Stansted Airport Limited

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

Company registration number: 01990920

Stansted Airport Limited

Contents

Stansted Airport Limited

Officers and professional advisers

Directors
José Leo
Fidel López
Nicholas Barton

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

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

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

Stansted Airport Limited

Business review

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

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

This business review is presented under three sections:
Management review – overview of the year ended 31 December 2010, along with the key factors likely to impact the Company in 2011.
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2010 and analysis of the financial position of the Company as at that date.
Risk management – outline of the BAA Group's approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee, which are reviewed, monitored and managed by the Stansted Risk Governance Board.

Management review

Review of 2010
Key features of the year
2010 presented a number of challenges for the Company. The UK economic environment remained difficult with consumer confidence continuing to be under pressure particularly in the months following the UK general election in May. This had a significant impact on the outbound leisure market, a key part of Stansted's traffic. As a result, whilst underlying traffic trends had shown some improvement in the early part of 2010, it deteriorated through the third and fourth quarters. In addition Stansted was impacted by two exceptional external events in the year.

The first of these was the closure of UK and European airspace due to ash from a volcanic eruption in Iceland which resulted in Stansted closing from 15 April 2010 to 20 April 2010. In addition, the airport experienced the disruptive effects of prolonged severe winter weather across Europe in December. During this time, while Stansted itself was only closed for a limited period of time, it was affected by flight cancellations due to disruptions elsewhere as much of north-west Europe experienced the severe winter weather.

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

The Company continued its investment in the airport's facilities with plans for increased use of Stansted's current single runway from 25 million to 35 million passengers annually following the approvals in 2008 by the Secretary of State for Transport and the Secretary of State for Communities and Local Government. £22.4 million was invested by the Company in the year ended 31 December 2010.

Passenger traffic trends
In the year ended 31 December 2010, Stansted's reported traffic declined 7.0% to 18.6 million (2009: 20.0 million). Year on year performance reflects a number of exceptional events including closure of airspace due to volcanic ash and severe winter weather as well as the macroeconomic environment. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events resulted in a net loss of up to an estimated total of 0.4 million passengers. Adjusting for these factors, Stansted's traffic is estimated to have declined by no more than 4.8%. Stansted's underlying traffic performance reflects inter-related capacity reductions by airlines and renewed economic uncertainty in the UK.

In terms of traffic trends by market served during 2010, UK and Ireland saw large reductions due in part to the exceptional events experienced in 2010 and Ryanair cutting Belfast from their Stansted schedule. Europe traffic was affected by significant reduction in rotations in Europe by Ryanair, the loss of UAB Star 1 and Cyprus Turkish airlines.

Transforming Stansted
The Company has continued to implement its strategy to improve passengers' experience and airlines' operations through sustained investment in modern airport facilities and improved service standards. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of Stansted and supporting the Company's long term growth ambitions.

Investment in modern airport facilities
At Stansted, levels of investment are subdued reflecting limited investment in the current regulatory period on the existing facilities and the ending of work on a potential new runway given the new UK government's opposition to the development of new runways in the South East of England. The modest investment on existing facilities is focused largely on refurbishing infrastructure and other areas such as planning and security compliance such as terminal drainage, satellite 3 facilities, roads infrastructure, airfield works and implementing a new fuel leak detection system. Good progress has been made on security related projects and defining the asset replacement strategy for the airport.

Review of 2010 ***continued***

Service standards

The Company continues to focus on delivering consistently high service standards at Stansted, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency.

Stansted's rating for overall passenger satisfaction in Airport Council International's Airport Service Quality survey improved from 3.79 in the fourth quarter of 2009 to 3.80 in the fourth quarter of 2010.

In the year ended 31 December 2010 many service standards at Stansted were influenced by the exceptional events discussed above. In relation to departure punctuality, the proportion of aircraft departing within 15 minutes of schedule at Stansted was 78% (2009: 82%). Punctuality statistics were affected in 2010 across the European aviation industry by two periods of prolonged severe winter weather in January and December and extensive European air traffic control strikes.

On security queuing, passengers passed through central security within periods prescribed under the airport's service quality rebate scheme 98.2% (2009: 99.4%) of the time. This compares with the 95.0% service standard.

Regulatory developments

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

In March 2009, the Competition Commission ('CC') published its final decision in relation to its investigation into the supply of UK airport services by BAA. The key structural remedy called for the disposal of certain airports including Stansted.

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

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

Airport economic regulation review

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

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

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

Government announcements on new runways

The new UK coalition government has announced that it will not support the development of new runways in the South East of England.

As a result of the government's position on runways, in May 2010 the Company stopped pursuing a planning application for a second runway at Stansted. The decision on the second runway is expected to reduce financing requirements over the next few years. As a result of this decision the Company made impairment charges in respect of runway planning application costs and the value of properties and land purchased in relation to potential future runway development. These accounting charges will not impact the Company's regulatory asset base or the generation of future cash flows. In addition, Stansted's exposure to passenger volume risk is limited by the five year regulatory cycle. In any event future growth in passenger traffic is expected without a new runway at Stansted.

Management review *continued*

Developments since beginning of 2011

In January 2011, passenger traffic at Stansted declined 5.8% to 1.1 million (2010: 1.2 million). Adjusting for the impact of winter weather in January 2010 when Stansted was a net beneficiary due to diversions from other airports, it is estimated traffic declined 4.5%.

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

Outlook

The Company expects passenger traffic to further reduce in 2011, impacting revenue, Adjusted EBITDA and operating cash flow.

Stansted Airport Limited

Financial review

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

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Turnover	**229.6**	243.0
Adjusted operating costs[1]	**(143.4)**	(140.6)
Adjusted EBITDA[2]	**86.2**	102.4
Operating costs – exceptional	**15.1**	(36.4)
EBITDA	**101.3**	66.0
Depreciation – ordinary	**(40.3)**	(38.6)
Operating profit	**61.0**	27.4

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

Turnover
In the year ended 31 December 2010, the Company's turnover decreased 5.5% to £229.6 million (2009: £243.0 million). This decrease reflects a 6.3% fall in aeronautical income, a 5.6% reduction in gross retail income and a 0.9% decrease in other categories of income compared to 2009.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Aeronautical income	**123.7**	132.0	(6.3)
Retail income	**83.1**	88.0	(5.6)
	206.8	220.0	(6.0)
Other sources of income:			
Operational facilities and utilities income	**10.2**	10.6	(3.8)
Property rental income	**8.2**	8.1	1.2
Other	**4.4**	4.3	2.3
Total other sources of income	**22.8**	23.0	(0.9)
Total turnover	**229.6**	243.0	(5.5)

Aeronautical income
Aeronautical income decreased by 6.3% to £123.7 million (2009: £132.0 million) and was less than the 7.0% decline in passengers, reflecting lower tariff discounts. Aeronautical income per passenger increased by 0.7% to £6.66 (2009: £6.62).

Retail income
Stansted's gross retail income declined 5.6% to £83.1 million (2009: £88.0 million), a resilient performance given passenger trends which meant that net retail income ('NRI') per passenger increased 0.5% to £4.02 (2009: £4.00). Growth in Stansted's NRI per passenger reflects particularly performance in airside specialist shops and catering with net car parking income per passenger stabilising after a significant period of weakness.

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

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Gross retail income	**83.1**	88.0	(5.6)
Less: retail expenditure	**(8.5)**	(8.2)	3.7
Net retail income	**74.6**	79.8	(6.5)
Passengers (million) [1]	**18.6**	20.0	(7.0)
Net retail income per passenger [1,2]	**£4.02**	£4.00	0.5

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

Financial review *continued*

Analysis of net retail income

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Car parking	**25.9**	28.2	(8.2)
Duty and tax-free	**12.4**	13.5	(8.1)
Airside specialist shops	**6.7**	5.8	15.5
Bureaux de change	**7.7**	8.4	(8.3)
Catering	**9.6**	9.6	-
Landside shops and bookshops	**4.7**	6.2	(24.2)
Advertising	**2.1**	2.6	(19.2)
Car rental	**2.4**	2.2	9.1
Other	**3.1**	3.3	(6.1)
Total	**74.6**	79.8	(6.5)

Other income

Other sources of income (comprising operational facilities and utilities, property rental and other) remained consistent decreasing 0.9% in the year ended 31 December 2010 to £22.8 million (2009: £23.0 million).

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 2010 adjusted operating costs increased by 2.0% to £143.4 million (2009: £140.6 million).

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Employment costs	**50.3**	46.8	7.5
Maintenance expenditure	**10.1**	9.7	4.1
Utility costs	**19.6**	21.2	(7.5)
Rent and rates	**13.0**	12.2	6.6
General expenses[1]	**31.0**	29.1	6.5
Retail expenditure	**8.5**	8.2	3.7
Intra-group charges/other	**10.9**	13.4	(18.7)
Total	**143.4**	140.6	2.0

[1] Net of capitalised costs of £1.6 million (2009: £1.3 million).

The main drivers of increased adjusted operating costs were higher employment costs. Employment costs increased 7.5% to £50.3 million (2009: £46.8 million), driven particularly by the reinstatement of performance related pay as well as additional defined benefit pension service charges of £2.4 million relative to earlier in the year due to revised actuarial assumptions. Intra-group charges declined 18.7% to £10.9 million (2009: £13.4 million) primarily reflecting a greater level of activities performed by the Company that were previously performed and charged to the Company by other parts of the BAA Group.

Adjusted EBITDA

Adjusted EBITDA for the Company in the year ended 31 December 2010 decreased 15.8% to £86.2 million (2009: £102.4 million), primarily reflecting the impact of lower passenger traffic.

Exceptional items (including depreciation and impairment charges)

In the year ended 31 December 2010, there was a total net £104.3 million pre-tax charge (2009: £36.4 million pre-tax charge) to the profit and loss account in respect of exceptional items, including impairment charges and other one-off items, with a £15.1 million credit (2009: £36.4 million charge) included in operating profit and a charge of £119.4 million (2009: £nil) below operating profit.

Items within operating profit included a £15.1 million non-cash pension related credit (2009: £36.4 million charge) principally relating to the Company's share of the reduction in the BAA Group's defined benefit pension scheme deficit. The reduced pension scheme deficit reflects a number of factors discussed in more detail below in the Pension scheme section.

Financial review *continued*

Exceptional items (including depreciation and impairment charges) *continued*
The exceptional items below operating profit in 2010 related to impairment charges arising from the Company's decision not to pursue a planning application for a second runway at Stansted given that the UK's new coalition government does not support the development of new runways in the South East of England. There was a total impairment charge of £119.4 million made of which £83.0 million related to the write-off of planning application costs and £36.4 million to the write down in the value of domestic properties and land purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. This accounting treatment has no impact on these costs being included in the airport's regulatory asset base and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance.

Operating profit
The Company recorded an operating profit for the year ended 31 December 2010 of £61.0 million (2009: £27.4 million). Relative to Adjusted EBITDA, operating profit includes £40.3 million in depreciation (2009: £38.6 million). In addition, it reflects a net £15.1 million exceptional credit included in operating profit (2009: £36.4 million charge). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Change %
Adjusted EBITDA	**86.2**	102.4	(15.8)
Depreciation	**(40.3)**	(38.6)	4.4
Exceptional items – pensions	**15.1**	(36.4)	141.5
Operating profit	**61.0**	27.4	122.6

Capital expenditure
There was modest investment at Stansted with the conclusion of expenditure on a potential new runway given the new UK government's opposition to the development of new runways in the South East of England. Other investment focused on planning and security compliance and refurbishing existing infrastructure. In the year ended 31 December 2010, Stansted invested £22.4 million in capital expenditure (2009: £57.9 million). The major projects at Stansted comprised £18.3 million (2009: £35.1 million) on modernising existing infrastructure and £4.1 million (2009: £22.8 million) under blight compensation schemes related to the proposed development of a second runway, withdrawn by the Company in 2010.

Pension scheme
At 31 December 2010, the BAA Group defined benefit pension scheme had a deficit of £43.6 million as measured under IAS 19, of which £6.0 million is attributable to the Company under the BAA Group's Shared Services Agreement. This compares with a total scheme deficit of £255.6 million at 31 December 2009. The reduction in the scheme deficit is due principally to the benefit of a £104.7 million commutation payment made into the scheme that arose due to the Gatwick sale and returns on the scheme assets increasing to £213.0 million compared to £74.0 million in 2009.

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

	RAB £m
31 December 2009	1,277.6
31 December 2010	1,327.3

During 2010, growth in the RAB for Stansted reflected the addition of approximately £20 million in capital expenditure (determined on a different basis to cash flow or balance sheet additions) offset by regulatory depreciation of around £45 million. Variation in RAB profiling adjustments added a further £15 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £60 million over the year.

Accounting and reporting policies and procedures
These consolidated 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')). The Company's accounting policies and areas of significant accounting judgements and estimates are detailed within the Company financial statements.

Risk management

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

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

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

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

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

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

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

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

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

Regulatory environment, legal and other reputational risks
Civil Aviation Authority ('CAA') regulation
The Company's operations are currently subject to regulatory review by the CAA and CC normally every five years. The risk of an adverse outcome from these reviews is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters. The current settlement was reached for Stansted during 2009 regarding the five years to 31 March 2014.

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

Risk management *continued*

Regulatory environment, legal and other reputational risks continued

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the BAA Group breaching these regulations. Refer to the Management review section for details on the current Department for Transport regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Capacity shortfall

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

Existing planning approvals provide for passenger traffic to grow to approximately 35 million at Stansted.

Environmental risks

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

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, water, 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.

Commercial and financial risks

Operational disruption

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

Capital projects

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

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the 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 Company 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 to departmental level, in which management and trade unions meet regularly to work together on industrial relations issues. The 2011 pay negotiations started in late January 2011. The BAA Group could also be exposed in the short term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers and baggage handlers.

Risk management *continued*

Commercial and financial risks continued

Treasury

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

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

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

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

(a) Interest rates

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

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

(b) Foreign currency

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

(c) Funding and liquidity

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

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

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

(d) Counterparty credit

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

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

On behalf of the Board

N. Barton

Nicholas Barton
Director

24 February 2011

Directors' report

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

Principal activities
The Company 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 10.

Results and dividends
The loss after taxation for the financial year amounted to £105.6 million (2009: £4.3 million profit). No dividends were proposed or paid during the year (2009: £nil). The statutory results for the year are set out on page 15.

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

José Leo	
Fidel López	Appointed 1 November 2010
Nicholas Barton	Appointed 23 December 2010
Stephen Peat	Resigned 1 November 2010
David Johnston	Resigned 29 November 2010

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

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

Supplier payment policy
The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should:
- agree payment terms at the outset of a transaction and adhere to them;
- provide suppliers with clear guidance on payment procedures;
- pay bills in accordance with any contract agreed or as required by law; and
- advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 7 days purchases outstanding at 31 December 2010 (2009: 5 days) based on the average daily amount invoiced by suppliers during the year.

Risk management
The Company actively manages all identified corporate risks. Details of the Company's risk management policies can be found on pages 8 to 10 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 page 10 of the Risk management section in the Business review.

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

Directors' report *continued*

Directors' indemnity
The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

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

Statement of disclosure of information to the auditors
Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

On behalf of the Board

Nicholas Barton
Director

24 February 2011

Company registration number: 01990920

Directors' responsibilities statement

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

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

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

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

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

On behalf of the Board

Nicholas Barton
Director

24 February 2011

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 2010 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance Sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Opinion on financial statements
In our opinion the financial statements:

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Andrew J. Kelly

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

24 February 2011

Stansted Airport Limited

Profit and loss account for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Turnover	*1*	**229.6**	243.0
Operating costs – ordinary	*2*	**(183.7)**	(179.2)
Operating gain/(costs) - exceptional	*3*	**15.1**	(36.4)
Total operating costs		**(168.6)**	(215.6)
Operating profit		**61.0**	27.4
Impairment of fixed assets - exceptional	*4*	**(119.4)**	-
Net interest payable and similar charges	*5*	**(40.4)**	(21.0)
(Loss)/profit on ordinary activities before taxation		**(98.8)**	6.4
Tax charge on (loss)/profit on ordinary activities	*6*	**(6.8)**	(2.1)
(Loss)/profit on ordinary activities after taxation	*14*	**(105.6)**	4.3

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

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

Stansted Airport Limited

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

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
(Loss)/profit for the financial year	*14*	**(105.6)**	4.3
Unrealised loss on revaluation of investment properties	*7,14*	**(3.7)**	(41.1)
Total recognised gains and losses relating to the year		**(109.3)**	(36.8)

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

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
(Loss)/profit for the financial year	*14*	**(105.6)**	4.3
Unrealised loss on revaluation of investment properties	*7, 14*	**(3.7)**	(41.1)
Capital contribution	*14*	**14.7**	-
Tax charge on capital contribution	*14*	**(4.0)**	-
Net movement in shareholder's funds		**(98.6)**	**(36.8)**
Opening shareholder's funds		**1,064.0**	1,100.8
Closing shareholder's funds		**965.4**	1,064.0

Stansted Airport Limited

Balance Sheet as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Tangible fixed assets	7	**1,263.1**	1,406.8
Total fixed assets			
Stocks	8	**1.9**	1.7
Debtors: due within one year	9	**56.1**	50.6
due after more than one year	9	**341.0**	316.9
Cash at bank and in hand		**42.3**	12.1
Total current assets		**441.3**	381.3
Current liabilities			
Creditors: amounts falling due within one year	10	**(80.0)**	(36.6)
Net current assets		**361.3**	344.7
Total assets less current liabilities		**1,624.4**	1,751.5
Creditors: amounts falling due after more than one year	11	**(610.0)**	(610.7)
Provisions for liabilities and charges	12	**(49.0)**	(76.8)
Net assets		**965.4**	1,064.0
Capital and reserves			
Called up share capital	13	**503.9**	503.9
Revaluation reserve	14	**415.7**	419.4
Profit and loss reserve	14	**45.8**	140.7
Total shareholder's funds		**965.4**	1,064.0

These financial statements of Stansted Airport Limited (Company registration number: 01990920) were approved by the Board of Directors and authorised for issue on 24 February 2011. They were signed on its behalf by:

Nicholas Barton
Director

Fidel López
Director

Accounting policies for the year ended 31 December 2010

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

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

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

Consequently the directors have reviewed the cash flow projections of the BAA (SP) Limited Group of which the Company forms part, taking into account:
- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall BAA (SP) Limited Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets.

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment properties
Investment property, which is property held to earn rentals and/or capital appreciation, is valued at the reporting date, as determined at the interim and full-year reporting dates by the directors and by external valuers 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 in the period in which they arise.

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

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

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

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

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

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20 - 60 years
Terminal fixtures and fittings	5 - 20 years
Airport plant and equipment:	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators, travelators	20 years
Other plant and equipment including runway	
Lighting and building plant	5 - 20 years
Tunnels, bridges and subways	50 - 100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 years

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

Tangible fixed assets *continued*

Depreciation continued

Plant and equipment	*Fixed asset lives*
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.

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 independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such 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.

Leases

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

Company as a lessee

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

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

Company as a lessor

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

The derivative financial instruments are hedge accounted in accordance with FRS 4 and consequently accounted for on an accruals basis. The net interest payable or receivable on those derivatives 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 over the term of the financial instruments.

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

Shared Services Agreement ('SSA')
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 SSA with BAA Airports Limited by which the latter became the shared services provider of operational staff and corporate services.

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

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

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

Cash contributions are made directly by the Company 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.

In addition, the Company has 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.

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

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

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

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

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

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

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

Foreign currency
Transactions denominated in foreign currencies are translated into Sterling using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the profit and loss account.

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

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

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

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

Investment properties
Investment properties were valued at fair value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors (2009: Drivers Jonas, Chartered Surveyors and Strutt & Parker, Chartered Surveyors). Strutt & Parker were responsible solely for the valuation of residential properties at Stansted. The valuations were prepared in accordance with UK GAAP and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Independent valuations have been obtained for 100% of the investment properties. Approximately 65% of the investment properties comprise car parks and airside assets at Stansted that are considered less vulnerable to market volatility than the overall market. In November 2010, following a change in strategy in respect of residential properties acquired for the purposes of runway developments, £74.6 million of properties previously recorded in Assets in the course of construction were transferred to Investment property. This is on the basis that residential properties are currently proposed to be held for the longer term and achieve revenue through rentals or, with respect to Stansted properties, potential future disposal for those properties outside the projected future boundary.

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

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

1 Segment information

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Turnover		
Aeronautical income	**123.7**	132.0
Retail income	**83.1**	88.0
Operational facilities and utilities income	**10.2**	10.6
Property rental income	**8.2**	8.1
Other income	**4.4**	4.3
	229.6	243.0

2 Operating costs – ordinary

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Wages and salaries	**40.4**	38.4
Social security	**3.1**	3.2
Pension	**5.0**	3.3
Other staff related costs	**1.4**	1.5
Share-based payments	**0.4**	0.4
Employment costs[1]	**50.3**	46.8
Maintenance expenditure	**10.1**	9.7
Utility costs	**19.6**	21.2
Rent and rates	**13.0**	12.2
General expenses	**11.1**	10.4
Retail expenditure	**8.5**	8.2
Intra-group charges/other	**10.9**	13.4
Police costs	**7.0**	6.3
Air navigation charges	**12.9**	12.4
Depreciation	**40.3**	38.6
	183.7	179.2

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

Rentals under operating leases

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Operating costs include:		
Plant and machinery	**8.3**	7.2
Other operating leases	**0.2**	0.4

2 Operating costs – ordinary *continued*

Auditors' remuneration

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts[1]		
Audit of the Company pursuant to legislation	**41**	33
Total audit fees	**41**	33
Fees payable to the Company's auditors and their associates for other services specific to the Company[1]		
Other services pursuant to legislation	**-**	30
Information technology review	**-**	95
Other services	**-**	226
Total non audit fees	**-**	351
Total fees	**41**	384

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

Employee information

The Company has no employees. However, staff costs are borne by BAA Airports Limited which recharges all such costs directly to the Company as a part of the SSA as described in the Accounting Policies under the SSA. The average number of employees of BAA Airports Limited engaged in the operation of Stansted Airport during the year was 1,121 (2009: 1,151). The number of employees does not include headcount related to central support functions for the Company which are rendered by BAA Airports Limited and charged as intra-group charges in accordance with the SSA.

Directors' remuneration

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Directors' remuneration		
Aggregate emoluments	**237**	217
Value of company pension contributions to defined benefit scheme	**33**	34
Termination benefits	**265**	-
	535	251

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Highest paid director's remuneration		
Aggregate emoluments	**237**	148
Value of company pension contributions to defined benefit scheme	**33**	22
Termination benefits	**265**	-
	535	170
Defined benefit accrued pension	**19**	18

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Numbers of directors who		
are members of a defined benefit pension scheme	**1**	5

2 Operating costs – ordinary *continued*

Directors' remuneration continued

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

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

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

3 Operating costs – exceptional

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Pension credit/(charge)	**15.1**	(36.4)

During 2010, there was a net exceptional pension credit of £15.1 million (2009: £36.4 million charge). This included a £15.0 million credit (2009: £35.7 million charge) in relation to the push down of the Company's share of the reduction in the deficit on the BAA Airports Limited defined benefit pension scheme and £0.1 million credit (2009: £0.7 million charge) in relation to Unfunded Retirement Benefit Scheme and post retirement medical benefits, in accordance with the SSA. For more information on pension costs charged refer to the SSA in the Accounting policies.

4 Non-operating costs - exceptional

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Exceptional impairment of fixed assets	**119.4**	-

As a result of the change in UK government and its policy towards runway developments, BAA announced on 24 May 2010 that it was withdrawing its planning permission applications for a second runway at Stansted. As a result, there was a total impairment charge of £119.4 million made of which £83.0 million related to the write-off of planning application costs and £36.4 million to the write down in the value of domestic properties and land purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. This charge is not deductible for tax purposes. This accounting treatment has no impact on these costs being included in the airport's regulatory asset base and has no cash impact. In addition, it will not affect future cash flow generation, consistent with Civil Aviation Authority ('CAA') guidance.

5 Net interest payable and similar charges

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Interest receivable			
Interest receivable from other group undertakings[1]		**24.9**	23.0
		24.9	23.0
Interest payable			
Interest on borrowings from other group undertakings[2]		**(45.4)**	(2.8)
Interest on bank borrowings		**-**	(26.9)
Facility fees		**(2.7)**	(2.6)
Net interest payable on derivative financial instruments		**(17.7)**	(12.8)
Unwinding of discount on provisions		**-**	(0.1)
		(65.8)	(45.2)
Derivative fair value amortisation		**0.2**	0.2
Interest capitalised[3]	*7*	**0.3**	1.0
Net interest payable and similar charges		**(40.4)**	(21.0)

1 These amounts relate mainly to interest accrued on balances due from BAA (SP) Limited (Note 9).
2 These amounts relate to interest due on the loan from BAA (SP) Limited, granted in December 2009 (Note 11).
3 Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 2.33% (2009: 2.92%) to expenditure incurred on such assets.

6 Tax on (loss)/profit on ordinary activities

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Current tax			
Group relief payable		**1.9**	8.5
Adjustments in respect of prior periods		**-**	0.2
Total current tax charge		**1.9**	8.7
Deferred tax			
Origination and reversal of timing differences		**5.9**	(6.6)
Change in tax rate		**(1.0)**	-
Total deferred tax	*12*	**4.9**	(6.6)
Tax charge on profit on ordinary activities		**6.8**	2.1

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2009: 28%). 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 2010 £m	Year ended 31 December 2009 £m
(Loss)/profit on ordinary activities before tax	**(98.8)**	6.4
Tax on (loss)/profit on ordinary activities at 28% (2009: 28%)	**(27.7)**	1.8
Effect of:		
Permanent differences	**35.7**	0.5
Capital allowances for the year in excess of depreciation	**(0.1)**	(1.3)
Capitalised interest	**(0.1)**	(0.3)
Other short term timing differences	**(5.9)**	7.8
Adjustments to tax charge in respect of prior periods	**-**	0.2
Current tax charge for the year	**1.9**	8.7

The standard rate of corporation tax in the UK will change to 27% with effect from 1 April 2011. Other than this change, and the unprovided deferred tax discussed in Note 12, there are no items which would materially affect the future tax charge.

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

7 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	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 2010		468.0	50.3	758.9	196.1	14.2	65.4	246.8	1,799.7
Additions at cost		-	-	-	-	-	0.1	19.3	19.4
Transfers to investment properties		74.7	-	-	-	-	-	(74.7)	-
Transfers to completed assets		-	-	17.0	1.6	0.6	5.1	(24.3)	-
Interest capitalised	*5*	-	-	-	-	-	-	0.3	0.3
Disposals[1]		-	-	(6.0)	(0.6)	-	(12.0)	(119.4)	(138.0)
Reclassifications		0.9	-	5.5	(7.1)	-	0.7	-	-
Revaluation surplus/(deficit)	*14*	0.9	(4.6)	-	-	-	-	-	(3.7)
31 December 2010		**544.5**	**45.7**	**775.4**	**190.0**	**14.8**	**59.3**	**48.0**	**1,677.7**
Depreciation									
1 January 2010		-	-	(295.0)	(61.4)	(1.6)	(34.9)	-	(392.9)
Charge for the year		-	-	(27.5)	(6.9)	(0.5)	(5.4)	-	(40.3)
Impairment		-	-	-	-	-	-	(119.4)	(119.4)
Disposals[1]		-	-	6.0	0.6	-	12.0	119.4	138.0
Reclassifications		-	-	(3.2)	3.9	-	(0.7)	-	-
31 December 2010		**-**	**-**	**(319.7)**	**(63.8)**	**(2.1)**	**(29.0)**	**-**	**(414.6)**
Net book value 31 December 2010		**544.5**	**45.7**	**455.7**	**126.2**	**12.7**	**30.3**	**48.0**	**1,263.1**
Net book value 31 December 2009		468.0	50.3	463.9	134.7	12.6	30.5	246.8	1,406.8

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

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

7 Tangible fixed assets *continued*

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2010 by CB Richard Ellis (2009: Drivers Jonas), Chartered Surveyors at £502.7 million (2009: £506.5 million) and by Strutt & Parker, Chartered Surveyors at £87.5 million (2009: £11.8 million), resulting in a total valuation of £590.2 million (2009: £518.3 million). Strutt & Parker were responsible solely for the valuation of residential properties at Stansted. 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 £3.7 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 £61.4 million (2009: £63.3 million). £0.3 million (2009: £1.0 million) has been capitalised in the year at a capitalisation rate of 2.33% (2009: 2.92%) based on a weighted average cost of borrowings.

A tax deduction of £0.3 million (2009: £1.0 million) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes, consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2010 was £174.5 million (2009: £99.0 million).

Other land and buildings

Other land and buildings are all freehold.

Impairment

As a result of the change in UK government and its policy towards runway developments, BAA announced on 24 May 2010 that it was withdrawing its planning permission applications for a second runway at Stansted. As a result, there was a total impairment charge of £119.4 million made of which £83.0 million related to the write-off of planning application costs and £36.4 million to the write down in the value of domestic properties and land purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. The accounting treatment has no impact on these costs being included in the airport's regulatory asset base and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance.

Leased assets

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

	31 December 2010	31 December 2009
	£m	£m
Cost or valuation	**557.9**	481.0
Accumulated depreciation	**(4.9)**	(4.4)
Net book amount	**553.0**	476.6

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

8 Stocks

	31 December 2010	31 December 2009
	£m	£m
Raw materials and consumables	**1.9**	1.7

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

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

9 Debtors

	31 December 2010 £m	31 December 2009 £m
Due within one year:		
Trade debtors	**24.6**	27.8
Amounts owed by group undertakings – interest free[1]	**2.8**	2.9
Amounts owed by group undertakings – pensions[2]	**11.7**	6.1
Other debtors	**0.7**	2.3
Prepayments	**4.1**	2.6
Interest receivable from group undertakings	**9.6**	8.9
Group relief receivable	**2.6**	-
Total debtors due within one year	**56.1**	50.6
Due after more than one year:		
Amounts owed by group undertakings – interest bearing[3]	**341.0**	316.9
Total debtors	**397.1**	367.5

1 Amounts owed by group undertakings – interest free largely relates to external payments received by BAA Airports Limited under the SSA on behalf of the Company which will be remitted in due course.
2 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.
3 Amounts owed by group undertakings – interest bearing represents a loan receivable from BAA (SP) Limited. Interest is charged at a fixed interest rate of 7.57% per annum.

10 Creditors: amounts falling due within one year

	31 December 2010 £m	31 December 2009 £m
Trade creditors[1]	**10.4**	7.8
Capital creditors	**7.5**	10.5
Amounts owed to group undertakings – interest free[2]	**0.3**	-
Corporation tax payable	**1.4**	1.4
Withholding tax payable	**-**	0.1
Group relief payable	**-**	1.0
Other creditors	**0.2**	1.8
Other taxes and social security costs	**1.0**	0.9
Deferred income	**2.8**	2.7
Interest payable to group undertakings	**48.2**	2.7
Net interest payable on derivative financial instruments	**8.2**	7.7
	80.0	36.6

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

11 Creditors: amounts falling due after more than one year

	31 December 2010 £m	31 December 2009 £m
Amounts owed to group undertakings – interest bearing[1]	**600.0**	600.0
Derivative financial instruments	**3.9**	4.1
Deferred income	**6.1**	6.6
	610.0	610.7

1 Amounts owed to group undertakings – interest bearing represents a £600 million loan from BAA (SP) Limited, attracting floating rate interest based on 6 month LIBOR + margin. At 31 December 2010, the all-in pay rate on it was 7.57% including margin of 6.53%.

The Company together with Heathrow Airport Limited ('Heathrow') had £1,450.0 million undrawn committed borrowing facilities available at 31 December 2010 in respect of which all conditions precedent had been met at that date.

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

11 Creditors: amounts falling due after more than one year *continued*

Derivatives not included at fair value

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

As at 31 December 2010, the Company had interest rate swap contracts with notional values totalling £464.5 million. The swaps have fixed interest payments at an average rate of 4.74% and floating interest receipts based on 6-month LIBOR. At that date, these financial instruments had a mark-to-market liability of £62.8 million (2009 : £35.4 million). The amounts recognised on the balance sheet in relation to these financial instruments represent accrued interest and unamortised portion of fair value on the date of novation. These are included in 'Net interest payable on derivative financial instruments' (Note 10 'Creditors falling due within one year') and 'Derivative financial instruments' above, respectively.

12 Provisions for liabilities and charges

	Note	**Deferred tax (a) £m**	**Reorganisation costs (b) £m**	**Pension costs (c) £m**	**Other (d) £m**	**Total £m**
1 January 2010		29.7	2.1	38.5	6.5	76.8
Utilised		-	(1.2)	-	(1.0)	(2.2)
Charged/(credited) to profit and loss account	*6, 3*	4.9	-	(15.1)	-	(10.2)
Released to profit and loss account		-	-	-	(4.7)	(4.7)
Charged/(released) to profit and loss reserve	*14*	4.0	-	(14.7)	-	(10.7)
31 December 2010		**38.6**	**0.9**	**8.7**	**0.8**	**49.0**

(a) Deferred tax

Analysis of the deferred tax balance is as follows:

	31 December 2010 £m	31 December 2009 £m
Excess of capital allowances over depreciation	**36.8**	37.9
Other timing differences	**1.8**	(8.2)
	38.6	29.7

	Unprovided **31 December 2010 £m**	31 December 2009 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**97.0**	102.1
Tax on rolled-over gains if replacement assets were sold at their current valuations	**4.1**	4.3
	101.1	106.4

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided for is £101.1 million (2009: £106.4 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

The effect of the changes enacted in the Finance (No.2) Act 2010 has been to reduce the deferred tax provided at 31 December 2010 by £1.0 million with a corresponding increase in tax credit for the year of £1.0 million as shown at Note 6. This decrease in the deferred tax liability is due to the reduction in the UK Corporation tax rate from 28 per cent to 27 per cent with effect from 1 April 2011.

12 Provisions for liabilities and charges *continued*

(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 2011.

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

£6.0 million (2009: £35.7 million) of the provision relates to the push down of the Company's share of the deficit on the BAA Airports defined benefit pension scheme. The provision has decreased because of the reduction in the deficit which is partly due to updated actuarial assumptions, particularly higher than expected investment returns. In addition, a commutation payment was made into the scheme following the disposal of Gatwick airport. This has been reflected as a capital contribution in the profit and loss account reserve. The remaining £2.7 million (2009: £2.8 million) is held for historical accumulated past service cost borne by BAA Airports Limited in relation to the Unfunded Retirement Benefits Scheme and Post Retirement Medical Benefits.

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

(d) Other
A provision of £0.8 million (2009: £1.8 million) is held for onerous contracts relating to energy purchases. All amounts are expected to be utilised within two years.

13 Share capital

	£m
Authorised	
At 1 January 2010 and 31 December 2010	
520,000,000 ordinary shares of £1 each	**520.0**
Called-up, allotted and fully paid	
At 1 January 2010 and 31 December 2010	
503,900,002 ordinary shares of £1 each	**503.9**

14 Reserves

	Revaluation reserve £m	Profit and loss reserve £m	Total £m
1 January 2010	419.4	140.7	560.1
Profit for the financial year	-	(105.6)	(105.6)
Unrealised loss on revaluation of investment properties	(3.7)	-	(3.7)
Capital contribution	-	14.7	14.7
Tax charge on capital contribution	-	(4.0)	(4.0)
31 December 2010	**415.7**	**45.8**	**461.5**

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

15 Commitments

Commitments for capital expenditure
Capital expenditure contracted commitments amount to £2.7 million (2009: £1.4 million).

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

	31 December 2010 £m	31 December 2009 £m
Leases which expire:		
within two to five years	**-**	0.1
over five years	**9.2**	8.8
	9.2	8.9

Commitments under contractual obligations
The Company has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Company until March 2013. Such commitments are for the normal purchase, sale or usage and hence are accounted for as ordinary purchase contracts. At 31 December 2010 the estimated minimum commitment for the future purchase of electricity under this contract totalled £13.1 million (2009: £19.5 million).

Other commitments
During the year there was a change in UK government and subsequently a government policy change in relation to runway developments. BAA announced that it was withdrawing its planning permission applications for a second runway at Stansted. Stansted already holds domestic properties and land purchased under voluntary schemes for those people living near Stansted Airport whose homes would be affected by the previous government airport expansion plans (the Home Value Guarantee Scheme, the Home Owners Support Scheme and the Special Cases Scheme). All three schemes were closed to new applicants during the year. As at the reporting date three property acquisitions were still to be completed. The current estimate of the net cost of the blight compensation schemes is up to £110.0 million. Total value to 31 December 2010 is £108.0 million (2009: £107.0 million).

The Company is also required by the government to offer noise mitigation measures relating to existing airport activities. Based on the Company's evaluation, payments under current noise schemes are estimated at £0.4 million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings and assistance with the costs of relocation for dwelling owners. A review of the existing noise insulation and mitigation schemes commenced during 2010 and BAA is due to consult publicly during 2011.

In June 2006, the government announced its conclusions for the 2006-2012 night flights regime at the BAA Group's London airports. The regime committed the Company to introducing a new domestic noise insulation scheme at Stansted 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 2011. 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. The Company expects to contribute its share of this amount to the pension scheme in the year ending 31 December 2011.

16 Contingent liabilities

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

The Company, together with Heathrow and HEX have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of their liabilities under the Borrower Account Bank Agreement.

BAA Pension Trust Company Limited has a right to receive up to £300.0 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

In addition, the Company is a joint guarantor in respect of principal and accrued interest in relation to the borrowings of Heathrow from BAA Funding Limited under the Initial Borrower Loan Agreement ('IBLA') dated 18 August 2008. As at 31 December 2010 the carrying amount of the borrowings under the IBLA was £6,346.2 million.

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

16 Contingent liabilities *continued*

Under the SSA, hedging costs properly incurred by BAA Airports Limited in relation to the Executive Share Ownership Plan ('ESOP') may be recharged to the Company. At 31 December 2010, the ESOP swaps held in BAA Airports Limited had a fair value loss of £75.6 million (2009: £69.9 million). The Company may be obligated to settle its share of these amounts in the future, which is approximately £10.0 million, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability.

17 Ultimate parent undertaking

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

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

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

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

18 Post balance sheet events

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

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

19 Summary of cash flow statement

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Operating profit	**61.0**	27.4
Adjustments for:		
Depreciation	**40.3**	38.6
Working capital changes:		
Decrease in stock and debtors	**3.2**	11.1
Decrease in creditors	**(2.4)**	(7.3)
(Decrease)/increase in provisions	**(6.9)**	0.5
Difference between pension charge and cash contributions	**(5.6)**	(5.7)
Exceptional pension (credit)/charge	**(15.1)**	36.4
Net cash inflow from operating activities	**74.5**	101.0
Net interest paid	**(16.4)**	(25.1)
Taxation - group relief paid	**(5.5)**	(17.2)
Net capital expenditure	**(22.4)**	(57.9)
Net cash inflow before management of liquid resources and financing	**30.2**	0.8
Financing		
Repayment of long term bank loans	**-**	(600.0)
Increase in amounts owed to group undertakings	**-**	600.0
Increase in cash	**30.2**	0.8

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

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