

News Release

22 February 2011

BAA (SP) Limited

Results for the year ended 31 December 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. BAA (SH) plc is the parent company of BAA (SP) Limited.

- **Strong recovery in Heathrow traffic tempered by volcanic ash, strikes and snow**
- **Group passenger traffic of 84.3 million with underlying growth of up to 3.4% at Heathrow**
- **Revenue up 4.9% reflecting higher tariffs and exceptional retail performance**
- **Adjusted EBITDA up 9.2% enabling continued significant capital investment at Heathrow**
- **Reduced pre-tax loss due to lower exceptional items and fair value adjustments**
- **Subordinated debt refinancing completed and BAA's overall capital structure strengthened**
- **Strong increase in profitability and investment in improving facilities anticipated in 2011**

| At or for year ended 31 December | 2010 | 2009 | Change (%) |
|----------------------------------------------------------|-----------------|----------|------------|
| <i>(figures in £m unless otherwise stated)</i> | | | |
| Revenue ⁽¹⁾ | 2,074.3 | 1,977.6 | 4.9 |
| Adjusted EBITDA ⁽¹⁾⁽²⁾ | 966.9 | 885.2 | 9.2 |
| Cash generated from operations ⁽¹⁾ | 918.5 | 802.3 | 14.5 |
| Adjusted pre-tax loss ⁽³⁾ | (206.2) | (156.5) | 31.8 |
| Pre-tax loss | (316.6) | (821.9) | (61.5) |
| BAA (SP) Limited consolidated net debt ⁽⁴⁾⁽⁵⁾ | 9,921.2 | 8,579.0 | 15.6 |
| BAA (SH) plc consolidated net debt ⁽⁵⁾ | 10,401.1 | 10,143.4 | 2.5 |
| Regulatory Asset Base | 12,776.0 | 11,730.5 | 8.9 |
| Passengers (m) ⁽⁶⁾ | 84.3 | 85.9 | (1.8) |
| Net retail income per passenger ⁽⁶⁾⁽⁷⁾ | £5.29 | £4.72 | 12.1 |

(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, gain/loss on disposal of Gatwick airport, impairment of fixed assets and fair value adjustments

(4) BAA (SP) Limited's increased net debt includes £1 billion of debt raised by the Group to repay debt at BAA (SH) plc

(5) Nominal value of net debt excluding intra-BAA group loans and restricted cash and including index-linked accretion

(6) Change in passengers and net retail income per passenger are calculated using unrounded data

(7) See section 3.2.2.2 for calculation of net retail income per passenger

Colin Matthews, Chief Executive Officer of BAA, said:

"We delivered a robust financial performance in 2010, despite the volcanic ash, strikes and snow that affected major airports across Europe and North America. Strong passenger growth at Heathrow in the second half of the year reflected the ongoing improvement in the global economic climate.

We continued to strengthen and diversify our funding position by raising £2 billion of new financing, underpinning our investment in upgrading Heathrow.

BAA is undertaking the UK's biggest privately funded development with the airport's new £2 billion Terminal 2 which will offer passengers a quicker and easier transfer experience by grouping the Star Alliance airlines together.

Significant progress has also been made in renovating older terminals and we are investing nearly £250 million in a new baggage tunnel between Terminal 3 and Terminal 5 to speed up passengers' journeys.

In 2011, we expect to deliver a strong increase in profits and cash flow, enabling us to make further investments in improving facilities and further strengthening our financial position."

For further information please contact

BAA*Media enquiries*

Malcolm Robertson or Andrew Teacher

020 8745 7224

Investor enquiries

Andrew Efiog

020 8745 2742

FinsburyAndrew Dowler, Don Hunter or Kirsty
Flockhart

020 7251 3801

There will be a conference call today at 9.30 am (UK time) for bondholders and bank lenders to the Group and BAA (SH) plc and credit analysts to discuss the results for the year ended 31 December 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: 37064620; 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=664449401>

BAA (SP) Limited**Consolidated results for the year ended 31 December 2010****Index**

| | |
|------------|----------------------------------------------------------------------------------------------------|
| 1. | Basis of presentation of results |
| 2. | Key business developments |
| 2.1 | Key features of the year |
| 2.2 | Passenger traffic |
| 2.3 | Transforming the Group's airports |
| 2.4 | Competition Commission inquiry into the supply of UK airport services by BAA |
| 2.5 | Airport economic regulation review and potential extension of Heathrow's current regulatory period |
| 2.6 | Government announcements on new runways and high speed rail |
| 3. | Financial review |
| 3.1 | Basis of preparation |
| 3.2 | Profit and loss account |
| 3.3 | Cash flow |
| 3.4 | Pension scheme |
| 3.5 | Financing position |
| 3.6 | Outlook |
| Appendix 1 | Audited consolidated financial information for BAA (SP) Limited |
| Appendix 2 | Analysis of turnover and operating costs by airport and activity |

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 Key features of the year**

2010 was marked by contrasting fortunes for the Group. The global economic recovery underway following the credit crisis gained momentum, resulting in strong underlying growth in passenger traffic at Heathrow. Heathrow's performance reflects its significantly greater exposure to global economic trends than other UK airports given it is the UK's only hub airport and handles approximately 70% of all UK long haul air traffic. The improving global economic background enabled the Group to deliver a good financial performance despite a number of exceptional external events.

The first of these was the closure of UK and European airspace due to ash from a volcanic eruption in Iceland which resulted in Heathrow and Stansted closing from 15 April 2010 to 20 April 2010. Further, during the first half of 2010, British Airways' cabin crew took industrial action on 22 days which resulted in a total of 34 days' service disruption at Heathrow.

Finally, the airports experienced the disruptive effects of the coldest December in the UK since records began, being particularly affected in early December and in the week leading up to Christmas. Severe winter weather was also experienced across much of north west Europe and the north eastern seaboard of the US at various times during the month that also had an impact on traffic at the Group's airports. Given the degree of disruption caused at Heathrow by the weather immediately before Christmas, BAA appointed an external international panel of experts, led by BAA non-executive director Professor David

Begg, to establish what lessons could be learnt from the disruption in order that the airport can better prepare and respond to future adverse weather conditions. The panel is due to report in March 2011.

During 2010, the UK's new coalition government reversed the previous government's support for new runways at Heathrow and Stansted and as a result the airports stopped pursuing planning applications for their third and second runways respectively.

The Group continued significant investment at Heathrow with good progress made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years after a period of over twenty years since Terminal 4 opened. Nearly £850 million was invested at the Group's two airports in 2010, including over £800 million at Heathrow.

Significant progress was made in 2010 in extending the Group's debt maturities, with a wide range of investors attracted to supporting Heathrow's long-term investment plans through five major new debt financings completed by the Group and BAA (SH) that raised approximately £2.0 billion. This enabled repayment of the majority of their short-term maturities and enhanced BAA's overall capital structure.

2.2 Passenger traffic

Passenger traffic for the year ended 31 December 2010 at the Group's airports is analysed below:

| <i>(figures in millions unless otherwise stated)</i> | 2010 | 2009 | Change (%) ⁽¹⁾ |
|------------------------------------------------------|-------------|-------------|---------------------------|
| Passengers by airport | | | |
| Heathrow | 65.7 | 65.9 | (0.2) |
| Stansted | 18.6 | 20.0 | (7.0) |
| Passengers by market served | | | |
| UK | 6.6 | 7.2 | (8.1) |
| Europe ⁽²⁾ | 42.8 | 43.5 | (1.8) |
| Long haul | 35.0 | 35.2 | (0.5) |
| Total passengers⁽¹⁾ | 84.3 | 85.9 | (1.8) |

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

(2) Includes North African charter traffic

In the year ended 31 December 2010, combined passenger traffic at Heathrow and Stansted declined 1.8% to 84.3 million (2009: 85.9 million). Year on year performance reflects a number of exceptional events including closure of airspace due to volcanic ash, airline industrial action affecting Heathrow and severe winter weather as well as the macroeconomic environment. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events resulted in the loss of up to an estimated total of 2.8 million passengers of which 2.4 million were at Heathrow. Adjusting for these factors, the Group's traffic is estimated to have increased by up to 1.5%.

At Heathrow, where traffic trends are more influenced by global economic factors than at Stansted, reported traffic declined 0.2% to 65.7 million (2009: 65.9 million) but adjusting for the factors outlined above, its traffic is estimated to have increased by up to 3.4%. Heathrow's underlying growth accelerated as the year progressed driven particularly by European scheduled traffic and renewed confidence amongst business travellers. The strength of Heathrow's underlying performance is reflected in it achieving several all time traffic records including the busiest day in history, the two busiest months ever and five successive months from July to November achieving record traffic for that particular month.

Recent growth at Heathrow has been led by origin and destination traffic that increased to 65% of Heathrow's total traffic in the year ended 31 December 2010 (2009: 63%).

Stansted's reported traffic declined 7.0% to 18.6 million (2009: 20.0 million). Adjusting for disruption due to volcanic ash and severe winter weather, its traffic is estimated to have fallen no more than 4.8%. The underlying decline reflects 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.

In terms of traffic trends by market served during 2010, across the two airports, North Atlantic and emerging market long haul traffic as well as European scheduled traffic outperformed. Of particular note,

within Europe, traffic with Switzerland increased by 11.1%, Italy by 7.0% and Germany by 1.8% whilst in emerging markets such as South America and South Asia there were increases of 8.1% and 1.1% respectively. Whilst there was a noticeable recovery in the second half, domestic traffic underperformed partly reflecting airlines' tendency to focus service reductions on their domestic route network when there is disruption such as industrial action and adverse weather.

2.3 Transforming the Group's airports

The Group has continued to implement its strategy to improve passengers' experience and airlines' operations through sustained substantial investment in modern airport facilities and improved service standards. 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.

In particular, the Group's key 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. Significant progress has been made in delivering this objective over the last few years with the opening of Terminal 5 which passengers rate amongst the best airport terminals in Europe. Heathrow's significant investment continued in 2010 and in particular good progress was made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years after a period of over twenty years since Terminal 4 opened. In addition, the Group will continue to invest in Stansted to enhance its facilities.

There has also been consistent improvement in service standards, most clearly illustrated by Heathrow moving from being ranked fourth as recently as 2008 for overall passenger satisfaction amongst the top five European airports to being in the top two consistently through 2010.

2.3.1 Investment in modern airport facilities

The Group's capital investment programme continues to be focused on the transformation of Heathrow, particularly on delivering modern terminal facilities and other investments targeting improvements in the passenger experience. The main projects in 2010 included construction work on the new Terminal 2 and integrated baggage systems and near completion of Terminal 5C. Over £800 million was invested at Heathrow in 2010 and the level of investment is expected to increase substantially over 2011 and 2012 particularly as work on construction of the new Terminal 2 intensifies.

In relation to the new Terminal 2, significant progress was made in 2010 following closure of the previous terminal in late 2009. Demolition of the old terminal was completed in September 2010. The scope of the new terminal was clarified in consultation with airlines including in relation to the specification of the multi-storey car park and how it is connected to the terminal and the existing road system as well as the scope of the baggage systems. Good progress was also made in constructing the new terminal that is now clearly visible to airport users. By the end of 2010, six of the building's 12 steel cores had been erected and the first roof sections were in place. The shell of the main Terminal 2 building is expected to be completed in early 2012. Following completion of the first phase of the terminal's satellite building in 2009 (which is currently in use via Terminal 1), site clearance works in 2010 enabled work to commence on the second phase of the satellite building. The initial focus has been on constructing the basement to house the tracked transit system station and tunnels that will connect the satellite to the main terminal building.

Construction activities at Terminal 5C (Terminal 5's second satellite building) are largely complete and operational readiness activities have commenced in conjunction with British Airways. It is anticipated that the new satellite will be fully operational before the peak summer traffic season in 2011. On opening, 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.

At Stansted, levels of investment are subdued reflecting limited investment in the current regulatory period on the existing facilities and the ending of work on a potential new runway given the new UK government's opposition to the development of new runways in the South East of England. The modest

investment on existing facilities is focused largely on refurbishing infrastructure and other areas such as planning and security compliance.

2.3.2 Service standards

The Group continues to focus on delivering consistently high service standards across its airports, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency.

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 survey for the fourth quarter of 2010, Heathrow achieved an overall passenger satisfaction score of 3.80 compared to 3.78 for the same quarter of 2009, maintaining its position in the top two of the major European hub airports that it achieved throughout 2010.

In the year ended 31 December 2010 many service standards at Heathrow and Stansted were influenced by the exceptional external events discussed above.

In relation to departure punctuality, the proportion of aircraft departing within 15 minutes of schedule at Heathrow was 71% (2009: 77%) and at Stansted was 78% (2009: 82%). Punctuality statistics were affected in 2010 across the European aviation industry by two periods of prolonged severe winter weather in January and December and extensive European air traffic control strikes. More specific to Heathrow, its punctuality was also affected by the British Airways industrial action in the first half of the year.

Heathrow's baggage misconnect rate improved to 18 per 1,000 passengers (2009: 19). The improvement on 2009 is notable given the challenges faced during two periods of prolonged severe winter weather in January and December and from 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 schemes 97.5% (2009: 97.9%) of the time at Heathrow and 98.2% (2009: 99.4%) of the time at Stansted. This compares with 95.0% service standards in both cases.

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.

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

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

2.5 Airport economic regulation review and potential extension of Heathrow's current regulatory period

The new UK government confirmed its approach to reforming the economic regulation of airports that built on proposals published by the Department for Transport in December 2009. It provides clarity on the package of measures to be included in the proposed new Airport Economic Regulation bill (the 'Bill') to promote both the interests of passengers and investment in the UK's airports. The measures, which were announced in July 2010, will provide important reassurance for the 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 also confirmed the earlier decision not to bring in a special administration regime and that it will not change the basis on which the current price caps at Heathrow and Stansted are set.

In February 2011, the CAA launched a consultation on the potential extension of Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the Bill is unlikely to be introduced into parliament before the 2012 session and the CAA's desire that the Bill is enacted prior to determining the terms for the next regulatory period. The consultation is due to conclude in March 2011.

2.6 Government announcements on new runways and high speed rail

The UK's new coalition government announced that it will not support the development of new runways in the South East of England but confirmed its support for the proposed high speed rail link between London and Birmingham together with closer assessment of the merits of a direct connection to Heathrow.

The Group expects a direct high speed rail link to Heathrow would reduce journey times from the Midlands and north of England thereby increasing demand to use Heathrow by capturing UK passengers that currently travel via other European hubs. Capacity should also be increased by allowing domestic slots serviced by relatively small aircraft to be rotated onto long haul routes serviced by larger aircraft.

As a result of the government's position on runways, in May 2010 Heathrow and Stansted stopped pursuing planning applications for new runways. The decision on runways is expected to reduce financing requirements over the next few years. As a result of this decision, the Group made impairment charges in respect of runway planning application costs and the value of properties and land purchased in relation to potential future runway development. These accounting charges will not impact the airports' regulatory asset bases, the Group's financial ratios or the generation of future cash flows. In addition, the airports' exposure to passenger volume risk is limited by the five year regulatory cycle. In any event further growth is expected without new runways even at Heathrow where higher load factors and capacity utilisation and increased use of larger aircraft provide growth opportunities.

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. Audited 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.

| <i>Year ended 31 December</i> | 2010 £m | 2009 £m |
|-------------------------------------------------------------------------------------|-------------------|------------|
| Group turnover – total | 2,074.3 | 2,417.9 |
| Group turnover – discontinued operations | - | (440.3) |
| Group turnover – continuing operations | 2,074.3 | 1,977.6 |
| Adjusted operating costs – continuing operations ⁽¹⁾ | (1,107.4) | (1,092.4) |
| Adjusted EBITDA – continuing operations⁽²⁾ | 966.9 | 885.2 |
| Operating gain/(costs) – exceptional – continuing operations ⁽³⁾ | 77.2 | (217.3) |
| EBITDA – continuing operations | 1,044.1 | 667.9 |
| Depreciation – ordinary – continuing operations | (476.7) | (452.7) |
| Depreciation – exceptional – continuing operations ⁽³⁾ | (18.7) | (54.6) |
| Operating profit – continuing operations | 548.7 | 160.6 |
| Operating profit – discontinued operations | - | 95.1 |
| Operating profit – total | 548.7 | 255.7 |
| Gain/(loss) on disposal of Gatwick airport - discontinued operations ⁽³⁾ | 16.2 | (277.3) |
| Impairment of fixed assets – exceptional – continuing operations ⁽³⁾ | (149.3) | - |
| Net interest payable and similar charges | (696.4) | (682.9) |
| Fair value loss on financial instruments | (35.8) | (117.4) |
| Total net interest payable and similar charges | (732.2) | (800.3) |
| Loss on ordinary activities before taxation | (316.6) | (821.9) |
| Tax (charge)/credit on loss on ordinary activities | (5.2) | 137.9 |
| Loss on ordinary activities after taxation | (321.8) | (684.0) |

(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 year ended 31 December 2010, turnover from continuing operations increased 4.9% to £2,074.3 million (2009: £1,977.6 million). This reflects increases of 2.0%, 8.4% and 8.4% in aeronautical income, retail income and other income respectively.

| <i>Continuing operations</i> <i>Year ended 31 December</i> | 2010 £m | 2009 £m | Change (%) |
|---------------------------------------------------------------|-------------------|------------|------------|
| Aeronautical income | 1,115.0 | 1,092.7 | 2.0 |
| Retail income | 476.3 | 439.5 | 8.4 |
| Other income | 483.0 | 445.4 | 8.4 |
| Total turnover | 2,074.3 | 1,977.6 | 4.9 |

3.2.2.1 Aeronautical income

Aeronautical income by airport

| <i>Continuing operations</i> <i>Year ended 31 December</i> | 2010 £m | 2009 £m | Change (%) |
|---------------------------------------------------------------|-------------------|------------|------------|
| Heathrow | 991.3 | 960.7 | 3.2 |
| Stansted | 123.7 | 132.0 | (6.3) |
| Total | 1,115.0 | 1,092.7 | 2.0 |

In the year ended 31 December 2010, aeronautical income increased 2.0% to £1,115.0 million (2009: £1,092.7 million). At Heathrow, aeronautical income increased 3.2% 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, airline industrial action and severe winter weather. At Stansted, aeronautical income declined 6.3%, less than the decline in passengers, reflecting lower tariff discounts. The delay in introducing higher tariffs applying at Heathrow from 1 April 2008 boosted aeronautical income in 2009 by an estimated £12.5 million above underlying levels. Adjusting for this, Heathrow's aeronautical income is estimated to have increased 4.5%.

3.2.2.2 Retail income

The Group's retail business delivered an exceptional performance in 2010 with improved demand for the retail offering reflected in net retail income ('NRI') per passenger increasing 12.1% to £5.29 (2009: £4.72). The performance was led by Heathrow where NRI per passenger was up 14.4%.

This performance was based on gross retail income increasing 8.4% to £476.3 million (2009: £439.5 million) and NRI increasing 10.1% to £445.7 million (2009: £404.9 million).

Net retail income per passenger by airport⁽¹⁾

| Continuing operations <i>Year ended 31 December</i> | 2010 £ | 2009 £ | Change (%) |
|---------------------------------------------------------------|------------------|-----------|------------|
| Heathrow | 5.64 | 4.93 | 14.4 |
| Stansted | 4.02 | 4.00 | 0.5 |
| Total | 5.29 | 4.72 | 12.1 |

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

At Heathrow, gross retail income increased 11.9% to £393.2 million (2009: £351.5 million) and NRI per passenger increased 14.4% to £5.64 (2009: £4.93). Most areas of the retail business performed well, with the main growth drivers through the year being airside specialist shops and duty and tax-free. In addition, there were increasing signs of recovery in car parking as the year progressed.

Heathrow's excellent retail performance reflects the increase in the proportion of higher spending origin and destination passengers from 63% in 2009 to 65% in 2010. 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, various initiatives by the Group supported growth including advertising campaigns such as 'West End for less' highlighting the value proposition of Heathrow's retail outlets, more in-terminal sales support and actively managing the mix of concessionaires. Growth in passenger spend was particularly strong in the luxury segment of Heathrow's airside retail outlets, consistent with recent trading performance reported by many luxury fashion retailers.

During 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 and received a similar award in the Skytrax World Airports Awards.

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

3.2.2.3 Other income

Income from activities other than aeronautical and retail increased 8.4% to £483.0 million (2009: £445.4 million). This reflects rail income increasing 12.6% to £103.0 million (2009: £91.5 million) due to passenger numbers increasing 9.4% to 5.92 million (2009: 5.41 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 5.3% to £159.6 million (2009: £151.6 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 17.3% to £112.1 million (2009: £95.6 million) due to £16.5 million of income from the provision of various transitional services to Gatwick airport that is largely non-recurring as most of the transitional services agreements terminated in 2010. Adjusting for this factor, income from activities other than aeronautical and retail increased by an estimated 4.7%.

3.2.2.4 Underlying turnover

In the year ended 31 December 2010, turnover from continuing operations increased 4.9% to £2,074.3 million (2009: £1,977.6 million). To determine underlying turnover growth it is necessary to adjust for an additional £12.5 million in aeronautical income earned at Heathrow in 2009 above underlying levels due to phasing of tariff increases differing from the normal pattern and £16.5 million of non-recurring income generated in 2010 from the provision of various services to Gatwick airport under transitional services agreements.

Year on year turnover performance was also affected by the various exceptional external events that impacted the business during 2010. At the time of the airport closures caused by ash from an Icelandic volcano and the industrial action by British Airways' cabin crew, the Group's turnover was affected by a combined estimated £38.1 million. In addition, of the total impact on the Group's profits of approximately £20 million from the severe winter weather in December, it is estimated that £12.1 million was due to reduced turnover.

Whilst recognising that some passengers whose journeys were affected by the disruption from volcanic ash and industrial action by British Airways' cabin crew will have completed their planned journeys later in 2010, adjusting for the items outlined above, underlying turnover in the year ended 31 December 2010 is estimated to have increased by up to 7.3% to £2,108.0 million (2009: £1,965.1 million).

3.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2010, adjusted operating costs increased 1.4% to £1,107.4 million (2009: £1,092.4 million).

| <i>Continuing operations</i> | 2010 | 2009 |
|-------------------------------------|----------------|---------|
| <i>Year ended 31 December</i> | £m | £m |
| Employment costs | 315.7 | 290.9 |
| Maintenance expenditure | 134.8 | 147.3 |
| Utility costs | 115.6 | 125.5 |
| Rents and rates | 117.0 | 128.9 |
| General expenses | 233.3 | 235.5 |
| Retail expenditure | 30.6 | 34.6 |
| Intra-group charges/other | 160.4 | 129.7 |
| Total | 1,107.4 | 1,092.4 |

The main drivers of increased adjusted operating costs were higher employment costs and intra-group charges. Employment costs increased 8.5% to £315.7 million (2009: £290.9 million). The increase in employment costs was driven particularly by the reinstatement of performance related pay as well as additional defined benefit pension service charges of £10.8 million relative to last year due to revised actuarial assumptions. Intra-group charges/other costs increased 23.7% to £160.4 million (2009: £129.7 million) primarily reflecting central overheads being allocated across a smaller business base following the sale of Gatwick (£27.8 million of central overheads were charged to Gatwick in the year ended 31 December 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, reduced utility costs 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 together with the estimated £7.8 million cost associated with the severe winter weather in December 2010 (which arose for example from providing hotel accommodation, catering and other care for the substantial number of stranded passengers), underlying adjusted operating costs declined 2.8% to £1,088.8 million (2009: £1,120.2 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 year ended 31 December 2010, Adjusted EBITDA increased 9.2% to £966.9 million (2009: £885.2 million), resulting in an Adjusted EBITDA margin of 46.6% (2009: 44.8%).

Whilst recognising that some passengers whose journeys were affected by the disruption from volcanic ash and industrial action by British Airways cabin crew will have completed their planned journeys later in 2010, as discussed in sections 3.2.2.4 and 3.2.3, these two disruptions together with the severe winter weather in December reduced Adjusted EBITDA in the year ended 31 December 2010 by up to £58.0 million. Taking into account these factors together with re-allocating central overheads and additional aeronautical income in 2009 and Gatwick transitional services income and increased pension costs in 2010 (also discussed in sections 3.2.2.4 and 3.2.3), it is estimated that underlying Adjusted EBITDA increased by up to 20.6% to £1,019.2 million (2009: £844.9 million), resulting in an underlying Adjusted EBITDA margin of 48.3% (2009: 43.0%).

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 12.5% to £880.7 million (2009: £782.8 million). Stansted's Adjusted EBITDA declined 15.8% to £86.2 million (2009: £102.4 million) due principally to weak underlying traffic trends compounded by the disruption caused by volcanic ash and severe winter weather.

3.2.5 Exceptional items (including depreciation and impairment charges)

In the year ended 31 December 2010, there was a total net £90.8 million pre-tax charge (2009: £271.9 million) to the profit and loss account in respect of exceptional items, including impairment charges and other one-off items for continuing operations with a £58.5 million credit (2009: £271.9 million charge) included in operating profit and a charge of £149.3 million (2009: £nil) below operating profit.

Items within operating profit included a £89.9 million non-cash pension related credit (2009: £217.8 million charge) principally 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: £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 was reassessed and extended. Finally, there was a £12.7 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 exceptional items below operating profit in 2010 related to impairment charges arising from the Group's decision not to pursue planning applications for new runways at Heathrow and Stansted given that the UK's new coalition government does not support the development of new runways in the South East of England. There was a total impairment charge of £149.3 million made of which £104.4 million related to the write-off of planning application costs and £44.9 million to the write down in the value of domestic properties and land purchased by both airports falling within the planned expanded airport boundaries prior to their transfer to investment properties. This accounting treatment has no impact on these costs being included in the airports' regulatory asset bases and has no cash impact. In addition, it will not affect future cash flow generation, 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 year ended 31 December 2010 of £548.7 million (2009: £160.6 million). Relative to Adjusted EBITDA, operating profit includes £476.7 million in depreciation (2009: £452.7 million). In addition, it reflects a net £58.5 million exceptional credit included in operating profit (2009: £271.9 million charge). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

| <i>Continuing operations</i> <i>Year ended 31 December</i> | 2010 £m | 2009 £m | Change (%) |
|---------------------------------------------------------------|--------------------------|------------|------------|
| Adjusted EBITDA | 966.9 | 885.2 | 9.2 |
| Depreciation | (476.7) | (452.7) | 5.3 |
| Exceptional items – pensions | 89.9 | (217.8) | n/a |
| Exceptional items – accelerated depreciation | (18.7) | (54.6) | (65.8) |
| Exceptional items – other | (12.7) | 0.5 | n/a |
| Operating profit | 548.7 | 160.6 | 241.7 |

3.2.7 Taxation

The tax charge recognised for the year ended 31 December 2010 was £5.2 million (2009: £137.9 million credit). Based on a loss before tax for the period of £316.6 million (2009: £821.9 million), this results in a negative effective tax rate of -1.6% (2009: 16.8%).

The tax charge is less than the credit implied by the statutory rate of 28% (2009: 28%). This is primarily due to the non-deductibility for tax purposes of the impairment charge for the year and to a deferred tax charge related to accelerated depreciation in 2010 and prior years on assets with shortened lives. Improved information is now available on the tax classification of these assets and the calculation of deferred tax has been adjusted accordingly.

The Finance (No. 2) Act 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 re-measured 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

| <i>Year ended 31 December</i> | 2010 £m | 2009 £m |
|-------------------------------------------------------------------------------|--------------------------|------------|
| Net cash inflow from operating activities - continuing operations | 918.5 | 802.3 |
| Net cash inflow from operating activities - discontinued operations | - | 189.4 |
| Net cash inflow from operating activities - total | 918.5 | 991.7 |
| Net interest paid | (393.8) | (512.9) |
| Taxation – Group relief (paid)/received | (17.1) | 24.0 |
| Cash flow after interest and tax | 507.6 | 502.8 |
| Net capital expenditure | (841.1) | (1,002.8) |
| Pension and other payments related to disposal of Gatwick airport | (125.3) | 1,360.5 |
| Net cash (outflow)/inflow before management of liquid resources and financing | (458.8) | 860.5 |
| Management of liquid resources | 193.5 | (77.4) |
| Prepayment of derivative interest | (36.7) | (114.2) |
| Cancellation of derivatives | (73.9) | (43.3) |
| Proceeds of equity issue | 217.4 | 282.6 |
| Movement in borrowings and other financing flows | 160.6 | (929.2) |
| Increase/(decrease) in net cash | 2.1 | (21.0) |

3.3.2 Cash flow from operating activities

Net cash inflow from continuing operations in the year ended 31 December 2010 increased 14.5% to £918.5 million (2009: £802.3 million) which compares with Adjusted EBITDA of £966.9 million (2009: £885.2 million). Operating cash flow was less than Adjusted EBITDA mainly due to cash contributions to pension schemes exceeding the pension charge to the profit and loss account by £32.5 million and the cash nature of the restructuring exceptional item detailed in section 3.2.5.

The improvement in operating cash flow between 2009 and 2010 reflects the increase in Adjusted EBITDA together with an improved working capital performance.

3.3.3 Capital expenditure

In the year ended 31 December 2010, the Group invested £841.1 million in capital expenditure (2009: £1,002.8 million including £127.1 million at Gatwick) with £818.7 million at Heathrow (2009: £817.8 million) and £22.4 million at Stansted (2009: £57.9 million).

Investment at Heathrow focused on work on the new Terminal 2 and its satellite building which gained momentum through the year. It also reflects continued work on Terminal 5C which was nearing substantial completion at the year end. The third major Heathrow project during 2010 was the tunnel between Terminals 3 and 5 which will transport baggage for transfer passengers. Other investment included refurbishment of several areas in both Terminals 3 and 4 (security search, immigration hall and baggage reclaim) and further works on the taxiway system to enable the A380 aircraft to access all necessary airside areas.

There was modest investment at Stansted with the conclusion of expenditure on a potential new runway given the new UK government's opposition to the development of new runways in the South East of England. Other investment focused on planning and security compliance and refurbishing existing infrastructure.

3.4 Pension scheme

At 31 December 2010, the BAA defined benefit pension scheme had a deficit of £43.6 million as measured under IAS 19, of which £36.6 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 reduction in the scheme deficit is due principally to the benefit of the £104.7 million commutation payment into the scheme that arose due to the Gatwick sale and returns on the scheme assets increasing to £213 million compared to £74 million in 2009.

3.5 Financing position

3.5.1 Net debt at BAA (SP)

The analysis below focuses on the Group's external debt and excludes restricted cash and 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.

During 2010, the Group's nominal net debt increased 15.6% from £8,579.0 million at 31 December 2009 to £9,921.2 million at 31 December 2010. The majority of the increase was due to the £1,000.0 million distributed from BAA (SP) to BAA (SH) discussed in section 3.5.3.

The Group's nominal net debt at 31 December 2010 comprised £6,279.9 million outstanding under bond issues, £1,298.3 million outstanding under the bank refinancing facility, £2,257.7 million outstanding under other bank facilities, £132.4 million in index-linked derivative accretion and cash and current asset investments of £47.1 million. Nominal net debt comprised £8,793.2 million in senior net debt and £1,128.0 million in junior debt.

The accounting value of the Group's net debt at 31 December 2010 was £9,910.5 million (2009: £8,725.7 million).

The average cost of the Group's external gross debt at 31 December 2010 was 4.44% (2009: 5.81%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. The significant reduction in the cost of debt from the prior year reflects completion of approximately £2 billion in index-linked derivatives during 2010 on which only the real rate cost is included in determining the above cost of debt.

3.5.2 Net debt at BAA (SH) plc

Taking into account the Group's nominal net debt discussed in section 3.5.1 together with £500.0 million of gross debt and £20.1 million of cash held at BAA (SH), BAA (SH)'s consolidated net debt at 31 December 2010 was £10,401.1 million, an increase of 2.5% from £10,143.4 million at 31 December 2009.

3.5.3 Financing activities

The Group continued to make strong progress in extending its debt maturities during 2010, attracting a wide range of investors to support its long-term investment plans at Heathrow through a number of major new debt financings. Together, the Group and BAA (SH) raised approximately £2.0 billion of new financing, repaying the majority of their short-term maturities, including BAA (SH)'s previous £1.57 billion debt facility, and enhancing BAA's overall capital structure.

Major financings in 2010 included a £625 million four-year Class B loan facility, an inaugural £400 million eight-year Class B bond issue and a €500 million six-year Class A bond issue. Bond issuance proceeds were used, together with retained excess cash flow, to repay the refinancing facility to below £1.3 billion, as a result of which the previous block on dividend payments by the Group has been removed. The Group's capital structure was also enhanced by the completion in January 2010 of the final £217.4 million tranche of a £500 million equity injection announced in November 2009.

The Group took advantage of its significant recent deleveraging and increased debt headroom 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 BAA (SH). BAA (SH) 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 previous debt facility. Repayment of BAA (SH)'s previous debt facility was completed with a £175 million loan facility and £325 million bond issue.

The success of these financing activities was recognised when BAA was named '2010 Corporate Issuer of the Year' by IFR.

The Group has no significant debt maturities in 2011. It expects, however, to continue to raise finance from the capital markets to fund its ongoing investment programme and meet its next major debt maturities in 2012. The Group also expects to increase the undrawn balance (£1.4 billion at 31 December 2010) under its £2.7 billion revolving capital expenditure facility. As in 2010, the Group expects to be active across a variety of markets, including not only Euro and Sterling but also US dollars.

3.5.4 Regulatory Asset Base ('RAB')

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

| | Heathrow £m | Stansted £m | Total £m |
|------------------|----------------|----------------|-------------|
| 31 December 2009 | 10,452.9 | 1,277.6 | 11,730.5 |
| 31 December 2010 | 11,448.7 | 1,327.3 | 12,776.0 |

The increase in the total RAB during 2010 reflected the addition of approximately £835 million in capital expenditure partially offset by regulatory depreciation of around £515 million. Variation in RAB profiling adjustments added a further £155 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £570 million over the period.

3.5.5 Net interest payable and net interest paid

In the year ended 31 December 2010, the Group's net interest payable was £696.4 million (2009: £682.9 million) excluding fair value losses on financial instruments. Underlying net interest payable was £654.6 million (2009: £622.5 million), excluding £22.7 million (2009: £23.9 million) in capitalised interest and £64.5 million (2009: £84.3 million) in non-cash amortisation of financing fees and bond fair value adjustments. The increased underlying interest payable in 2010 largely reflects the net £123.1 million adverse movement in accretion under index-linked derivatives between 2009 and 2010 resulting from the shift from negative inflation in 2009 to positive inflation in 2010.

Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £35.8 million (2009: £117.4 million).

Net interest paid in the year ended 31 December 2010 was £393.8 million (2009: £512.9 million). This consisted of £326.2 million (2009: £383.3 million) paid in relation to external debt and £67.6 million (2009: £129.6 million) under the debenture between BAA (SP) and BAA (SH). The reduction in net interest paid on external debt between 2009 and 2010 primarily reflects higher average net debt prior to the sale of Gatwick in 2009 and reduced payments on derivatives following interest prepayments and conversion of some swaps onto a forward starting basis. 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 £140.6 million (2009: £139.6 million) in net interest payable relating to prepayments of derivative interest implemented principally in earlier periods and a £118.6 million non-cash charge (2009: £15.8 million credit) mainly relating to accretion on index-linked instruments. In addition, there is the non-cash amortisation of financing fees and bond fair value adjustments partially offset by capitalised interest.

3.5.6 Financial ratios

The Group continues to operate comfortably within required financial ratios.

At 31 December 2010, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 68.8% and 77.7% respectively compared with trigger levels of 70.0% and 85.0% under its financing agreements. Taking into account the debt and cash held at BAA (SH), the gearing ratio was 81.4% compared to a covenant level of 90.0% under BAA (SH)'s financing agreements.

In the year ended 31 December 2010, the Group's senior and junior interest cover ratios (the ratio of cashflow from operations less tax paid less 2% of RAB to interest paid) were 2.08x and 1.85x compared with trigger levels of 1.40x and 1.20x under its financing agreements. Taking into account interest on the debt held at BAA (SH), the interest cover ratio was 1.55x compared to a covenant level of 1.00x under BAA (SH)'s financing agreements.

3.6 Outlook

The Group expects the recovery in underlying passenger traffic in 2010 to continue in 2011. 2011 is also expected to see higher aeronautical tariffs, particularly at Heathrow, and further improvements in retail income. Whilst increased turnover will be partially offset by increased operating costs, particularly associated with the one-off cost of various IT, operational and commercial initiatives that will deliver future operational and financial benefits, this year is expected to see strong growth in turnover, Adjusted EBITDA and operating cash flow. There is also expected to be a significant step up in investment at Heathrow.

Traffic trends in the early weeks of 2011 have been consistent with the Group's expectations and therefore at this stage of the year the outlook for financial performance in 2011 remains consistent with guidance in the Investor Report distributed in December 2010.

Appendix 1 – Financial information

BAA (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2010

| | Audited Year ended 31 December 2010 £m | Audited Year ended 31 December 2009 £m |
|----------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Turnover – continuing operations | 2,074.3 | 1,977.6 |
| Turnover – discontinued operations | - | 440.3 |
| Total turnover | 2,074.3 | 2,417.9 |
| Operating costs – ordinary | (1,584.1) | (1,891.5) |
| Operating gain/(costs) – exceptional: pensions | 89.9 | (217.8) |
| Operating costs – exceptional: other | (31.4) | (52.9) |
| Total operating costs | (1,525.6) | (2,162.2) |
| Operating profit – continuing operations | 548.7 | 160.6 |
| Operating profit – discontinued operations | - | 95.1 |
| Total operating profit | 548.7 | 255.7 |
| Impairment of fixed assets – exceptional | (149.3) | - |
| Gain/(loss) on disposal of Gatwick airport – discontinued operations | 16.2 | (277.3) |
| Interest receivable | 162.2 | 154.7 |
| Interest payable and similar charges | (858.6) | (837.6) |
| Fair value loss on financial instruments | (35.8) | (117.4) |
| Net interest payable and similar charges | (732.2) | (800.3) |
| Loss on ordinary activities before taxation | (316.6) | (821.9) |
| Tax (charge)/credit on loss on ordinary activities | (5.2) | 137.9 |
| Loss on ordinary activities after taxation | (321.8) | (684.0) |

BAA (SP) Limited

Consolidated balance sheet as at 31 December 2010

| | Audited 31 December 2010 £m | Restated ¹ Audited 31 December 2009 £m |
|---------------------------------------------------------|-----------------------------------|------------------------------------------------------------|
| Fixed assets | | |
| Tangible fixed assets | 11,678.2 | 11,473.8 |
| Financial assets – derivative financial instruments | 551.7 | 683.0 |
| Total fixed assets | 12,229.9 | 12,156.8 |
| Current assets | | |
| Stocks | 5.5 | 4.9 |
| Debtors | 357.7 | 303.2 |
| Financial assets – derivative financial instruments | 0.1 | 0.3 |
| Current asset investments | 41.0 | 234.5 |
| Restricted cash | - | 143.0 |
| Cash at bank and in hand | 6.1 | 4.0 |
| Total current assets | 410.4 | 689.9 |
| Current liabilities | | |
| Creditors: amounts falling due within one year | (586.2) | (558.6) |
| Net current (liabilities)/assets | (175.8) | 131.3 |
| Total assets less current liabilities | 12,054.1 | 12,288.1 |
| Creditors: amounts falling due after more than one year | (11,060.1) | (10,830.9) |
| Deferred tax | (271.1) | (291.4) |
| Provisions for liabilities and charges - pension | (53.3) | (231.8) |
| Provisions for liabilities and charges - other | (33.7) | (108.0) |
| Net assets | 635.9 | 826.0 |
| Capital and reserves | | |
| Called up share capital | 11.0 | 10.6 |
| Share premium reserve | 499.0 | 282.0 |
| Revaluation reserve | 1,470.9 | 1,442.4 |
| Merger reserve | (4,535.6) | (4,535.6) |
| Fair value reserve | (174.7) | (100.5) |
| Profit and loss reserve | 3,365.3 | 3,727.1 |
| Total shareholder's funds | 635.9 | 826.0 |

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

BAA (SP) Limited

Consolidated summary cash flow statement for the year ended 31 December 2010

| | Audited Year ended 31 December 2010 £m | Restated ¹ Audited Year ended 31 December 2009 £m |
|-------------------------------------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------------------|
| Operating profit – continuing operations | 548.7 | 160.6 |
| <i>Adjustments for:</i> | | |
| Depreciation (including exceptional depreciation) | 495.4 | 507.3 |
| Loss/(gain) on disposal of tangible fixed assets | 0.3 | (0.1) |
| <i>Working capital changes:</i> | | |
| (Increase)/decrease in stock and debtors | (4.5) | 16.6 |
| Increase/(decrease) in creditors | 18.0 | (71.0) |
| (Decrease)/increase in provisions | (17.0) | 2.9 |
| Difference between pension charge and cash contributions | (32.5) | (31.8) |
| Exceptional pension (credit)/charge | (89.9) | 217.8 |
| Net cash inflow from operating activities – continuing | 918.5 | 802.3 |
| Net cash inflow from operating activities – discontinued | - | 189.4 |
| Net interest paid | (393.8) | (512.9) |
| Taxation - Group relief (paid)/received | (17.1) | 24.0 |
| Net capital expenditure | (841.1) | (1,002.8) |
| Net proceeds on disposal of Gatwick airport | 1.4 | 1,379.6 |
| Disposal of Gatwick airport - pension and disposal costs ² | (126.7) | (19.1) |
| Net cash (outflow)/inflow before use of liquid resources and financing | (458.8) | 860.5 |
| Management of liquid resources | 193.5 | (77.4) |
| Issuance of bonds | 830.1 | 925.2 |
| Drawdown of Class B facility | 625.0 | - |
| Drawdown of capital expenditure facility | 600.0 | 450.0 |
| Repayment of facilities and other items | (1,037.5) | (2,161.4) |
| Repayment of amounts owed to parent company | (1,000.0) | - |
| Cancellation of derivatives and prepayment of derivative interest | (110.6) | (157.5) |
| Restricted cash | 143.0 | (143.0) |
| Issuance of ordinary share capital | 217.4 | 282.6 |
| Increase/(decrease) in net cash | 2.1 | (21.0) |

¹ 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 year ended 31 December 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 year ended 31 December 2010

1 General information

The financial information set out herein does not constitute the Group's statutory financial statements for the years ended 31 December 2010 and 31 December 2009. Statutory financial statements for the year ended 31 December 2009 have been filed with the Registrar of Companies. The annual financial information presented in this announcement for the year ended 31 December 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 2010. The auditors' reports on the 2010 and 2009 financial statements were unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

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).

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 | |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Audited | Audited | Audited | Audited | Audited | Audited |
| | Year ended | Year ended | Year ended | Year ended | 31 December 2010 | 31 December 2009 |
| | 31 December 2010 | 31 December 2009 | 31 December 2010 | 31 December 2009 | 31 December 2010 | 31 December 2009 |
| | £m | £m | £m | £m | £m | £m |
| Continuing operations | | | | | | |
| Heathrow | 1,844.7 | 1,734.6 | 482.0 | 127.7 | 1,676.4 | 1,563.7 |
| Stansted | 229.6 | 243.0 | 61.0 | 27.4 | 933.5 | 1,052.2 |
| Other entities ¹ | - | - | 5.7 | 5.5 | (1,974.0) | (1,789.7) |
| Other adjustments ² | - | - | - | - | - | (0.2) |
| | 2,074.3 | 1,977.6 | 548.7 | 160.6 | 635.9 | 826.0 |
| Discontinued operations | | | | | | |
| Gatwick | - | 440.3 | - | 95.1 | - | - |
| | 2,074.3 | 2,417.9 | 548.7 | 255.7 | 635.9 | 826.0 |

¹ The 'Other entities' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent entity BAA (SP) Limited.

² '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.

| Audited Year ended 31 December 2010 | Adjusted EBITDA £m | Operating exceptional items £m | Depreciation ¹ £m | Operating profit £m |
|---------------------------------------------|-----------------------|--------------------------------------|---------------------------------|------------------------|
| Continuing operations | | | | |
| Heathrow | 875.1 | 43.3 | (436.4) | 482.0 |
| Stansted | 86.2 | 15.1 | (40.3) | 61.0 |
| Other entities and adjustments ² | 5.6 | 0.1 | - | 5.7 |
| | 966.9 | 58.5 | (476.7) | 548.7 |
| Discontinued operations | | | | |
| Gatwick | - | - | - | - |
| Total | 966.9 | 58.5 | (476.7) | 548.7 |

| Audited Year ended 31 December 2009 | Adjusted EBITDA £m | Operating 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

A breakdown of exceptional items included within operating costs is set out below:

| Audited Year ended 31 December 2010 | Pensions £m | Accelerated depreciation £m | Reorganisation £m | Total £m |
|---------------------------------------------|----------------|-----------------------------------|----------------------|-------------|
| Continuing operations | | | | |
| Heathrow | 74.7 | (18.7) | (12.7) | 43.3 |
| Stansted | 15.1 | - | - | 15.1 |
| Other entities and adjustments ¹ | 0.1 | - | - | 0.1 |
| | 89.9 | (18.7) | (12.7) | 58.5 |
| Discontinued operations | | | | |
| Gatwick | - | - | - | - |
| Total | 89.9 | (18.7) | (12.7) | 58.5 |

| Audited Year ended 31 December 2009 | Pensions £m | Accelerated depreciation £m | Reorganisation £m | Total £m |
|---------------------------------------------|----------------|-----------------------------------|----------------------|----------------|
| Continuing operations | | | | |
| Heathrow | (181.3) | (54.6) | 0.5 | (235.4) |
| Stansted | (36.4) | - | - | (36.4) |
| Other entities and adjustments ¹ | (0.1) | - | - | (0.1) |
| | (217.8) | (54.6) | 0.5 | (271.9) |
| Discontinued operations | | | | |
| Gatwick | - | - | 1.2 | 1.2 |
| Total | (217.8) | (54.6) | 1.7 | (270.7) |

¹ 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.

Under the Shared Services Agreement ('SSA') the current period service cost for the BAA Airports Limited pension schemes is 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.

During 2010 there was a net exceptional pension credit of £89.9 million (2009: £217.8 million charge). This included a £90.9 million credit (2009: £216.1 million charge) in relation to the push down of the Group's share of the reduction in the deficit on the BAA Airports Limited defined benefit pension scheme and £1.0 million (2009: £1.7 million) charge in relation to the Unfunded Retirement Benefit Scheme and post retirement medical benefits.

The £18.7 million (2009: £54.6 million) accelerated depreciation charge was 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 was reassessed and extended.

The reorganisation costs of £12.7 million in 2010 related primarily to a restructuring process to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009. The £1.7 million credit in 2009 was due to the release of provisions that were no longer required.

3 Exceptional items – non-operating costs

Impairment of fixed assets

As a result of the change in UK government and its policy towards runway developments, BAA announced on 24 May 2010 that it was withdrawing its planning permission applications for Stansted Generation 2 and ceasing work on the development of the planning application for a third runway at Heathrow. As a result there was a total impairment charge of £149.3 million made of which £104.4 million related to the write-off of planning application costs and £44.9 million to the write down in the value of domestic properties and land purchased by both

3 Exceptional items – non-operating costs *continued*

airports for development of future runways prior to their transfer to investment properties. The accounting treatment has no impact on these costs being included in the airports' regulatory asset bases and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance (other than £37 million of Stansted planning application costs previously disallowed by the CAA).

Gain on disposal of Gatwick airport

The £16.2 million gain on disposal in 2010 reflects the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected, and the receipt of a further £1.4 million on the finalisation of Gatwick's balance sheet at completion of the disposal. In 2009 the loss on disposal of £277.3 million included an impairment charge of £225.0 million that was recognised prior to disposal because the carrying value of Gatwick airport's assets was greater than its expected recoverable amount less disposal costs at the time.

4 Interest and similar items

| | Audited Year ended 31 December 2010 £m | Audited Year ended 31 December 2009 £m |
|--------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Interest receivable on derivatives not in hedge relationship | 160.3 | 154.2 |
| Interest receivable from other group undertakings | 1.1 | 0.3 |
| Interest on bank deposits | 0.8 | 0.2 |
| Interest receivable | 162.2 | 154.7 |
| Interest on borrowings | | |
| Bonds and related hedging instruments ¹ | (387.2) | (332.5) |
| Bank loans and overdrafts and related hedging instruments | (193.5) | (313.3) |
| Interest payable on derivatives not in hedge relationship ¹ | (214.1) | (98.5) |
| Facility fees | (26.8) | (26.8) |
| Interest on BAA (SP) Limited debenture | (59.7) | (86.8) |
| Interest payable to other group undertakings | - | (0.3) |
| Unwinding of discount on provisions | - | (3.3) |
| Interest capitalised | 22.7 | 23.9 |
| Interest payable and similar charges | (858.6) | (837.6) |
| Net interest payable before fair value loss | (696.4) | (682.9) |
| Interest rate swaps: cash flow hedge ² | (6.3) | 21.1 |
| Interest rate swaps: not in hedge relationship | - | 1.9 |
| Index-linked swaps: not in hedge relationship | (35.5) | (125.8) |
| Cross-currency swaps: cash flow hedge ² | 6.0 | (12.0) |
| Cross-currency swaps: fair value hedge ² | 0.7 | - |
| Fair value re-measurements of foreign exchange contracts and currency balances | (0.7) | (2.6) |
| Fair value loss on financial instruments | (35.8) | (117.4) |
| Net interest payable and similar charges | (732.2) | (800.3) |

¹ Includes total accretion of £118.8 million loss (2009: £15.8 million gain), of which £11.9 million loss (2009: £0.4 million) arises from the index-linked bond and £106.9 million loss (2009: £16.2 million gain) from index-linked swaps

² Hedge ineffectiveness on derivatives in hedge relationship.

5 Tax charge/credit on loss on ordinary activities

The tax charge for the year ended 31 December 2010 was £5.2 million (2009: £137.9 million credit). Based on a loss before tax for the period of £316.6 million (2009: £821.9 million), this results in a negative effective tax rate of -1.6% (2009: 16.8%). The tax charge is less than the credit implied by the statutory rate of 28% (2009: 28%). This is primarily due to the non-deductibility for tax purposes of the impairment charge for the year and to a deferred tax charge related to accelerated depreciation in 2010 and prior years on assets with shortened lives. Improved information is now available on the tax classification of these assets and the calculation of deferred tax has been adjusted accordingly.

The Finance (No. 2) Act 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 re-measured 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 £39.1 million and £0.2 million respectively (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 £10,484.3 million and £573.1 million respectively (2009: £10,488.6 million and £337.7 million respectively).

| | Audited 31 December 2010 £m | Audited 31 December 2009 £m |
|--------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Current borrowings | | |
| Secured | | |
| Bank loans | 39.1 | 41.4 |
| Total current borrowings | 39.1 | 41.4 |
| Non-current borrowings | | |
| Secured | | |
| Syndicated term facility | 1,292.2 | 2,253.8 |
| Capital expenditure facility | 1,300.0 | 700.0 |
| Other bank loans | 907.2 | 330.5 |
| | 3,499.4 | 3,284.3 |
| Secured | | |
| Bonds | | |
| 3.975% €1,000 million due 2012 | 832.3 | 841.8 |
| 5.850% £400 million due 2013 | 373.9 | 368.3 |
| 4.600% €750 million due 2014 | 593.9 | 612.7 |
| 12.450% £300 million due 2016 | 367.2 | 377.3 |
| 4.125% €500 million due 2016 | 413.6 | - |
| 4.600% €750 million due 2018 | 567.6 | 582.2 |
| 6.250% £400 million due 2018 | 396.8 | - |
| 9.200% £250 million due 2021 | 282.8 | 284.9 |
| 5.225% £750 million due 2023 | 618.0 | 611.5 |
| 6.750% £700 million due 2026 | 689.4 | 689.1 |
| 7.075% £200 million due 2028 | 197.4 | 197.4 |
| 6.450% £900 million due 2031 | 839.5 | 838.3 |
| 3.334%+RPI £235 million due 2039 | 246.7 | 235.0 |
| | 6,419.1 | 5,638.5 |
| Unsecured | | |
| BAA (SP) Limited debenture payable to BAA (SH) plc (formerly BAA (SH) Limited) | 565.8 | 1,565.8 |
| Total non-current borrowings | 10,484.3 | 10,488.6 |
| Total borrowings | 10,523.4 | 10,530.0 |

Appendix 2

Analysis of turnover and operating costs for the year ended 31 December 2010 (continuing operations)

| | Heathrow Airport Ltd | HEX Opco | Total Heathrow | Stansted | Total |
|---------------------------------------------|-------------------------|-------------|-------------------|--------------|----------------|
| | £m | £m | £m | £m | £m |
| Turnover | | | | | |
| Aeronautical income | 991.3 | - | 991.3 | 123.7 | 1,115.0 |
| Retail income | 393.2 | - | 393.2 | 83.1 | 476.3 |
| Car parking | 70.1 | - | 70.1 | 34.4 | 104.5 |
| Duty and tax-free | 101.1 | - | 101.1 | 12.4 | 113.5 |
| Airside specialist shops | 76.7 | - | 76.7 | 6.7 | 83.4 |
| Bureaux de change | 36.7 | - | 36.7 | 7.7 | 44.4 |
| Catering | 30.9 | - | 30.9 | 9.6 | 40.5 |
| Landside shops and bookshops | 20.3 | - | 20.3 | 4.7 | 25.0 |
| Advertising | 28.4 | - | 28.4 | 2.1 | 30.5 |
| Car rental | 12.7 | - | 12.7 | 2.4 | 15.1 |
| Other | 16.3 | - | 16.3 | 3.1 | 19.4 |
| Operational facilities and utilities income | 149.4 | - | 149.4 | 10.2 | 159.6 |
| Property rental income | 100.1 | - | 100.1 | 8.2 | 108.3 |
| Rail income | 103.0 | - | 103.0 | - | 103.0 |
| Other income | 102.1 | - | 102.1 | 4.4 | 106.5 |
| HEX inter-company elimination | (56.2) | 61.8 | 5.6 | - | 5.6 |
| Total income | 1,782.9 | 61.8 | 1,844.7 | 229.6 | 2,074.3 |
| Operating costs | | | | | |
| Employment costs | 245.8 | 19.6 | 265.4 | 50.3 | 315.7 |
| Maintenance expenditure | 109.2 | 15.5 | 124.7 | 10.1 | 134.8 |
| Utility costs | 93.7 | 2.3 | 96.0 | 19.6 | 115.6 |
| Rents and rates | 101.6 | 2.4 | 104.0 | 13.0 | 117.0 |
| General expenses | 188.6 | 13.7 | 202.3 | 31.0 | 233.3 |
| Retail expenditure | 22.1 | - | 22.1 | 8.5 | 30.6 |
| Intra-group charges/other | 208.3 | 2.7 | 211.0 | 10.9 | 221.9 |
| Loss on disposal of fixed assets | 0.3 | - | 0.3 | - | 0.3 |
| HEX inter-company elimination | (61.8) | - | (61.8) | - | (61.8) |
| Adjusted operating costs | 907.8 | 56.2 | 964.0 | 143.4 | 1,107.4 |
| Depreciation | 436.4 | - | 436.4 | 40.3 | 476.7 |
| Exceptional items | (43.3) | (0.1) | (43.4) | (15.1) | (58.5) |
| Total operating costs | 1,300.9 | 56.1 | 1,357.0 | 168.6 | 1,525.6 |
| Adjusted EBITDA | 875.1 | 5.6 | 880.7 | 86.2 | 966.9 |

Analysis of turnover and operating costs for the year ended 31 December 2009 (continuing operations)

| | Heathrow Airport Ltd | HEX Opco | Total Heathrow | Stansted | Total |
|---------------------------------------------|-------------------------|-------------|-------------------|--------------|----------------|
| | £m | £m | £m | £m | £m |
| Turnover | | | | | |
| Aeronautical income | 960.7 | - | 960.7 | 132.0 | 1,092.7 |
| Retail income | 351.5 | - | 351.5 | 88.0 | 439.5 |
| Car parking | 65.2 | - | 65.2 | 36.4 | 101.6 |
| Duty and tax-free | 87.1 | - | 87.1 | 13.5 | 100.6 |
| Airside specialist shops | 60.5 | - | 60.5 | 5.8 | 66.3 |
| Bureaux de change | 34.2 | - | 34.2 | 8.4 | 42.6 |
| Catering | 25.9 | - | 25.9 | 9.6 | 35.5 |
| Landside shops and bookshops | 20.2 | - | 20.2 | 6.2 | 26.4 |
| Advertising | 29.0 | - | 29.0 | 2.6 | 31.6 |
| Car rental | 12.1 | - | 12.1 | 2.2 | 14.3 |
| Other | 17.3 | - | 17.3 | 3.3 | 20.6 |
| Operational facilities and utilities income | 141.0 | - | 141.0 | 10.6 | 151.6 |
| Property rental income | 98.6 | - | 98.6 | 8.1 | 106.7 |
| Rail income | 91.5 | - | 91.5 | - | 91.5 |
| Other income | 85.7 | - | 85.7 | 4.3 | 90.0 |
| HEX inter-company elimination | (54.9) | 60.5 | 5.6 | - | 5.6 |
| Total income | 1,674.1 | 60.5 | 1,734.6 | 243.0 | 1,977.6 |
| Operating costs | | | | | |
| Employment costs | 226.3 | 17.8 | 244.1 | 46.8 | 290.9 |
| Maintenance expenditure | 119.5 | 18.1 | 137.6 | 9.7 | 147.3 |
| Utility costs | 104.3 | - | 104.3 | 21.2 | 125.5 |
| Rents and rates | 114.6 | 2.1 | 116.7 | 12.2 | 128.9 |
| General expenses | 192.5 | 13.9 | 206.4 | 29.1 | 235.5 |
| Retail expenditure | 26.4 | - | 26.4 | 8.2 | 34.6 |
| Intra-group charges/other | 173.8 | 3.0 | 176.8 | 13.4 | 190.2 |
| HEX inter-company elimination | (60.5) | - | (60.5) | - | (60.5) |
| Adjusted operating costs | 896.9 | 54.9 | 951.8 | 140.6 | 1,092.4 |
| Depreciation | 414.1 | - | 414.1 | 38.6 | 452.7 |
| Exceptional items | 235.4 | 0.1 | 235.5 | 36.4 | 271.9 |
| Total operating costs | 1,546.4 | 55.0 | 1,601.4 | 215.6 | 1,817.0 |
| Adjusted EBITDA | 777.2 | 5.6 | 782.8 | 102.4 | 885.2 |