BAA Limited
The Compass Centre, Nelson Road
Hounslow, Middlesex, TW6 2GW
T: +44 (0)20 8745 7224 F: +44 (0)20 8745 6061
E: mediacentre@baa.com
W: baa.com

News Release

27 October 2010

BAA (SP) Limited

Results for the nine months ended 30 September 2010

BAA (SP) Limited owns BAA's two London airports of Heathrow and Stansted. Throughout this document, BAA (SP) Limited and its subsidiaries are referred to as the Group.

- **Record Heathrow passenger traffic through third quarter of 2010**
- **Passenger traffic of 64.0 million with underlying growth of 1.3% including 3.1% at Heathrow**
- **Strong retail momentum continues with net retail income per passenger up 10.1%**
- **Revenue up 4.4% in the nine months with 8.3% growth in the third quarter**
- **Adjusted EBITDA up 8.4% in the nine months with 21.8% growth in the third quarter**
- **Reduced pre-tax loss due to lower exceptional items and fair value adjustments**
- **BAA's overall capital structure enhanced by utilising £1 billion of investment grade debt raised at BAA (SP) to repay part of holding company's more expensive subordinated debt**
- **Good progress on final stage of subordinated debt refinancing**
- **Improved outlook for 2010 Adjusted EBITDA with strong prospects for 2011**

At or for nine months ended 30 September	**2010**	2009	Change (%)
(figures in £m unless otherwise stated)			
Revenue(1)	**1,545.5**	1,480.1	4.4
Adjusted EBITDA(1)(2)	**719.0**	663.0	8.4
Cash generated from operations(1)	**690.1**	643.5	7.2
Adjusted pre-tax loss(3)	**(156.9)**	(86.0)	82.4
Pre-tax loss	**(192.6)**	(784.7)	(75.5)
Net debt(4)(5)(6)	**9,740.1**	8,579.0	13.5
Regulatory Asset Base(6)	**12,463.3**	11,730.5	6.2
Passengers (m)(7)	**64.0**	65.4	(2.1)
Net retail income per passenger(7)(8)	**£5.11**	£4.64	10.1

(1) Figures are for continuing operations only, i.e. excluding Gatwick airport
(2) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(3) Adjusted pre-tax loss is before exceptional items, fair value adjustments and gain/loss on disposal of Gatwick airport
(4) Increased net debt primarily due to utilising £1 billion of debt raised by the Group to repay holding company subordinated debt
(5) Nominal value of net debt excluding intra-BAA group loans and including index-linked accretion
(6) 2009 net debt and regulatory asset base figures are as at 31 December 2009 with net debt excluding restricted cash
(7) Change in passengers and net retail income per passenger are calculated using unrounded data
(8) See section 3.2.2.2 for calculation of net retail income per passenger

Colin Matthews, Chief Executive Officer of BAA, said:

"BAA has delivered good results and we have strengthened our financial position through refinancing of nearly £2 billion of debt. Passenger growth at Heathrow is encouraging and improving customer service has contributed to strong commercial revenue.

The outlook for the remaining months of the year is positive and we will continue to focus on raising customer service standards. Our capital investment programme remains one of the largest of its kind in Europe, and will support the UK economy as the pressure on public sector spending increases."

For further information please contact

BAA		
Media enquiries	Malcolm Robertson or Andrew Teacher	020 8745 7224
Investor enquiries	Andrew Efiong	020 8745 2742
Finsbury	Andrew Mitchell, Don Hunter or Kirsty Flockhart	020 7251 3801

There will be a conference call today at 11.00 am (UK time) for bondholders and bank lenders to the Group, participants in BAA (SH) Limited's subordinated debt facility and credit analysts to discuss the results for the nine months ended 30 September 2010. The call will be hosted by Colin Matthews and Jose Leo, BAA's Chief Executive Officer and Chief Financial Officer respectively. Dial-in details for the call are: Conference ID: 16596693; UK free phone: 0800 694 0257; UK local/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://webconnect.webex.com/webconnect/onstage/g.php?t=a&d=666758755

BAA (SP) Limited

Consolidated results for the nine months ended 30 September 2010

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1. Basis of presentation of results

The commentary on operating and financial performance in this document focuses, unless otherwise indicated, on the Group's continuing businesses at Heathrow and Stansted reflecting the completion on 3 December 2009 of the sale of Gatwick airport. This enables a more meaningful comparison of performance between 2009 and 2010.

The financial results of Gatwick for the period to 3 December 2009 are included within discontinued operations in the financial information set out in Appendix 1.

2. Key business developments

2.1 Disruption caused by volcanic ash and airline industrial action

Owing to the impact on UK airspace of ash from a volcanic eruption in Iceland, Heathrow and Stansted were closed from 15 April 2010 to 20 April 2010 with normal airline schedules re-established from 22 April 2010. There were further disruptions caused by the ash cloud during early May. In addition, industrial action by British Airways cabin crew affected services at Heathrow on 34 days up to the end of June 2010. Together, these two events are estimated to have resulted in the loss of 2.2 million passengers.

The impact of these disruptions on the Group's operational and financial performance are discussed in the relevant sections later in this document.

2.2 Passenger traffic

Passenger traffic for the nine months ended 30 September 2010 at Heathrow and Stansted is set out below.

(figures in millions unless otherwise stated)	**2010**	2009	Change (%)[1]
Passengers by airport			
Heathrow	**49.6**	49.9	(0.6)
Stansted	**14.4**	15.5	(7.0)
Passengers by market served			
UK	**5.0**	5.4	(8.6)
Europe[2]	**32.7**	33.4	(1.8)
Long haul	**26.3**	26.6	(1.0)
Total passengers[1]	**64.0**	65.4	(2.1)

(1) These figures have been calculated using un-rounded passenger numbers
(2) Includes North African charter traffic

In the nine months ended 30 September 2010, the combined passenger traffic at Heathrow and Stansted declined 2.1% to 64.0 million (2009: 65.4 million). Year on year performance was impacted in the first half of the year by disruption caused by volcanic ash and industrial action affecting British Airways' Heathrow operations that resulted in the loss of an estimated total of 2.2 million passengers. Adjusting for these factors, passenger traffic across the two airports is estimated to have increased 1.3%.

Whilst Heathrow's reported traffic declined 0.6% to 49.6 million (2009: 49.9 million) for the reasons outlined above, traffic has been growing on an underlying basis with growth accelerating in recent months, from 2.3% for the half year to 3.1% in the nine months ended 30 September 2010. This is reflected in Heathrow recently achieving several all time traffic records including the busiest day in history (18 July 2010) and first and second busiest months ever (July 2010 and August 2010 respectively). As a result, in the third quarter of the year traffic increased 4.4% to 19.5 million (2009: 18.6 million). The recent strength has been driven by European scheduled traffic, particularly on routes such as Geneva, Rome and Frankfurt, with long haul traffic also experiencing good growth towards the end of the quarter.

Recent growth at Heathrow has been led by origin and destination traffic that increased to 65% of Heathrow's total traffic in the nine months ended 30 September 2010 (2009: 62%).

At Stansted, reported passenger traffic declined 7.0% to 14.4 million (2009: 15.5 million). Its underlying traffic is estimated to have declined 4.7%. The underlying year on year decline in Stansted's passenger traffic had been moderating until the second quarter, when it was 3.1%. However, it increased in the third quarter to 6.0% reflecting inter-related capacity reductions by airlines and renewed economic uncertainty in the UK that particularly affected the outbound leisure market, a key part of Stansted's traffic, over the summer holiday season.

In terms of traffic performance by market served over the nine months ended 30 September 2010, across the two airports emerging market long haul and European scheduled traffic continued to outperform and North Atlantic traffic saw improved performance in the third quarter. Domestic traffic has underperformed particularly due to service reductions during British Airways industrial action being focused on its domestic route network.

2.3 Transforming the Group’s airports

The Group has continued to implement its strategy to deliver sustained improvement in passengers’ experience and airlines’ operations through improved service standards and substantial investment in modern airport facilities. In particular, the Group's strategic objective is to ensure Heathrow becomes the UK's gateway to the world and Europe's hub of choice by making every journey better. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of the Group’s airports and supporting their long term growth ambitions.

2.3.1 Service standards

Heathrow's strong focus on operational performance in recent years continues to be reflected in the improving trend in its ratings for overall passenger satisfaction in Airport Council International's Airport Service Quality survey.

In the nine months ended 30 September 2010 specific service standards at Heathrow and Stansted were resilient particularly given disruption caused by a number of external factors.

In relation to departure punctuality, the proportion of aircraft departing within 15 minutes of schedule at Heathrow was 73.6% (2009: 77.5%) and at Stansted was 79.1% (2009: 82.3%). Results were affected particularly by prolonged severe winter weather and airline industrial action in the first half of the year together with extensive European air traffic control strikes and high altitude weather conditions through the peak summer months.

At Heathrow the baggage misconnect rate has declined to 16 per 1,000 passengers (2009: 20 per 1,000 passengers) despite the effects of prolonged severe winter weather and the record levels of passenger traffic through the third quarter of 2010.

On security queuing, passengers passed through central security within periods prescribed under service quality rebate ('SQR') schemes 97.9% (2009: 98.0%) of the time at Heathrow and 98.3% (2009: 99.6%) of the time at Stansted. This compares with 95.0% service standards in both cases.

2.3.2 Developing modern airport facilities

The Group's airport transformation programme continues to be focused on the development of the new Terminal 2 and integrated baggage systems and completion of Terminal 5C, all at Heathrow.

In relation to the new Terminal 2, demolition of the old terminal was completed on 17 September 2010, nine months after it closed and in line with timetable expectations. There are already two steel cores for the new main terminal building on site and the use of off-site manufacture means that mechanical and engineering components are already fitted to these. Successful handover of the construction site for the Terminal 2 satellite building was made to Balfour Beatty on 1 October 2010. The shell of the new main Terminal 2 building is expected to be completed in early 2012.

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

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

2.4 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.

In December 2009, the Competition Appeal Tribunal ('CAT') upheld BAA's appeal, on the ground of apparent bias of one of the CC's panel members.

The CC appealed to the Court of Appeal ('CoA') and, on 13 October 2010, the CoA overturned the CAT's decision in favour of the CC. The CoA upheld two of the five grounds argued by the CC. BAA will seek permission to appeal the CoA's decision to the Supreme Court and has 28 days from the date of the CoA decision to do this. The result of this application is expected to be known either later in 2010 or in early 2011.

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

The new UK Government has now set out its approach to reforming the economic regulation of airports. The approach builds on the proposals published by the DfT in December 2009 and provides clarity on the package of measures to be taken forward in new legislation 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 Group'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 has also confirmed the decision announced in December 2009 not to bring in a special administration regime and that it will not be making changes to the basis on which the current price caps at Heathrow and Stansted are set.

3 Financial review

3.1 Basis of preparation

BAA (SP) Limited is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service (the 'Group'). The Group also owned Gatwick airport until 3 December 2009. The Group's statutory accounts are prepared under UK GAAP including the adoption of merger accounting. Consolidated financial information is set out in Appendix 1 in which Gatwick is treated as a discontinued operation in the prior year comparative financial information.

In order to provide a more meaningful comparison of performance between 2009 and 2010, the information presented in sections 3.2.2 to 3.2.6, 3.3.2 and 3.3.3 focuses on the Group's continuing operations by excluding Gatwick from the prior year comparative information. A detailed analysis of turnover and operating costs both by airport and activity for continuing operations is set out in Appendix 2.

3.2 Profit and loss account

3.2.1 Introduction

The profit and loss account below provides more detailed disclosure than the statutory format in Appendix 1 in order to enable a better understanding of the results of the Group's continuing operations.

Nine months ended 30 September	2010 £m	2009 £m
Group turnover – total	**1,545.5**	1,846.0
Group turnover – discontinued operations	**-**	(365.9)
Group turnover – continuing operations	**1,545.5**	1,480.1
Adjusted operating costs – continuing operations[1]	**(826.5)**	(817.1)
Adjusted EBITDA – continuing operations[2]	**719.0**	663.0
Operating costs – exceptional – continuing operations[3]	**84.9**	(200.6)
EBITDA – continuing operations	**803.9**	462.4
Depreciation – ordinary – continuing operations	**(356.5)**	(335.1)
Depreciation – exceptional – continuing operations[3]	**(18.7)**	(51.6)
Operating profit – continuing operations	**428.7**	75.7
Operating profit – discontinued operations	**-**	29.7
Operating profit – total	**428.7**	105.4
Gain on/(impairment related to) disposal of Gatwick airport - discontinued operations[3]	**14.6**	(225.0)
Exceptional impairment of fixed assets[3]	**(104.4)**	-
Net interest payable and similar charges	**(519.4)**	(503.5)
Fair value loss on financial instruments	**(12.1)**	(161.6)
Total net interest payable and similar charges	**(531.5)**	(665.1)
Loss on ordinary activities before taxation	**(192.6)**	(784.7)
Tax credit on loss on ordinary activities	**34.3**	148.4
Loss on ordinary activities after taxation	**(158.3)**	(636.3)

(1) Adjusted operating costs are stated before depreciation, amortisation and exceptional items
(2) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(3) See section 3.2.5 for further discussion of exceptional items

3.2.2 Turnover

In the nine months ended 30 September 2010, turnover from continuing operations increased 4.4% to £1,545.5 million (2009: £1,480.1 million). This reflects increases of 1.7%, 6.0% and 9.7% in aeronautical income, retail income and other income respectively.

Continuing operations *Nine months ended 30 September*	2010 £m	2009 £m	Change (%)
Aeronautical income	**837.5**	823.4	1.7
Retail income	**350.1**	330.4	6.0
Other income	**357.9**	326.3	9.7
Total turnover	**1,545.5**	1,480.1	4.4

3.2.2.1 Aeronautical income

Aeronautical income by airport

Continuing operations *Nine months ended 30 September*	2010 £m	2009 £m	Change (%)
Heathrow	**742.1**	723.7	2.5
Stansted	**95.4**	99.7	(4.3)
Total	**837.5**	823.4	1.7

In the nine months ended 30 September 2010, aeronautical income increased 1.7% to £837.5 million (2009: £823.4 million). At Heathrow, aeronautical income increased 2.5% with income in 2010 benefiting from the increase in tariffs that occurred on both 1 April 2009 and 2010 which was partially offset by the combined effects of disruption caused by volcanic ash and airline industrial action during the first half of

2010. At Stansted, aeronautical income declined 4.3%, less than the decline in passengers, reflecting lower tariff discounts. The disruption caused by volcanic ash and airline industrial action is estimated to have impacted the Group's aeronautical income by £29.6 million. In addition, the delay in introducing higher tariffs applying at Heathrow from 1 April 2008 boosted aeronautical income in the comparable period in 2009 by an estimated £12.5 million above underlying levels. Adjusting for these effects, aeronautical income is estimated to have increased 6.9%. In the three months ended 30 September 2010, when year on year performance was not affected by the above factors, aeronautical income increased 6.4%.

3.2.2.2 Retail income

The Group’s retail business has continued to deliver its recent excellent performance with net retail income per passenger up 10.1% to £5.11 (2009: £4.64) in the year to date.

This performance has been based on gross retail income increasing 6.9% to £350.1 million (2009: £327.5 million) and net retail income ('NRI') increasing 7.9% to £326.9 million (2009: £303.1 million), excluding £2.9 million of non-recurring income at Heathrow (offset in operating costs) that was separately identified in the results for the comparable period in 2009. The discussion below of year on year performance excludes the £2.9 million from the 2009 data.

Net retail income per passenger by airport

Continuing operations *Nine months ended 30 September*	**2010** **£**	2009 £	Change (%)[1]
Heathrow	**5.42**	4.86	11.5
Stansted	**4.04**	3.92	3.1
Total[1]	**5.11**	4.64	10.1

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

At Heathrow, gross retail income increased 9.8% to £285.4 million (2009: £260.0 million) and NRI per passenger increased 11.5% to £5.42 (2009: £4.86). Most areas of the retail business performed well, with the main growth driver being airside specialist shops. There have also been increasing signs of recovery in car parking following the recent period of weakness and this feature contributed to the slight acceleration in growth in Heathrow's NRI per passenger in the third quarter of 2010.

Heathrow's continued strong retail performance reflects the increase in the proportion of higher spending origin and destination passengers (see section 2.2). This benefits both the in-terminal and car parking elements of retail income. The performance also reflects the greater numbers of passengers utilising Terminal 4 following relocation of airlines prior to Terminal 2's closure who are benefiting from its upgraded retail facilities completed as part of the terminal's recent refurbishment. Further, growth in passenger spend has been particularly strong in the luxury segment of Heathrow's airside retail outlets.

In September 2010, the quality of Heathrow's retail offering was independently endorsed when it was the global winner of the Best Airport for Tax-Free Shopping award in the Business Traveller Awards 2010. This follows receipt of a similar award in March 2010 in the Skytrax World Airports Awards.

Stansted's gross retail income declined 4.1% to £64.7 million (2009: £67.5 million), a resilient performance given passenger trends which, in combination with lower retail expenditure, meant that NRI per passenger increased 3.1% to £4.04 (2009: £3.92). 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 disruption caused by volcanic ash and airline industrial action in 2010 is estimated to have affected gross and net retail income by £8.4 million.

3.2.2.3 Other income

Income from activities other than aeronautical and retail increased 9.7% to £357.9 million (2009: £326.3 million). This reflects rail income increasing 12.2% to £73.6 million (2009: £65.6 million) due to passenger numbers increasing 7.2% to 4.24 million (2009: 3.96 million) as well as improved yields. Growth in rail passenger numbers reflects the shift in Heathrow airport passenger mix relative to the comparative period towards origin and destination traffic, introduction of additional rail ticket sales activities within the airport and disruptions to alternative rail services to and from central London.

Income from activities other than aeronautical and retail also reflects operational facilities and utilities income increasing 6.4% to £119.2 million (2009: £112.0 million) due primarily to under-recovery of check-in and baggage system costs in the prior year.

In addition, intra-group and other income increased 18.5% to £84.0 million (2009: £70.9 million) due to £13.0 million of income from the provision of various services to Gatwick airport under transitional services agreements. Adjusting for this factor, income from activities other than aeronautical and retail increased by an estimated 5.7%.

3.2.2.4 Underlying turnover

In the nine months ended 30 September 2010, turnover from continuing operations increased 4.4% to £1,545.5 million (2009: £1,480.1 million). To determine underlying turnover growth it is necessary to adjust for an additional £12.5 million in aeronautical income earned in 2009 above underlying levels due to phasing of tariff increases differing from the normal pattern and £13.0 million of non-recurring income generated in 2010 from the provision of various services to Gatwick airport under transitional services agreements.

During 2010 the volcanic ash and industrial action by British Airways cabin crew also affected year on year performance with a combined estimated £38.0 million effect on reported turnover as discussed in sections 3.2.2.1 and 3.2.2.2.

Adjusting for the items outlined above, underlying turnover in the nine months ended 30 September 2010 is estimated to have increased 7.0% to £1,570.5 million (2009: £1,467.6 million).

3.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the nine months ended 30 September 2010, adjusted operating costs increased 1.2% to £826.5 million (2009: £817.1 million).

Continuing operations *Nine months ended 30 September*	**2010** **£m**	2009 £m
Employment costs	**230.1**	216.3
Maintenance expenditure	**100.2**	106.1
Utility costs	**85.9**	89.9
Rents and rates	**88.3**	96.0
General expenses	**172.3**	172.4
Retail expenditure	**23.2**	24.4
Intra-group charges/other	**126.5**	112.0
Total	**826.5**	**817.1**

The main drivers of increased adjusted operating costs were higher employment costs and intra-group charges. Employment costs increased 6.4% to £230.1 million (2009: £216.3 million). The rate of increase in employment costs has moderated in the third quarter due to revised actuarial assumptions reducing the level of additional defined benefit pension service charges relative to earlier in the year. As a result, the level of this additional charge increased from £10.0 million for the first half to £10.5 million for the nine months ended 30 September 2010. Intra-group charges/other costs increased 12.9% to £126.5 million (2009: £112.0 million) primarily reflecting central overheads being allocated across a smaller business base following the sale of Gatwick (£26.4 million of central overheads were charged to Gatwick in the nine months ended 30 September 2009).

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

Adjusting for the increased pensions costs and re-allocated central overheads referred to above, underlying adjusted operating costs declined 3.3% to £816.0 million (2009: £843.5 million). The disruption caused by volcanic ash and airline industrial action did not materially affect adjusted operating costs.

Appendix 2 provides an analysis of adjusted operating costs between Heathrow and Stansted.

3.2.4 Adjusted EBITDA

In the nine months ended 30 September 2010 Adjusted EBITDA increased 8.4% to £719.0 million (2009: £663.0 million), resulting in an Adjusted EBITDA margin of 46.5% (2009: 44.8%). In the three months ended 30 September 2010, Adjusted EBITDA increased 21.8% to £317.3 million (2009: £260.5 million).

Taking into account the underlying turnover discussed in section 3.2.2.4 and the increased pension costs and re-allocated central overheads discussed in section 3.2.3, in the nine months ended 30 September 2010, underlying Adjusted EBITDA is estimated to have increased by 20.9% to £754.5 million (2009: £624.1 million), resulting in an underlying Adjusted EBITDA margin of 48.0% (2009: 42.5%).

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 10.6% to £648.6 million (2009: £586.4 million) with growth of 27.0% in the third quarter and performance earlier in the year reflecting the impact of the disruption caused by volcanic ash and airline industrial action. Stansted's Adjusted EBITDA declined 8.1% to £70.4 million (2009: £76.6 million) due principally to weak underlying traffic trends compounded by the disruption caused by volcanic ash.

3.2.5 Exceptional items

There was a total net £38.2 million pre-tax charge to the profit and loss account in respect of exceptional items, impairment charges and other one off items for continuing operations in the nine months ended 30 September 2010 (2009: £252.2 million charge) with a £66.2 million credit (2009: £252.2 million charge) included in operating profit and a charge of £104.4 million (2009: nil) below operating profit.

Items within operating profit included a £96.6 million non-cash credit (2009: £200.6 million charge) relating to the Group'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 in section 3.4. In addition, there was a charge of £18.7 million (2009: £51.6 million) related to accelerated depreciation due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life has been extended. Finally, there was a £11.7 million charge relating primarily to a restructuring process to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

The only exceptional item relating to continuing operations below operating profit was an impairment charge of £104.4 million in respect of runway planning application costs at both Heathrow and Stansted. The impairment has arisen due to the Group's decision not to pursue planning applications for new runways given the new UK government's announcement that it will not support the development of new runways in south east England. This accounting treatment has no impact on these costs being part of the airports' regulatory asset bases and generating future cash flows, consistent with CAA guidance (other than £37 million of Stansted planning application costs previously disallowed by the CAA).

3.2.6 Operating profit

The Group recorded an operating profit from continuing operations for the nine months ended 30 September 2010 of £428.7 million (2009: £75.7 million). Relative to Adjusted EBITDA, operating profit includes £356.5 million in depreciation (2009: £335.1 million). In addition, it reflects a net £66.2 million exceptional credit included in operating profit (2009: £252.2 million charge). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

Continuing operations *Nine months ended 30 September*	**2010** **£m**	2009 £m	Change (%)
Adjusted EBITDA	**719.0**	663.0	8.4
Depreciation	**(356.5)**	(335.1)	6.4
Exceptional items – pensions	**96.6**	(200.6)	n/a
Exceptional items – accelerated depreciation	**(18.7)**	(51.6)	(63.8)
Exceptional items – other	**(11.7)**	-	n/a
Operating profit	**428.7**	75.7	466.3

3.2.7 Taxation

The tax credit for the nine months ended 30 September 2010 results in an effective tax rate for the period of 17.8%. This reflects the tax credit arising on ordinary activities of £22.1 million and a tax credit of £12.2 million arising due to the reduction in the rate of corporation tax from 1 April 2011.

The tax credit for the nine months ended 30 September 2010 on ordinary activities, results in an effective tax rate of 11.5% (30 September 2009: 18.9%).

The Finance Act (No. 2) 2010 enacted a reduction in the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. As a result, the Group's deferred tax balances, which were provided at 28%, have been remeasured at the rate of 27% for the year ended 31 December 2010. This has resulted in a reduction in the net deferred tax liability of £10.4 million, with £12.2 million credited to the profit and loss account and £1.8 million charged to reserves.

3.3 Cash flow

3.3.1 Summary cash flow

Nine months ended 30 September	**2010** **£m**	2009 £m
Net cash inflow from operating activities - continuing operations	**690.1**	643.5
Net cash inflow from operating activities - discontinued operations	**-**	116.3
Net cash inflow from operating activities - total	**690.1**	759.8
Net interest paid	**(279.4)**	(386.6)
Taxation – Group relief	**1.0**	22.6
Cash flow after interest and tax	**411.7**	395.8
Net capital expenditure	**(609.6)**	(749.2)
Pension and other payments related to disposal of Gatwick	**(124.0)**	(17.0)
Net cash outflow before management of liquid resources and financing	**(321.9)**	(370.4)
Management of liquid resources	**185.0**	135.6
Prepayment of derivative interest	**(36.7)**	-
Cancellation of derivatives	**(73.9)**	-
Proceeds of equity issue	**217.4**	-
Other financing flows	**34.0**	215.5
Increase/(decrease) in net cash	**3.9**	(19.3)

3.3.2 Cash flow from operating activities

Net cash inflow from continuing operations in the nine months ended 30 September 2010 was £690.1 million (2009: £643.5 million) with the increase from 2009 consistent with the increase in Adjusted EBITDA between the periods.

3.3.3 Capital expenditure

In the nine months ended 30 September 2010, the Group invested £609.6 million in capital expenditure (2009: £749.2 million including £102.9 million at Gatwick) with £589.7 million at Heathrow (2009: £596.1 million) and £19.9 million at Stansted (2009: £50.2 million). Capital expenditure at Heathrow included £37.5 million in settlement of future payments relating to land purchased for Terminal 5's construction.

Capital expenditure at Heathrow over the first nine months of 2010 reflects particularly the Eastern campus being in a preparatory phase following completion of the first phase of one of the satellites to the new Terminal 2 at the end of 2009. Work in 2010 has focussed on demolition, enabling works and construction preparation for the main Terminal 2 building. The rate of spend on the Eastern campus is expected to increase as construction of the new Terminal 2 building gains momentum. Construction of the second phase of the satellite to Terminal 2 started as expected in October 2010 with handover of the site to Balfour Beatty. The recent levels of activity at Terminal 2 and lower than expected spend elsewhere due, for example, to curtailment of third runway related activities, means that outturn levels of capital expenditure in the current calendar year will be lower than originally expected. However, spend levels are expected to increase significantly in the coming 12 months.

3.4 Pension scheme

At 30 September 2010, the BAA defined benefit pension scheme had a deficit of £36.7 million as measured under IAS19, of which £31.1 million is attributable to the Group under the BAA group's shared services agreement. This compares with a total scheme deficit of £255.6 million at 31 December 2009. The deficit reduction partly reflects updated actuarial assumptions, including reduced forecast inflation expectations and higher than expected investment returns partially offset by a reduced discount rate increasing the value of the scheme's liabilities. In addition, it is due to a £104.7 million commutation payment made into the scheme following the disposal of Gatwick airport (an additional £2.4 million was paid to the pension scheme of Gatwick's purchaser).

3.5 Recent funding activity

The Group has over recent months attracted a wide range of investors to support its long term investment plans at Heathrow through a number of major new debt financings. The success of its financing programme has allowed the Group to extend its debt maturity profile, significantly reduce its short term debt maturities and enhance BAA's overall capital structure by using cheaper investment grade debt at BAA (SP) to refinance more expensive subordinated debt at BAA (SH).

Major financings completed since the summer include the following: in August 2010, the Group entered into a £625 million four-year Class B loan facility with a group of eight major international banks, including a number of new lenders to the Group; in September 2010, the Group completed a successful inaugural £400 million eight-year Class B bond issue; and on 12 October 2010 the Group completed a €500 million six-year Class A bond issue.

The Group took advantage of its significant recent deleveraging and increased debt headroom, particularly against its junior debt gearing trigger ratio, to upstream the proceeds of the Class B loan facility, together with drawings of £375 million under the Group's revolving capital expenditure facility, to its parent company BAA (SH) which used the funds, together with £100 million injected from BAA's sale of its interest in the APP joint venture, to repay £1,100 million of its subordinated debt facility.

The proceeds from the £400 million Class B and €500 million Class A capital markets issues, together with a total of £56.0 million of cash were used to reduce outstandings under the refinancing facility to £1,299.6 million. This means that the restriction on distributions whilst the amount outstanding under the refinancing facility exceeded £1.3 billion is no longer applicable.

3.6 Subordinated debt refinancing

As a result of the repayment of £1,100 million in September 2010 referred to in section 3.5, the amount outstanding under BAA (SH)'s subordinated debt facility has been reduced to £465.8 million.

On 26 October 2010, BAA announced significant progress in addressing the residual refinancing requirement when it confirmed that BAA (SH) has entered into a £250 million loan facility with a group of institutional investors and banks. The new facility includes a £75 million one year tranche and a £175 million five year tranche with margins of 4.25% and 5.00% respectively.

BAA (SH) intends to complete the refinancing of its existing subordinated debt facility through capital markets issuance in the near future.

3.7 Financing position

3.7.1 Net debt and liquidity

The analysis below focuses on the Group's external debt and excludes the debenture between BAA (SP) and BAA (SH). It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

Over the first nine months of 2010, the Group's nominal net debt has increased 13.5% from £8,579.0 million at 31 December 2009 to £9,740.1 million at 30 September 2010. This increase was almost entirely due to the £1,000.0 million distributed from BAA (SP) to BAA (SH) discussed in section 3.5.

The Group's nominal net debt at 30 September 2010 comprised £5,844.6 million outstanding under bond issues, £1,746.7 million outstanding under the bank refinancing facility, £2,113.6 million outstanding under other bank facilities, £92.6 million in index-linked derivative accretion and cash and cash equivalents of £57.4 million. Nominal net debt comprised £8,165.1 million in senior net debt and £1,575.0 million in junior debt.

The accounting value of the Group's net debt at 30 September 2010 was £9,813.4 million (31 December 2009: £8,725.7 million).

The average cost of the Group’s external gross debt at 30 September 2010 was 4.94% after all hedging, including the real rate cost of index-linked hedges.

Since 30 September 2010, as a result primarily of using proceeds from the Euro denominated bond discussed in section 3.5, the amount outstanding under the refinancing facility has been reduced to £1,299.6 million with repayment of £447 million of junior debt. Taking these transactions into account, on a pro forma basis nominal net debt at 30 September 2010 comprised £8,612.8 million in senior net debt and £1,128.0 million in junior debt.

The Group now has no significant debt maturities until 2012. In addition, at 30 September 2010 the Group had approximately £1.65 billion in undrawn bank facilities and cash resources which provide the Group with significant liquidity to meet its financing requirements for the foreseeable future.

3.7.2 Regulatory Asset Base (‘RAB’)

Set out below are RAB figures for the Group’s airports at 31 December 2009 and 30 September 2010. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	**Stansted(1) £m**	**Total £m**
31 December 2009	10,452.9	1,277.6	11,730.5
30 September 2010	11,147.6	1,315.7	12,463.3

(1) Figure at 31 December 2009 amended from £1,293.0 million previously disclosed due to review in producing March 2010 regulatory accounts

The increase in the total RAB during the nine months ended 30 September 2010 reflected the addition of approximately £595 million in capital expenditure partially offset by regulatory depreciation of around £380 million. Variation in RAB profiling adjustments added a further £120 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £400 million over the period.

3.7.3 Net interest payable and net interest paid

In the nine months ended 30 September 2010, the Group's net interest payable was £519.4 million (2009: £503.5 million) excluding fair value losses on financial instruments. Excluding £16.2 million in capitalised interest (2009: £17.8 million) and £52.8 million in non-cash amortisation of financing fees and bond fair value adjustments (2009: £65.7 million), underlying interest payable was £482.8 million (2009: £455.6 million). The increased underlying interest payable in the nine months ended 30 September 2010 is due to the impact on accretion under index-linked derivatives of negative inflation in 2009 and positive inflation in 2010.

Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £12.1 million (2009: £161.6 million loss).

Net interest paid in the nine months ended 30 September 2010 was £279.4 million (2009: £386.6 million). This consisted of £211.8 million (2009: £277.4 million) paid in relation to external debt and £67.6 million (2009: £109.2 million) under the debenture between BAA (SP) and BAA (SH). The higher interest paid on the debenture in 2009 primarily reflects interest paid in January 2009 in respect of a longer than usual interest period that had started in August 2008 when interest rates were significantly higher than they have been since.

Net interest paid is lower than net interest payable primarily due to an amortisation charge of £105.6 million in net interest payable relating to prepayments of derivative interest implemented in earlier periods and a £97.8 million positive accruals variance primarily due to accretion on index-linked derivatives.

3.7.4 Financial ratios

The Group continues operating comfortably within required financial ratios. At 30 September 2010, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 65.5% and 78.2% respectively compared with trigger levels of 70.0% and 85.0% respectively. Underlying headroom (after taking into account the distribution of £1,000.0 million to BAA (SH) by the Group during the third quarter of 2010 discussed in section 3.5) against the Group's junior gearing trigger levels has increased by approximately £75 million since 30 June 2010 with total headroom being £850 million at 30 September 2010.

On a pro forma basis, taking into account the transactions following the Euro denominated bond earlier in October discussed in section 3.7.1, the Group's senior and junior gearing ratios at 30 September 2010 were 69.1% and 78.2% respectively.

3.8 Outlook

In recent months the Group has experienced increasingly robust passenger traffic and this trend has continued since the end of the third quarter. Combined with ongoing strong retail performance and cost control, the Group now expects Adjusted EBITDA for 2010 to at least match the £956 million original guidance for the year issued in December 2009, despite the combined impact of nearly £40 million from disruption earlier in the year from volcanic ash and airline industrial action. Prospects for strong growth in Adjusted EBITDA in 2011 are good and the Group will provide more detailed guidance on expected performance for next year in its investor report due to be published in December 2010.

Appendix 1 – Financial information

BAA (SP) Limited

Consolidated profit and loss account
for the nine months ended 30 September 2010

	Unaudited Nine months ended 30 September 2010 £m	Restated[1] Unaudited Nine months ended 30 September 2009 £m	Audited Year ended 31 December 2009 £m
Turnover – continuing operations	**1,545.5**	1,480.1	1,977.6
Turnover – discontinued operations	**-**	365.9	440.3
Total turnover	**1,545.5**	1,846.0	2,417.9
Operating costs – ordinary	**(1,183.0)**	(1,428.5)	(1,891.5)
Operating costs – exceptional: pensions	**96.6**	(261.7)	(217.8)
Operating costs – exceptional: other	**(30.4)**	(50.4)	(52.9)
Total operating costs	**(1,116.8)**	(1,740.6)	(2,162.2)
Operating profit – continuing operations	**428.7**	75.7	160.6
Operating profit – discontinued operations	**-**	29.7	95.1
Total operating profit	**428.7**	105.4	255.7
Exceptional impairment of fixed assets	**(104.4)**	-	-
Impairment arising prior to the disposal of Gatwick airport	**-**	(225.0)	-
Gain/(loss) on disposal of Gatwick airport	**14.6**	-	(277.3)
Interest receivable	**116.4**	116.1	154.7
Interest payable and similar charges	**(635.8)**	(619.6)	(837.6)
Fair value loss on financial instruments	**(12.1)**	(161.6)	(117.4)
Net interest payable and similar charges	**(531.5)**	(665.1)	(800.3)
Loss on ordinary activities before taxation	**(192.6)**	(784.7)	(821.9)
Tax credit on loss on ordinary activities	**34.3**	148.4	137.9
Loss on ordinary activities after taxation	**(158.3)**	(636.3)	(684.0)

[1] The presentation of certain balances for the nine months ended 30 September 2009 has been restated as a result of the change in accounting policy for accretion on index-linked swaps (Note 1).

BAA (SP) Limited

Consolidated balance sheet as at 30 September 2010

	Unaudited 30 September 2010 £m	Restated[1] Unaudited 30 September 2009 £m	Restated[1] Audited 31 December 2009 £m
Fixed assets			
Tangible fixed assets	**11,588.2**	12,860.0	11,473.8
Financial assets – derivative financial instruments	**583.5**	763.0	683.0
Total fixed assets	**12,171.7**	13,623.0	12,156.8
Current assets			
Stocks	**5.2**	7.7	4.9
Debtors	**364.7**	372.7	303.2
Financial assets – derivative financial instruments	**0.1**	1.3	0.3
Current asset investments	**49.5**	21.5	234.5
Restricted cash	**-**	-	143.0
Cash at bank and in hand	**7.9**	5.7	4.0
Total current assets	**427.4**	408.9	689.9
Current liabilities			
Creditors: amounts falling due within one year	**(1,121.8)**	(1,654.3)	(558.6)
Net current (liabilities)/assets	**(694.4)**	(1,245.4)	131.3
Total assets less current liabilities	**11,477.3**	12,377.6	12,288.1
Creditors: amounts falling due after more than one year	**(10,421.9)**	(11,123.3)	(10,830.9)
Deferred tax	**(261.7)**	(367.4)	(291.4)
Provisions for liabilities and charges - pension	**(46.5)**	(278.9)	(231.8)
Provisions for liabilities and charges - other	**(44.4)**	(133.9)	(108.0)
Net assets	**702.8**	474.1	826.0
Capital and reserves			
Called up share capital	**11.0**	10.0	10.6
Share premium reserve	**499.0**	-	282.0
Revaluation reserve	**1,457.7**	1,840.0	1,442.4
Merger reserve	**(4,535.6)**	(5,629.6)	(4,535.6)
Fair value reserve	**(257.2)**	(152.8)	(100.5)
Profit and loss reserve	**3,527.9**	4,406.5	3,727.1
Total shareholder's funds	**702.8**	474.1	826.0

[1] The presentation of certain balances as at 30 September 2009 and 31 December 2009 has been restated to be consistent with current year disclosures.

BAA

BAA (SP) Limited

Consolidated summary cash flow statement for the nine months ended 30 September 2010

	Unaudited Nine months ended 30 September 2010 £m	Restated[1] Unaudited Nine months ended 30 September 2009 £m	Restated[1] Audited Year ended 31 December 2009 £m
Operating profit – continuing operations	**428.7**	75.7	160.6
Adjustments for:			
Depreciation (including exceptional depreciation)	**375.2**	386.7	507.3
Loss/(gain) on disposal of tangible fixed assets	**0.3**	-	(0.1)
Working capital changes:			
Decrease in stock and debtors	**6.2**	46.2	16.6
Increase/(decrease) in creditors	**9.6**	(37.2)	(71.0)
(Decrease)/increase in provisions	**(9.2)**	(11.3)	2.9
Difference between pension charge and cash contributions	**(24.1)**	(17.2)	(31.8)
Exceptional pension (credit)/charge	**(96.6)**	200.6	217.8
Net cash inflow from operating activities – continuing	**690.1**	643.5	802.3
Net cash inflow from operating activities – discontinued	**-**	116.3	189.4
Net interest paid	**(279.4)**	(386.6)	(512.9)
Taxation - Group relief	**1.0**	22.6	24.0
Net capital expenditure	**(609.6)**	(749.2)	(1,002.8)
Net proceeds on disposal of Gatwick airport	**-**	-	1,379.6
Disposal of Gatwick airport - pension and disposal costs[2]	**(124.0)**	(17.0)	(19.1)
Net cash (outflow)/inflow before use of liquid resources and financing	**(321.9)**	(370.4)	860.5
Management of liquid resources	**185.0**	135.6	(77.4)
Issuance of bonds	**400.0**	-	935.0
Drawdown of Class B1 facility	**625.0**	-	-
Repayment of facilities	**(567.4)**	(32.5)	(2,159.9)
Drawdown of capital expenditure facility and other items	**433.4**	248.0	438.7
Decrease in amounts owed to parent company	**(1,000.0)**	-	-
Cancellation of derivatives and prepayment of derivative interest	**(110.6)**	-	(157.5)
Issuance of ordinary share capital	**217.4**	-	282.6
Restricted cash	**143.0**	-	(143.0)
Increase/(decrease) in net cash	**3.9**	(19.3)	(21.0)

1 The presentation of certain balances for the nine months ended 30 September 2009 has been restated as a result of the disposal of Gatwick airport and its resulting classification as a discontinued operation. The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures.

2 Disposal of Gatwick airport - pension and disposal costs for the nine months ended 30 September 2010 includes £104.7 million for the commutation payment made into the BAA defined benefit pension scheme following the disposal of Gatwick airport and £2.4 million paid to the pension scheme of Gatwick's purchaser.

BAA (SP) Limited

Notes to the consolidated financial statements for the nine months ended 30 September 2010

1. General information

The interim consolidated financial statements have not been audited.

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2009. A copy of the statutory financial statements for that year has been filed with the Registrar of Companies. The financial information presented in this announcement for the nine months ended 30 September 2010 is based on, and is consistent with, the audited consolidated financial statements of the BAA (SP) Limited group (the 'Group') for the year ended 31 December 2009. The auditor's report on the 2009 financial statements is unqualified.

Basis of preparation

This financial information has been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Changes in accounting policies and disclosures

Discontinued operations

Gatwick airport has been classified as a discontinued operation due to its disposal on 3 December 2009. Comparative balances for 30 September 2009 have been restated in the consolidated summary cash flow statement.

Accretion on index-linked financial instruments

Following a £235.0 million index-linked bond issuance in December 2009, the Group has changed the way accretion on index-linked swaps is presented in the profit and loss account. Accretion on index-linked swaps was previously included within the fair value gain or loss on financial instruments. Accounting standards for index-linked bonds require accretion to be classified as a part of their finance cost. Management considers that classifying accretion for both instruments consistently through 'Interest payable and similar charges' will improve presentation of the Group's profit and loss account. 30 September 2009 comparatives have been restated to present the results on a consistent basis. The new treatment resulted in reclassification of a £25.5 million gain for the nine months ended 30 September 2009 from 'Fair value loss on financial instruments' to 'Interest payable and similar charges'. The current year result is a £67.0 million loss recognised in the Group's 'Interest payable and similar charges' (year ended 31 December 2009: £16.2 million gain).

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. All turnover originated in the UK.

	Turnover			Operating profit			Net assets/(liabilities)		
	Unaudited Nine months ended 30 September 2010 £m	Unaudited Nine months ended 30 September 2009 £m	Audited Year ended 31 December 2009 £m	**Unaudited Nine months ended 30 September 2010 £m**	Unaudited Nine months ended 30 September 2009 £m	Audited Year ended 31 December 2009 £m	**Unaudited 30 September 2010 £m**	Restated[1] Unaudited 30 September 2009 £m	Audited 31 December 2009 £m
Continuing operations									
Heathrow	**1,368.6**	1,295.7	1,734.6	**367.9**	59.4	127.7	**1,689.5**	1,253.1	1,563.7
Stansted	**176.9**	184.4	243.0	**56.6**	12.2	27.4	**949.5**	1,026.6	1,052.2
Other entities[2]	**-**	-	-	**4.2**	4.1	5.5	**(1,936.0)**	(2,521.6)	(1,789.7)
Other adjustments[3]	**-**	-	-	**-**	-	-	**(0.2)**	(0.2)	(0.2)
	1,545.5	1,480.1	1,977.6	**428.7**	75.7	160.6	**702.8**	(242.1)	826.0
Discontinued operations									
Gatwick	**-**	365.9	440.3	**-**	29.7	95.1	**-**	716.2	-
Total	**1,545.5**	1,846.0	2,417.9	**428.7**	105.4	255.7	**702.8**	474.1	826.0

1 The presentation of certain balances as at 30 September 2009 has been restated to be consistent with current year disclosures.
2 The 'Other entities' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent entity BAA (SP) Limited.
3 'Other adjustments' relate to the elimination of inter-company transactions and consolidation adjustments.

2. Segment information (continued)

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the individual airports and to assist better comparison with the prior year. Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.

Unaudited **Nine months ended 30 September 2010**	**Adjusted EBITDA** **£m**	**Exceptional items** **£m**	**Depreciation[1]** **£m**	**Operating profit** **£m**
Continuing operations				
Heathrow	**644.5**	**50.1**	**(326.7)**	**367.9**
Stansted	**70.4**	**16.0**	**(29.8)**	**56.6**
Other entities and adjustments[2]	**4.1**	**0.1**	**-**	**4.2**
	719.0	**66.2**	**(356.5)**	**428.7**
Discontinued operations				
Gatwick	**-**	**-**	**-**	**-**
Total	**719.0**	**66.2**	**(356.5)**	**428.7**

Unaudited Nine months ended 30 September 2009	Adjusted EBITDA £m	Exceptional items £m	Depreciation[1] £m	Operating profit £m
Continuing operations				
Heathrow	582.3	(216.9)	(306.0)	59.4
Stansted	76.6	(35.3)	(29.1)	12.2
Other entities and adjustments[2]	4.1	-	-	4.1
	663.0	(252.2)	(335.1)	75.7
Discontinued operations				
Gatwick	141.6	(59.9)	(52.0)	29.7
Total	804.6	(312.1)	(387.1)	105.4

Audited Year ended 31 December 2009	Adjusted EBITDA £m	Exceptional items £m	Depreciation[1] £m	Operating profit £m
Continuing operations				
Heathrow	777.2	(235.4)	(414.1)	127.7
Stansted	102.4	(36.4)	(38.6)	27.4
Other entities and adjustments[2]	5.6	(0.1)	-	5.5
	885.2	(271.9)	(452.7)	160.6
Discontinued operations				
Gatwick	157.3	1.2	(63.4)	95.1
Total	1,042.5	(270.7)	(516.1)	255.7

[1] Depreciation excluding exceptional accelerated depreciation.

[2] The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent entity BAA (SP) Limited.

2. Segment information (continued)

Exceptional items - operating costs

Under the Shared Services Agreement (‘SSA’) the current period service cost for the BAA Airports Limited pension schemes are recharged to the Group’s airports. Cash contributions are made directly to the pension trustee of the BAA Airports Limited defined benefit pension schemes on behalf of BAA Airports Limited. Each airport also has a legal obligation to fund its relevant share of any pension deficit related to BAA Airports Limited pension schemes under the SSA. Costs have been allocated to the Group on the basis of pensionable pay base.

For the nine months ended 30 September 2010 a net credit of £96.6 million was recognised in relation to exceptional pension costs (nine months ended 30 September 2009: £261.7 million cost; year ended 31 December 2009: £217.8 million cost) incurred in relation to the push down of the Group’s share of the deficit on the BAA Airports Limited defined benefit pension scheme in accordance with the SSA. The credit in the period is due to a number of factors including updated actuarial assumptions, particularly the reduced forecast inflation expectations and investment returns being higher than expected returns. These factors have been partially offset by a reduced discount rate applied in valuing the scheme's liabilities. In addition to this credit, the Provisions for liabilities and charges - pension balance has reduced due to the commutation payment made into the scheme following the disposal of Gatwick airport.

In addition, there was a charge of £18.7 million (nine months ended 30 September 2009: £51.6 million; year ended 31 December 2009: £54.6 million) related to accelerated depreciation due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life has been extended.

Exceptional items also includes a £11.7 million charge relating primarily to a restructuring process carried out by the BAA group to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

3. Exceptional items - other

Gain on disposal of Gatwick airport

The £14.6 million gain on disposal of Gatwick reflects a provision release due to the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected.

Impairment of fixed assets

As a result of the change in UK Government and its stance towards runway developments, BAA announced that it was withdrawing its planning permission applications for Stansted Generation 2 and ceasing work on the development of the planning application for a third runway at Heathrow. An exceptional impairment charge of £104.4 million has been made in relation to the write-off of associated runway development costs. This charge does not have an impact on the airports' regulatory asset base and has no cash impact.

4. Interest and similar items

	Unaudited Nine months ended 30 September 2010 £m	Restated[1] Unaudited Nine months ended 30 September 2009 £m	Audited Year ended 31 December 2009 £m
Interest receivable on derivatives not in hedge relationship	**115.6**	115.8	154.2
Interest receivable from other group undertakings	**-**	-	0.3
Interest on bank deposits	**0.8**	0.3	0.2
Interest receivable	**116.4**	116.1	154.7
Interest on borrowings			
Bonds and related hedging instruments	**(284.9)**	(246.0)	(332.5)
Bank loans and overdrafts and related hedging instruments	**(147.9)**	(238.0)	(313.3)
Interest payable on derivatives not in hedge relationship[1]	**(146.0)**	(61.0)	(98.5)
Facility fees	**(20.0)**	(20.0)	(26.8)
Interest on BAA (SP) Limited debenture	**(53.2)**	(68.5)	(86.8)
Interest payable to other group undertakings	**-**	-	(0.3)
Unwinding of discount on provisions	**-**	(3.9)	(3.3)
Interest capitalised	**16.2**	17.8	23.9
Interest payable and similar charges	**(635.8)**	(619.6)	(837.6)
Net interest payable before fair value loss	**(519.4)**	(503.5)	(682.9)
Interest rate swaps: cash flow hedge[2]	**(7.6)**	19.8	21.1
Interest rate swaps: not in hedge relationship	**-**	0.8	1.9
Index-linked swaps: not in hedge relationship[1]	**(12.3)**	(167.4)	(125.8)
Cross-currency swaps: cash flow hedge[2]	**9.1**	(8.6)	(12.0)
Cross-currency swaps: fair value hedge[2]	**(0.7)**	-	-
Fair value re-measurements of foreign exchange contracts and currency balances	**(0.6)**	(6.2)	(2.6)
Fair value loss on financial instruments	**(12.1)**	(161.6)	(117.4)
Net interest payable and similar charges	**(531.5)**	(665.1)	(800.3)

[1] The presentation of certain balances for the nine months ended 30 September 2009 has been restated to be consistent with current year disclosures for the inflation accretion on RPI swaps recognised in 'Interest payable on derivatives not in hedge relationship' from 'Index-linked swaps: not in hedge relationship' (Note 1).

[2] Hedge ineffectiveness on derivatives in hedge relationship.

5. Tax credit on loss on ordinary activities

The tax credit for the nine months ended 30 September 2010 results in an effective tax rate for the period of 17.8%. This reflects the tax credit arising on ordinary activities of £22.1 million and a tax credit of £12.2 million due to the reduction in the rate of corporation tax from 1 April 2011.

The tax credit for the nine months ended 30 September 2010 on ordinary activities results in an effective tax rate of 11.5% (30 September 2009: 18.9%). This credit is calculated by applying the forecast tax rate for each entity for the full year to the results for the nine month period ended 30 September 2010. The tax credit for the period differs from the UK statutory rate of corporation tax of 28% due to permanent differences arising from non qualifying depreciation and runway impairment and non taxable proceeds from the disposal of Gatwick Airport Limited, together with the impact of phasing results through the year.

The Finance Act (No. 2) 2010 enacted a reduction in the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. As a result the Group's deferred tax balances, which were provided at 28%, have been remeasured at the rate of 27% for the year ended 31 December 2010. This has resulted in a reduction in the net deferred tax liability of £10.4 million, with £12.2 million credited to the profit and loss account and £1.8 million charged to reserves.

6. Borrowings

Within 'Creditors: amounts falling due within one year' are borrowings and financial derivatives of £604.9 million and £0.2 million respectively (30 September 2009: £1,041.4 million and £14.5 million respectively; 31 December 2009: £41.4 million and £0.1 million respectively).

Within 'Creditors: amounts falling due after more than one year' are borrowings and financial derivatives of £9,831.7 million and £586.9 million respectively (30 September 2009: £10,538.8 million and £578.0 million respectively; 31 December 2009: £10,488.6 million and £337.7 million respectively).

	Unaudited 30 September 2010 £m	Unaudited 30 September 2009 £m	Audited 31 December 2009 £m
Current borrowings			
Secured			
Syndicated term facility	**-**	1,000.0	-
Other bank loans	**39.1**	41.4	41.4
Unsecured			
BAA (SP) Limited debenture payable to BAA (SH) plc (formerly BAA (SH) Limited)	**565.8**	-	-
Total current borrowings	**604.9**	1,041.4	41.4
Non-current borrowings			
Secured			
Syndicated term facility	**1,740.2**	3,361.4	2,253.8
Capital expenditure facility	**1,145.0**	498.0	700.0
Other bank loans	**918.9**	341.3	330.5
	3,804.1	4,200.7	3,284.3
Secured			
Bonds			
3.975% €1,000 million due 2012	**835.6**	863.8	841.8
5.850% £400 million due 2013	**372.5**	367.0	368.3
4.600% €750 million due 2014	**609.8**	630.5	612.7
12.450% £300 million due 2016	**369.8**	379.8	377.3
4.600% €750 million due 2018	**572.0**	600.5	582.2
6.250% £400 million due 2018	**397.1**	-	-
9.200% £250 million due 2021	**283.3**	285.4	284.9
5.225% £750 million due 2023	**616.3**	610.0	611.5
6.750% £700 million due 2026	**689.4**	-	689.1
7.075% £200 million due 2028	**197.4**	197.3	197.4
6.450% £900 million due 2031	**839.2**	838.0	838.3
3.334%+RPI £235 million due 2039	**245.2**	-	235.0
	6,027.6	4,772.3	5,638.5
Unsecured			
BAA (SP) Limited debenture payable to BAA (SH) plc (formerly BAA (SH) Limited)	**-**	1,565.8	1,565.8
Total non-current borrowings	**9,831.7**	10,538.8	10,488.6
Total borrowings	**10,436.6**	11,580.2	10,530.0

7. Subsequent events

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. In December 2009, the Competition Appeal Tribunal ('CAT') upheld BAA's appeal, on the grounds of apparent bias of one of the CC's panel members.

The CC appealed to the Court of Appeal ('CoA') and, on 13 October 2010, the CoA overturned the CAT's decision in favour of the CC. The CoA upheld two of the five grounds argued by the CC. BAA will seek permission to appeal the CoA's decision to the Supreme Court and has 28 days from the date of the CoA decision to do this. The result of this application is expected to be known either later in 2010 or early in 2011.

Appendix 2

Analysis of turnover and operating costs for the nine months ended 30 September 2010 (continuing operations)

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	742.1	-	**742.1**	95.4	**837.5**
Retail income	285.4	-	**285.4**	64.7	**350.1**
Car parking	51.6	-	51.6	26.9	78.5
Duty and tax-free	70.9	-	70.9	9.4	80.3
Airside specialist shops	54.4	-	54.4	5.2	59.6
Bureaux de change	26.7	-	26.7	6.0	32.7
Catering	22.7	-	22.7	7.4	30.1
Landside shops and bookshops	15.0	-	15.0	3.7	18.7
Advertising	21.3	-	21.3	1.7	23.0
Car rental	9.7	-	9.7	1.9	11.6
Other	13.1	-	13.1	2.5	15.6
Operational facilities and utilities income	111.5	-	**111.5**	7.7	**119.2**
Property rental income	75.0	-	**75.0**	6.1	**81.1**
Rail income	73.6	-	**73.6**	-	**73.6**
Other income	76.9	-	**76.9**	3.0	**79.9**
HEX inter-company elimination	(41.4)	45.5	**4.1**	-	**4.1**
Total income	1,323.1	45.5	**1,368.6**	176.9	**1,545.5**
Operating costs					
Employment costs	178.4	14.1	**192.5**	37.6	**230.1**
Maintenance expenditure	81.3	11.6	**92.9**	7.3	**100.2**
Utility costs	69.4	1.7	**71.1**	14.8	**85.9**
Rents and rates	77.0	1.8	**78.8**	9.5	**88.3**
General expenses	139.9	10.4	**150.3**	22.0	**172.3**
Retail expenditure	16.7	-	**16.7**	6.5	**23.2**
Intra-group charges/other	161.1	1.8	**162.9**	8.8	**171.7**
Loss on disposal of fixed assets	0.3	-	**0.3**	-	**0.3**
HEX inter-company elimination	(45.5)	-	**(45.5)**	-	**(45.5)**
Adjusted operating costs	678.6	41.4	**720.0**	106.5	**826.5**
Depreciation	326.7	-	**326.7**	29.8	**356.5**
Exceptional items	(50.1)	(0.1)	**(50.2)**	(16.0)	**(66.2)**
Total operating costs	955.2	41.3	**996.5**	120.3	**1,116.8**
Adjusted EBITDA	644.5	4.1	**648.6**	70.4	**719.0**

Analysis of turnover and operating costs for the nine months ended 30 September 2009 (continuing operations)

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	723.7	-	**723.7**	99.7	**823.4**
Retail income	262.9	-	**262.9**	67.5	**330.4**
Car parking	51.6	-	51.6	28.7	80.3
Duty and tax-free	64.1	-	64.1	10.1	74.2
Airside specialist shops	43.8	-	43.8	4.4	48.2
Bureaux de change	24.6	-	24.6	6.3	30.9
Catering	19.4	-	19.4	7.1	26.5
Landside shops and bookshops	15.0	-	15.0	4.9	19.9
Advertising	21.7	-	21.7	1.9	23.6
Car rental	9.4	-	9.4	1.6	11.0
Other	13.3	-	13.3	2.5	15.8
Operational facilities and utilities income	104.0	-	**104.0**	8.0	**112.0**
Property rental income	72.0	-	**72.0**	5.8	**77.8**
Rail income	65.6	-	**65.6**	-	**65.6**
Other income	63.5	-	**63.5**	3.4	**66.9**
HEX inter-company elimination	(40.5)	44.5	**4.0**	-	**4.0**
Total income	1,251.2	44.5	**1,295.7**	184.4	**1,480.1**
Operating costs					
Employment costs	168.3	12.8	**181.1**	35.2	**216.3**
Maintenance expenditure	85.1	13.5	**98.6**	7.5	**106.1**
Utility costs	74.3	0.1	**74.4**	15.5	**89.9**
Rents and rates	85.3	1.5	**86.8**	9.2	**96.0**
General expenses	140.0	10.2	**150.2**	22.2	**172.4**
Retail expenditure	17.6	-	**17.6**	6.8	**24.4**
Intra-group charges/other	142.8	2.3	**145.1**	11.4	**156.5**
HEX inter-company elimination	(44.5)	-	**(44.5)**	-	**(44.5)**
Adjusted operating costs	668.9	40.4	**709.3**	107.8	**817.1**
Depreciation	306.0	-	**306.0**	29.1	**335.1**
Exceptional items	216.9	-	**216.9**	35.3	**252.2**
Total operating costs	1,191.8	40.4	**1,232.2**	172.2	**1,404.4**
Adjusted EBITDA	582.3	4.1	**586.4**	76.6	**663.0**