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News Release

25 February 2009

BAA Limited[1] (BAA)

Results for the year to 31 December 2008

Separate information is presented in this announcement relating to both BAA Limited and BAA (SP) Limited. BAA Limited is the owner of the whole BAA business and prior to 6 October 2008 it was called Airport Development and Investment Limited. BAA (SP) Limited is the owner of BAA's three London airports of Heathrow, Gatwick and Stansted (the 'Designated Airports').

Highlights

Financial

- Financial performance in line with BAA's expectations
- BAA Limited[2][3]
  - Reported revenue up 14.5% to £2,125 million (2007: £1,856 million (restated))
  - Adjusted Revenue up 14.3% to £2,590 million (2007: £2,266 million)
  - Adjusted EBITDA[4] up 0.9% to £1,092 million (2007: £1,082 million)
  - Adjusted Operating Profit[4] down 18.4% to £582 million (2007: £713 million)
  - Operating profit of £23 million (2007: £476 million)
  - Net debt of £12.1 billion[5] at 31 December 2008
  - Capital investment of £1.2 billion
  - Completed refinancing provides permanent long-term funding platform for the group
  - Shareholders increased financial commitment with £400 million equity injection
- BAA (SP) Limited[6]
  - Revenue up 16.0% to £2,292 million (2007: £1,976 million)
  - Adjusted EBITDA[4] up 1.3% to £916 million (2007: £904 million)
  - Adjusted Operating Profit[4] down 23.3% to £472 million (2007: £615 million)
  - Operating profit of £364 million (2007: £435 million)
  - Cash generated from operations of £831 million (2007: £817 million)
  - Net debt of £9.4 billion[5] and Regulatory Asset Base of £12.5 billion at 31 December 2008
  - Capital investment of £1.0 billion

Operational

- Focus on service and investment delivering tangible customer benefits
  - Independent survey shows Terminal 5 amongst best European airport facilities and recognises significant improvements in passenger satisfaction at Heathrow and Gatwick[7]
  - Heathrow and Gatwick improve performance under CAA service quality schemes
- Group passenger traffic declined 2.7% to 151.4 million (2007: 155.7 million) with traffic at BAA's three London airports declining 2.6% to 123.4 million (2007: 126.8 million)
- 3.5% growth in long haul traffic demonstrates strength of Heathrow's hub airport status
- Robust retail activity - net retail income per passenger up 2.9% across London airports

Outlook for 2009

- Whilst expecting a challenging year, underlying profits and cash flow forecast to increase
  - Reflects increases in aeronautical tariffs consistent with regulatory settlements
  - Recognises that no further significant change in operating costs is required
  - Supports further significant investment in airport facilities
  - Despite continued impact of economic environment on passenger traffic
- Planned disposal of Gatwick progressing on schedule
- Continue to step up focus on improving service quality

Colin Matthews, Chief Executive of BAA, said: “BAA performed strongly in 2008 although its performance was affected by a drop in passengers, which reflects the general economic situation. 2009 will be a challenging year but BAA is resourced and structured to meet those challenges and continue to invest in the capital programme that is vital for the future of the business, its passengers and our airline customers.”

(1) BAA Limited was previously Airport Development and Investment Limited with the change of name occurring on 6 October 2008
(2) BAA Limited statutory accounts prepared under International Financial Reporting Standards (‘IFRS’) with Gatwick treated as a discontinued operation
(3) ‘Adjusted’ figures for BAA Limited include Gatwick’s trading results
(4) Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items (and certain re-measurements in the case of BAA Limited) and Adjusted Operating Profit is Adjusted EBITDA less depreciation and amortisation (excluding any exceptional depreciation items)
(5) Nominal value of debt and excludes intra-group loans and is before index-linked accretion of £42 million
(6) BAA (SP) Limited is the holding company in the financing structure for BAA’s three London airports. Its statutory accounts are prepared under UK GAAP with Gatwick treated as a continuing operation
(7) Source: Q4 2008 Airport Service Quality survey by Airports Council International

For further information please contact

BAA

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There will be a conference call today at 9.30am (UK time) for bondholders and analysts to discuss the results for the year to 31 December 2008. The call will be hosted by Jose Leo, BAA’s Chief Financial Officer. Dial-in details for the call are: Conference ID: 85609663; UK free phone: 0800 694 0257; UK local call: 01452 555566; standard international: +44 (0)1452 555566. It will also be possible to view online the presentation as it is used during the call at
https://www.livemeeting.com/cc/webconnect/join?id=B8PBWQ&role=attend

(to access this site you may need to use the meeting ID: B8PBWQ)

BAA Limited

Results for the year to 31 December 2008

Summary

Introduction

2008 was a year of significant developments for BAA:

- successful implementation of key parts of its long term strategy;
- a number of regulatory initiatives that will shape the future of the business;
- substantial progress in operational performance;
- delivery of a robust financial performance in line with expectations; and
- a deteriorating macroeconomic environment as the year progressed

Operational

The major strategic achievements in 2008 were the commissioning of Terminal 5 at Heathrow and the permanent refinancing of the Group. Terminal 5's completion and occupation is a critical first step in transforming Heathrow, enhancing the passenger and airline experience compared to the rest of the airport. Its opening has also freed capacity elsewhere in the airport, enabling BAA to invest in improving service across the whole airport in the next few years.

The refinancing completed in August 2008 provides a long-term platform to meet the financing needs of the Designated Airports, particularly in the debt capital markets where funding duration typically matches the life of BAA's infrastructure.

During the year, there were several significant regulatory developments with further key milestones expected in the coming weeks. New five-year price controls began at Heathrow and Gatwick on 1 April 2008 and begin at Stansted on 1 April 2009 providing certainty over investment plans and levels of aeronautical charges at these airports. The Competition Commission continued its investigation of BAA's ownership of UK airports which is likely to be concluded in March 2009 with a requirement for BAA to dispose of a number of its airports. The Department for Transport began a review of the economic regulation of all UK airports and is expected to begin a consultation process imminently.

BAA's consistent focus on substantial investment in modern airport facilities and raising service standards is delivering tangible benefits for customers. For example, in an independent survey measuring overall passenger satisfaction of global airport facilities in the fourth quarter of 2008, Terminal 5 was amongst the best European airport terminal facilities and both Heathrow and Gatwick improved their performance compared to 2007. In addition, at BAA's two largest airports of Heathrow and Gatwick, service standards improved with net rebates under the CAA's new and stricter service quality rebate schemes declining from £4.7 million in the 3 months to 30 June 2008 to £0.8 million in the 3 months to 31 December 2008.

The impact on BAA of the deteriorating global economic environment during 2008 was most evident in softening demand for air travel, particularly in the final few months of the year. Across all BAA's airports, in 2008 passenger traffic declined 2.7% to 151.4 million (2007: 155.7 million). At BAA's three London airports passenger numbers were 123.4 million (2007: 126.8 million) with Heathrow demonstrating the greatest resilience, growing long haul traffic 3.5% although total traffic declined 1.4%.

Financial

Increased aeronautical charges across BAA's three London airports combined with resilient retail activities and a focus on operational efficiencies helped to offset planned increases in operating costs, enabling both BAA Limited and BAA (SP) Limited to report a robust operating financial performance for 2008. The business is in the early stages of a five year regulatory period at its largest airports during which the tariff structure will see aeronautical charges increase substantially in real terms. At the same time costs are expected to remain relatively stable as the planned major cost increases for example in relation to Terminal 5 have occurred from the beginning of the five year period. Therefore, it is expected that profits and cash flows will increase over time, supporting continued significant investment in the group's airport facilities.

Set out below is a summary of the revenue and profit performance of both BAA Limited and BAA (SP) Limited. Further details of their financial performance including a discussion of cash flows, balance sheet and debt are set out in the financial reviews.

BAA Limited (statutory accounts prepared under IFRS with Gatwick operations treated as a discontinued operation)
Adjusted revenue increased 14.3% to £2,590 million (2007: £2,266 million) and Adjusted EBITDA was £1,092 million (2007: £1,082 million). Adjusted Operating Profit was £582 million (2007: £713 million). On a statutory basis, BAA Limited's revenue increased 14.5% to £2,125 million (2007: £1,856 million). The lower revenue compared to the 'Adjusted' figure reflects Gatwick being treated as a discontinued operation in the statutory results but included within the adjusted figures to provide readers with a better comparison with performance against the results previously published for 2007.

In the year to 31 December 2008, BAA Limited reported an operating profit of £23 million (2007: £476 million operating profit). The operating profit was affected by largely non-cash exceptional costs of £103 million (2007: £169 million) and re-measurements of the fair value of investment properties and derivative instruments of £346 million (2007: £(29) million gain). Loss after tax at BAA Limited was £1,946 million including a non-cash exceptional deferred tax charge reflecting the impact of the abolition of Industrial Buildings Allowances ('IBAs') of £1,144 million (2007: £nil).

BAA (SP) Limited (statutory accounts prepared under UK GAAP)
BAA (SP) Limited's consolidated revenue increased 16.0 % to £2,292 million (2007: £1,976 million) and its Adjusted EBITDA was £916 million (2007: £904 million). Adjusted operating profit was £472 million (2007: £615 million). It reported a statutory operating profit of £364 million (2007: £435 million) reflecting £108 million in operating exceptional costs (2007: £180 million). In addition, there was a £143 million exceptional cost recorded in interest payable related to fees paid on refinancing.

Business review

Transforming BAA's airports

BAA's strategy is to deliver sustained improvements in passengers' experience and airlines' operations through a combination of substantial investment in modern airport facilities and improved service standards. It also intends to deliver further investment targeted at increasing capacity to meet the expected continued growth in air travel.

This strategy will ensure that its airports provide customers with superior facilities relative to competitors in the UK and elsewhere, particularly in Europe, encouraging greater utilisation of BAA's airports by passengers and airlines and supporting the group's long term growth ambitions.

Developing modern airport facilities
In 2008, the most significant development in BAA's airport facilities was the commissioning of Terminal 5 at Heathrow, the first new terminal at the airport for over 20 years. Despite the difficulties around its opening, Terminal 5 is now providing airlines and passengers with a world-class service. Independent surveys rank it amongst the best airport terminal facilities in Europe for overall passenger satisfaction.

The opening of Terminal 5 has also provided the spare capacity at Heathrow to enable BAA to invest in improving service across the whole airport in the next few years. Over the period from August 2008 to 31 March 2013, it expects to invest £4.3 billion (at 2007/08 prices) at Heathrow, with the most significant investment relating to construction of the new Terminal 2A and its satellite Terminal 2B, which will replace the existing Terminal 2 and deliver facilities of equivalent standard to Terminal 5. Terminals 3 and 4 will also be extensively refurbished to raise standards to similar levels to Terminal 5. There will also be substantial investment in improving baggage connections across the airport. This investment programme has been agreed with airlines and the CAA.

These investments will strengthen Heathrow's position as a leading global hub airport and on completion will result in:

- 70% of Heathrow's passengers travelling through new or recently constructed terminals with the remaining 30% of passengers using significantly refurbished terminals
- Joint location of members for each of the major global airline alliances, providing a unique platform for BAA's airline customers to enhance efficiency and profitability

The recent confirmation by the Secretary of State for Transport of the UK government's support for the development of a third runway with additional terminal facilities is a key step towards ensuring Heathrow continues to play a key role in meeting long term aviation demand in the UK and the development of the wider UK economy.

BAA is committed to transforming other airports in its portfolio. For example, in 2008 £99 million was invested at Stansted which included in particular the extension to its arrivals area to provide additional capacity and enhanced retail layout. Plans for the longer term growth of Stansted were supported by approval in October 2008 by the Secretaries of State for Transport and Communities and Local Government to increase passenger traffic levels at the airport, using existing facilities, from 25 million to 35 million per annum. In addition, following the submission of a planning application in 2008, a public inquiry relating to a second runway and terminal at the airport, that would enable growth beyond 35 million passengers per annum, is due to commence shortly.

In Scotland, a major extension of Glasgow airport which involved an investment of £31 million opened to passengers. This 'Skyhub' extension offers a new security search area and equipment, more space for passengers to relax and an improved retail environment. In February 2009, BAA also announced a major terminal extension at Edinburgh airport that will increase terminal capacity, provide a new purpose built security screening area and offer passengers a wider choice of shops, bars and restaurants. This is expected to involve a total investment in excess of £40 million.

Service standards

Consistent delivery of high service standards is a key strategic priority for BAA, underpinning the experience of passengers and airlines and supporting the group's long term growth ambitions. Major service improvements in 2008 included the impact of Terminal 5's commissioning and occupation and the benefits of operating at Heathrow and Gatwick under the strengthened service quality rebate schemes applying from 1 April 2008.

Following the initial difficulties immediately after its opening in March 2008, service at Terminal 5 has improved substantially with overall passenger satisfaction, as measured by Airline Council International's Airport Service Quality ('ASQ') survey for the fourth quarter of 2008, rated amongst the best European airport terminal facilities. In the same survey, Heathrow overall has moved above several competing major European hub airports in overall passenger satisfaction compared to its position a year earlier. Gatwick's rating has also improved relative to the prior year.

The service quality rebate schemes applying at Heathrow and Gatwick from 1 April 2008 were strengthened to include new elements, higher standards for existing parts of the schemes, increased penalties for not achieving standards and bonuses where out-performance is achieved consistently across an airport.

Further evidence of improving service standards can be seen from the rapid reduction in rebates paid by Heathrow and Gatwick following the introduction of these stricter schemes. The level of rebates (net of bonuses earned) in the nine months to 31 December 2008 was £7.8 million with the level of rebates declining from £4.7 million in the 3 months to 30 June 2008 to just £2.3 million and £0.8 million in the two subsequent quarterly periods.

One of the most visible service standards relates to security queuing times. These have improved significantly and security queues for direct passengers were below five minutes for 98.6% and 95.2% of the time at Heathrow and Gatwick respectively in the nine months to 31 December 2008 compared with the required 95.0% service standard.

Passenger traffic trends

Trends in passenger traffic for 2008 across all eight of BAA's airports as well as by market served for its seven UK airports are compared against performance in 2007 in the table below.

	Year ended 31 December 2008	Year ended 31 December 2007	Change (%)[1]
Passengers by airport			
Heathrow	**66.9**	67.9	(1.4)
Gatwick	**34.2**	35.2	(2.8)
Stansted	**22.3**	23.8	(6.0)
Total Designated Airport passengers[1]	**123.4**	**126.8**	**(2.6)**
Glasgow	**8.1**	8.7	(6.8)
Edinburgh	**9.0**	9.0	(0.5)
Aberdeen	**3.3**	3.4	(3.5)
Southampton	**2.0**	2.0	(0.8)
Total Non-Designated Airport passengers[1]	**22.4**	**23.2**	**(3.4)**
Total UK passengers[1]	**145.8**	**150.0**	**(2.8)**
Naples	**5.6**	5.7	(2.3)
Total BAA passengers[1]	**151.4**	**155.7**	**(2.7)**
Passengers by market served (Designated Airports)			
UK	**11.7**	12.3	(5.6)
Europe	**68.5**	70.5	(2.9)
Long haul	**43.3**	43.9	(1.5)
Total passengers[1]	**123.4**	**126.8**	**(2.6)**
Passengers by market served (all UK airports)			
UK	**24.7**	26.2	(5.9)
Europe	**76.6**	78.5	(2.4)
Long haul	**44.5**	45.2	(1.5)
Total passengers[1]	**145.8**	**150.0**	**(2.8)**

(1) These figures have been calculated using un-rounded numbers

Traffic performance across all BAA's airports softened as the year progressed reflecting the increasingly difficult global economic environment with performance earlier in the year also affected by the aviation industry's need to adjust to high fuel prices. Across the European aviation industry, long haul traffic maintained its recent trend of outperforming other market segments and continued growing despite the difficult market conditions. BAA benefited from this trend particularly at Heathrow, where long haul traffic increased, reflecting its position as a major global hub airport for long haul services. This is also beneficial for BAA's financial performance as long haul traffic generates higher levels of aeronautical and retail income. However, other market segments were more affected, including the charter market and domestic and other short haul services.

Overall, passenger traffic across all eight of BAA's airports declined 2.7% in 2008 to 151.4 million (2007: 155.7 million). In the same period, passenger traffic at BAA's seven UK airports declined 2.8% to 145.8 million (2007: 150.0 million) whilst at its three London airports there was a 2.6% reduction in passengers to 123.4 million (2007: 126.8 million).

At Heathrow, BAA's largest airport, long haul passenger numbers increased 3.5% to 35.0 million (2007: 33.8 million), reflecting both the transfer of some US traffic from Gatwick due to the EU-US Open Skies Agreement and growth on other long haul routes. Transfer traffic increased to 36% of Heathrow's total traffic (2007: 34%). Long haul growth partially offset weaker domestic and other short haul services with Heathrow's total passenger traffic declining 1.4% to 66.9 million (2007: 67.9 million).

Gatwick saw passenger numbers decline 2.8% to 34.2 million (2007: 35.2 million) reflecting the loss, starting in April 2008, of approximately 40% of its US services to Heathrow. It also lost traffic later in the year as a result of the collapse of three carriers (XL Airways, Zoom Airlines and Sterling Airlines). These losses were in part offset by a surge in new services to Ireland and the take up of vacated slots by existing low cost airlines. At Stansted passenger numbers declined 6.0% to 22.3 million (2007: 23.8 million) due to major airlines reducing operations in the face of weakening demand and high fuel prices and the collapse of carriers such as Maxjet and Eos Airlines.

Across BAA's three London airports, long haul traffic declined just 1.5% to 43.3 million passengers (2007: 43.9 million), with North Atlantic routes seeing a 1.7% reduction and other long haul destinations performing slightly better, with a 1.3% decline. The strongest growing regional markets were the Middle East and South America which were up 4.0% and 5.1% respectively on 2007. European passenger traffic declined 2.9% to 68.5 million (2007: 70.5 million) particularly due to weakness in the charter market. Domestic traffic declined 5.6% to 11.7 million passengers (2007: 12.3 million).

Of BAA's other four UK airports, Edinburgh saw the most resilient performance with broadly unchanged passenger numbers whilst Glasgow performed weakest reflecting its exposure to the charter market. By market served, European passenger traffic at these airports was robust, increasing 1.4% to 8.1 million (2007: 8.0 million) with growing penetration of low cost scheduled services more than offsetting weakness in the charter market. Long haul passenger traffic of 1.3 million showed a 2.3% decline on 2007 whilst domestic traffic reduced 6.2% to 13.0 million passengers (2007: 13.9 million). Overall, total passenger numbers across these four airports declined 3.4% to 22.4 million passengers (2007: 23.2 million).

At Naples, passenger traffic declined 2.3% to 5.6 million (2007: 5.7 million) with the instability at Alitalia contributing to its traffic trends as the year progressed.

Retail activities

BAA's retail activities proved resilient in 2008 to the worsening economic environment reflecting a number of factors specific to BAA's airports.

These include the significant recent expansion and upgrade of BAA's retail facilities. In particular, Heathrow Terminal 5 has 23,000m^2 of the highest quality retail space at Heathrow out of the airport's total of 66,000m^2. Terminal 5 has only welcomed its full complement of passengers since October 2008 when British Airways completed its planned moves from other terminals. Elsewhere at Heathrow, the launch of Terminal 1's common user lounge in June 2008 (providing domestic passengers with access to the same retail offer as international passengers) also helped to support retail performance. Other recent increases and improvements in retail facilities across BAA's airports include the South Terminal departure lounge extension at Gatwick, the new arrivals area at Stansted and the first phase of the new Skyhub facility at Glasgow which opened in October 2008.

The principal drivers of retail spend in BAA's airports are time spent in departure lounge areas and passenger propensity to spend. Improvements to the end-to-end passenger experience (including security queuing) have led to a better propensity to spend and recent exchange rate movements have increased the attractiveness of product pricing to non-UK based passengers. In addition, passenger mix has continued its long term shift towards higher spending and more profitable long haul passengers. These factors, taken with the significant improvements to the catering and retail offer, led by Terminal 5, have led to increases in participation (proportion who buy) and spend per passenger amongst both UK and foreign passengers.

Regulatory developments

Competition Commission inquiry into BAA's ownership of UK airports
On 17 December 2008, the Competition Commission ('CC') issued its Provisional Decision on Remedies in relation to its ongoing investigation of BAA's ownership of UK airports. These included structural and behavioural remedies as well as recommendations on regulatory and policy matters for consideration by other governmental bodies.

The provisional structural remedies include the disposal of Gatwick and Stansted to different purchasers as well as the disposal of Edinburgh airport. These remedies were the subject of further consultation, with the CC in particular seeking views on the timing of the Stansted disposal in relation to the forthcoming public inquiry concerning its potential second runway and whether BAA should be able to select which of Edinburgh or Glasgow to sell.

Suggested behavioural remedies include the introduction of a rebate scheme to incentivise investment at Aberdeen airport and strengthening consultation processes and provisions on non-discrimination and quality of service at Heathrow. The CC has also recommended that the Department for Transport ('DfT') consider adopting a licence based regime of economic regulation of UK airports and allowing terminals to be separately owned from runways.

The CC is expected to publish its final report, and the appropriate remedies, in March 2009. BAA will then have two months in which to decide whether to lodge a legal appeal.

Gatwick disposal
Given the CC's findings earlier in its investigation, on 17 September 2008, BAA announced plans to sell Gatwick airport. The sale process is progressing on schedule with initial bids received during January 2009. The process is expected to be completed in the first half of 2009. The regulatory asset base of Gatwick at 31 December 2008 was £1,578 million and it is forecast to be £1,624 million at 30 June 2009.

Department for Transport ('DfT') review of UK airport economic regulation
The DfT is currently conducting a review of the economic regulation of all UK airports with a 3 month formal consultation process likely to commence shortly. This is expected to be followed by the issue of the DfT's final decision on the new regulatory proposals in the autumn of 2009. Implementation of the final proposals will require changes in law which could occur as early as mid-2010 although this timing will be subject to parliamentary time being found to enact the necessary legislative changes.

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

It is anticipated that the regulatory review will result in the introduction of a licensing regime similar to that operating in many regulated industries. Other key features of the proposals that could be submitted for consultation could include a regime that more explicitly supports the financial profile of airport operators and of a special administration regime. These concepts are common in other regulated industries.

Whilst there may be a change in law prior to the end of the price control periods in 2013 for Heathrow and Gatwick and 2014 for Stansted, the DfT has made clear that the tariff arrangements for these periods will not be re-opened.

Aeronautical charges at Heathrow and Gatwick for 5 years to 31 March 2013 ('fifth quinquennium' or 'Q5')
In March 2008, the Civil Aviation Authority ('CAA') published its price control review for Heathrow and Gatwick for the five years to 31 March 2013. In its proposals, a pre-tax real cost of capital of 6.2% at Heathrow and 6.5% at Gatwick was assumed. It set the maximum growth in aeronautical charges per passenger for Heathrow at RPI+23.5% for the year to 31 March 2009 and RPI+7.5% per annum for the remainder of Q5. For Gatwick the corresponding figures are RPI+21.0% and RPI+2.0% per annum.

The resulting impact on maximum allowable yield per passenger (in 2007/08 prices) is as follows:-

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Heathrow	£10.36	£12.80	£13.72	£14.76	£15.84	£16.99
Gatwick	£5.61	£6.79	£6.92	£7.06	£7.20	£7.34

The significant one-off increase in the aeronautical charges reflects the major capital programmes being undertaken by BAA at Heathrow and Gatwick in addition to the increased expenditure required to meet the new security regime. Further, between 2007/08 and 2008/09 this reflects a rebasing of tariffs to include costs previously charged to airlines by NATS for aerodrome navigation services and by BAA separately from the aeronautical charges for both baggage infrastructure services and fuel levy. The total amount included in the new tariffs for these services is £1.08 and £0.70 per passenger at Heathrow and Gatwick respectively.

The higher charges for Q5 are being phased in during the first regulatory year to 31 March 2009, meaning that in the year to 31 December 2008 the full benefit was not enjoyed.

Proposed aeronautical charges at Stansted for 5 years to 31 March 2014
On 9 December 2008, following CC recommendations, the CAA issued final proposals, subject to a further round of consultation, on aeronautical charges to apply at Stansted airport for the five year period to 31 March 2014. Key features of the CAA's proposals include a permitted pre-tax real return on capital of 7.1%. It has also recommended that maximum allowable aeronautical charges remain flat at £6.05 per passenger for 2 years and increase at RPI+1.63% after 2010/11.

The CAA's recommendations are based on a capital plan of approximately £90 million, in 2007/08 prices, primarily on Stansted's existing facilities over the 5 years to 31 March 2014 that has been agreed with Stansted's airline community.

Further, the CAA supports the need for Stansted Generation 2 ('SG2'), that involves the construction of a new terminal and runway. However, it has suggested a later opening date than currently planned. It has also indicated that in the event that circumstances change, such as planning approval being received during the five year period to 31 March 2014, it would be open to Stansted to seek approval to re-set the tariffs for the remainder of the quinquennium.

The CAA is expected to issue its final decision regarding pricing for Stansted's next quinquennium in the first half of March 2009.

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

Refinancing

In August 2008, BAA completed the refinancing of its UK airports. The transaction established a stable long-term investment grade financing platform for investment and repaying the acquisition financing originally put in place at the time of the Ferrovial-led consortium's acquisition of the Group in 2006. The refinancing comprised the following key elements:

- A corporate reorganisation to enable separate financing of the Designated Airports and BAA's other UK airports (Edinburgh, Glasgow, Aberdeen and Southampton)
- The establishment of an investment grade long term financing platform for the Designated Airports including £4.8 billion of fully drawn bank and EIB facilities and the exchange of £4.5 billion of bonds previously issued by BAA Airports Limited (previously BAA plc at the original date of issue) for bonds issued by BAA Funding Limited

- The availability of £2.75 billion of undrawn capital expenditure and working facilities to finance capital investment at the Designated Airports
- A separate £1.255 billion bank financing for Edinburgh, Glasgow, Aberdeen and Southampton airports
- An increase in BAA's shareholders' commitment to the business through a £400 million equity injection to strengthen BAA's financial structure

Developments since beginning of 2009

Heathrow third runway
On 15 January 2009, the Secretary of State for Transport confirmed the UK government's support for the addition of a third runway at Heathrow with additional terminal facilities. It is expected that this will allow maximum air transport movements at Heathrow to increase from 480,000 currently to 605,000 by around 2020 subject to achieving noise and air quality standards. The next step in the process for the potential development of the third runway and additional terminal facilities is to prepare appropriate plans with a view to obtaining the necessary planning permissions and other consents.

2009 traffic trends
In January 2009, BAA's total passenger traffic was 9.7 million, a fall of 6.8% compared to January 2008. BAA's three London airports performed better than the Group average, with a 5.9% decline to 8.1 million passengers. This performance continued the moderation in the rate of decline in monthly passenger numbers relative to the prior year seen in December 2008. Heathrow maintained its recent resilience with a 2.1% decline. In February 2009, passenger traffic versus 2008 will be impacted by both weather disruption early in the month and the fact that February 2008 contained 29 days.

Outlook for 2009

2009 is expected to be a challenging year with the economic environment expected to have a continued impact on passenger traffic. Despite the forecast fall in passenger numbers in 2009, BAA's financial performance is expected to improve relative to 2008, as it earns a return on the substantial agreed investments it continues to make in its airports on behalf of its airline customers. In particular, aeronautical charges per passenger at Heathrow, Gatwick and Stansted are expected to average over 10% higher than in 2008. Retail performance is expected to remain resilient reflecting the full year benefits of recent significant retail space additions such as Terminal 5 and the common user lounge at Terminal 1 at Heathrow and Skyhub at Glasgow. In addition, actions have been identified to deliver further efficiencies and cost savings.

The group expects to invest a total of £1.3 billion in 2009 across all its airports with £1.2 billion invested at the Designated Airports, in both cases assuming ownership of Gatwick for the first half of 2009 only.

In the coming weeks there are expected to be a number of regulatory developments of significance to BAA's future including:

- The Department for Transport publishing proposals for consultation on the future economic regulation of UK airports. Its final proposals are expected to be issued in autumn 2009
- The Competition Commission publishing its Report on Remedies relating to its investigation of BAA's ownership of UK airports
- The Civil Aviation Authority publishing its final price control determination for Stansted for the 5 years to 31 March 2014

The sale of Gatwick will be an important milestone in the development of the business during 2009 and is expected to be completed in the first half of the year.

Financial review – BAA Limited

The financial statements of BAA Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Under IFRS, Gatwick is treated as a discontinued operation with prior year comparatives being adjusted accordingly. However, in order to make it easier for readers of this financial review to understand the underlying performance of BAA Limited's business, the Gatwick operations have been included in Adjusted Revenue, Adjusted EBITDA and Adjusted Operating Profit. In addition, the business commentary excludes operating exceptional items relating to items such as accelerated depreciation and Terminal 5 operational readiness costs which are commented on separately within the financial review. "Certain re-measurements" including the revaluation of investment property and derivative financial instruments are also discussed separately. A reconciliation of the statutory results to the adjusted performance measures is included in Appendix 3.

Income statement

Revenue
BAA Limited's Adjusted Revenue (including Gatwick) for the year to 31 December 2008 increased 14.3% to £2,590 million (2007: £2,266 million).

Aeronautical income increased 25.1% to £1,360 million (2007: £1,087 million), driven by the increases experienced at Heathrow, Gatwick and Stansted described under 'Financial review – BAA (SP) Limited'. Aeronautical income for the remaining BAA airports increased 1.3% to £151 million (2007: £149 million) driven primarily by Southampton and Naples.

Gross retail income increased 3.1% to £698 million (2007: £677 million) including £21 million (2007: £18 million) from US retail management contracts. Excluding these US contracts and after deducting cost of sales from the remaining gross income to adjust principally for changes in car parking contractual arrangements, net retail income ('NRI') across BAA's eight owned airports increased 0.9% to £659 million (2007: £653 million) with an increase in NRI per passenger of 3.7% to £4.22 (2007: £4.09) partially offset by a 2.8% reduction in passenger numbers. Net retail income outside BAA (SP) Limited's airports increased 2.5% to £83 million (2007: £81 million) or by 5.3% per passenger to £2.99 (2007: £2.84). The increase was driven by the performance of Naples.

Other income increased 5.0% to £532 million (2007: £502 million). This was driven by the increase at BAA (SP) Limited described under 'Financial review – BAA (SP) Limited'.

Adjusted Operating costs
Underlying operating costs, excluding depreciation and exceptional costs, in the year to 31 December 2008 increased 26.5% to £1,498 million (2007: £1,184 million), driven by the increases experienced at Heathrow, Gatwick and Stansted described under 'Financial review – BAA (SP) Limited'. Underlying operating costs for the remaining BAA airports increased 10.5% to £116 million (2007: £105 million) primarily reflecting ANS, PRM, rates and utilities costs.

Adjusted EBITDA
Adjusted EBITDA for the year to 31 December 2008 increased 0.9% to £1,092 million (2007: £1,082 million).

Net finance costs
In the year to 31 December 2008, BAA Limited's consolidated net finance costs before certain re-measurements were £1,058 million (2007: £888 million), which included £832 million of interest payable on external bond and bank financings, £319 million interest payable on group borrowings and £203 million in other items. This was partially offset by £196 million in finance income and £100 million in capitalised interest. The majority of the other items within financing cost and financing income relate to derivatives not in a hedging relationship.

The key elements of the £170 million increase in net finance costs between 2007 and 2008 were a £160 million reduction in capitalised interest and £47 million in amortisation of refinancing fees.

Net interest paid
Net interest paid in the year to 31 December 2008 was £817 million. In addition, £324 million in debt refinancing fees and £303 million in derivative interest prepayments were made as part of the refinancing completed in August 2008.

Exceptional items
There were a total of £103 million in net pre-tax exceptional charges to the profit and loss account in 2008 (2007: £169 million). This is mainly due to £84 million of accelerated depreciation relating to the shortened asset lives of Terminals 1 and 2 at Heathrow given the Terminal 2A development. In addition, there was a £1,144 million deferred tax charge arising as a consequence of the abolition of Industrial Building Allowances.

Certain re-measurements
There were a net total of £632 million in certain re-measurements (pre-tax) consisting of £337 million in fair value gains and losses on investment property revaluations and disposals and £295 million in gains and losses arising on the re-measurement of derivative instruments.

Net debt
The analysis of net debt below focuses on external debt and therefore excludes the £5.031 billion loan payable to BAA Limited's parent company, ADI Finance 2 Limited.

At 31 December 2008, on a consolidated basis BAA Limited had £4.5 billion of debt outstanding under various bond issues with an average funding cost of 6.37% per annum, after hedges. In addition, there was approximately £7.9 billion outstanding under various senior and junior bank debt facilities with an average cost of 7.28%, after hedges. With cash and cash equivalents of £0.4 billion, BAA Limited's nominal net debt was £12.0 billion at 31 December 2008 before £42m of accretion of index linked derivatives. Its equivalent net debt included in the consolidated balance sheet was £12.7 billion. The difference between nominal and accounting values primarily reflects revaluation for foreign exchange movements and revaluation of bonds on acquisition of the BAA group in 2006 partially offset by unamortized fees paid on refinancing in August 2008.

Financial review – BAA (SP) Limited

BAA (SP) Limited is the holding company for the Security Group that owns the Designated Airports. The financial statements of BAA (SP) Limited have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice) ("UK GAAP"). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

The following financial review, based on the consolidated financial statements of BAA (SP) Limited, provides commentary on the performance of the Designated Airports during 2008. Whilst the group represented by BAA (SP) Limited and its subsidiaries did not exist until 2008, its accounts have been prepared under UK GAAP including the adoption of merger accounting in relation to the group reorganisation that occurred on refinancing. This has enabled comparative financial information for 2007 to be provided as if the group always existed. Under UK GAAP, the Gatwick operations are included in the continuing business.

In order to provide a better understanding of the results of the underlying performance of BAA (SP) Limited and its subsidiaries, the business commentary excludes the impact of exceptional items, which are discussed in more detail in the review below.BAA (SP) Limited is the holding company for the Security Group that owns the Designated Airports. Therefore the following financial review, based on the consolidated financial statements of BAA (SP) Limited, provides a commentary on the performance of the Designated Airports during 2008. Whilst the group represented by BAA (SP) Limited and its subsidiaries did not exist until 2008, its accounts have been prepared under UK GAAP including the adoption of merger accounting in relation to the group reorganisation that occurred on refinancing, enabling comparative financial information for 2007 to be provided. Under UK GAAP, the Gatwick operations are included in the continuing business.

Profit and loss account

Revenue

In the year to 31 December 2008, BAA (SP) Limited's consolidated revenue increased 15.9% to £2,292 million (2007: £1,976 million). This increase reflects a 28.8% rise in aeronautical income, a 2.6% increase in gross retail income and 6.7% increase in other income compared to 2007, despite a 2.6% reduction in passengers.

	2008 £m	**2007** £m	**Change (%)**
Aeronautical income	1,209	939	28.8
Retail income	591	576	2.6
Other income	492	461	6.7
Total revenue	**2,292**	**1,976**	**16.0**

Aeronautical income

Aeronautical income by airport

	2008 £m	**2007** £m	**Change (%)**
Heathrow	835	634	31.8
Gatwick	228	178	28.6
Stansted	145	127	14.2
Total	**1,209**	**939**	**28.8**

In the year to 31 December 2008, aeronautical income at the Designated Airports increased 28.8% to £1,209 million (2007: £939 million). Growth at Heathrow and Gatwick was driven by the revised tariffs announced by the CAA for the five year regulatory period commencing on 1 April 2008. As a result, the combined aeronautical income at these airports increased by 30.9% to £1,063 million (2007: £812 million). A significant element of the increase in aeronautical income at Heathrow and Gatwick reflected the inclusion in the regulatory settlement of the costs of the heightened security regime in place since 2006. At Stansted, aeronautical income increased by 14.2% to £145 million (2007: £127 million) partly reflecting the fact that certain discounts on its aeronautical charges ceased to apply from 1 April 2007.

In addition, £57 million of the increase in aeronautical income across the three London airports reflected a rebasing of tariffs to include costs previously charged to airlines by NATS for aerodrome navigation services (ANS). The tariffs at Heathrow and Gatwick were also rebased to include services previously charged by BAA separately from the aeronautical charges for both baggage infrastructure services and fuel levy.

Retail income

Gross retail income from the Designated Airports in the year to 31 December 2008 increased 2.6% to £591 million (2007: £576 million). On a comparable basis, derived by deducting cost of sales from gross income to adjust principally for changes in car parking contractual arrangements, net retail income ('NRI') increased 0.2% to £554 million (2007: £553 million) with an increase of 2.9% per passenger largely offset by a 2.6% reduction in passenger numbers.

	Heathrow	**Gatwick**	**Stansted**	**Total**[(1)]
Gross retail income (£m)	329	172	91	591
Net retail income ('NRI') (£m)	309	157	88	554
Passengers (million)	66.9	34.2	22.3	123.4
NRI per passenger	£4.62	£4.61	£3.92	£4.49
Change in NRI per passenger from 2007[(1)]	+0.2%	+7.2%	+4.7%	+2.9%

(1) These figures have been calculated on un-rounded numbers

NRI per passenger was stable or improved across all the Designated Airports, with Gatwick enjoying the strongest growth of 7.2% and Stansted 4.7% growth. Heathrow maintained NRI per passenger despite a decline in car parking income due to a shift towards public transport and lower domestic passengers and a year of disruption as significant terminal refurbishment and airline moves between terminals occurred.

By activity, the main driver of the retail performance in the year to 31 December 2008 was airside and landside shops (including duty free) where revenue increased 3.3% to £247 million (2007: £239 million) or 6.2% per passenger. Airside specialist shops performed particularly well. Car parking revenue was £128 million (2007: £134 million) with the reduction due to the factors outlined above in relation to Heathrow.

Other income
Other income increased 6.7% in the year to 31 December 2008 to £492 million (2007: £461 million). This increase reflected in particular £12 million in income resulting from the introduction of services provided for passengers with restricted mobility ('PRM') which were previously directly sourced by the airlines. In addition, compared to 2007 rail income from Heathrow Express increased 7.5% to £86 million (2007: £80 million) and property rental income increased by 6.9% to £124 million (2007: £116 million).

Adjusted Operating Costs
Underlying operating costs, excluding depreciation and exceptional costs, in the year to 31 December 2008 increased 28.4% to £1,376 million (2007: £1,072 million).

Analysis of underlying operating costs

	2008 (£m)	2007 (£m)	Change (%)
Staff costs	445	361	23.3
Rent and rates	130	100	30.0
Utilities	120	103	16.5
Maintenance	170	125	36.0
Other costs (1) (2) (3)	511	383	33.4
Total	**1,376**	**1072**	**28.4**

(1) Includes £74 million (2007: £nil) related to re charging of aerodrome navigation services ('ANS') provided by NATS and the cost of services for passengers with restricted mobility ('PRM')
(2) Includes £37 million of retail expenditure (2007: £23 million) with the increase in costs reflecting a change in the structure of car parking contracts
(3) Net of capitalised costs of £33 million (2007: £31 million)

There was a 23.3% increase in staff costs to £445 million (2007: £361 million) concentrated primarily at Heathrow, which in addition to the opening of Terminal 5 was related to the costs of increased numbers of security personnel that were required to achieve the security service standards under the new Service Quality Rebate ('SQR') schemes. The increases in rent and rates, utilities and maintenance costs reflects the opening of Terminal 5, higher unit costs for utility services and increased maintenance costs partly driven by the new SQR schemes. Other costs include an additional £74 million in costs relating to aerodrome navigation services ('ANS') and services for passengers with reduced mobility ('PRM') which were sourced previously directly by the airlines. These are reimbursed through aeronautical charges for ANS and other income for PRM, as mentioned above. Other costs also reflects increased expenditure relating to changes in the contractual structure for car parking contracts.

The growth in underlying operating costs was impacted particularly by Heathrow where these costs increased by 35.0% to £929 million (2007: £688 million) due principally to inclusion of Terminal 5 operations in 2008 in addition to running the other four terminals. Terminal 5 operating costs added approximately £110 million during 2008. Significant drivers of the remaining increase in Heathrow's costs were its portion of the ANS and PRM costs referred to above, additional staff costs other than at Terminal 5 and maintenance expenses.

Adjusted EBITDA, Adjusted Operating Profit and Operating Profit
Adjusted EBITDA for the year to 31 December 2008 was £916 million (2007: £904 million).

The key drivers in Adjusted EBITDA remaining at similar levels to the prior year whilst revenues increased by 16.0% were:-

- Significant additional employment and other costs associated with operating Terminal 5
- Increased general and maintenance expenses to achieve higher service standards

- Increased employment costs driven by an increase in security personnel to reflect and achieve enhanced service standards and security requirements
- Increased aeronautical charges to reflect the higher cost structure, including those highlighted above, only applying from 1 April 2008
- The higher aeronautical charges applying at Heathrow and Gatwick from 1 April 2008 being phased such that only by 31 March 2009 will the full amounts have been recovered
- Part of the increased revenues being a pass through at nil margin of aerodrome air navigation services, previously charged directly to airlines by NATS, and services for passengers with restricted mobility

Consolidated Adjusted Operating Profit for BAA (SP) Limited in the year to 31 December 2008 was £472 million (2007: £615 million). In addition to the factors affecting Adjusted EBITDA, the reduction in Adjusted Operating Profit reflects significantly higher depreciation of £444 million (2007: £289 million) (excluding accelerated depreciation treated as an exceptional item) primarily associated with bringing Terminal 5 at Heathrow into operation.

Consolidated operating profit for the year to 31 December 2008 was £364 million (2007: £435 million) with the lower reduction from the prior year relative to Adjusted Operating Profit reflecting lower exceptional costs within operating profit (£108 million in 2008; £180 million in 2007).

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

	2008 (£m)	**2007** (£m)	**Change (%)**
Adjusted EBITDA	916	904	1.3
Depreciation	(444)	(289)	53.6
Adjusted Operating Profit	472	615	(23.3)
Accelerated depreciation	(84)	(66)	27.3
Other exceptional items	(24)	(114)	78.9
Operating profit	364	435	(16.3)

Net interest payable

In the year to 31 December 2008, BAA (SP) Limited's consolidated net interest payable, including fair value gains on financial instruments, but excluding exceptional items, was £545 million (2007: £222 million), which included £266 million of interest payable on bond and bank debt put in place in August 2008 and £338 million of interest payable on loans from other BAA entities that were repaid in August 2008. It also includes £145 million interest payable on the debenture created in 2008 relating to the £1.566 billion debt facility now held at BAA (SH) Limited and £74 million fair value gain on financial instruments. This was partially offset by £111 million in finance income and £100 million in capitalised interest.

The key elements of the £323 million increase in net finance costs between 2007 and 2008 were a £156 million reduction in capitalised interest, £23 million in amortisation of refinancing fees and £145 million a payable on the debenture discussed above.

Taxation

In the year to 31 December 2008, BAA (SP) Limited recorded a tax credit of £123 million (2007: £159 million) reflecting the current loss making position of BAA (SP) Limited and its subsidiaries.

Exceptional items

There were a total of £251 million in net pre-tax exceptional charges to the profit and loss account in 2008 (2007: £180 million). Of this total, £24 million relates to operating costs comprising of £22 million in operational readiness costs for Terminal 5 and £17 million of historical pension costs that have been pushed down BAA Airports Limited to BAA (SP) Limited's subsidiaries in accordance with the Shared Service Agreement. This is partially offset by a £15 million release of provisions as the charge previously made in relation to the 'Simplifying the Organisation' restructuring programme was higher than the outturn cost in addition of the re-scoping of the plan due to Gatwick's proposed disposal. A further £84 million was recorded in accelerated depreciation relating to the shortened asset lives of Terminals 1 and 2 at Heathrow given the Terminal 2A development. In addition, £143 million of refinancing fees incurred in the year were treated as exceptional items within net interest payable and similar charges

Performance against forecast
BAA's expectation remains that Adjusted EBITDA for the year ending 31 March 2009 will be no more than 5% below the original forecast of £1,015 million set out in the prospectus dated 14 July 2008.

Cash flow statement

Cash flow from operations
Net cash generated from operations in the year to 31 December 2008 was £831 million (2007: £817 million) with the reduction relative to Adjusted EBITDA and the prior year figure reflecting primarily a net working capital outflow of £49 million (2007: £7 million) and a £20 million increase in provisions (2007: £18 million decrease).

Capital expenditure
In 2008, the Designated Airports incurred £1,015 million in capital expenditure (2007: £1,076 million) with £793 million at Heathrow, £124 million at Gatwick and £100 million at Stansted.

The major projects at Heathrow included the building of a tunnel between the main Terminal 5 building and its new satellite terminal ('T5C') for a connected baggage system, continued work on T5C and the purchase of an old control tower, which was the last part of land within the Central Terminal Area that was not owned by BAA and is key for future transformation plans. There were various other projects in the rest of the Heathrow campus, such as the Terminal 1 check-in refurbishment and creation of a common departure lounge in Terminal 1 for bmi and Aer Lingus.

At Gatwick major developments included completing the South Terminal departure lounge extension and starting the upgrade of the transit system that operates between the North Terminal and South Terminal.

At Stansted there was £62 million of expenditure on the existing infrastructure including the extension of the arrivals area to provide a better layout for capacity and retail. In addition, there was £38 million of expenditure for the SG2 project.

Net interest paid
Net interest paid by BAA (SP) Limited in the year to 31 December 2008 was £101 million (2007: £nil), comprising interest paid on bond and bank debt and derivatives since refinancing in August 2008. In the period prior to refinancing the entities owned by BAA (SP) Limited were funded via intra-group debt on which interest was capitalised and not paid, explaining why interest paid in 2007 was nil.

Balance sheet

Net debt and liquidity
The analysis of net debt below focuses on external debt and therefore excludes the £1.566 billion debenture between BAA (SP) Limited and BAA (SH) Limited.

At 31 December 2008, the Designated Airports had £4.5 billion of debt outstanding under various bond issues with an average funding cost of 6.37% per annum, after hedges. In addition, there was approximately £5.1 billion outstanding under various senior and junior bank debt facilities with an average funding cost of 6.66% per annum, after hedges. With cash and cash equivalents of approximately £0.2 billion, BAA (SP) Limited's nominal net debt was £9.4 billion at 31 December 2008 before £42 million of accretion on index linked derivatives. Its equivalent net debt as shown in its consolidated balance sheet was £9.6 billion. The difference between nominal and accounting values primarily reflects revaluation of bonds for foreign exchange movements between August 2008 and the year end partially offset by unamortized fees paid on refinancing in August 2008.

At 31 December 2008, the Designated Airports had total available undrawn bank facilities of £2.5 billion under capital expenditure and working capital facilities. Taken together with approximately £0.2 billion of cash and cash equivalents they had £2.7 billion of financial resources at their disposal. These resources combined with expected positive cash flow after interest payments provides significant resources for the Designated Airports to continue to fund their investment programmes for the foreseeable future.

On disposal of Gatwick, net disposal proceeds will be used in full to repay the Refinancing Facility.

Regulatory Asset Base

The Regulatory Asset Base ('RAB') of BAA's three regulated London airports is provided to the CAA and published as at 31 March each year in the regulatory accounts of Heathrow, Gatwick and Stansted airports. The RAB is also determined at 31 December each year for the purposes of calculating the Regulatory Asset Ratio (the ratio of net debt to RAB) for the Security Group and other parts of the BAA group under its financing arrangements. The RAB is rolled forward between each date according to a formula set out by the CAA. Set out below are historic RAB figures for the three airports at 31 March 2008 from their regulatory accounts together with historic figures at 31 December 2008 and forecast figures at 31 December 2009 for Heathrow and Stansted. No forecast RAB at 31 December 2009 is provided for Gatwick as it is expected to be sold prior to that date but at 30 June 2009 it is forecast to have a RAB of £1,624 million.

	Heathrow	**Gatwick**	**Stansted**	**Total**
	£m	£m	£m	£m
31 March 2008	9,232	1,560	1,185	11,977
31 December 2008	9,661	1,578	1,222	12,461
31 December 2009	10,510	n/a	1,265	11,775

Financial ratios

BAA (SP) Limited's Senior Regulatory Asset Ratio and Junior Regulatory Asset Ratio (ratios of senior net debt and junior net debt to RAB) at 31 December 2008 were 0.68 and 0.76 respectively. Forecast ratios at 31 December 2009 are 0.66 and 0.70 respectively as set out in the investor report published on 25 February 2009. Given the basis of calculation of this ratio, these historic and forecast ratio levels provide flexibility relative to the ratios in excess of 0.70x and 0.85x respectively that would need to be reached to result in a trigger event under financing arrangements of BAA (SP) Limited and its subsidiaries.

Appendix 1 – Financial information

BAA Limited

(Formerly Airport Development and Investment Limited)

Consolidated income statement for the year ended 31 December 2008

	Year ended 31 December 2008			Restated[2] Year ended 31 December 2007		
	Before certain re-measurements[1]	Certain re-measurements[1]	Total	Before certain re-measurements[1]	Certain re-measurements[1]	Total
	£m	£m	£m	£m	£m	£m
Continuing operations						
Revenue	**2,125**	**-**	**2,125**	1,856	-	1,856
Operating costs	**(1,756)**	**-**	**(1,756)**	(1,409)	-	(1,409)
Other operating income						
Fair value (losses) / gains on investment properties	**-**	**(337)**	**(337)**	-	8	8
Fair value (losses) / gains on derivative financial instruments	**-**	**(9)**	**(9)**	-	21	21
Operating profit / (loss)	**369**	**(346)**	**23**	447	29	476
Analysed as:						
Operating profit before exceptional items	**472**	**(346)**	**126**	616	29	645
Exceptional items	**(103)**	**-**	**(103)**	(169)	-	(169)
	369	**(346)**	**23**	447	29	476
Financing						
Finance income	**196**	**-**	**196**	86	-	86
Finance costs	**(1,254)**	**-**	**(1,254)**	(974)	-	(974)
Fair value (losses) / gains on derivative financial instruments	**-**	**(286)**	**(286)**	-	4	4
Loss before tax	**(689)**	**(632)**	**(1,321)**	(441)	33	(408)
Taxation – ordinary	**142**	**193**	**335**	245	(12)	233
Taxation – exceptional[3]	**(1,144)**	**-**	**(1,144)**	-	-	-
Taxation	**(1,002)**	**193**	**(809)**	245	(12)	233
Loss for the period from continuing operations	**(1,691)**	**(439)**	**(2,130)**	(196)	21	(175)
Net profit / (loss) from discontinued operations	**187**	**(3)**	**184**	223	39	262
Consolidated (loss) / profit for the year	**(1,504)**	**(442)**	**(1,946)**	27	60	87
Attributable to:						
Equity holders of parent	**(1,506)**	**(442)**	**(1,948)**	26	60	86
Minority interest	**2**	**-**	**2**	1	-	1

1 Certain re-measurements (including those of associates and joint ventures) consist of fair value gains and losses on investment property revaluations and disposals and the gains and losses arising on the re-measurement and disposal of derivative financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship, together with the related tax impact of these items.

2 Prior period comparatives have been restated to reflect the disposal of APP and WDFE and the expected disposal of Gatwick airport in 2009.

3 Total exceptional deferred tax charge of £1,250m related to abolition of Industrial Building Allowances, of which £106m relates to discontinued operations.

BAA Limited

(Formerly Airport Development and Investment Limited)

Consolidated balance sheet as at 31 December 2008

	31 December 2008 £m	31 December 2007 £m
Assets		
Non-current assets		
Property, plant and equipment	**10,931**	11,632
Investment properties	**2,702**	3,139
Intangible assets	**4,168**	4,696
Investments in associates	**7**	8
Available-for-sale investments	**35**	47
Derivative financial instruments	**830**	103
Retirement benefit surplus	**95**	144
Trade and other receivables	**134**	74
	18,902	19,843
Current assets		
Inventories	**6**	9
Trade and other receivables	**345**	307
Derivative financial instruments	**140**	20
Cash and cash equivalents	**410**	140
	901	476
Assets classified as held-for-sale	**2,383**	843
Total assets	**22,186**	21,162
Liabilities		
Non-current liabilities		
Borrowings[1]	**(17,053)**	(16,869)
Derivative financial instruments	**(462)**	(92)
Deferred income tax liabilities	**(2,403)**	(1,973)
Retirement benefit obligations	**(20)**	(22)
Provisions	**(110)**	(105)
Trade and other payables	**(9)**	(16)
	(20,057)	(19,077)
Current liabilities		
Borrowings[1]	**(1,060)**	(762)
Derivative financial instruments	**(432)**	(44)
Provisions	**(64)**	(95)
Current income tax liabilities	**(77)**	(71)
Trade and other payables	**(625)**	(633)
	(2,258)	(1,605)
Liabilities associated with assets classified as held-for- sale	**(1,533)**	(266)
Total liabilities	**(23,848)**	(20,948)
Net liabilities	**(1,662)**	214
Equity		
Capital and reserves		
Ordinary shares	**40**	-
Share premium	**364**	4
Fair value and other reserves	**(397)**	(96)
Retained earnings	**(1,688)**	293
Total shareholders' equity	**(1,681)**	201
Minority interest in equity	**19**	13
Total equity	**(1,662)**	214

[1] Interest payable is included within current borrowings.

BAA Limited

(Formerly Airport Development and Investment Limited)

Consolidated cash flow statement for the year ended 31 December 2008

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Operating activities		
Cash generated from continuing operations	**824**	789
Income taxes paid	**(6)**	(7)
Cash generated from discontinued operations	**170**	249
Net cash from operating activities	**988**	1,031
Investing activities		
Purchase of:		
Property, plant and equipment	**(1,021)**	(1,045)
Investment properties	**-**	(2)
Intangible assets	**(28)**	(9)
Proceeds from available-for-sale investments	**24**	41
Proceeds from sale of:	**-**	
Investment properties	**-**	10
Property, plant and equipment	**-**	14
Redemption of Loan Notes	**14**	
Investing activities of discontinued operations and disposal proceeds	**588**	1,487
Net cash (used in) / provided by investing activities	**(423)**	496
Financing activities		
Proceeds from issue of ordinary shares	**400**	-
Interest swap prepayments	**(303)**	-
Interest paid	**(838)**	(846)
Interest received	**21**	35
Proceeds from borrowings	**6,097**	980
Repayment of borrowings	**(6,358)**	(1,680)
Payment of loan arrangement fees	**(324)**	-
Financing activities of discontinued operations	**1,015**	(1)
Net cash used in financing activities	**(290)**	(1,512)
Net increase in cash and cash equivalents	**275**	15
Cash and cash equivalents at beginning of period	**150**	135
Cash and cash equivalents at end of period	**425**	150

[1] Prior period comparatives have been restated as certain operations have been classified as discontinued during the year ended 31 December 2008. In accordance with IFRS, prior period comparatives in the income statement and cash flow statement have been restated. Further, interest payable is included within borrowings in the balance sheet at 31 December 2007.

BAA Limited

(Formerly Airport Development and Investment Limited)

Notes to the consolidated financial statements

at 31 December 2008

1. General information

The financial information set out herein does not constitute the company's statutory financial statements for the years ended 31 December 2008 or 2007. Statutory accounts for 2007, which were prepared under IFRS, as adopted by the EU, have been delivered to the Registrar of Companies. The auditors have reported on those accounts. The annual financial information presented in this preliminary announcement for the year ended 31 December 2008 is based on, and is consistent with, that in the Group's audited financial statements for the year ended 31 December 2008. The auditors report on the financial statements is unqualified and does not contain any statement under section 237(2) or (3) of the Companies Act 1985.

Changes in the composition of the Group and Comparative information
The comparative information for the year ended 31 December 2007 has been restated as follows:

- Following the announcement in September 2008 of the intention to initiate a process for the disposal of Gatwick, under IFRS, in the accounts of BAA Limited, the operations have been disclosed as Discontinued and included in Assets held for sale.
- In 2007 the Airport Property Partnership ("APP") business was disclosed as Discontinued and included in Assets held for sale. During 2008, some of the APP assets were disposed of and these have been reflected in Discontinued however the remaining APP assets have been reclassified to Continuing and the comparatives restated. APP is a 50:50 joint venture between BAA Limited and clients of Morley Fund Management Limited.
- World Duty Free (Europe), which was included in Discontinued in 2007, was disposed of in [April] 2008 realising a profit on disposal of £226 million.

2. Significant accounting policies

Basis of preparation
This financial information has been prepared in accordance with IFRS adopted for use in the EU in accordance with EU law (IAS Regulation EC 1606/2002). This financial information has been prepared on the basis of recognition and measurement requirements of adopted IFRS's as at 31 December 2008. The Group financial statements have been prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the amended Companies Act 1985.

The Group complies with both IAS 39 'Financial Instruments: Recognition and Measurement', as adopted by the EU and the full version of IAS 39 issued by the IASB.

Appendix 2 – Financial information

BAA (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2008

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Turnover – continuing operations	**2,292**	1,976
Operating costs – ordinary	**(1,820)**	(1,361)
Operating costs – exceptional	**(108)**	(180)
Total operating costs	**(1,928)**	(1,541)
Operating profit – continuing operations	**364**	435
Interest receivable	**111**	39
Interest payable and similar charges – ordinary	**(656)**	(261)
Interest payable and similar charges – exceptional	**(143)**	-
Total net interest payable and similar charges	**(688)**	(222)
(Loss)/profit on ordinary activities before taxation	**(324)**	213
Tax credit on (loss)/profit on ordinary activities	**123**	159
(Loss)/profit on ordinary activities after taxation	**(201)**	372

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

BAA (SP) Limited

Consolidated balance sheet as at 31 December 2008

	31 December 2008 £m	31 December 2007 £m
Fixed assets		
Tangible fixed assets	**12,910**	12,493
Financial assets – derivative financial instruments	**830**	-
Total fixed assets	**13,740**	12,493
Current assets		
Stocks	**8**	8
Debtors: due within one year	**402**	793
due after more than one year	**-**	574
Financial assets – derivative financial instruments	**138**	-
Current assets investment	**157**	-
Cash at bank and in hand	**25**	-
Total current assets	**730**	1,375
Current liabilities		
Creditors: amounts falling due within one year	**(1,064)**	(8,751)
Net current liabilities	**(334)**	(7,376)
Total assets less current liabilities	**13,406**	5,117
Creditors: amounts falling due after more than one year	**(11,714)**	(1,829)
Provisions for liabilities and charges	**(554)**	(732)
Net assets	**1,138**	2,556
Capital and reserves		
Called up share capital	**10**	5,274
Revaluation reserve	**2,035**	2,227
Merger reserve	**(5,630)**	(5,630)
Fair value reserve	**(320)**	-
Profit and loss account	**5,043**	685
Total shareholder’s funds	**1,138**	2,556

BAA

BAA (SP) Limited

Consolidated summary cash flow statement for the year ended 31 December 2008

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Summary cash flow statement		
Operating profit	**364**	435
Adjustments for:		
Depreciation (including exceptional depreciation)	**528**	356
Increase in stock and debtors	**(101)**	(20)
Increase in creditors	**31**	23
Loss on disposal of fixed assets	**1**	1
Increase in provision	**8**	22
Net cash inflow from operating activities	**831**	817
Net interest paid	**(101)**	-
Net capital expenditure	**(1,015)**	(1,076)
Acquisition of HEX	**(4)**	-
Dividends paid	**-**	(151)
Cash outflow before management of liquid resources and financing	**(289)**	(410)
Management of liquid resources	**(157)**	-
Financing	**471**	410
Increase in cash in the period	**25**	-

BAA (SP) Limited

Notes to the consolidated financial statements
at 31 December 2008

1. General information and basis of preparation

The financial information set out herein does not constitute the company's statutory financial statements for the years ended 31 December 2008 or 2007. The Company was incorporated on 20 December 2007. During 2008 the group was re-organised as part of re-financing the wider BAA Group operations. Merger accounting has been applied in relation to this group re-organisation and the comparatives have been restated as if the group was in existence in its current form for the entire period. This is the first set of financial statements to be prepared. The annual financial information presented in this preliminary announcement for the year ended 31 December 2008 is based on, and is consistent with, that in the Group's audited financial statements for the year ended 31 December 2008. The auditors report on the financial statements is unqualified and does not contain any statement under section 237(2) or (3) of the Companies Act 1985.

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

The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of consolidation
In order to present a true and fair view of the BAA (SP) Limited Group the creation of the group has been accounted for in accordance with FRS 6 and the principles of merger accounting. This represents a departure from the provision of the of the United Kingdom Companies Act 1985 which sets out the conditions for merger accounting based on the assumption that a merger is effected through the issue of equity shares.

In the opinion of the directors, the creation of the group was a group reconstruction rather than an acquisition, since the shareholders of the Company are the same as the former shareholders and the rights of each shareholder, relative to the others, are unchanged and no minority interest in the net assets of the Group is altered. In addition the purpose of the transaction was not to move the value out of the group and return to shareholders, but rather to reorganise the assets and liabilities with the existing group. Therefore, the directors consider that to record the transaction as an acquisition by the Company, attributing fair values to the assets and liabilities of the Group and reflecting only the post transaction results within these financial statements would fail to give a true and fair view of the Group's results and financial position.

Accordingly, having regard to the overriding requirement under section 227(6) of the Companies Act 1985 for the financial statements to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in drawing up these financial statements. The main consequence of adopting merger rather than acquisition accounting is that the balance sheet of the merged group includes the assets and liabilities of each of the groups subsidiaries at their carrying values prior to the merger, subject to any adjustments to achieve uniformity of accounting policies, rather than at their fair values at the date of the merger.

2. Segment information

The Group's primary reporting format is business segments. The operating businesses are primarily the individual airports, which are organised and managed separately.

The 'other entities' business segment includes Heathrow Express Operating Company, BAA Funding Limited, BAA (AH) Limited and the parent entity BAA (SP) Limited.

	Turnover[1]		**Operating profit**		**Net Assets**	
	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m
Heathrow[2]	**1,568**	1,324	**175**	278	**1,459**	1,968
Gatwick	**465**	410	**104**	81	**904**	1,036
Stansted	**259**	242	**81**	76	**1,012**	1,152
Other entities[3]	**-**	-	**4**	-	**757**	-
Other adjustments[4]	**-**	-	**-**	-	**(1,480)**	(1,600)[5]
	2,292	1,976	**364**	435	**1,138**	2,556

[1] All turnover originated in the UK.
[2] All rail income and associated costs are included in Heathrow.
[3] Other entities are Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and BAA (SP) Limited.
[4] Relates to elimination of inter-company transactions and consolidation adjustments.
[5] Relates to BAA (SP) Limited Debenture which has been treated as if it has been issued in prior year as a result of merger accounting application.

Reconciliation of EBITA and Operating profit

For the year ended 31 December 2008	**Adjusted EBITDA**	**Exceptional items**	**Depreciation**	**Operating Profit**
	£m	**£m**	**£m**	**£m**
Heathrow	635	(114)	(346)	175
Gatwick	159	9	(64)	104
Stansted	117	(3)	(33)	81
Other entities[3]	5	-	(1)	4
	916	(108)	(444)	364

For the year ended 31 December 2007	Adjusted EBITDA	Exceptional items	Depreciation	Operating Profit
	£m	£m	£m	£m
Heathrow	636	(154)	(204)	278
Gatwick	154	(17)	(56)	81
Stansted	114	(9)	(29)	76
	904	(180)	(289)	435

3. Exceptional costs

	Year ended 31 December 2008	Year ended 31 December 2007
	£m	£m
Operating items		
Pension cost **(a)**	**(17)**	-
Reorganisation income/(costs) **(b)**	**15**	(69)
Heathrow Terminal 1 and 2 accelerated depreciation **(c)**	**(84)**	(66)
Heathrow Terminal 5 launch / operational readiness costs **(d)**	**(22)**	(45)
	(108)	(180)
Interest payable and similar charges		
Refinancing fees written off **(e)**	**(143)**	-
Total exceptional items before income tax	**(251)**	(180)
Tax credit on exceptional items	**48**	33
Total exceptional items	**(203)**	(147)

(a) Pension costs of £17 million (2007: £nil) represents pension costs that had accumulated at BAA Airports Limited that related to BAA (SP) Limited's subsidiaries but had not been charged to them.

(b) A release of £15 million was credited during the year associated with change programmes (2007: charge of £69 million). The charge in the year ended 31 December 2007 was in relation to severance and pension payments associated with the 'Simplifying the Organisation' programme carried out during 2008-2009.

(c) With the anticipated development of Terminal 2A, Terminal 2 at Heathrow airport will be demolished necessitating an additional depreciation charge of £84 million in the year to 31 December 2008 (2007: £66 million) to reflect the shortened useful lives of the assets.

(d) Operational readiness costs of £22 million (2007: £45 million) relating to management of the opening of Heathrow Terminal 5 were incurred during the year.

(e) Fees of £143 million (31 December 2007: £nil) were incurred during the year, in relation to facility and arrangement fees that are expensed under UK GAAP. These costs are mainly upfront fees paid for the working capital, liquidity, initial credit facility and costs attributed to future bond issuance. For further details of the borrowing facilities see Note 16.

4. Interest receivable and interest payable and similar charges

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest receivable		
Interest receivable on derivatives not in a hedging relationship	**84**	-
Interest receivable from other group undertakings	**26**	39
Interest on money market and bank deposits	**1**	-
Interest receivables	**111**	39
Interest payable and similar charges		
Interest on borrowings		
Bonds and related hedging instruments	**(116)**	-
Bank loans and overdrafts and related hedging instruments	**(150)**	-
Interest payable on derivatives which do not qualify for hedge accounting	**(53)**	-
Facility fees	**(13)**	-
Interest on BAA (SP) Limited debenture	**(145)**	-
Interest payable to other group undertakings	**(338)**	(512)
Provisions: Terminal 5 land purchase and Cross Border Lease	**(15)**	(5)
	(830)	(517)
Fair value gain/(loss) on financial instruments		
Interest rate swaps: cash flow hedges*	**(24)**	-
Interest rate swaps: not in hedge relationship	**(26)**	-
Index linked swaps: not in hedge relationship	**81**	-
Cross currency interest rate swaps: cash flow hedges*	**35**	-
Fair value re-measurements of foreign currency balances	**8**	-
	74	-
Interest capitalised	**100**	256
Interest payables and similar charges – ordinary	**(656)**	(261)

* Hedge ineffectiveness on derivatives in a hedge relationship.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 6.92% (31 December 2007: 5.95%) to expenditure incurred on such assets.

5. Tax on profit on ordinary activities

Analysis of charge in period:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax		
Current tax at 28.5% (31 December 2007 30%)	**(43)**	52
Adjustments in respect to prior years	**(19)**	(29)
	(62)	23
Deferred tax		
Origination and reversal of timing differences	**(52)**	42
Adjustments in respect to prior years	**(9)**	(171)
Change in tax rate – impact on deferred tax assets and liabilities	**-**	(53)
Tax credit on profit on ordinary activities	**(123)**	(159)

6. Borrowings

	As at 31 December 2008 £m	As at 31 December 2007 £m
Current borrowings		
Amount owed to group undertakings	**-**	7,030
Intercompany loans	**-**	1,199
Secured bank loans	**43**	-
Total current borrowings (excluding interest payable)	**43**	8,229
Non-current borrowings		
Secured		
Senior Refinancing Facility	**3,341**	-
Junior Refinancing Facility	**982**	-
Initial Credit Facility	**250**	-
BAA Funding Limited bonds:		
3.975% €1,000 million due 2012	**893**	-
5.850% £400 million due 2013	**363**	-
4.600% €750 million due 2014	**656**	-
12.450% £300 million due 2016	**387**	-
4.600% €750 million due 2018	**628**	-
9.200% £250 million due 2021	**287**	-
5.225% £750 million due 2023	**606**	-
7.075% £200 million due 2028	**197**	-
6.450% £900 million due 2031	**837**	-
Total BAA Funding Limited bonds	**4,854**	-
Bank loans	**372**	-
Unsecured:		
BAA (SP) Limited debenture payable to BAA (SH) Limited	**1,566**	1,600
Amount owed to group undertakings	**-**	213
Total non-current borrowings	**11,365**	1,813
Total current and non-current borrowings (excluding interest payable)	**11,408**	10,042

Appendix 3 – BAA Limited Statutory to Adjusted reconciliation

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Change[1] %
Revenue			
Statutory (a)	2,125	1,856	14.5
Gatwick	465	410	18.9
Underlying revenue (d)	2,590	2,266	15.2
Operating costs			
Statutory (b)	1,756	1,409	24.4
Net exceptional costs	(103)	(169)	(40.0)
Gatwick	355	313	5.2
Underlying operating costs (e)	2,008	1,553	30.3
Other operating income			
Statutory (c)	(346)	29	(1,293.1)
Certain re-measurements	346	(29)	(1,293.1)
Underlying other operating income (f)	-	-	n/a
Operating profit			
Statutory (a – b + c)	23	476	(92.4)
Underlying operating profit (d – e + f)	582	713	(13.6)