STANSTED AIRPORT LIMITED

Report and Financial Statements
for the year ended 31 December 2008

Company Registration Number 1990920

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Wingate	
J Leo	
T D Morgan	
R D Herga	Alternate to J Leo

SECRETARY

S M Ooi	Appointed 28 November 2008

REGISTERED OFFICE

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INDEPENDENT AUDITORS

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BUSINESS REVIEW

Stansted Airport Limited (the 'Company') is the owner and operator of Stansted Airport.

This business review is presented under three sections:-

Management review and outlook – overview of the year ended 31 December 2008.

Financial performance – presentation and explanation of the key drivers behind the adjusted financial performance reported for the year ended 31 December 2008 and analysis of the financial position of the Company as at that date.

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

MANAGEMENT REVIEW AND OUTLOOK

Review of 2008

As part of the wider BAA Limited group restructuring, ownership of the Company was transferred from London Airports Limited to BAA Airports Limited at open market value on 31 January 2008. BAA Airports Limited subsequently sold its interest in the Company to BAA Limited (formerly known as Airport Development and Investment Limited). BAA Limited then sold its interest in the Company to another subsidiary company, BAA (AH) Limited, which forms part of the long term financing ring fenced group under the immediate parent undertaking of BAA (SP) Limited.

Stansted remains the UK's third largest airport despite the impact of the global economic downturn, and during the year welcomed a number of new airlines and routes. These included Aegean to Athens in Greece, Lithuanian Airlines to Vilnius in Lithuania and Pegasus to Istanbul in Turkey. However passenger numbers fell by 6.0% from 23.8 million to 22.3 million for the year, which is a result of Maxjet filing for Chapter 11 bankruptcy in December 2007, Globespan, American Airlines and Sky Europe leaving Stansted; and Air Berlin ceasing UK domestic routes late in 2007. easyJet and Ryanair have also shown a decline in passenger numbers year on year.

In 2008 Ryanair remained the airport's largest carrier, followed by easyJet and Air Berlin. The highlight of the year came with the announcement by AirAsia X that they had selected Stansted Airport as the UK gateway from which they will launch the first low-cost, non-stop flights between London and Kuala Lumpur from March 2009. The new service also revolutionises long-haul travel from the UK, offering the first low-cost air link to Australia from the UK. At 31 December 2008 passengers had the opportunity to travel to up to 149 destinations with 29 airlines.

BUSINESS REVIEW (continued)

MANAGEMENT REVIEW AND OUTLOOK (continued)

Review of 2008 (continued)

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

The DfT is currently conducting a review of the economic regulation of all UK airports and the most recent consultation process commenced on 9 March 2009. This is expected to be followed by the issue of the DfT's final decision on the new regulatory proposals in the autumn of 2009. Implementation of the final proposals will require changes in law which are unlikely to occur before mid-2010 with the exact timing being subject to parliamentary time being found to enact the necessary legislative changes. Implementation of the new law would follow some time thereafter as further consultation on the specifics of each initial licence is contemplated.

The DfT has indicated that the key policy objectives of the review will include improving the passenger experience (in particular a stronger focus on putting the passenger first across the whole journey). It will also seek to encourage appropriate and timely investment in additional capacity to help deliver economic growth in line with wider Government policy and address the wider environmental impacts of aviation and airport development.

It is anticipated that the regulatory review will result in the introduction of a licensing regime similar to that operating in many regulated industries, which would reflect a spectrum of proportionate regulation with appropriate application to airports. The DfT is aiming to establish a regulatory environment that more explicitly supports the financial profile of efficient airport operators for which, among other features, it is proposing the introduction of a new duty on the regulator to ensure licence holders can finance their activities. The DfT is also consulting on the merits of concepts that are common in other regulated industries, including a special administration regime in a limited number of airports.

Whilst there may be a change in law prior to the end of the price control period in 2014 for Stansted, the DfT has made clear that the tariff arrangements for this period will not be re-opened.

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

On 19 March 2009, the Competition Commission ('CC') concluded its investigation on the supply of airport services by BAA in the UK. Its report calls for structural and behavioural remedies as well as recommendations on regulatory and policy matters for consideration by other governmental bodies.

The structural remedies include the disposal of Stansted and Gatwick to different purchasers as well as one of either Edinburgh or Glasgow airport within two years. The CC expects them to be sold in sequence, beginning with Gatwick, then Stansted, followed by either Edinburgh or Glasgow.

The CC has also recommended that the Department for Transport ('DfT') consider adopting a licence based regime of economic regulation of UK airports.

BAA Limited has two months from the publication date to decide whether to lodge a legal appeal.

BUSINESS REVIEW (continued)

MANAGEMENT REVIEW AND OUTLOOK (continued)

Review of 2008 (continued)

Proposed aeronautical charges at Stansted for 5 years to 31 March 2014

On 13 March 2009, the Civil Aviation Authority ('CAA') issued its final price determination on aeronautical charges to apply at Stansted Airport for the five year period to 31 March 2014. Key features of the CAA's proposals include a permitted real pre-tax return on capital of 7.1%. It has also recommended that maximum allowable aeronautical charges remain flat at £6.53 (in 2009/10 prices) per passenger for two years and increase to £6.85 by 2013/14.

The CAA's recommendations are based on a capital plan of approximately £90 million, in 2007/08 prices, primarily on Stansted's existing facilities over the 5 years to 31 March 2014. The settlement included the costs of the planning enquiry relating to Stansted Generation 2. However, the costs of constructing the runway and terminal following planning approval would require the re-opening of the price control at the appropriate time.

Approval for increased traffic at Stansted

On 9 October 2008, the Company's planning application to increase the number of air transport movements ('ATMs') permitted at Stansted was approved by the Secretary of State for Transport and the Secretary of State for Communities and Local Government. The new limit has been increased by 9.5% to 264,000 ATMs per year from 241,000. The Company expects this approval to allow annual passenger throughput to grow from around 25 million to around 35 million if all available ATMs are utilised by airlines operating at Stansted.

Stansted G1 and G2

In October 2008, the Government granted permission for Stansted's G1 planning application to grow passenger numbers to 35 million per annum. This approval further recognises the support from Government to expand at Stansted and sustains the momentum on the G2 application.

Generation 2 (G2) will further increase capacity through the construction of a second runway and terminal building within an extended airport boundary. The preferred location for the runway was announced in January 2007 following a period of consultation. Stansted Airport submitted its Generation 2 (G2) planning application on 11 March 2008 and the next key stage in the planning application process is expected to be the launch of a public inquiry (Refer developments since the beginning of 2009). The proposal is the result of four years of intensive and rigorous planning work to deliver this key milestone of the Government's Air Transport White Paper. The White Paper sets out that Stansted is to be the location for the first new runway in the South East of England for over 50 years. Approval of the plans would enable Stansted Airport to develop a two-runway, two-terminal

BUSINESS REVIEW (continued)

MANAGEMENT REVIEW AND OUTLOOK (continued)

Review of 2008 (continued)

Stansted G1 and G2 (continued)

airport that serves around 68 million passengers a year by 2030. Airport development will take place in phases, with construction of the first phase estimated at £1.4 billion. Further phases of expansion, including Stansted's contribution to road and rail improvements, is expected to total approximately £2.5 billion. This compares to the original Government estimate of £5.0 billion. Significant expansion at Stansted is vital to the economic future of the City of London, the greater South East region and the UK.

Stansted's directors are committed to growing the airport in a sustainable way, and continue to have great confidence in the ability of the airport to remain a world leader in serving the dynamic low-cost, high value sector of the aviation industry.

Refinancing

In August 2008, BAA Limited completed a permanent refinancing of the acquisition financing originally put in place at the time of the Ferrovial-led consortium's acquisition of BAA in 2006. The terms of the refinancing are described in more detail in Note 15 on page 44 and are summarised below:

- A corporate reorganisation occurred to enable separate ownership and financing of the three London airports (the 'Designated Airports') of Heathrow, Gatwick and Stansted.
- The Designated Airports became indirect wholly-owned subsidiaries of BAA (SP) Limited, forming a sub-group in which a ring fenced investment grade long term financing platform was established.
- The financing established within this sub-group included £4.4 billion of drawn bank facilities ('Refinancing Facility), and £2.75 billion of capital expenditure and working capital facilities ('Initial Credit Facility').
- Financing of the BAA (SP) Group is managed centrally. At 31 December 2008 Stansted had £590.4 million of third party borrowings, and £294.7 million loans receivable from BAA (SP) Limited, one of the Company's parent Companies.

BUSINESS REVIEW (continued)

Developments since the beginning of 2009

2009 traffic trends

In January 2009, Stansted's total passenger traffic was 1.29 million, a fall of 11.2% compared to 1.45 million in January 2008. In February 2009, passenger traffic versus 2008 was impacted by both weather disruption early in the month and the fact that February 2008 contained 29 days. Therefore, whilst the reported decline in passenger traffic was 16.2% to 1.30 million (2008: 1.55 million), the underlying decline is estimated to have been 10.3%. The underlying performance over January and February suggest a continued moderation in the rate of decline in monthly passenger numbers relative to those seen in late 2008.

Deferral of commencement of Stansted Generation 2 public enquiry

On 2 March 2009, the Secretary of State for Communities and Local Government, announced a deferral of the start of the public enquiry in relation to the Stansted Generation 2 planning application that had been due to commence on 15 April 2009. This deferral was related, at least in part, to a desire to assess the implications for the planning application of the Competition Commission's ('CC') final report in its enquiry into the supply of UK airport services by BAA. With the publication of the CC's final report on 19 March 2009, the Secretary of State is expected to announce by 16 April 2009 a revised date for the start of the enquiry. The revised start date for the enquiry will be no earlier than 11 June 2009 although it could be later.

FINANCIAL PERFORMANCE

The commentary below, in respect of operating costs and operating profit, is based on the adjusted performance (excluding depreciation and exceptional costs) of the Company. The commentary on all other aspects of the Company's results are based on the statutory financial information.

Turnover

In the year to 31 December 2008, the Company's turnover increased 7.0% to £258.8 million (2007: £241.8 million). This increase reflects a 13.6% rise in aeronautical income, a 0.2% reduction in gross retail income and 0.9% reduction in other categories of income compared to 2007, achieved whilst passenger numbers declined 6.0%.

	2008 £m	2007 £m	Change (%)
Aeronautical income	**145.1**	127.7	13.6
Retail income	**90.8**	91.0	(0.2)
Operational facilities and utilities income	**12.0**	12.9	(7.0)
Property rental income	**7.3**	7.4	(1.4)
Other income	**3.6**	2.8	28.6
Total turnover	**258.8**	241.8	7.0

BUSINESS REVIEW (continued)

FINANCIAL PERFORMANCE (continued)

Turnover (continued)

Aeronautical income

In the year to 31 December 2008, the Company's aeronautical income increased 13.6% to £145.1 million (2007: £127.7 million), driven by a £8.3 million increase due to rebasing of tariffs to include costs previously charged to airlines by NATS for aerodrome navigation services ('ANS'). In addition, the increase reflected the full year benefit of the ending of certain discounts on aeronautical tariffs from 1 April 2007.

Retail income

The Company's gross retail income in the year to 31 December 2008 declined marginally to £90.8 million (2007: £91.0 million). On a comparable basis, derived by deducting cost of sales from gross income to adjust principally for changes in car parking contractual arrangements which moved from a concession basis to a contract basis at the start of 2008, net retail income ('NRI') declined 1.7% to £87.6 million (2007: £89.1 million) with an increase of 4.7% in NRI per passenger more than offset by a 6.0% reduction in passenger numbers.

	2008 £m	2007 £m	Change (%)
Gross retail income			
Car parking	**40.3**	40.4	(0.5)
Duty and tax-free	**11.6**	11.1	4.5
Airside specialist shops	**5.5**	4.4	25.0
Bureaux de change	**8.4**	10.6	(20.8)
Catering	**10.0**	10.0	-
Landside shops and bookshops	**6.7**	6.7	-
Advertising	**2.9**	1.7	70.6
Car rental	**2.4**	2.4	-
Other	**3.0**	3.7	(16.2)
Total gross retail income	**90.8**	91.0	(0.2)
Retail expenditure	**(3.2)**	(1.9)	68.4
Net retail income ('NRI')	**87.6**	89.1	(1.6)
Passengers (m)	**22.3**	23.8	(6.0)[1]
NRI per passenger	**£3.92**	£3.74	4.7

1 Percentage change calculated using un-rounded number

By activity, the main drivers of retail performance in the year to 31 December 2008 were the reduction in car parking income (particularly after taking account of the change in contractual structure referred to above) and bureaux de change income offset by strong performance in airside specialist shops, advertising and duty and tax-free.

BUSINESS REVIEW (continued)

FINANCIAL PERFORMANCE (continued)

Turnover (continued)

Other income categories

Income from areas other than aeronautical and retail activities declined marginally in the year to 31 December 2008 to £22.9 million (2007: £23.1 million). This resulted particularly from a reduction of 7.0% in operational facilities and utilities income driven by the bankruptcy or withdrawal from Stansted of airlines such as Sky Europe, Globespan, Maxjet and Eos Airlines. This reduction was partially offset by an increase in other income driven by a first time contribution from providing services for passengers with reduced mobility ('PRM').

Adjusted operating costs

Adjusted operating costs (excluding depreciation and exceptional costs) are presented as this better reflects the underlying performance of the business. In the year to 31 December 2008 adjusted operating costs increased 11.3% to £141.4 million (2007: £127.0 million).

Analysis of adjusted operating costs

	2008 £m	2007 £m	Change (%)
Staff costs	**52.7**	53.4	(1.3)
Maintenance expenditure	**8.9**	12.0	(25.8)
Utility costs	**12.9**	11.7	10.3
Rent and rates	**11.3**	10.0	13.0
General expenses[1]	**29.1**	12.9	125.6
Retail expenditure	**3.2**	1.9	68.4
Other intra-group charges[2]	**23.3**	25.2	(7.5)
Profit on disposal of tangible fixed assets	**-**	(0.1)	n/a
Total	**141.4**	127.0	11.3

1 Includes £8.7 million (2007: £nil) related to recharging of aerodrome navigation services ('ANS') provided by NATS and £1.2 million (2007: £nil) for the cost of services for passengers with reduced mobility ('PRM')

2 Net of capitalised costs of £1.3 million (2007: £2.4 million)

There was a 1.3% reduction in staff costs to £52.7 million (2007: £53.4 million) which related primarily to a reduction in pension costs. The increase in general expenses reflected £9.9 million in additional costs relating to the first year of providing aerodrome navigation services ('ANS') and services for passengers with reduced mobility ('PRM') which were previously sourced directly by the airlines. These are reimbursed through aeronautical charges for ANS and other income for PRM, as mentioned above.

BUSINESS REVIEW (continued)

FINANCIAL PERFORMANCE (continued)

Exceptional costs

In the year to 31 December 2008, the Company incurred £3.1 million in exceptional costs (2007: £9.1 million) charged within operating profit. An additional £15.7 million (2007: £nil) of refinancing fees, relating primarily to initially undrawn facilities, were written off within net interest payable.

The exceptional costs charged within operating profit included £2.1 million of accumulated historical pension costs which had not been previously charged by BAA Airports Limited and were charged after the Company entered into the Shared Services Agreement (refer to Note 1 and Note 16), and £1.0 million in relation to the 'Simplifying the Organisation' restructuring programme.

Adjusted EBITDA, adjusted operating profit and operating profit

Adjusted EBITDA, i.e. earnings before interest, tax, depreciation and amortisation and exceptional items, in the year to 31 December 2008 increased 2.3% to £117.4 million (2007: £114.8 million).

The key drivers in adjusted EBITDA increasing at a lower level than the turnover increase of 7.0% were:-

- A further element of the change in turnover related to changes in the structure of car parking contracts also being reflected in costs
- Increased aeronautical charges reflecting the full year impact of the ending of certain discounts on tariffs from 1 April 2007

Adjusted operating profit (i.e. operating profit before exceptional items) in the year to 31 December 2008 was £84.3 million (2007: £85.7 million). In addition to the factors affecting adjusted EBITDA, the reduction in adjusted operating profit reflects higher depreciation of £33.1 million (2007: £29.1 million) reflecting the ongoing significant investment in the airport, particularly bringing into operation the new arrivals hall completed in 2008.

Operating profit for the year to 31 December 2008 increased 6.0% to £81.2 million (2007: £76.6 million). The increase in operating profit compared to the slight reduction in adjusted operating profit reflects the lower exceptional costs within operating profit (£3.1 million in 2008: £9.1 million in 2007).

BUSINESS REVIEW (continued)

FINANCIAL PERFORMANCE (continued)

Adjusted EBITDA, adjusted operating profit and operating profit (continued)

A reconciliation between statutory operating profit and adjusted EBITDA is provided below.

	2008 £m	2007 £m	Change (%)
Adjusted EBITDA	**117.4**	114.8	2.3
Depreciation	**(33.1)**	(29.1)	13.7
Adjusted operating profit	**84.3**	85.7	(1.6)
Exceptional items	**(3.1)**	(9.1)	(65.9)
Operating profit	**81.2**	76.6	6.0

Capital expenditure

Capital expenditure in the year in respect of expanding and maintaining the existing infrastructure was £61.8 million. The main elements of this spend were the Terminal Arrivals extension, Central Search, Hold Baggage System replacement and security enhancement projects. The capital spend for Stansted Generation 2 (G2) was £37.6 million for the year, relating to the blight compensation schemes and preparation for the planning enquiry.

Despite the traffic decline in 2008, the long-term prospects remain healthy and growth at Stansted is firmly on the agenda for both BAA and for UK aviation in general. Two major initiatives, Generation 1 and Generation 2, aiming to enable substantial expansion over the coming decades, achieved significant progress during the year.

Regulatory Asset Base

The Regulatory Asset Base ('RAB') of the Company is provided to the CAA and published as at 31 March each year in the regulatory accounts. The RAB is also determined at 31 December each year for the purposes of calculating the Regulatory Asset Ratio (the ratio of net debt to RAB) under its financing arrangements. The RAB is rolled forward between each date according to a formula set out by the CAA. Set out below is the historic RAB figure for Stansted Airport at 31 March 2008 from its regulatory accounts together with the historic figure at 31 December 2008 and forecast figures at 31 December 2009.

	RAB £m
31 March 2008	1,185
31 December 2008	1,222
31 December 2009	1,265

BUSINESS REVIEW (continued)

RISK MANAGEMENT

Risk management is a key element of the BAA Limited (the 'Group') operations. This has been centrally managed as part of the Group which includes Stansted Airport Limited ('the Company') and in addition, the Company has a fully dedicated senior team which implements and manages risk closely following the Group's guidelines. The Executive Committee and Board referred to in notes below relates to the Executive Committee and Board of BAA Limited.

Risk management in the Group facilitates the identification, evaluation and effective management of the threats to the achievement of the Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed. Particular emphasis is given to safety and security, environmental, commercial, financial, reputational and legal risks with the framework ensuring that the Group's financial aspirations are not pursued at the expense of risk management, thus delivering a balanced control of risk, using formal risk management processes.

A key element of the risk management process is the risk-profiling methodology. This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at both inherent and residual level, after taking account of mitigating and controlling actions. Details are maintained in a hierarchy of risk registers used as the basis for regular review of risk management at Executive Committee and Board level. The risk registers are also used to inform 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 and properly embed risk management within these operations. The operation of the process and the individual registers are subject to review by the Group's Business Assurance function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

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

Safety and security risks

Safety and security risks are regarded as an important risk to manage. 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, police and the Armed Forces 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.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

Regulatory environment, legal and reputational risks

CAA regulation

The Company's operations are subject to regulatory review by the CAA and CC every five years. The risk of an adverse outcome from the five-yearly review is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters. Further, a settlement has just been reached with regard to the five years to 31 March 2014.

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

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Company breaching these regulations.

Capacity shortfall

Failure to secure necessary planning permission would lead to the Company having insufficient capacity to meet the expected demands of the industry resulting in increased congestion and declining passenger service. 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. However, it should be noted that, despite the mitigation action taken by management and a planned capital investment programme, which will provide additional capacity, it is anticipated that demand will continue to exceed available capacity in London throughout the next ten years. In addition, the investment in additional capacity at Stansted is dependent on the outcome of the regulatory settlements in 2014.

In January 2007, BAA announced details of its development proposal for Stansted Generation 2 ('SG2'). This proposal includes the provision of a second runway and terminal and will have an initial capacity for about 10 million passengers per annum. The planning application was submitted to Uttlesford District Council on 11 March 2008, and the next key stage in the planning application process is expected to be the launch of a public enquiry.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

Regulatory environment, legal and reputational risks (continued)

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

Environment

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

Commercial and financial risks

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 continually enhanced project process and by systems of project reviews before approval, during construction and after project completion. In addition, specific additional controls developed by the group for Heathrow T5 were introduced, including the strengthening of the project management team and the commitment of dedicated specialist internal audit and risk management resources to reinforce assurance to the Board. Similar control will also be adopted for the Stansted Generation 2 development. All projects include an allowance for risk and opportunity.

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.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

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 Company 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. A three year Pay Agreement was reached in August 2006 covering negotiated grades within the Company and new negotiations are taking place in 2009 for the next pay deal. The Company could also be exposed in the short term to the effect of industrial action at key clients (i.e. airlines).

Financial risk management

The Company's financial risk management objectives are aligned with its immediate parent company, BAA (AH) Limited and also BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements. Furthermore, details of the treasury policies for the wider BAA Group are also given in the financial statements of BAA Limited.

The Company's principal financial instruments comprise external borrowings and derivatives and amounts due to/from other BAA Group undertakings, including BAA Funding Limited and BAA (SP) Limited. All of these instruments are centrally managed for the BAA (SP) Group and allocated to each of it's airports. Facility Limits and covenants are set for the BAA (SP) Group as a whole. The Company does not use financial instruments for speculative purposes.

The main risks arising from the Company's financial instruments are market risk (primarily cash flow interest rate risk), credit risk and liquidity risk.

Cash flow interest rate risk

The Company's cash flow interest rate risk arises primarily from its third party borrowings issued at variable interest rates. In accordance with the wider BAA Group policy of maintaining a high level of fixed interest rate borrowings and the hedging restrictions of the Refinancing Facilities, the Company has entered into floating to fixed interest rate swaps to protect against cash flow interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial assets and accounts receivables. The Company has no significant concentrations of credit risk. The Company's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used. The credit risks of the BAA Group are further discussed in its financial statements and the directors do not consider that the Company faces any additional significant credit risks.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

Liquidity risk

At 31 December 2008, the Company, together with Gatwick Airport Limited and Heathrow Airport Limited (both fellow subsidiary companies of BAA (AH) Limited and BAA (SP) Limited, had £2.45 billion of undrawn joint committed capex borrowing facilities available. In addition, the Company had a further £0.05 billion committed working capital borrowing facility available, jointly with all four of the other BAA Group undertakings listed above. All conditions precedent in respect of the above facilities had been satisfied. Further details of these facilities are provided in Note 16.

Security and guarantees

The Company has guaranteed certain of the financial obligations of BAA (SH) Limited. Details of these guarantees are provided in Note 20.

On behalf of the Board

Stewart Wingate

Director

3 April 2009

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company owns and is the operator of Stansted Airport. 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 Business Review on pages 2 to 15.

RESULTS AND DIVIDENDS

No dividend was proposed or paid in the year (2007: 2.81p per share amounting to £14.2 million).

The profit after taxation for the financial year amounted to £36.9 million (2007: £88.5 million).

BOARD OF DIRECTORS

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

S Wingate
J Leo
T D Morgan
R D Herga alternate to J Leo

DIRECTORS' INTERESTS

None of the directors held interests in the ordinary shares of the Company at the end of the year.

EMPLOYEES

The Company has no direct employees. The staff are employed by BAA Airports Limited which is the Company's intermediate parent company. Refer to Note 1 Accounting Policies - Shared Service Agreement for more details.

PAYMENT PRACTICE

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
- Advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 9 days purchases outstanding at 31 December 2008 (2007: 30 days) based on the average daily amount invoiced by suppliers during the year.

REPORT OF THE DIRECTORS (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company 's financial risk management objectives and policies can be found on pages 14 to 15 of the Risk Management section of the Business Review.

DIRECTORS' INDEMNITY

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

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the directors is aware, there is no relevant audit information (meaning information needed by the Company's auditors in connection with preparing their report) that has not been disclosed to the Company's auditors. Each of the directors believes that he has taken all steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Pursuant to the provisions of section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will automatically be re-appointed as Auditors of the Company.

By order of the Board

Shu Mei Ooi
Company Secretary

3 April 2009

Registered Office:
130 Wilton Road
London
SW1V 1LQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). The financial statements are required by law to 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 those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Company's financial statements comply with applicable UK GAAP, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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 maintenance and integrity of the BAA website which includes information related to the Company is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Shu Mei Ooi
Company Secretary
3 April 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANSTED AIRPORT LIMITED

We have audited the financial statements of Stansted Airport Limited for the year ended 31 December 2008 which comprise profit and loss account, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Statement of Directors Responsibilities and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF STANSTED AIRPORT LIMITED (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;

- The financial statements have been properly prepared in accordance with the Companies Act 1985; and

- The information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

3 April 2009

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Turnover – continuing operations	2	**258.8**	241.8
Operating costs – ordinary	3	**(174.5)**	(156.1)
Operating costs – exceptional	4	**(3.1)**	(9.1)
Total operating costs		**(177.6)**	(165.2)
Operating profit – continuing operations		**81.2**	76.6
Net interest and similar charges payable - ordinary	6	**(15.6)**	(11.6)
Net interest payable and similar charges - exceptional	4	**(15.7)**	-
Profit on ordinary activities before taxation		**49.9**	65.0
Tax (charge)/credit on profit on ordinary activities	7	**(13.0)**	23.5
Profit after taxation for the financial year	18	**36.9**	88.5

The notes on pages 24 to 53 form an integral part of these financial statements.

All profit and loss recognised during the current and prior year is from continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2008

	Note	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m
Profit for the financial year	18	**36.9**	88.5
Unrealised revaluation (deficit)/surplus	18	**(87.5)**	32.3
Total recognised gains and losses relating to the year		**(50.6)**	120.8

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 December 2008

	Notes	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m
Profit for the financial year	18	**36.9**	88.5
Dividends paid	8	**-**	(14.2)
Retained profit for the financial year		**36.9**	74.3
Other net recognised gains and losses relating to the period	18	**(87.5)**	32.3
Net (reduction in)/addition to shareholders' funds		**(50.6)**	106.6
Opening shareholders' funds		**1,151.4**	1,044.8
Closing shareholders' funds		**1,100.8**	1,151.4

The notes on pages 24 to 53 form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2008

	Notes	31 December 2008 £m	31 December 2007 £m
FIXED ASSETS			
Tangible assets	9	**1,433.6**	1,450.7
CURRENT ASSETS			
Stocks	10	**1.9**	1.8
Debtors : due within one year	11	**353.5**	43.7
: due after more than one year	11	**-**	124.9
Cash at bank and in hand	12	**11.3**	-
TOTAL CURRENT ASSETS		**366.7**	170.4
CREDITORS:			
amounts falling due within one year	13	**(51.0)**	(412.3)
NET CURRENT ASSETS/(LIABILITIES)		**315.7**	(241.9)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,749.3**	1,208.8
CREDITORS:			
amounts falling due after more than one year	14	**(601.9)**	(7.7)
Provisions for liabilities and charges	16	**(46.6)**	(49.7)
NET ASSETS		**1,100.8**	1,151.4
CAPITAL AND RESERVES			
Called up share capital	17	**503.9**	503.9
Revaluation reserve	18	**460.5**	548.0
Profit and loss reserve	18	**136.4**	99.5
TOTAL SHAREHOLDERS' FUNDS		**1,100.8**	1,151.4

The notes on pages 24 to 53 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 3 April 2009 and were signed on its behalf by:

Jose Leo
Director

Stewart Wingate
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with the Companies Act 1985 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)) except as set out within the accounting policies note.

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.

Consequently the directors have reviewed the cashflow projections of the BAA SP Group of which Stansted forms part, taking into account:

- the forecast passenger numbers, turnover and operating cashflows from the underlying operations;
- the forecast level of capital expenditure; and
- the Group's funding structure following the refinancing in August 2008 and the significant committed facilities that are available to the Company and to the Group (see note 15).

As a result of the review, having made appropriate enquiries of management and allowing for headroom to accommodate a reasonable downside scenario (including a fall in passenger numbers), the directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement over the coming twelve month period. All of the Group's financial covenants of which the Company forms part (see note 15) have been met and are forecast to be met for the foreseeable future.

The principal accounting policies are set out below.

Turnover

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

- Airport and other traffic charges
  - Passenger charges levied on 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 handling when these services are rendered.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Turnover (continued)

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

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 those 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 items disclosed as exceptional are provided in note 4.

Fixed assets

(i) Operational assets

Terminal complexes, airfield assets, plant and equipment and Company occupied properties are stated at cost less accumulated depreciation. Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management, and directly attributable overheads. Projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Fixed assets (continued)

(ii) Investment properties

Investment property, which is property held to earn rentals and/or capital appreciation, is valued at the balance sheet date at open market value. All investment properties are revalued annually by the directors and at least once every five years by external valuers. Any surplus or deficit on revaluation is transferred to revaluation reserve except that deficits below original cost which are expected to be permanent are charged to the profit and loss account.

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

In accordance with Statement of Standard Accounting Practice ('SSAP') 19, 'Accounting for Investment Properties' no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 1985 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.

(iii) 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 follows:

• 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 to 100 years
• Runway surfaces	10 - 15 years
• Runway bases	100 years
• Taxiways and aprons	50 years
• Motor vehicles	4 - 8 years
• Office equipment	5 - 10 years
• Computer equipment	4 - 5 years
• Computer software	3 - 7 years

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Fixed assets (continued)

(iv) Assets in the course of construction

The Company has acquired a number of properties and land for the development of a second runway (SG2) and associated works. Any rental income from these assets is credited against the cost of the asset. Any profit or loss on a subsequent sale is adjusted against the cost of the SG2 project.

Impairment of assets

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 makes an estimate of 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. 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.

Capitalisation of interest

Interest payable is charged as incurred except where the borrowing finances tangible fixed assets in the course of construction. Such interest is capitalised once planning permission has been obtained and a firm decision to proceed has been taken until the asset is complete and ready for use. It is then charged to the profit and loss account as depreciation over the life of the relevant asset.

Dividend distribution

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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.

Deferred tax

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

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

Leases

(i) Company as lessor

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

(ii) Company as lessee

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Shared Services Agreement

All employees are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Company. BAA Airports Limited is the administrator of the related defined benefit and defined contribution pension plans and grants all employee benefits.

On 18 August 2008, the airport entered into a Shared Services Agreement (SSA) under which BAA Airports Limited provides the Company with operational staff and corporate services.

(i) Operational staff

BAA Airports Limited charges the airports for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of BAA Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to the employee share options. All of the amounts included in the aforementioned 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.

(ii) 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 Shared Services Agreement with a mark-up of 7.5% except for IT applications where full costs were recharged to the Company. The total mark-up charged to the Company amounted to £1.0 million during the year (2007: £1.0 million).

(iii) Pension costs

Under the Shared Services Agreement the current period service cost for the BAA Airports Limited pension schemes are recharged to Stansted Airport Limited. Cash contributions are made directly to the pension trustee of the BAA Airports Limited defined benefit scheme on behalf of BAA Airports Limited. The airports also have a legal obligation to fund any pension deficit related to BAA Airports Limited pension plans under the Shared Services Agreement.

In the year to 31 December 2008 an amount of £2.1 million was recorded as a one-off exceptional past-service cost in the profit and loss account relating to unfunded pension schemes existing at BAA Airports Limited. However these amounts will not be settled until the cash outflows are required by BAA Airports Limited and are accordingly recorded as long term provisions. (Refer note 16).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Cash and liquid resources

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

Issue costs and arrangement fees

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 instrument not been issued. These are accounted for as a deduction from the amount of consideration received and amortised under the effective interest rate method.

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

Derivative financial instruments

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, 'Capital Instruments', and consequently accounted for on an accrual basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship the interest payable and receivable on those derivatives are recorded at their gross amount in finance costs and finance income in the income statement. The net interest payable or receivable accrual on derivatives are 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 on a straight-line basis over the term of the financial instruments.

Debt and financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred and 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 method.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (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 balance sheet date and are discounted to present value where the effect is material.

Summary cash flow statement and related party disclosures

The Company is wholly owned by 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 2008. The results are also included in the audited consolidated financial statements of BAA (SP) Limited (intermediate parent entity and the smallest group to consolidate these financial statements for the full year), BAA (SH) Limited and BAA Limited for the year ended 31 December 2008. 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)'. A summary cash flow statement has been included at Note 22.

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

Significant accounting judgements and estimates

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.

White Paper

The UK Government's Aviation White Paper *'The Future of Air Transport'* ('the White Paper'), published on 16 December 2003, sets out the Government's policy for runway development in the UK. The Government chose a second runway at Stansted as its preferred location for the first new runway in the South East of England. The development of Stansted will be the subject of a planning inquiry, and the Group submitted its planning application to Uttlesford District Council on 11 March 2008. The costs incurred to date have been capitalised as part of the runway development costs. This is based on management's belief that it is virtually certain the necessary consents will be received and the project will be developed to achieve a successful delivery of an asset such that future benefits will flow to the Group.

Additionally, the Group has promoted three voluntary schemes to compensate those people living near Stansted Airport whose homes will be affected by the airport expansion. These costs have also been capitalised as part of the runway development costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Investment properties

Investment properties were valued at a fair value at 31 December 2008 by Drivers Jonas, Chartered Surveyors. These valuations were prepared in accordance with UK GAAP and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Given recent market conditions and the decline in property prices, for the year ended 31 December 2008, independent valuations have been obtained for 100 percent of the investment properties.

2. SEGMENTAL ANALYSIS

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.

Turnover	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m
Airport and other traffic charges[1]	**145.1**	127.7
Retail	**90.8**	91.0
Operational facilities and utilities income	**12.0**	12.9
Property rental income	**7.3**	7.4
Other[2]	**3.6**	2.8
	258.8	241.8

1 Included in airport and other traffic charges are £8.7 million (2007: £nil) in relation to recharging of aerodrome navigation services ('ANS') provided by NATS.

2 Increase in 'other' mainly relates to a first time contribution from providing services for passenger with reduced mobility ('PRM').

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

3. OPERATING COSTS - ORDINARY

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Wages and salaries	**42.4**	39.9
Social security costs	**3.2**	3.1
Pension costs	**5.1**	8.1
Other staff related costs	**2.0**	2.1
Share-based payments	**-**	0.2
Staff costs[1]	**52.7**	53.4
Retail expenditure	**3.2**	1.9
Depreciation – owned assets	**33.1**	29.1
Maintenance expenditure	**8.9**	12.0
Rent and rates	**11.3**	10.0
Utility costs – consumption	**9.9**	8.6
Utility costs - distribution fee	**3.0**	3.1
General expenses - police costs	**6.8**	6.8
General expenses – other[2]	**13.6**	6.1
Aerodrome navigation service costs	**8.7**	-
Other intra-group charges[3]	**23.3**	25.2
	174.5	156.2
Profit on disposal of tangible fixed assets	**-**	(0.1)
	174.5	156.1

1 Staff costs comprise of recharges from BAA Airports Limited for employee services to the Company. Refer to Shared Services Agreement accounting policy in Note 1.

2 Increase in general expenses partly reflects the provision of services for passengers with reduced mobility ('PRM') which were previously sourced directly by the airlines.

3 This amount includes all costs in relation to the corporate and centralised services under the Shared Service Agreement (refer to Note 1 for accounting policy on Shared Service Agreement (ii) Corporate and centralised services).

Operating costs include:	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m
Training expenditure	**0.9**	0.8
Rentals under operating leases		
- Plant and machinery	**3.0**	3.1
- Other operating leases	**0.6**	0.5
Services provided by the Company's auditor		
- Fees payable for the audit	**0.1**	0.1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

3. OPERATING COSTS - ORDINARY (continued)

Employee information

The Company has no employees. All staff costs are borne by BAA Airports Limited which recharges all such costs directly to the Company. For further details refer to Note 1 Accounting Policies – Shared Services Agreement.

The average number of employees of BAA Airports Limited engaged in the operation of Stansted Airport during the year was 1,232 (2007: 1,373).

4. EXCEPTIONAL COSTS

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Operating items		
Reorganisation costs **(a)**	**1.0**	9.1
Pension costs **(b)**	**2.1**	-
	3.1	9.1
Interest payable and similar charges		
Refinancing fees written off **(c)**	**15.7**	-
Total exceptional items	**18.8**	9.1

(a) Costs associated with restructuring programmes amounting to £1.0 million were charged in the year (2007: £9.1 million). In relation to severance and pension payments associated with the 'Simplifying the Organisation' programme carried out during 2008/2009. The closing provision (Note 16) associated with the ongoing programme at 31 December 2008 is £3.6 million (2007: £5.5 million).

(b) £2.1 million (2007: £nil) of accumulated past service pension costs not previously charged to the Company by BAA Airports Limited in relation to Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits were incurred during the year. The Company's share of these costs have been allocated on the basis of earnings before interest, tax, depreciation and amortisation for the year ended 31 December 2008.

(c) Fees of £15.7 million (2007: £nil) were incurred during the year, in relation to facility and arrangement fees that are expensed under UK GAAP. These costs are mainly upfront fees paid for the initial credit facility (comprising capital expenditure and working capital facilities), liquidity facility and costs attributed to future bond issuance. For further details of the borrowing facilities see Note 15.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

5. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Directors' emoluments		
Aggregate emoluments	**324**	179

	31 December 2008	31 December 2007
Number of directors who:		
- are members of a defined benefit pension scheme	**2**	3

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Highest paid director's remuneration		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**324**	179
Highest paid director's pension		
Accrued pension at end of year	**15**	11

J Leo was a director of BAA Airports Limited (formerly BAA Limited) until 18 September 2008 and then became a director of BAA Limited (formerly Airport Development and Investment Limited) as a result of the wider BAA Group reorganisation. His remuneration was paid by BAA Airports Limited and is disclosed within the respective company financial statements for the period he was a director. The directors do not believe it is possible to apportion his remuneration to individual companies within the Group based on services provided.

Two directors (2007: three directors) did not receive any emoluments in their capacity as directors of the Company.

No director (2007: no directors) exercised any share options in the year, and no shares were received or became receivable under long-term incentive plans.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

6. NET INTEREST PAYABLE

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest payable		
Interest on bank borrowings	**19.9**	-
Commitment fees	**1.2**	-
Interest on borrowings from other group undertakings[1]	**15.0**	22.1
Net interest receivable on derivative financial instruments	**(2.3)**	-
	33.8	22.1
Interest receivable		
Interest receivable from other group undertakings[1]	**(13.6)**	(8.5)
Interest received on money market and bank deposits	**(0.1)**	-
	(13.7)	(8.5)
Foreign currency revaluation gains	**(0.1)**	-
Less: capitalised borrowing costs	**(4.4)**	(2.0)
	(18.2)	(10.5)
Net interest payable	**15.6**	11.6

1 These amounts relate to interest accrued on balances due from/to BAA Airports Limited prior to refinancing in August 2008. However included in these balances are £8.3 million receivable from BAA (SP) Limited post refinancing. Refer to Note 11 for details.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 6.92% (2007: 5.95%) to expenditure incurred on such assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

		Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax			
Group relief payable		**16.4**	20.8
Adjustments in respect of prior periods		**0.4**	(0.4)
Total current tax		**16.8**	20.4
Deferred tax			
Origination and reversal of timing differences		**(3.8)**	(0.3)
Abolition of industrial building allowance balancing adjustments – impact on deferred tax liabilities		-	(38.0)
Change in tax rate – impact on deferred tax liabilities		-	(5.6)
Total deferred tax	16	**(3.8)**	(43.9)
Tax charge/(credit) on profit on ordinary activities		**13.0**	(23.5)

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28.5% (2007: 30%). The actual tax charge for the current and prior year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit on ordinary activities before tax	**49.9**	65.0
Tax on profit on ordinary activities at 28.5/30%	**14.2**	19.5
Effect of:		
Permanent differences	**(1.3)**	0.5
Depreciation for the year in excess of capital allowances	**5.5**	1.6
Capitalised interest	**(1.2)**	(0.6)
Other short term timing differences	**(0.8)**	(0.2)
Adjustments to tax charge in respect of prior periods	**0.4**	(0.4)
Current tax charge for the year	**16.8**	20.4

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

Other than this change, and the unprovided deferred tax discussed in Note 16 there are no items which would materially affect the future tax charge.

The accounting impact of the abolition of Industrial Building Allowances (IBAs) in the financial statements of the Company, prepared under UK GAAP, is significantly different to that disclosed in the consolidated financial statements of BAA Limited, which were prepared under IFRS. Under UK GAAP, the accounting impact of the abolition of balancing adjustments for IBAs (in respect of prior claims) resulted in a release of a deferred tax liability of £38 million in the year ended 31 December 2007. This contrasts with IFRS where BAA Limited has been obliged to recognise a deferred tax charge equivalent to the loss of future tax relief on expenditure already incurred.

The cash impact of the abolition of IBAs on the Company in 'quinquennium 5' is not expected to be material due to the transitional period regime applicable to 2011 and the low taxable income base of the Company. The impact of the abolition on future periods is uncertain due to the potential regulatory change to a post-tax allowed return (as is the case in other regulated industries). Under the existing regulatory framework, and assuming no further changes, the present value on the reduced cash flows for the existing assets would be approximately £30 million.

8. DIVIDENDS

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Equity- Ordinary		
No dividend was paid or proposed in the year (2007: 2.81p per share).	-	14.2

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. TANGIBLE ASSETS

	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Group occupied properties £m	Plant, equipment & other assets £m	Assets in the course of construction £m	**Total £m**
Cost or valuation								
1 January 2008	558.1	82.0	661.2	188.6	3.7	48.5	231.9	**1,774.0**
Additions at cost	-	-	-	-	-	0.3	99.1	**99.4**
Transfers to completed assets	1.6	-	94.7	6.8	10.8	14.2	(128.1)	**-**
Interest capitalised	-	-	-	-	-	-	4.4	**4.4**
Disposals	(0.2)	-	(1.4)	-	-	-	-	**(1.6)**
Reclassifications	0.3	-	-	-	(0.3)	-	-	**-**
Revaluation	(60.4)	(27.1)	-	-	-	-	-	**(87.5)**
31 December 2008	**499.4**	**54.9**	**754.5**	**195.4**	**14.2**	**63.0**	**207.3**	**1,788.7**
Depreciation								
1 January 2008	-	-	247.3	47.5	1.1	27.4	-	**323.3**
Charge for the year	-	-	22.8	6.9	0.3	3.1	-	**33.1**
Disposals	-	-	(1.3)	-	-	-	-	**(1.3)**
31 December 2008	**-**	**-**	**268.8**	**54.4**	**1.4**	**30.5**	**-**	**355.1**
Net book value								
31 December 2008	**499.4**	**54.9**	**485.7**	**141.0**	**12.8**	**32.5**	**207.3**	**1,433.6**
31 December 2007	558.1	82.0	413.9	141.1	2.6	21.1	231.9	1,450.7

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. TANGIBLE ASSETS (continued)

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2008 by Drivers Jonas, Chartered Surveyors at £542.1 million and by Strutt & Parker, Chartered Surveyors at £12.2 million, resulting in a total valuation of £554.3 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 valuations, a deficit of £87.5 million has been transferred to revaluation reserve.

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

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £64.5 million (2007: £62.1 million). £4.4 million (2007: £2.0 million) has been capitalised in the year at a capitalisation rate of 6.95% (2007: 5.95%) based on a weighted average cost of borrowings.

A tax deduction of £4.4 million (2007: £2.0 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.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2008 was £93.9 million (2007: £92.1 million).

Assets in the course of construction

Assets in the course of construction also include £166.9 million (2007: £129.3 million) in respect of the development of a second runway and related infrastructure (SG2). The costs consist of £79.4 million (2007: £63.5 million) incurred in respect of the initial planning application preparation and £87.5 million (2007: £65.8 million) in respect of the purchase of domestic properties that fall within the expanded airport boundary. This includes a provision of £4.6 million (2007: £4.1 million) for the additional 10% payable under the Home Value Guarantee Scheme (HVGS) once planning permission has been obtained. Further details are provided in notes 16 and 19.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. TANGIBLE ASSETS (continued)

Assets in the course of construction (continued)

The planning application for SG2 was submitted to Uttlesford District Council on 11 March 2008 and the next key stage in the planning application process is expected to be the launch of a public inquiry. The Company continues to capitalise costs in respect to the development of a second runway as it is virtually certain that the necessary consents will be received and the project will be developed to achieve a successful delivery of an asset such that future benefits will flow to the Company.

Leased assets

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

	31 December 2008 £m	31 December 2007 £m
Cost or valuation	**557.4**	607.6
Accumulated depreciation	**(17.9)**	(16.3)
Net book amount	**539.5**	591.3

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

Security

BAA Airports Limited granted security over the Company's assets as disclosed in the BAA Airports Limited (formerly BAA Limited) Group's report and accounts as at 31 December 2008. Subsequent to the completion of the refinancing transactions the securities were released and transferred to other group companies. Details of these are provided in Note 20.

10. STOCKS

	31 December 2008 £m	31 December 2007 £m
Raw materials and consumables	**1.9**	1.8

The replacement cost of raw materials and consumables at 31 December 2008 and 31 December 2007 was not materially different from the amount at which they are included in the accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

11. DEBTORS

	31 December 2008 £m	31 December 2007 £m
Due within one year:		
Trade debtors	**28.7**	25.5
Amounts owed by group undertakings – interest bearing[1]	**294.7**	1.0
Amounts owed by group undertakings – interest free[2]	**7.0**	-
Amounts owed by group undertakings – pensions[3]	**0.6**	-
Other debtors	**19.6**	17.2
Net interest receivable on derivative financial instruments	**2.9**	-
	353.5	43.7
Due after more than one year:		
Loan to group undertaking[4]	-	124.9
	353.5	168.6

1 Amounts owed by group undertakings – interest bearing mostly relates to loan being made to BAA (SP) Limited post refinancing in August 2008. This amount is repayable on demand and accrues interest at a fixed rate of 7.57%.

2 Amounts owed by group undertakings – interest free largely relates to external payment received by BAA Airports Limited under the Shared Service Agreement on behalf of the Company will be allocated in due course.

3 Amounts owed by group undertakings pensions relate to amounts receivable from BAA Airports Limited in respect of cash contributions made by the Company to the pension trustee in accordance with the Shared Service Agreement – refer to Note 1 Accounting Policies – Shared Service Agreement, (iii) Pension Costs.

4 The amount outstanding at 31 December 2007 was fully settled on refinancing in August 2008. Refer to Note 6 for interest accrued on the balance during the current year prior to settlement.

12. CASH AND CASH EQUIVALENTS

	31 December 2008 £m	31 December 2007 £m
		-
Cash at bank and in hand	**11.3**	-

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

The fair value of cash and cash equivalents approximate their book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2008 £m	31 December 2007 £m
Trade creditors	**10.6**	15.4
Capital creditors	**16.5**	31.2
Amounts owed to group undertakings – interest bearing[1]	-	340.0
Amounts owed to group undertakings – interest free[2]	**5.8**	-
Corporation tax payable	**1.4**	1.4
Group relief payable	**9.4**	20.8
Other tax and social security	**1.0**	0.9
Other creditors	**4.3**	-
Deferred income	**2.0**	2.6
	51.0	412.3

1 The amount outstanding at 31 December 2007 was fully settled on refinancing in August 2008. Refer to Note 6 for interest accrued on the balance during the current year prior to settlement.

2 Amount owed to group undertakings largely relates to external payments made by BAA Airports Limited under the Shared Service Agreement on behalf of the Company which will be settled in due course.

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2008 £m	31 December 2007 £m
Borrowings (Note 15)	**590.4**	-
Derivative financial instruments[1]	**4.3**	-
Deferred income	**7.2**	7.7
	601.9	7.7

1 This relates to the unamortized part of fair value derivative financial instrument on the date of novation.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. BORROWINGS

	31 December 2008 £m	31 December 2007 £m
Non-current borrowings		
Secured:		
Senior Refinancing Facility, Class A	**491.8**	-
Junior Refinancing Facility, Class B	**98.6**	-
Total borrowings	**590.4**	-

As described in the business review, the Company forms part of the Designated Group which has a specific ring-fenced financing structure and where facilities and covenants are at BAA (SP) group level. As such, when considering facilities drawn down by the Company, available facilities and covenant testing, due consideration must be given to the amounts drawn by its fellow subsidiary companies (Gatwick Airport Limited and Heathrow Airport Limited).

In August 2008, the Company together with Gatwick Airport Limited and Heathrow Airport Limited, ("the Designated Group"), drew loans under the Designated Group £4.4 billion Refinancing Facility in order to repay the Senior Facilities held by BAA Limited (formally ADIL).

The amounts and maturities of the Senior and Junior Refinancing Facilities drawn by each BAA (SP) group undertaking were:

	Stansted Airport Limited £m	Heathrow Airport Limited £m	Gatwick Airport Limited £m	Total £m
Senior Facilities:				
Due March 2010	-	150.0	650.0	800.0
Due March 2011	500.0	250.0	-	750.0
Due March 2012	-	750.0	-	750.0
Due March 2013	-	1,100.0	-	1,100.0
Total Senior Facilities	500.0	2,250.0	650.0	3,400.0
Junior Facilities:				
Due March 2010	100.0	-	100.0	200.0
Due March 2011	-	250.0	-	250.0
Due March 2012	-	250.0	-	250.0
Due March 2013	-	-	300.0	300.0
Total Junior Facilities	100.0	500.0	400.0	1,000.0
Total Refinancing Facilities	600.0	2,750.0	1,050.0	4,400.0

At 31 December 2008, the interest rate payable on these facilities was equal to Libor plus a margin of 2.00% p.a. on the Senior Facility and 2.75% p.a on the Junior Facility. The interest rate payable on these facilities is linked to the aggregate principal amount outstanding for the Designated Group as a whole, in accordance with the table below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. BORROWINGS (continued)

Senior Facility – Amount Outstanding		Junior Facility – Amount Outstanding	
Less than £1,200 million	1.25%	Less than £330 million	2.00%
Between £1,200 million and £2,200 million	1.50%	Between £330 million and £660 million	2.50%
Between £2,200 million and £3,200 million	1.75%	Greater than £660 million	2.75%
Greater than £3,200 million	2.00%		

In addition, there are contractual margin step ups of 0.25% pa in August 2010 and 0.25% pa every six months thereafter, subject to the provision that the aggregate increase in the margin shall be limited to 1.50% pa.

The repayment of the Senior Refinancing Facility and Junior Refinancing Facility, regardless of where the facility is held within the BAA Group, is based on the terms of the Refinancing Facility Agreement. This states that repayment of the facilities are firstly applied in repayment of the initial credit facility to ensure the required capex headroom is met, then applied to refinancing facilities with a maturity date falling within 12 months of the date of prepayment and then applied to refinancing facilities in descending order of the final maturity date, until the Senior net indebtedness to total RAB is no more than or equal to 0.70 and the Junior net indebtedness to total RAB is no more than or equal to 0.85. The remaining proceeds are then applied to refinancing facilities in ascending order of the final maturity date. On disposal of Gatwick, 100% of the net proceeds are expected to be set against the refinancing facility.

At 31 December 2008, the aggregate amount outstanding under the £2.75 billion Designated Group Initial Credit Facility (comprising of the capital expenditure facility and working capital facility) used to fund capital expenditure was £250 million. On that date, the interest rate payable on this facility was equal to Libor plus a margin of 2.00% p.a. In addition, there are contractual margin step ups of 0.25% p.a. in August 2010 and 0.25% p.a. every six months thereafter, subject to the proviso that the aggregate increase in the margin shall be limited to 1.50% p.a. If there is no balance outstanding on the Refinancing Facilities the margin on the Initial Credit Facility shall be 1.00% p.a.

All of the above facilities are carried at amortised cost.

The Company together with Gatwick Airport Limited and Heathrow Airport Limited, had £2.5 billion undrawn committed borrowing facilities available at 31 December 2008 in respect of which all conditions precedent had been met at that date.

In addition there is a gross overdraft limit between Stansted Airport Limited, Heathrow Airport Limited, and Gatwick Airport Limited up to a maximum gross balance of £75 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. BORROWINGS (continued)

Covenants

The Refinancing Facilities and the Initial Credit Facilities used to fund capex, are required to comply with the covenants under the Common Terms Agreement (CTA) of the Designated Group. There are certain covenant threshold requirements under the CTA which must be maintained:

		Forecasting event	Trigger event	Financial covenant[1]
Senior Interest Cover Ratio	To be greater than	1.60	1.40	1.05
Junior Interest Cover Ratio	To be greater than	1.40	1.20	N/A
Senior Net Indebtedness to Total RAB (RAR)	To be less than	0.70	0.70	0.925
Junior Net Indebtedness to Total RAB (RAR)	To be less than	0.85	0.85	N/A

[1] Three year period average for Interest Cover Ratio from the three year period ending 31 December 2012.

Following the occurrence of a Trigger Event (as defined above) which is continuing, the Obligors are prohibited from making certain payments ("Restricted Payments"), mainly in relation to payments in respect of subordinated debt and payments to other BAA group companies outside of the security group, and are obliged to make repayments of amounts outstanding under the senior debt facilities of the security group, equivalent to the amount of restricted payments that would otherwise have been made.

Following the occurrence of a Forecasting Event (as defined above) which is continuing, the Investor Report issued under the CTA shall disclose information of all forward looking ratios until the end of the current regulatory period, rather than just the 12 month forward looking ratio. In addition, the Investor Report and Compliance Certificate issued under the CTA shall disclose the forecasted restricted payments which are to be made within the 90 days commencing from the delivery of such report.

All covenants have been tested and complied with as at 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation (a) £m	Pension (b) £m	Reorganisation costs (c) £m	Other (d) £m	Total £m
1 January 2008	40.1	-	5.5	4.1	49.7
(Credited)/charged/to profit and loss account (Notes 7 and 4)	(3.8)	2.1	1.0	-	(0.7)
Capitalised in tangible fixed assets	-	-	-	0.5	0.5
Utilised in the year	-	-	(2.9)	-	(2.9)
31 December 2008	**36.3**	**2.1**	**3.6**	**4.6**	**46.6**

(a) Deferred taxation

Analysis of the deferred tax balances are as follows:

	31 December 2008 £m	31 December 2007 £m
Excess of capital allowances over depreciation	**37.1**	41.7
Other timing differences	**(0.8)**	(1.6)
	36.3	40.1

	Unprovided	
	31 December 2008 £m	31 December 2007 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**114.0**	141.4
Tax on rolled-over gains if replacement assets were sold at their current valuations	**4.3**	4.3
	118.3	145.7

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

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. Taxable gains will crystallise only if the property were sold without it being possible to claim rollover relief. The total amount of tax unprovided for is £118.3 million (2007: £145.7 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

16. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(b) Pension

A provision of £2.1 million (2007: £nil) for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits was made in the year. This provision, which was held by BAA Airports Limited in previous years has been charged to the Company as a result of the Shared Services Agreement, as BAA's airports are committed to fund any unfunded pension plan obligation of BAA Airports Limited (refer to Note 1 for details). This provision is based on the Company's share of the unfunded scheme valuation performed for BAA Airports Limited and will only be settled when the cash outflow is requested by BAA Airports Limited.

(c) Reorganisation costs

The Company commenced its restructuring programme, 'Simplifying the Organisation' in late 2007. Costs associated with this programme are for severance and pension payments only. Additional amounts provided in the year are in relation to the Company's restructuring programmes. All amounts are expected to be utilised in 2009. See Note 4 for further details.

(d) Other

A provision of £4.6 million is held for the additional 10% payment due under the HVGS (once planning permission has been obtained) for the second runway and related infrastructure. Further details can be found in notes 9 and 19.

17. CALLED UP SHARE CAPITAL

	31 December 2008 £m	31 December 2007 £m
Authorised		
520,000,000 ordinary shares of £1 each	**520.0**	520.0
Called up, allotted and fully paid		
503,900,002 ordinary shares of £1 each	**503.9**	503.9

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

18. RESERVES

	Profit and loss reserve £m	Revaluation reserve £m	Total £m
1 January 2008	99.5	548.0	647.5
Profit for the financial year	36.9	-	36.9
Revaluation deficit	-	(87.5)	(87.5)
31 December 2008	**136.4**	**460.5**	**596.9**

19. COMMITMENTS

Capital

Capital expenditure contracted commitments amount to £13.3 million (2007: £14.9 million).

The White Paper sets out the Government's policy for runway development in the UK. The Government chose a second runway at Stansted as its preferred location for the first new runway in the South East of England. The development of Stansted will be the subject of a planning inquiry, and the Group submitted its planning application to Uttlesford District Council on 11 March 2008 and the next key stage in the planning application process is expected to be the launch of a public inquiry. The anticipated costs of preparing the planning applications and taking those applications up to the commencement of the inquiry are estimated to be approximately £90 million. These costs are being capitalised as part of the runway and infrastructure development costs (as detailed in Note 9). Total costs incurred to 31 December 2008 in respect of the initial planning application are £79.4 million (2007: £63.5 million).

As part of its commitment to the Stansted development, the Company is operating three schemes (the HVGS, the Home Owners Support Scheme and the Special Cases Scheme) for those people living near the airport whose homes will be affected by the airport expansion. The current estimate of the net cost of the compensation schemes is up to £110 million with approximately £96 million being incurred in this regulatory period. These costs are being capitalised as part of the runway development costs. £88 million in relation to purchase of domestic properties has been capitalised as at 31 December 2008 (2007: £65.8 million), including a £5 million provision for the additional 10% payment which will become due under the HVGS blight scheme once planning permission has been obtained for the second runway at Stansted.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

19. COMMITMENTS (continued)

Commitments under operating leases

The Company was committed to making the following payments during the next year in respect of operating leases.

Other leases	31 December 2008 £m	31 December 2007 £m
Leases which expire:		
- within two to five years	**0.1**	0.2
- over five years	**3.9**	3.9
	4.0	4.1

Other commitments

In June 2006, the UK Government announced its conclusions for 2006-2012 night flights regime at BAA Group's London airports. The regime commits BAA to introducing a new domestic noise insulation scheme at Heathrow, Gatwick and Stansted to address the impact of night flights on local communities. Based on the Group's evaluation, payments under this scheme are estimated to be in the range of £0.2 - £0.3 million (2008/09 prices) for Stansted airport, spread over the five year period commencing 2008.

In July 2008, the wider BAA Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute the lesser of approximately £80 million per annum and the annual cost of accruing benefits (as calculated using the FRS 17 'Retirement Benefit' accounting standard) for a period of three years ending 31 December 2011. The Company expects to contribute approximately £ 9 million to the pension plan in the year ending 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

20. CONTINGENT LIABILITIES

The Company is a joint guarantor in respect of the terms of the BAA (SH) Limited Junior Finance Documents. The Company, as an obligor, jointly and severally guarantees the BAA (SH) Limited Subordinated facility with all other obligors to the extent of £1,566 million.

The Company, together with Heathrow Airport Limited, Gatwick Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations to the Borrower Secured Creditors under the August 2008 refinancing documents and to the Subordinated Creditors under the Subordinated Facility Agreement dated April 2006. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

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

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

In addition, the Company is a joint guarantor, together with Gatwick Airport Limited, in respect of principal and accrued interest in relation to the borrowings of Heathrow Airport Limited from BAA Funding Limited under the Initial Borrower Loan Agreement ('IBLA') dated 18 August 2008. As at 31 December 2008 the principal amounts of the borrowings under the IBLA were £4,436 million.

Under the Shared Services Agreement hedging costs properly incurred by BAA Airports Limited in relation to the ESOP may be recharged to the BAA (SP) Limited Group's airports. At 31 December 2008, the ESOP swap held in BAA Airports Limited had a fair value loss of approximately £117 million. The Company may be obligated to settle its share of these amounts (approximately £10 million) in the future, depending on a number of factors, including options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly this is disclosed as a contingent liability.

21. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

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 and the ultimate parent of FGP Topco Limited is Grupo Ferrovial, S.A. (Spain), which is the largest group to consolidate these financial statements.

The Company's results are also included in the consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2008, 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) Limited, BAA Limited and FGP Topco Limited for the year ended 31 December 2008.

Copies of the financial statements of FGP Topco Limited, BAA Limited, BAA (SH) Limited and BAA (SP) Limited may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

22. SUMMARY CASH FLOW STATEMENT

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Net cash inflow from operating activities	**103.1**	89.0
Net interest paid	**(13.8)**	(13.6)
Corporation tax paid	**(7.0)**	(6.9)
Net capital expenditure	**(99.2)**	(89.0)
Dividend paid	**-**	(14.2)
Net cash outflow before use of liquid resources and financing	**(16.9)**	(34.7)
Financing		
Long-term bank loans	**600.0**	-
(Decrease)/increase in amounts owed to group undertakings	**(571.8)**	34.7
Movement in cash in the year	**11.3**	-

Reconciliation of operating profit to net cash inflow from operating activities

Operating profit	**81.2**	76.6
Adjustments for:		
Depreciation	**33.1**	29.1
Increase in stock and debtors	**1.8**	(17.3)
Decrease in creditors	**(13.2)**	(2.3)
Loss/(gain) on disposal of fixed assets	**-**	(0.1)
Increase in provisions	**0.2**	3.0
Net cash inflow from operating activities	**103.1**	89.0

For the purpose of the cash flow movement in inter-company, balances before the refinancing date are shown within the (decrease)/increase in amounts owed to group in the financing section of the cash flow as interest was charged/credited on the outstanding balance.

All amounts owed to BAA Airports Limited as at 31 July 2008 have been fully settled during the refinancing process.