# STANSTED AIRPORT LIMITED

## Annual report and financial statements for the year ended 31 December 2009

Company Registration Number 1990920

# REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2009

## CONTENTS

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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** – overview of the year ended 31 December 2009, along with the key factors likely to impact the Company in 2010.

**Financial review** – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2009 and analysis of the financial position of the Company as at that date.

**Risk management** – outline of the BAA Limited Group's ('BAA' or the 'BAA Group') approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee, which are reviewed, monitored and managed by the Stansted Risk Governance Board.

**MANAGEMENT REVIEW**

**Review of 2009**

***Transforming the BAA Group's airports***

The BAA Group has continued to implement its strategy to deliver sustained improvement in passengers' experience and airlines' operations through improved service standards and substantial investment in modern airport facilities. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of BAA Group's airports and supporting their long term growth ambitions.

***Service standards***

The BAA Group continues to focus on delivering consistently high service standards across its airports, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency. The Stansted management team implement this locally by paying close attention to a range of performance indicators of passenger and airline experience.

As part of the Civil Aviation Authority's ('CAA') economic regulation of BAA's Regulated Airports, the Service Quality Rebate scheme was introduced at Stansted on 1 April 2009 to improve customer experience and to pay rebates to airlines in the event standards are not met.

The scheme covers service quality performance, specifically the availability of the following equipment:

- Passenger Sensitive Equipment ('PSE'), such as lifts, escalators and travelators
- Other equipment such as departure and arrivals baggage belts, fixed electrical ground power (for aircraft on stands), stands, jetties and pier service (for aircraft).

It also includes the following areas of the airport:

- Security queuing times
- Passenger perception of departure lounge seat availability, the quality of flight information, the ease of getting round the airport and the cleanliness of terminal buildings.

The maximum amount of rebate currently payable is 7.0% of airport charges incurred for passenger services.

In the nine months to December 2009 a total rebate of £0.5 million has been paid to the airlines out of a potential penalty of £6.9 million.

***Developing modern airport facilities***

During 2009, there have been a number of significant milestones achieved as the Company continues to invest in transforming its airport facilities. The main focus of investment on existing facilities was upgrading and reconfiguring car parks. The existing terminal's modernisation programme also made good progress. Work also continued towards securing planning approval for a second runway although its intensity reduced, reflecting delays in the public enquiry on the proposals. Stansted continued to purchase properties that would be blighted when the second runway proceeds.

**BUSINESS REVIEW (continued)**

**MANAGEMENT REVIEW (continued)**

**Review of 2009 (continued)**

***Passenger traffic trends***
At Stansted, passenger traffic declined 10.7% to 20.0 million (2008: 22.3 million). Year on year traffic performance improved, with a 14.6% decline in the first quarter moderating to a 5.7% decline in the final quarter.

***Regulatory developments***
*Competition Commission inquiry into the supply of UK airport services by BAA*
In March 2009, the Competition Commission (‘CC’) published its final decision in relation to its investigation into the supply of UK airport services by BAA.

The decision's key structural remedy called for the disposal of airports including Gatwick and Stansted.

In May 2009, BAA applied to the Competition Appeal Tribunal ('CAT') to review the CC’s decision on two separate grounds. The first was that the participation of a member of the CC's inquiry panel in its investigation contravened the principle of apparent bias. The second was that, in assessing the proportionality of the disposal remedies, the CC failed to consider fully key issues relating to the costs of disposal, particularly in the context of the current financial and economic crisis.

In December 2009, the CAT upheld BAA's appeal on the grounds of apparent bias. On 10 February 2010, the CC announced that it was seeking leave to appeal to the Court of Appeal against the CAT's judgement. On 25 February 2010, the CAT ordered that the decisions of the CC in their report of 19 March 2009 relating to common ownership of airports be quashed. The CAT also ordered that the matter be referred back to the CC to reconsider but that this referral will not take effect until the dismissal of any appeal. The CAT also decided that the CC's and Ryanair's requests for permission to appeal be refused. However, the CC still has an opportunity to seek permission to appeal directly from the Court of Appeal.

*Department for Transport ('DfT') review of UK Airports' economic regulation*
In 2009, the Government substantially completed its review of the economic regulation of UK airports. BAA supports the review's conclusions which remove key uncertainties for BAA and its creditors and underline the need for the CAA to ensure airport operators have the necessary resources to operate and invest in their airports.

The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end-consumers of passenger and freight services, wherever appropriate, by promoting effective competition. There will also be supplementary duties including having regard for the environmental impacts of airport development, meeting reasonable demands for airport services efficiently, ensuring airports can finance their activities and assisting in delivering airport infrastructure consistent with the UK Government’s national aviation policy. Many of the reforms will be effected through a new tiered operating licence regime for airports similar to licences in place in certain other regulated sectors such as water and energy.

Stansted Airport is expected to be in the top tier of licence ('Tier 1'), subject to price control arrangements and also obliged to consult stakeholders on future plans for investment in, and the operation of, an airport, to report on environmental performance and to comply with service standards and measures to hold an operator to account for the delivery of agreed investment outputs, including a possible sanctions regime.

The reforms also include measures to promote the financial resilience of Tier 1 airports. These include introducing financial ring-fencing provisions that would broadly prohibit the granting or subsistence of security over airport assets, subject to derogations in respect of those elements that cut across existing financing arrangements. They will also require operators to maintain a minimum level of creditworthiness. However, the Government decided not to proceed with the introduction of a special administration regime that was proposed in its original consultation document.

In December 2009, the Government commenced further consultations on whether Tier 1 airports should be required to maintain a continuity of service plan for use in the event of insolvency and a mechanism for the CAA to switch on financial ring-fencing provisions that are subject to initial derogations where there has been a material change of circumstance and the benefits outweigh the costs. These consultations have ended and proposals arising from them are awaited.

**BUSINESS REVIEW (continued)**

**MANAGEMENT REVIEW (continued)**

**Review of 2009 (continued)**

***Regulatory developments (continued)***

*Department for Transport ('DfT') review of UK Airports' economic regulation (continued)*
Changes resulting from the review will be implemented by primary legislation as soon as parliamentary time allows. The regulatory settlement applying to Stansted until March 2014 will not be affected by the proposed changes to the regulatory framework.

*Aeronautical charges for five years to 31 March 2014*
In March 2009, the CAA issued its final determination on aeronautical charges to apply at Stansted Airport for the five years to 31 March 2014. Key features of the CAA's proposals included a permitted real pre-tax return on capital of 7.1%. It recommended that maximum allowable aeronautical charges remain flat at £6.53 (in 2009/10 prices) per passenger for two years and increase up to £6.85 by 2013/14.

The CAA's recommendations were based on a capital plan of approximately £90 million, at 2007/08 prices, primarily on Stansted's existing facilities, over the five years to 31 March 2014.

Whilst the CAA excluded £37 million of expenditure on Stansted Generation 2 ('SG2') incurred during the previous quinquennium, it accepted that expenditure in the current quinquennium up to receipt of planning consent of £40 million can be included in the Regulatory Asset Base ('RAB'). Construction expenditure on SG2 is excluded from the RAB at this stage, however in the event of planning approval being received during the five year period to 31 March 2014, Stansted Airport has the opportunity to request a mid-quinquennium review.

***Outlook***
The Company expects 2010 to present further significant challenges. Modest passenger traffic volume recovery is expected to be seen only at the end of the year.

***Developments since beginning of 2010***
In January 2010, the passenger traffic at Stansted declined 5.6% to 1.2 million (2009: 1.3 million). This has been primarily due to a fall in Ryanair passenger numbers.

**BUSINESS REVIEW (continued)**

**FINANCIAL REVIEW**

The following financial review provides commentary on the performance of the Company during 2009.

**Basis of preparation of financial results**
In order to provide a clearer indication of the performance of the Company, the following commentary on turnover, operating costs and operating profit is based on the adjusted performance (excluding exceptional items) of the Company.

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|
| **Turnover** | **243.0** | 258.8 |
| Adjusted operating costs | **(140.6)** | (141.4) |
| **Adjusted EBITDA** | **102.4** | 117.4 |
| Operating costs – exceptional | **(36.4)** | (3.1) |
| **EBITDA** | **66.0** | 114.3 |
| Depreciation – ordinary | **(38.6)** | (33.1) |
| **Operating profit** | **27.4** | 81.2 |

**Turnover**
In the year ended 31 December 2009, the Company's turnover decreased 6.1% to £243.0 million (2008: £258.8 million). This decrease reflects a 9.0% fall in aeronautical income, a 3.1% reduction in gross retail income and a 0.4% increase in other categories of income compared to 2008, achieved whilst passenger numbers declined 10.7%.

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m | Change % |
|---|---|---|---|
| Aeronautical income | **132.0** | 145.1 | (9.0) |
| Retail income | **88.0** | 90.8 | (3.1) |
| Operational facilities and utilities income | **10.6** | 12.0 | (11.7) |
| Property rental income | **8.1** | 7.3 | 11.0 |
| Other income | **4.3** | 3.6 | 19.4 |
| **Total turnover** | **243.0** | 258.8 | (6.1) |

*Aeronautical income*
Aeronautical income decreased by 9.0% to £132.0 million (2008: £145.1 million). Average aeronautical income per passenger increased by 1.9% to £6.62 (2008: £6.50). The change in aeronautical income at Stansted reflected the 2.3 million (10.7%) decline in passenger traffic with tariffs remaining flat. From 1 April 2008 tariffs were rebased to include costs previously charged to airlines by National Air Traffic Services ('NATS') for aerodrome navigation services ('ANS') hence 2009 benefited by quarter one revenue of £2.2 million.

*Retail income*
The Company's gross retail income in the year ended 31 December 2009 declined 3.1% to £88.0 million (2008: £90.8 million. This is a very resilient performance given passenger trends. Net retail income ('NRI') declined 8.9% to £79.8 million (2008: £87.6 million). The main driver of this decline was the reduction in passenger numbers (10.7%) but NRI per passenger increased 2.0% to £4.00, from £3.92 in 2008. This performance was driven by significant growth in duty and tax-free shopping.

**BUSINESS REVIEW (continued)**

**FINANCIAL REVIEW (continued)**

**Turnover (continued)**

*Retail income (continued)*

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

**Reconciliation of net retail income and net retail income per passenger**

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m | Change %[1] |
|---|---|---|---|
| Retail turnover | **88.0** | 90.8 | (3.1) |
| Less: retail expenditure | **(8.2)** | (3.2) | 156.3 |
| Net retail income | **79.8** | 87.6 | (8.9) |
| Passengers (m) | **20.0** | 22.3 | (10.7) |
| **Net retail income per passenger [2]** | **£4.00** | £3.92 | 2.0 |

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

**Anaysis of retail income**

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m | Change % |
|---|---|---|---|
| Car parking | **36.4** | 40.3 | (9.7) |
| Duty and tax-free | **13.5** | 11.6 | 16.4 |
| Airside specialist shops | **5.8** | 5.5 | 5.5 |
| Bureaux de change | **8.4** | 8.4 | - |
| Catering | **9.6** | 10.0 | (4.0) |
| Landside shops and bookshops | **6.2** | 6.7 | (7.5) |
| Advertising | **2.6** | 2.9 | (10.3) |
| Car rental | **2.2** | 2.4 | (8.3) |
| Other | **3.3** | 3.0 | 10.0 |
| **Total** | **88.0** | 90.8 | (3.1) |

By activity, the main drivers of retail performance in the year ended 31 December 2009 were the reduction in car parking income, mainly due to changing modes of travel with improved alternatives and greater awareness of these, plus a decline in UK outbound passengers. Passengers are also choosing to pre-book parking rather than 'rolling up'. The reduction in car parking income has been partially offset by a strong performance in airside specialist shops and duty and tax-free shops.

*Other sources of income*

Other sources of income (comprising Operational facilities and utilities, Property rental and Other) increased 0.4% in the year ended 31 December 2009 to £23.0 million (2008: £22.9 million). This resulted particularly from additional rental and utilities income from letting of previously empty properties and the new Ryanair hangar. Another factor was the full year impact of receiving income from the introduction of services provided for passengers with reduced mobility ('PRM') which prior to May 2008 was directly sourced by the airlines. Operational facilities income has reduced 11.7% due to less check-in desk rental income (resulting from more passengers using internet check-in) and lower aviation fuel rents due to a decrease in flight movements of 12% compared to 2008.

**BUSINESS REVIEW (continued)**

**FINANCIAL REVIEW (continued)**

**Adjusted operating costs**
Adjusted operating costs (excluding depreciation and exceptional items) are presented below as this better reflects the underlying performance of the business. In the year ended 31 December 2009 adjusted operating costs decreased marginally by 0.6% to £140.6 million (2008: £141.4 million).

| | **Year ended 31 December 2009 £m** | Restated[1] Year ended 31 December 2008 £m | Change % |
|---|---|---|---|
| Employment costs | **46.8** | 53.0 | (11.7) |
| Maintenance expenditure | **9.7** | 8.9 | 9.0 |
| Utility costs | **21.2** | 12.7 | 66.9 |
| Rent and rates | **12.2** | 11.3 | 8.0 |
| General expenses[2] | **29.1** | 27.8 | 4.7 |
| Retail expenditure | **8.2** | 3.2 | 156.3 |
| Intra-group charges/other | **13.4** | 24.5 | (45.3) |
| **Total** | **140.6** | 141.4 | (0.6) |

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Net of capitalised costs of £1.3 million (2008: £1.3 million).

In the year ended 31 December 2009, adjusted operating costs decreased 0.6% to £140.6 million (2008: £141.4 million). The main cost savings have been a 11.7% decrease in employment costs which related primarily to staff efficiency savings in operations and lower pension costs, and a fall in intra-group charges, partially attributable to some BAA Group responsibilities being devolved to the airport, such as the commercial management of retail and parking operations, regulatory compliance and market research. These have been mostly offset by an increase in utilities costs and an increase in retail expenditure due to a change in car parking contract from a concession contract to a management contract as of October 2008.

The substantial progress made by the Company in reducing operating costs is more accurately reflected by adjusting particularly for the fact that NATS and PRM costs were relevant for a full year compared with nine months in 2008. On this basis, adjusted operating costs declined 3.0% to £137.1 million as illustrated in the table below.

| | **£m** |
|---|---|
| 2009 reported adjusted operating costs | 140.6 |
| NATS and PRM costs in the first quarter of 2009 | (3.5) |
| 2009 underlying adjusted operating costs | 137.1 |
| 2008 reported adjusted operating costs | 141.4 |
| Change in underlying adjusted operating costs | (3.0%) |

**Adjusted EBITDA**
Adjusted EBITDA for the Company in the year ended 31 December 2009 decreased 12.8% to £102.4 million (2008: £117.4 million), primarily reflecting the impact of lower passenger traffic on aeronautical income.

**Operating costs - exceptional**
There were £36.4 million in net pre-tax exceptional costs in the year ended 31 December 2009 (2008: £3.1 million) charged within operating profit. These included a £35.7 million non-cash charge relating primarily to the Company’s share of the change in the BAA Group's defined benefit pension scheme deficit (refer to Note 1 and Note 14). The emergence of a deficit during 2009 (the scheme was in surplus at the end of 2008) was due to increased liabilities reflecting a lower discount rate and a higher forecast inflation curve.

**BUSINESS REVIEW (continued)**

**FINANCIAL REVIEW (continued)**

**Operating profit**

The Company recorded an operating profit for the year ended 31 December 2009 of £27.4 million (2008: £81.2 million). Relative to Adjusted EBITDA, operating profit includes £38.6 million in depreciation (2008: £33.1 million). In addition, it reflects £36.4 million in net operating exceptional costs (2008: £3.1 million). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m | Change % |
|---|---|---|---|
| Adjusted EBITDA | **102.4** | 117.4 | (12.8) |
| Depreciation | **(38.6)** | (33.1) | 16.6 |
| Exceptional items – pensions | **(36.4)** | (2.1) | 1,074.2 |
| Exceptional items – other | **-** | (1.0) | 100.0 |
| Operating profit | **27.4** | 81.2 | (66.3) |

**Capital expenditure**

In the year ended 31 December 2009, Stansted invested £57.9 million in capital expenditure (2008: £99.4 million). The major projects at Stansted comprised £35.1 million (2008: £61.8 million) on modernising existing infrastructure and £22.8 million (2008: £37.6 million) under blight compensation schemes related to the proposed development of a second runway.

**Regulatory Asset Base ('RAB')**

The RAB of the Company is prepared as at 31 March each year and provided to the CAA and published in the Regulatory Accounts. The RAB up to the end of the regulatory period ended 31 March 2009 has been calculated by applying the roll forward formula agreed with the CAA. In the final determination on aeronautical charges to apply at Stansted Airport for the five years to 31 March 2014, the CAA stated that it did not believe that it would be accurate to describe its proposed Q5 price cap as a RAB-based price control, and no formula was set in the document to roll the airport's RAB forward during the control period. Whilst new regulatory alternatives are developed and implemented, management is calculating airport's RAB using the airport's closing RAB, calculated in the last Regulatory Accounts, and the parameters used by the Competition Commission in their "Q5 Price Control Review" presented to the CAA on 23 October 2008.

Set out below are RAB figures of the Company at 31 December 2008 and 31 December 2009.

| | **RAB £m** |
|---|---|
| **31 December 2008**[1] | 1,231.1 |
| **31 December 2009** | 1,291.0 |

[1] Figure at 31 December 2008 has been restated from £1,222 million originally disclosed following a review which was conducted during the preparation of March 2009 regulatory accounts.

During 2009, growth in the RAB for Stansted reflected the addition of approximately £53 million in capital expenditure (determined on a different basis to cash flow or balance sheet additions) partially offset by regulatory depreciation of around £40 million. Variation in RAB profiling adjustments added a further £20 million to the closing RAB whilst inflation since the start of the new regulatory year on 1 April 2009 resulted in a net positive indexation adjustment of approximately £28 million over the year.

**BUSINESS REVIEW (continued)**

**RISK MANAGEMENT**

Risk management is a key element of the BAA Limited Group's (the BAA Group) operations of which the Company forms part. Risk is centrally managed for the BAA Group as part of corporate services provided to the business under the Shared Services Agreement ('SSA') (refer to Note 1 Accounting Policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely following the BAA Group's guidelines. The Executive Committee and Board referred to in the notes below relates to the Executive Committee and Board of BAA Limited. Stansted has a local Risk Governance Board, made up of senior management and professional staff in relevant areas such as security, safety and environment, which overseas the implementation of BAA Group risk activities into the airport operation, and identifies and acts on specific local risks.

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

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

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

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

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

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

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

**Regulatory environment, legal and reputational risks**

***Civil Aviation Authority ('CAA') 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 was reached for Stansted Airport during the year regarding the five years to 31 March 2014.

**BUSINESS REVIEW (continued)**

**RISK MANAGEMENT (continued)**

**Regulatory environment, legal and reputational risks (continued)**

***Civil Aviation Authority ('CAA') regulation (continued)***
Part of the regulatory framework is the Company's involvement in constructive engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to participate at all stages of the constructive engagement process and to be represented on all fora – e.g. joint steering groups. When feedback is sought or processes measured, independent third parties are 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 airlines with the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.

***Competition rules***
The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the 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. Refer to the 'Management review' section for details on the current DfT regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

***Capacity shortfall***
Obtaining planning permission for the development of new runway capacity requires a significant amount of time. Failure to secure necessary planning permissions on time could lead to the Company having insufficient capacity to meet the mid to long term 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. In addition, investment in additional capacity at the Company's airport will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements. Existing planning approvals provide for approximate passenger traffic growth at Stansted to 35 million.

The BAA Group has 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. This proposal is subject to a separate planning inquiry.

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 in the BAA Group. To mitigate this risk, separate dedicated project teams (with relevant expertise and disciplines) has been established to work closely with local communities, airlines and other interested parties.

***Environment***
Environmental risks need to be managed throughout the BAA Group as they have the potential to impact the BAA Group's reputation and its licence to operate and to grow. The BAA Group 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 BAA Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

In particular, Stansted has its own dedicated Environment Manager and team, who work closely with local authorities, environmental bodies, airlines and the general public, in areas such as noise, waste, air quality and carbon emissions. Stansted's environmental management programme is accredited under ISO14001 and a corporate social responsibility report is published annually covering all areas of environmental performance.

**BUSINESS REVIEW (continued)**

**RISK MANAGEMENT (continued)**

**Commercial and financial risks**

***Capital projects***
The BAA Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The BAA Group mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction. The process is continually improved incorporating lessons learned and 'best practice' distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies.

***Changes in demand***
The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the BAA Group. Since it is not possible to identify the timing or period of such an effect, the BAA Group carries out evaluations through a series of scenario planning exercises.

***Industrial relations***
The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the BAA Group is recognised. The BAA Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. At Stansted, there are three levels of joint forum, from airport wide down to departmental level, in which management and trade unions meet regularly to work together on industrial relations issues. The 2010 Pay negotiations started in December 2009. The BAA Group could also be exposed in the short-term to the effect of industrial actions at key clients (i.e. airlines).

**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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. The treasury policies of the BAA (SP) Limited Group are detailed in the 'Risk Management' section on pages 14 to 16 of those financial statements for the year ended 31 December 2009 and, for the wider BAA Group, on pages 11 to 12 of the BAA Limited Annual Report.

The Company's principal financial instruments in the year comprise external borrowings, derivatives and amounts due to/from other BAA Group undertakings, including BAA (SP) Limited. All of these instruments are centrally managed for the BAA (SP) Limited Group and allocated to each of its airports. Facility limits and covenants are set for the BAA (SP) Limited 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 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 borrowings issued at variable interest rates. In accordance with the wider BAA Group policy of maintaining a high level of fixed rate borrowings and the hedging restrictions of the Refinancing Facilities, the Company has entered into interest rate swaps to protect against cash flow interest rate risk.

***Credit risk***
Credit risk arises from cash and bank deposits, derivative financial instruments and accounts receivable. 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 2009, the Company, together with Heathrow Airport Limited (a fellow subsidiary company of BAA (AH) Limited and BAA (SP) Limited) had £2,000.0 million of undrawn joint committed capex borrowing facilities available. In addition, the Company had a further £50.0 million committed working capital borrowing facility available, jointly with all three 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 13.

On behalf of the Board

**David Johnston**
Director
26 February 2010

## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2009.

### 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 the Business Review on pages 2 to 12.

### RESULTS AND DIVIDENDS

The profit after taxation for the financial year amounted to £4.3 million (2008: £36.9 million). No dividends were proposed or paid during the year (2008: £nil). The statutory results for the year are set out on page 17.

### DIRECTORS

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

| | |
|---|---|
| Jose Leo | |
| Stephen Peat | Appointed 31 July 2009 |
| David Johnston | Appointed 21 September 2009 |
| Stewart Wingate | Resigned 21 September 2009 |
| Robert D Herga | Resigned 31 July 2009 |
| Terry D Morgan | Resigned 31 July 2009 |

### EMPLOYMENT POLICIES

The Company has no direct employees. The staff are employed by BAA Airports Limited, the Company's intermediate parent company.

### PAYMENT POLICY

The Company complies with the UK Government's Better Payment Practice Code which states that responsible companies should:

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

The Company had 5 days purchases outstanding at 31 December 2009 (2008: 9 days) based on the average daily amount invoiced by suppliers during the year.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Company actively manages all identified corporate risks. Details of the Company's risk management policies can be found on pages 9 to 12 in the Risk Management section of the Business Review.

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management objectives and policies can be found on pages 11 to 12 of the Risk Management section in the Business Review.

REPORT OF THE DIRECTORS (continued)

## DIRECTORS' INDEMNITY

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

## DISCLOSURE OF INFORMATION FOR AUDITORS

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's financial statements for the year ended 31 December 2009 and that they have taken all the steps that they ought to have taken as directors in order to make themselves 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 485 of the Companies Act 2006, a resolution relating to the appointment or reappointment of the auditors will be put to shareholders within the period set out in section 485.

By order of the Board

**Shu Mei Ooi**
Company Secretary

26 February 2010

Company Registration Number 1990920

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

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

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

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

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Company. 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.

In accordance with Section 418 of the Companies Act 2006, the Report of the Directors shall include a statement, in the case of each director in office at the date the report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

**Shu Mei Ooi**
Company Secretary

26 February 2010

## 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 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Accounting Policies and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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

Graham Parsons (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2010

**PROFIT AND LOSS ACCOUNT**
**For the year ended 31 December 2009**

| | Notes | Year ended 31 December 2009 £m | Year ended 31 December 2008 £m |
|---|---|---|---|
| **Turnover – continuing operations** | 2 | **243.0** | 258.8 |
| Operating costs - ordinary | 3 | **(179.2)** | (174.5) |
| Operating costs - exceptional | 4 | **(36.4)** | (3.1) |
| Total operating costs | | **(215.6)** | (177.6) |
| **Operating profit – continuing operations** | | **27.4** | 81.2 |
| Net interest payable and similar charges - ordinary | 6 | **(21.0)** | (15.6) |
| Net interest payable and similar charges - exceptional | 6 | **-** | (15.7) |
| **Profit on ordinary activities before taxation** | | **6.4** | 49.9 |
| Tax charge on profit on ordinary activities | 7 | **(2.1)** | (13.0) |
| **Profit on ordinary activities after taxation** | 16 | **4.3** | 36.9 |

The notes on pages 20 to 42 form an integral part of these financial statements.

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

There are no material differences between 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 2009**

| | Notes | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|---|
| Profit for the financial year | 16 | **4.3** | 36.9 |
| Unrealised loss on revaluation of investment properties | 8,16 | **(41.1)** | (87.5) |
| Total recognised losses relating to the year | | **(36.8)** | (50.6) |

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**
**For the year ended 31 December 2009**

| | Notes | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|---|
| Profit for the financial year | 16 | **4.3** | 36.9 |
| Unrealised loss on revaluation of investment properties | 8,16 | **(41.1)** | (87.5) |
| Net movement in shareholders' funds | | **(36.8)** | (50.6) |
| Opening shareholders' funds | | **1,100.8** | 1,151.4 |
| Closing shareholders' funds | | **1,064.0** | 1,100.8 |

The notes on pages 20 to 42 form an integral part of these financial statements.

**BALANCE SHEET**
**As at 31 December 2009**

| | Notes | 31 December 2009 £m | Restated[1] 31 December 2008 £m |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 8 | **1,406.8** | 1,433.6 |
| **CURRENT ASSETS** | | | |
| Stocks | 9 | **1.7** | 1.9 |
| Debtors: due within one year | 10 | **50.6** | 58.8 |
| due after more than one year | 10 | **316.9** | 294.7 |
| Cash at bank and in hand | | **12.1** | 11.3 |
| **TOTAL CURRENT ASSETS** | | **381.3** | 366.7 |
| CREDITORS: amounts falling due within one year | 11 | **(36.6)** | (51.0) |
| **NET CURRENT ASSETS** | | **344.7** | 315.7 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,751.5** | 1,749.3 |
| CREDITORS: amounts falling due after more than one year | 12 | **(610.7)** | (601.9) |
| Provisions for liabilities and charges | 14 | **(76.8)** | (46.6) |
| **NET ASSETS** | | **1,064.0** | 1,100.8 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 15 | **503.9** | 503.9 |
| Revaluation reserve | 16 | **419.4** | 460.5 |
| Profit and loss reserve | 16 | **140.7** | 136.4 |
| **TOTAL SHAREHOLDER'S FUNDS** | | **1,064.0** | 1,100.8 |

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

The notes on pages 20 to 42 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2010 and were signed on its behalf by:

**David Johnston**
**Director**

**Jose Leo**
**Director**

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2009**

## 1. ACCOUNTING POLICIES

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

### Basis of preparation

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

### Going concern

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

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

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall BAA (SP) Limited Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (refer to Note 13).

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

### Turnover

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

- Aeronautical income
  Passenger charges based on the number of departing passengers;
  Aircraft landing charges levied according to weight on landing;
  Aircraft parking charges based on a combination of weight and time parked; and
  Other traffic charges.

- Retail income
  Concession fee based upon turnover certificates supplied by concessionaires.

- Property rental income
  Property letting sales, recognised on a straight-line basis over the term of the rental period; and
  Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.

- Operational facilities and utilities income
  Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided;
  Other charges levied for passenger and baggage operation when these services are rendered; and
  Other invoiced sales, recognised on the performance of the service.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 1. ACCOUNTING POLICIES (continued)

### Exceptional items

Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Company's financial performance.

Such events may include gains or losses on disposal of businesses or assets, major reorganisation of business, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project. Provisions to recognise the Company's liability to fund the BAA Airports Limited defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item. Refer to the accounting policy for details of the Shared Services Agreement.

### Tangible fixed assets

(i) Operational assets

Terminal complexes, airfield assets, other land and buildings and plant and equipment are stated at cost less accumulated depreciation and impairment losses. Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads.

Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

(ii) Investment properties

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

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 2006 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 1. ACCOUNTING POLICIES (continued)

### Tangible fixed assets (continued)

(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 set out below:

| | Fixed asset lives |
|---|---|
| **Terminal complexes** | |
| Terminal building, pier and satellite structures | 20–60 years |
| Terminal fixtures and fittings | 5–20 years |
| Airport plant and equipment: | |
| - baggage systems | 15 years |
| - screening equipment | 7 years |
| - lifts, escalators and travelators | 20 years |
| - other plant and equipment, including runway lighting and building plant | 5–20 years |
| Tunnels, bridges and subways | 50–100 years |
| Airport transit systems: | |
| Rolling stock | 20 years |
| Track | 50 years |
| | |
| **Airfields** | |
| Runway surfaces | 10–15 years |
| Runway bases | 100 years |
| Taxiways and aprons | 50 years |
| | |
| **Plant and equipment** | |
| Motor vehicles | 4–8 years |
| Office equipment | 5–10 years |
| Computer equipment | 4–5 years |
| Computer software | 3–7 years |
| | |
| **Other land and buildings** | |
| Short leasehold properties | Over period of lease |

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

(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 estimates the asset's recoverable amount. Where the asset does not generate cash flows that are independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 1. ACCOUNTING POLICIES (continued)

### Tangible fixed assets (continued)

### Impairment of assets (continued)

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

### Capitalisation of interest

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

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

### Leases

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

(i) Company as a lessor

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

(ii) Company as a lessee

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

### Stocks

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

### Debtors

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

### Cash and current asset investments

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 1. ACCOUNTING POLICIES (continued)

### Creditors

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

### Deferred income

Contractual income is treated as deferred income and released to the profit and loss account over the life of the contract.

### Borrowings

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

### Provisions

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

### Current and deferred taxation

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

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

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

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

### 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 fair value 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

**1. ACCOUNTING POLICIES (continued)**

**Derivative financial instruments**

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

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

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

**Share capital**

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

**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 and sponsor of the related defined benefit pension plans and grants all employee benefits.

On 18 August 2008, the Company entered into a Shared Services Agreement (‘SSA’) with BAA Airports Limited by which the latter became the shared services provider for the Company, providing the airport with operational staff and corporate services.

*(i) Operational staff*
BAA Airports Limited charges the Company for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of BAA Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options. All of the amounts included in the abovementioned 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 SSA with a mark-up of 7.5% except for IT applications where full costs are recharged to the Company.

*(iii) Pension costs*
Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Company on the basis of its pensionable pay base. This charge is included within ordinary staff pension costs (refer Note 3).

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 1. ACCOUNTING POLICIES (continued)

**Shared Services Agreement (continued)**

*(iii) Pension costs (continued)*

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

**Cash flow statement and related party transactions**

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2009. The results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2009 (intermediate parent entity and the smallest group to consolidate these financial statements for the full year). They are also included in the audited consolidated financial statements of BAA (SH) Limited and BAA Limited for the year ended 31 December 2009. 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 20 to satisfy non-Companies House filings.

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

**Significant accounting judgements and estimates**

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.

*Capitalisation of costs incurred prior to planning permission being obtained*
The White Paper 'The Future of Air Transport' ('the White Paper'), published in 2003, sets out the Government's policy for the development of airport capacity in the UK. It indicated a second runway at Stansted ('SG2') as its preferred location for the first new runway in the South East of England with a third runway at Heathrow ('R3') as the preferred location for the second new runway.

The Government published a progress report on the implementation of the White Paper in 2006 when it re-affirmed support for SG2. In 2007, BAA published its decision on the airport development proposal and submitted its planning application for the development of SG2 to Uttlesford District Council on 11 March 2008.

The planning inquiry for SG2 was scheduled to commence on 15 April 2009 but it has been delayed by the Government pending clarification of the future ownership of Stansted given the disposal remedy included in the Competition Commission's ('CC') decision in its investigation on the supply of UK airport services by BAA. Whilst BAA has been successful in its appeal against the CC's decision, Stansted's future ownership is yet to be clarified.

As at 31 December 2009, the costs capitalised in respect of the development of SG2 are £83.3 million in relation to planning application preparation and £106.4 million in respect of the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion and land acquisition. Despite the delays in the start date for the inquiry, the Company believes that it is highly probable given overall Government policy and expected increases in passenger numbers over time, that planning permission for a second runway at Stansted will be obtained and the project will be developed such that future benefits will flow to the Company. If Government policy was to change such that the planning consents for the development of SG2 become less likely, elements of the costs currently capitalised may need to be written off through the profit and loss account.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

**1. ACCOUNTING POLICIES (continued)**

**Significant accounting judgements and estimates (continued)**

*Investment properties*
Investment properties were valued at fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors, and Strutt and Parker, 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. Approximately 70 percent of the investment properties comprise car parks and airside assets that are considered less vulnerable to market volatility than the overall market. Given recent declines in property prices, independent valuations were obtained for 100 percent of the investment properties.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 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 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|
| Aeronautical income | **132.0** | 145.1 |
| Retail income | **88.0** | 90.8 |
| Operational facilities and utilities income | **10.6** | 12.0 |
| Property rental income | **8.1** | 7.3 |
| Other income | **4.3** | 3.6 |
| | **243.0** | 258.8 |

## 3. OPERATING COSTS - ORDINARY

| | **Year ended 31 December 2009 £m** | Restated Year ended 31 December 2008[1] £m |
|---|---|---|
| Wages and salaries | **38.4** | 42.4 |
| Social security | **3.2** | 3.2 |
| Pension | **3.3** | 5.1 |
| Other staff related costs | **1.5** | 2.3 |
| Share-based payments | **0.4** | - |
| **Employment costs[2]** | **46.8** | 53.0 |
| Maintenance expenditure | **9.7** | 8.9 |
| Utility costs | **21.2** | 12.7 |
| Rent and rates | **12.2** | 11.3 |
| General expenses | **10.4** | 12.3 |
| Retail expenditure | **8.2** | 3.2 |
| Intra-group charges/other | **13.4** | 24.5 |
| Police costs | **6.3** | 6.8 |
| Air navigation charges | **12.4** | 8.7 |
| Depreciation | **38.6** | 33.1 |
| **Total operating costs - ordinary** | **179.2** | 174.5 |

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Employment costs comprise recharges from BAA Airports Limited for employee services to the Company. Refer to the Shared Services Agreement accounting policy in Note 1.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 3. OPERATING COSTS - ORDINARY (continued)

| Operating costs include: | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|
| Rentals under operating leases | | |
| - Plant and machinery | **7.2** | 3.0 |
| - Other operating leases | **0.4** | 0.6 |
| Services provided by the Company's auditor | | |
| - Fees payable for the audit | **-** | 0.1 |
| - Other services[1] | **0.4** | - |

[1] Fees for other services comprise mainly £0.2 million relating to prospectus costs.

### 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 as a part of the SSA as described in the Accounting Policies under the 'Shared Services Agreement'. The average number of employees of BAA Airports Limited engaged in the operation of Stansted Airport during the year was 1,151 (2008: 1,232).

## 4. OPERATING COSTS - EXCEPTIONAL

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|
| Pension costs[1] | **36.4** | 2.1 |
| Reorganisation charge[2] | **-** | 1.0 |
| **Total exceptional items** | **36.4** | 3.1 |

[1] During 2009 total exceptional pension costs of £36.4 million (2008: £nil) were incurred. £35.7 million (2008: £nil) was in relation to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme and £0.7 million (2008: £2.1 million) in relation to UURBS, in accordance with the Shared Services Agreement ('SSA'). For more information on pension costs charged refer to Note 1 Accounting policies.
[2] £1.0 million was charged in the year ended 31 December 2008 for severance and pension payments.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 5. DIRECTORS' EMOLUMENTS

| | Year ended 31 December 2009 £'000 | Year ended 31 December 2008 £'000 |
|---|---|---|
| **Directors' emoluments** | | |
| Aggregate emoluments | **251** | 324 |

| | Year ended 31 December 2009 £'000 | Year ended 31 December 2008 £'000 |
|---|---|---|
| **Highest paid director's remuneration** | | |
| Total amount of emoluments and amounts (excluding shares) receivable under long term incentive schemes | **170** | 324 |
| **Highest paid director's pension** | | |
| Accrued pension at end of the year | **18** | 15 |

| | Year ended 31 December 2009 Number | Year ended 31 December 2008 Number |
|---|---|---|
| **Number of directors who:** | | |
| are members of a defined benefit pension scheme | **5** | 2 |

J Leo was a director of BAA Limited for the year and BAA Airports Limited from 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed within the respective financial statements for the period he was a director. S Peat's and T Morgan's remuneration was paid by BAA Airports Limited. They were members of the Executive Committee of BAA Limited for the full year and so their remuneration is disclosed in the financial statements of BAA Limited. R Herga was paid by, but is not a director of, BAA Airports Limited. The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided.

Four directors (2008: two) did not receive any emoluments in their capacity as directors of the Company.

In accordance with a long term incentive scheme, a cash amount was awarded in November 2009 to three of the six directors who held office during 2009 (2008: none), which vest in 2012 contingent on achieving or surpassing EBITDA targets over a three year period. As the financial performance is uncertain at this stage the above emoluments do not contain any value in relation to this award.

No directors (2008: none) exercised any share options during the year and no shares (2008: none) were received or became receivable under long term incentive plans.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 6. NET INTEREST PAYABLE AND SIMILAR CHARGES

| | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|
| **Interest receivable** | | |
| Interest receivable from other group undertakings | **23.0** | 13.6 |
| Interest receivable on bank deposits | **-** | 0.1 |
| | **23.0** | 13.7 |
| **Interest payable** | | |
| Interest on borrowings from other group undertakings | **(2.8)** | (15.0) |
| Interest on bank borrowings | **(26.9)** | (19.9) |
| Facility fees | **(2.6)** | (1.2) |
| Net interest (payable)/receivable on derivative financial instruments | **(12.8)** | 2.3 |
| Unwinding of discount on provisions (Note 14) | **(0.1)** | - |
| | **(45.2)** | (33.8) |
| Foreign currency revaluation gains | **-** | 0.1 |
| Derivative fair value amortisation | **0.2** | - |
| Interest capitalised (Note 8) | **1.0** | 4.4 |
| **Net interest payable and similar charges - ordinary** | **(21.0)** | (15.6) |
| **Interest payable and similar charges – exceptional** | | |
| Refinancing fees written off | **-** | (15.7) |
| **Net interest payable and similar charges** | **(21.0)** | (31.3) |

Fees of £15.7 million were incurred during the year ended 31 December 2008 in relation to facility and arrangement fees that are expensed under UK GAAP. These costs are mainly upfront fees paid for the capital expenditure, working capital and liquidity facilities and costs attributed to future bond issuance. See Note 13 for further details of the borrowing facilities.

Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 2.92% (2008: 6.92%) to expenditure incurred on such assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | Note | **Year ended 31 December 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|---|
| **Current tax** | | | |
| Group relief payable | | **8.5** | 16.4 |
| Adjustments in respect of prior periods | | **0.2** | 0.4 |
| Total current tax | | **8.7** | 16.8 |
| | | | |
| **Deferred tax** | | | |
| Origination and reversal of timing differences | | **(6.6)** | (3.8) |
| Total deferred tax | 14 | **(6.6)** | (3.8) |
| | | | |
| **Tax charge on profit on ordinary activities** | | **2.1** | 13.0 |

**Reconciliation of tax charge**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2008: 28.5%). 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 2009 £m** | Year ended 31 December 2008 £m |
|---|---|---|
| Profit on ordinary activities before tax | **6.4** | 49.9 |
| Tax on profit on ordinary activities at 28% (2008: 28.5%) | **1.8** | 14.2 |
| | | |
| Effect of: | | |
| | | |
| Permanent differences | **0.5** | (1.3) |
| Capital allowances for the year (in excess of)/less than depreciation | **(1.3)** | 5.5 |
| Capitalised interest | **(0.3)** | (1.2) |
| Other short term timing differences | **7.8** | (0.8) |
| Adjustments to tax charge in respect of prior periods | **0.2** | 0.4 |
| | | |
| Current tax charge for the year | **8.7** | 16.8 |

Other than the unprovided deferred tax discussed in Note 14, there are no items which would materially affect the future tax charge.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 8. TANGIBLE ASSETS

| | Investment properties £m | Land held for development £m | Terminal complexes £m | Airfields £m | Other land and buildings £m | Plant, equipment & other assets £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | |
| 1 January 2009 | 499.4 | 54.9 | 754.5 | 195.4 | 14.2 | 63.0 | 207.3 | 1,788.7 |
| Additions at cost | - | - | - | - | - | - | 51.9 | 51.9 |
| Transfers to completed assets | 3.7 | - | 5.2 | 0.8 | 1.0 | 2.7 | (13.4) | - |
| Interest capitalised | - | - | - | - | - | - | 1.0 | 1.0 |
| Disposals | - | - | (0.5) | - | - | (0.3) | - | (0.8) |
| Reclassifications | 1.4 | - | (0.3) | (0.1) | (1.0) | - | - | - |
| Revaluation deficit | (36.5) | (4.6) | - | - | - | - | - | (41.1) |
| **31 December 2009** | **468.0** | **50.3** | **758.9** | **196.1** | **14.2** | **65.4** | **246.8** | **1,799.7** |
| **Depreciation** | | | | | | | | |
| 1 January 2009 | - | - | (268.8) | (54.4) | (1.4) | (30.5) | - | (355.1) |
| Charge for the year | - | - | (26.7) | (7.0) | (0.2) | (4.7) | - | (38.6) |
| Disposals | - | - | 0.5 | - | - | 0.3 | - | 0.8 |
| **31 December 2009** | **-** | **-** | **(295.0)** | **(61.4)** | **(1.6)** | **(34.9)** | **-** | **(392.9)** |
| **Net book value** | | | | | | | | |
| **31 December 2009** | **468.0** | **50.3** | **463.9** | **134.7** | **12.6** | **30.5** | **246.8** | **1,406.8** |
| 31 December 2008 | 499.4 | 54.9 | 485.7 | 141.0 | 12.8 | 32.5 | 207.3 | 1,433.6 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 8. TANGIBLE ASSETS (continued)

### Valuation

Investment properties and land held for development were valued at open market value at 31 December 2009 by Drivers Jonas, Chartered Surveyors at £506.5 million (2008: £542.1 million) and by Strutt & Parker, Chartered Surveyors at £11.8 million (2008: £12.2 million), resulting in a total valuation of £518.3 million (2008: £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 valuation, a deficit of £41.1 million has been recognised in the revaluation reserve.

Remaining terminal complexes, airfield infrastructure, other land and buildings, 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 £63.3 million (2008: £64.5 million). £1.0 million (2008: £4.4 million) has been capitalised in the year at a capitalisation rate of 2.92% (2008: 6.92%) based on a weighted average cost of borrowings.

A tax deduction of £1.0 million (2008: £4.4 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 2009 was £99.0 million (2008: £93.9 million).

### Other land and buildings

Other land and buildings are all freehold.

### Assets in the course of construction

Assets in the course of construction includes £189.7 million (2008: £166.9 million) in respect of the development of a second runway and related infrastructure. The costs consist of £83.3 million (2008: £79.4 million) in relation to the planning application preparation and £106.4 million (2008: £87.5 million) in relation to the purchase of domestic properties that fall within the expanded airport boundary or for those people living near the airport whose homes will be affected by the airport expansion and land acquisition. This includes a provision of £4.7 million (2008: £4.6 million) for additional payments once planning permission has been obtained.

### Leased assets

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

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| Cost or valuation | **481.0** | 557.4 |
| Accumulated depreciation | **(4.4)** | (17.9) |
| Net book amount | **476.6** | 539.5 |

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 9. STOCKS

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| Raw materials and consumables | **1.7** | 1.9 |

The replacement cost of raw materials and consumables at 31 December 2009 and 31 December 2008 was not materially different from the amount at which they are included in the accounts.

## 10. DEBTORS

| | **31 December 2009 £m** | Restated[1] 31 December 2008 £m |
|---|---|---|
| **Due within one year:** | | |
| Trade debtors | **27.8** | 28.7 |
| Amounts owed by group undertakings – interest free[2] | **2.9** | 7.0 |
| Amounts owed by group undertakings – pensions[3] | **6.1** | 0.6 |
| Other debtors | **2.3** | 8.2 |
| Prepayments | **2.6** | 3.1 |
| Interest receivable | **8.9** | 8.3 |
| Net interest receivable on derivative financial instruments | **-** | 2.9 |
| | **50.6** | 58.8 |
| **Due after more than one year:** | | |
| Amounts owed by group undertakings – interest bearing[4] | **316.9** | 294.7 |
| | **367.5** | 353.5 |

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Amounts owed by group undertakings – interest free largely relates to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Company which will be remitted in due course.
[3] Amounts owed by group undertakings – pensions is the amount receivable from BAA Airports Limited, net of current service cost charges to date, due to cash contributions made directly by the Company to the pension trustee of BAA Airports Limited's defined benefit pension scheme on behalf of BAA Airports Limited.
[4] Amounts owed by group undertakings – interest bearing represents a loan receivable from BAA (SP) Limited. It has a fixed interest rate of 7.57% and is repayable on demand, however, as there is no intention of the Company to do so, it is classified as non-current.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| Trade creditors[1] | **7.8** | 10.6 |
| Capital creditors | **10.5** | 16.5 |
| Amounts owed to group undertakings – interest free[2] | - | 5.8 |
| Corporation tax payable | **1.4** | 1.4 |
| Withholding tax payable | **0.1** | - |
| Group relief payable | **1.0** | 9.4 |
| Other creditors | **1.8** | 0.7 |
| Other taxes and social security costs | **0.9** | 1.0 |
| Deferred income | **2.7** | 2.0 |
| Interest accrual | **2.7** | 3.6 |
| Net interest payable on derivative financial instruments | **7.7** | - |
| Total creditors: amounts falling due within one year | **36.6** | 51.0 |

1 Trade creditors are non-interest bearing and are generally on 30 day terms.
2 Amounts owed to group undertakings largely related to external payments made by BAA Airports Limited under the Shared Services Agreement on behalf of the Company.

## 12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| Borrowings from group undertaking[1] | **600.0** | - |
| External borrowings | **-** | 590.4 |
| Derivative financial instruments[2] | **4.1** | 4.3 |
| Deferred income | **6.6** | 7.2 |
| Total creditors: amounts falling due after more than one year | **610.7** | 601.9 |

1 Borrowings from group undertaking represents a £600 million loan from BAA (SP) Limited, attracting floating rate interest based on 6 month LIBOR + margin. At 31 December 2009 the all-in pay rate on it was 7.57% including margin of 6.73%. The loan is repayable on demand but management do not expect this balance to be called upon within 12 months from 31 December 2009, resulting in its classification as non-current.
2 This relates to the unamortised portion of fair value of the derivative financial instrument on the date of novation.

## 13. BORROWINGS

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| **Non-current borrowings** | | |
| Unsecured: | | |
| Borrowings from group undertakings | **600.0** | - |
| Secured: | | |
| Refinancing Facility, Class A | **-** | 491.8 |
| Refinancing Facility, Class B | **-** | 98.6 |
| **Total** | **600.0** | 590.4 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 13. BORROWINGS (continued)

**Borrowings from group undertakings**

In December 2009, the Company repaid all £600.0 million of the outstanding external Refinancing Facility. This represented the £590.4 million of net outstanding loans from December 2008, grossed up for unamortised fees. The funds for the repayment were advanced to the Company by its parent, BAA (SP) Limited, which resulted in £600.0 million intra-group borrowings for Stansted Airport Limited. As at 31 December 2009 these borrowings were attracting an all-in interest rate of 7.57% based on the six month LIBOR rate plus a floating margin of 6.73%.

The Company together with Heathrow Airport Limited had £2,050 million undrawn committed borrowing facilities available at 31 December 2009 in respect of which all conditions precedent had been met at that date.

In addition, as at 31 December 2009, there was a gross overdraft limit between the Company and Heathrow Airport Limited up to a maximum gross balance of £75 million.

## 14. PROVISIONS FOR LIABILITIES AND CHARGES

| | Deferred tax (a) £m | Reorganisation costs (b) £m | Pension costs (c) £m | Other (d) £m | Total £m |
|---|---|---|---|---|---|
| 1 January 2009 | 36.3 | 3.6 | 2.1 | 4.6 | 46.6 |
| Transfer from other creditors | - | 2.1 | - | - | 2.1 |
| (Credited)/charged to profit and loss account (Notes 4 and 7) | (6.6) | - | 36.4 | 1.8 | 31.6 |
| Utilised in the year | - | (3.6) | - | - | (3.6) |
| Unwinding of discount charged and capitalised (Note 6) | - | - | - | 0.1 | 0.1 |
| **31 December 2009** | **29.7** | **2.1** | **38.5** | **6.5** | **76.8** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 14. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

### (a) Deferred tax
Analysis of the deferred tax balance is as follows:

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| Excess of capital allowances over depreciation | **37.9** | 37.1 |
| Other timing differences | **(8.2)** | (0.8) |
| | **29.7** | 36.3 |

| | Unprovided **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| Tax on chargeable gains if investment properties were sold at their current valuations | **102.1** | 114.0 |
| Tax on rolled-over gains if replacement assets were sold at their current valuations | **4.3** | 4.3 |
| | **106.4** | 118.3 |

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided is £106.4 million (2008: £118.3 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

### (b) Reorganisation costs
Costs associated with the Company's reorganisation programmes are for severance and pension payments only. All amounts are expected to be utilised in 2010.

### (c) Pension costs
A provision of £38.5 million (2008: £nil) is held in relation to pensions, representing the legal obligation of the Company under the Shared Services Agreement to fund its share of the BAA Airports Limited pension deficit and related pension liabilities. £35.7 million (2008: £nil) of the provision relates to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme. £2.8 million (2008: £2.1 million) is held 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. These provisions will only be settled when the cash outflow is requested by BAA Airports Limited. For more information on pension costs charged in accordance with the SSA refer to Note 1 Accounting policies.

### (d) Other
A provision of £1.8 million (2008: £nil) is held for onerous contracts relating to energy purchases that was identified as onerous during the year ended 31 December 2009. All amounts are expected to be utilised within five years.

A provision of £4.7 million (2008: £4.6 million) is held for the additional payments due under a compensation scheme once planning permission has been obtained for the second runway and related infrastructure.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 15. CALLED UP SHARE CAPITAL

| | 31 December 2009 £m | 31 December 2008 £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 |

## 16. RESERVES

| | Revaluation reserve £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|
| 1 January 2009 | 460.5 | 136.4 | 596.9 |
| Profit for the financial year | - | 4.3 | 4.3 |
| Unrealised loss on revaluation of investment properties | (41.1) | - | (41.1) |
| **31 December 2009** | **419.4** | **140.7** | **560.1** |

## 17. COMMITMENTS

**Commitments for capital expenditure**

Capital expenditure contracted commitments amount to £1.4 million (2008: £13.3 million).

The Company is pursuing the development of a second runway at Stansted, consistent with the Government's policy for runway development in the UK. The development of Stansted is still the subject of a planning inquiry and has been delayed pending clarification of the future ownership of Stansted given the disposal remedy included in the Competition Commission's ('CC') decision in its investigation into the supply of UK airport services by BAA.

In relation to the development of a second runway at Stansted, at 31 December 2009 the Company has capitalised costs, within runway development costs, of £83.3 million in relation to planning application preparation and £106.4 million in respect of the purchase of domestic properties and land under voluntary schemes for those people living near Stansted Airport whose homes will be affected by the airport expansion under voluntary schemes (the Home Value Guarantee Scheme ('HVGS'), the Home Owners Support Scheme and the Special Cases Scheme). The current estimate of the net cost of the blight compensation schemes is up to £110.0 million. Total value to 31 December 2009 is £106.4 million (2008: £87.5 million), including a £4.7 million (2008: £4.6 million) provision for additional payments which will become due once planning permission is obtained for the second runway.

**Commitments under operating leases**

At 31 December 2009, the Company was committed to making the following payments during the next year in respect of operating leases.

| Other leases | 31 December 2009 £m | 31 December 2008 £m |
|---|---|---|
| Leases which expire: | | |
| - within two to five years | **0.1** | 0.1 |
| - over five years | **8.8** | 3.9 |
| | **8.9** | 4.0 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 17. COMMITMENTS (continued)

### Commitments under contractual obligations

The Company has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Company until March 2012. Such commitments are for the normal purchase, sale or usage and hence are accounted for as ordinary purchase contracts. At 31 December 2009 the estimated minimum commitment for the future purchase of electricity under this contract totalled £19.5 million (2008: £33.2 million).

### Other commitments

In June 2006, the Government announced its conclusions for the 2006-2012 night flights regime at the BAA Group's London airports. The regime commits the Company to introducing a new domestic noise insulation scheme to address the impact of night flights on local communities. The Company estimates that payments under this scheme will total less than £0.1 million, spread over the five year period commencing 2008. The Government is expected to consult on proposals for the post 2012 night flights regime during the course of 2010. Until this consultation process is complete, the Company is unable to quantify potential obligations under a future night flights regime.

In July 2008, the BAA Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute £80.0 million per annum for a period of three years ending 31 December 2011. This amount is apportioned to the operating companies of the BAA Group based on pensionable pay base and paid directly by them. The Company expects to contribute its share of this amount, estimated at approximately £10 million to the pension plan in the year ending 31 December 2010.

## 18. 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 £1,565.8 million.

The Company, together with Heathrow 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.

The Company, together with Heathrow 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.

BAA Pension Trustee Company Limited (the BAA Pension Trustee) 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.

In addition, the Company is a joint guarantor 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 2009 the carrying amount of the borrowings under the IBLA was £5,402 million.

Under the SSA hedging costs properly incurred by BAA Airports Limited in relation to the Employee Share Ownership Plan ('ESOP') may be recharged to the Company. At 31 December 2009, the ESOP swap held in BAA Airports Limited had a fair value loss of £69.9 million (2008: £117.1 million). The Company may be obligated to settle its share of these amounts in the future, which is approximately £10 million as at 31 December 2009 (2008: approximately £11 million), depending on a number of factors, including options vesting, the number of options being exercised and the new Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 19. ULTIMATE PARENT UNDERTAKING

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

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

The Company's results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2009, 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 2009.

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 The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2009**

## 20. SUMMARY CASH FLOW STATEMENT

| | **Year ended 31 December 2009 £m** | Restated[1] Year ended 31 December 2008 £m |
|---|---|---|
| Operating profit | **27.4** | 81.2 |
| *Adjustments for:* | | |
| Depreciation | **38.6** | 33.1 |
| *Working capital changes:* | | |
| Decrease/(increase) in stock and debtors | **11.1** | (25.7) |
| (Decrease)/increase in creditors | **(7.3)** | 0.3 |
| Increase in provisions | **0.5** | 0.2 |
| Difference between pension charge and cash contributions | **30.7** | 1.0 |
| **Net cash inflow from operating activities** | **101.0** | 90.1 |
| **Net interest paid** | **(25.1)** | (13.8) |
| **Taxation** | | |
| Group relief paid | **(17.2)** | (7.0) |
| **Net capital expenditure** | **(57.9)** | (114.1) |
| **Net cash inflow/(outflow) before use of liquid resources and financing** | **0.8** | (44.8) |
| **Financing** | | |
| Drawdown of long-term bank loans | **-** | 600.0 |
| Repayment of long-term bank loans | **(600.0)** | - |
| Increase/(decrease) in amounts owed to group undertakings | **600.0** | (543.9) |
| **Increase in net cash** | **0.8** | 11.3 |

[1]The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

Liquid resources are defined in Note 1 Accounting policies under 'Cash and current asset investments'.