was a net exceptional pension credit of £74.7 million (2009: £181.3 million charge). This included a £75.9 million credit (2009: £180.2 million charge) in relation to the push down of the Company's share of the reduction in the deficit on the BAA Airports Limited defined benefit pension scheme and a £1.2 million charge (2009: £1.1 million) in relation to the Unfunded Retirement Benefit Scheme and post retirement medical benefits. For more information on pension costs charged refer to the SSA in the Accounting policies.

The reorganisation costs of £12.7 million in 2010 relate primarily to a restructuring process to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009. The £0.5 million credit in 2009 was due to the release of provisions that were no longer required.

The £18.7 million (2009: £54.6 million) accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life was reassessed and extended.

4 Non-operating costs - exceptional

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Exceptional impairment of fixed assets	**29.9**	-

As a result of the change in UK government and its policy towards runway developments, the Company announced on 24 May 2010 that it was ceasing work on the development of the planning application for a third runway at Heathrow. As a result, there was a total impairment charge of £29.9 million made of which £21.3 million related to the write-off of planning application costs and £8.6 million to the write down in the value of domestic properties purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. This charge is not deductible for tax purposes. This accounting treatment has no impact on these costs being included in the airport's regulatory asset base and has no cash impact. In addition, it will not affect future cash flow generation, consistent with Civil Aviation Authority ('CAA') guidance.

Notes to the financial statements for the year ended 31 December 2010 *continued*

5 Net interest payable and similar charges

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Interest receivable			
Interest receivable from other group undertakings[1]		**83.8**	10.4
Interest receivable on bank deposits		**0.3**	0.2
		84.1	10.6
Interest payable			
Interest on borrowings from other group undertakings[2]		**(446.4)**	(240.1)
Interest on bank borrowings		**(99.2)**	(123.3)
Facility fees		**(23.1)**	(21.0)
Net interest payable on derivative financial instruments		**(100.9)**	(95.2)
Dividend payable on irredeemable preference shares of £0.01 each: 4.751p per share (2009: 7.625p per share)		**(1.0)**	(1.7)
Unwinding of discount on provisions		**-**	(3.3)
		(670.6)	(484.6)
Fair value losses on financial instruments		**(11.5)**	(9.4)
Interest capitalised[3]	*7*	**22.4**	20.8
Net interest payable and similar charges		**(575.6)**	(462.6)

[1] These amounts relate primarily to interest accrued on balances due from BAA (SP) Limited (Note 10).
[2] These amounts relate mainly to interest due on the loan from BAA (AH) Limited and BLA advances from BAA Funding Limited (Note 14).
[3] Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 2.15% (2009: 2.80%) to expenditure incurred on such assets.

6 Tax on loss on ordinary activities

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Current tax			
Group relief payable		**48.4**	41.8
Adjustments in respect of prior periods		**3.4**	(1.4)
Total current tax charge		**51.8**	40.4
Deferred tax			
Origination and reversal of timing differences:			
Current period		**(52.8)**	(125.7)
Prior period		**41.6**	4.1
Change in tax rate		**(10.3)**	-
Total deferred tax	*15*	**(21.5)**	(121.6)
Tax charge/(credit) on loss on ordinary activities		**30.3**	(81.2)

Reconciliation of tax charge

The standard rate of current tax for the year is based on the UK standard rate of corporation tax is 28% (2009: 28%). The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Loss on ordinary activities before tax	**(123.5)**	(334.9)
Tax on loss on ordinary activities at 28% (2009: 28%)	**(34.6)**	(93.8)
Effect of:		
Permanent differences	**28.2**	9.9
Depreciation for the year in excess of capital allowances	**91.3**	89.9
Capitalised interest	**(6.3)**	(5.8)
Other short term timing differences	**(30.2)**	41.6
Adjustments to tax credit in respect of prior periods	**3.4**	(1.4)
Current tax charge for the year	**51.8**	40.4

6 Tax on loss on ordinary activities *continued*

The tax charge recognised for the period was £30.3 million (2009: £81.2 million credit). Based on a loss before tax for the period of £123.5 million (2009: £334.9 million), this results in a negative effective tax rate of 24.5% (2009: positive 24.2%).

The recognition of a tax charge instead of a tax credit at the statutory rate of 28% (2009: 28%) is primarily due to the non-deductibility for tax purposes of the impairment charge for the year and to a deferred tax charge related to accelerated depreciation in 2010 and previous years on assets with shortened lives. Improved information is now available on the tax classification of these assets and the calculation of deferred tax has been adjusted accordingly.

The standard rate of corporation tax in the UK will change to 27% with effect from 1 April 2011. Other than this change and the unprovided deferred tax discussed in Note 15, there are no items which would materially affect the future tax charge.

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

7 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfield £m	Rail assets £m	Other land and buildings £m	Plant equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation										
1 January 2010		1,527.6	38.5	7,011.7	936.4	1,361.5	86.4	490.3	1,089.1	12,541.5
Additions at cost		-	-	2.9	0.5	-	-	6.4	767.9	777.7
Transfers to completed assets		32.3	-	140.4	107.2	6.5	0.4	35.8	(322.6)	-
Interest capitalised	*5*	-	-	-	-	-	-	-	22.4	22.4
Intercompany transfers		-	-	-	-	-	-	1.2	-	1.2
Disposals[1]		-	-	(10.9)	-	-	(0.8)	(2.9)	(29.9)	(44.5)
Reclassifications		(10.0)	4.8	0.3	-	-	4.9	-	-	-
Revaluation surplus/(deficit)	*17*	35.1	(0.9)	-	-	-	-	-	-	34.2
Revaluation adjustment	*17*	-	-	-	-	-	(2.0)	-	-	(2.0)
31 December 2010		**1,585.0**	**42.4**	**7,114.4**	**1,044.1**	**1,368.0**	**88.9**	**530.8**	**1,526.9**	**13,330.5**
Depreciation										
1 January 2010		-	-	(1,706.0)	(187.3)	(251.1)	(23.5)	(306.7)	-	(2,474.6)
Charge for the year		-	-	(316.9)	(32.2)	(40.2)	(5.3)	(60.5)	-	(455.1)
Impairment		-	-	-	-	-	-	-	(29.9)	(29.9)
Disposals[1]		-	-	10.9	-	-	0.8	2.6	29.9	44.2
31 December 2010		**-**	**-**	**(2,012.0)**	**(219.5)**	**(291.3)**	**(28.0)**	**(364.6)**	**-**	**(2,915.4)**
Net book value 31 December 2010		**1,585.0**	**42.4**	**5,132.4**	**824.6**	**1,076.7**	**60.9**	**166.2**	**1,526.9**	**10,415.1**
Net book value 31 December 2009		1,527.6	38.5	5,305.7	749.1	1,110.4	62.9	183.6	1,089.1	10,066.9

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

7 Tangible fixed assets *continued*

Valuation
Investment properties and land held for development were valued at open market value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors (2009: Drivers Jonas, Chartered Surveyors) at £1,627.4 million (2009: £1,566.1 million). These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, inter alia, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £34.2 million (2009: deficit of £47.7 million) has been recognised in the revaluation reserve.

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

Historical cost
The historical cost of investment properties and land held for development at 31 December 2010 was £572.1 million (2009: £543.1 million).

Other land and buildings
Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2010 of £19.0 million (2009: £20.6 million).

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

Capitalised interest
Included in the cost of assets after depreciation are interest costs of £881.7 million (2009: £896.1 million). £22.4 million (2009: £20.8 million) has been capitalised in the year at a capitalisation rate of 2.15% (2009: 2.80%) based on a weighted average cost of borrowings.

A tax deduction of £22.4 million (2009: £20.8 million) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Impairment
As a result of the change in UK government and its policy towards runway developments, BAA announced on 24 May 2010 that it was ceasing work on the development of the planning application for a third runway at Heathrow. As a result, there was a total impairment charge of £29.9 million made of which £21.3 million related to the write-off of planning application costs and £8.6 million to the write down in the value of domestic properties purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. This accounting treatment has no impact on these costs being included in the airport's regulatory asset base and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance.

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

	31 December 2010	31 December 2009
	£m	£m
Cost or valuation	**2,370.7**	2,303.6
Accumulated depreciation	**(191.5)**	(162.6)
Net book amount	**2,179.2**	2,141.0

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

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

8 Investments

	£m
Cost as at 1 January and 31 December 2010	**3.8**

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

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

9 Stocks

	31 December 2010 £m	31 December 2009 £m
Raw materials and consumables	**3.6**	3.1

The replacement cost of raw materials and consumables at 31 December 2010 and 31 December 2009 was not materially different from the amount at which they are included in the Balance sheet.

10 Debtors

	31 December 2010 £m	Restated[1] 31 December 2009 £m
Due within one year:		
Trade debtors	**119.9**	150.3
Amounts owed by group undertakings – interest free[2]	**107.7**	91.7
Amounts owed by group undertakings – pensions[3]	**57.2**	30.3
Other debtors	**44.6**	16.5
Prepayments	**32.6**	25.4
Interest receivable	**42.8**	5.6
Net interest receivable on derivative financial instruments	**7.8**	2.5
Derivative interest prepayment	**20.2**	70.8
Total debtors due within one year	**432.8**	393.1
Due after more than one year:		
Amounts owed by group undertakings – interest free[2]	**38.3**	70.6
Amounts owed by group undertakings – interest bearing[4]	**1,686.7**	682.6
Derivative financial instruments (Note 13)	**4.5**	5.0
Derivative interest prepayment	**-**	13.9
Total debtors due after more than one year	**1,729.5**	772.1
Total debtors	**2,162.3**	1,165.2

1 The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures.
2 Amounts owed by group undertakings – interest free largely relates to interest prepayments on the advances from BAA Funding Limited (Note 14) and external payments received by BAA Airports Limited under the SSA on behalf of the Company which will be remitted in due course.
3 Amounts owed by group undertakings – pensions is receivable from BAA Airports Limited, net of current service cost charges to date, due to cash contributions made directly by the Company to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited.
4 Amounts owed by group undertakings – interest bearing represents a loan receivable from BAA (SP) Limited. It has a fixed interest rate of 7.57%. Increase in the period is related to the restructuring of intercompany balances and external loans in the SP Group.

11 Current asset investments

	31 December 2010 £m	31 December 2009 £m
Short term deposits	**41.0**	234.5

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short and long-term credit ratings. Of these deposits, counterparties with a short term credit rating of A-1+ held assets of £41.0 million as at 31 December 2010 (2009: A-1+ held assets of £145.7 million, A-1 held assets of £60.0 million and A-2 held assets of £28.8 million).

12 Creditors: amounts falling due within one year

	Note	**31 December 2010 £m**	31 December 2009 £m
Bank overdraft[1]		**41.5**	11.4
Trade creditors[2]		**105.8**	94.0
Capital creditors		**172.8**	175.1
Amounts owed to group undertakings – interest free[3]		**14.3**	9.1
Borrowings from group undertakings – interest bearing	*14*	**16.3**	59.0
External borrowings	*14*	**39.1**	41.4
Corporation tax payable		**17.0**	17.0
Group relief payable		**39.2**	40.5
Other creditors		**5.9**	1.4
Other taxes and social security costs		**4.7**	5.0
Deferred income		**27.6**	27.3
Net interest payable on derivative financial instruments		**7.2**	6.5
Interest accrual		**55.2**	44.3
		546.6	532.0

1 The bank overdraft is a notional pooling of funds by Heathrow and Stansted. A net positive balance of funds is maintained throughout the year and therefore no interest charges are incurred (Note 14).
2 Trade creditors are non-interest bearing and generally on 30-day terms.
3 Amounts owed to group undertakings – interest free largely relate to external payments made by BAA Airports Limited under the SSA on behalf of the Company.

13 Creditors: amounts falling due after more than one year

	Note	**31 December 2010 £m**	31 December 2009 £m
Loans from BAA Funding Limited	*14*	**6,346.2**	5,402.0
External borrowings	*14*	**3,499.4**	3,284.3
Preference shares – redeemable[1]		**0.1**	0.1
Preference shares – irredeemable[1]		**0.2**	0.2
Derivative financial instruments		**99.5**	72.0
Deferred income		**1.7**	2.7
		9,947.1	8,761.3

1 The Company has 100,000 £1 redeemable preference shares in issue which carry an entitlement to an annual dividend fixed by reference to the prospective real redemption rate, based on projected inflation rate of 3%, of 2.5% index linked 2016 UK gilts, uplifted for movements in the RPI. The preference shares of £1 are held by the immediate parent company, BAA (AH) Limited, and are redeemable by the Company on 16 January 2016 at £1.37 per share, uplifted for movements in the RPI. On a return of capital on winding up or capital reduction, the holders of the preference shares shall be entitled to a sum calculated in accordance with the Articles of Association, in priority to any payment to the holders of any other class of shares other than the holders of irredeemable preference shares. The Company also has 21,960,014 irredeemable £0.01 preference shares in issue which carry an entitlement to an annual dividend, uplifted by reference to the RPI. The holder of the preference shares shall only be entitled to attend and vote at General Meetings at which a resolution is proposed to abrogate, vary or modify their rights, in which case preference and ordinary shares shall carry equal voting rights.

Derivatives not included at fair value

The Company enters into derivative transactions, principally interest rate swaps and foreign exchange contracts. The purpose of these transactions is to manage interest rate and currency risks arising from the Company's operations and sources of finance.

Interest rate swaps

As at 31 December 2010, the Company had interest rate swap contracts with notional values totalling £2,535.8 million. The swaps have fixed interest payments at rates varying from 4.6% to 5.4% and floating interest receipts based on three and six month Libor rates. At that date, these financial instruments had a mark to market liability of £195.3 million (2009: £76.9 million).

The amounts recognised on the balance sheet in relation to these financial instruments represent accrued interest and unamortised portion of fair value on the date of novation. These are included in 'Net interest payable on derivative financial instruments' and 'Derivative financial instruments' in Note 10 'Debtors', 'Net interest payable on derivative financial instruments' in Note 12 'Creditors: amounts falling due within one year' and 'Derivative financial instruments' above.

Foreign exchange contracts

Foreign exchange contracts are used to manage foreign currency exposures relating to future capital expenditure. As at 31 December 2010, the Company had various foreign exchange contracts with a total notional amount in Sterling terms of £10.0 million which had a fair value loss of £0.1 million (2009: £0.2 million fair value gain).

14 Borrowings

	31 December 2010 £m	31 December 2009 £m
Current borrowings		
Secured		
Bank loans	**39.1**	41.4
Unsecured		
Loan from BAA (AH) Limited	**16.3**	59.0
Total current borrowings	**55.4**	100.4
Non-current borrowings		
Secured		
Borrower Loan Agreement advances from BAA Funding Limited	**6,346.2**	5,402.0
Syndicated term facility	**1,292.2**	2,253.8
Capital Expenditure Facility	**1,300.0**	700.0
Other bank loans	**907.2**	330.5
Total non-current borrowings	**9,845.6**	8,686.3
Total borrowings	**9,901.0**	8,786.7

Syndicated term facility

The Company forms part of the Designated Group which has a specific ring-fenced financing structure and where facility and covenants are at BAA (SP) Limited group level.

The syndicated term facility has decreased during the year mainly due to the application of proceeds from bond issues in prepaying the facility.

Borrowings from group undertakings

Unsecured borrowings from group undertakings represent the loan advanced by BAA (AH) Limited to the Company. The loan bears an interest rate of 7.57% per annum.

During the year, following the new bond issues by BAA Funding Limited, two further Borrower Loan Agreement ('BLA') advances were made to the Company for a total amount of £829.4 million (net of transactions costs).

The effective interest rate on the BLA advances, after taking into account related hedging instruments, varies between 4.168% and 8.099%.

All of the above facilities are carried at amortised cost.

The Company, together with Stansted, had £1,450.0 million undrawn committed borrowing facilities available as at 31 December 2010.

In addition, as at 31 December 2010, there was a gross overdraft limit between the Company and Stansted up to a maximum gross balance of £75.0 million.

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

15 Provisions for liabilities and charges

	Note	Deferred tax (a) £m	Obligations under land purchase (b) £m	Reorganisation costs (c) £m	Pension costs (d) £m	Other (e) £m	Total £m
1 January 2010		289.6	37.5	6.1	193.1	21.2	547.5
(Credited)/charged to profit and loss account	*6,2,3*	(21.5)	-	6.1	(74.7)	2.5	(87.6)
Utilised in the year		-	(37.5)	(7.6)	-	(8.4)	(53.5)
Charged/(released) to profit and loss reserve	*17*	20.0	-	-	(74.0)	-	(54.0)
Released to profit and loss account		-	-	-	-	(2.9)	(2.9)
31 December 2010		**288.1**	**-**	**4.6**	**44.4**	**12.4**	**349.5**

(a) Deferred tax

Analysis of the deferred tax balances is as follows:

	31 December 2010 £m	31 December 2009 £m
Excess of capital allowances over depreciation	**280.9**	331.8
Other timing differences	**7.2**	(42.2)
	288.1	289.6

	Unprovided **31 December 2010 £m**	31 December 2009 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**205.4**	212.4
Tax on rolled-over gains if replacement assets were sold at their current valuations	**5.5**	5.6
	210.9	218.0

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided for is £210.9 million (2009: £218.0 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

The effect of the changes enacted in the Finance (No.2) Act 2010 has been to reduce the deferred tax provided at 31 December 2010 by £10.3 million with a corresponding increase in the tax credit for the year of £10.3 million as shown in Note 6. This decrease in the deferred tax liability is due to the reduction in the UK Corporation tax rate from 28 per cent to 27 per cent with effect from 1 April 2011.

(b) Obligations under land purchase

This provision related to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land were relocated and agreement was reached in January 2010 for a full and final payment of £37.5 million to be paid by the Company to the vendor. This amount was settled during the year.

(c) Reorganisation costs

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

(d) Pension costs

This provision represents the legal obligation the Company has under the SSA to fund its share of the BAA Airports Limited pension deficit and related pension liabilities, and will only be settled when the cash outflow is requested by BAA Airports Limited.

15 Provisions for liabilities and charges *continued*

(d) *Pension costs continued*
£30.5 million (2009: £180.2 million) of the provision relates to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme. The provision has decreased because of the reduction in the deficit which is partly due to updated actuarial assumptions, particularly higher than expected investment returns. In addition, a commutation payment was made into the scheme following the disposal of Gatwick airport. This has been reflected as a capital contribution in the profit and loss account reserve. The remaining £13.9 million (2009: £12.9 million) is held for historical accumulated past service costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits.

For more information on pension costs refer to the Accounting policies.

(e) Other
A provision of £12.4 million (2009: £21.2 million) is held for onerous contracts relating to energy purchases and property leases. All amounts are expected to be utilised within four years.

16 Share capital

	£m
Authorised	
At 1 January 2010: 640,200,100 ordinary shares of £1 each	640.2
Increase of 217,370,315 in authorised ordinary shares of £1 each	217.4
Authorised at 31 December 2010: 857,570,415 ordinary shares of £1 each	**857.6**
Called-up, allotted and fully paid	
1 January 2010: 640,200,002 ordinary shares of £1 each	640.2
Issue of 217,370,315 ordinary shares of £1 each	217.4
In issue at 31 December 2010: 857,570,317 ordinary shares of £1 each	**857.6**

On 28 January 2010, the Company issued 217,370,315 ordinary shares of £1 each to BAA (AH) Limited completing the £500 million equity injection into the BAA (SP) Limited Group which had been previously announced.

17 Reserves

	Share premium reserve £m	Revaluation reserve £m	Profit and loss reserve £m	Total £m
1 January 2010	23.2	1,023.0	(53.6)	992.6
Loss for the financial year	-	-	(153.8)	(153.8)
Capital contribution	-	-	74.0	74.0
Tax charge on capital contribution	-	-	(20.0)	(20.0)
Unrealised gain on revaluation of investment properties	-	34.2	-	34.2
Revaluation adjustment	-	(2.0)	-	(2.0)
31 December 2010	**23.2**	**1,055.2**	**(153.4)**	**925.0**

The capital contribution relates to the reduction in the Company's share of the deficit of the BAA Airports Limited defined benefit pension scheme, following the commutation payment made by BAA (AH) Limited in to the scheme after the disposal of Gatwick airport.

During the year, previously recognised net valuation losses amounting to £2.0 million (2009: gains of £3.9 million) were released as a result of the reclassification of a number of investment properties to operational assets.

18 Commitments

Commitments for capital expenditure

Capital expenditure contracted commitments amount to £1,447.3 million (2009: £170.3 million).

	31 December 2010 £m	31 December 2009 £m
Contracted for, but not accrued:		
Terminal 2A Building	**788.5**	10.9
Terminal 2B Phase 2	**446.7**	7.5
Terminal 3 baggage system	**64.3**	-
Terminal 1 baggage prolongation	**31.3**	-
Energy infrastructure	**29.8**	-
Post Terminal 5 transfer baggage system	**23.8**	-
Terminal 5C	**17.9**	105.5
Airside road and taxi lane underpass	**15.2**	-
Terminal 3 immigration hall	**14.8**	-
Terminal 4 baggage works	**3.6**	-
Terminal 5 phase 2 airfield	**5.5**	-
Control post programme	**3.8**	-
Northwest stands and taxi lanes	**-**	9.5
Eastern Apron	**-**	5.6
	1,445.2	139.0
Other projects	**2.1**	31.3
	1,447.3	170.3

Commitments under operating leases

At 31 December 2010, the Company was committed to making the following payments during the next year in respect of operating leases:

	31 December 2010		31 December 2009	
	Land & buildings £m	**Other leases £m**	Land & buildings £m	Other leases £m
Leases which expire:				
within one year	**0.2**	**-**	0.1	0.1
within two to five years	**1.5**	**0.4**	1.5	1.0
after five years	**9.9**	**28.3**	9.5	26.8
	11.6	**28.7**	11.1	27.9

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

A significant portion of the £28.3 million (2009: £26.8 million) operating lease commitments classified as 'other' relates to electricity supply equipment at the airport leased on agreement with UK Power Networks Services Limited ('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 Company nor UPNS are able to split the base fee between a 'capital' and 'maintenance' charge. The commitment has been discounted at our incremental borrowing rate.

Commitments under contractual obligations

The Company has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Company until March 2013. Such commitments are for the normal purchase, sale or usage and hence are accounted for as ordinary purchase contracts. At 31 December 2010 the estimated minimum commitment for the future purchase of electricity under this contract totalled £77.8 million (2009: £111.0 million).

Other commitments

During the year there was a change in UK government and subsequently a government policy change in relation to runway developments. BAA announced that it was ceasing work on the development of the planning application for a third runway at Heathrow. As part of its commitment to the development of a third runway at Heathrow, the Company is operating two voluntary blight schemes (the Property Market Support Bond (PMSB) for those properties within the indicative boundary of Runway 3/Terminal 6 and the Home Owners Support Scheme for those properties within the 66db leq contour for aircraft noise associated with Runway 3).

18 Commitments *continued*

Other commitments *continued*

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

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

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

The January 2009 government announcement ‘Adding Capacity at Heathrow’ requires the Company 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 Company’s obligations in implementing these schemes is uncertain.

In July 2008, the BAA Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute £80 million per annum for a period of three years ending 31 December 2011. This amount is apportioned to the operating companies of the BAA Group based on pensionable pay base and paid directly by them. The Company expects to contribute its share of this amount, estimated at approximately £60 million, to the pension scheme in the year ending 31 December 2011.

19 Contingent liabilities

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £52.5 million at 31 December 2010 (2009: £48.6 million).

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

The Company, together with Stansted, HEX, BAA (SP) Limited and BAA (AH) Limited (together ‘the Obligors’) have granted security over their assets to secure their obligations to the Borrower Secured Creditors under their financing agreements. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

The Company, together with Stansted and HEX 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 Pension Trust Company Limited 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.

Under the SSA, hedging costs properly incurred by BAA Airports Limited in relation to the Executive Share Option Plan (‘ESOP’) may be recharged to the Company. At 31 December 2010, the ESOP swaps held in BAA Airports Limited had a fair value loss of £75.6 million (2009: £69.9 million). The Company may be obligated to settle its share of these amounts in the future which is approximately £52.0 million, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability and included in the amount above.

20 Ultimate parent undertaking

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

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

The Company's results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2010, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of BAA (SH) plc, BAA Limited and FGP Topco Limited for the year ended 31 December 2010.

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

21 Summary cash flow statement

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Operating profit	**482.0**	127.7
Adjustments for:		
Depreciation (including exceptional depreciation)	**455.1**	468.7
Loss/(gain) on disposal of tangible fixed assets	**0.3**	(0.1)
Working capital changes:		
(Increase)/decrease in stock and debtors	**(4.4)**	25.4
Increase/(decrease) in creditors	**20.3**	(49.0)
(Decrease)/increase in provisions	**(10.3)**	4.6
Difference between pension charge and cash contributions	**(26.9)**	(26.4)
Exceptional pension (credit)/charge	**(74.7)**	181.3
Net cash inflow from operating activities	**841.4**	732.2
Net interest paid	**(310.2)**	(325.2)
Taxation - Group relief (paid)/received	**(53.1)**	32.4
Net capital expenditure	**(818.7)**	(817.8)
Net cash outflow before use of liquid resources and financing	**(340.6)**	(378.4)
Management of liquid resources		
Decrease/(increase) in short term deposits	**193.5**	(92.4)
Financing		
Drawdown of bank loans	**1,225.0**	450.0
Repayment of bank loans and other items	**(1,036.8)**	(809.9)
Issuance of ordinary share capital	**217.4**	260.0
Cash movement on derivatives	**(18.1)**	(43.3)
(Decrease)/increase in amounts owed to group undertakings	**(270.6)**	613.7
Decrease in net cash	**(30.2)**	(0.3)

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

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

There is an overdraft balance of £41.5 million included within 'Creditors: amounts falling due within one year' at 31 December 2010 (2009: £11.4 million).

22 Post balance sheet events

There were no significant post balance sheet events.