IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "Prospectus"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them at any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. IN ORDER TO BE ELIGIBLE TO READ THE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST NOT BE A "U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A "U.S. PERSON").

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to us that you are not a U.S. Person and that you consent to delivery of the Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Bookrunner (as defined below) or any affiliate of a Joint Bookrunner is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Bookrunner or such affiliate on behalf of the issuer in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc (the "Joint Global Coordinators and Joint Bookrunners") and Banco Santander, S.A., Barclays Bank PLC, BNP Paribas and ING Bank N.V., London Branch (together with the Joint Global Coordinators and Joint Bookrunners, the "Joint Bookrunners"), nor any person who controls any Joint Bookrunner, nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from a Joint Global Coordinator and Joint Bookrunner.

PROSPECTUS

(Dated 4 November 2010)

BAA (SH) plc

(incorporated with limited liability in England and Wales with registered number 6458635)

£325 million 7.125 per cent. Senior Secured Notes due 2017

Issue price: 100 per cent.

BAA (SH) plc, a public limited company incorporated under the laws of England and Wales (the "**Issuer**"), will issue £325 million aggregate principal amount of 7.125 per cent. Senior Secured Notes due 2017 (the "**Notes**"). Interest on the Notes will be payable on 1 March and 1 September of each year, beginning on 1 March 2011. The Notes will mature on 1 March 2017. If the Issuer undergoes a change of control, it may be required to offer to purchase the Notes from investors.

The Notes will be general secured senior obligations of the Issuer. The Notes will be secured by fixed and floating security interests over substantially all of the assets of the Issuer and BAA (DSH) Limited, including first priority security interests in the share capital of the Issuer and its wholly-owned subsidiary, BAA (SP) Limited, which is an intermediate holding company of the Group (as defined below).

This Prospectus includes information on the terms of the Notes, including redemption and repurchase prices and covenants.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended ("**FSMA**") (the "**UK Listing Authority**" or "**UKLA**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

The Notes will initially be represented by a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or about 9 November 2010 (the "**Closing Date**") with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, societe anonyme ("**Clearstream, Luxembourg**"). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**"), without interest coupons, on or after 19 December 2010, upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may be offered, sold or delivered only outside the United States to persons who are not "U.S. persons" as defined in Regulation S under the Securities Act ("Regulation S") (each, a "U.S. person") in offshore transactions in reliance on Regulation S. See "*Subscription and Sale*" in this Prospectus.

Please see "*Risk Factors*" to read about certain factors you should consider before buying any Notes.

Joint Global Coordinators and Joint Bookrunners

Morgan Stanley | **The Royal Bank of Scotland**

Joint Bookrunners

Barclays Capital | **BNP PARIBAS**

ING | **Santander Global Banking & Markets**

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NOTICE TO INVESTORS

This Prospectus constitutes a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Issuer, the Managers (as defined below in "*Subscription and Sale*"), Deutsche Trustee Company Limited (the "**Trustee**") and any of their respective representatives is making any representation to investors regarding the legality of an investment in the Notes, and investors should not construe anything in this Prospectus as legal, business, financial, tax or other advice. Investors should consult their own advisors as to the legal, tax, business, financial and related aspects of an investment in the Notes. In making an investment decision regarding the Notes, investors must rely on their own examination of the Issuer and the terms of the offering and the Notes, including the merits and risks involved. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Managers or the Trustee to any person to subscribe for or to purchase any Notes.

This Prospectus is based on information provided by the Issuer and other sources that the Issuer believes are reliable. Neither the Managers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Manager or the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. In this Prospectus, the Issuer has summarised certain documents and other information in a manner it believes to be accurate, but it refers investors to the actual documents for a more complete understanding of the discussions.

No person is or has been authorised by the Issuer, the Managers or the Trustee to give any information or to make any representation not contained in this Prospectus and, if given or made, any other information or representation must not be relied upon as having been authorised by the Issuer, the Managers or the Trustee.

The information contained in this Prospectus is as of the date hereof. Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this Prospectus or in the Group's business since the date of this Prospectus. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. Investors should be aware that they may be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom. See "*Subscription and Sale*".

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Prospectus, may only do so in circumstances in which no obligation arises for the Issuer or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any of the Managers has authorised, nor do any of them authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

IN CONNECTION WITH THE ISSUE OF THE NOTES, MORGAN STANLEY & CO. INTERNATIONAL PLC AND THE ROYAL BANK OF SCOTLAND PLC AS STABILISING MANAGERS (EACH A "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DEFINITIONS

In this Prospectus, references to the "**Group**" are references to the Issuer and its subsidiaries. References to the "**Senior Borrower Group**" are references to BAA (SP) Limited (referred to herein as the "**Security Parent**") and its subsidiaries other than BAA Funding Limited. References to the "**BAA Group**" or to **"BAA"** are references to BAA Limited and its subsidiaries. References to "**BAA Airports**" are references to BAA Airports Limited. References to the "**Regulated Airports Group**" are references to Heathrow Airport and Stansted Airport, together with Heathrow Express. References to the "**Airport Operators**" are references to Heathrow Airport Limited and Stansted Airport Limited in their capacity as operators of Heathrow Airport and Stansted Airport, respectively. References to the "**Senior Borrowers**" are references to Heathrow Airport Limited and Stansted Airport Limited in their capacity as borrowers under the Senior Borrower Group Indebtedness, as defined in "*Description of Other Indebtedness-Senior Borrower Group Indebtedness*". "**GBP**" or "**£**" means the lawful currency of the United Kingdom of Great Britain and Northern Ireland, "**EUR**" or "**€**" means the lawful currency of the Member States of the European Union who have agreed to share a common currency in accordance with the provisions of the Treaty establishing the European Community, as amended, and "**USD**" or "**$**" means the lawful currency of the United States of America.

INDUSTRY SOURCES AND TERMINOLOGY

This Prospectus contains certain statistical and other information regarding Heathrow Airport and Stansted Airport (each, an "**Airport**") and the markets they serve. Unless otherwise indicated, the information contained in this Prospectus relating to the Airports' market shares and the size of the relevant market sectors is based on the Airport Operators' own internal estimates based on regulatory and analyst reports, special surveys and information published or provided by airlines and other companies, as well as the Airport Operators' own knowledge of the market. Where reference is made to publications or data of the Civil Aviation Authority (the "**CAA**"), efforts have been made to ensure data is reproduced and presented in a similar style to aid comparison and cross-reference but may not be identical as a result of modifications made for presentational purposes. Where information in this Prospectus has been sourced from a third party, such sources have been identified and such information has been accurately reproduced, and as far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has not independently verified the information included herein from third parties and such information may not be up to date.

The terminology used to describe the airport industry appears in "*Glossary of Industry Terminology*".

FORWARD-LOOKING STATEMENTS

This Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer to differ materially from the information presented herein. When used in this Prospectus, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Issuer does not undertake any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

OVERVIEW

This overview highlights certain information contained in this Prospectus. This overview does not contain all of the information prospective investors should consider before investing in the Notes. Prospective investors should read this entire Prospectus carefully, including the sections entitled "Risk Factors", "Forward-Looking Statements" and the financial information and the notes included elsewhere in this Prospectus.

BAA AND ITS AIRPORTS

BAA (SH) plc (the "**Issuer**") is the holding company for two of London's largest airports, Heathrow and Stansted, and for the Heathrow Express rail service.

Heathrow is the world's busiest airport in terms of international passengers and Europe's busiest airport in terms of total passengers. It has also risen to become one of the two top ranking major European hub airports on overall passenger satisfaction.

Stansted is the UK's third busiest airport. Heathrow and Stansted, together with Heathrow Express, form BAA's Regulated Airports Group.

BAA has maintained a strong focus over recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. Heathrow Airport is implementing a £5.1 billion investment programme over the five years to 31 March 2013. The new Terminal 5 at Heathrow has provided additional terminal passenger capacity for 30 million passengers per year. This number is expected to grow to 35 million once Terminal 5's second satellite, Terminal 5C, becomes operational, which is expected to occur in 2011. Construction is under way of a new Terminal 2, which will be home to the Star Alliance airlines and will have an initial capacity of 20 million passengers per year when it becomes operational in early 2014. By 2014 around 70 per cent. of passengers at Heathrow are expected to be using new or recently constructed terminals and the remaining 30 per cent. of passengers will be using extensively refurbished terminals. The investment programme will also facilitate the co-location of members of each of the three main global airline alliances and will include developing the largest integrated baggage handling system in the world.

In 2009, Heathrow handled nearly 15 per cent. more international passengers than its nearest rival, Paris Charles de Gaulle, and it handles approximately 70 per cent. of all the UK's long-haul air traffic. Heathrow is therefore a critical asset in the UK's transport infrastructure. In 2009, Heathrow accounted for approximately 77 per cent. of the Airports' total passengers and approximately 90 per cent. of their revenue, Adjusted EBITDA and RAB. It forms, as a result, the foundation of the Regulated Airports Group's credit strength.

The Airports are owned and operated by the Issuer's operating subsidiaries, Heathrow Airport Limited and Stansted Airport Limited. The Issuer is itself a subsidiary of BAA Limited ("**BAA**"), which currently owns and operates six airports in the United Kingdom. BAA also has a 65 per cent. interest in Naples airport in Italy, which is in the process of being sold, with completion of the sale expected before the end of 2010.

BAA is indirectly owned by investment vehicles controlled by Ferrovial S.A., Caisse de dépôt et placement du Québec and the Government of Singapore Investment Corporation, which acquired what was then BAA plc (now BAA Airports Limited) in June 2006. On 22 October 2010, Ferrovial S.A. announced plans to sell a minority stake of about 10 per cent. of its shares in FGP Topco Limited, the BAA Group's ultimate holding company. At the same time, Ferrovial S.A. re-affirmed its commitment as a long-term investor in the BAA Group.

The Airports generate two primary types of income:

- Aeronautical income, which is generated from fees charged to airlines for use of the Airports' facilities for flight and passenger activities (55 per cent. of total income in 2009);
- Non-aeronautical income, which is taken into account by the CAA in setting maximum aeronautical yields and is generated mainly from retail concession fees, car parking income and other services supplied by the Airport Operators. The Group also generates income from the Heathrow Express rail operations.

Heathrow and Stansted are both subject to economic regulation by the CAA. The CAA regulates the amount that the Airports can charge airlines for using their facilities, usually setting charges for a five-year period or quinquennium. The charges are set taking into account forecast revenues (both aeronautical and non-aeronautical, based on forecast passenger traffic) and costs for the relevant Airport as well as allowing depreciation, recovery of capital costs and a return on capital.

The return on capital for Heathrow is based on its opening Regulatory Asset Base (or "**RAB**") and its forecast capital expenditure for the quinquennium. The Heathrow tariff profile up to 2013 allows maximum allowable yield per passenger to increase at RPI +7.5 per cent. For the Airports, as for other regulated utilities in the UK, the RAB acts as a unit of regulatory value and does not correspond to statutory asset values. The closing RAB for each year is taken to be the sum of the opening RAB adjusted for capital expenditure, RPI inflation, regulatory depreciation and proceeds of disposals at the Airport.

For Stansted, the CAA used a dual rationale in setting price caps, which were the product of both the standard RAB based 'building block' approach to setting prices and its assessment that the price control profile is consistent with the development of more effective airport competition over time. The CAA did not establish an opening RAB for the Stansted Q5, and it signalled that there should be no presumption that a RAB-based approach would be used in any future modification of price controls at Stansted Airport.

The regulated price-setting mechanism provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer-term cost and revenue risks. The present quinquennia (Q5) for Heathrow and Stansted run until March 2013 and March 2014, respectively.

FINANCIAL PERFORMANCE

The Group has continued to deliver a robust financial performance against a difficult economic backdrop. This has been due to a combination of:

- Heathrow delivering the most resilient traffic performance of all major airports in Europe and North America in 2009;
- significant improvements in retail performance reflecting in particular enhancements to the passenger experience such as the opening of Terminal 5, refurbishment of Terminal 4 and a significant increase in the proportion of transfer passengers transferring within the same terminal;
- Heathrow's tariff profile up to March 2013 allowing maximum allowable yield per passenger to increase at RPI +7.5 per cent.; and
- a continuing focus on operational improvement and cost control.

As a result, in 2009 the Group saw revenue and Adjusted EBITDA from continuing operations increasing 8.3 per cent. and 17.1 per cent., respectively.

This strong underlying performance has continued into 2010. In recent months, the Group has experienced increasingly robust passenger traffic. Combined with ongoing strong retail performance and cost control, the Group now expects Adjusted EBITDA for 2010 to at least match the original guidance issued in December 2009, despite the estimated combined impact of nearly £40 million in lost aeronautical and retail income resulting from disruption earlier in the year owing to volcanic ash and airline industrial action.

Revenue

The table below details the Group's revenue for the years ended 31 December 2008 and 2009 as well as for the nine months ended 30 September 2009 and 2010 ("**9M 2009**" and "**9M 2010**").

	Nine months ended 30 September		Year ended 31 December	
	2009	**2010**	**2008**	**2009**
	(£ millions) (unaudited)		(£ millions) (audited)	
Aeronautical income	823	838	980	1,093
Retail income	331	350	419	440
Other income	326	358	428	445
Total	**1,480**	**1,546**	**1,827**	**1,978**

Aeronautical income

Aeronautical income includes airport fees and other traffic charges paid by airlines to the Airport Operators. Aeronautical income is subject to a maximum allowable yield per passenger determined by the CAA.

Aeronautical income increased by £113 million (11.5 per cent.) from £980 million in 2008 to £1,093 million in 2009 and increased by £15 million (1.7 per cent.) from £823 million in 9M 2009 to £838 million in 9M 2010. The combined effect of disruption caused by volcanic ash and airline industrial action during 2010 is estimated to have reduced the Group's aeronautical income in 9M 2010 by £30 million.

Aeronautical income by Airport	Nine months ended 30 September		Year ended 31 December	
	2009	**2010**	**2008**	**2009**
	(£ millions) (unaudited)		(£ millions) (audited)	
Heathrow	723	742	835	961
Stansted	100	96	145	132
Total	**823**	**838**	**980**	**1,093**

Retail income

The Airport Operators generate retail income primarily from retail concession fees and car parking income. Third parties operate all bars, restaurants, specialist shops, duty-free and tax-free outlets and other paid merchant services at the Airports under concessions granted by the Airport Operators. The Airport Operators also generate retail income or fees from other services such as advertising, car rental and bureaux de change.

The Group's retail business has performed very strongly in 2009 and 2010 with the key performance indicator for the business, net retail income per passenger, increasing by £0.27 (6.1 per cent.) from £4.45 in 2008 to £4.72 in 2009. It also increased by £0.47 (10.1 per cent.) from £4.64 in 9M 2009 to £5.11 in 9M 2010.

Net retail income per passenger by Airport	Nine months ended 30 September		Year ended 31 December	
	2009	**2010**	**2008**	**2009**
Heathrow	£4.86	£5.42	£4.62	£4.93
Stansted	£3.92	£4.04	£3.92	£4.00
Total	**£4.64**	**£5.11**	**£4.45**	**£4.72**

Note: Net retail income per passenger for the nine months ended 30 September 2009 excludes £2.9 million of non-recurring income.

Other income

The Airport Operators generate other income from the provision of operational facilities and utilities to airlines and other businesses operating at the Airports. This income includes rental of systems such as check-in and baggage-handling facilities and charges for providing electricity, telecommunications and water services. The Airport Operators also generate rental income from property such as cargo storage, aircraft hangars, maintenance facilities and office premises. Heathrow also generates income from the Heathrow Express rail service.

Operating costs – ordinary excluding depreciation and amortisation

Whilst the Group's reported operating costs have increased over 2009 and the first nine months of 2010, there has been an ongoing underlying reduction in costs reflecting the success of the Group's focus on continuous improvement and cost reduction.

The Group's operating costs – ordinary excluding depreciation and amortisation increased by £22 million (2.1 per cent.) from £1,071 million in 2008 to £1,093 million in 2009 and by £10 million (1.2 per cent.) from £817 million in 9M 2009 to £827 million in 9M 2010.

In 2009, these increases reflected particularly both Terminal 5 costs and other costs introduced for Q5 being relevant for a full year compared with nine months in 2008. Adjusting for these factors, underlying costs reduced by 1.7 per cent. Higher costs in 9M 2010 versus 2009 relate to higher non-cash pension service charges included within employment costs and central overheads being allocated across a smaller business base following the sale of Gatwick. These overheads are expected to reduce over time as overheads are rationalised to reflect the smaller business base. Adjusting for these factors, underlying costs reduced by 3.3 per cent. for this period.

The improvement in underlying costs in 2009 particularly reflected reductions in direct employment costs due to lower headcount as well as reduced intra-group and other charges reflecting lower overheads resulting from rationalisation of central functions. The improvement in underlying costs in 9M 2010 reflects lower rents and rates due to rationalisation of office space and lower maintenance costs due to the closure of Terminal 2 and procurement savings.

	Nine months ended 30 September		Year ended 31 December	
	2009	**2010**	**2008**	**2009**
	(£ millions) (unaudited)		**(£ millions) (audited)**	
Employment costs	216	230	341	291
Maintenance expenditure	106	100	134	147
Utility costs	90	86	94	126
Rents and rates	96	88	105	129
General expenses	173	173	230	237
Retail expenditure	24	23	22	35
Intra-group and other charges	112	127	145	128
Total	**817**	**827**	**1,071**	**1,093**

Financing of the Group

Overview

The Group maintains a diversified multi-product, multi-currency funding platform which currently incorporates bond and bank debt in both Sterling and Euros. As at 30 September 2010, the Group had consolidated nominal net debt of £10,204 million of which £9,740 million was within the Regulated Airports Group and £464 million was at the Issuer. Net debt within the Regulated Airports Group at 30 September 2010 comprised £5,845 million in bonds (subsequently increased to £6,278 million on completion of Euro-denominated bond in October 2010) and £3,895 million in net bank debt.

The Regulated Airport Group's debt comprised £8,165 million in Class A net debt and an additional £1,575 million in Class B debt which ranks behind the Class A debt. The Regulated Airports Group expects to continue its recent process of refinancing bank debt with capital markets issuance. As at 30 September 2010, the Issuer itself had £464 million in net debt (£466 million outstanding under an existing loan facility (the "**Existing SH Facility**") and £2 million in cash) which is serviced from the Regulated Airports Group's cashflows but which is structurally subordinated to the Class A and B debt within the Regulated Airports Group.

BAA (SH)'s financing

The Existing SH Facility matures in April 2011. The facility represents the outstanding balance of a facility put in place to part fund the acquisition of BAA plc. The original facility was sized at £2 billion but was reduced to £1.566 billion in 2008. A further £1.1 billion was repaid in September 2010 from a combination of:

- £625 million proceeds from a new Class B facility and £375 million in drawings on the Airports' revolving credit facilities upstreamed from Heathrow; and
- £100 million injected into the Issuer from BAA Airports' sale of its interest in the APP property joint venture.

The Issuer plans to refinance the remainder of the Existing SH Facility through a combination of:

- drawings of up to £250 million under a new loan facility (the "**New SH Facility**"); and
- issuance of the Notes described herein.

The refinancing of the Existing SH Facility will be the latest stage in a programme to re-establish BAA's presence as an issuer in the capital markets and refinance the Group's financing facilities. The programme has been based on a combination of:

- resilient traffic and strong financial and operational performance through the financial and economic crisis;
- the sale of Gatwick Airport in December 2009 which reinforced the Group's strong liquidity position;
- constructive engagement with investors, key stakeholders and the Government to foster regulatory stability;
- open and transparent investor relations; and
- the injection of £500 million equity into the Group by BAA's shareholders to demonstrate their commitment to maintaining a stable financing platform for the Group.

Liquidity

On completing the refinancing of the £466 million outstanding under the Existing SH Facility, the Group will have no significant debt maturities until 2012. The Regulated Airports Group is cash positive with £479 million of surplus cash flow (before capital expenditure but after payment of interest) (including Gatwick) in 2009. At 30 September 2010, the Regulated Airports Group had £2,186 million in cash resources and undrawn bank facilities. These included £1,605 million available under revolving capital expenditure and working capital facilities, £524 million in standby liquidity facilities and £57 million in cash and cash equivalents. Together, these sources of funding provide the Regulated Airports Group with significant liquidity to meet its financing requirements for the foreseeable future. Under the Senior Borrower Group Indebtedness common terms agreement (the "**CTA**"), the Regulated Airports Group is required to maintain availability under its capital expenditure facility to meet at least 12 months' projected net capital expenditure (capital expenditure net of cash at hand and projected cashflow from operations after deducting finance charges).

Hedging

The Regulated Airports Group operates under a hedging policy agreed under the CTA:

- Interest rate risk: The hedging policy requires the Regulated Airports Group to hedge at least 75 per cent. (but no more than 102.5 per cent.) of its external net debt for the then current quinquennium; and at least 50 per cent. of its external net debt for the following quinquennium.
- Foreign currency risk: The hedging policy requires the Regulated Airports Group to hedge 100 per cent. of its foreign currency exposure in relation to its non-sterling borrowings.

Inflation risk: The Airports' regulatory asset bases and aeronautical income are directly linked to changes in the Retail Prices Index ("**RPI**"). The Regulated Airports Group mitigates this risk through a programme of inflation-linked bond issuance and by an active inflation-linked hedging programme.

Financing flexibility

As at 30 September 2010, Junior RAR and Group RAR were 78.2 per cent. and 81.9 per cent., respectively. See "*Description of Other Indebtedness*".

Ring-fencing of the Regulated Airports Group

BAA has put in place a ring-fenced long-term financing platform for the Regulated Airports Group. This financing platform has been designed to support senior, junior and holding company bank and bond debt and associated hedging.

The Noteholders will, like the senior and junior bondholders, benefit from a range of structural enhancements, including the following:

- the Group is insulated from BAA Limited insolvency:
  - creditors have full security over both the Issuer and its parent BAA (DSH) including a pledge of shares in both the Issuer and Security Parent;
  - subject to the Intercreditor Agreement, the Noteholders have the power to appoint an administrative receiver to BAA (DSH) and so prevent insolvency of the Issuer;
- there are no legal, economic or cash flow dependencies between the Issuer and BAA companies higher up the corporate structure:
  - the Issuer is required to act solely as a holding company for the Regulated Airports Group, and its parent, BAA (DSH), is required to act solely as a holding company for the Issuer;
  - the Issuer has no other assets and no recourse or liability to other parts of the BAA Group;
  - restrictions on transactions with the wider BAA Group to avoid value transfer;
- an operational and financial covenant package including:
  - restrictions on the Issuer's ability to distribute cash outside the Group, including restrictions on distributions where:
    - *pro forma* RAR is greater than 82 per cent. for senior and junior debt at Security Parent (compared with 85 per cent. under the CTA). This is designed to provide headroom within the junior debt trigger levels at Security Parent and so provide a liquidity buffer at the Issuer;
    - *pro forma* RAR is greater than 90 per cent. for debt at the Issuer;
  - Noteholders benefit indirectly from the covenants (e.g. hedging policy, restrictions on activities of the Airports and sale of key assets) which bind the Regulated Airports Group under the CTA; and
  - a covenant that prevents the Senior Borrower Group agreeing to any tighter restrictions on distributions than are currently in the CTA, so protecting the distributions which the Issuer requires to service its indebtedness, including the Notes.

For more details on the financing arrangements described above, see "*Description of Other Indebtedness*" and "*Terms and Conditions of the Notes*" in this Prospectus.

KEY STRENGTHS OF THE REGULATED AIRPORTS GROUP

The Regulated Airports Group has a number of key strengths, deriving both from the commercial strength of the Airports themselves, and in particular Heathrow, and from their status as regulated infrastructure:

- The Airports have a strong position in the South East of England, one of the world's busiest air traffic markets and a market with growing demand for air travel and limited airport capacity.
- Heathrow is the world's busiest airport in terms of international passengers and the busiest airport in Europe in terms of total passengers. It enjoys a unique market position in the United Kingdom, being the country's only hub airport and handling approximately 70 per cent. of all the UK's long-haul air traffic.
- Heathrow and Stansted are both subject to price regulation by the CAA, which provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer term cost and revenue risks.
- Heathrow's high exposure to the fastest growing long-haul segment of the global aviation industry and the fact that it has been operating close to its permitted capacity for a number of years provides the Group with resilience to shocks and economic downturns.
- The Airports generate income from a variety of sources, including aeronautical charges to airlines, concession fees from retail operators, direct income from car parks, Heathrow Express and from various ancillary services such as baggage handling, passenger check-in and the rental of airport premises.
- The Airports serve a range of market segments, including business and leisure travellers, origin and destination and transfer passengers, long- and short-haul routes, and a diversified range of major airlines.

COMMERCIAL STRATEGY

The Group's strategy is focused on providing world-class airports to serve the UK's capital city, particularly by developing Heathrow Airport's position as the UK's gateway to the world and Europe's hub airport of choice. To support and develop Heathrow Airport's role as a hub, the Group will continue enabling the success of the major network airlines operating at Heathrow Airport by investing in further capacity, operational flexibility and resilience at sustainable charges for airline customers.

Heathrow Airport offers a compelling, competitive range of routes and frequencies for the large London origin and destination aviation market. For both local and transfer passengers Heathrow Airport is working continuously to make every journey better through improved service standards to ensure it remains passengers' preferred airport.

Improving the passenger experience is supported by ongoing investment in modern airport facilities and operating processes. Heathrow Airport also seeks to upgrade its surface access connectivity across all modes of transport, including new rail links.

RECENT DEVELOPMENTS

£1.1 billion prepayment of Existing SH Facility

The Issuer repaid £1,100 million of the Existing SH Facility on 10 September 2010. £1,000 million of the prepayment came from payment by the Security Parent to the Issuer utilising proceeds from drawing £625 million under a new Class B loan facility and £375 million under its revolving capital expenditure credit facility. The remainder came from the injection into the Issuer of £100 million of the proceeds from BAA Airports Limited's sale of its interest in Airport Property Partnership in June 2010.

The outstanding balance of the Existing SH Facility has been reduced to £466 million as a result of the prepayment.

Successful Class B financings

The Regulated Airports Group successfully completed a new £625 million four year Class B bank facility in August 2010 and a £400 million eight year Class B bond in September 2010.

Completion of the Class B bond enabled the Regulated Airports Group to prepay all amounts due in 2011 under the Airports' bank term loan and reduce to 150 basis points the margin payable on the Class A element of this loan.

Class A Euro-denominated bond issue

In October 2010, the Regulated Airports Group successfully completed a €500 million Class A bond which achieved broad geographic distribution across Europe.

Completion of this bond enabled the Regulated Airports Group to prepay a significant part of the Class B element of the bank term loan. The total amount outstanding under the loan is now below £1.3 billion, removing a restriction in the Refinancing Facility on distributions by the Security Parent.

Record Heathrow passenger traffic over peak summer season

Heathrow's passenger traffic set new all time records for each of the months in the third quarter of 2010 with traffic over this three month period increasing 4.4 per cent. to 19.5 million (2009: 18.6 million). July 2010 and August 2010 were also Heathrow's two busiest months on record in terms of total passenger numbers.

The Airports have now recovered most of the shortfall resulting from disruption caused by volcanic ash and airline industrial action earlier in 2010 despite Stansted's performance partially offsetting Heathrow's growth. Combined traffic at Heathrow and Stansted for the nine months ended 30 September 2010 was 2.1 per cent. lower at 64.0 million (2009: 65.4 million). Excluding the disruptions, underlying passenger traffic is estimated to have increased 1.3 per cent., with 3.1 per cent. growth at Heathrow.

Government Announcements on New Runways and High Speed Rail

The new UK government has announced its support for a high speed rail connection between London and Birmingham but has ruled out new runway development at Heathrow and Stansted. In response, Heathrow announced that it will stop work on its planning application for a third runway and Stansted announced that it will withdraw its current planning applications for a second runway.

The Group views the construction of a high speed rail network as positive. It will reduce journey times to Heathrow from the Midlands and from the North of England, and potentially enable Heathrow to capture UK passengers currently travelling via other European hubs and free up domestic slots for long haul routes.

The Airports do not expect the decision on runways to adversely impact their operations or financial performance. Through the regulatory system, their exposure to passenger growth is limited to the five year regulatory cycle. Further, some element of further growth at Heathrow can be achieved even without a third runway as a result of higher load factors and capacity utilisation and increased use of larger aircraft. The cancellation of the third runway is likely materially to reduce projected capex spend at Heathrow in Q6, which will in turn reduce the quantum of debt the Airports need to raise.

Airport Economic Regulation Bill

On 21 July 2010, the UK Government announced details of its plans to reform the framework for airport regulation. The announcement provides clarity on the package of measures that the Government will take forward in new legislation to promote both the interests of passengers and investment in Britain's airports.

The new legislation will include:

- a primary duty for the CAA to promote the interests of passengers. The CAA will also be given 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 those provisions where the costs of implementation 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 earlier decision 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.

The announcement largely confirmed the decision of the previous UK Government of 13 October 2009 and the content of the consultation document published in March 2009. The UK Government has announced that legislation will be introduced to implement the reforms as soon as Parliamentary time allows.

Competition Commission Investigation

In March 2009, the Competition Commission ("**CC**") concluded its investigation on the supply of airport services by BAA in the United Kingdom and called for structural remedies including the disposal of Gatwick Airport and Stansted Airport to different owners. Gatwick has since been sold. BAA applied to the Competition Appeal Tribunal ("**CAT**") to review the CC's findings and in December 2009 the CAT upheld BAA's appeal, on the grounds of apparent bias.

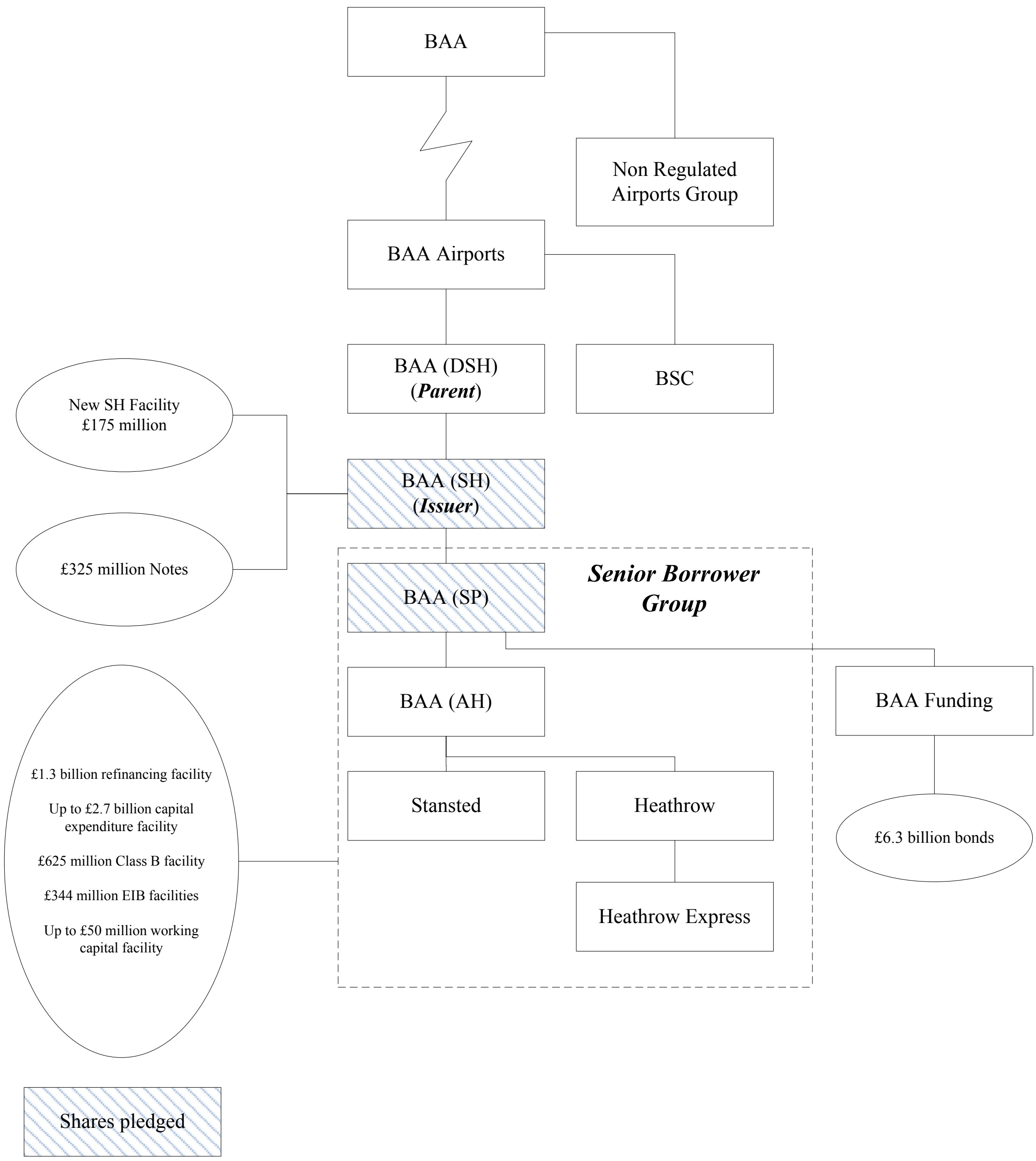
The CC appealed to the Court of Appeal (the "**CoA**"), and on 13 October 2010, the CoA overturned the CAT's decision in favour of the CC. The CoA upheld two of the five grounds argued by the CC. BAA will seek permission to appeal the CoA's decision to the Supreme Court and has 28 days from the date 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.

Pay settlement with unions

In September 2010, BAA employees that are members of the Unite union voted to accept a pay settlement for 2010 reached between BAA and Unite as a result of negotiations following an earlier vote by the members for strike action.

CORPORATE AND FINANCING STRUCTURE

The following chart summarises the Group's corporate and financing structure as at the date of this Prospectus.



THE NOTES

The overview below describes the principal terms of the Notes and is qualified in its entirety by the detailed information appearing elsewhere in this Prospectus and, in particular, the "Terms and Conditions of the Notes". Potential purchasers of the Notes are urged to read this Prospectus in its entirety. Terms used in this overview and not otherwise defined shall have the meanings given to them in the Terms and Conditions of the Notes.

Issuer	BAA (SH) plc
Notes to be Issued	£325 million aggregate principal amount of 7.125 per cent. Senior Secured Notes due 2017 (the "**Notes**").
Issue Date	The Notes will be issued on 9 November 2010.
Maturity Date	The Notes will mature on 1 March 2017.
Interest Rate	The Notes will bear interest at a rate of 7.125 per cent. per annum.
Interest Payment Dates	1 March and 1 September of each year, commencing on 1 March 2011.
Denominations	The Notes will have a minimum denomination of £50,000 and any integral multiple of £1,000 in excess thereof. Notes in denominations of less than £50,000 will not be available.
Ranking	The Notes will be general obligations of the Issuer and will be senior obligations of the Issuer, rank *pari passu* to the New SH Facility and will be structurally subordinated to all existing and future indebtedness of the Senior Borrower Group, including the borrower loan agreements between the Airport Operators and BAA Funding Limited in respect of the outstanding bonds of BAA Funding Limited.
Security	The obligations of the Issuer under the Notes and the Trust Deed will be secured by fixed and floating security interest over substantially all tangible and intangible assets and undertaking of the Issuer and BAA (DSH) Limited, including first priority security interests in the share capital of BAA (SH) plc and BAA (SP) Limited (the "**Transaction Security**").
Redemption Upon Changes in Withholding Taxes	The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest in the event of certain tax changes, as described under Condition 7.2(b) (*Redemption Upon Changes in Withholding Taxes*).
Optional Redemption	The Issuer may, at its option, redeem all, or some only, of the Notes at any time after the Issue Date at the relevant redemption amount described under Condition 7.2(a) (*Optional Redemption*).
Additional Amounts	The Issuer will pay such additional amounts as may be necessary in order that the net amounts received by each Noteholder in respect of the Notes, after withholding for any taxes imposed by tax authorities in the United Kingdom upon payments in respect of the Notes made by or on behalf of the Issuer will equal the respective amounts which would have been received in the absence of any such withholding taxes, subject to customary exceptions, as described in Condition 10 (*Taxation*).
Change of Control	If the Issuer experiences a change of control, it will be required to offer to repurchase the Notes at 101 per cent. of their principal amount plus accrued interest. See Condition 7.3 (*Purchase of Notes Upon a Change of Control*).
Events of Default	Events of Default under the Notes include: non-payment of principal, premium or interest under the Notes; breach of the covenants and other terms contained in the Conditions; insolvency events relating to the Issuer or its subsidiary group companies; suspension of payments by the Issuer or its subsidiary group

	companies; certain insolvency events; impairment of the Transaction Security; enforcement of execution proceedings; and cross-default, in each case, subject to the provisions described in Condition 11 (*Events of Default*).
Certain Covenants	Subject to certain cure rights, the Notes will require Group RAR not to exceed 90 per cent. at the relevant testing date and Group ICR not to be less than 1.0 in respect of any relevant testing period. The Notes also contain covenants that will limit, among other things, the ability of the Issuer and, in certain cases, its subsidiary group companies to: ● incur, guarantee or provide indemnities for additional indebtedness; ● pay dividends, redeem capital shares, pay management, advisory or other fees to shareholders of the Issuer, make payments in respect of certain subordinated debt or make certain other restricted payments; ● issue and sell capital shares or indebtedness of BAA (SP) Limited; ● enter into certain transactions with affiliates; ● create or permit to exist certain security; ● transfer, lease or sell certain assets; ● restrict subsidiaries of the Issuer to pay dividends or make other payments to the Issuer; and ● merge or consolidate with other entities. Each of these covenants is subject to significant exceptions and qualifications. See Condition 4 (*Covenants*) and the related definitions.
Intercreditor Arrangements	The Issuer and the other obligors have entered into an intercreditor agreement (the "**Intercreditor Agreement**") with, among others, the security agent, the agent under the New SH Facility, the Trustee and any hedging creditors. The Intercreditor Agreement provides that the debt held by the secured creditors that are secured by the Transaction Security, including the holders of the Notes, will rank *pari passu* without any preference between any class of such secured debt. The Intercreditor Agreement also sets out, among other things, the circumstances under which the security documents may be enforced by the security agent on behalf of secured creditors, the application of enforcement proceeds and the circumstances under which the Transaction Security may be shared on a *pari passu* basis with additional third-party creditors. See "*Description of Other Indebtedness—Intercreditor Agreement*".
Modification, Waiver and Substitution	The Trustee may, without the consent of holders of the Notes, agree to (i) any modification of (subject to certain exceptions), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Trust Deed or the Agency Agreement or (ii) the substitution in place of the Issuer as principal debtor under the Notes, in each case in the circumstances and subject to the conditions described in Conditions 16 (*Meetings of Noteholders, Modification, Waiver and Authorisation*) and 14 (*Substitution*).
Use of Proceeds	The net proceeds of the issue of the Notes will be applied by the Issuer to repay existing debt and for its general corporate purposes.
Principal Paying Agent	Deutsche Bank AG, London Branch
Trustee	Deutsche Trustee Company Limited

Joint Global Coordinators and Joint Bookrunners	Morgan Stanley & Co. International plc and The Royal Bank of Scotland plc
Joint Bookrunners	Banco Santander, S.A., Barclays Bank PLC, BNP Paribas and ING Bank N.V., London Branch
Listing and Trading	Application has been made to the Financial Services Authority for the Notes to be admitted to listing on the Official List and to trading on the Market. There are no assurances that the Notes will be admitted to the Market.
Governing Law	The Notes and the Trust Deed will be governed by the laws of England and Wales.
Form	The Notes will be in bearer form.
Credit Ratings	The Notes are expected to be rated on issue Ba3 by Moody's and BB+ by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom) only in compliance with applicable laws and regulations. See "*Subscription and Sale*" below.
ISIN	XS0555678597
Common Code	055567859

SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below present consolidated income statement, consolidated statement of financial position and consolidated cash flow data for the Issuer for and as at the years ended 31 December 2009 and 2008 and for and as at the nine months ended 30 September 2010 and 2009. The information below should be read together with the consolidated financial statements and the notes to those statements.

Consolidated Income Statement Data

	Nine months ended 30 September		Year ended 31 December	
	2010	**2009**	**2009**	**2008**
	(unaudited)		(audited)	
	(£ millions)			
Continuing operations				
Revenue	**1,546**	**1,480**	**1,978**	**1,827**
Adjusted EBITDA	**719**	**663**	**885**	**756**
Operating profit/(loss)	**443**	**(76)**	**64**	**110**
Analysed as:				
Operating profit before exceptional items	377	176	336	226
Exceptional items	66	(252)	(272)	(116)
Loss before tax	**(218)**	**(714)**	**(693)**	**(389)**
Loss for the period from continuing operations	**(122)**	**(526)**	**(529)**	**(1,342)**
Net profit/(loss) from discontinued operations	15	(107)	(120)	(92)
Consolidated loss for the period	**(107)**	**(633)**	**(649)**	**(1,434)**
Interim dividends paid during the year	—	—	—	(702)

Consolidated Statement of Financial Position Data

	As at 30 September	As at 31 December	
	2010	2009	2008
	(unaudited)	(audited)	
		(£ millions)	
Assets			
Non-current assets	**12,814**	**12,811**	**12,916**
Current assets	**414**	**695**	**589**
Of which Cash and cash equivalents	59	240	167
Assets classified as held-for-sale	—	—	1,865
Total assets	**13,228**	**13,506**	**15,370**
Liabilities			
Non-current liabilities	**(12,355)**	**(12,822)**	**(13,172)**
Current liabilities	**(1,049)**	**(882)**	**(736)**
Liabilities associated with assets classified as held-for-sale	—	—	(1,519)
Total liabilities	**(13,404)**	**(13,704)**	**(15,427)**
Net liabilities	**(176)**	**(198)**	**(57)**

Notes
1. Cash and cash equivalents at 31 December 2009 excludes £143 million in restricted cash.

Consolidated Cash Flow Data

	Nine months ended 30 September		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)		(audited)	
		(£ millions)		
Cash generated from continuing operations	**690**	**662**	**851**	**638**
Net cash from operating activities	**691**	**801**	**1,033**	**795**
Net cash (used in)/provided by investing activities	**(734)**	**(766)**	**358**	**(1,037)**
Net cash (used in)/provided by financing activities	**(138)**	**(189)**	**(1,333)**	**424**
Net (decrease)/increase in cash and cash equivalents	**(181)**	**(154)**	**58**	**182**
Cash and cash equivalents at beginning of period	240	182	182	—
Cash and cash equivalents at end of period	**59**	**28**	**240**	**182**

Debt and gearing statistics

	As at 30 September	As at 31 December	
	2010 (actual)	2009 (actual)	2008 (actual)
	(£ millions unless otherwise stated)		
Senior debt	8,222	8,158	8,608
Senior net debt	8,165	7,920	8,426
Senior and Junior net debt	9,740	8,579	9,426
Subordinated debt	466	1,566	1,566
Subordinated net debt	464	1,564	1,566
Group debt	10,263	10,383	11,174
Group net debt	10,204	10,143	10,992
RAB	12,463	11,731	12,470
Senior RAR	65.5%	67.5%	67.6%
Junior RAR	78.2%	73.1%	75.6%
Group RAR	81.9%	86.5%	88.1%

Notes
1. Debt figures are determined using nominal debt and include index-linked accretion.
2. Net debt figures at 31 December 2009 exclude £143 million in restricted cash.

Key operating statistics

	Nine months ended 30 September		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)			
Number of passengers	64.0m	65.4m	85.9m	89.2m
Aeronautical income per passenger	£13.08	£12.60	£12.73	£10.99
Net retail income per passenger	£5.11	£4.64	£4.72	£4.45

Notes
1. Figures for the years ended 31 December 2008 and 2009 and the nine months ended 30 September 2009 are in respect of continuing operations only.
2. Net retail income per passenger for the nine months ended 30 September 2009 excludes £2.9 million of non-recurring income.

RISK FACTORS

The following sets out certain aspects of the Group's financing documentation and the activities of the Group about which prospective holders of the Notes should be aware. THE OCCURRENCE OF ANY OF THE EVENTS DESCRIBED BELOW COULD HAVE A MATERIAL ADVERSE IMPACT ON THE BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS OF THE ISSUER OR THE GROUP AND COULD LEAD TO, AMONG OTHER THINGS, NON-PAYMENT OF AMOUNTS UNDER THE NOTES.

This section of the Prospectus describes all material risks that are known to the Group as at the date of this Prospectus. This section of the Prospectus is not intended to be exhaustive and prospective holders of the Notes should read the detailed information set out elsewhere in this document prior to making any investment decision. Further, prospective holders of the Notes should take their own legal, financial, accounting, tax and other relevant advice as to the structure and viability of an investment in the Notes.

In addition, whilst the various structural elements described in this document are intended to lessen some of the risks discussed below for holders of the Notes, there can be no assurance that these measures will ensure that the holders of the Notes receive payment of interest or repayment of principal from the Issuer in respect of such Notes on a timely basis or at all.

COMMERCIAL RISKS

Aeronautical income

The Group generates aeronautical income from airport fees and traffic charges. These charges are regulated and typically levied on the basis of passenger numbers, maximum total aircraft weight and the length of time for which an aircraft is parked at the airport. The charges are also linked to the rate of inflation, which is liable to change. There are no specific operating contracts between the Group and any of the airlines operating at the Airports. There can therefore be no assurance as to the level of the Group's future aeronautical income from any one or more airline operators. Each Airport's market share may be adversely affected by competition from UK and non-UK airports. Decisions by, financial difficulties at, or the failure of a significant airline customer, or a withdrawal of their landing rights, could lead to a reduction in flights and passenger numbers and/or failure or delay in recovering airport fees or landing charges. The effect of decisions by or events at airlines that have a major presence at the Airports could have a particularly material adverse effect on the Group. The number of passengers using the Airports may be affected by a number of other factors, including: macroeconomic events whether affecting the global economy, the UK economy or the Greater London economy in which the Airports are based (which have for instance caused a decrease in demand during the recent financial crisis and recession); wars; riots; political action; industrial action (for instance the strikes that have affected British Airways in 2010); blockades; health scares; natural disasters such as the volcanic eruption which caused disruption at the Airports in 2010; acts of terrorism; international trade liberalisation developments such as "Open Skies"; the quality of services and facilities, including the impact of construction projects; and the development of efficient and viable alternatives to air travel, including the improvement or expansion of existing surface transport systems, the introduction of new transport links or technology and the increased use of communications technology.

Non-aeronautical income

The Group's principal sources of non-aeronautical income include retail concession fees and car parking income, property rental income and income from the provision of operational facilities and utilities.

Retail concession fees are driven by passenger numbers and propensity of passengers to spend in the shops at the Airports. Factors affecting the number of passengers using the Airports are discussed under "—*Aeronautical Income*" above. Levels of retail income at the Airports may also be affected by: changes in the mix of long- and short-haul and transfer and origin and destination passengers; economic factors, including exchange rates; retail tenant failures; reduced competitiveness of the airport retail offering; stricter hand luggage and other carry-on restrictions; and reduced shopping time as a result of more rigorous and time consuming security procedures.

Security and terrorism risks

The UK Government currently assesses the terrorism threat to interests within the UK, including aviation, as "Severe", the second highest threat level. The Airports continue to operate heightened security measures and were required to introduce additional security measures following the discovery of terrorist plots in August 2006 and December 2009. The consequences of any future terrorist attack may include cancellation or delay of flights, fewer airlines and passengers using the Airports, liability for damage or loss and the costs of repairing damage.

The implementation of additional security measures at the Airports in the future could lead to additional limitations on airport capacity, overcrowding, increases in operating costs and delays to passenger movement through the Airports.

Construction and Planning Risks

The Group's capital investment programme includes major construction projects at the Airports and is subject to a number of risks. For example, if an Airport is not able to achieve a consensus amongst its airline customers in support of capital investment projects, this could affect the willingness of the CAA to include the costs of such projects in the Regulatory Asset Base, also known as RAB. Difficulties in obtaining any requisite permits, consents, including environmental consents, licences, planning permissions, compulsory purchase orders or easements could adversely affect the design or increase the cost of the capital expenditure projects, or delay or prevent the completion of a project or the commencement of its commercial operation. Although contractors typically share in cost and schedule risks, the Group may face higher than expected construction costs and delays, not all of which may be permitted by the CAA to be included in the relevant Airport's RAB, and possible shortages of equipment, materials and labour due to the number of major construction projects in the London area.

The failure of either Heathrow or Stansted to recognise, plan for and manage the extent of the impact of construction projects on its Airport could result in projects overrunning budgets, operational disruptions, capital expenditure trigger rebates to airlines, unsatisfactory facilities at the relevant Airport, safety and security performance deficiencies and higher-than-expected operating costs. Any of these could affect the relevant Airport's day-to-day operations.

The commencement of commercial operation of a newly constructed facility may also give rise to start-up problems, such as the breakdown or failure of equipment or processes or lack of readiness of operators, closure of facilities and disruptions of operations. The Group's construction contracts may contain restricted remedies or limitations on liability such that any such sums claimed or amounts paid may be insufficient to cover the financial impact of breach of contract. The ability of contractors to meet their financial or other liabilities cannot be assured.

Other Risks to the Airports' Operations and Income

Group risk

The Group is part of the larger BAA Group which contains other companies, including airport operating companies. The Group could face secondary liabilities in respect of tax or pension obligations of other BAA Group entities should those entities not satisfy those liabilities.

Accidents

Airports are exposed to the risk of accidents, including aircraft crashes. These accidents could result in injury or loss of human life, damage to airport infrastructure and short- or long-term closure of an Airport's facilities and may have an impact on passenger traffic levels.

Insurance

Heathrow and Stansted currently benefit from insurance cover to protect against key insurable risks including terrorism and business interruption. Cover may not be adequate to cover lost income, reinstatement costs, increased expenses or other liabilities. Moreover, there can be no assurance that if insurance cover is cancelled or not renewed, replacement cover will be available at commercially reasonable rates or at all.

Heathrow and Stansted may not have, or may cease to have, insurance cover if the loss is not covered under, or is excluded from, an insurance policy including by virtue of a deductible applying, exhaustion of applicable cover limits or a policy operating as an excess policy or if the relevant insurer successfully avails itself of defences available to it, such as breach of disclosure duties, breach of policy condition or misrepresentation.

Insurance cover for the Group is currently, and may in the future be, provided by a combination of insurance market entities and captive insurance companies owned by, or affiliated with, BAA or its ultimate shareholders. Any of these insurers could cease to offer current insurance cover, become insolvent or lose their licences or authorisations.

Pensions

Under the Shared Services Agreement, BAA Airports is entitled to pass a proportional amount of its pension costs on to the Operating Companies. The funding position of the pension scheme may vary from time to time (*e.g.* as a result of fluctuation in investment values or as a result of changes to actuarial assumptions), thereby affecting the level of the Group's pension costs.

Operational risks

The operation of an airport is a complex undertaking that is subject to a number of factors outside the control of the Group. These factors include weather conditions, variable aircraft movements, traffic congestion, third-party reliance on technical equipment and airline hub requirements and procedures. Given the nature of these factors, it is not possible to accurately predict their future impact on airport operations from past performance.

Contractual matters

Heathrow and Stansted are operating companies and have entered into and will continue to enter into contracts with third parties under which they have given or will give representations, covenants and indemnities as part of the transactions to which the contracts relate. In connection with sales of assets or shares BAA (AH) Limited as seller has been, and is likely in the future to be, required to provide various warranties.

Reliance on BAA Airports as Shared Services Provider

The Group is dependent on BAA Airports as Shared Services Provider to operate the Airports. BAA Airports employs the staff assigned to the Airports and also to the other UK airports owned and operated by BAA. Pursuant to the Shared Services Agreement, BAA Airports also provides various management services (including senior management and strategic direction), administration, cash management and operational services, including the provision of IT services and staff, to the Operating Companies as described in more detail in "*Business-Shared Services*". Whilst the Shared Services Agreement contains provisions that are designed to assist with the transfer of employees and services to the Operating Companies or a replacement services provider if the Shared Services Agreement were terminated, there can be no assurance that transfers will be effected in a manner that does not adversely affect the business of the Senior Borrowers.

Arrangements entered into by BAA Airports directly

A significant number of contracts for third-party IT systems and IT support important to the Group's operations are in the name of BAA Airports and are terminable by the contract counterparties if BAA Airports were to become insolvent. Whilst steps may be taken to seek to minimise the impact of such termination provisions, and there may be commercial reasons why the contract counterparties would not elect to terminate if they are being paid for the continued use of the relevant IT system or IT support and Heathrow and Stansted are not themselves insolvent, there is a risk that the Group's access to IT systems and IT support may be negatively affected by an insolvency of BAA Airports.

REGULATORY RISKS

Legal framework of regulation liable to change

The UK Government has recently confirmed the completion of a review of the framework for the economic regulation of UK airports. For more information on the Government's proposals, see "*Airport Regulation—Airport Regulation Generally—Potential Future Changes to the Regulatory Framework*".

The reforms resulting from the review are expected to be implemented through a new licensing regime for airports similar to licences in place in certain other regulated sectors such as water and energy. Heathrow and Stansted are expected to require a licence and to be subject to some form of price control arrangements. The reforms include measures to promote the financial resilience of licensed airports including a supplementary duty on the CAA to ensure that airports can finance their licensed activities; ring-fencing provisions that would broadly prohibit the granting or subsistence of security over airport assets but with derogations in respect of those elements that cut across existing financing arrangements with 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; a minimum creditworthiness requirement for licensed airports; and a requirement for airports to put in place continuity of service plans. The UK Government also confirmed that it will not be proceeding with earlier proposals for the introduction of a special administration regime.

If, in the future, the CAA switched on ring-fencing restrictions in a way that adversely affected the ability of the Airports to finance their businesses at reasonable rates, this could be adverse to holders of the Notes.

Details of the proposed changes to the regulatory framework are not yet available and will require primary legislation to be implemented. There can be no certainty that the proposals will be implemented in a way which reflects published statements to date or at all and so no assurance can be given as to the effect such changes may have on the Senior Borrowers' business.

Competition Commission investigation into BAA's ownership of UK airports

On 19 March 2009, the Competition Commission concluded its investigation on the supply of airport services by BAA in the United Kingdom and issued its final decision, which required, among other things, the disposal of Stansted Airport. BAA appealed the decision, and in December 2009 the Competition Appeal Tribunal upheld BAA's appeal on the grounds of apparent bias. See "*Airport Regulation—Competition in the Air Transport Industry—Competition Commission Final Decision*". The Competition Commission appealed the Competition Appeal Tribunal's findings and on 13 October 2010 the Court of Appeal overturned the Competition Appeal Tribunal's decision. BAA will seek permission to appeal the decision to the Supreme Court and has 28 days from the date of the Court of Appeal Decision to do this. The result of this application is expected to be known either later in 2010 or early in 2011.

If BAA is not granted leave to appeal the decision or was not ultimately successful in an appeal and was subsequently ordered to sell Stansted Airport, BAA would be required under the terms of its Senior Borrower Group Indebtedness to apply the net disposal proceeds to the repayment of debt. There can be no assurance that Stansted Airport would be sold for a price that would ensure a reduction in leverage after application of the net disposal proceeds. The Airports have differing airline customer profiles: mainly full-service airlines at Heathrow Airport and low-cost carriers at Stansted Airport. Divestiture of Stansted Airport would mean the Group would service a less diversified customer base.

Civil Aviation Authority regulation

The Group's operations at the Airports are subject to regulatory review that results in, amongst other things, the setting of price caps on certain of the airport's charges by the CAA. This regulatory review generally takes place every five years; see "*Airport Regulation—Principles of Economic Regulation*". In November 2009, the CAA announced two complementary projects intended to support the transition towards a more competitive UK airports industry, namely: the development of the CAA's approach to analysing competition faced by airports and the publication of guidance; and the identification and development of potential alternative approaches to price cap regulation that minimise distortions to competition or investment incentives at airports.

There can be no assurance that the current or future price caps set by the CAA will be sufficient to allow the Airports to operate at a profit; nor that the present price caps will be increased or at least maintained at current levels; nor that the methodology of the review process at subsequent reviews (for instance, the CAA's proposals that in future reviews Stansted charges may not be RAB-based) would not have a material adverse effect on the income of the Group.

The CAA has additionally established performance-linked requirements which can negatively impact aeronautical income. For instance, the CAA reduces certain permitted airport charges if prescribed milestones are not met on certain capital investment projects and under a service quality rebate scheme. Failure to meet specified targets relating to, among other things, airport cleanliness, security queuing times and stand and jetty availability can result in rebates to airline customers of up to 7 per cent. of airport charges. See "*Airport Regulation – Heathrow Price Regulation—SQR Scheme*" and "*Airport Regulation—Stansted Price Regulation—The Stansted Airport Q5 Decision*".

Other regulatory and public policy changes

Income and/or operations at the Airports could be adversely affected by changes in policies regarding route licensing, the "use it or lose it" rule under which airlines are required to fly 80 per cent. of their slots or sacrifice them to other airlines, security and safety, immigration and border controls, airport development, environmental policy, tax, air passenger duty (including recent and planned increases) and the provision of airport capacity.

Environmental, health and safety and planning considerations

The Group's business is affected by a wide variety of EU and UK environmental, health and safety and planning laws and requirements. The Group's existing operations may be impacted by a number of environmental and planning factors, including those involving aircraft movements; air quality (including emissions standards); noise; soil and water pollution arising from airport operations; discharges and surface water drainage; land and groundwater contamination; flooding; asbestos in premises and exposure to asbestos; waste handling, management and disposal; climate change; and energy use and efficiency.

Compliance with present or future environmental, health and safety and planning requirements may be costly and time-consuming and interfere with the Group's existing activities and operations. Historically, reasonable environmental costs incurred by Heathrow and Stansted (other than environmental mitigation matters unrelated to capital expenditure projects, which are typically regarded as operating expenditures) have been taken into account by the CAA in determining the RAB for the related Airport and setting the airport charges. However, there can be no assurance such costs and other constraints will be taken into account in determining RAB in the future or will not have a material adverse effect on the Group's operations or its financial condition.

FINANCING RISKS

Hedging Risks

Whilst Heathrow and Stansted operate a hedging programme in accordance with the hedging policy under the common terms of their existing senior indebtedness, they are not required to fully or perfectly hedge their present or future interest rate or inflation exposure and may not in practice do so. Heathrow and Stansted are subject to the creditworthiness of, and in certain circumstances early termination of the hedging arrangements by, hedge counterparties.

In addition, BAA Airports has entered into hedging transactions in relation to an employee share option plan under which BAA employees have the potential right to acquire Ferrovial shares. Under the Shared Services Agreement, BAA Airports may recharge to Heathrow and Stansted costs incurred in relation to the hedging transactions. As at 30 September 2010, BAA Airports had a potential liability of £82 million as a result of these arrangements, the majority of which would be attributable to Heathrow and Stansted. The amount that Heathrow and Stansted may ultimately be required to pay will depend on various factors including the number of options vested or exercised and the Ferrovial share price either on the option exercise dates or when the hedging transactions are terminated or reach maturity.

Leverage Risks

Leverage

Because of the secured nature of its borrowings and the structure that applies to them, the Group has been able to raise more debt than would typically be the case for an unsecured borrower. As a result, a greater portion of the Group's cash flow from operations is dedicated to payments on its debt obligations, thus reducing its flexibility to deal with significant financial underperformance. This may increase the Group's vulnerability to any economic downturn in its business or to adverse industry conditions and affect the Issuer's ability to make payments on the Notes.

Financing risk

The Group will need to raise further debt from time to time in order, among other things, to:

(a) finance future capital expenditure; and

(b) enable it to refinance indebtedness, including the Notes, as such indebtedness comes due.

There can be no assurance that the Group will be able to raise future finance on terms that are economically viable or at all. For instance, events in the credit markets in 2007 and 2008 significantly restricted the supply of credit.

In addition, under the terms of the Senior Borrower Group Indebtedness, if the Airport Operators are unable to replace a liquidity facility under certain circumstances, they will not be permitted to incur any further indebtedness, including issuing bonds under the multicurrency bond programme of BAA Funding Limited.

Ability to incur more debt

The Group may be able to incur additional indebtedness in the future. Neither the terms of the Notes nor the New SH Facility prohibit the Group from incurring more indebtedness. If new debt is added to the Group's current debt levels, the related risks that the Group now faces could intensify.

OTHER LEGAL RISKS

Change of law

It is possible that changes in law or regulations, or their interpretation or application (see, for example, "*—Legal framework of regulation liable to change*" above), after the date of the Prospectus may result in the transaction as originally structured no longer having the effect anticipated.

Potential secondary tax liabilities of the members of the Group

Where a company fails to discharge certain tax liabilities within a specified time period, UK tax law imposes, in certain circumstances, secondary liability for those overdue taxes on other companies that are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its tax liabilities.

If any secondary tax liabilities arise in the Issuer or other members of the Group, which are not discharged by other members of the wider BAA group, and are of significant amounts, the Issuer or other members of the Group could be adversely affected.

The Issuer is a member of a value added tax ("**VAT**") group that also includes members of the wider corporate group of which BAA is the representative member and so may have exposure to VAT liabilities of other members of the wider BAA group.

Insolvency law risks

The English insolvency statutes empower English courts to make an administration order in respect of an English company. An administration order can be made if the court is satisfied that the relevant company is or is likely to become "unable to pay its debts" and that the administration order is reasonably likely to achieve the purpose of administration. In addition, the holder of a "qualifying floating charge" over the assets of an English company may appoint an administrator out of court, provided such floating charge has become enforceable. In this case the prospective administrator must be satisfied that the purpose of administration is reasonably likely to be achieved. An English company or the directors of such company may also appoint an administrator out of court. The purpose of an administration comprises three parts which must be looked at successively: rescuing the company as a going concern or, if that is not reasonably practicable, achieving a better result for the company's creditors as a whole or, if neither of those objectives are reasonably practicable, and the interests of the creditors as a whole are not unnecessarily harmed thereby, realising property to make a distribution to secured or preferred creditors.

The rights of creditors, including secured creditors, are particularly curtailed in an administration. Upon the appointment of an administrator, no step may be taken to enforce security over the company's property, except with the consent of the administrator or leave of the court. The same requirements for consent or leave apply to the commencement or institution of legal process (including legal proceedings, execution, distress or diligence) against the company or property of the company. In either case, a court will consider discretionary factors in determining any application for leave, in light of the hierarchy of statutory objectives of administration described above.

Accordingly, if the Issuer was to enter into administration proceedings, the Notes and the related security from the Issuer could not be enforced while the relevant company was in administration, without the leave of the court or consent of the administrator. There can be no assurance that the security agent would obtain this leave of the court or consent of the administrator.

In addition, an administrator is given wide powers to conduct the business and, subject to certain requirements under the Insolvency Act 1986, dispose of the property of a company in administration. However, the general prohibition against enforcement by secured creditors without consent of the administrator or leave of the Court, and the administrators' powers with respect to floating and other security, do not apply to any security interest created or arising under a financial collateral arrangement within the meaning of the Financial Collateral Agreements (No. 2) Regulations 2003

(UK). A financial collateral arrangement includes (subject to certain other conditions) a pledge over shares in a company, where both the collateral provider and collateral taker are non-natural persons.

Under English insolvency law, the liquidator or administrator of a company may, among other things, apply to the court to unwind a transaction entered into by such company, if such company was unable to pay its debts (as defined in section 123 of the Insolvency Act 1986) at the time of, or as a result of, the transaction and enters into liquidation or administration proceedings within two years of the completion of the transaction. A transaction might be subject to a challenge if it was entered into by a company ''at an undervalue'', that is, it involved a gift by the company or the company received consideration of less value than the benefit given by such company. However, a court generally will not intervene if a company entered into the transaction in good faith for the purpose of carrying on its business and at the time it did so there were reasonable grounds for believing the transaction would benefit such company. The Issuer believes that the Notes will not be issued on terms which would amount to a transaction at an undervalue, that the offering is in good faith for the purposes of carrying on the Group's business and that there are reasonable grounds for believing that the transaction will benefit the Group. However, there can be no assurance that the issuance of the Notes will not be challenged by a liquidator or administrator or that a court would support this analysis.

In addition, if it can be shown that a transaction entered into by an English company was made for less than fair value and was made to shield assets from creditors, then the transaction may be set aside as a transaction defrauding creditors. Any person who is a ''victim'' of the transaction, and not just liquidators or administrators, may assert such a claim. There is no statutory time limit within which a claim must be made and the company need not be insolvent at the time of the transaction.

If the Issuer was to commence administration proceedings, the Notes and the related security could not be enforced while the relevant company was in administration.

The holder of a qualifying floating charge that has been created since 15 September 2003 over all or substantially all of the assets of an English company can generally no longer appoint an administrative receiver of that company. There is, however, an exception to this rule that applies to certain capital markets transactions that are expected to incur at least £50 million of debt.

Any interest accruing under or in respect of the Notes for any period from the date of commencement of administration or liquidation proceedings, to the extent not fully covered by the assets securing the Notes, could be recovered by holders of the Notes only from any surplus remaining after payment of all other debts provided in the proceeding and interest accrued but unpaid up to the date of the commencement of the proceeding.

Under English insolvency law, certain preferential claims, including unpaid contributions to occupational pension schemes in respect of the twelve-month period prior to insolvency and unpaid employees' remuneration in respect of the four-month period prior to insolvency, will, while ranking behind the claims of holders of fixed security, rank ahead of floating charges. In addition, a prescribed part of floating charge realisations (being 50 per cent. of the first £10,000 of net realisations and 20 per cent. of the net realisations thereafter, up to a maximum of £600,000) is required to be set aside for the benefit of unsecured creditors and, as such, ranks ahead of the relevant floating charge.

RISKS RELATING TO THE NOTES

Dependence on subsidiaries for payments

The Issuer is a holding company with no material assets other than the shares of its subsidiary, BAA (SP) Limited. All of the Issuer's revenue is generated by the Operating Companies. Accordingly, almost all of the Issuer's cash flow is generated by the Operating Companies. Therefore, the Issuer's ability to make payments on its indebtedness and to fund its other obligations is dependent not only on the ability of its subsidiaries to generate cash, but also on the ability of its subsidiaries to distribute cash to it in the form of dividends, fees, interest, loans or otherwise.

However, the Issuer's subsidiaries face various restrictions in their ability to distribute cash to the Issuer. The Senior Borrower Group must satisfy certain restricted payment covenants and other conditions before it may make distributions to the Issuer. Business performance and local accounting and tax rules may limit the amount of retained earnings, which is in many cases the basis of dividend payments.

Subordination of Notes to liabilities of the Issuer's subsidiaries

The Issuer's subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to any debt incurred by the Issuer to make any funds available whether by dividends, fees, loans or other payments. Any right of the Issuer to receive any assets of any of its subsidiaries upon liquidation, dissolution, winding up, receivership, reorganisation, assignment for the benefit of creditors, marshaling of assets and liabilities or any bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of the Issuer's indebtedness to participate in the distribution of, or to realise proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's creditors (including trade creditors and holders of debt issued by such subsidiary). Accordingly, the Notes will be effectively subordinated to all liabilities of the Issuer's subsidiaries. At 30 September 2010, the Issuer's subsidiaries had £11.9 billion of outstanding liabilities, including outstanding indebtedness. The terms and conditions of the Notes do not prohibit the Issuer's subsidiaries from incurring additional indebtedness.

Inability to repurchase Notes on change of control

Upon a Change of Control (as defined under "*Terms and Conditions of the Notes—Definitions*"), the Issuer will be required to offer to repurchase all outstanding Notes at 101 per cent. of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the Notes will be the Issuer's available cash or cash generated from the Operating Companies' operations or other sources, including borrowings, sales of assets or sales of equity. The Issuer may not be able to satisfy its obligations to repurchase the Notes upon a change of control because it may not have sufficient financial resources to purchase all of the Notes that are tendered upon a change of control.

Limited liquidity of the Notes; Absence of secondary market for the Notes

There can be no assurance that a secondary market for the Notes will develop, or, if a secondary market does develop for any of the Notes issued after the date of this Prospectus, that it will provide any holder of Notes with liquidity or that any such liquidity will continue for the life of the Notes. Consequently, any purchaser of the Notes must be prepared to hold such Notes for an indefinite period of time or until final redemption or maturity of the Notes.

The liquidity and market value at any time of the Notes are affected by, among other things, the market view of the credit risk of such Notes and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events and the performance and financial condition of the Group.

Rating of the Notes

The ratings assigned by the rating agencies to the Notes reflect only the views of the rating agencies and in assigning the ratings the rating agencies take into consideration the credit quality of the Group and structural features and other aspects of the transaction. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the rating agencies as a result of changes in, or unavailability of, information or if, in the rating agencies' judgment, circumstances so warrant. If any rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced. Future events, including events affecting the Group and/or circumstances relating to the airport industry generally, could have an adverse impact on the ratings of the Notes.

Covenant restrictions

The terms and conditions of the Notes and/or the New SH Facility will limit the Group's ability to, among other things, incur additional indebtedness; pay dividends or make other distributions; make investments; sell assets; enter into agreements restricting the ability of the Issuer's subsidiaries to pay dividends; consolidate, merge, sell or otherwise dispose of all or substantially all of the Group's assets; enter into sale and leaseback transactions; and provide security. In addition, the terms and conditions of the Notes and the New SH Facility require that, subject to certain cure rights, Group RAR may not be greater than 90 per cent. as at any Relevant Testing Date and Group ICR may not be less than 1.0 in respect of any Relevant Testing Period.

The ability of the Issuer to comply with these covenants and restrictions may be affected by events beyond the Issuer's control. If the Issuer breaches any of these covenants or restrictions, it could be in default under the Notes and the New SH Facility. This would permit the lending banks under the New SH Facility to take certain actions, including declaring all amounts that the Issuer has borrowed under the New SH Facility and other indebtedness to be due and payable, together with accrued and unpaid interest. This would also result in an event of default under the Notes. The lending banks could also refuse to extend further credit under the New SH Facility. If the debt under the New SH Facility, the Notes or any other material financing arrangement that the Issuer enters into were to be accelerated, the Issuer's assets may be insufficient to repay in full the Notes and the Issuer's other indebtedness.

Interests of ultimate shareholders inconsistent with interests of holders of Notes

Subsidiary entities of Ferrovial, S.A., Caisse de dépôt et placement du Québec and the Government of Singapore Investment Corporation indirectly own all of the shares of the Issuer. As a result, these shareholders have, and will continue to have, directly or indirectly, the power, among other things, to affect the Group's legal and capital structure and its day-to-day operations, as well as the ability to elect and change management and to approve other changes to the Group's operations. The interests of the Group's ultimate shareholders could conflict with interests of investors in the Notes, particularly if the Group encounters financial difficulties or is unable to pay its debts when due. In addition, the Group's ultimate shareholders may, in the future, own businesses that directly compete with the Group in certain respects or do business with the Group.

Insufficiency of security

If there is an event of default under the Notes, the holders of the Notes will be secured only by the property and assets of BAA (DSH) Limited and the Issuer, which primarily consist of the share capital of the Issuer held by BAA (DSH) Limited and of the share capital of BAA (SP) Limited held by the Issuer. To the extent that the claims of the holders of the Notes, the claims of lenders under the New SH Facility and the claims of any other third party creditor that shares in the Transaction Security in accordance with the terms of the Intercreditor Agreement exceed the value of the Transaction Security securing the Notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior unsecured indebtedness ranking *pari passu* with the Notes.

To the extent that other first-priority security interests, pre-existing liens, liens permitted under the terms and conditions of the Notes and other rights encumber the Transaction Security securing the Notes, those parties may have or may exercise rights and remedies with respect to the Transaction Security that could adversely affect the value of the security and the ability of the security agent to realise or foreclose on the security.

Priority of payments under the Intercreditor Agreement

The Trustee under the Trust Deed have entered into an intercreditor agreement with, among others, the agents and representatives of the other indebtedness secured by the Transaction Security, including the New SH Facility and counterparties to certain hedging obligations. Other creditors may become parties to the Intercreditor Agreement in the future and share in the Transaction Security. Among other things, the Intercreditor Agreement governs the enforcement of the security documents, the sharing in any recoveries from such enforcement and the release of the Transaction Security by the security agent.

The Intercreditor Agreement provides that the security agent shall act upon the instructions of the secured creditors representing more than 50 per cent. of the aggregate principal amount outstanding under the Notes, any additional notes, the New SH Facility, any new credit facilities and certain hedging creditors. The Intercreditor Agreement further provides that, if the Trustee or holders of the Notes do not respond to a Request (as defined in the Intercreditor Agreement) within 20 business days, the votes of holders of the Notes will not be counted for, amongst other things, purposes of instructing the security agent. These arrangements could be disadvantageous to the holders of the Notes in a number of respects. For example, other creditors not subject to the Intercreditor Agreement could commence enforcement action against the Issuer or its subsidiaries during such consultation period, the Issuer or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain collateral could otherwise be impaired or reduced.

The Intercreditor Agreement provides that the security agent may release certain collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the Trust Deed and the New SH Facility. Therefore, such collateral available to secure the Notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Trust Deed.

The Trust Deed and the New SH Facility will permit the Issuer, in compliance with the covenants in those agreements, to incur additional indebtedness secured by liens on the Transaction Security. The Issuer's ability to incur additional debt in the future secured on the collateral may have the effect of diluting the ratio of the value of such Transaction Security to the aggregate amount of the obligations secured by the Transaction Security.

Book-entry form of Notes

The Notes will initially only be issued in global form and deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Interests in the Notes will trade in book-entry form only. The common depositary for Euroclear and Clearstream, Luxembourg will be the sole holder of the Global Notes representing the Notes. Accordingly, owners of book-entry interests must rely on the procedures of Euroclear and Clearstream, Luxembourg, and non-participants in Euroclear or Clearstream, Luxembourg must rely on the procedures of the participant through which they own their interests, to exercise any rights and obligations of a holder of Notes.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes.

Modification, waivers and substitution

The terms and conditions of the Notes contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes including holders of the Notes who did not attend and vote at the relevant meeting and holders of the Notes who voted in a manner contrary to the majority.

The terms and condition of the Notes also provide that the Trustee may, without the consent of holders of the Notes, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, (ii) determine without the consent of the holders of the Notes that any event of default or potential event of default shall not be treated as such or (iii) the substitution in place of the Issuer in respect of the Notes of a new group holding company, in each case in the circumstances and subject to the conditions described in "*Terms and Conditions of the Notes*".

EU Savings Directive

EC Council Directive 2003/48/EC on the taxation of savings income provides for the tax authorities of a Member State to provide to the tax authorities of another Member State details of payments of interest and other similar income made by a person within its jurisdiction to, or collected by such person for, an individual resident or certain limited types of entities established in that other Member State. Similar income for this purpose includes payments on redemption of Notes representing any discount on the issue of Notes or any premium payable on redemption. However, for a transitional period, Austria and Luxembourg may instead impose a withholding system in relation to such payments deducting tax at rates rising over time to 35 per cent. Belgium previously operated a withholding system, but announced that it would instead operate information reporting from 1 January 2010. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of other countries and territories have adopted similar measures to the EC Directive.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. On 24 April 2009, the European Parliament approved an amended version of this proposal. If any of the proposed changes are implemented, these changes may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependant or associated territories which have adopted similar measures and which have opted for a withholding system, and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

USE OF PROCEEDS

The following table sets forth the sources and uses of the proceeds from the offering and the New SH Facility. Actual amounts will vary from estimated amounts, depending on several factors, including differences from the Group's estimate of fees and expenses.

Source of Funds		**Uses of Funds**	
	(£ million)		**(£ million)**
The Notes	325	Repayment of Existing SH Facility	466
New SH Facility (Tranche B)	175	General corporate purposes including transaction costs	32
		Repayment of intercompany loan to BAA (DSH) Limited	2
Total sources	**500**	**Total uses**	**500**

CAPITALISATION

The following table sets out the actual consolidated cash and cash equivalents and debt of the Issuer at 30 September 2010 on both an accounting value (as included within the Issuer's consolidated statement of financial position on that date) and nominal value basis.

	As at 30 September 2010	
	Accounting value	**Nominal value**
	(£ millions)	
Current borrowings – Existing SH Facility	467	466
Current borrowings – Security Parent and subsidiaries	200	39
Total current borrowing	667	505
Non-current borrowings – Security Parent and subsidiaries		
Bonds	6,017	5,845
Loans	3,767	3,821
Total	9,784	9,666
Index-linked derivative accretion	—	92
Total debt	10,451	10,263
Cash and cash equivalents	(59)	(59)
Total net debt	10,392	10,204

Notes

1. Nominal value of debt is utilised in determining the gearing ratio under the Issuer's financing agreements, Group RAR.
2. The difference between the accounting value and nominal value for current borrowings reflects primarily the inclusion in the accounting value of interest accruing but not paid.
3. The difference between the accounting value and nominal value for bonds reflects a combination of (a) fair value adjustments that arose on their novation from BAA Airports Limited (the former BAA plc) in 2008, (b) fair value adjustments on a bond with scheduled redemption date of 30 September 2014, (c) the unamortised element of fees capitalised that arose on bond financings (including the refinancing completed in August 2008), and (d) movement in the £/€ exchange rate between 18 August 2008 and 30 September 2010 in relation to the accounting value of Euro-denominated bonds. The nominal value of these bonds reflect the fact that they are fully hedged into Sterling.
4. The difference between the accounting value and nominal value for non-current loans reflects the unamortised element of capitalised fees.
5. The accounting value of index-linked accretion is included within derivative financial instruments balances in the statement of financial position.

BUSINESS

OVERVIEW

Overview of the Group

The Group includes the operators of Heathrow Airport and Stansted Airport and the Heathrow Express rail service. Heathrow is the world's busiest airport in terms of international passengers and the busiest airport in Europe in terms of total passengers. In 2009, Heathrow handled nearly 15 per cent. more international passengers than its nearest rival, Paris Charles de Gaulle.

Heathrow is the UK's only hub airport used almost wholly by network airlines and having a significant proportion of transfer traffic whilst Stansted is predominantly a point to point airport used primarily by low cost airlines to serve short haul routes across Europe. Heathrow handles approximately 70 per cent. of all the UK's long haul air traffic and 51 per cent. of all air traffic in the Greater London area. As such, it represents essential transport infrastructure for the Greater London area and the whole of the United Kingdom.

Given its relative scale, Heathrow is also critical to the financial profile of the Airports, accounting for approximately 77 per cent. of the Airports' total passengers and approximately 90 per cent of their revenue, Adjusted EBITDA and RAB.

The Group generates two primary types of income: aeronautical income and non-aeronautical income. Aeronautical income is generated from fees charged to airlines for use of the Airports' facilities for flight and passenger activities. Non-aeronautical income is generated mainly from retail concession fees, car parking income and other services supplied by the Airport Operators. The Group also generates income from the Heathrow Express rail operations.

The BAA Group is owned by investment vehicles controlled by Ferrovial S.A., Caisse de dépôt et placement du Québec and the Government of Singapore Investment Corporation, which acquired what was then BAA plc (now BAA Airports Limited) in June 2006.

On 22 October 2010, Ferrovial S.A. announced plans to sell a minority stake of about 10 per cent. of its shares in FGP Topco Limited, the BAA Group's ultimate holding company. At the same time, Ferrovial S.A. re-affirmed its commitment as a long-term investor in the BAA Group.

BAA currently owns and operates six airports in the United Kingdom, including the two Airports. BAA also has a 65 per cent. interest in Naples airport in Italy, which is in the process of being sold, with completion of the sale expected before the end of 2010.

Economic Regulation

The Airports are subject to economic regulation by the CAA. The regulatory system is designed to allow airports to generate revenues which are sufficient to allow them to finance their operating and capital expenditure requirements and provide a regulated rate of return on their Regulatory Asset Base, referred to as RAB.

For more information on economic regulation of the Airports, see "*Airport Regulation*".

Overview of the Airports

Heathrow

Located 15 miles west of Central London, Heathrow Airport handles more international passengers than any other airport in the world. It is the principal airport for long haul routes in the United Kingdom and is Europe's busiest airport in terms of total passengers. In 2009, 65.9 million passengers travelled through Heathrow Airport, of which approximately 8 per cent. were domestic passengers, 53 per cent. were international long haul passengers and 39 per cent. were European passengers. Heathrow Airport hosts most of the world's major international airlines and is the worldwide hub of British Airways and the main European hub of the **one**world alliance. It also hosts the other two principal alliances of SkyTeam and Star Alliance. In 2009, British Airways accounted for approximately 41 per cent of Heathrow's air transport movements ("**ATMs**"), oneworld 49 per cent. and Star Alliance 24 per cent. In 2009, approximately 63 per cent. of Heathrow Airport's passenger traffic was origin and destination traffic and 37 per cent. was transfer traffic.

Heathrow Airport is served by two parallel runways which together have maximum permitted air transport movements of 480,000 per year. For the 12 months ended 31 December 2009, actual air transport movements totalled 460,026. Heathrow Airport provides a wide range of passenger services, including passenger-handling facilities, shops, bars, restaurants and over 19,700 public car park spaces. Heathrow Airport is served by extensive bus services, London Underground services and the dedicated Heathrow Express rail link to and from London Paddington Station. Heathrow generated revenue of £1,735 million and Adjusted EBITDA of £783 million for the 12 months ended 31 December 2009.

Stansted

Located 30 miles northeast of Central London, Stansted Airport is the UK's third busiest airport in terms of total passengers. In 2009, 20.0 million passengers travelled through Stansted Airport, of which approximately 9 per cent. were domestic passengers, 2 per cent. were international long haul passengers and 89 per cent. were European passengers. Stansted Airport's traffic is predominantly point-to-point traffic, with the airport being home to low-cost airlines that mainly serve short haul destinations in Europe and charter airlines specialising in short and medium-haul destinations. Ryanair is the largest airline operating at Stansted Airport, representing 60 per cent. of Stansted's aeronautical income in 2009. Stansted's single runway has a maximum allowed capacity of 264,000 air transport movements per year, enabling passenger capacity of up to 35 million per year. For the 12 months ended 31 December 2009, actual air transport movements at Stansted Airport totalled 156,242. Stansted Airport offers a full range of passenger services, with shops, bars, restaurants and over 26,000 public car park spaces. Stansted Airport is also served by extensive local and express bus services, train services and the dedicated Stansted Express rail link to and from London Liverpool Street Station. Stansted generated revenue of £243 million and Adjusted EBITDA of £102 million for the 12 months ended 31 December 2009.

General Description(1)	**Heathrow**	**Stansted**
Opened in	1946	1966
Location	15 miles west of Central London	30 miles northeast of Central London
Number of runways	2 (currently operated under segregated mode)	1
Runway length (metres)	Northern: 3,902; Southern: 3,658	3,048
Number of terminals(2)	4	1
Total land area	1,227 hectares	957 hectares
Total terminal space (m^2)(3)	837,205	77,546
Total retail space (m^2)(4)	54,362	11,032
Closing RAB at 31 March 2010(5)	£10,728.5 million	£1,293.0 million
Passenger statistics and air transport movements		
Passenger profile		
International/domestic	92% (long haul: 53%; European: 39%)/8%	91% (long haul: 2%; European: 89%)/9%
Business/leisure	34%/66%	20%/80%
Full-cost/low-cost/charter	100%/–/–	3%/94%/3%
Airlines	86 (main airlines: British Airways, Virgin Atlantic Airways and bmi)	21 (main airlines: Ryanair and easyJet)
Destinations	170	150
Air transport movement allowed annual capacity	480,000	264,000
Air transport movements	460,026	156,242/167,868(6)
Passengers allowed annual capacity	Not applicable	35 million
Passengers	65.9 million	20.0 million

Source: BAA (SH) plc

(1) Except as otherwise indicated, data as of 31 December 2009 or for the year ended 31 December 2009.

(2) Heathrow Terminal 2 closed in November 2009 and a new Terminal 2 is currently under construction.

(3) Terminal areas for Heathrow are based on floor area excluding piers and satellites; for Stansted excluding piers but including satellites.

(4) Heathrow and Stansted also have retail space of 5,536 m^2 and 389 m^2 respectively outside of their terminals.

(5) Source: Heathrow and Stansted regulatory accounts, 31 March 2010.

(6) Stansted air transport movements of 156,242 include passenger air transport movements only and of 167,868 includes cargo and passenger air transport movements.

STRENGTHS

The Airports have a strong position in the South East of England, one of the world's busiest air traffic markets and a market with growing demand for air travel and limited airport capacity.

- Airports are critical to domestic and international travel, trade and communication. With a strong position in the South East of England, Heathrow and Stansted represent unique and high quality infrastructure in one of the most important air travel catchment areas in the world. Aviation is a long-term growth industry. Over the ten years to 2009, passenger traffic through Heathrow and Stansted increased at a compound annual rate of 2 per cent. despite the effects of both the 2001 terrorist attacks in the United States and the major economic downturn in 2008 and 2009. Growth in air travel in the South East of England is expected to continue. In the UK Government's 2003 Air Transport White Paper ("ATWP"), an independent analysis of traffic forecast that air travel demand in the South East of England will increase to between 200 and 300 million passengers per annum by 2030. This compares with total traffic through the five major airports in the Greater London area of approximately 130 million passengers in 2009 (Source: CAA). Heathrow Airport and Stansted Airport accounted for approximately 51 per cent. and 15 per cent., respectively, of this traffic. Given their significant position in the Greater London airport market, the Airports are essential transport infrastructure for the South East of England and the entire United Kingdom.

- The scale of infrastructure and geographical requirements necessary to develop a competing airport provide for high barriers to entry. These barriers to entry are even more marked for hub airports such as Heathrow. The ATWP ruled against the development of any competing runway infrastructure in the South East of England until 2030 and the new UK government has ruled out new runway development at Heathrow, Stansted and at Gatwick, meaning that new airport development in this geographic area is unlikely for the foreseeable future.

- London is the world's leading financial centre, driving significant global business travel into and out of the region. The United Kingdom is ranked sixth for international arrivals and seventh for international tourism earnings (Source: Visit Britain).

The Group benefits from the unique scale, market position and resilience of Heathrow Airport.

- Heathrow is the world's busiest airport in terms of international passengers and Europe's busiest airport in terms of total passengers. Heathrow accounts for approximately 90 per cent. of the Group's turnover, Adjusted EBITDA and RAB.

- Heathrow Airport enjoys a unique market position in the United Kingdom, being the country's only hub airport and acting as the gateway to approximately 70 per cent. of all long haul air traffic entering and leaving the United Kingdom in 2009 (Source: BAA/CAA). In 2009, approximately 37 per cent. of its traffic comprised transfer passengers with approximately 75 per cent. of this traffic connecting between international flights.

- Over half of Heathrow Airport's passengers are non-UK resident and it has an even split between business, visiting friends and family and leisure traffic. Further, it has a balanced mix of European, North Atlantic and other long haul traffic. As a result, there is a greater diversity of economic and demographic factors affecting Heathrow's passenger demand compared to other UK and international airports.

- An increasing proportion of its passenger traffic relates to the fastest growing long haul segment of the global aviation industry; at 53 per cent. in 2009, this is a significantly higher proportion than other UK and European airports. It has also been operating close to its permitted capacity for a number of years reflecting airline demand to use the airport. These two factors provide substantial resilience and Heathrow's passenger traffic fell 1.5 per cent. in 2009, the best passenger traffic performance among major airports in Europe and North America.

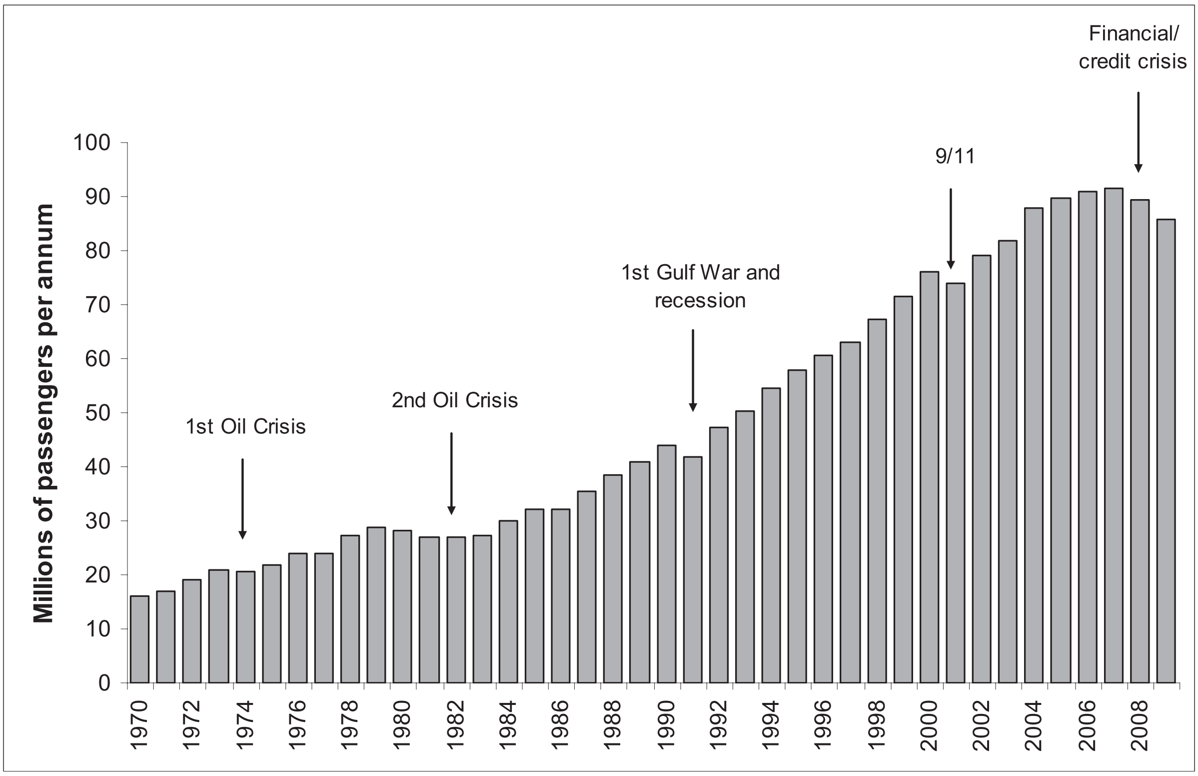
Regulation provides cash flow visibility and mitigates market risk.

- Heathrow and Stansted are both subject to price regulation by the CAA. This involves the CAA every five years setting caps on the amount that the Airports can charge airlines for using their facilities. The charges are set taking into account forecast passenger traffic, operating costs and other revenues for the relevant Airport as well as allowing recovery of capital costs and a return on capital. In making its determination, the CAA takes into account the actual historic experience of the Airport which materially mitigates the market risk faced by the Airport. This price setting mechanism provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer term cost and revenue risks.

Proven resilience to shocks and economic downturns.

- Heathrow has been resilient to economic downturns and other changes in the air travel market seen in recent years such as wars, acts of terrorism and the threat of pandemic illnesses. In recent years, demand for air travel in the United Kingdom has tended to return relatively quickly to historic levels following external shocks. The graph below shows that demand shocks in the United Kingdom, such as the terrorist attacks of 11 September 2001, oil crises and the first Gulf war, have been followed by periods of renewed growth bringing passenger numbers back to the pre-shock trend.

Historic Passenger Levels at the Airports



Source: BAA (SH) plc

The Airports benefit from diversified income sources and serve a variety of market segments.

The Airports earn income from a variety of sources, including:

- charges to airlines;
- concession fees from retail operators and direct income from car parks and advertising revenue;
- the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices;
- the provision of ancillary services such as baggage handling and passenger check-in; and
- the operation of the Heathrow Express rail service.

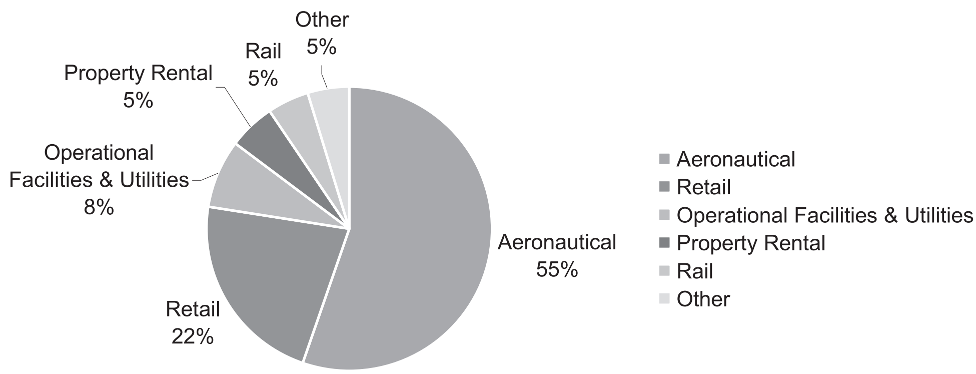
The Airports serve a diversified range of major airlines, including British Airways, Virgin Atlantic Airways, bmi, easyJet and Ryanair. Heathrow is less reliant on its main customer and airline alliance (2009: British Airways, 41 per cent. of ATMs; **one**world, 49 per cent. of ATMs) than other European hub airports (e.g. Amsterdam Schiphol (2009: KLM, 51 per cent. of ATMs; SkyTeam, 65 per cent. of ATMs) and Frankfurt (2009: Lufthansa, around 60 per cent. of passengers; Star Alliance, 74 per cent. of passengers).

Heathrow and Stansted serve a range of market segments, including:

- business and leisure travellers;
- origin and destination and transfer passengers;
- long and short haul routes; and
- full-cost, low-cost and charter carriers.

The chart below represents the total revenue of the Airports by source for 2009.

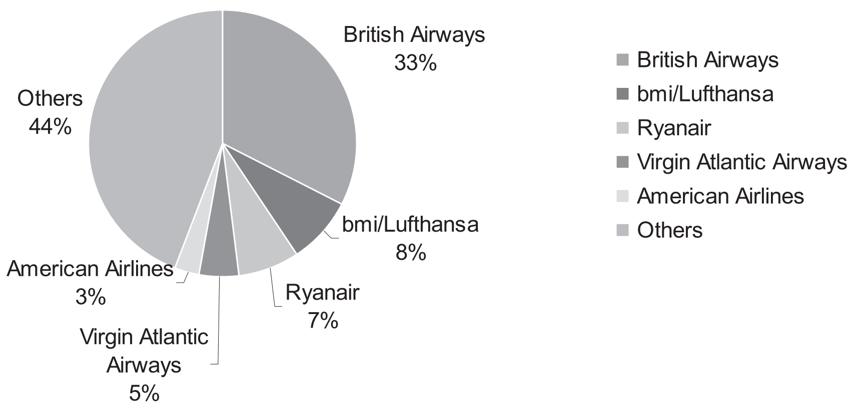
Total revenue of the Airports by source, 2009



Source: BAA (SH) plc.

The chart below represents the total aeronautical income of the Airports by airline for 2009.

Total aeronautical income(1) of the Airports by airline, 2009



Source: BAA (SH) plc.

(1) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.

STRATEGY

The Group's strategy is focused on providing world-class airports to serve the UK's capital city, particularly by developing Heathrow Airport's position as the UK's gateway to the world and Europe's hub airport of choice.

To support and develop Heathrow Airport's role as a hub, the Group will continue enabling the success of the major network airlines operating at Heathrow Airport by investing in further capacity, operational flexibility and resilience at sustainable charges for airline customers

Heathrow Airport offers a compelling, competitive range of routes and frequencies for the large London origin and destination aviation market. For both local and transfer passengers Heathrow Airport is working continuously to make every journey better through improved service standards to ensure it remains passengers' preferred airport. Improving the passenger experience is supported by ongoing investment in modern airport facilities and operating processes.

THE ROLE OF THE AIRPORT OPERATORS

The Airport Operators co-ordinate the activities of the numerous organisations involved in the provision of airport services to passengers, airlines and other airport users. Their activities include:

- providing passengers, airlines and other service providers with the infrastructure and facilities (such as check-in desks, concourses, gate rooms, baggage handling facilities and office facilities) needed to optimise operations and maximise passenger and flight traffic within existing capacity constraints;
- implementing, under government supervision, air transport security measures, including passenger and baggage inspections. The UK Government has the power to give any Airport Operator "such directions of a general character as appear to the Secretary of State to be necessary or expedient in the interests of national security or of relations with a country or territory outside the UK";
- developing commercial areas (such as shops, restaurants and car parks) and determining the optimal mix and location of retail services;
- maintaining and developing airport infrastructure to meet evolving airline and passenger demands, including delivering a "master plan" for the future development of each Airport;
- ensuring that the Airports are served by appropriate and adequate ground transport services;
- maximising capacity at the Airports and setting airport capacity constraints in consultation with National Air Traffic Services Limited ("**NATS**"), the airlines and Airport Co-ordination Limited ("**ACL**"), an organisation owned and managed by several major UK airlines, which allocates take-off and landing slots; and
- assigning airlines to terminals at the Airports in consultation with the airlines, ACL and NATS.

AIRPORT INFRASTRUCTURE, FACILITIES AND ACCESS

Heathrow Airport

Overview

Heathrow Airport commenced operations as London's principal commercial airport in 1946. Heathrow Airport's first permanent terminal opened in 1955 (Terminal 2) and the substantial growth in demand for air transport throughout the 1960s and 1970s saw much of the core infrastructure at Heathrow Airport's Central Terminal Area developed, including the opening of what is now Terminal 3 in 1961 and Terminal 1 in 1968 and the construction of car parks, public transport and other operational and administration facilities. Terminal 4 was added in 1986.

With the opening of Terminal 5's main facilities in March 2008, Heathrow Airport acquired additional terminal passenger capacity for 30 million passengers per year. Once Terminal 5C becomes fully operational in 2011 up to 35 million passengers per year will enjoy the same passenger experience as if they were using the main terminal.

The additional capacity provided by Terminal 5 has enabled Heathrow to begin rebuilding and renovating Heathrow's other four terminals.

The first key phase in transforming Heathrow's existing terminals is the construction of a new Terminal 2. The original Terminal 2 was closed in November 2009. Demolition of buildings on the new Terminal 2 site has been completed and construction of the new terminal is underway. The new

Terminal 2 will be home to the Star Alliance airlines at Heathrow providing competitive equivalence to British Airways at Terminal 5. It will have an initial capacity of 20 million passengers per year when it becomes operational in early 2014. The new terminal may be extended beyond the first phase currently under construction including to occupy the current footprint of Terminal 1, necessitating the closure of this terminal and increasing the terminal's capacity to 30 million passengers per year.

These projects are expected to expand Heathrow Airport's terminal capacity to between 90 million and 95 million passengers per year. Without additional runway capacity, these levels of passenger throughput are dependent on increasing the average number of passengers carried on each aircraft through a combination of use of larger aircraft and higher load factors.

Recent trends in aircraft manufacturing have led to an increase in development of larger aircraft. The Airbus A380, the world's largest passenger aircraft (average 475 passengers), is expected to be particularly attractive to major network carriers that serve hub airports that are at or near maximum permitted runway capacity. The A380 commenced scheduled services from Heathrow Airport in March 2008, and there are currently approximately 300 A380 air transport movements per month.

Runways

Heathrow Airport's two parallel runways generally operate in "segregated mode", with arriving aircraft allocated to one runway and departing aircraft to the other. To mitigate noise impact to residents living below the approach and departure routes, the allocation of runways to arriving and departing aircraft is normally swapped at around 3:00 p.m. each day or as weather conditions necessitate.

Heathrow Airport is permitted to schedule up to 480,000 air transport movements per year and its runways currently operate at approximately 95 per cent. of their permitted capacity.

Retail Facilities

Heathrow Airport has a total of over 54,000 square metres of retail space served by approximately 90 retail clients operating over 400 retail outlets. Terminal 5, with over 24,000 square metres of retail space, has significantly increased the Airport's overall retail portfolio. BAA owns over 19,700 public car park spaces at Heathrow Airport that are available to travellers and the general public. All terminals at Heathrow Airport are served by car rental operators. Heathrow Airport's terminals and their approaches provide advertising space, which yields further income.

Access to Heathrow Airport

Heathrow Airport's extensive ground transport links facilitate access to the airport for passengers, cargo transporters and airport personnel:

- Heathrow Airport is located just off the M4 motorway to London and the west of England and London's orbital motorway, the M25.
- Heathrow Express offers a frequent non-stop rail service to and from London Paddington Station. This service is supplemented by the Heathrow Connect "stopping service", which provides connections with train services on the UK's western main line as well as local access to the airport.
- Additional direct rail connections to Heathrow Airport are expected in the future following the completion of Airtrack, which will link the airport to the South and West of London, and of the cross London rail service, Crossrail. In addition, the new UK government has 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. A direct high speed rail link to Heathrow would reduce journey times from the Midlands and north of England and is expected to increase demand to use Heathrow by capturing UK passengers that currently travel via other European hub airports. 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.
- The London Underground Piccadilly Line has stations serving each of the terminals at Heathrow Airport.
- Long distance coach services operated by National Express provide fast services from Heathrow Airport to various parts of the United Kingdom, including Victoria Coach Station in Central London. Many of the local bus services in the nearby London suburbs also run to Heathrow Airport.

Future investment at Heathrow Airport

Heathrow Airport is implementing a £5.1 billion investment programme over the five years to 31 March 2013. It is expected that by 2014 around 70 per cent. of passengers will be using new or recently constructed terminals and the remaining 30 per cent. of passengers will be using extensively refurbished terminals. The investment programme will also facilitate the co-location of members of each of the three main global airline alliances and will include developing the largest integrated baggage handling system in the world.

The major steps in Heathrow Airport's investment programme through to 2013 currently include:

- completing Terminal 5's second satellite, T5C, by 2011;
- completing the construction of phase one of the new Terminal 2 by 2013, enabling it to become operational in early 2014;
- developing baggage systems and improved connectivity within and between the Airport's terminals;
- redeveloping and extending Terminal 4; and
- re-locating the Star Alliance airlines from Terminals 1 and 3 to the new Terminal 2.

The investment programme is regularly reviewed by Heathrow and airline stakeholders to ensure alignment with business and operational priorities. This process can lead to changes in the timing of delivery of specific elements in the programme. However, such changes are not expected to give rise to material variance in the total level of capital expenditure over the five years to 31 March 2013.

The current phasing of Heathrow Airport's capital investment programme over the five years to 31 March 2013, in outturn prices, is set out below based on the broad project groups used in the 2008 regulatory settlement.

Heathrow Planned Capital Expenditures(1)

	Year ended 31 March					
	2009	**2010**	**2011**	**2012**	**2013**	**Total**
	(£ millions, outturn prices)					
	(actual)					
Eastern campus (Terminals 1 and 2)	267	189	312	735	687	2,189
Western campus						
Terminal 3	43	35	48	10	2	137
Terminal 4	83	70	7	33	7	201
Terminal 5	92	143	105	2	—	342
Connections & baggage	77	150	259	134	37	657
Other capital projects	154	152	167	42	41	555
Total capital projects	**716**	**739**	**897**	**956**	**775**	**4,083**
Rail	13	14	35	38	**70**	170
Information Technology (IT)	11	38	41	32	7	128
Project for Sustainable Development of Heathrow (PSDH)(2)	—	25	120	296	250	691
Total	**740**	**816**	**1,094**	**1,321**	**1,101**	**5,072**

Source: BAA (SH) plc

(1) Spend has been transferred between the broad project groups from that shown in the settlement to reflect changes in how individual projects are managed and in the scope of project groups.

(2) A significant proportion of PSDH expenditure was originally allocated to work related to the possible development of a third runway and additional terminal capacity. Given the recent announcements from the new UK government that it will not support the development of a third runway at Heathrow, BAA will be discussing with airlines the potential future use of these funds.

Stansted

Overview

Commercial operations began in 1966 at Stansted Airport, with its current terminal facilities completed in 1991. Stansted has a single runway and a single passenger terminal configuration, with three satellites, two connected to the terminal by a tracked transit system and the other by a pedestrian walkway.

In the last ten years, Stansted Airport has benefited from the expansion of low-cost carriers offering short haul flights to European destinations. The number of passengers using Stansted Airport was 20.0 million in 2009 compared with 9.4 million in 1999.

Runway

Stansted Airport's runway has since 2008 been permitted to schedule up to 264,000 air transport movements per year.

Retail Facilities

Stansted Airport has approximately 11,000 square metres of retail space, with approximately 50 retail clients operating around 100 retail outlets. The main retail facilities are located in Stansted Airport's core terminal building and supplemented by additional outlets located within the airport's three boarding satellites. Stansted Airport also offers over 26,000 public car park spaces.

Access to Stansted Airport

Stansted Airport is located just off the M11 motorway, which links London and Cambridge, and the A120 dual carriageway, 20 minutes from London's orbital M25 motorway.

In addition to road access, Stansted Airport has a railway station located below its terminal building. Stansted Express trains run frequently to and from Liverpool Street Station in Central London. There are also regular rail services from Stansted Airport to Cambridge, Leicester and the Midlands.

Scheduled express coach services run to Stansted Airport from various London bus terminals.

Future investment at Stansted Airport

Stansted Airport's investment programme over the current quinquennium will be focussed on projects, expected to cost approximately £90 million (in 2009/10 prices), to enable Stansted Airport's existing infrastructure to service up to 35 million passengers per annum. The key projects are:

- the completion of an upgrade of the terminal baggage system in 2013; and
- the construction of additional aircraft stands commencing in 2013.

The current expected phasing of Stansted Airport's capital investment programme over Q5 expressed in 2009/10 prices is set out below.

Stansted Planned Capital Expenditures

	Year ended 31 March					
	2010	**2011**	**2012**	**2013**	**2014**	**Total**
	(£ millions, 2009/10 prices)					
Stansted Generation 1	16	18	18	20	20	92
Stansted Generation 2	16	9	—	—	—	25
Total	**32**	**27**	**18**	**20**	**20**	**117**

Source: BAA (SH) plc

TRAFFIC

Historic Growth in Passenger Traffic at the Airports

Both Airports have seen passenger traffic grow over the last 10 years. Historic trends in passenger traffic and air transport movements at the Airports between 1999 and 2009 are discussed below.

Heathrow

Number of Passengers and Air Transport Movements, Heathrow Airport

	Year ended 31 December			
	Number of Passengers	**Percentage Growth on Previous Year(1)**	**Number of Air Transport Movements**	**Percentage Growth on Previous Year(1)**
	(millions)	**(%)**	**(thousands)**	**(%)**
1999	62.0	—	449.4	—
2000	64.3	3.7	459.7	2.3
2001	60.4	(6.0)	457.6	(0.4)
2002	63.0	4.3	460.3	0.6
2003	63.2	0.3	457.0	(0.7)
2004	67.1	6.2	469.8	2.8
2005	67.7	0.9	472.0	0.5
2006	67.3	(0.5)	470.8	(0.3)
2007	67.9	0.8	475.7	1.0
2008	66.9	(1.4)	473.1	(0.5)
2009	65.9	(1.5)	460.0	(2.8)
Compound Annual Growth Rate, 1999-2009		**0.6**		**0.2**
	Nine months ended 30 September			
2009	49.9	—	347.6	—
2010	49.6	(0.6)	338.0	(2.8)

Source: BAA (SH) plc

(1) Percentage growth on the prior year period is based on unrounded passenger and air transport movement numbers.

With the increase in total air transport movements limited at Heathrow Airport by the constraint of 480,000 air transport movements per year, the overall passenger growth at the airport has been partly driven by an increase in the number of passengers per aircraft, including through the introduction of larger aircraft.

Over the last ten years, passenger traffic at Heathrow Airport has seen a significant shift in mix with substantial growth in emerging market long haul routes such as the Far East, Middle East and India. In contrast, traffic with more mature markets such as domestic, European and North Atlantic (other than growth in 2008 due to the first phase of Open Skies becoming effective) has declined slightly.

This shift in mix has been driven by a number of factors including the strong economic development of emerging markets; increased use of alternative transport on domestic routes as well as other short haul routes such as Paris and Brussels; and airlines actively rotating their scarce slots to more lucrative long haul markets. As a result, traffic on long haul routes, other than North Atlantic routes, has increased its share of Heathrow Airport's total passenger traffic from 20 per cent. in 1999 to 30 per cent. in 2009, equivalent to over seven million additional passengers per annum.

The terrorist attacks on the United States in 2001 and their aftermath resulted in a major upheaval to transatlantic services and were the major cause of a reduction in Heathrow Airport's total passenger numbers in 2001 and early 2002. Airlines responded by cutting costs, ceasing to serve marginal routes and consolidating some of their London operations at Heathrow Airport. Passenger traffic on transatlantic routes did not see a sustained recovery until 2004. This, combined with the impact of SARS on traffic with the Far East in 2003, resulted in only modest growth in Heathrow Airport's total traffic in 2003 but a strong recovery in 2004.

Since 2008, Heathrow Airport's passenger traffic has been affected by the aviation industry's need to adjust to high fuel prices and by the impact of the difficult global economic environment. Nevertheless, Heathrow Airport has remained resilient with passenger traffic declining only 1.4 per cent. to 66.9 million in 2008 and 1.5 per cent. to 65.9 million in 2009. However, Heathrow's performance improved as 2009 progressed, with a modest recovery in passenger traffic commencing from July 2009 with growth in passenger traffic of 0.3 per cent. and 1.1 per cent. in the third and fourth quarters of 2009.

In April 2010, as with most airports in western Europe, Heathrow experienced significant disruption as a result of ash from a volcanic eruption in Iceland, which is estimated to have resulted in passenger traffic being 1.2 million lower than expected. There was also airline industrial action that affected Heathrow in March, May and June. Excluding these external factors, Heathrow's traffic is estimated to have been 3.1 per cent. higher in the nine months ended 30 September 2010 than in the same period of 2009 with record traffic experienced through the third quarter of 2010.

Traffic on North Atlantic routes has declined since 2008 although the extent of decline has been mitigated by the introduction of Open Skies from March 2008 due to airlines moving some US services from Gatwick airport to Heathrow Airport. Traffic with other long haul markets has remained broadly stable with continued growth in markets such as the Middle East and India. The domestic and European markets have seen declines although there has been rapid growth in European traffic in recent months.

Stansted

Number of Passengers and Air Transport Movements, Stansted Airport

	Year ended 31 December			
	Number of Passengers	**Percentage Growth on Previous Year(1)**	**Number of Air Transport Movements**	**Percentage Growth on Previous Year(1)**
	(millions)	**(%)**	**(thousands)**	**(%)**
1999	9.4	—	135.8	—
2000	11.9	25.8	146.5	7.9
2001	13.7	15.2	152.5	4.1
2002	16.0	17.5	154.5	1.3
2003	18.7	16.6	171.3	10.9
2004	20.9	11.7	177.4	3.5
2005	22.0	5.3	178.4	0.6
2006	23.7	7.6	190.2	6.6
2007	23.8	0.3	191.5	0.7
2008	22.3	(6.0)	177.2	(7.5)
2009	20.0	(10.7)	156.2	(11.8)
Compound Annual Growth Rate, 1999-2009		**7.8**		**1.4**
	Nine months ended 30 September			
2009	15.5	—	120.2	—
2010	14.4	(7.0)	110.8	(7.9)

Source: BAA (SH) plc

(1) Percentage growth on previous year based on unrounded passenger and air transport movement numbers.

Stansted Airport has experienced significant growth in the last ten years with a compound annual growth rate in passengers of 7.8 per cent. between 1999 and 2009, driven primarily by expansion of the operations of the airport's two largest current airlines, Ryanair and easyJet. European scheduled traffic accounts for approximately 86 per cent. of Stansted Airport's passenger traffic reflecting the focus of Ryanair's and easyJet's activities.

Stansted Airport has been more affected by the recent difficult economic environment than Heathrow Airport, with passenger numbers decreasing by 6.0 per cent. in 2008 and 10.7 per cent. in 2009. One airline customer, Maxjet, filed for Chapter 11 bankruptcy in December 2007; Globespan, American

Airlines and Sky Europe have left Stansted Airport; and Air Berlin ceased UK domestic routes late in 2007. The rate of decline in passenger traffic at Stansted Airport had been moderating since reaching a peak of 14.6 per cent. in the first quarter of 2009 and was 5.7 per cent. in the fourth quarter of 2009 and 4.7 per cent. in the first quarter of 2010.

Stansted was also disrupted in April 2010 (and to a lesser extent in May 2010) as a result of ash from a volcanic eruption in Iceland which is estimated to have resulted in passenger traffic being 0.4 million lower than expected but, excluding this, the decline in traffic in the second quarter of 2010 relative to the prior year narrowed further to an estimated 3.1 per cent. However, in the third quarter of 2010, Stansted's passenger numbers declined by 6.0 per cent. reflecting both airline capacity reductions 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.

CUSTOMERS

The following table provides details of the main airline customers for the Airports in the year ended 31 December 2009:

Main Airline Customers for Heathrow Airport and Stansted Airport

	Year ended 31 December 2009			
	Passengers	Air transport movements	Aeronautical income(1)	Percentage of airport's aeronautical income(1)
	(millions)	(thousands)	(£ millions)	(%)
Heathrow Airport				
British Airways	26.9	189.5	351.6	37.0%
bmi	4.2	49.9	55.6	5.9%
Virgin Atlantic Airways	3.6	14.9	53.4	5.6%
Stansted Airport				
Ryanair	13.7	93.8	79.6	60.5%
easyJet	3.8	30.8	20.1	15.3%

Source: BAA (SH) plc

(1) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.

Heathrow Airport

The largest customer at Heathrow Airport is British Airways, which has its global hub there. British Airways is a full-service airline operating a wide range of domestic, European and international long haul services. It is currently the sole airline occupant at Terminal 5. Heathrow has an agreed joint framework with British Airways for future cooperation.

Virgin Atlantic Airways operates multi-class flights to long haul destinations from Heathrow Airport's Terminal 3. bmi, which is now owned by Lufthansa, mainly operates a mix of short and medium-haul services from Heathrow Airport, where it is the main feeder airline to the Star Alliance.

Stansted Airport

Ryanair is Stansted Airport's largest customer and has grown its Stansted Airport operations substantially in the past decade. easyJet also has a significant base at Stansted Airport. Ryanair and easyJet are Europe's two largest low-cost carriers, and both require airport facilities that allow rapid aircraft turnarounds to enable optimum aircraft utilisation.

OTHER OPERATIONS

Cargo and Mail Carriers

The bulk of cargo and mail at Heathrow is carried in the cargo holds of passenger flights rather than by dedicated cargo flights. At Stansted, Federal Express has a main cargo and mail hub facility.

Cargo and mail carriers are responsible for handling merchandise and packages at the Airports, including delivery to cargo warehouses, customs procedures and clearance, aircraft loading and unloading, sorting and transport to the final destination.

The Airport Operators provide cargo sheds and other accommodations and facilities which are leased, or separately billed on a use basis, to cargo-service providers.

Government Services and Agencies

The UK Government is responsible for a number of essential services at the Airports, which it discharges through governmental and non-governmental agencies, notably:

- Security operations: The UK Government is responsible for setting aviation security regulations, issuing directions to airport operators, airlines and cargo operators and monitoring compliance with these directions through a programme of regular inspections and audits;
- Public order and policing services: Policing operations at the Airports are the responsibility of the local police authority that each Airport Operator pays for the provision of these services. These public safety services should be distinguished from security operations, which are designed to prevent illicit acts that risk endangering the security of the aircraft and passengers; and
- Border controls: The UK Home Office's Border Agency is responsible for the control of persons and goods.

Air traffic control, including aerodrome navigation services ("**ANS**"), are provided by NATS, a privately held entity which is responsible for the arrival and departure of aircraft to and from the aircraft parking areas at the Airports. NATS also works closely with the Airport Operators and airlines in determining the declaration of scheduling capacity.

Air Service Agreements

The allocation of airlines between the Airports is subject to agreements between the UK Government, the European Union and other countries. Constraints on the designation of airports for use by European and US airlines were removed by the first stage of the Open Skies Agreement between the European Union and the United States that entered into force on 30 March 2008 ("**Open Skies**") which allows any European or US airline to fly any route between any city in the European Union and any city in the United States. For more information on air service agreements, see "*Airport Regulation*" and "*Risk Factors—Regulatory Risks—Other regulatory and public policy changes*".

SUPPLIERS

The Airport Operators work with numerous external suppliers for the delivery of services relating to the day-to-day operation of the Airports, as well as for the construction of capital projects.

COMPETITION

Heathrow Airport's main competitors are the other major European hub airports such as Paris Charles de Gaulle, Amsterdam, Frankfurt and Madrid. In the future, Heathrow Airport could experience increasing competition from hub airports in the Middle East, such as the current and planned future airports in Dubai.

Stansted Airport faces competition from London Gatwick Airport, London Luton Airport and London City Airport in the air travel market in the South East of England and other forms of travel (including the Eurostar high-speed train service connecting London with Paris and Brussels).

ENVIRONMENTAL REGULATION

The UK Government has direct responsibility for regulating aircraft noise at the Airports. In June 2006, the UK Government published its long-term statutory environmental noise objectives for these airports.

The UK Government "*Air Quality Strategy for England, Scotland, Wales and Northern Ireland*" report dated July 2007 sets health-based air quality targets and objectives for the levels of a range of pollutants to be assessed and managed by local authorities. The local authority for Heathrow Airport has declared an "air quality management area" to manage nitrogen dioxide levels in the vicinity of this Airport.

The relevant local authorities for the Airports have also:

- imposed noise and local air pollutants controls as part of the planning system, including annual air transport movement limits and noise contour area limits; and
- implemented policies for the development of dwellings in areas exposed to transportation noise or poor air quality as set out in the UK Government's Planning Policy Guidance Notes.

The Airports have implemented a number of measures in relation to the environmental sustainability of their businesses, including pricing regimes that penalise noisier and higher emitting aircraft, airfield operation protocols relating to engine noise and other emissions, the provision of fixed ground power and pre-conditioned air, the use of cleaner airside vehicles and fuels, investments in systems to monitor and track noise levels of aircraft, local noise insulation schemes and, in respect of Stansted Airport, a noise blight property purchase scheme.

The Airports have also adopted long term strategies to reduce emissions from energy use in airport buildings by 30 per cent. by 2020 from 1990 levels and also have strategies in respect of water quality, waste, biodiversity, land quality and materials usage.

See "*Risk Factors—Regulatory Risks—Environmental, health and safety and planning considerations*".

RELATED PARTY TRANSACTIONS

The Airport Operators have entered and may from time to time in the future enter into transactions with certain affiliates of BAA and its shareholders, including Ferrovial, S.A. and its affiliates. All such contracts are and will be negotiated on an arm's-length basis and, where applicable, are subject to the requirements of EU legislation.

SHARED SERVICES

Pursuant to a Shared Services Agreement, BAA Airports provides central support services to its subsidiaries to assist with the running and management of the airports.

Services provided by BAA Airports

The services provided by BAA Airports include IT, health and safety, security, research, airport planning and marketing, finance, human resources, property management, regulatory services, corporate and public affairs and legal support. BAA Airports has sub-contracted certain of the cash management and accounting services to BAA Business Support Centre Limited.

All of the staff working for the Airport Operators are employed and provided by BAA Airports, although Heathrow Express employs its staff directly with the exception of a small number of senior management who are employed by BAA Airports.

The terms on which services and staff are provided to the Group are set out in the Shared Services Agreement. There is a similar agreement between BAA Airports and the other UK airports in the BAA Group.

Fees payable to BAA Airports

Each of the Operating Companies pays a fee to BAA Airports which comprises:

(a) the cost to BAA Airports of providing the services; and

(b) in respect of centralised airport services, administrative and business support services and corporate services, a margin of 7.5 per cent.

The majority of costs for employees provided under the Shared Services Agreement are included in the charges for airport services and capital project services, to which the margin does not apply. The margin payable to BAA Airports in relation to services to the Operating Companies was £6.0 million in the 12 months to 31 December 2009.

Termination of Shared Services Agreement

Subject to the prior written consent of the security trustee under the Senior Borrower Group Indebtedness, the Operating Companies have the right to terminate the Shared Services Agreement in the case of a breach by BAA Airports with a material adverse effect not remedied within 30 days, certain insolvency related events in relation to BAA Airports or if it becomes illegal for either BAA Airports or the Senior Obligors to perform their obligations under the Shared Services Agreement.

BAA Airports may terminate the Shared Services Agreement only where:

(a) another suitable and properly resourced member of the BAA Group (excluding any members of the Senior Borrower Group) is appointed to act as replacement Shared Services Provider on substantially the same terms;

(b) a replacement Shared Services Provider is appointed with the consent of and approved by the security trustee under the Senior Borrower Group Indebtedness and, unless otherwise agreed as an Extraordinary Voting Matter, a Ratings Confirmation is provided (for definitions of those terms, see "*Selected Definitions*"); or

(c) the Operating Companies fail to pay any amounts of £50,000 or more to BAA Airports under the Shared Services Agreement, subject to a 30 Business Day grace period.

The Shared Services Agreement will terminate in respect of an Operating Company which ceases to be controlled by BAA Airports. Unless otherwise agreed, termination will take effect 6 months from the date that the Operating Company ceases to be controlled by BAA Airports.

BAA Airports is entitled to pass pensions costs on to the Group. These relate to BAA Airports' obligation to fund BAA's defined benefit pension scheme and are calculated on a basis linked to pensionable payroll in respect of those employees that BAA Airports makes available to the Operating Companies under the agreement. In certain circumstances, the obligation of the Operating Companies to meet pension costs will survive termination of the agreement.

In the event of termination of the Shared Services Agreement, BAA Airports is required to use its reasonable endeavours to facilitate the transfer of the terminated services to the Operating Companies (or to any replacement servicer appointed by the Operating Companies) with a view to ensuring an orderly and efficient transfer with minimal disruption to the ongoing business of the Operating Companies. The employment of relevant airport level staff is expected to pass to the relevant Operating Company or to a replacement service provider.

For a description of certain risks associated with the Shared Services Agreement, see "*Risk Factors—Commercial Risks—Reliance on BAA Airports as Shared Services Provider*".

INSURANCE

BAA Airports provides risk management, insurance and claims handling services to the Operating Companies. BAA Airports arranges both annual and multi-year insurance programmes on a group-wide basis for the BAA Group. Heathrow Express has separate public liability insurance cover and the Airport Operators, through BAA Airports, have separate policies to protect against specific risks. For example, a separate policy was arranged to protect against construction risks in connection with the construction of Heathrow Airport's Terminal 5.

The BAA Group insurance programmes, which are required under the CTA, include the following insurance cover:

- ***property damage and business interruption insurance*** which covers all risks (including terrorism) of sudden accidental direct physical loss or destruction of, or damage to, insured property and resultant loss of revenue and/or increased costs of maintaining normal business activities. There is also a separate policy covering specified tenanted properties, which provides cover on the basis of individual property sums insured;
- ***general liability insurance***, including aviation liability, aviation war/terrorism, public/product liability; public liability with respect to the Heathrow Express rail service; and construction third-party liability;
- ***construction all-risks insurance*** (including terrorism), which is provided up to the full value of all projects commenced during the remainder of Q5. There are additional contractors all risks and public liability insurance policies in respect of specific projects;
- ***third-party financial loss and professional indemnity insurance***; and
- ***employers' liability insurance***.

Insurance cover for the Group is provided by a combination of insurance market entities and captive insurance companies owned by or affiliated with BAA Airports or its ultimate shareholders.

Some insurance cover for the Group is provided by BAA's own captive insurance company, BAA Insurance Services Ltd (the "**Captive**"). The Captive enables the BAA Group to access reinsurance markets (including Pool Re for property terrorism risks), to leverage the BAA Group's combined position on the conventional insurance market and to offer funding options for the Group's self-insured retention. The Captive underwrites some group-wide risks and also funds some of the BAA Group's self-insured retention.

For more information on insurance, see "*Risk Factors—Commercial Risks—Other Risks to the Airports' Operations and Income—Insurance*".

PENSIONS

As at 30 September 2010, BAA's defined benefit pension scheme (the "**Pension Scheme**") had 7,485 current members, 8,081 pensioners and 4,519 deferred pensioners. At the same date, the Pension Scheme had assets of £2,345 million and liabilities of £2,382 million as measured under the International Accounting Standard IAS19. The Pension Scheme is administered by a board of trustees comprising three employee representatives, one pensioner representative and four representatives from BAA. In addition, the Law Debenture Trust Company provides an independent trustee. The Pension Scheme is closed to new members.

The BAA Pension Trustee undertook a formal valuation of the Pension Scheme as at 30 September 2007 with the Pension Scheme showing a surplus of £50 million at the valuation date. Following the valuation, agreement was reached between BAA Airports and the BAA Pension Trustee that the level of employer contribution for the three year period commencing 1 January 2009 would be £80 million per year. The Group is liable for approximately £70 million per year of this figure. From 1 January 2009, BAA Airports has agreed to fund any pension costs associated with redundancies on a pay-as-you-go basis.

Under the terms of the Shared Services Agreement, the Borrowers are liable to fund their share of any deficit in the Pension Scheme. The Pension Scheme also has a right to receive up to £300 million out of the proceeds of an enforcement of the security granted by the Group, to rank *pari passu* with Class A debt.

All employees joining BAA Airports since 16 June 2008 are eligible to join BAA's defined contribution pension scheme. Heathrow Express employees directly employed by Heathrow Express are able to join a separate defined contribution scheme.

In any sale of a Borrower, in order to bring to an end such Borrower's pension funding obligations, a payment can be made to the Pension Scheme in an amount not exceeding the amount specified in the Shared Services Agreement. In relation to the sale of Gatwick airport completed in December 2009, the relevant maximum amount was £169 million. Ultimately a payment of £105 million was made into the Pension Scheme in June 2010 which is reflected in the scheme assets at 30 September 2010.

For additional information, see "*Risk Factors—Commercial Risks—Other Risks to the Airports' Operations and Income—Pensions*".

AIRPORT REGULATION

AIRPORT REGULATION GENERALLY

Regulatory Framework

The Airports Act sets out the regulatory framework for airports in the UK. The CAA, as the economic regulator for UK airports, is required to set price controls for the airport charges levied by price regulated ("designated") airports. Whether or not an airport is designated is a matter for the UK Government. Heathrow and Stansted are both designated airports.

The CAA sets the maximum level of airport charges for five year periods, known as quinquennia. As with other UK regulated utilities, the Airports' price caps have been set on an RPI +/- X basis based on an allowed return on the Regulatory Asset Base (referred to as the RAB). Changes in costs and revenues and changes in assumed traffic volumes are addressed going forward when tariffs are re-set for the following regulatory period. However, there is not a retrospective adjustment for shortfalls in lost income or additional costs (except where airports incur additional security costs, above an established threshold, when implementing new security directives imposed by the EU or the UK Government).

In November 2009, the CAA announced two complementary projects intended to support the transition towards a more competitive UK airports industry, namely: the development of the CAA's approach to analysing competition faced by airports; and the identification and development of alternative approaches to price cap regulation that would minimise distortions to competition or investment incentives at airports.

The CAA and its Statutory Powers and Objectives

The CAA is the independent aviation regulator in the UK, with responsibility for economic regulation, airspace policy, safety regulation and consumer protection. The CAA has a statutory duty to perform its functions in setting price controls in a manner which it considers is best calculated to:

- further the reasonable interests of users of airports within the UK;
- promote the efficient, economic and profitable operation of such airports;
- encourage investment in new facilities at airports in time to satisfy anticipated demands by the users of such airports; and
- impose the minimum restrictions that are consistent with the performance by the CAA of its functions.

The Airports Act does not provide guidance on how the CAA should weigh its various statutory duties. The CAA has stated that where two or more of its statutory duties pull in different directions it will base its decisions on its overall assessment of how the combination of regulatory policy decisions are together best calculated to meet its statutory duties taken as a whole.

In carrying out its statutory functions, the CAA also has to take account of the UK's international obligations. These provide that airport charges for non-national aircraft are not higher than those paid by national aircraft engaged in similar operations.

The International Civil Aviation Organisation publishes guidance on charges for airport services. It considers that where an airport is provided for international use, the users shall ultimately bear their full and fair share of the cost of providing the airport including a reasonable rate of return on assets. It also provides guidance on charging systems suggesting, among other things, that charges should be simple and non-discriminatory and that increases should be introduced on a gradual basis where possible.

Open Skies

In April 2007, the European Community, its Member States and the United States signed the first stage of the Open Skies Agreement, which came into effect on 30 March 2008 and liberalised air services between the EU and the United States providing access to Heathrow Airport for a greater number of airlines.

Potential Future Changes to the Regulatory Framework

The UK Government announced in April 2008 a review of the framework for the economic regulation of airports. It published a consultation document in March 2009, outlining a number of proposals and in December 2009 announced its decisions concerning the review.

The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition. There will also be supplementary duties for the CAA to:

- have regard for airport operators' legal obligations to comply with applicable environmental and planning law;
- secure, so far as it is economical to meet them, that all reasonable demands for airport services are met efficiently;
- ensure that licence holders are able to finance the activities which are subject to the relevant licence obligations;
- have regard to guidance issued by the Secretary of State, as well as any National Policy Statement on airports; and
- have regard to the principles of Better Regulation and to consult with stakeholders, including airlines.

The reforms will be brought into effect through a licensing regime for airports similar to licences in place in certain other regulated sectors such as water and energy. Only airports that pass the designation criteria will require a licence which at the current time would encompass both Heathrow and Stansted. Licensed airports are expected to be subject to some form of price control arrangements and also obliged to consult stakeholders on future plans for investment in and the operation of an airport, to report on environmental performance, to comply with service standards and measures to hold an operator to account for the delivery of agreed investment outputs, including a possible sanctions regime.

The UK Government also decided that the Competition Commission should handle appeals of the CAA's decisions, rather than its current automatic advisory role in the price control process.

The reforms also include measures to promote the financial resilience of licensed airports. On 21 July 2010, the UK Government announced further details of this aspect of the reforms. The new legislation will include:

- a supplementary duty for the CAA to ensure that licence holders are able to finance their licensed activities;
- a minimum creditworthiness requirement for licensed airports;
- ring-fencing provisions similar to those in place in other regulated sectors but with initial derogations from some of those provisions where the costs of implementation 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 UK Government also confirmed:

- the earlier decision 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.

Legislation will be introduced to implement the reforms as soon as Parliamentary time allows.

AERODROME LICENCES

The Airport Operators are currently subject to aerodrome licensing, which requires the operator to demonstrate that it is competent to conduct aerodrome operations safely.

The CAA must grant a licence in respect of any aerodrome in the United Kingdom if it is satisfied that:

- the applicant is competent, having regard to its previous conduct and experience, equipment, organisation, staffing, maintenance and other arrangements, to secure that the aerodrome and the airspace within which its visual traffic pattern is normally contained are safe for use by aircraft; and
- the aerodrome is safe for use by aircraft, having regard in particular to the physical characteristics of the aerodrome and of its surroundings.

The Airport Operators have all relevant aerodrome licences for their airports.

PRINCIPLES OF ECONOMIC REGULATION

The CAA imposes conditions on the operators of designated airports to regulate the maximum amount they may levy in airport charges during a quinquennium.

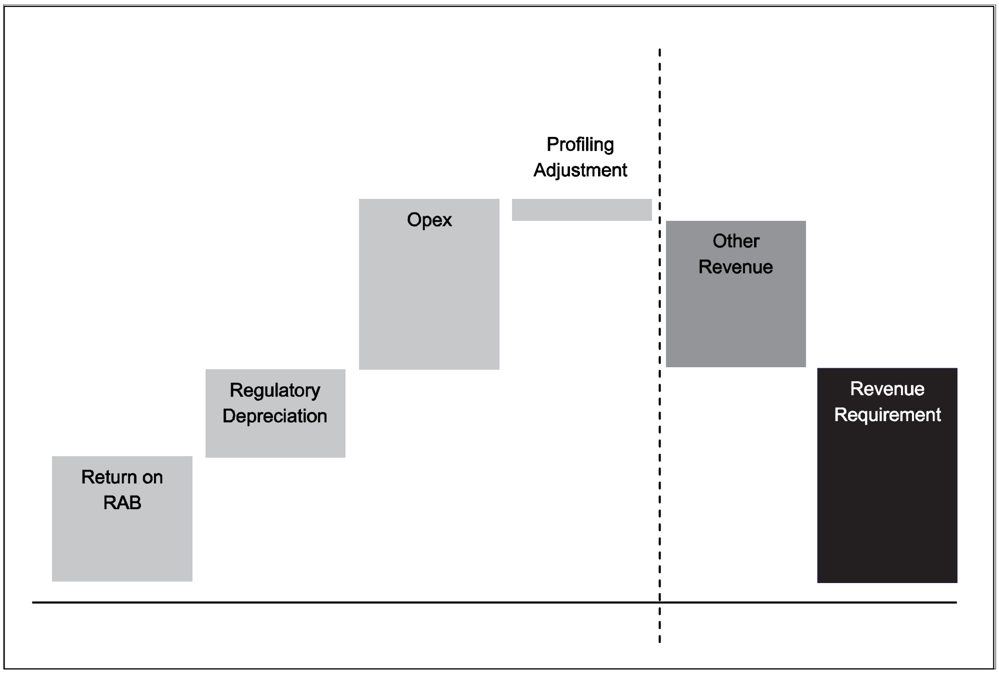
The Price Cap

The CAA uses a "single till" building block approach in setting the price caps. The single till takes into account revenue and costs from both aeronautical and non-aeronautical activities when setting the price caps for a quinquennium.

In setting the price cap, the CAA determines the regulated revenue requirement which is calculated as the sum of forecast operating expenditure less other revenue plus the required return (using the cost of capital determined by the CAA) on the forecast RAB (taking into account forecast capital expenditure), plus regulatory depreciation and plus or minus any profiling adjustment. The profiling adjustment is a mechanism for transferring revenue between quinquennia to smooth charges that would otherwise have occurred due to major investments. The resultant regulated revenue requirement is the total airport charges income.

This methodology for deriving the regulated revenue requirement can be represented by a simplified diagram:

Regulatory Building Blocks: Setting Price Control



The regulated revenue requirement is divided by forecast passenger numbers which, subject to a price profiling adjustment to smooth charges across the five years of a regulatory period, establishes the price cap expressed as a maximum allowable yield per passenger.

During each quinquennium, the maximum allowable yield changes from each 1 April by RPI +/- X based on RPI from the previous August.

When setting the price cap the CAA will take its own view of the scope for future efficiency savings, the appropriate level of capital expenditure and the rate of growth in demand for airport services.

While the price cap places a limit on the increase in the airport charges yield, the airport operator has the discretion on whether to price to the maximum permitted level. Therefore, the Airport Operators can choose to price charges below the cap. For example, if there is unused capacity, an Airport Operator may choose to set prices below the cap in order to stimulate demand.

The price control conditions set by the CAA include the following components for the maximum allowable yield:

- The **"S factor"** is an adjustment designed to recover in subsequent regulatory years within the relevant quinquennium additional security costs incurred as a result of new UK or European Commission security directives issued by or through the UK Government. For Q5, the Airport Operators are permitted to recover 90 per cent. of any such additional security costs incurred above thresholds of £16.5 million at Heathrow Airport and £3.6 million at Stansted Airport (nominal prices)

- The **"K factor"** is designed to correct for any under recovery (dilution) or over recovery (concentration) in airport charges compared to the annual maximum allowable yield per passenger. Under or over recoveries generally arise due to changes in traffic mix or average loads compared to those forecast at the time prices were set. For example, an increase in international departing passengers would result in yield concentration leading to an over recovery. Conversely, an increase in average loads would cause yield dilution. The K factor adjustment is applied to the maximum allowable yield calculation two years after the year in which it is incurred and therefore can be carried forward to the following quinquennium

- There is also a capital expenditure "trigger" term built into the formula for Heathrow Airport, with provision for the maximum allowable yield to be reduced if specified projects are not delivered on time. There are 24 trigger projects at Heathrow Airport, which relate to approximately 60 per cent. of its capital investment plan during Q5. The projects that could give rise to the most significant reductions in aeronautical income, if they did not meet the relevant milestones, include the completion of Terminal 5C, the Terminal 3 integrated baggage system and Phase 1 of the new Terminal 2. The maximum amount at risk at the beginning of Q5 was approximately £259 million with the majority of the amount at risk relating to the last two years of Q5

- At 30 June 2010, ten of the 24 capital investment trigger projects at Heathrow during the current regulatory period had been completed as a result of which the maximum amount at risk had reduced to approximately £199 million. Based on forecast project completion dates for all trigger projects as at 31 March 2010, it is expected that aeronautical income would be adjusted at Heathrow Airport by £40 million (in 2007/08 prices) over the regulatory period (approximately 1 per cent. of the CAA's forecast of aeronautical income in this period) to reflect re-phasing of investment compared to that anticipated by the CAA at the time of the March 2008 settlement. Of this amount, £1 million relates to the ten completed projects

- There are service quality rebate schemes at each of the Airports which set defined service standards for a range of passenger facilities, such as piers, lifts, escalators and people movers, as well as for airfield congestion and security queuing times. To the extent the Airport Operators do not meet the defined standards, they are required to provide rebates to airlines on the per-passenger charges, which in Q5 could amount to as much as 7 per cent. of airport charges. For Heathrow Airport only, the scheme includes a bonus element whereby Heathrow Airport is permitted to levy up to 2.24 per cent. higher airport charges to the extent it exceeds certain of the service quality standards

From 1 April 2008, ANS costs have been included within airport charges.

The Airport Operators recover the allowable yield through three types of airport fees and traffic charges:

- Fees per passenger are based on the number of passengers on board an aircraft, and are levied in respect of all departing passengers other than those who do not change aircraft and crew members working on the flight. There are three different charges for departing passengers, depending on route area: domestic, Republic of Ireland and international

- Landing charges are levied for substantially all aircraft (with certain diplomatic and other flights being exempted). These are calculated in accordance with the certified maximum take-off weight of the aircraft and are banded into categories for aircraft weighing less than and those weighing more than sixteen tonnes, which includes nearly all commercial aircraft. These charges are adjusted, where applicable, in accordance with each aircraft's noise-rating, its emissions and the time of day, with landing charges at Heathrow Airport being higher during peak traffic times than off-peak traffic times

- Aircraft parking charges are based on the duration of the ground stay and the aircraft weight. The time element is based on the total number of 15-minute charging periods (or part thereof) that an aircraft is parked on designated parking areas. There is also a peak morning period for charging in summer at Heathrow Airport on pier-served stands only

The maximum allowable yields set by the CAA apply to passenger flights only; they do not apply to non-passenger flights, for example, dedicated cargo flights. However, the price control conditions set by the CAA stipulate that the airports must charge non-passenger flights at the same rates as passenger flights. These flights incur the minimum departure charge which applies when the departing passenger charge falls below this minimum level. In the year ended 31 December 2009, there were 2,618 all-cargo air transport movements at Heathrow Airport and 10,392 at Stansted Airport.

Regulatory Asset Base (RAB)

As with other regulated utilities in the UK, the RAB acts as a unit of regulatory value and does not correspond to statutory asset values. The CAA has historically calculated a forecast of the value of the RAB at each airport over each year of the quinquennium. This has been included in the CAA's RAB forecasts made at the time of the quinquennial decisions. For Q5 at Stansted Airport, however, the CAA has decided not to specify a RAB. For more information, see *''—Stansted Price Regulation—The Stansted Airport Q5 Price Decision''*.

The closing RAB at each Airport for each year is taken to be the sum of the opening RAB, plus capital expenditure (unless disallowed by the CAA) plus an adjustment for RPI inflation less regulatory depreciation (including the pricing profile adjustment—see *''—The Price Cap''* above) and less proceeds of disposals at the Airport.

The CAA does not update the value of the RAB within each quinquennium. Each Airport has been required to submit regulatory accounts to the CAA at 31 March of each year, identifying, among other things, the value of the RAB. A decision as to whether the current period RAB has been appropriately updated during the current regulatory period is not made until the CAA sets the opening RAB for the next quinquennium as part of the price control review.

The RAB is independently verified by the airports' statutory auditors and included in the regulatory accounts which are provided annually to (but not approved by) the CAA.

Quinquennia

The CAA sets price caps for designated airports for a five year period, each known as a quinquennium. The current quinquennium, Q5, lasts from 1 April 2008 to 31 March 2013 for Heathrow and from 1 April 2009 to 31 March 2014 for Stansted.

Constructive Engagement

For the Q5 review, the CAA proposed a process of constructive engagement. This required airports and airlines to seek to agree some of the main inputs of the price control calculation. Discussions were held on airport vision, airport strategy, capital expenditure, traffic forecasts, capital expenditure efficiency, opportunities for operating cost efficiencies and non-regulated charges.

Statutory Reference to Competition Commission

Before the CAA can set new price controls, it is required under the Airports Act to make a statutory reference to the Competition Commission with regard to:

- the maximum amounts of airport charges that should be capable of being levied by the airport operator during the next quinquennium; and
- whether the airport operator has, at any time during the relevant period, pursued a course of conduct which has operated or might be expected to operate against the public interest in relation to:
  - any airport charges levied by the airport operator;
  - any operational activities carried on by the airport operator relating to the airport; and/or
  - the granting of a right by virtue of which any operational activities relating to the airport may be carried on by any other person or persons.

If the Competition Commission concludes that the airport operator's course of conduct has had, or might be expected to have, adverse effects on the public interest, the Competition Commission should also report on whether such adverse effects could be remedied or prevented by the imposition of any conditions in relation to the airport (or by modifying conditions already in force).

In setting the price caps the CAA must have regard to the Competition Commission's conclusions but is not bound by them. In relation to Competition Commission conclusions on public interest issues, the CAA shall impose new conditions or modify existing conditions under Section 46(2) of the Airports Act as it considers appropriate for the purposes of remedying or preventing the adverse effects specified in the Competition Commission's report, unless the Secretary of State directs the CAA otherwise, and in doing so shall have regard to the Competition Commission's suggested conditions or modifications.

The CAA's reference to the Competition Commission is currently a mandatory part of the regulatory review process for airports (unlike in other regulated industries). There is no opportunity for an airport operator to appeal the CAA's final decision to the Competition Commission. The only legal recourse for an airport operator in respect of the regulatory settlement is to seek judicial review.

As a result of the review of the framework of economic regulation (see *''Potential Future Changes to the Regulatory Framework''*), it is expected that the Competition Commission will no longer maintain its advisory role during the review of the price controls by the CAA and instead will act as the body of appeal for airport operators against the CAA's decisions.

Interim Reviews

The price cap is typically set for a quinquennium and cannot be changed during this period without the airport operator's consent. In other words, airlines and the CAA cannot force a reopening of the price cap determination during a regulatory period.

The CAA has indicated that it does not consider that financial distress, per se, would justify re-opening price controls, nor a scaling back or deferral of the investment programme that users effectively pay for through their charges. This means that in extreme circumstances the CAA would not necessarily increase the level of airport charges to assist an airport that was experiencing financial difficulties. The CAA has stated that to do otherwise would transfer risk from equity and debt investors to users, contrary to the CAA's policy approach. This was reaffirmed in the CAA's decision in respect of Heathrow Airport for Q5 published on 11 March 2008.

HEATHROW PRICE REGULATION

Key elements of CAA's Q5 Decision

The CAA's decision in respect of Heathrow Airport for Q5 was published on 11 March 2008. The key elements of the CAA's decision include:

- Maximum allowable yield increases based on RPI + 7.5 per cent. for each regulatory year during Q5;
- ''single till'' approach and continuity with current price control in terms of recognising commercial revenues and costs of the airport, the definition of airport charges and the principal design of the price cap;
- WACC (weighted average cost of capital, which is the CAA's assessment, using a notional capital structure, of the appropriate allowed blended cost of debt and return on equity to satisfy the requirements of capital providers over the quinquennium) of 6.2 per cent. pre-tax real;
- lower projected operating costs than had been forecast by Heathrow;
- confirmation of regulatory intent that risks associated with specific financial arrangements adopted by the airports fall on the owners and their investors rather than users;
- the ability of Heathrow to earn a return on the forecast Q5 expenditure of £639.0 million (in 2007/08 prices) associated with a third runway or mixed mode at Heathrow Airport and a mechanism to provide a degree of certainty that such expenditure would be ultimately included in the RAB; and
- a cross-period revenue profile adjustment (i.e. bringing revenues forward from Q5 to Q4) which was included in the Q4 regulatory settlement to avoid significant changes in prices that would otherwise have occurred due to major investments (in particular Terminal 5). The CAA has unwound this profile adjustment in the Q5 regulatory statement.

The CAA confirmed that, with the exception of £23 million of expenditure associated with Personal Rapid Transit, all the actual capital expenditure in Q4 has been included in the initial RAB for Q5.

However, the CAA made a number of RAB reductions related to the Terminal 5 hotel site (£10 million) and the Q3 pensions holiday (£135 million).

The CAA's conclusions in this respect reflect the view that the capital expenditure in Q4 had been efficiently incurred. This followed extensive work by BAA and the airlines to verify that this was the case.

SQR Scheme

The CAA also introduced a service quality rebate ("SQR") scheme with defined service targets for a range of services relating to passengers' experience such as security queuing times, departure lounge seat availability, cleanliness, way-finding, flight information, arrivals baggage reclaim availability, the availability of equipment such as lifts, escalators and people movers and the availability of and access to infrastructure such as piers, jetties and stands. The service standards cover other areas such as airfield congestion.

Service standards include that

- departing passengers should pass through security within 5 minutes 95 per cent. of the time and within 10 minutes 99 per cent of the time and transfer passengers should pass through security within 10 minutes 95 per cent. of the time; and
- arrivals baggage reclaim and other equipment shall be available at least 99 per cent. of the time.

To the extent the airports do not achieve the defined standards, rebates to airlines are required. The maximum total revenue at risk during the quinquennium is 7 per cent. of the total airport charges. Heathrow can achieve a 2.24 per cent. revenue upside in the form of a bonus if it exceeds certain SQR targets.

As a proportion of total airport charges, rebates are up to a total of approximately 2.6 per cent. for departure lounge seat availability, cleanliness, way-finding, flight information, arrivals baggage reclaim and equipment availability, 1.2 per cent. for infrastructure availability and access, 1.1 per cent. for passenger security queuing times and 1.0 per cent. for airfield congestion.

In the two years since the current SQR scheme was introduced up to 31 March 2010, Heathrow incurred total rebates of £13 million (less than 1 per cent. of aeronautical income over the period), with lower rebates in the second year than the first year.

Other Relevant Points coming out of the Q5 Settlement

The CAA provided for an independent mid Q5 assessment of progress in achieving capital expenditure efficiency at Heathrow and its performance in consulting with users on airport development and investment. The assessment commenced in April 2010 and is expected to lead to the production of a report by December 2010.

STANSTED PRICE REGULATION

Recent History

In December 2006, the CAA proposed de-designation for Stansted Airport and extended Q4 by one year in order to allow time for the UK Government to decide the issue. The UK Government decided to retain Stansted Airport's status as a designated airport. The CAA therefore set a price control for the period from 1 April 2009 to 31 March 2014 (the "Stansted Q5").

The Stansted Airport Q5 Decision

The CAA published its decision in March 2009 taking into account the Competition Commission's recommendations published in October 2008.

The main features of the CAA's decision are as follows:

- maximum aeronautical charges of £6.53 per passenger (in 2009/10 prices) for two years, subsequently rising at RPI plus 1.63 per cent. per annum for the three years 2011/12 to 2013/14;
- the airport should implement an enhanced consultation process for capital projects; and
- the introduction of a service quality rebate scheme, under which Stansted Airport is required to provide rebates to airlines of up to 7 per cent. of airport charges where the airport's service performance falls short of the defined standards; in the first year of the scheme ended 31 March 2010 total rebates were less than £1 million.

The CAA stated that there was a dual rationale for the price profile set out in the decision document. In the CAA's view the price profile is the product of both the standard "building block" approach to setting prices carried out by the Competition Commission and the CAA's assessment that the price control profile is consistent with the development of more effective airport competition over time.

Therefore, the CAA did not establish an opening RAB for the Stansted Q5, and it signalled that there should be no presumption that a RAB-based approach would be used in any future modification of price controls at Stansted Airport. In its recommendations to the CAA, the Competition Commission included in Stansted's RAB all capital expenditure incurred during Q4 except £37 million relating to Stansted Generation 2.

COMPETITION IN THE AIR TRANSPORT INDUSTRY

Competition Commission Market Investigation

On 30 June 2006, the Office of Fair Trading (the "**OFT**") announced that it was launching a market study under the Enterprise Act 2002 of the UK airports market. Having carried out this market study and following consultation, the OFT in March 2007 formally made a reference to the Competition Commission for an investigation into the supply of airport services by BAA within the United Kingdom under Section 131 of the Enterprise Act 2002. The OFT reference identified competition issues resulting, *inter alia*, from:

i. BAA's ownership of Heathrow Airport, Stansted Airport, Gatwick Airport (subsequently sold by BAA in December 2009) in addition to Edinburgh and Glasgow airports;

ii. development and planning restrictions; and

iii. the nature of the regulatory framework.

Competition Commission Final Decision

In March 2009, the Competition Commission ("**CC**") published its final decision on its investigation. The decision covered both structural and behavioural remedies including requiring the divestiture of Gatwick Airport and Stansted Airport as well as recommendations relating to regulation and policy.

On 18 May 2009, BAA applied to the Competition Appeal Tribunal ("**CAT**") to appeal the CC's findings.

On 21 December 2009, the CAT released its judgment in BAA's appeal against the CC decision requiring BAA to dispose of Gatwick and Stansted as well as one of Edinburgh and Glasgow airports. In the judgment, the CAT unanimously concluded that, in the light of the material facts, a fair-minded and informed observer would conclude that there was a real possibility of bias affecting the deliberations, thinking and ultimate outcome of the CC investigation of the supply of airport services by BAA in the UK. The CAT also concluded that BAA had not waived its right to object to the apparent bias.

On 25 February 2010, the CAT ordered that the CC's decisions be quashed and that the matter be referred back to the CC to reconsider. On 26 March 2010, the Court of Appeal (the "**CoA**") granted the CC leave to appeal against the CAT's findings in relation to apparent bias.

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.

DIRECTORS AND SENIOR MANAGEMENT

BAA Limited provides various central support services to its subsidiaries to assist with the running and management of the airports operated by such subsidiaries, in return for which it receives a fee. These services include IT, health and safety, security, research, airport planning and marketing, finance, human resources, property management, regulatory services, corporate and public affairs and legal support.

MANAGEMENT AND DIRECTORS—BAA LIMITED

The current directors and secretary of BAA Limited are set out below.

Chief Executive Officer—Colin Matthews

Colin Matthews was appointed Chief Executive Officer in April 2008. Prior to this he was Chief Executive of Severn Trent, the UK water group which was radically restructured under his leadership. He previously headed the business services group Hays as chief executive and is a former director of technical operations at British Airways.

Chief Financial Officer—José Leo

José Leo was appointed Chief Financial Officer of BAA in September 2006. He was previously Group Finance Director of Amey plc, a leading provider of integrated business and infrastructure services to the public and private sector in the United Kingdom and a subsidiary of Ferrovial and worked closely with central and local government to develop major projects in the education, health, transport and defence sectors. José was also formerly Managing Director of Ferrovial Telecomunicaciones, part of the Ferrovial Group, and responsible for managing the Ferrovial investments in the telecommunication sector. He was also a Director of the Spanish telecommunication operators ONO and UNI2. Prior to that, he was Chief Finance Officer and Business Development Manager at the Spanish construction company Agroman.

The business address of the directors listed above is The Compass Centre, Nelson Road, Hounslow TW6 2GW.

Non-Executive Directors

The Non-Executive Directors of BAA are Sir Nigel Rudd, Inigo Meiras, Nicolás Villén, Stuart Baldwin, Richard Drouin, Renaud Faucher, Wilfried E. Kaffenberger, Ernesto Lopez Mozo, Santiago Olivares and Lord Stevens.

Company Secretary

BAA's company secretary is Carol Hui.

Directors—BAA (SH) plc

The directors of BAA (SH) plc are José Leo and Frederick Maroudas. The business address of the directors is The Compass Centre, Nelson Road, Hounslow TW6 2GW.

No conflicts of interest

As at the date of this Prospectus, there are no potential conflicts of interest between any duties owed to the Issuer and the private interests or any other duties of any of the directors of the Issuer.

DESCRIPTION OF OTHER INDEBTEDNESS

NEW SH FACILITY

On 26 October 2010, the Issuer and BAA (DSH) Limited entered into the New SH Facility between (among others) a syndicate of banks as lenders and The Royal Bank of Scotland plc as agent and Deutsche Trustee Company Limited as security agent, for the Issuer to borrow £250 million across two tranches of £75 million ("**Tranche A**") and £175 million ("**Tranche B**"), respectively. The New SH Facility is secured by fixed and floating security over substantially all of the assets of the Issuer and of BAA (DSH) Limited (including the issued share capital of the Issuer and Security Parent) as described below under "—Security". The New SH Facility will be available to refinance in part the Existing SH Facility, conditional on, among other things, issuing the Notes and customary know-your-client procedures.

Repayments and Prepayments

Tranche A of the New SH Facility will terminate one year after the first utilisation date, while Tranche B will terminate five years after the first utilisation date. Any amount still outstanding under each facility at the relevant termination date will be due in full immediately on that date.

Subject to certain conditions, the Issuer may voluntarily prepay and/or permanently cancel all or part (being a minimum amount of £10,000,000) of the loans or available commitments (as appropriate) under the New SH Facility by giving three business days' prior notice to the agent. Amounts under Tranche B may only be prepaid if Tranche A has been or will be prepaid in full at the same time. Tranche B may not be cancelled unless there is no available commitment under Tranche A. Amounts prepaid may not be reborrowed.

In addition to voluntary prepayments, the New SH Facility requires mandatory cancellation and, if applicable, prepayment (or, as the case may be, an offer to do so) in full or in part in certain circumstances, including:

- with respect to any lender, if it is or will become unlawful for such lender to perform any of its obligations under the New SH Facility;
- upon the occurrence of a sale of the whole or substantially all of the Group's business and assets; and
- in relation to Tranche A only, receipt of cash proceeds of any capital markets issuance in excess of an aggregate amount of £250,000,000, including from the Notes described herein.

Upon a change of control, the Issuer must notify the agent of such change of control. If there is a change of control, each lender may elect to cancel its commitments immediately and declare all amounts owing to it under the New SH Facility due and payable immediately.

Interest and Commitment Fees

Loans under the New SH Facility bear interest at a rate per annum equal to LIBOR plus the applicable margin and any mandatory cost.

The applicable margin means 4.25 per cent. per annum in respect of Tranche A and 5.00 per cent. per annum in respect of Tranche B.

A commitment fee is payable on the available but undrawn amount of the New SH Facility.

Security

Both the Issuer and BAA (DSH) Limited will enter into debentures granting fixed and floating security over substantially all of their assets and undertaking (including, without limitation, a first ranking charge of all the issued share capital of Security Parent and the Issuer, respectively) to secure the obligations of the Issuer under the New SH Facility. The holders of the Notes and the hedge counterparties will also benefit from this security package as will any additional third party creditor which becomes a Secured Party in accordance with the terms of the Intercreditor Agreement. The security securing the New SH Facility will rank and secure the New SH Facility, the Notes, any other Bond Liabilities, any other Credit Facilities Liabilities and any Hedging Liabilities (as those terms are defined in "*Terms and Conditions of the Notes*") *pari passu* pursuant to the terms of the Intercreditor Agreement (see "—Intercreditor Agreement").

Representations

The New SH Facility will include standard representations and warranties, which will include, amongst others, valid power and authority to enter into the agreement, no default under the new revolving credit agreement, compliance with applicable laws, no misleading information and that the Issuer has good title to its assets.

Financial Covenants

In addition to the general covenants described below, the New SH Facility contains a financial covenant requiring the Group to maintain (i) a Group RAR (as defined in "*Terms and Conditions of the Notes*") not greater than 90 per cent. in respect of each 31 December after the New SH Facility is entered into; and (ii) a Group ICR (as defined in "*Terms and Conditions of the Notes*") not less than 1.0 in respect of each period of 12 months ended 31 December after the New SH Facility is entered into. The Issuer will be able to cure any breaches of these financial covenants up to twice (in non-consecutive years) during the life of the New SH Facility.

General Covenants

The New SH Facility contains positive and negative covenants. The restrictions on investments, negative pledge, disposals, affiliate transactions, indebtedness, dividends and share capital will (save for certain agreed deviations) follow the relevant provisions of the Notes, as described in more detail in "Terms and Conditions of the Notes".

Events of Default

In addition, the New SH Facility provides events of default, including, among others, the following:

- non payment, subject to a 3 business day grace period for administrative and technical errors;
- breach of financial covenants with no grace period;
- breach of other obligations, subject to a 20 business day grace period;
- misrepresentation, subject to a 20 business day grace period;
- cross default;
- insolvency, insolvency proceedings and creditor process, subject (where relevant) to a 28 day grace period;
- unlawfulness and invalidity;
- cessation of business;
- termination of licence;
- audit qualification;
- repudiation and rescission of agreement; and
- litigation and creditor's process.

Upon the occurrence of an event of default under the New SH Facility, the agent may, among other things, declare all part of the loans and all other amounts payable thereunder to be immediately due and payable or to be payable on demand.

INTERCREDITOR AGREEMENT

General

In connection with the issuance of the Notes, the Issuer and BAA (DSH) Limited have entered into an intercreditor agreement (the "**Intercreditor Agreement**") with, among others, the security agent, the agent under the New SH Facility, the Trustee and any hedging creditors.

Under the Intercreditor Agreement, the term "Secured Parties" is defined to mean the security agent, the agent, arrangers and lenders under the New SH Facility, the Trustee on behalf of the holders of the Notes, any hedging creditor, any future secured creditor which has acceded as a party to the Intercreditor Agreement in the relevant capacity and any receiver or delegate appointed by the security agent pursuant to any of the security documents.

The Intercreditor Agreement is governed by English law.

The Intercreditor Agreement includes terms that establish:

- the ranking and priority of the liabilities owed to the lenders under the New SH Facility, to the Trustee on behalf of the holders of the Notes, to the hedging creditors and to BAA (DSH) Limited with respect to liabilities owed by the Issuer to BAA (DSH) Limited ("**Parent Liabilities**");
- the basis on which the security agent is appointed to hold the collateral created by the security documents;
- under what circumstances the security documents may be enforced;
- the application of proceeds from an enforcement in respect of the collateral; and
- under which circumstances the collateral may be shared on a *pari passu* basis with additional third party creditors.

Priority of Secured Obligations

The Intercreditor Agreement purports to rank (in right and priority of payment) the debt held by the Secured Parties under the New SH Facility, the Trust Deed and the hedging agreements (the "**Secured Obligations**"), together with the collateral that secures such Secured Obligations, *pari passu* without any preference between any such class of Secured Obligations.

Incremental and Refinancing Debt

The Intercreditor Agreement permits certain additional secured debt, including any debt which is raised pursuant to additional credit facilities and additional bonds or notes issued by the Issuer and which are permitted under the terms of the New SH Facility and the Trust Deed to share in the collateral and rank *pari passu* alongside the other Secured Obligations.

Prohibited Actions

The Intercreditor Agreement does not limit the making of:

- payments, distributions or other actions in respect of the Secured Obligations under the New SH Facility;
- payments (including in respect of scheduled interest and principal) in respect of the Secured Obligations under the Trust Deed; and
- payments in respect of the Secured Obligations under the hedging agreements (subject to certain restrictions as set out in the Intercreditor Agreement),

in each case, in accordance with terms of the documents governing the relevant class of Secured Obligations.

Following the occurrence of certain acceleration and/or insolvency events all payments in respect of Secured Obligations must be applied in accordance with the payment waterfall set out in the Intercreditor Agreement.

The Intercreditor Agreement prohibits Parent Liabilities from receiving the benefit of any security, guarantee, indemnity or other assurance against loss and, prior to the final discharge of all obligations under the Secured Obligations or an insolvency event, will prohibit the taking of any enforcement action by the Parent with respect to Parent Liabilities.

Enforcement of Security Documents

The Intercreditor Agreement provides that only the security agent will have the right to enforce the security documents.

Under the Intercreditor Agreement and subject to the security having become enforceable in accordance with its terms, the security agent shall determine the nature, management, timing and control of any enforcement of the security documents on the instructions of the Secured Parties who, in the aggregate, hold more than 50 per cent. of the amounts under the New SH Facility (and certain additional credit facilities), any hedging arrangements and the Notes then outstanding (including certain additional notes) (the "**Majority Primary Creditors**"). In the absence of such instructions, the security agent shall act as it sees fit.

The security agent will not be liable in any respect to any Secured Party or any other person for exercising (or failing to exercise) any of its rights, powers or discretions in relation to the security documents. The security agent may disregard any instructions to enforce any security if those instructions are inconsistent with the Intercreditor Agreement.

Snooze/Lose

The Intercreditor Agreement provides that if in relation to a request for a consent, to participate in a vote or to approve any other action or provide any confirmation or notification under the Intercreditor Agreement, the agent under the New SH Facility, the Trustee or a hedge counterparty (each, for itself and on behalf of the creditors it represents) fails to respond to that request within 20 business days of the request being made, the consent or vote of such party (and the aggregate principal amount of indebtedness represented by such party) shall be disregarded for purposes of ascertaining whether an agreement has been obtained, a vote carried or another action approved, and in, the case of any confirmation or notification, that confirmation or notification will be deemed to have been given.

Enforcement Proceeds

The Intercreditor Agreement regulates the order in which amounts received by the security agent (including upon enforcement of the collateral) are distributed to the Secured Parties.

Under the Intercreditor Agreement, the parties agree that, following any enforcement of the security documents, the claims of the security agent, any receiver or delegate appointed by the security agent pursuant to any of the security documents will have first ranking claims (without any priority between themselves), followed by the costs and expenses of any Secured Party (including the Trustee and the agents) incurred in realisation or enforcement of the security documents, and then followed by claims in respect of the obligations under the New SH Facility, the obligations under the Trust Deed, the obligations of any hedging creditor and the obligations under any other additional bonds or additional credit facilities permitted under the Trust Deed and the Intercreditor Agreement ranking *pari passu* and *pro rata* according to the respective amounts among themselves, and finally followed by any claim which the Security Agent is obliged to pay in priority to the Issuer or BAA (DSH) Limited. The balance (if any) will be paid to the Issuer and BAA (DSH) Limited. The security agent will apply amounts received following enforcement, including recoveries from enforcement, in accordance with this priority.

The Intercreditor Agreement contains customary turnover provisions.

Appointment of Security Agent

The Intercreditor Agreement sets out the terms on which the security agent holds the benefit of the security documents.

The security agent shall not be obliged to take any action (including with respect to taking enforcement proceedings or enforcing the security documents) unless indemnified, secured or prepaid to its satisfaction. The security agent shall be entitled to accept deposits from, lend money to and generally engage in any kind of banking or other business with either the Issuer or BAA (DSH) Limited.

Unless acting on the instruction of the Majority Primary Creditors, or exercising certain specific discretions granted to it under the Intercreditor Agreement, in exercising any discretion to exercise a right, power or authority under the Intercreditor Agreement, the security agent shall do so having regard to the interests of all the Secured Parties.

The security agent is not obliged to insure any collateral, or require any other person to maintain such insurance, and will not be responsible for any loss, expense or liability which may be suffered as a result of the lack of, or inadequacy of, such insurance. Each Secured Party (other than the security agent) is responsible for undertaking its own independent appraisal and investigation of all risks arising under or in connection with the Intercreditor Agreement and related documents, including in respect of the financial condition, status and nature of each member of the Group and the title of any security provider to the collateral. Neither the security agent nor any receiver or delegate shall be liable for (among other things) validity, effectiveness, adequacy or enforceability of the collateral.

Release of Transaction Security

The Intercreditor Agreement provides that the security agent may release the collateral (and the obligations of the obligors) under certain conditions, including in connection with the enforcement of the security documents or in connection with the sale or disposal of assets permitted by each relevant financing document.

Common Security

None of the lenders under the New SH Facility, the Trustee on behalf of the holders of the Notes or the hedging creditors may take the benefit of any security or guarantees in respect of their respective Secured Obligations other than under the relevant financing documents and the security documents.

Amendments

The security agent, the Issuer and BAA (DSH) Limited each has the right to make amendments which are minor or of a technical nature to the Intercreditor Agreement without any further consent from the Secured Parties. Other amendments or waivers of the Intercreditor Agreement may be made only with the consent of the agent under the New SH Facility, the Trustee as representative of the holders of the Notes, the trustee or agent under any additional bonds or additional credit facilities permitted by the Trust Deed and the Intercreditor Agreement, the security agent and BAA (DSH) Limited, except that any amendment, waiver or consent that only affects the rights and obligations of certain parties (and which could not reasonably be expected to be adverse to the interests of the other parties) requires the consent only of the parties so affected. Under the Intercreditor Agreement, the security agent may—if so instructed by the Majority Primary Creditors, and if BAA (DSH) Limited consents—amend the terms of, waive requirements of or grant consents under any of the relevant security documents, provided that for releases of security, claims or liabilities or any consents given by the security agent in accordance with the Intercreditor Agreement, any amendment, waiver or consent related to the security documents which affects the nature or scope of the security or the manner in which the proceeds of enforcement of the security are distributed requires the prior consent of the Secured Parties.

SENIOR BORROWER GROUP INDEBTEDNESS

As at 30 September 2010, the Senior Borrower Group had indebtedness totalling £9,705 million under a refinancing facility (the "**Refinancing Facility**"), a capital expenditure facility (the "**Capex Facility**"), a Class B term loan facility (the "**Term Loan Facility**"), a revolving working capital facility, a liquidity facility (the "**Senior Borrower Liquidity Facility**"), term loans from the European Investment Bank (the "**EIB Facilities**") (together, the "**Authorised Senior Credit Facilities**" and each an "**Authorised Senior Credit Facility**") and borrower loan agreements between the Airport Operators and BAA Funding Limited, which correspond in their terms to each series of bonds (the "**Senior Bonds**") issued by BAA Funding Limited (the "**Borrower Loan Agreements**" and, together with the Authorised Senior Credit Facilities, the "**Senior Borrower Group Indebtedness**"). The Senior Borrower Group can issue senior ranking debt ("**Senior Debt**") and junior ranking debt ("**Junior Debt**").

The Senior Borrower Group Indebtedness is secured by substantially all the assets of each of the members of the Senior Borrower Group (the "**Senior Obligors**" and each a "**Senior Obligor**") and guarantees by each Senior Obligor in respect of each other's obligations, in favour of the lenders under the Senior Borrower Group Indebtedness (the "**Senior Borrower Secured Creditors**"). In addition, BAA Funding Limited as issuer of the Senior Bonds provided security over substantially all of its assets in favour of the trustee under the Senior Bonds and holders of the Senior Bonds.

A common terms agreement (the "**CTA**") sets out the common warranties, covenants, trigger events or loan events of default applicable to the Senior Borrower Group Indebtedness. The Senior Borrower Secured Creditors have also entered into intercreditor arrangements, contained in a security trust and intercreditor deed (the "**STID**"). These are described below.

If the Senior Borrower Group fails to make payments or comply with the covenants in respect of its financing, this may result in a default under the Senior Borrower Group financing and the insolvency of the Senior Borrower Group. The Notes will be subordinated to all liabilities of the Senior Borrower Group and so in such circumstances the Issuer's ability to make payments under the Notes would be severely restricted and there might be no returns in relation to the Notes.

See "*Selected Definitions*" for definitions of terms used in this section.

CTA

General

The CTA sets out certain representations, covenants, Trigger Events and Loan Events of Default which apply to each Authorised Senior Credit Facility including the Borrower Loan Agreements. A copy of the CTA is available on BAA's website.

Covenants

The covenants are positive, negative, informational and financial in nature. They include an undertaking by BAA Airports Limited as the agent of the Senior Borrower Group (the "**Senior Borrower Group Agent**") to provide consolidated audited financial statements of the Senior Borrower Group and BAA Funding Limited for each financial year and consolidated, unaudited financial information for the financial half-year.

The Senior Borrower Group Agent must also supply an Investor Report by 30 June and 31 December each year which includes a general update on the Senior Borrower Group, regulatory and business developments and capital expenditure.

Each Senior Obligor has undertaken not to incur any Financial Indebtedness other than Permitted Financial Indebtedness. The incurrence of additional Senior Debt or Junior Debt is subject to certain conditions including that the Senior RAR, the ratio of Senior Debt to the total RAB must be less than 0.725 and the Junior RAR, the ratio of Junior Debt to the total RAB must be less than 0.90 (as modified by the Refinancing Facility Agreement see below), in each case calculated taking account of the proposed additional Financial Indebtedness. In addition, there are provisions which restrict the amount of Financial Indebtedness which can fall due (a) within any 24-month period to 30 per cent. of total RAB and (b) within any Five Year Period to 50 per cent. of total RAB.

The Senior Borrowers are able to sell all or part of an Airport subject to the application of proceeds to stay within prescribed financial ratios and to repayment of the Refinancing Facility as described below. Heathrow Airport cannot be sold without approval from the requisite majority of qualifying Senior Borrower Secured Creditors. If a Senior Borrower is forced to sell an Airport, and the net proceeds are less than required to comply with the financial ratios, a Trigger Event will occur, the consequences of which are set out below.

In addition to the restrictions on financial indebtedness and disposals, the CTA also contains a number of covenants which regulate the Senior Obligors' activities including, among others:

(1) limitations on non-permitted business;

(2) limitations on joint ventures;

(3) a negative pledge; and

(4) a requirement to comply with specified insurance and outsourcing policies.

Trigger Events

The CTA sets out certain trigger events including:

(1) any breach of the following financial ratios:

   (A) the Senior RAR as at any Relevant Date prior to 1 April 2018 is, or is estimated to be, more than 0.70 and thereafter is, or is estimated to be, more than 0.725;

   (B) the Junior RAR as at any Relevant Date is, or is estimated to be, more than 0.85;

   (C) the Senior ICR for each Relevant Period is, or is estimated to be, less than 1.40; or

   (D) the Junior ICR for each Relevant Period is, or is estimated to be, less than 1.20;

(2) credit rating downgrades on the Senior Bonds;

(4) the commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) relating to the business of any Senior Obligor if such legislation could (if enacted) reasonably be expected to have a Material Adverse Effect;

(5) forecast Capital Expenditure over the 12 month period following a Calculation Date exceeds the aggregate of undrawn Capex Facilities, cash and Projected Excess Cashflow Before Capex over such 12-month period;

(6) the amount available under the Issuer's Liquidity Facilities/any cash liquidity reserve is less than the estimated interest and equivalent finance charges for (a) the 12-month period following a Calculation Date in respect of Issuer Senior Debt and (b) the six-month period following a Calculation Date in respect of Issuer Junior Debt;

(7) the issue of any compliance or enforcement order by any Regulator which would reasonably be expected to have a Material Adverse Effect; or

(8) the issue of a termination notice or a notice of any proposed or actual modification in respect of any licence by a Regulator which, if implemented, would reasonably be expected to have a Material Adverse Effect.

The occurrence of a Trigger Event gives rise to various consequences including a block on Restricted Payments, the preparation of remedial plans and a termination plan in respect of the Shared Services Agreement, and a right for the security trustee under the Senior Borrower Group Indebtedness to request to participate in discussions with the Regulator.

Loan Events of Default

The CTA contains a number of Loan Events of Default (subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods) including:

(1) non-payment by a Senior Obligor of amounts payable under the Finance Documents;

(2) a breach of the following Financial Ratios:

  (A) if the Senior RAR as stated in the Compliance Certificate produced in respect of the Reporting Date falling in June in respect of 31 December of the preceding Financial Year is more than 0.925; and/or

  (B) if the Average Senior ICR as stated in the Compliance Certificate produced in respect of the Reporting Date falling in June on or after the Reporting Date in June 2012 is less than 1.05;

(3) non-compliance with any term of any covenant or undertaking in any Finance Document;

(4) a representation made or repeated by a Senior Obligor in any Finance Document being incorrect or misleading in any material respect when made or deemed to be repeated;

(5) the insolvency of a Senior Obligor;

(6) it becoming unlawful for any Senior Obligor to perform its obligations under any Transaction Document;

(7) certain changes in law; or

(8) the occurrence of an event of default under the Senior Bonds.

In respect of each Loan Event of Default requiring any action or discretion on the part of the relevant creditor, the security trustee under the Senior Borrower Group Indebtedness will act in accordance with the relevant provisions of the STID.

Hedging Policy

The Senior Borrowers are subject to a Hedging Policy which is set out at Schedule 5 of the CTA. The Senior Borrowers have entered into and in the future may enter into various interest rate, inflation-linked and currency hedging transactions in conformity with the Hedging Policy.

Security Trust And Intercreditor Deed ("STID")

The intercreditor arrangements among the Senior Borrower Secured Creditors of the Senior Borrower Group (the "**Senior Intercreditor Arrangements**") are contained in the STID. Creditors of debt not secured by the collateral securing the liabilities under the CTA are not and will not become parties to the Senior Intercreditor Arrangements and will not be subject to their terms. However, the aggregate amount of such Financial Indebtedness is restricted under the CTA.

The purpose of the Senior Intercreditor Arrangements is to regulate, among other things: (i) the claims of the Senior Borrower Secured Creditors and their ranking in point of payment after the delivery of a Loan Enforcement Notice; (ii) the exercise, acceleration and enforcement of rights by the Senior Borrower Secured Creditors; (iii) the rights of the Senior Borrower Secured Creditors to instruct the security trustee under the Senior Borrower Group Indebtedness; and (iv) the giving of consents and waivers and the making of modifications to the CTA, the Security Documents, the

Shared Services Agreement, the STID, the Master Definitions Agreement and the Tax Deed of Covenant (the "**Common Documents**"). The Senior Intercreditor Arrangements provide for the subordination and postponement of all claims in respect of Financial Indebtedness of any BAA Group company or Affiliate thereof that is not a member of the Senior Borrower Group and following delivery of a Loan Acceleration Notice, payments under the Shared Services Agreement and certain other contracts otherwise entered into in accordance with the CTA.

As regards the giving of consents and waivers and the making of modifications in relation to the Common Documents, the STID contains provisions which enable the security trustee under the Senior Borrower Group Indebtedness to give or permit the making thereof in certain circumstances (principally where it determines that the consent, waiver or modification will not be materially prejudicial to Senior Borrower Secured Creditors). Where the security trustee under the Senior Borrower Group Indebtedness is not willing or able to exercise its discretion, approval from relevant qualifying Senior Borrower Secured Creditors is required. Consents, waivers or modifications may, depending on their nature, constitute Ordinary Voting Matters or Extraordinary Voting Matters. In addition, they may constitute an Entrenched Right in respect of one or more Senior Borrower Secured Creditors, with the result that the consent of such Senior Borrower Secured Creditors will need to be obtained. Voting is effected on a "one pound equals one vote" basis, except that, in the case of bank debt, the entirety of the relevant outstanding bank debt will vote in accordance with the instructions given by the relevant majority of the bank lenders in respect of such debt.

There are also provisions which enable instructions to be given to the security trustee under the Senior Borrower Group Indebtedness by the required percentage of Qualifying Senior Borrower Secured Creditors in relation to a number of matters, including whether to enforce the security following a Loan Event of Default and whether to deliver a Loan Acceleration Notice.

With exceptions, the Senior Borrowers are generally free to pay debts as they fall due, whether they be in respect of Senior Debt or Junior Debt, or in respect of unsecured claims. There are, however, priorities of payments which regulate payments made after the delivery of a Loan Enforcement Notice and after the delivery of a Loan Acceleration Notice. In addition, the making of certain payments following a Loan Event of Default is regulated.

TERMS AND CONDITIONS OF THE NOTES

Some of the definitions in the terms and conditions of the Notes refer to definitions in the Common Terms Agreement and the Master Definitions Agreement (each as defined below). The relevant definitions from the Common Terms Agreement and the Master Definitions Agreement may be found in "Selected Definitions" in this Prospectus.

The following are the terms and conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):

The £325 million 7.125 per cent. Senior Secured Notes due 2017 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 19 (*Further Issues*) and forming a single series with the Notes) of BAA (SH) PLC (the "**Issuer**") are constituted by a Trust Deed dated 9 November 2010 (the "**Trust Deed**") made between the Issuer, BAA (DSH) Limited (the "**Parent**") and Deutsche Trustee Company Limited (the "**Trustee**") as trustee for the holders of the Notes (the "**Noteholders**") and the holders of the interest coupons appertaining to the Notes (the "**Couponholders**" and the "**Coupons**", respectively). The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 25 October 2010. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Agency Agreement dated 9 November 2010 (the "**Agency Agreement**") made between the Issuer, Deutsche Bank AG, London Branch, as principal paying agent (the "**Principal Paying Agent**" and any other paying agents appointed from time to time pursuant to the terms of the Agency Agreement, the "**Paying Agents**", which expression shall include the Principal Paying Agent) and the Trustee, the Intercreditor Agreement (as defined below), the Common Terms Agreement (as defined below) and the Master Definitions Agreement (as defined below) are available for inspection during normal business hours by the Noteholders and the Couponholders at the registered office of the Trustee, being at the time of issue of the Notes at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Intercreditor Agreement applicable to them.

Terms used in these Conditions but not defined in the Condition in which they first appear shall have the meanings attributed to them in Condition 21 (*Definitions*), unless otherwise stated.

1. FORM, DENOMINATION AND TITLE

(a) The Notes are in bearer form, serially numbered, in the denominations of £50,000 and integral multiples of £1,000 in excess thereof, up to and including £99,000, each with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination.

(b) Title to the Notes and to the Coupons will pass by delivery.

(c) The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note and the bearer of any Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS

The Notes and the Coupons constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

3. SECURITY

(a) *Security.* Under the Transaction Security Documents, the Transaction Security has been granted by the Parent and the Issuer to secure the payment when due of the Issuer's payment obligations under the Notes and the Trust Deed. On the date of the Trust Deed, the Transaction Security consists of (a) on a first-priority basis, charges over all of the share capital of the Issuer held by the Parent and the Issuer's holding of shares in the share capital of BAA (SP) Limited, and (b) on a first-priority basis, charges over substantially all the other tangible and intangible assets of the Parent and the Issuer.

The Transaction Security securing the Notes will rank and secure the Notes, any other Bond Liabilities, the Credit Facilities Liabilities and the Hedging Liabilities *pari passu* pursuant to the terms of the Intercreditor Agreement.

Subject to the terms of the Intercreditor Agreement and compliance with these Conditions, including compliance with Conditions 4.6 (*Negative Pledge*) and 4.9 (*Further Assurances*) and the provisions of the Trust Deed, the Issuer is permitted to extend the benefit of the Transaction Security to holders of certain future Financial Indebtedness that may be incurred, including any Additional Notes permitted under these Conditions and the Trust Deed.

The Intercreditor Agreement also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security will be shared equally and rateably in satisfaction of the Credit Facilities Liabilities, the Hedging Liabilities and the Bond Liabilities.

Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, shall be deemed (i) to have authorised the Trustee and the Security Agent to enter into the Transaction Security Documents and the Intercreditor Agreement and (ii) to be bound thereby.

Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Transaction Security Documents. The Noteholders may only act through the Trustee or the Security Agent, as applicable. Subject to Conditions 12 (*Enforcement of Security*) and 13 (*Noteholder Action*) and the terms of the Intercreditor Agreement, the Security Agent will agree to any release of the security interests created by the Transaction Security Documents that is in accordance with the these Conditions and the Trust Deed without requiring any consent of the Noteholders. The Trustee has the ability to direct the Security Agent to commence enforcement action under the Transaction Security Documents, subject to the terms of the Intercreditor Agreement. The enforcement of the Transaction Security provided for under the Transaction Security Documents is subject to the Intercreditor Agreement.

Subject to the terms of the Transaction Security Documents and the Intercreditor Agreement, the Issuer is entitled (without consent of the Trustee or the Noteholders) to exercise any and all voting rights and to receive and retain any and all cash dividends, share dividends, liquidating dividends, non-cash dividends, shares resulting from share splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Transaction Security.

The rights under the Transaction Security Documents with respect to the Notes and the Trust Deed must be exercised by the Security Agent in respect of all of the Notes outstanding and in accordance with the terms of the Intercreditor Agreement.

(b) *Release of the Transaction Security*. All Security granted to the Security Agent on behalf of the Noteholders and the Trustee under the Transaction Security Documents will be automatically and unconditionally released if all obligations under these Conditions and the Trust Deed are discharged, in each case in accordance with the terms and conditions in the Trust Deed and the Intercreditor Agreement.

4. COVENANTS

4.1 *Financial Covenants*

(a) The Issuer shall ensure that in respect of each Compliance Reporting Date:

(i) Group RAR shall not be greater than 90 per cent. as at the Relevant Testing Date; and

(ii) Group ICR in respect of the Relevant Testing Period shall not be less than 1.0.

(b) For the purposes of this Condition 4.1, Group RAR and Group ICR shall be as stated in the Compliance Certificate for the Relevant Testing Date and Relevant Testing Period.

(c) No Event of Default shall occur as a result of a breach of paragraph (a)(i) above if, within 30 days after delivery of a Compliance Certificate to the Trustee pursuant to paragraph (b) of Condition 4.11 (*Information and Reports; Certificates; Notification of Defaults and Events of Default*), the Issuer:

(i) receives a Permitted Equity Cure Amount:

(ii) uses, or procures that any member of the Group uses, the Permitted Equity Cure Amount to repay, repurchase or defease Senior Debt, Junior Debt or Borrowings; and

(iii) delivers a revised Compliance Certificate to the Trustee indicating that, after taking into account the Permitted Equity Cure Amount used to remedy the breach, Group RAR is not greater than 90 per cent. and Group ICR is not less than 1.0.

(d) For the purpose of remedying any breach of paragraph (a) above, the Permitted Equity Cure Amount shall be treated as though it had been received and applied in reduction of Senior Debt, Junior Debt or Borrowings on (i) the Relevant Testing Date for the purposes of calculating Group RAR and (ii) the first day of the Relevant Testing Period for the purpose of calculating Group ICR.

(e) If, after delivering a revised Compliance Certificate to the Trustee pursuant to paragraph (c)(iii) above, the requirements of paragraph (a) above have been complied with, such requirements shall be deemed to have been satisfied as of the relevant date of determination and the applicable breach or default of paragraph (a) above which had occurred shall be deemed cured.

4.2 *Limitation on Financial Indebtedness*

(a) ***Restrictions on the Issuer***

(i) The Issuer shall not incur or allow to remain outstanding any Financial Indebtedness except Permitted Financial Indebtedness.

(ii) The Issuer will not incur or allow to remain outstanding any Parent Liabilities:

(A) which are repayable prior to the Maturity Date; or

(B) which provide for the payment of interest prior to the Maturity Date other than on a capitalised basis.

(b) ***Restrictions on the Parent***. Under the Trust Deed, the Parent has agreed that it shall not incur or allow to remain outstanding any Financial Indebtedness except Permitted Financial Indebtedness.

(c) ***Restrictions on Subsidiary Group Companies***.

The Issuer shall ensure that no Subsidiary Group Company will incur or allow to remain outstanding any loan facilities with financial institutions or any bonds pursuant to the terms of Senior Finance Documents that rank in point of payment and security subordinate to Junior Debt.

4.3 *Limitation on dividends, share redemption and restricted payments*

(a) ***Restrictions on the Issuer.*** Except on a date when the Controlled Payment Conditions are satisfied in respect of the applicable payment, the Issuer shall not:

(i) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);

(ii) repay or distribute any dividend or share premium reserve;

(iii) pay any management, advisory or other fee to or to the order of any direct or indirect shareholders of the Issuer;

(iv) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so; or

(v) make any payment under or in respect of Parent Debt.

(b) ***Restrictions on the Subsidiary Group Companies***

(i) Except as permitted by paragraph (b)(ii) below, the Issuer shall ensure that no Subsidiary Group Company makes any Restricted Payment.

(ii) Paragraph (b)(i) above does not apply to any Restricted Payment:

(A) made to the Issuer; or

(B) made on a date when the Controlled Payment Conditions are satisfied in respect of that Restricted Payment.

4.4 *Limitation on Transactions with Affiliates*

(a) ***Restrictions on the Issuer***

(i) Except as permitted by paragraph (a)(ii) below, the Issuer shall not enter into any transaction with any Affiliate otherwise than on an arm's-length basis or on terms no less favourable to the Issuer than would reasonably be expected to be obtained in a reasonable arm's-length transaction with a person who is not an Affiliate.

(ii) Intra-Group loans permitted under Condition 4.5 (*Limitation on loans, credit or guarantee*) shall not be a breach of paragraph (a)(i) above.

(iii) With respect to any transaction or series of related transactions (other than transactions in the ordinary course of business or an intra-Group loan referred to in clause (a)(ii) above) involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £100 million (or its equivalent in any other currency or currencies), the Issuer will deliver to the Trustee a written opinion of an accounting, appraisal, investment banking or advisory firm of international standing stating that the transaction or series of related transactions is fair to the Issuer from a financial point of view.

(b) ***Restrictions on the Subsidiary Group Companies***

(i) Except as permitted by paragraph (b)(iii) below, the Issuer shall ensure that no Subsidiary Group Company will enter into any transaction with an Affiliate to the extent prohibited by paragraph 25 (Arm's length terms) of Part 3 (General covenants) of Schedule 2 (Covenants) of the Common Terms Agreement.

(ii) With respect to any transaction or series of related transactions (other than transactions in the ordinary course of business) involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £100 million (or its equivalent in any other currency or currencies), the Issuer will deliver to the Trustee a written opinion of an accounting, appraisal, investment banking or advisory firm of international standing stating that the transaction or series of related transactions is fair to such Subsidiary Group Company from a financial point of view.

(iii) Intra-Group loans permitted under Condition 4.5 (*Limitation on loans, credit or guarantee*) shall not be a breach of paragraph (b)(i) above and shall not be subject to the requirements specified in paragraph (b)(ii) above.

4.5 *Limitation on Loans, Credit or Guarantee*

(a) ***Restrictions on the Issuer***

(i) Except as permitted under paragraph (a)(ii) below, the Issuer shall not make or grant any loan or extend any other credit or give any guarantee or indemnity that constitutes Financial Indebtedness.

(ii) Paragraph (a)(i) above does not apply to:

(A) any loan made by the Issuer to a Subsidiary Group Company; or

(B) any loan made to the Parent on a date when the Controlled Payment Conditions are satisfied in respect of that loan.

(b) ***Restrictions on Subsidiary Group Companies***

(i) Except (A) as permitted under paragraph (b)(ii) below or (B) in compliance with paragraph (b)(iii) below, the Issuer shall ensure that no Subsidiary Group Company shall make or grant any loan or give any guarantee or indemnity that constitutes Financial Indebtedness.

(ii) Paragraph (b)(i) above does not apply to:

(A) any transaction, other than a Restricted Payment Loan, that is permitted by paragraph 16 (Loans and Credit) of Part 3 (General covenants) of Schedule 2 (Covenants) of the Common Terms Agreement;

(B) any loan made to the Issuer; or

(C) any Restricted Payment Loan made to a third party other than the Issuer on a date when the Controlled Payment Conditions are satisfied in respect of that Restricted Payment Loan.

(iii) The Issuer will not permit any Subsidiary Group Company, directly or indirectly, to guarantee, assume or in any other manner become liable for the payment of any Financial Indebtedness of the Issuer (other than the Notes), unless such Subsidiary Group Company simultaneously executes a deed supplemental to the Trust Deed providing for a Guarantee of payment of the Notes by such Subsidiary Group Company on the same terms as the guarantee of such Financial Indebtedness.

4.6 *Negative Pledge*

(a) Except as permitted under paragraph (b) below:

(i) the Issuer shall not, and the Parent has agreed under the Trust Deed that the Parent shall not, create or permit to subsist any Security over any of the assets of the Issuer or the Parent, respectively; and

(ii) the Issuer shall not, and the Parent has agreed under the Trust Deed that the Parent shall not:

(A) sell, transfer or otherwise dispose of any of the assets of the Issuer or the Parent, respectively, on terms whereby they are or may be leased to or re-acquired by the Issuer;

(B) sell, transfer or otherwise dispose of any of the receivables of the Issuer or the Parent, respectively, on recourse terms;

(C) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(D) enter into any other preferential arrangement having a similar effect

(clauses (A) through (D) (inclusive), "**Quasi Security**"),

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

(b) Clauses (a)(i) and (a)(ii) above do not apply to any Security or (as the case may be) Quasi Security that:

(i) is Permitted Security; or

(ii) equally and rateably secures the Issuer's obligations in respect of the Notes and all other amounts due under the Trust Deed to the satisfaction of the Trustee.

4.7 *Limitation on Sale of Certain Assets*

(a) The Issuer shall not enter into a transaction or series of transactions (whether related or not) and whether voluntary or involuntary to dispose of any shares in, or indebtedness owed by, BAA (SP) Limited except in accordance with Condition 4.12 *(Merger, Consolidation and Sale of Substantially All Assets*).

(b) The Issuer shall procure that Heathrow Airport Limited (which for this purpose includes any other Subsidiary Group Company that acquires any interest in Heathrow Airport) does not enter into a transaction or series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of the whole or substantially the whole of Heathrow Airport, and the Issuer shall procure that no Holding Company of Heathrow Airport Limited which is the Issuer, the Parent or a Subsidiary Group Company enters into a transaction or series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any shares in Heathrow Airport Limited or in a Holding Company of Heathrow Airport Limited which is the Issuer, the Parent or a Subsidiary Group Company, except:

(i) to another Subsidiary Group Company; or

(ii) for cash payable on completion of the sale and where the proceeds of the disposal or sale after deducting:

(A) any expenses which are incurred by any Subsidiary Group Company with respect to that disposal to persons who are not members of the Group;

(B) any Tax incurred and required to be paid by the seller in connection with that disposal (as reasonably determined by the seller, on the basis of existing rates and taking account of any available credit, deduction or allowance); and

(C) any payments required to be paid from the proceeds to any other party, whether by BAA Funding Limited or a Subsidiary Group Company in priority to amounts outstanding under the Notes,

are sufficient to repay in full all amounts outstanding under the Notes and any Permitted Borrower Debt ranking *pari passu* with the Notes and a Change of Control Offer in accordance with Condition 7.3 (*Purchase of Notes on a Change of Control)* is made for the Notes.

4.8 *Restricted Payment Conditions*

The Issuer will not (and the Issuer will ensure that no member of the Group will) enter into or permit to exist any agreement binding on the Parent or a member of the Group which:

(a) restricts the ability of a Subsidiary of the Issuer in a manner that is more restrictive than the Restricted Payment Condition to pay dividends, make loans, move money or make any other distribution to any of its direct or indirect shareholders (including the Issuer); or

(b) results in a default (however described) or mandatory prepayment obligation (whether upon the giving of notice by a creditor or otherwise) in respect of any Financial Indebtedness of the Issuer or the Parent if such a payment or distribution referred to in paragraph (a) above is made by a Subsidiary of the Issuer on a basis permitted by the Restricted Payment Condition.

4.9 *Further Assurances*

The Issuer shall, and the Parent has agreed under the Trust Deed that the Parent shall, take all such action as is available to it (including making all filings and registrations) as may be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on the Security Agent or the Trustee by or pursuant to the Transaction Security Documents.

4.10 *Holding Companies*

(a) ***Restrictions on the Parent.*** Under the Trust Deed, the Parent has agreed that it shall not trade or carry on any business other than any business which is in the ordinary course of business as a holding company.

(b) ***Restrictions on the Issuer.*** The Issuer shall not trade, carry on any business, own any material assets or incur any material liabilities except for:

(i) ownership of shares in BAA (SP) Limited, intra-Group debit balances, intra-Group credit balances that are permitted under these Conditions and other credit balances in bank accounts and Cash and Cash Equivalent Investments but only if those shares, credit balances and Cash and Cash Equivalent Investments are subject to the Transaction Security; or

(ii) the Credit Facilities Liabilities, the Hedging Liabilities and any liabilities in respect of Financial Indebtedness permitted by these Conditions and professional fees and administration costs incurred in the ordinary course of business as a holding company.

4.11 *Information and Reports; Certificates; Notification of Defaults and Events of Default*

(a) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(i) within 180 days after the end of the Issuer's financial year, its audited consolidated financial statements for such financial year;

(ii) within 180 days after the end of the first financial half year of each financial year, its unaudited consolidated financial statements for such financial half year; and

(iii) as soon as it is available, but in any event no later than each Reporting Date, the Investor Report.

(b) On or before each Compliance Reporting Date, the Issuer will deliver a certificate substantially in the form set out in Schedule 6 to the Trust Deed (a "**Compliance Certificate**") to the Trustee, signed by a director of the Issuer:

(i) certifying compliance with the financial covenants in paragraph (a) of Condition 4.1 (*Financial Covenants*) and providing calculations for the financial covenants as at the Relevant Testing Date or for the Relevant Testing Period, as the case may be, in reasonable detail; and

(ii) certifying as at the date of the certificate that no Event of Default is continuing.

(c) At the same time as providing any of the documents set forth in paragraph (a) above of this Condition to the Trustee, the Issuer will also make the relevant documents available via the Regulatory News Service of the London Stock Exchange, subject to any distribution and offering restrictions and subject to compliance with applicable laws and regulations.

(d) The Issuer shall notify the Trustee within 15 Business Days of it becoming aware of the occurrence of any Event of Default or Default stating what action, if any, the Issuer is taking with respect to that Event of Default or Default.

4.12 *Merger, Consolidation and Sale of Substantially All Assets*

The Issuer will not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries) to another person unless such consolidation, merger, amalgamation or sale or disposal of all or substantially all assets qualifies as a Permitted Transaction or the provisions of Condition 7.3 (*Purchase of Notes upon a Change of Control*) are complied with.

4.13 *Listing*

So long as any of the Notes remains outstanding, the Issuer shall use all reasonable endeavours to maintain a listing of the Notes.

5. THE INTERCREDITOR AGREEMENT

(a) The Trustee is a party to the Intercreditor Agreement with, amongst others, the agent under the Facility Agreement and the Security Agent. Under the terms of the Intercreditor Agreement, the Transaction Security securing the Notes will rank and secure any other Bond Liabilities, the Credit Facilities Liabilities and the Hedging Liabilities *pari passu*. The Intercreditor Agreement also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security Documents will be shared equally and rateably between the Credit Facilities Liabilities, the Hedging Liabilities and the Bond Liabilities.

(b) Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, will be deemed to have:

(i) agreed to be bound by such provisions of the Intercreditor Agreement (whether entered into as of the date of the Trust Deed or thereafter); and

(ii) irrevocably appointed the Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Agreement as set forth under Condition 16 (*Meetings of Noteholders, Modification, Waiver and Authorisation)*.

6. INTEREST

(a) The Notes bear interest from, and including, 9 November 2010 at the rate of 7.125 per cent. per annum, payable semi-annually in arrear on 1 March and 1 September in each year (each an "**Interest Payment Date**"). The first payment of interest, to be made on 1 March 2011, will be in respect of the period from and including 9 November 2010 to but excluding 1 March 2011 and will amount to £22.17 per principal amount of £1,000 per Note. Each payment of interest thereafter, in respect of each Interest Period from and including 1 March 2011 to but excluding 1 March 2017, will amount to £35.63 per principal amount of £1,000 per Note. Each Note will cease to bear interest from, and including, its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest shall continue to accrue as provided in the Trust Deed.

(b) Where interest is required to be calculated (or paid in respect of overdue principal and other overdue amounts) in respect of a period that is shorter than an Interest Period, the day count shall be computed on the basis of a 360-day year of 12 months.

7. REDEMPTION AND PURCHASE

7.1 *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date.

7.2 *Optional Redemption*

(a) *Optional Redemption*. At any time, upon not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), the Issuer may redeem all or some only of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest, if any, to but excluding the redemption date.

The Issuer will publish a notice of any optional redemption of the Notes under this Condition in accordance with the provisions of Condition 20 (*Notices*).

If fewer than all the Notes are to be redeemed at any time pursuant to this paragraph (a) the Issuer will select the Notes by a method that complies with the requirements of the principal securities exchange, if any, on which the Notes are listed at such time or, if the Notes are not listed on a securities exchange, by such method as the Trustee in its sole discretion shall deem fair and appropriate; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than £50,000. The Trustee shall not be liable for any selections made in accordance with this paragraph.

(b) *Redemption Upon Changes in Withholding Taxes.* The Notes may be redeemed at their principal amount, together with interest accrued to but excluding the date of redemption at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 20 (*Notices*) (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately prior to giving such notice that:

(i) it has or will on the occasion of the next payment due in respect of the Notes become obliged to pay Additional Amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction, or any change in the published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of the Trust Deed; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this paragraph (b):

(A) the Issuer shall deliver to the Trustee an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment; and

(B) the Issuer shall deliver to the Trustee an Officer's Certificate stating that the obligation referred to in clause (b)(i) above cannot be avoided by the Issuer taking reasonable measures available to it,

and the Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the condition precedent set out in clause (b)(i) above, and such certificate as sufficient evidence of the satisfaction of the condition precedent set out in clause (b)(ii) above and such opinion and certificate (if accepted) shall be conclusive and binding on the Noteholders and the Couponholders.

7.3 *Purchase of Notes Upon a Change of Control*

(a) If a Change of Control occurs at any time, then the Issuer must make an offer (a "**Change of Control Offer**") to each Noteholder to purchase such holder's Notes, at a purchase price (the "**Change of Control Purchase Price**") in cash in an amount equal to 101 per cent. of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase described in paragraph (b) below (the "**Change of Control Purchase Date**").

(b) Within 30 days following any Change of Control, the Issuer will publish a notice of the Change of Control Offer in accordance with Condition 20 (*Notices*) (the date of publication of such notice being the "**Publication Date**"), specifying the nature of the Change of Control and the procedure for exercising the option contained in this Condition 7.3, including (i) the Change of Control Purchase Price and (ii) the Change of Control Purchase Date, which will be a Business Day no earlier than 30 days nor later than 60 days from the Publication Date, or such later date as is necessary to comply with requirements under any applicable securities laws or regulations.

To exercise the option to require purchase of a Note under this Condition, a Noteholder must deliver such Note, on any banking business day in the place of delivery prior to the Change of Control Purchase Date (the "**Put Period**") at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "**Put Notice**") and in which the Noteholder may specify a bank account complying with the requirements of Condition 8 (*Payments*) to which payment is to be made under this Condition. Notes should be delivered together with all Coupons appertaining thereto maturing after the date (the "**Put Date**"), which is seven days after the expiration of the Put Period, failing which deduction in respect of such missing unmatured Coupons shall be made in accordance with Condition 8 (*Payments*) and any amount so deducted will be reimbursed in the manner specified in Condition 8 (*Payments*). The Paying Agent to which such Note and Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. If the Put Date is an Interest Payment Date, payment of the accrued interest in respect of any Note so delivered will be made in the manner provided in Condition 8 (*Payments*) against presentation and surrender of the relevant Coupon. If the Put Date is not an Interest Payment Date, payment of the accrued interest, and in all cases, payment of principal in respect of any Note so delivered will be made, if the Noteholder duly specified a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and in every other case on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent in accordance with Condition 8 (*Payments*). A Put Notice, once given, shall be irrevocable. For all relevant purposes of these Conditions, receipts issued pursuant to this Condition shall be treated as if they were Notes. The Issuer shall purchase (or procure the purchase of) the relevant Notes on the Put Date unless previously redeemed or purchased and cancelled.

(c) The Issuer will not be required to make a Change of Control Offer if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in these Conditions applicable to a Change of Control Offer made by the Issuer and offers to purchase all Notes validly tendered and not withdrawn under such Change of Control Offer. The Change of Control provisions of this Condition will be applicable whether or not any other provisions of the Trust Deed are applicable.

(d) To the extent the Issuer complies with applicable tender offer rules and any other applicable securities laws and regulations and such rules, laws and regulations conflict with provisions of this Condition 7.3, the Issuer will not be deemed to have breached its obligations under this Condition and the Trust Deed by virtue of such conflict.

7.4 *Sinking Fund; Offers to Purchase; Open Market Purchases; Cancellation of Notes*

(a) The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes.

(b) The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price (*provided* that they are purchased together with all unmatured Coupons relating to them).

(c) All Notes so redeemed or purchased and any unmatured Coupons attached to or surrendered with them may, but need not, be cancelled at the election of the Issuer. Any Notes or Coupons so cancelled will not be re-issued or resold.

(d) Where Notes redeemed pursuant to this Condition 7 (*Redemption and Purchase*) are cancelled upon redemption, any unmatured Coupons appertaining to such Notes, whether or not attached thereto or surrendered therewith, shall also be cancelled and may not be resold or re-issued.

8. PAYMENTS

(a) Payments of principal and premium (if any) and payments of interest due on each Interest Payment Date will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by Sterling cheque drawn on, or by transfer to a Sterling account maintained by the payee with, a bank in London. Payments of interest due in respect of any Note other than on an Interest Payment Date shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) Each Note should be presented for payment together with all unmatured Coupons relating to it, failing which the full amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of such missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of ten years after the relevant payment date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

(d) A Note or Coupon may only be presented for payment on a day which is a banking business day in the relevant place of presentation (and, in the case of payment by transfer to a Sterling account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this paragraph (d) falling after the due date.

(e) The initial Paying Agent and its initial specified offices are listed below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents; *provided* that they will at all times maintain:

  (i) a Principal Paying Agent;

  (ii) a Paying Agent with a specified office in a European Union member state (a "**Member State**") that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; and

  (iii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority.

  The initial specified office of the initial Paying Agent is:

  Winchester House, 1 Great Winchester Street, London EC2N 2DB.

  Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders by the Issuer in accordance with Condition 20 (*Notices*).

  In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain limited circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, the Noteholders or the Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

9. PRESCRIPTION

(a) Claims in respect of principal and premium will become void unless the relevant Notes are presented for payment within a period of ten years from the appropriate payment date.

(b) Claims for interest in respect of Notes shall become void unless the relevant Coupons are presented for payment within five years of the relevant Interest Payment Date, subject to the provisions of paragraph (c) of Condition 8 (*Payments*).

10. TAXATION

All payments by or on behalf of the Issuer under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future Tax imposed or levied on such payments by or within the United Kingdom or by or within any department, political subdivision or governmental authority of or in the United Kingdom having power to tax (each, a "**Relevant Taxing Jurisdiction**"), unless the Issuer is required to withhold or deduct Taxes by law. In that event, the Issuer will pay additional amounts ("**Additional Amounts**") as may be necessary to ensure that the net amount received by each Noteholder and Couponholder after such withholding or deduction (including any withholding or deduction in respect of any Additional Amounts) will not be less than the amount the Noteholder or Couponholder, as the case may be, would have received if such Taxes had not been withheld or deducted.

The Issuer will not, however, pay Additional Amounts in respect of any Note or Coupon:

(a) held by or on behalf of a holder who is liable to such Taxes, to the extent such Taxes are imposed or levied by a Relevant Taxing Jurisdiction by reason of the holder's present or former connection with such Relevant Taxing Jurisdiction (other than the mere receipt, ownership, holding or disposition of Notes or Coupons, or by reason of the receipt of any payments in respect of any Note or Coupon, or the exercise or enforcement of rights under any Notes or Coupons);

(b) held by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting any form or certificate, or by making a declaration of non-residence or other claim for exemption to the relevant tax authority;

(c) presented for payment by or on behalf of a person who would have been able to avoid such withholding or deduction by presenting the relevant Notes or Coupons, as the case may be, to another Paying Agent in a member state of the European Union;

(d) presented for payment more than 30 days after the relevant payment is first made available to the Noteholder or Couponholder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30-day period); or

(e) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any directive implementing the conclusions of the of the ECOFIN Council meeting of 26-27 November 2000 or any law of the European Union or a non-member state implementing or complying with, or introduced in order to conform to, such directive.

The Issuer will (i) make such withholding or deduction as is required by applicable law and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions, in respect of payments by the Issuer to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

11. EVENTS OF DEFAULT

(a) Each of the following will be an "**Event of Default**":

 (i) default for 30 days in the payment when due of any interest or any Additional Amounts on any Note;

 (ii) default in the payment of the principal of or premium, if any, on any Note at its Maturity (upon acceleration, optional or mandatory redemption, if any, required repurchase or otherwise);

 (iii) failure to comply with the provisions of Condition 4.12 (*Merger, Consolidation and Sale of Substantially All Assets*);

 (iv) failure to make or consummate a Change of Control Offer in accordance with the provisions of Condition 7.3 (*Purchase of Notes upon a Change of Control*);

 (v) failure to comply with any covenant or agreement of the Issuer or the Parent that is contained in these Conditions or the Trust Deed (other than specified in clause (i), (ii), (iii) or (iv) above) and such failure continues for a period of 30 days or more after written notice thereof is given to the Issuer by the Trustee;

 (vi) any Financial Indebtedness of any member of the Group:

  (A) is not paid when due nor within any originally applicable grace period other than a non-payment of interest in respect of Junior Debt; or

  (B) is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

 Other than in respect of the Existing SH Facility, no Event of Default will occur under clauses (A) or (B) above in respect of Financial Indebtedness if the aggregate amount of all Financial Indebtedness falling within clauses (A) and (B) above is less than £50,000,000 (or its equivalent in any other currency or currencies);

(vii) the Transaction Security ceases to be legal, valid, binding, enforceable or effective for any reason other than as permitted by these Conditions or is alleged by the Issuer or the Parent to be invalid or unenforceable;

(viii) any execution proceedings in an aggregate amount in excess of £50,000,000 (or its equivalent in any other currency or currencies) are enforced in relation to any assets of the Issuer or any Subsidiary Group Company;

(ix) a moratorium is declared in respect of any Financial Indebtedness in an amount in excess of £50,000,000 (or its equivalent in any other currency or currencies) of the Issuer or any Subsidiary Group Company; and

(x) any corporate action, legal proceedings or other legal procedure or formal step is taken in relation to:

(A) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Issuer or a Subsidiary Group Company other than a solvent liquidation or reorganisation of any Subsidiary Group Company;

(B) a composition, compromise, assignment or arrangement with any creditor of the Issuer or any Subsidiary Group Company; or

(C) the appointment of a liquidator (other than in respect of a solvent liquidation of a Subsidiary Group Company), receiver, administrative receiver, administrator, special administrator, compulsory manager or other similar officer in respect of the Issuer or a Subsidiary Group Company or any of their respective material assets,

or, in the opinion of the Trustee, any analogous procedure or step is taken in any jurisdiction; *provided, however*, that this clause (a)(x) shall not apply to: (X) any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 28 days of commencement or, if earlier, the date on which it is advertised; or (Y) an application for the appointment of a receiver, administrative receiver, administrator, compulsory manager or other similar officer that is discharged at least five days prior to the first hearing of that application.

(b) If an Event of Default occurs and is continuing, and, in the case of the Events of Default described under clauses (a)(v) (other than in respect of a failure to comply with the covenants set out in Condition 4.1 (*Financial Covenants*), Condition 4.2 (*Limitation on Financial Indebtedness*), Condition 4.3(a) (*Limitation on dividends, share redemption and restricted payments — Restrictions on the Issuer*), Condition 4.5(a) (*Limitation on Loans, Credit or Guarantee — Restrictions on the Issuer*), Condition 4.6(a) (*Negative Pledge*), Condition 4.7 (*Limitation on Sale of Certain Assets*), Condition 4.8 (*Restricted Payment Conditions*), Condition 4.10 (*Holding Companies*), Condition 4.11(d) (*Notification of Defaults and Events of Default*) and Condition 4.12 (*Merger, Consolidation and Sale of Substantially All Assets*)), (a)(vii) or (a)(x) above or any Event of Default of the Parent, the Trustee has certified in writing that, in its opinion, the happening of such event is materially prejudicial to the interests of the Noteholders, the Trustee:

(i) may in its absolute discretion; and

(ii) shall if it has been directed to do so:

(A) in writing by the holders or not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding; or

(B) by an Extraordinary Resolution of the Noteholders,

subject, in each case, to being indemnified and/or pre-funded and/or secured to its satisfaction, give a notice (a "**Note Acceleration Notice**") to the Issuer and the Security Agent declaring the principal of, premium, if any, and any Additional Amounts and accrued interest on all the outstanding Notes immediately due and payable. The ability of the Trustee and the Noteholders to declare, and of the Noteholders to direct the Trustee to declare, the Notes due and payable is subject to the terms of the Intercreditor Agreement.

12. ENFORCEMENT OF SECURITY

(a) At any time after a Note Acceleration Notice has been given to the Issuer, the Trustee:

(i) may in its absolute discretion; and

(ii) shall if it has been directed to do so:

(A) in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Notes outstanding; or

(B) by an Extraordinary Resolution of the holders of the Notes,

subject in each case to being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, instruct the Security Agent to make a Request for voting in relation to enforcing the Transaction Security pursuant to the terms of the Intercreditor Agreement (each, a "**Request Instruction**").

(b) The Trustee shall, subject to being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, promptly after receiving any Request in relation to enforcement of the Transaction Security, give a notice to Noteholders in accordance with Condition 20 (*Notices*) soliciting the direction from holders of the Notes then outstanding (each, a "**Noteholder Direction"**) to the Trustee as to whether to instruct the Security Agent to take enforcement action in relation to the Transaction Security pursuant to the Intercreditor Agreement (such instruction, an "**Enforcement Instruction**"). Upon the conclusion of the solicitation of Noteholder Directions, the Trustee shall inform the Issuer and the Security Agent promptly in writing of the aggregate principal amount of Notes represented by the holders of Notes voting in favour of the Enforcement Instruction, if any.

(c) Any enforcement of the Transaction Security will be undertaken by the Security Agent, subject to, and in accordance with, the provisions of the Intercreditor Agreement.

13. NOTEHOLDER ACTION

(a) Subject to Condition 12 (*Enforcement of Security*) above and paragraphs (b) and (c) below, no Noteholder or Couponholder shall be entitled to take any proceedings or other action directly against the Issuer or to enforce the Transaction Security, including:

(i) directing the Trustee to give Request Instructions or Enforcement Instructions;

(ii) taking or joining any person in taking steps against the Issuer or to enforce the Transaction Security for the purpose of obtaining payment of any amount due from the Issuer to it; and

(iii) initiating or joining any person in initiating any Insolvency Proceedings in relation to the Issuer or the appointment of an Insolvency Official in relation to the Issuer or in relation to the whole or any part of the undertakings or assets of the Issuer.

(b) If the Trustee having become bound to give a Note Acceleration Notice to the Issuer fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may, as applicable, sign and give a Note Acceleration Notice to the Issuer in accordance with Condition 11 (*Events of Default*).

(c) If the Trustee having become bound to give a Request Instruction to the Security Agent fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may, as applicable, give a Request Instruction in writing directly to the Security Agent.

(d) If the Trustee having become bound to inform the Issuer and the Security Agent of the aggregate principal amount of Notes represented by the holders of Notes voting in favour of the Enforcement Instruction fails to do so and that failure is continuing, the Noteholders may provide their Noteholder Direction in writing in relation to the taking of enforcement action in relation to the Transaction Security pursuant to the Intercreditor Agreement directly to the Security Agent.

14. SUBSTITUTION

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed, of any Subsidiary of the Issuer, any successor in business of the Issuer or any Holding Company of the Issuer, as more fully set forth in the Trust Deed, subject to (i) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (ii) certain other conditions set out in the Trust Deed being complied with. As more fully set forth in the Trust Deed (and subject to the conditions and qualifications therein), the Trustee may, without the consent of the Noteholders, also agree with the Issuer as to the substitution of another corporation in place of the Issuer as principal debtor under the Notes, the Coupons and the Trust Deed.

15. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided* that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

(a) The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed, the Notes, the Coupons, the Agency Agreement, the Intercreditor Agreement or the Transaction Security Documents. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer at the request of Noteholders holding not less than ten per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. The matters (the "**Basic Terms Modifications**") that require such a quorum are:

(i) changing any date fixed for payment of principal, premium (if any) or interest in respect of the Notes, reducing or cancelling the amount of principal, premium (if any) or interest payable on any date in respect of the Notes, altering the method of calculating the amount of any payment in respect of the Notes on redemption, maturity or following the occurrence of a Change of Control or altering the method of calculating the date for any such payment;

(ii) alteration of the currency in which payments under the Notes and Coupons are to be made;

(iii) impairing the right to institute suit for the enforcement of any payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date);

(iv) except as provided under Condition 4.6 (*Negative Pledge*), Condition 5 (*The Intercreditor Agreement*) or paragraph (c) of this Condition, make any change to any Intercreditor Agreement (or any amended Intercreditor Agreement or replacement thereof) or any provisions of the Trust Deed affecting the ranking of the Notes and the ranking of the payment obligations under the Notes, in each case in a manner that adversely affects the rights of the Noteholders or directly or indirectly releases the Transaction Security under the Transaction Security Documents, except as permitted by these Conditions, the Trust Deed, any Intercreditor Agreement and the Transaction Security Documents;

(v) alteration of the quorum or majority required to pass an Extraordinary Resolution; and

(vi) alteration of (A) the definition of "Basic Terms Modifications" or (B) the quorum requirements for any meeting convened to vote on any Basic Terms Modifications.

An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three quarters of the votes cast on such a resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in principal amount of the Notes for the time being outstanding or (iii) consents given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of not less than three quarters in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) The Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the Notes, the Coupons, the Agency Agreement, the Intercreditor Agreement or the Transaction Security Documents (save to the extent such modification, waiver or authorisation relates to any Basic Terms Modification) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven, or (ii) to determine that any Event of Default or Default shall not be treated as such, subject to instructions to the contrary from the Noteholders in the form of an Extraordinary Resolution (as further provided in the Trust Deed).

(c) The Trust Deed also provides that at the request and expense of the Issuer and without the consent of the Noteholders:

(i) at the time of, or prior to, the incurrence of any Financial Indebtedness that is permitted to share the Transaction Security, the Issuer, the Trustee and the Security Agent shall enter into an additional intercreditor agreement on terms substantially similar to the Intercreditor Agreement or an amendment to the Intercreditor Agreement to (1) cure any ambiguity, omission, defect or inconsistency of the Intercreditor Agreement, (2) increase the amount or types of Financial Indebtedness covered by any such agreement that may be incurred by the Issuer that is subject to any such agreement (*provided* that such Financial Indebtedness is incurred in compliance with these Conditions and the terms of the Trust Deed), (3) further secure the Notes (including Additional Notes), (4) make provision for equal and rateable pledges of the Transaction Security to secure Additional Notes or to implement any Security permitted under these Conditions or the Intercreditor Agreement or (5) make any other change to any such agreement that is not in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; *provided* that any amendment to the Intercreditor Agreement will not impose or extend any personal obligations on the Trustee or the Security Agent or adversely affect the rights, duties, liabilities, protections or immunities of the Trustee and/or the Security Agent under these Conditions, the Trust Deed, the Intercreditor Agreement or any Security Document; and

(ii) the Trustee and the Security Agent may from time to time enter into one or more amendments to the Transaction Security Documents to: (1) cure any ambiguity, omission, defect or inconsistency therein or reflect changes of a minor, technical or administrative nature, (2) provide for any Security permitted under these Conditions, (3) add to the Transaction Security or (4) make any other change thereto that is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.

(d) In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 10 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 10 (*Taxation*) pursuant to the Trust Deed.

(e) Any modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders, and any modification, unless the Trustee agrees otherwise, or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 20 (*Notices*).

17. THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

Subject to the terms of the Intercreditor Agreement, the Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer or the Parent as it may think fit to enforce the provisions of these Conditions, the Trust Deed, the Notes and the Coupons, the Intercreditor Agreement or any Transaction Security Documents (as applicable), but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Coupons, the Intercreditor Agreement or any Transaction Security Documents unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding and shall not have received any contrary direction by an Extraordinary Resolution of the Noteholders or in writing by the holders of at least 50 per cent. in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

The Trustee may rely on any certificate or report of the Issuer's auditors or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed, the Intercreditor Agreement or any Transaction Security Documents notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors of the Issuer or such other person in respect thereof.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Parent and/or the Parent's other Subsidiaries (including the Issuer) and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Parent and/or any of the Parent's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee shall not be required to review or check any accounts or other information provided to it by the Issuer pursuant to the Trust Deed and shall have no liability to any person as a result of any failure to do so.

18. NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND SHAREHOLDERS

No director, officer, employee, incorporator, member or shareholder of the Issuer will have any liability for any obligations of the Issuer under the Notes, the Coupons or the Trust Deed or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Noteholder by accepting a Note and each Couponholder by accepting a coupon waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the US federal securities laws.

19. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders (but subject to compliance with the provisions of Condition 4.1 (*Limitation on Financial Indebtedness*)) to create and issue further bonds or notes ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Notes) constituted by the Trust Deed or any deed supplemental thereto (the "**Additional Notes**"). Any Additional Notes shall be constituted by a deed supplemental to the Trust Deed.

20. NOTICES

Notices to Noteholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

21. DEFINITIONS

"**Acceptable Bank**" means:

(a) a bank or financial institution which has a rating for its short-term unsecured and non credit-enhanced debt obligations of A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's or a comparable rating from an internationally recognised credit rating agency; or

(b) any other bank or financial institution approved by the Trustee.

"**Accounting Principles**" means generally accepted accounting principles in the United Kingdom, including International Financial Reporting Standards (IFRS).

"**Additional Notes**" has the meaning given to that term in Condition 19 (*Further Issues*).

"**Affiliate**" means

(a) for purposes of Condition 4.4 (*Limitation on Transactions with Affiliates*) and the definition of "Permitted Holders": in relation to a person, a person who is his associate and the question of whether a person is an associate of another will be determined in accordance with section 435 of the Insolvency Act 1986; and

(b) for purposes of the definition of "Permitted Financial Indebtedness": in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Applicable Redemption Premium**" means, with respect to a Note on any redemption date prior to 1 March 2017, the greater of (a) one per cent. of the principal amount of such Note on such redemption date and (b) the excess of:

(a) the present value at such redemption date of the redemption price of such Note at 1 March 2017, plus all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and 1 March 2017, excluding accrued but unpaid interest, computed using a discount rate equal to the Gilt Rate at such redemption date plus 50 basis points, over

(b) the principal amount of such Note on such redemption date.

"Bond Liabilities" has the meaning given to the term "Pari Passu Bond Liabilities" in the Intercreditor Agreement.

"Borrowings" means, at any time, without double counting, the outstanding principal or capital amount of any indebtedness of the Issuer for or in respect of:

(a) moneys borrowed;

(b) acceptance credits;

(c) moneys raised under or pursuant to bonds, notes, debentures, loan stock or any similar instrument;

(d) any finance or capital lease or hire purchase contract which would, in accordance with the Accounting Principles, be treated as a finance or capital lease but only to the extent of such treatment;

(e) receivables sold or discounted;

(f) (without double counting) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of a payment obligation;

(g) any sale and leaseback arrangement entered into primarily as a method of raising finance;

(h) any amount raised under any other transaction which would be treated as a borrowing in accordance with the Accounting Principles; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in clause (a) to (h) above.

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for general business in London.

"**CAA**" or "**Civil Aviation Authority**" means the UK Civil Aviation Authority.

"**Cash**" means, at any time, cash denominated in Sterling, U.S. dollars or euro in hand or at bank and (in the latter case) credited to an account in the name of the Issuer with an Acceptable Bank and to which the Issuer is beneficially entitled and for so long as:

(a) that cash is repayable within 180 days after the relevant date of calculation;

(b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;

(c) there is no Security over that cash except for Transaction Security or any Permitted Security constituted by a netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements; and

(d) the cash is freely and immediately available to be applied in repayment or prepayment of the Facilities.

"**Cash Equivalent Investments**" means at any time any of the following which are denominated in Sterling, US dollars or euro:

(a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;

(b) any investment in marketable debt obligations:

   (i) issued or guaranteed by the government of:

      (A) the United States of America;

      (B) the United Kingdom;

      (C) any member state of the European Economic Area or any Participating Member State which has a credit rating of either A- or higher by S&P, A- or higher by Fitch or A3 or higher by Moody's; or

      (D) by an instrumentality or agency of any party set out in (A) to (C) having an equivalent credit rating; and

   (ii) maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;

(c) commercial paper not convertible or exchangeable to any other security:

   (i) for which a recognised trading market exists;

   (ii) issued by an issuer incorporated in the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State;

   (iii) which matures within one year after the relevant date of calculation; and

   (iv) which has a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;

(d) bills of exchange issued in the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent);

(e) any investment accessible within 30 days in money market funds which (i) have a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, and (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; or

(f) any other debt security approved by the Trustee,

in each case, to which the Issuer is beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security (other than Security arising under the Transaction Security Documents).

"**Cashflow From Operations**" has the meaning given to that term in the Master Definitions Agreement.

"**Change of Control**" means the occurrence of any of the following events:

(a) prior to the consummation of an initial Public Equity Offering, the consummation of any transaction (including a merger or consolidation) the result of which is that any person or any persons acting in concert, other than one or more Permitted Holders, are or as a result of such transaction become interested in more than 50 per cent. of the total voting power of the Voting Shares of the Issuer;

(b) on and after the consummation of an initial Public Equity Offering, any person or any persons acting in concert, other than one or more Permitted Holders, are or as a result of such transaction become interested in more than 35 per cent. of the total voting power of the Voting Shares of the Issuer and the Permitted Holders, individually or in the aggregate, are not interested in a larger percentage of the total voting power of such Voting Shares than such other person or persons acting in concert;

(c) the sale, transfer, conveyance or other disposition of all or substantially all the assets (other than Shares, debt or other securities of any Subsidiary that is not a Subsidiary Group Company) of the Issuer and the Subsidiary Group, on a consolidated basis, (i) if following such sale, transfer, conveyance or other disposition, the transferee entity is not listed on a stock exchange or automated quotation system and any persons or persons acting in concert, other than one or more Permitted Holders, are or as a result of such sale, transfer, conveyance or other disposition become interested in a larger percentage of the total voting power of the Voting Shares of the transferee entity than the Permitted Holders, individually or in the aggregate or (ii) if the transferee entity is and is expected to continue to be listed on a stock exchange or automated quotation system following such sale, transfer, conveyance or other disposition (A) any person or any persons acting in concert, other than one or more Permitted Holders, are or as a result of such transaction become interested in more than 35 per cent. of the total voting power of the Voting Shares of the transferee entity and (B) the Permitted Holders, individually or in the aggregate, are not interested in a larger percentage of the total voting power of such Voting Shares than such other person or persons acting in concert;

(d) the Parent or the Issuer is liquidated or dissolved or adopts a plan of liquidation or dissolution other than in a Permitted Transaction;

(e) the Parent or any Surviving Entity ceases to beneficially own, directly, 100 per cent. of the Voting Shares of the Issuer, other than director's qualifying shares and other shares required to be issued by law; or

(f) (i) the Issuer ceases to beneficially own, directly or indirectly, 100 per cent. of the Voting Shares of Heathrow Airport Limited or any Holding Company of Heathrow Airport Limited that is a direct or indirect Subsidiary of the Issuer, other than director's qualifying shares and other shares required to be issued by law, or (ii) the sale, transfer, conveyance or other disposition of all or substantially all the assets of Heathrow Airport Limited, other than in the case of (i) and (ii), to another Subsidiary Group Company or in a Permitted Transaction.

For the purposes of this definition, (i) "**persons acting in concert**" has the meaning given this term in the City Code on Takeovers and Mergers; (ii) "**interested**" has the meaning given this term in Part 22 of the Companies Act; and (iii) a person or persons acting in concert will be deemed to be interested in all Voting Shares of an entity held by a parent entity, if such person or persons acting in concert are or become interested, prior to the consummation of an initial Public Equity Offering, in more than 50 per cent. of the total voting power of the Voting Shares of such parent entity or on and after the consummation of an initial Public Equity Offering in more than 35 per cent. of the total voting power of the Voting Shares of such parent entity.

"**Common Terms Agreement**" means the common terms agreement between, among others, the Subsidiary Group Companies and BAA Funding Limited dated 18 August 2008, as in effect on the date of the Trust Deed.

"**Compliance Certificate**" has the meaning given to that term in paragraph (b) of Condition 4.11 (*Information and Reports; Certificates; Notification of Defaults and Events of Default*).

"**Compliance Reporting Date**" means 30 June.

"**Companies Act**" means the Companies Act 2006 (as amended, restated or re-enacted from time to time).

"**Controlled Payment**" means any payment, loan or other transaction restricted by the provisions of Conditions 4.3 (*Limitation on dividends, share redemption and restricted payment*) or 4.5 (*Limitation on loans, credit or guarantee*).

"**Controlled Payment Certificate**" means a certificate in the form set out in Schedule 5 to the Trust Deed.

"**Controlled Payment Conditions**" mean the following:

(a) no Default is continuing or would result from such Controlled Payment;

(b) at the time such Controlled Payment is made:

(i) (A) Pro Forma Junior RAR is not greater than 82 per cent.; and

(B) Pro Forma Group RAR is not greater than 90 per cent.;

in each case, after giving pro forma effect to the Controlled Payment;

(ii) the Regulator has not issued a notice to terminate any licence required for carrying on the business of any member of the Group or of any proposed or actual modification to any such licence which, if implemented, would reasonably be expected to have a Material Adverse Effect unless the licence is replaced or reinstated or the relevant authority or Regulator has directed that the Group's business can continue without such licence or such licence is no longer required; and

(iii) the Issuer has delivered a Controlled Payment Certificate to the Trustee.

"**Credit Facilities Liabilities**" has the meaning given to that term in Intercreditor Agreement.

"**Default**" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"**Enforcement Instruction**" has the meaning given to that term in paragraph (a) of Condition 12 (*Enforcement of Security*).

"**Event of Default**" has the meaning given to that term in paragraph (a) of Condition 11 (*Events of Default*).

"**Existing SH Facility**" means the facility provided on the terms of a subordinated facility agreement dated 7 April 2006 as amended and novated on 18 August 2008 between, among others, the Issuer, the Parent and The Royal Bank of Scotland plc as agent.

"**Extraordinary Resolution**" means a resolution of a meeting of Noteholders satisfying the relevant requirements set forth in Condition 16 (*Meetings of Noteholders, Modification, Waiver and Authorisation*).

"**Facility Agreement**" means the facility agreement dated 26 October 2010 (as amended, waived. restated, novated, replaced and/or supplemented from time to time) among the Issuer, the Parent, Morgan Stanley Bank International Ltd, The Royal Bank of Scotland and the other parties referenced therein (as amended, restated, novated, replaced and/or supplemented from time to time).

"**Facilities"** means the term loan facilities being made available under the Facility Agreement**.**

"**Financial Indebtedness**" means, without double counting, any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds (other than performance and similar bonds), notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with the Accounting Principles, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) for the purposes of clause (a)(vi) of Condition 11 (*Events of Default*) only (and not for any other purpose), any Treasury Transaction (and, when calculating the value of that Treasury Transaction, only the marked to market value shall be taken into account);

(g) any counter-indemnity obligation in respect of a guarantee, bond (other than performance or similar bonds), standby or documentary letter of credit or any other instrument issued by a bank or financial institution where the underlying liability otherwise constitutes Financial Indebtedness;

(h) any amount raised by the issue of redeemable shares which are capable of being redeemed on or before the Maturity Date other than those held by a member of the Group;

(i) any amount of any liability under an advance or deferred purchase agreement if (i) the primary reason behind entering into the agreement is to raise finance or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 180 days after the date of supply;

(j) any arrangement entered into primarily as a method of raising finance pursuant to which an asset sold or otherwise disposed of by that person is contemplated or intended to be re-acquired by a member of the Group (whether following the exercise of an option or otherwise);

(k) any amount raised under any other transaction (including any forward sale or purchase agreement) to the extent treated as a borrowing under the Accounting Principles but excluding, for the avoidance of doubt, (except for the purposes of clause (a)(vi) of Condition 11 (*Events of Default*)) any amount in respect of any pension deficit of any member of the Group); and

(l) the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (a) to (k) above.

"**Fitch**" means Fitch Ratings Limited and any successor to the rating agency business of Fitch Ratings Limited.

"**Gilt Rate**" means the yield to maturity at the time of computation of direct obligations of the United Kingdom with a constant maturity (as compiled by the Office of National Statistics and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to 1 March 2017; *provided, however*, that if the period from the redemption date to 1 March 2017 is not equal to the constant maturity of a direct obligation of the United Kingdom for which a weekly average yield is given, the Gilt Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the United Kingdom for which such yields are given, except that if the period from such redemption date to 1 March 2017 is less than one year, the weekly average yield on actually traded direct obligations of the United Kingdom adjusted to a constant maturity of one year shall be used.

"**Group**" means the Issuer and the Subsidiary Group Companies.

"**Group ICR**" means for any Relevant Testing Period, the ratio (expressed as a ratio of 1) of:

(a) the sum of Cashflow from Operations of the Subsidiary Group Companies (after adding back any cashflows of a one-off, non-recurring, extraordinary or exceptional nature in respect of the Subsidiary Group Companies), less corporation tax paid to HM Revenue and Customs, less two per cent. multiplied by the Total RAB; to

(b) interest and equivalent recurring finance charges paid on:

    (i) Senior Debt and Junior Debt and any Permitted Financial Indebtedness (as defined in the Master Definitions Agreement) that is not pursuant to the STID subordinated to such Senior Debt and Junior Debt; and

    (ii) Borrowings (other than any Parent Liabilities),

    less all interest received by any member of the Security Group from any third party other than pursuant to a Permitted Inter-Company Loan.

"**Group Net Indebtedness**" means, as at any date, the sum of Senior Net Indebtedness, Junior Indebtedness and Issuer Net Indebtedness.

"**Group RAR**" means Group Net Indebtedness expressed as a percentage of Total RAB.

"**Hedge Counterparty**" means any person that has become a party to the Intercreditor Agreement as a hedge counterparty in accordance with the provisions of the Intercreditor Agreement.

"**Hedging Agreement**" means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Issuer and a Hedge Counterparty in accordance with the Intercreditor Agreement for the purpose of hedging interest rate risk in respect of Notes or interest rate or currency risk in respect of any Permitted Borrower Debt.

"**Hedging Liabilities**" has the meaning given to that term in the Intercreditor Agreement.

"**Holding Company**" means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

"**Insolvency Official**" means, in respect of any company, a liquidator, provisional liquidator, administrator (whether appointed by the court or otherwise), administrative receiver, receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian or other similar official in respect of such company or in respect of the whole or any part of the company's assets or in respect of any arrangement or composition with creditors.

"**Insolvency Proceedings**" means the winding-up, dissolution, company voluntary arrangement or administration of a company or corporation and shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief from creditors or the appointment of an Insolvency Official.

"**Intercreditor Agreement**" means the Intercreditor Agreement dated the date of the Trust Deed (as amended, waived. restated, novated, replaced and/or supplemented from time to time) between, amongst others, the Parent; the Issuer; the Trustee; the Security Agent and the other parties to the Facility Agreement; and the Hedge Counterparties.

"**Interest Period**" means the period beginning on and including the date of the Trust Deed and ending on but excluding the first Interest Payment Date, and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"**Investor Report**" has the meaning given to that term in the Master Definitions Agreement; *provided, however,* that the Investor Report furnished to the Trustee pursuant to clause (a)(iii) of Condition 4.11 (*Information and Reports; Certificates; Notification of Defaults and Events of Default*) shall also include a supplement setting out the amendments to, and recalculations of, the financial covenants set out in the Investor Report to incorporate the Borrowings of the Issuer.

"**Issuer Net Indebtedness**" means, at any time, the aggregate amount of all indebtedness of the Issuer for or in respect of Borrowings (other than any Parent Liabilities) but deducting the aggregate amount of Cash and Cash Equivalent Investments held by the Issuer.

"**Junior Debt**" has the meaning given to that term in the Master Definitions Agreement.

"**Junior Indebtedness**" has the meaning given to that term in the Master Definitions Agreement.

"**Junior RAR**" has the meaning given to that term in the Master Definitions Agreement.

"**London Stock Exchange**" means London Stock Exchange plc.

"**Master Definitions Agreement**" means the master definitions agreement entered into in connection with the Common Terms Agreement and dated 18 August 2008, as in effect on the date of the Trust Deed.

"**Material Adverse Effect**" means a material adverse effect on:

(a) the business, assets or financial condition of the Group taken as a whole; or

(b) the ability of the Issuer (taking into account the resources available to the Issuer from other members of the Group) to perform its payment obligations under the Notes.

"**Maturity**" means, with respect to any indebtedness, the date on which any principal of such indebtedness becomes due and payable as therein or herein provided, whether at the stated maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"**Maturity Date**" means 1 March 2017.

"**Moody's**" means Moody's Investor Services Limited and any successor to the ratings business of Moody's Investor Services Limited.

"**Note Acceleration Notice**" has the meaning given to that term in paragraph (b) of Condition 11 (*Events of Default*).

"**Noteholder Direction**" has the meaning given to that term in paragraph (a) of Condition 12 (*Enforcement of Security*).

"**Officer's Certificate**" means a certificate signed by one director of the Issuer or a Surviving Entity, as the case may be, addressed and delivered to the Trustee.

"**Original Credit Facilities Documents**" has the meaning given to that term in the Intercreditor Agreement.

"**Parent**" means BAA (DSH) Limited.

"**Participating Member State**" means any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

"**Parent Debt**" means Financial Indebtedness owed by the Issuer to the Parent and which constitutes Parent Liabilities.

"**Parent Liabilities**" has the meaning given to that term in the Intercreditor Agreement.

"**Permitted Borrower Debt**" means any Financial Indebtedness incurred by the Issuer where:

(a) the Issuer is the only borrower of that Financial Indebtedness;

(b) that Financial Indebtedness is not guaranteed by the Parent or any Subsidiary of the Issuer;

(c) the only Security for that Financial Indebtedness is Transaction Security;

(d) when that Financial Indebtedness is incurred, Pro Forma Group RAR is not greater than 90 per cent after giving *pro forma* effect to (i) the incurrence of the Financial Indebtedness and (ii) the application of the proceeds thereof;

(e) when that Financial Indebtedness is incurred, Pro Forma Group ICR is not less than 1.0 after giving *pro forma* effect to (i) the incurrence of the Financial Indebtedness and (ii) the application of the proceeds thereof;

(f) no Event of Default is continuing when that Financial Indebtedness is incurred; and

(g) that Financial Indebtedness:

  (i) is permitted by the Intercreditor Agreement to be designated as Primary Creditor Liabilities; and

  (ii) (A) is designated Primary Creditor Liabilities before any such Financial Indebtedness is incurred by the Issuer and (B) the creditors or, if applicable, their representatives in respect of that Financial Indebtedness have acceded to the Intercreditor Agreement in accordance with its terms.

"**Permitted Equity Cure Amount**" means an amount:

(a) subscribed for in cash by the Parent for ordinary shares in the Issuer; or

(b) lent by the Parent to the Issuer in cash by way of Parent Liabilities.

"**Permitted Financial Indebtedness**" means Financial Indebtedness:

(a) arising under the Original Credit Facilities Documents or, on or before the first utilisation date under the Original Credit Facilities Documents, arising under the Existing SH Facility;

(b) arising in respect of any Permitted Borrower Debt;

(c) which are Hedging Liabilities or Parent Liabilities; or

(d) which is owed by the Parent to:

  (i) any of its Affiliates (other than members of the Group); or

  (ii) the Issuer in accordance with (a)(ii)(B) of Condition 4.5 (*Limitation on Loans, Credit or Guarantee*).

"**Permitted Holders**" means (a) Ferrovial S.A., Caisse de dépôt et placement du Québec and The Government of Singapore Investment Corporation and any of their respective Affiliates, and (b) any person who is acting as an underwriter in connection with any public or private offering of Shares of the Issuer, acting in such capacity.

"**Permitted Inter-Company Loan**" has the meaning given to that term in the Master Definitions Agreement.

"**Permitted Security**" means:

(a) any liens arising by operation of law and in the ordinary course of the Issuer's or the Parent's business as a holding company and not as a result of any default or omission by the Issuer or the Parent;

(b) any payment or close-out netting or set-off arrangement pursuant to any Treasury Transaction or foreign exchange transaction entered into by the Issuer or the Parent that constitutes Permitted Financial Indebtedness, excluding any Security or Quasi-Security under a credit support arrangement;

(c) Security arising under the Transaction Security Documents; and

(d) Security incurred in the ordinary course of business of the Issuer with respect to obligations that do not exceed £5 million (or the equivalent thereof in any other currency or currencies) at any one time outstanding.

"**Permitted Transaction**" means the consolidation, merger or amalgamation with or into (whether or not the Issuer is the surviving corporation), or sale, assignment or conveyance, transfer, lease, or other disposal of, in one transaction or a series of transactions, all or substantially all of the Issuer's assets (determined on a consolidated basis for it and its Subsidiaries) to, another person, when:

(a) the resulting, surviving or transferee person, if other than the Issuer (the "**Surviving Entity**"), (A) is a person organised and existing under the laws of England and Wales, any member state of the European Union, the European Economic Area, the United States of America, any state thereof, the District of Columbia or Canada and (B) expressly assumes, pursuant to a deed supplemental to the Trust Deed, executed and delivered to the Trustee, in a form satisfactory to the Trustee, the Issuer's obligations under the Notes and the Trust Deed and assumes the Issuer's obligations under the Transaction Security Documents and the Notes, with the Trust Deed and the Security Documents (including the Transaction Security) remaining in full force and effect as so supplemented;

(b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any obligation of the Issuer or any Subsidiary Group Company incurred in connection with or as a result of such transaction or series of transactions as having been incurred by the Issuer or such Subsidiary Group Company at the time of such transaction), no Default or Event of Default will have occurred and be continuing;

(c) immediately before and immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (on the assumption that the transaction or series of transactions occurred on the first day of the four-quarter financial period immediately prior to the consummation of such transaction or series of transactions with the appropriate adjustments with respect to the transaction or series of transactions being included in such *pro forma* calculation), the Issuer (or the Surviving Entity if the Issuer is not the continuing obligor under the Trust Deed) could incur at least £1.00 of additional Financial Indebtedness under the provisions of Condition 4.1 (*Limitation on Financial Indebtedness*);

(d) any of the Issuer's or the Surviving Entity's property or assets would thereupon become subject to any Security, the provisions of the Condition 4.6 (*Negative Pledge*) are complied with and enforceable in accordance with their terms;

(e) the Issuer or the Surviving Entity will have delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officer's Certificate (attaching the computations to demonstrate compliance with clauses (b) and (c) above) and an opinion of independent counsel, each stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental deed to the Trust Deed is required in connection with such transaction, such supplemental deed complies with the requirements of these Conditions and the Trust Deed and that all conditions precedent in these Conditions and the Trust Deed relating to such transaction have been satisfied and that the Trust Deed and the Notes constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms; and

(f) immediately thereafter, Surviving Entity shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Trust Deed. Upon such succession and substitution, the Issuer shall be relieved of all obligations and covenants under the Trust Deed and the Notes.

"**person**" means any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality).

"**Primary Creditor Liabilities**" has the meaning given to that term in the Intercreditor Agreement.

"**Pro Forma Group ICR**" means Group ICR for the year in which the Financial Indebtedness is incurred as set out in the latest Investor Report supplied by the Issuer, adjusted as though the relevant Financial Indebtedness (and all other Permitted Borrower Debt previously incurred in that financial year and not reflected in the Investor Report) had been incurred on the first day of the relevant year and, to the extent that the relevant Financial Indebtedness is to be used to repay or prepay existing Financial Indebtedness, such Financial Indebtedness had been repaid on the first day of the relevant year.

"**Pro Forma Junior RAR and Pro Forma Group RAR**" shall be determined using Senior Net Indebtedness, Junior Indebtedness and Issuer Net Indebtedness (as applicable) and Total RAB set out in the most recent monthly management accounts available to the Issuer, adjusted to take into account the relevant transaction and any other such transactions since the date to which those accounts were prepared.

"**Public Equity Offering**" means an underwritten public offer and sale of Shares (which are Shares other than redeemable shares) of the Issuer, the Parent or any other Holding Company of the Issuer up to and including BAA Limited, with gross proceeds of at least £20 million (including any sale of Shares purchased upon the exercise of any over-allotment option granted in connection therewith) to the company whose Shares are the subject of such public offer and sale.

"**Quasi Security**" has the meaning given to that term in paragraph (a) of Condition 4.6 (*Negative Pledge*).

"**RAB**" or "**Regulatory Asset Base**" has the meaning given to that term in the Master Definitions Agreement.

"**Regulators**" means the CAA and the UK Competition Commission, and any other additional or replacement governmental authority which may from time to time regulate any of the businesses of the Issuer, the Parent or any Subsidiary Group Company or in respect of which the Issuer, the Parent or any Subsidiary Group Company is required to comply.

"**Relevant Taxing Jurisdiction**" has the meaning given to that term in Condition 10 (*Taxation*).

"**Relevant Testing Date**" means, in respect of any Compliance Reporting Date, 31 December in the year immediately preceding such Compliance Reporting Date.

"**Relevant Testing Period**" means, in respect of any Compliance Reporting Date, the period of 12 months ending on the last day of the financial year in the year preceding such Compliance Reporting Date.

"**Reporting Date**" means 30 June and 31 December in each year starting on 31 December 2010 or any other date as may be agreed between the Issuer and the Trustee as a result of a change in the financial year and or regulatory year end date of any Subsidiary Group Company.

"**Request**" has the meaning given to that term in the Intercreditor Agreement.

"**Request Instruction**" has the meaning given to that term in paragraph (a) of Condition 12 (*Enforcement of Security*).

"**Restricted Payment**" has the meaning given to that term in the Master Definitions Agreement.

"**Restricted Payment Loan**" means any loan by way of a Restricted Payment.

"**Restricted Payment Condition**" has the meaning given to that term in the Master Definitions Agreement.

"**S&P**" means Standard & Poor's Ratings Service and any successor to the ratings business of Standard and Poor's Ratings Service.

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"**Security Agent**" means Deutsche Trustee Company Limited, and its successors, as security agent for the Transaction Security under the Intercreditor Agreement and the Transaction Security Documents.

"**Security Group**" has the meaning given to that term in the Master Definitions Agreement,

"**Senior Debt**" has the meaning given to that term in the Master Definitions Agreement.

"**Senior Finance Documents**" means the "Finance Documents" as defined in the Master Definitions Agreement.

"**Senior Net Indebtedness**" has the meaning given to that term in the Master Definitions Agreement.

"**Shares**" means, with respect to any person, any and all shares, interests, partnership interests (whether general or limited), participations, rights in or other equivalents (however designated) of such person's equity, any other interest or participation that confers the right to receive a share of the profits and losses, or distributions of assets of, such person and any rights (other than debt securities convertible into or exchangeable for shares), warrants or options exchangeable for or convertible into such shares, whether now outstanding or issued after the date of the Trust Deed.

"**Sterling**" or "**£**" means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

"**STID**" has the meaning given to that term in the Master Definitions Agreement.

"**Subsidiary**" means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

"**Subsidiary Group Company**" has the meaning given to the term "Obligor" in the Master Definitions Agreement.

"**Surviving Entity**" has the meaning given to that term in clause (a) of the definition of "Permitted Transaction".

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Total RAB**" has the meaning given to that term in the Master Definitions Agreement.

"**Transaction Security**" means the Security created or expressed to be created in favour of the Security Agent pursuant to the Transaction Security Documents.

"**Transaction Security Documents**" means:

(a) the debenture of the Issuer (including a first-ranking charge of all the issued share capital of BAA (SP) Limited);

(b) the debenture of the Parent (including a first-ranking charge of all the issued share capital of the Issuer); and

(c) any other document entered into by any the Issuer or the Parent creating or expressed to create any Security over all or any part of the Parent's or the Issuer's assets in respect of the obligations under the Permitted Borrower Debt,

in each case, as amended, waived. restated, novated, replaced and/or supplemented from time to time.

"**transactions in the ordinary course of business**" includes contracts for the development, construction and operation of airport facilities.

"**Treasury Transaction**" means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price.

"**Voting Shares**" means any class or classes of Shares pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees (or persons performing similar functions) of any person (irrespective of whether or not, at the time, shares of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

22. GOVERNING LAW

The Trust Deed, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

23. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

(a) upon the happening of any of the events defined in the Terms and Conditions of the Notes ("**Conditions**") as "Events of Default";

(b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, premium and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be prima facie evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders (including any notices to be delivered to the Noteholders pursuant to Condition 12 (*Enforcement of Security*)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 20 (*Notices*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder (including any Noteholder Direction pursuant to Condition 12 (*Enforcement of Security*)) may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer or, as the case may be, the Trustee pursuant to Condition 11 (*Events of Default*), Condition 12 (*Enforcement of Security*) and Condition 7.3 (*Purchase of Notes Upon a Change of Control*)) other than with respect to the payment of principal, premium and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal, premium and interest on the Notes represented by a Global Note will be prescribed after ten years from the appropriate payment date (in the case of principal and premium) and five years from the relevant Interest Payment Date (in the case of interest).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Put Option

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 7.3 (*Purchase of Notes Upon a Change of Control*) may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

8. Redemption at the Option of the Issuer

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, in the event that the

Issuer exercises its call option pursuant to Condition 7.2(a) (*Optional Redemption*) in respect of less than the aggregate principal amount of the Notes outstanding at such time, the Notes shall be redeemed on a *pro rata* basis or, if redemption on a *pro rata* basis is not permitted by Euroclear and/or Clearstream, Luxembourg at such time, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Note(s) are to be subject to such option.

9. Euroclear and Clearstream, Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

TAX CONSIDERATIONS

UNITED KINGDOM TAXATION

The following is a general description of certain UK taxation considerations in relation to the Notes based on current law and practice in the UK as at the date of this Prospectus. It does not purport to be a complete analysis of all tax considerations relating to the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and some aspects do not apply to certain classes of taxpayer (such as dealers, trustees and Noteholders who are connected or associated with the Issuer for relevant tax purposes). The summary set out below is a general guide and should be treated with appropriate caution. Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisors. In particular, holders of the Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

UK Withholding Tax on UK source interest

The Notes issued by the Issuer will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. HM Revenue & Customs' website indicates that the London Stock Exchange has been designated as a recognised stock exchange for these purposes. The Notes will be treated as listed on the London Stock Exchange if they are admitted to the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange. While the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of UK income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of UK income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer (and any person by or through whom interest on the Notes is paid) reasonably believes that the beneficial owner is within the charge to UK corporation tax as regards the payment of interest or the payment is made to one of the classes of exempt bodies or persons set out in sections 935 to 937 of the Income Tax Act 2007, provided that HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In cases falling outside the exemptions described above, an amount must generally be withheld from payments of interest on the Notes on account of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

Provision of Information by UK Paying and Collecting Agents

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual (whether resident in the United Kingdom or elsewhere), or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual (whether resident in the United Kingdom or elsewhere), may be required to provide certain information to HM Revenue & Customs regarding the payment and the identity of the payee or person entitled to the interest and, in certain circumstances such information may be exchanged with tax authorities in other countries. However, in practice no information will be required to be provided in respect of redemption amounts for the year 2010—2011.

Further United Kingdom Income Tax issues

Interest on the Notes constitutes UK source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or for holders who are companies through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The attention of Noteholders is drawn to Condition 10 (*Taxation*) of the Notes. The provisions relating to additional payments referred to in Condition 10 (*Taxation*) of the Notes would not apply if HM Revenue & Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Note directly to UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double taxation treaty.

The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 13 (*Substitution*) of the Notes and does not consider the tax consequences of any such substitution.

The references to "interest" above mean "interest" as understood in UK tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

United Kingdom Corporation Tax Payers

In general Noteholders which are within the charge to UK corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open ended investment companies) will be treated for tax purposes as realising profits, gains or losses (including exchange gains and losses) in respect of the Notes on a basis which is broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes. Such profits, gains and losses (or where the Noteholder's functional currency is not sterling, then the sterling equivalent of such profits, gains and losses as computed in the Noteholder's functional currency) will be taken into account in computing taxable income for corporation tax purposes.

Other UK taxpayers

Taxation of Chargeable Gains

The Notes should constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. If they are "qualifying corporate bonds", a disposal by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains. If the Notes are deeply discounted securities within Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005, they will constitute "qualifying corporate bonds".

Accrued Income Scheme

The provisions of the accrued income scheme (the Scheme) may apply to certain Noteholders who are not subject to corporation tax, in relation to a transfer of the Notes. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount. Generally, persons who are neither resident nor ordinarily resident in the UK and who do not carry on a trade in the UK through a branch or agency to which the Notes are attributable will not be subject to the provisions of these rules. The Scheme will not apply in relation to Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005.

Taxation of Discount

Depending on the issue price and redemption amount, the Notes may constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and other Income) Act 2005. If the Notes are "deeply discounted securities", any gain realised on disposal (including redemption or transfer) of the Notes by a Noteholder who is within the charge to United Kingdom tax in respect of the Notes will generally be taxable as income but such Noteholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition or disposal of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such person for, an individual resident, or certain limited types of entity established, in that other Member State. Similar income for this purpose includes payments on redemption of Notes representing any discount on the issue of Notes or any premium payable on redemption. However, for a transitional period, Austria and Luxembourg may instead impose a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. Belgium previously operated a withholding system, but announced that it would instead operate information reporting from 1 January 2010. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of other countries and territories have adopted similar measures to the EC Directive.

Stamp Duty and SDRT

It is expected that no stamp duty or stamp duty reserve tax will be payable on issue of the Notes or on a transfer of Notes by delivery.

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc and Banco Santander, S.A., Barclays Bank PLC, BNP Paribas and ING Bank N.V., London Branch (together, the "**Managers**") have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 4 November 2010, jointly and severally agreed to subscribe the Notes at the issue price of 100 per cent. of the principal amount of Notes, less a combined management and underwriting commission and selling concession of 1.75 per cent. of the principal amount of the Notes. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

Interest of persons involved in the offer of Notes

Except as described in this "*Subscription and Sale*" section, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer, other than certain of the Managers acting as lenders under the Existing SH Facility and/or the New SH Facility.

GENERAL INFORMATION

Authorisation

The creation and issuance of the Notes has been authorised by a resolution of the Issuer's board of directors, dated 25 October 2010.

Listing

Application has been made to the UKLA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market. The Issuer estimates the expenses relating to the admission of the Notes to trading to be approximately £4,425.

Clearing Information

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate ISIN for this issue is XS0555678597 and the Common Code is 055567859.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

Legal information

The Issuer (registered number 6458635), with its registered office at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW, was incorporated in England on 20 December 2007. The Issuer can be contacted by calling +44 (0)20 8745 9800.

As of the date of this Prospectus, the Issuer's authorised ordinary share capital of £9,000,000,000 is divided into ordinary shares with a par value of £1 each and its issued ordinary share capital is 3,109,350,689 ordinary shares of a par value of £1 each, held by BAA (DSH) Limited.

The rights of the holders of the common shares in the Issuer are contained in the Articles of Association of the Issuer, and the Issuer will be managed by its directors in accordance with those articles and in accordance with the laws of England and Wales.

No Significant Change or Litigation

There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2009, and no significant change in the financial or trading position of the Issuer or the Group since 30 September 2010.

The Issuer is not, and has not been, involved in any governmental, legal or arbitration proceedings that may have or had in the 12 months before the date of this Prospectus, a significant effect on the financial position or profitability of the Group. The Issuer is not aware that any such proceedings are pending or threatened.

Auditors

The financial statements as at and for the years ended 31 December 2008 and 2009 included in this Prospectus have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports. With effect from 1 April 2010, the Issuer appointed Deloitte LLP, chartered accountants of 2 New Street Square, London, EC4A 3BZ as its auditors, replacing PricewaterhouseCoopers LLP.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(a) the Memorandum and Articles of Association of the Issuer;

(b) the audited consolidated financial statements of the Issuer for the years ended 31 December 2008 and 31 December 2009 and the unaudited consolidated financial statements of the Issuer for the nine months ended 30 September 2010;

(c) a copy of this Prospectus; and

(d) the Trust Deed, the Agency Agreement, the Intercreditor Agreement and the Security Agreement.

Yield

The yield of the Notes is 7.125 per cent. per annum calculated on the basis of the Issue Price and as at the date of this Prospectus.

GLOSSARY OF INDUSTRY TERMINOLOGY

References in this Prospectus to an Airport's number of "**passengers**" refer to the sum of all arriving and departing passengers, other than in-transit passengers.

Information in this Prospectus relating to an Airport's percentage of "**international**" passengers is based on the number of that airport's passengers arriving from and departing to destinations that are not in the United Kingdom, Channel Islands or the Isle of Man, relative to the total number of passengers served by that airport. Information in this Prospectus relating to an Airport's percentage of "**domestic**" passengers is based on the number of that airport's passengers arriving from and departing to destinations that are in the United Kingdom, Channel Islands or the Isle of Man, relative to the total number of passengers served by that airport. Accordingly, the information reflects the place of origin or destination of passengers as opposed to their residence.

All information in this Prospectus relating to an Airport's percentage of "**business**" passengers is based on the number of that airport's passengers who are travelling for reasons related to such passengers' employment, based on surveyed information, relative to the total number of passengers served by that airport. All information relating to an Airport's percentage of "**leisure**" passengers is based on the number of that airport's passengers who are not business passengers, relative to the total number of passengers served by that airport.

"**European**" flights are flights arriving from or departing to other destinations in Europe (other than domestic flights but including North African charter flights). International "**long haul**" flights are all flights other than European flights and domestic flights.

"**Hub airport**" refers to an airport where a significant proportion of passengers transfer between flights in being transported to their final destination.

"**Transfer**" traffic relates to passengers who use an airport for the sole purpose of connecting from one aircraft to another. They are counted as both arriving and departing passengers. "**Transit**" or "**In-transit**" traffic refers to passengers who arrive and depart on the same aircraft within 24 hours. "**Point-to-point**" or "**Origin and destination**" traffic refers to any traffic that is not transfer or transit traffic and originates from or terminates at a particular airport.

"**Pier**" refers to an airport passenger building which is connected to a terminal and which houses gate rooms where passengers wait to board and disembark from their aircraft. "**Satellite**" refers to an airport passenger building which is connected to a terminal and which houses not only gate rooms but also other passenger handling facilities (for example, retail facilities) and serves as an extension to the departure lounge.

"**Gate room**" refers to the area where passengers board and disembark from their aircraft.

"**Stand**" means an aircraft parking stand; these can be "**pier-served**", which means they are adjacent to the terminal, enabling passengers to walk directly on and off aircraft parked on the stand, or they can be "**remote**", which requires passengers to be transported by coach between the stand and the terminal.

"**Air transport movement**" means a flight carried out for commercial purposes and includes scheduled flights operating according to a published timetable, charter flights and all-cargo flights. Air transport movement does not include empty positioning flights and private non-commercial flights.

"**Maximum allowable yield**" refers to the maximum amount of aeronautical income per passenger that an Airport Operator may charge in each regulatory year from services subject to price regulation by the CAA.

References to the "**Heathrow Express rail service**" refer to both the express (non-stop) service and the stopping service, Heathrow Connect, unless specifically stated otherwise.

SELECTED DEFINITIONS

The definitions appearing in this chapter are taken from and relate to the Senior Borrower Group Indebtedness only other than where the Terms and Conditions of the Notes expressly cross-refer to a definition appearing in the Master Definitions Agreement which is replicated in this Annex. For all other definitions applicable to the Notes, please see "Terms and Conditions of the Notes". A copy of the Master Definitions Agreement is available on BAA's website.

DEFINITIONS FROM THE MASTER DEFINTIONS AGREEMENT

"**Accession Memorandum**" means (a) with respect to the STID, each memorandum to be entered into pursuant to clause 2 (Accession), clause 4 (Accession of Additional Obligors) or clause 33 (Benefit of Deed) (as applicable) of the STID and which is substantially in the form set out in Schedule 1 (Form of Accession Memorandum) of the STID, (b) with respect to the Bond Trust Deed, a memorandum in substantially the form set out in Schedule 7 (Form of Accession Memorandum) to the Bond Trust Deed pursuant to which a Relevant Financial Guarantor accedes to the Bond Trust Deed, and (c) with respect to the Common Terms Agreement, each memorandum to be entered into pursuant to clause 1.5 (Obligors) of the Common Terms Agreement and which is substantially in the form set out in Schedule 12 (Form of Accession Memorandum) of the Common Terms Agreement.

"**Additional Borrower Secured Creditors**" means any person not already a Borrower Secured Creditor which becomes a Borrower Secured Creditor pursuant to the provisions of clause 2 (Accession) of the STID.

"**Additional Indebtedness Tests**" has the meaning given to it in Schedule 2, Part 3 (General Covenants), Paragraph 7 (Financial Indebtedness) of the Common Terms Agreement.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than (a) in any Hedging Agreement when used in relation to a Hedge Counterparty, where "**Affiliate**" has the meaning given to it in that Hedging Agreement and (b) in the definition of "**outstanding**" where "**Affiliate**" has the meaning given to it in Rule 405 under the Securities Act).

"**Agency Agreement**" means the agreement dated on or about the Initial Issue Date between the Issuer and the Agents referred to therein under which, amongst other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.

"**Agent**" means, as the context requires, the Agent Bank, the Principal Paying Agent, the Exchange Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement or a Calculation Agency Agreement and "**Agents**" means all of them.

"**Agent Bank**" means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.

"**Ancillary Document**" means each document relating to or evidencing the terms of an Ancillary Facility.

"**Ancillary Facility**" means any ancillary facility made available by an Ancillary Lender as part of the Initial WCF in accordance with clause 7 (Ancillary Facilities) of the Initial Credit Facilities Agreement.

"**Ancillary Lender**" means each lender (or Affiliate of a lender) which makes available an Ancillary Facility in accordance with clause 7 (Ancillary Facilities) of the Initial Credit Facilities Agreement.

"**Applicable Accounting Principles**" means, in the case of any Financial Statement or information relating to any Obligor (excluding any Regulatory Accounts), accounting principles, standards and practices generally accepted in the UK as applied from time to time and making such adjustments (if any) as the Auditors may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.

"**Asset Holdco**" means BAA (AH) Limited, a company incorporated in England and Wales (registered number 6458657).

"**Associate**" means, in relation to a person, a person who is his associate and the question of whether a person is an associate of another will be determined in accordance with section 435 of the Insolvency Act 1986.

"**Auditors**" means Deloitte LLP or such other firm of accountants of international repute as may be appointed by the Obligors in accordance with the Common Terms Agreement as the Auditors for the Security Group.

"**Authorised Credit Facility**" means any facility, agreement or finance lease entered into by a Borrower for Senior Debt or Junior Debt as permitted by the terms of the Common Terms Agreement the providers of which are parties to or have acceded to the STID and the Common Terms Agreement, and includes the Initial Borrower Loan Agreement, the Capex Facilities, the Working Capital Facilities, the Refinancing Facility, the EIB Facilities, the Borrower Liquidity Facilities, the Borrower Hedging Agreements, each Finance Lease and (A) any fee letter or commitment letter entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities and (B) any other document (not being a Common Document) that has been entered into in connection with the foregoing facilities or agreements or the transactions contemplated thereby that has been designated as a document that should be deemed to be an Authorised Credit Facility for the purposes of this definition by the parties thereto (including at least one Obligor).

"**Authorised Credit Provider**" means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility.

"**Authorised Investments**" means:

(a) securities issued by the government of the UK; or

(b) demand or time deposits, certificates of deposit and short term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short term Rating; or

(c) any other obligations, provided that in each case the relevant investment has the Minimum Short term Rating and is either denominated in pounds sterling or (following the date on which the UK becomes a Participating Member State) euro or has been hedged in accordance with the Hedging Policy; or

(d) any money market funds or equivalent investments which have a rating of at least AAA by S&P, AAA by Fitch and Aaa by Moody's.

(e) For the avoidance of doubt, "**Authorised Investments**" shall not include:

  (i) any structured or asset-backed securities or instruments, including CDOs, securities or instruments backed by mortgages, mortgage-related instruments, home equity loans, credit card receivables, automobile receivables, student loans or other securities or assets;

  (ii) any derivatives, hedging instruments, credit linked notes or similar instruments;

  (iii) any securities or instruments issued by any structured vehicle, including any structured investment vehicle or limited purpose company generally formed for the purpose of undertaking arbitrage activities by purchasing mostly medium and long-term assets and funding itself with mostly short-term securities or instruments such as commercial paper and medium-term notes; or

  (iv) investments in any money market or liquidity funds that target investment in or hold any such securities or instruments referenced in paragraphs (i), (ii) or (iii) above.

"**BAA**" means BAA Airports Limited (formerly BAA Limited).

"**BAA Bond Guarantee**" means the bond guarantee to be issued by the Bond Guarantor in connection with each Sub Class of BAA Guaranteed Bonds.

"**BAA Group**" means BAA and its Subsidiaries.

"**BAA Guaranteed Bonds**" means the €1,000,000,000 fixed rate Notes due 2014, £400,000,000 fixed rate Notes due 2015, €750,000,000 fixed rate Notes due 2016, £300,000,000 fixed rate Notes due 2018 and €750,000,000 fixed rate Notes due 2020 to be issued by the Issuer on the Initial Issue Date in exchange for certain classes of bonds originally issued by the Bond Guarantor.

"**BAA Pension Liabilities**" has the meaning given to that term in the Master Definitions Agreement.

"**BAA Pension Scheme**" means the BAA defined benefits occupational scheme governed by a Definitive Trust Deed and Rules dated 29 August 2002 (as amended from time to time).

"**BAA Pension Trustee**" means the trustee(s) from time to time of the BAA Pension Scheme.

"**Base Currency**" means pounds sterling.

"**Bearer Bonds**" means those Bonds which are in bearer form.

"**Bondholders**" means the holders from time to time of the Bonds.

"**Bonds**" means the Class A Bonds and/or the Class B Bonds and/or the Subordinated Bonds, as the context may require, and "Bond" shall be construed accordingly.

"**Bond Guarantor**" means BAA in its capacity as bond guarantor of the BAA Guaranteed Bonds.

"**Bond Trust Deed**" means the bond trust deed dated on or about the date of the Common Terms Agreement between, among others, the Issuer and the Bond Trustee and each Relevant Financial Guarantor acceding thereto, under which Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.

"**Bond Trustee**" means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed, for and on behalf of the relevant Bondholders, the Receiptholders, the Couponholders and the other Issuer Secured Creditors.

"**Borrower Account Bank**" means The Royal Bank of Scotland plc or any successor account bank appointed pursuant to the Borrower Account Bank Agreement.

"**Borrower Account Bank Agreement**" means the account bank agreement dated on or about the Initial Issue Date between the Borrowers, HEX Opco, the Borrower Cash Manager, the Borrower Account Bank and the Borrower Security Trustee.

"**Borrower Cash Manager**" means BAA or any substitute cash manager appointed pursuant to the terms of the Shared Services Agreement.

"**Borrower Hedge Counterparty**" means a Hedge Counterparty who is a party to a Borrower Hedging Agreement (together, the "Borrower Hedge Counterparties").

"**Borrower Hedging Agreement**" means a Hedging Agreement entered into by a Borrower with a Hedge Counterparty.

"**Borrower Liquidity Facility**" means a liquidity facility made available under a Borrower Liquidity Facility Agreement and "Borrower Liquidity Facilities" means all of them.

"**Borrower Liquidity Facility Agreement**" means each liquidity facility agreement which has the characteristics set out in Schedule 10 (Liquidity Facilities) to the Common Terms Agreement, as established in connection with any Treasury Transactions entered into by a Borrower under a Borrower Hedging Agreement and to fund any EIB Liquidity Shortfalls and any interest shortfalls under the Refinancing Facility.

"**Borrower Liquidity Facility Provider**" means the Initial Borrower Liquidity Facility Provider and any bank or financial institution which has become a Party to the Borrower Liquidity Facility Agreement in accordance with Clause 31 (Changes to Parties) thereto and which in each case has not ceased to be a Party in accordance with the terms of the Borrower Liquidity Facility Agreement.

"**Borrower Liquidity Reserve Account Trust Deed**" means the trust deed over the Borrower Liquidity Reserve Account entered into on or about the Initial Issue Date by the Borrower Liquidity Reserve Account Trustee, the Borrower Security Trustee and the Reserve Account Beneficiary.

"**Borrower Liquidity Reserve Account**" means the trust account opened and maintained by the Borrower Liquidity Reserve Account Trustee having account number 31290874 and entitled RBS re: HAL and STAL Borrower Liquidity Reserve Account which may be (i) credited with a cash reserve for satisfying all or part of the minimum debt service funding requirements set out in paragraph 3(c) of Part 3 (Trigger Event Remedies) of Schedule 3 (Trigger Event) of the Common Terms Agreement and (ii) credited with Standby Drawings made prior to satisfaction of the LC Release Conditions, or such other account as may be opened, with the consent of the Borrower Security Trustee, at any branch of the Borrower Account Bank in replacement of such account.

"**Borrower Liquidity Reserve Account Trustee**" means the trustee of the Borrower Liquidity Reserve Account from time to time pursuant to the terms of the Borrower Liquidity Reserve Account Trust Deed.

"**Borrower Loan**" means the principal amount of all advances from time to time outstanding under a Borrower Loan Agreement.

"**Borrower Loan Agreement**" means any loan agreement entered into between the Issuer and the Borrowers, including the Initial Borrower Loan Agreement.

"**Borrower Secured Creditor**" means the Borrower Security Trustee (in its own capacity and on behalf of the other Borrower Secured Creditors), the Issuer, EIB, the Initial WCF Providers, the Initial Capex Facility Providers, the Refinancing Facility Providers, the Initial Credit Facilities Agent, the Refinancing Facility Agent, each Ancillary Lender, each Hedge Counterparty under each Borrower Hedging Agreement, each Borrower Liquidity Facility Provider, the Borrower Liquidity Facility Agent, each Initial Authorised Credit Provider and each other Authorised Credit Provider, the BAA Pension Trustee, the Borrower Account Bank, any replacement Borrower Cash Manager which is not an affiliate of BAA, each Finance Lessor and any Additional Borrower Secured Creditors.

"**Borrower Secured Liabilities**" means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) (i) of each Obligor to any Borrower Secured Creditor under each Finance Document to which such Obligor is a party, except for any obligation which, if it were secured under the Security Agreement, would result in a contravention of Section 151 of the Companies Act 1985 and (ii) of each Obligor and BAA to the BAA Pension Trustee in respect of the BAA Pension Liabilities in an amount up to the Maximum Pension Liability Amount.

"**Borrower Security**" means the security constituted by the Security Documents including any guarantee or obligation to provide cash collateral or further assurance thereunder.

"**Borrower Security Trustee**" means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.

"**Borrowers**" means Heathrow Airport Limited and Stansted Airport Limited for so long as each of them remains a member of the Security Group, together with any entity which accedes to the Common Terms Agreement and the STID as a Borrower but excludes any person who ceases to be a member of the Security Group in accordance with the terms of the Finance Documents and "Borrower" shall mean any one of them.

"**BSC**" means BAA Business Support Centre Ltd.

"**BSC Services Agreement**" means the services agreement to be entered into on or about the Initial Issue Date between BAA and BSC.

"**CAA**" or "Civil Aviation Authority" means UK Civil Aviation Authority.

"**Calculation Agency Agreement**" in relation to the Bonds of any Tranche, means an agreement in or substantially in the form of Schedule 1 (Form of Calculation Agency Agreement) of the Agency Agreement.

"**Calculation Agent**" means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

"**Calculation Date**" means, (other than in any Hedging Agreement where "**Calculation Date**" has the meaning given to it in that Hedging Agreement) in respect of each Reporting Date falling in June, the immediately preceding 31 December and, in respect of each Reporting Date falling in December, the immediately preceding 30 June or such other date as may be agreed as a result of a change in the financial year end date or regulatory year end date of any Obligor.

"**Capex Facilities**" means the facilities, including the Initial Capex Facility pursuant to the Initial Credit Facilities Agreement, made available to the Borrowers to fund the Borrower's capex requirements (or, as the context requires, the agreements pursuant to which they are made available) and "**Capex Facility**" means any one of them.

"**Capital Expenditure**" means any investment expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred) relating to maintaining base service levels or increases in capacity or enhancement of service levels, quality or security.

"**Cashflow From Operations**" for the purposes of the Common Terms Agreement, the amount of cash flow from operations including dividends received by any Obligor from any Subsidiary which is not an Obligor, but excluding interest paid, interest received and income taxes paid as provided in the cash flow statements delivered pursuant to the Common Terms Agreement subject to certain adjustments and limitations provided by paragraph 4 (Earnings from Investments) of Part 2 of Schedule 2 to the Common Terms Agreement.

"**Class**" means each class of Bonds, the available Classes of Bonds at the Initial Issue Date being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds.

"**Class A Bonds**" means the Class A Wrapped Bonds and the Class A Unwrapped Bonds, each of which may be further divided into Sub Classes.

"**Class A Unwrapped Bonds**" means the Class A Bonds that do not have the benefit of a guarantee from a Financial Guarantor.

"**Class A Wrapped Bonds**" means the Class A Bonds that have the benefit of a guarantee from a Financial Guarantor.

"**Class B Bonds**" means the Class B Wrapped Bonds and the Class B Unwrapped Bonds, each of which may be further divided into Sub Classes.

"**Class B Unwrapped Bonds**" means the Class B Bonds that do not have the benefit of a guarantee from a Financial Guarantor.

"**Class B Wrapped Bonds**" means the Class B Bonds that have the benefit of a guarantee from a Financial Guarantor.

"**Common Documents**" means the Security Documents, the Common Terms Agreement, the Master Definitions Agreement, the Shared Services Agreements, the Senior/Subordinated Intercreditor Agreement, the STID and the Tax Deed of Covenant.

"**Common Terms Agreement**" or "**CTA**" means the common terms agreement to be entered into between, among others, the Obligors, the Borrower Cash Manager, the Issuer and the Borrower Security Trustee to be dated on or about the Initial Issue Date.

"**Companies Act**" means the company law provisions of the Companies Act 2006, Part 2 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 (c.27) (community interest companies), and the provisions of the Companies Act 1985 (c. 6) and the Companies Consolidation (Consequential Provisions) Act 1985 (c. 9) that remain in force.

"**Competition Commission**" or "**CC**" means the UK Competition Commission.

"**Compliance Certificate**" means a certificate, substantially in the form of Schedule 7 (Form of Compliance Certificate) to the Common Terms Agreement in which the Obligors periodically provide certain financial information and statements to the Borrower Security Trustee as required by the Common Terms Agreement.

"**Composite Guarantee Deed**" means the inter-company composite guarantee entered into on or about the Initial Issue Date between the Borrowers, HEX Opco and the Borrower Account Bank.

"**Conditions**" means the terms and conditions of the Bonds set out in the Bond Trust Deed, as may from time to time be amended, modified, varied or supplemented in the manner permitted under the Bond Trust Deed.

"**Contractor**" means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement.

"**Coupon**" means an interest coupon appertaining to a Definitive Bond, such coupon being:

(a) if appertaining to a Fixed Rate Bond, a Floating Rate Bond or an Indexed Bond, in the form or substantially in the form set out in Part 5 (Form of Coupon) of Schedule 3 (Forms of Global and Definitive Bonds, Receipts, Coupons and Talons) to the Bond Trust Deed or in such other form, having regard to the terms of issue of the Bonds of the relevant Sub Class, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s); or

(b) if appertaining to a Definitive Bond which is neither a Fixed Rate Bond nor a Floating Rate Bond nor an Indexed Bond, in such form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s),

and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (Replacement of Bonds, Coupons, Receipts and Talons).

"**Couponholders**" means the several persons who are, for the time being, holders of the Coupons.

"**CP Agreement**" means the conditions precedent agreement to be entered into between, among others, the Issuer, the Bond Trustee, the Borrower Security Trustee and the Obligors on the Initial Issue Date.

"**Cross Currency Hedge Counterparties**" means (i) the Initial Issuer Hedge Counterparties which are party to a Cross Currency Hedging Agreement and which are party to the STID and (ii) any counterparty to a Cross Currency Hedging Agreement which is or becomes party to the STID in accordance with the STID and "Cross Currency Hedge Counterparty" means any of such parties.

"**Cross Currency Hedging Agreement**" means any Hedging Agreement in respect of a Treasury Transaction which is a currency swap or exchange transaction.

"**Cross Licensing Agreement**" means the cross licensing agreement to be entered into on or about the Initial Issue Date between, among others, BAA, HAL, STAL, Hex Opco and IP SPV in the form set out in Schedule 7 of the Shared Services Agreement.

"**Date Prior**" means, in respect of any Obligor, the date which is the last day of the regulatory year of such Obligor before the next price determination for such Obligor takes effect.

"**Dealers**" means Citigroup Global Markets Limited, The Royal Bank of Scotland plc, Banco Santander, S.A., HSBC Bank plc, Crédit Agricole Corporate and Investment Bank, Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas, London Branch, Caja de Ahorros y Monte de Piedad de Madrid and Royal Bank of Canada Europe Limited and any other entity which the Issuer and the Obligors may appoint as a Dealer and notice of whose appointment has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Dealership Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Dealership Agreement and notice of such termination has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Dealership Agreement and references to a "**relevant Dealer**" or the "relevant Dealer(s)" mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranche and "Dealer" means any one of them.

"**Dealership Agreement**" means the agreement dated on or about the Initial Issue Date between the Issuer, the Obligors, BAA and the Dealers named therein (or deemed named therein) concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto.

"**Default**" means:

(a) a Loan Event of Default; or

(b) a Potential Loan Event of Default.

"**Definitive Bond**" means a Bearer Bond in definitive form issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms), such Bearer Bond in definitive form being in the form or substantially in the form set out in Part 3 (Form of Definitive Bonds) of Schedule 3 (Forms of Global and Definitive Bonds, Receipts, Coupons and Talons) to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

"**Designated Airports**" means the airports at Heathrow and Stansted.

"**EIB**" means The European Investment Bank in its capacity as lender pursuant to the EIB Facilities.

"**EIB Facilities**" means certain existing term facilities made available to HAL and any further facilities made available to one or more of the Borrowers by EIB.

"**EIB Facility Agreements**" means certain EIB facility agreements under which the EIB Facilities are made available to one or more of the Borrowers.

"**EIB Lender**" means The European Investment Bank as lender of the EIB Facility.

"**EIB Liquidity Shortfall**" means, in relation to any Payment Date under a Supported EIB Facility Agreement, an amount equal to the shortfall between amounts available to the Borrowers to meet payments of interest, fees and commissions on the Supported EIB Facilities and the amount of interest, fees and commissions payable by the Borrowers on such Payment Date on the principal amount advanced by EIB under the EIB Facility Agreements.

"**Enforcement Instruction Notice**" has the meaning given to it in clause 21.2 (Enforcement Instruction Notices) of the STID.

"**Equipment**" means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, Intellectual Property Right, software and any other item leased under that Finance Lease

"**Equivalent Amount**" means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate.

"**Exchange Agent**" means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as exchange agent under the Agency Agreement in respect of the Bonds.

"**Exchange Rate**" means the strike rate specified in any related Cross-Currency Hedging Agreement or, failing that, the spot rate at which the Non Base Currency is converted to the Base Currency as quoted by the Agent Bank as at 11.00 a.m.:

"**Existing Security Agreements**" means

(a) the debenture dated 30 January 2008 between BAA (AH) Limited, BAA (SH) Limited, BAA (SP) Limited and BAA (DSH) Limited as Chargors and The Royal Bank of Scotland plc as security trustee;

(b) the debenture dated 19 January 2007 made between Heathrow Airport Limited and Stansted Airport Limited as Chargors and The Royal Bank of Scotland plc as security trustee;

(c) the mortgage dated 19 January 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(d) the mortgage dated 19 January 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(e) the mortgage dated 30 August 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(f) the mortgage dated 30 August 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(g) the mortgage dated 17 September 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(h) the mortgage dated 17 September 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(i) the mortgage dated 19 September 2007 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(j) the mortgage dated 12 October 2007 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(k) the mortgage dated 3 April 2008 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(l) the mortgage dated 7 April 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(m) the mortgage dated 9 April 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(n) the mortgage dated 10 April 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(o) the mortgage dated 15 April 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(p) the mortgage dated 30 April 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(q) three mortgages each dated 6 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(r) the mortgage dated 8 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(s) three mortgages each dated 12 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(t) the two mortgages dated 16 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(u) the mortgage dated 19 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(v) the mortgage dated 21 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(w) the mortgage dated 30 May 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(x) the mortgage dated 11 June 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(y) the mortgage dated 20 June 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(z) the mortgage dated 7 July 2008 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(aa) the mortgage dated 10 July 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(bb) the mortgage dated 18 July 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(cc) two mortgages each dated 1 August 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(dd) the mortgage dated 4 August 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(ee) the two mortgages dated 5 August 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee;

(ff) the mortgage dated 8 August 2008 between Heathrow Airport Limited and The Royal Bank of Scotland plc as security trustee;

(gg) the mortgage dated 8 August 2008 between Stansted Airport Limited and The Royal Bank of Scotland plc as security trustee,

and any other mortgage entered into between an Operating Company and The Royal Bank of Scotland plc prior to the Initial Issue Date.

"**Excluded Cash**" means (a) any amounts standing to the credit of the Insurance Proceeds Account, (b) on and following a Mandatory Prepayment Date, any disposal proceeds from the disposal of all or part of a Designated Airport representing more than two per cent. of Total RAB which have not for any reason been applied in the prepayment of advances or market purchases of bonds in circumstances where they should have been so applied, (c) any cash required to meet any Restricted Payment declared but not yet paid or which the Security Group Agent reasonably expects to be declared in the 90 days following the date of any Compliance Certificate or, if later, the date of delivery of any financial statements that were required to be delivered with such Compliance Certificate but were not so delivered, (d) the amount of any cash collateral provided by a Borrower under a credit support annex in respect of hedging arrangements entered into in the ordinary course of business and permitted in accordance with the Hedging Policy, (e) the aggregate amounts standing to the credit of any Liquidity Standby Account (as defined in the relevant Borrower Liquidity Facility Agreement) in the name of any of the Borrowers and (f) the aggregate amounts standing to the credit of the Borrower Liquidity Reserve Account.

"**Excluded Issuer Cash**" means the aggregate amounts standing to the credit of any Liquidity Standby Account (as defined in the relevant Issuer Liquidity Facility Agreement) in the name of the Issuer, the aggregate amounts standing to the credit of the Issuer Liquidity Reserve Account and any Issuer Collateral Account.

"**Extraordinary Voting Matters**" are matters which:

(a) would release any of the Borrower Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Common Documents;

(b) would change (i) certain material definitions which relate to the key structural principles on which the voting mechanics of the Extraordinary Voting Matters have been founded, or (ii) any of the matters constituting Extraordinary Voting Matter;

(c) (subject to paragraph (e) below) would change any Loan Events of Default or any Trigger Events each in relation to non-payment, the making of Restricted Payments, financial ratios or credit rating downgrade;

(d) would relate to the waiver of the Loan Event of Default in respect of any Obligor or Loan Events of Default or Trigger Events each in relation to non payment, credit rating downgrade or financial ratios or the making of Restricted Payments;

(e) would materially adversely change or affect the application of the Fair and Reasonable Principle to the allocation of shared costs payable by the Obligors under the Shared Services Agreements save as permitted or required under the Shared Services Agreements in respect of any Regulatory Change;

(f) would change in any adverse respect the restriction on any disposal of HAL or Heathrow or relate to a consent in respect of any such disposal;

(g) would change in any adverse respect the mandatory prepayment provisions set out in Paragraph 6 (Disposals) of Part 3 (General Covenants) of Schedule 2 (Covenants) to the Common Terms Agreement following a disposal of all or part of a Designated Airport, including, without limitation, the amount to be prepaid or the time by which such amount is to be applied in prepayment;

(h) would change any of the termination events or materially affect any of the provisions relating to the obligations of any party to the Shared Services Agreement following the occurrence of a termination event;

(i) would materially change or have the effect of materially changing clause 2.7 of the Shared Services Agreement or the equivalent provision of the BSC Services Agreement or BAA's or BSC's obligations thereunder;

(j) would materially change or have the effect of materially changing the definition of Permitted Business;

(k) would change or have the effect of changing the provisions relating to or relate to the waiver of the Additional Indebtedness Tests set out in Schedule 2, part 3, paragraph 7 to the Common Terms Agreement;

(l) would have the effect of approving or consenting to any termination of the appointment of BAA as Shared Services Provider under the Shared Services Agreement in accordance with the provisions of paragraph (b)(iii) of clause 19.3 of the Shared Services Agreement;

(m) would result in the earnings from any Joint Ventures which are not Obligors contributing towards more than 10 per cent. of Cashflow from Operations;

(n) would result in the sum of the aggregate undrawn available commitments under Liquidity Facilities of the Issuer and the balance of the Issuer Liquidity Reserve Account (if any) being less than the aggregate amount of the Issuer's estimated recurring fees and expenses, interest and equivalent finance charges for the 12 months following the most recently occurring Calculation Date on Issuer Senior Debt and for the 6 months following the most recently occurring Calculation Date on Issuer Junior Debt;

(o) would result in the sum of the aggregate undrawn available commitments under Liquidity Facilities of the Borrowers and the balance of the Borrower Liquidity Reserve Account (if any) being less than the sum of (i) the aggregate forecast net payments payable by the Borrowers under outstanding Treasury Transactions under the Borrower Hedging Agreements; (ii) the amount of the Borrowers' estimated recurring fees and expenses, interest and equivalent finance charges under the Refinancing Facility (after taking account of the impact of all Interest Rate Hedging Agreements entered into in respect of the Refinancing Facility which continue in force) for the 12 months following the most recently occurring Calculation Date on Tranche A Loans outstanding under the Refinancing Facility Agreement and for 6 months following the most recently occurring Calculation Date on Tranche B Loans outstanding under the Refinancing Facility Agreement and (iii) the maximum potential EIB Liquidity Shortfall under the Supported EIB Facilities, in each case for the succeeding 12 month period, on the basis of, in respect of such Treasury Transactions, the assumptions set out in paragraph 3(c) of Part 1 (Trigger Events) of Schedule 3 (Trigger Events) to the Common Terms Agreement;

(p) would bring forward the scheduled maturity date of any Financial Indebtedness following the occurrence of a Trigger Event which is continuing; or

(q) would result in members of the Security Group being able to claim capital allowances in the five year period following the Initial Issue Date, where the members of the Security Group are aware that the effect of so claiming would be to generate or increase the amount of losses or other amounts which would be available for surrender by way of group relief to companies outside the Security Group and which, in aggregate, exceed 2 per cent. of Total RAB.

"**Fair and Reasonable Principle**" means the fair and reasonable allocation as between the Obligors, the Non-Designated Group and any other members of the BAA Group having regard to the statements of any Regulator in relation thereto provided to BAA from time to time.

"**FG Event of Default**" means in relation to each Relevant Financial Guarantor such events as are specified in the G&R Deed and, in relation to Wrapped Bonds, set out in the relevant Final Terms.

"**Final Terms**" means the final terms issued in relation to each Tranche or Sub Class of Bonds as a supplement to the Conditions and giving details of the Tranche or Sub Class.

"**Finance Documents**" means:

(a) the Security Documents;

(b) any Finance Lease Documents;

(c) the Common Terms Agreement;

(d) the Borrower Loan Agreements;

(e) the Master Definitions Agreement;

(f) the Borrower Account Bank Agreement;

(g) the Initial Credit Facilities Agreement and any Capex Certificate or ICF Accession Memorandum (both as defined therein) delivered thereunder;

(h) the Refinancing Facility Agreement;

(i) the Ancillary Documents;

(j) the EIB Facility Agreements;

(k) each Borrower Liquidity Facility Agreement;

(l) the Borrower Liquidity Reserve Account Trust Deed;

(m) the Senior/Subordinated Intercreditor Agreement;

(n) (A) any fee letter, commitment letter or request entered into in connection with (i) the facilities referred to in paragraphs (g) to (l) above or the transactions contemplated in such facilities and (B) any other document that has been entered into in connection with such facilities or the transactions contemplated thereby that has been designated as a Finance Document by the parties thereto (including at least one Obligor);

(o) each Hedging Agreement entered into by the Borrowers;

(p) any other Authorised Credit Facilities;

(q) each CP Agreement;

(r) the Tax Deed of Covenant;

(s) each agreement or other instrument between a Borrower or the Issuer (as applicable) and an Additional Borrower Secured Creditor designated as a Finance Document by a Borrower or the Issuer (as applicable), the Borrower Security Trustee and such Additional Borrower Secured Creditor in the Accession Memorandum for such Additional Borrower Secured Creditor;

(t) the Master Execution Deed; and

(u) any amendment and/or restatement agreement relating to any of the above documents.

"**Finance Lease**" means any finance lease entered into by a Borrower or HEX Opco (a) in respect of Equipment which on its own has a capitalised amount in excess of 0.5 per cent. of Total RAB or when added to the capitalised amount of then existing finance leases would exceed an aggregated capitalised amount of 0.5 per cent. of Total RAB; and (b) the counterparty to which has acceded to the terms of the STID and the Common Terms Agreement, together the "Finance Leases".

"**Finance Lease Documents**" means each Finance Lease together with any related or ancillary documentation.

"**Finance Lessors**" means any person entering into a Finance Lease with a Borrower or HEX Opco, as permitted by the Common Terms Agreement and the STID, who accedes to the STID and the Common Terms Agreement as a Finance Lessor (each a "**Finance Lessor**").

"**Financial Guarantees**" means any financial guarantee issued by a Relevant Financial Guarantor in respect of any Wrapped Debt and "Financial Guarantee" shall be construed accordingly.

"**Financial Guarantor**" means any person who provides a financial guarantee, including the Financial Guarantees, in respect of any of the Wrapped Debt, and "Financial Guarantors" means all of them if there is more than one at any time.

"**Financial Indebtedness**" means (without double counting) any indebtedness for or in respect of:

(a) moneys borrowed or raised (whether or not for cash);

(b) any documentary or standby letter of credit facility;

(c) any acceptance credit;

(d) any bond, note, debenture, loan stock or other similar instrument;

(e) any finance or capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such;

(f) any amount raised pursuant to any issue of shares which are capable of redemption;

(g) receivables sold or discounted (other than on a non recourse basis to any member of the Security Group);

(h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days;

(i) any termination amount due from any member of the Security Group in respect of any Treasury Transaction that has terminated;

(j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity granted in the ordinary course of a Borrower's trading and upon terms usual for such trade);

(k) any counter indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and

any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in Paragraphs (a) to (k) above (other than any guarantee or indemnity given in respect of obligations owed by one member of the Security Group to another).

"**Financial Statements**" means, at any time, the financial statements of an Obligor and, in the case of the Security Parent, additionally consolidated financial statements of itself and its subsidiaries, most recently delivered to the Borrower Security Trustee.

"**Fitch**" means Fitch Ratings Limited and any successor to the rating agency business of Fitch Ratings Limited.

"**Five-Year Period**" means (i) in respect of the Liquidity Facilities, the period of five years from the date of the Borrower Liquidity Facility Agreement or the Issuer Liquidity Facility Agreement (as applicable) as such period may be extended or renewed, with respect to one or more Borrower Liquidity Facility Providers or Issuer Liquidity Facility Providers (as applicable) in accordance with the terms of the relevant Liquidity Facility Agreement; and (ii) in all other respects, each consecutive period of five years commencing from 1 April 2008.

"**Fixed Rate Bond**" means a Bond on which interest is calculated at a fixed rate payable in arrears on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

"**Floating Rate Bond**" means a Bond on which interest is calculated at a floating rate payable in arrears in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

"**FSMA**" means the Financial Services and Markets Act 2000, as amended.

"**Further Enforcement Instruction Notice**" has the meaning given to it in sub clause 21.2.2 (Enforcement Instruction Notices) of the STID.

"**G&R Deed**" means each guarantee and reimbursement deed (or agreement of similar name and effect) entered into from time to time between, among others, the Issuer and each Relevant Financial Guarantor.

"**HAL**" means Heathrow Airport Limited.

"**Hedge Counterparties**" means (i) the Initial Issuer Hedge Counterparties, (ii) the Initial Borrower Hedge Counterparties, and (iii) any counterparty which accedes as hedge counterparty to the STID and the Common Terms Agreement and, in the case of any Treasury Transaction with the Issuer, the Issuer Deed of Charge and "Hedge Counterparty" means any of such parties.

"**Hedging Agreement**" means any Treasury Transaction entered or to be entered into by the Issuer or a Borrower with a Hedge Counterparty under the Hedging Policy to hedge interest rate exposure and currency risk in relation to the Relevant Debt or the Bonds.

"**Hedging Policy**" means the initial hedging policy applicable to the Obligors and the Issuer set out in Schedule 5 (Hedging Policy and Overriding Provisions Relating to Hedging Agreements) to the Common Terms Agreement as such hedging policy may be amended from time to time by agreement between the Borrower Security Trustee, the Issuer, the Borrowers and the Hedge Counterparties in accordance with the STID.

"**HEX Opco**" means the Heathrow Express Operating Co. Ltd, a company incorporated in England and Wales with limited liability (registered number 31415133).

"**Highways Agency**" means the Executive Agency of the Department for Transport responsible for operating, maintaining and improving the strategic road network in England.

"**Holding Company**" means a holding company within the meaning of section 736 of the Companies Act.

"**Indexation Accretion Amount**" means the indexation accretion outstanding in respect of any inflation-linked Hedging Agreement.

"**Indexed Bond**" means a Bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms).

"**Initial Authorised Credit Provider**" means any of the Issuer, the EIB Lender, any Initial Capex Facility Provider, any Initial WCF Provider, any Refinancing Facility Provider and any Initial Borrower Hedge Counterparty.

"**Initial Borrower Hedge Counterparties**" means the financial institutions listed in Part F of Schedule 2 with whom the Borrowers have entered into the Initial Borrower Hedging Agreements on the Initial Issue Date.

"**Initial Borrower Hedging Agreements**" means each Hedging Agreement to be entered into by a Borrower and an Initial Borrower Hedge Counterparty on or before the Initial Issue Date.

"**Initial Borrower Liquidity Facility Provider**" means Lloyds TSB Bank plc.

"**Initial Borrower Loan Agreement**" means the initial Borrower Loan Agreement to be entered into between, amongst others, the Issuer and the Borrowers on or about the Initial Issue Date.

"**Initial Capex Facility**" means the capex facilities of an aggregate facility amount of £2,700,000,000 to be made available to the Borrowers, by the Initial Capex Facility Providers on or about the Initial Issue Date pursuant to the Initial Credit Facilities Agreement.

"**Initial Capex Facility Providers**" means the syndicate of lenders which from time to time provide the Initial Capex Facility.

"**Initial Credit Facilities Agent**" means The Royal Bank of Scotland plc or any successor thereto as agent under the Initial Credit Facilities Agreement.

"**Initial Credit Facilities Agreement**" means the facility agreement to be dated on or about the Initial Issue Date under which the Initial Capex Facility and the Initial WCF are made available to the Borrowers and the WCF Borrowers (as defined in the Initial Credit Facilities Agreement).

"**Initial Issue Date**" means the date upon which the first Series of Bonds is issued by the Issuer or, if no Bonds are issued by the Issuer, the date upon which amounts are drawn by the Borrowers under the Refinancing Facility Agreement.

"**Initial Issuer Liquidity Facility Agent**" means Lloyds TSB Bank plc as agent of the Initial Issuer Liquidity Facility,

"**Initial Issuer Liquidity Facility Agreement**" means the liquidity facility agreement to be dated on or about the Initial Issue Date entered into between, among others, the Issuer and Lloyds TSB Bank plc as Issuer Liquidity Facility Provider.

"**Initial Issuer Liquidity Facility Provider**" means Lloyds TSB Bank plc.

"**Initial Issuer Hedging Agreements**" means each Hedging Agreement to be entered into by the Issuer and the Initial Issuer Hedge Counterparties on or before the Initial Issue Date.

"**Initial Issuer Hedge Counterparties**" means the financial institutions listed in Part E of Schedule 2 with whom the Issuer has entered into the Initial Issuer Hedging Agreements on the Initial Issue Date.

"**Initial WCF**" means the working capital facilities of an aggregate facility amount of £50,000,000 to be made available to the Borrowers, the Security Parent and Asset Holdco by the Initial WCF Providers on the Initial Issue Date.

"**Initial WCF Providers**" means the syndicate of banks which together provide the Initial WCF.

"**Insurance Proceeds Accounts**" means an account titled "**Insurance Proceeds Account**" opened by HAL on behalf of the Borrowers and held at the Borrower Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Intercreditor Instruction Notice**" has the meaning given to it in clause 20.1 (Intercreditor Instruction Notice) of the STID.

"**Intellectual Property Right**" means any right in:

(a) copyright (including rights in software and preparatory design materials), get up, trade names, internet domain names, patents, inventions, rights in confidential information, database rights, moral rights, semiconductor topography rights, trade secrets, know how, trade marks, service marks, logos and registered designs and design rights (each whether registered or unregistered);

(b) applications for registration and the right to apply for registration, for any of the above; and

(c) all other intellectual property rights in each case whether registered or unregistered and including applications for registration and all rights or equivalent or similar forms of protection having equivalent or similar effect anywhere in the world;

"**Interest Commencement Date**" means, in the case of interest bearing Bonds, the date specified in the applicable Final Terms from (and including) which such Bonds bear interest, which may or may not be the Issue Date.

"**Interest Rate Hedging Agreement**" means any Hedging Agreement with a Hedge Counterparty in respect of a Treasury Transaction in respect of any interest rate hedging including, without limitation, through an inflation or inflation linked transaction.

"**Investor Report**" means each report produced by the Security Group Agent to be delivered by each Reporting Date in each year, substantially in the form set out in Schedule 8 (Form of Investor Report) to the Common Terms Agreement.

"**ISDA Master Agreement**" means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Bond Trustee.

"**Issue Date**" means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer makes a utilisation of that facility.

"**Issue Price**" means the price as stated in the relevant Final Terms, generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.

"**Issuer**" means BAA Funding Limited, a company incorporated in Jersey with limited liability under registered number 99529.

"**Issuer Account Bank**" means The Royal Bank of Scotland plc or any successor account bank appointed pursuant to the Issuer Account Bank Agreement.

"**Issuer Account Bank Agreement**" means the account bank agreement dated on or about the Initial Issue Date between the Issuer, the Issuer Account Bank and the Bond Trustee.

"**Issuer Cash Management Agreement**" means the cash management agreement dated on or about the Initial Issue Date between, among others, the Issuer, BAA and the Bond Trustee.

"**Issuer Cash Manager**" means BAA and any successor thereto.

"**Issuer Collateral Account**" means each account of the Issuer titled "Issuer Collateral Account" opened at the Issuer Account Bank in accordance with the provisions of the Issuer Cash Management Agreement and includes any sub account relating to that account and any replacement account from time to time.

"**Issuer Corporate Administration Agreements**" means (i) the corporate administration agreement to be dated on or about the Initial Issue Date between the Issuer and the Issuer Corporate Administration Provider, and (ii) the corporate administration agreement to be entered into on or before the Initial Issue Date between the Issuer and Mourant & Co. Capital (SPV) Limited with regard to the provision of an independent, UK-resident director to the Issuer.

"**Issuer Corporate Administration Providers**" means Mourant & Co. Limited and Mourant & Co. Capital (SPV) Limited and any successors thereto.

"**Issuer Deed of Charge**" means the deed of charge to be entered into between the Issuer and the Bond Trustee on or about the Initial Issue Date.

"**Issuer Hedge Counterparty**" means a Hedge Counterparty who is party to an Issuer Hedging Agreement.

"**Issuer Hedging Agreement**" means each Hedging Agreement entered into by the Issuer and a Hedge Counterparty.

"**Issuer Junior Debt**" means the Class B Bonds and the Cross Currency Hedging Agreements between the Issuer and the Cross Currency Hedge Counterparties in respect of the Class B Bonds.

"**Issuer Liquidity Facility Agent**" means Lloyds TSB Bank PLC as agent on behalf of the Issuer Liquidity Facility Providers under the Initial Issuer Liquidity Facility Agreement or any agent appointed by the Issuer Liquidity Facility Providers under an Issuer Liquidity Facility Agreement (and any successor) thereto.

"**Issuer Liquidity Facility**" means a facility made available to the Issuer under an Issuer Liquidity Facility Agreement, and "Issuer Liquidity Facilities" means all of them.

"**Issuer Liquidity Facility Agreement**" means each liquidity facility agreement which has the characteristics set out in Schedule 10 (Liquidity Facilities) to the Common Terms Agreement, as established in connection with each Sub Class of Bonds issued by the Issuer.

"**Issuer Liquidity Facility Providers**" means the Initial Issuer Liquidity Facility Provider, and any bank or financial institution which has become a Party to the Issuer Liquidity Facility Agreement in accordance with Clause 27 (Changes to Parties) of such Issuer Liquidity Facility Agreement and which in each case has not ceased to be a Party in accordance with the terms of such agreement.

"**Issuer Liquidity Reserve Account**" means an account opened in the name of BAA Funding Limited and maintained by the Issuer Account Bank pursuant to the terms of the Issuer Account Bank Agreement and credited with a cash reserve for the purpose of satisfying the minimum debt service funding requirements set out in paragraph 3(b) of Part 3 (Trigger Event Remedies) of Schedule 3 (Trigger Event) of the Common Terms Agreement or such other account as may be opened, with the consent of the Bond Trustee, at any branch of the Issuer Account Bank in replacement of such account.

"**Issuer Secured Creditor**" means:

(a) the Bond Trustee (for itself and on behalf of the Bondholders) under the Issuer Deed of Charge and the Obligor Floating Charge Agreement;

(b) the Bondholders;

(c) each Relevant Financial Guarantor of Wrapped Bonds under the G&R Deed;

(d) the Bond Guarantor under the BAA Bond Guarantee;

(e) each Issuer Hedge Counterparty under its Issuer Hedging Agreement;

(f) each Issuer Liquidity Facility Provider and the Issuer Liquidity Facility Agent under the Issuer Liquidity Facility Agreement;

(g) the Issuer Account Bank under the Issuer Account Bank Agreement;

(h) the Principal Paying Agent, Paying Agents, Transfer Agent, Exchange Agent, Registrar and Agent Bank under the Agency Agreement and any Calculation Agent under a Calculation Agency Agreement;

(i) the Issuer Cash Manager under the Issuer Cash Management Agreement; and

(j) the Issuer Corporate Administration Providers under the Issuer Corporate Administration Agreements.

"**Issuer Senior Debt**" means the Class A Bonds, the Interest Rate Hedging Agreements between the Issuer and the Hedge Counterparties in respect of the Bonds (excluding any Subordinated Bonds) and the Cross Currency Hedging Agreements between the Issuer and the Cross Currency Hedge Counterparties in respect of the Class A Bonds.

"**Joint Venture**" means any arrangement or agreement for any joint venture, co operation or partnership pursuant to, required for or conducive to the operation of the Permitted Business by the Obligors or which falls within the Permitted Non Regulated Business Limits but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.

"**Junior Debt**" means any financial accommodation that is, for the purposes of the STID, to be treated as Junior Debt and includes all debt outstanding under each Borrower Loan, the terms of which correspond (excluding any applicable hedging under an Interest Rate Hedging Agreement) to any Tranche of Class B Bonds, all Cross Currency Hedging Agreements in relation to Junior Debt and any principal amount outstanding under any Authorised Credit Facility ranking *pari passu* with any of the above.

"**Junior Indebtedness**" means, as at any date, and without double counting:

(a) the Outstanding Principal Amount (or, in respect of a future date, forecast to be outstanding) under any Junior Debt on such date; and

(b) the Outstanding Principal Amount of any other Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date ranking, in accordance with the STID, *pari passu* with such Junior Debt (excluding any Financial Indebtedness that remains a contingent liability),

together with all indexation accrued on any such liabilities.

"**Junior RAR**" means the ratio of the sum of Senior Net Indebtedness and Junior Indebtedness to Total RAB.

"**LC Release Conditions**" means the conditions set out in clause 2.2 (LC Release Conditions) of the Borrower Liquidity Facility Agreement.

"**Legal Charge**" has the meaning given to it in the Security Agreement.

"**Loan Acceleration Notice**" means a notice delivered by the Borrower Security Trustee pursuant to the STID by which the Borrower Security Trustee declares that all Borrower Secured Liabilities shall be accelerated.

"**Loan Event of Default**" means an event specified as such in Schedule 4 (Loan Events of Default) to the Common Terms Agreement.

"**London Stock Exchange**" means The London Stock Exchange plc.

"**Liquidity Facility**" means an Issuer Liquidity Facility or a Borrower Liquidity Facility, as the context requires, and "Liquidity Facilities" means all of them.

"**Liquidity Facility Agreement**" means an Issuer Liquidity Facility Agreement or a Borrower Liquidity Facility Agreement, as the context requires, and "Liquidity Facility Agreements" means all of them.

"**Liquidity Standby Account**" has the meaning given thereto in the relevant Liquidity Facility Agreement.

"**Mandatory Prepayment Date**" has the meaning given to such term in sub paragraph 6(b) of Part 3 (General Covenants) of Schedule 2 (Covenants) of the Common Terms Agreement.

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement signed on or about the Initial Issue Date between, *inter alios*, the Obligors, the Issuer and the Bond Trustee.

"**Master Execution Deed**" means the master execution deed signed on or about the Initial Issue Date between, *inter alios*, the Issuer and the Bond Trustee.

"**Material Adverse Effect**" means the effect of any event or circumstance which is materially adverse to:

(a) the business, assets or financial condition of the Security Group taken as a whole; or

(b) (taking into account the resources available to it from other members of the Security Group) the ability of an Obligor to perform its payment obligations under any Transaction Document; or

(c) the legality, validity or enforceability (subject to the Reservations) of any Transaction Documents in a manner which is prejudicial in any material respect to the interests of the Borrower Secured Creditors.

"**Minimum Short term Rating**" means, in respect of any person, such person's short-term unsecured debt obligations being rated, in the case of S&P, "A 2"; in the case of Moody's, "P 1" and in the case of Fitch, "F1" or at least any two of the above (including S&P).

"**Minor Disposal**" means a disposal or disposals of assets to third parties (not being an Obligor or a Permitted Joint Venture) in an aggregate amount not exceeding one per cent. of Total RAB across all Obligors during any financial year.

"**Non Base Currency**" means a currency other than pounds sterling.

"**Non Designated Group**" means, as at the Initial Issue Date, the group comprising Aberdeen Airport Limited, Edinburgh Airport Limited, Glasgow Airport Limited, Southampton International Airport Limited, BAA Lynton Limited and BAA (NDH 1) Limited.

"**Non RAB Enhancing JV**" means a Joint Venture which is not a RAB Enhancing JV.

"**Non Relevant Activity Asset**" means any asset which is not required under the Airports Act 1986 for the provision at the Designated Airports of any services or facilities for the purposes of:

(a) the landing, parking or taking off of aircraft;

(b) the servicing of aircraft (including the supply of fuel); or

(c) the handling of passengers or their baggage or of cargo at all stages while on airport premises (including the transfer of passengers, their baggage or cargo to and from aircraft).

"**Obligor**" means any of HAL, STAL, HEX Opco, Security Parent and Asset Holdco and any other person who accedes to, *inter alia*, the Common Terms Agreement and the STID as an Obligor in accordance with the terms of the Transaction Documents and "**Obligors**" means all of them.

"**Obligor Floating Charge Agreement**" means the floating charge agreement dated on or about the Initial Issue Date and entered into between the Issuer, the Borrower Security Trustee, the Bond Trustee and the Obligors.

"**Official List**" means the official list of the UK Listing Authority.

"**Operating Companies**" means HAL, STAL and HEX Opco.

"**Outsourcing Agreement**" has the meaning ascribed to such term in the Outsourcing Policy.

"**Outsourcing Policy**" means each of the obligations in Schedule 6 (Outsourcing Policy) to the Common Terms Agreement (as amended or replaced from time to time).

"**Outstanding Principal Amount**" means, as at any date that the same falls to be determined in accordance with the STID:

(a) in respect of Wrapped Debt (unless a FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the aggregate of any unpaid amounts owing to a Financial Guarantor under the G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Debt and the principal amount outstanding (or the Equivalent Amount) under such Wrapped Debt;

(b) in respect of Wrapped Debt (if a FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the principal amount outstanding (or the Equivalent Amount) of such Wrapped Debt;

(c) in respect of Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt;

(d) in respect of any Authorised Credit Facilities that are loans (but do not constitute Wrapped Debt), the principal amount (or the Equivalent Amount) of any drawn amounts that are outstanding under such Authorised Credit Facility;

(e) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to Schedule 5 (Hedging Policy and Overriding Provisions Relating to Hedging Agreements) of the Common Terms Agreement;

(f) in respect of each Finance Lease, the Equivalent Amount of either (i) prior to the delivery of a Loan Acceleration Notice and subject to any increase or reduction calculated in accordance with clause 10.2 (Notification of Outstanding Principal Amount of Qualifying Borrower Debt) of the STID, the highest termination value which may fall due during the Rental Period encompassing such date, calculated upon the assumptions set out in the cashflow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cashflow report which is current on such date) or (ii) following the delivery of a Loan Acceleration Notice (other than a Permitted Lease Termination), the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date on which such Loan Acceleration Notice is delivered (other than a Permitted Lease Termination); and

(g) in respect of any other Borrower Secured Liabilities, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

all as most recently certified or notified to the Borrower Security Trustee, where applicable, pursuant to clause 10.2 (Notification of Outstanding Principal Amount of Qualifying Borrower Debt) of the STID.

"**Party**" means, in relation to a Finance Document, a party to such Finance Document.

"**Paying Agents**" means, in relation to all or any Sub Classes of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the Obligors pursuant to the Agency Agreement and/or, if applicable, any Successor paying agents at their respective specified offices in relation to all or any Sub Classes of the Bonds.

"**Payment Date**" means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.

"**Pensions Agreement**" means the pensions agreement between BAA, the BAA Pension Trustee, the Operating Companies and certain companies within the Non-Designated Group dated on or about the Initial Issue Date.

"**Permanent Global Bond**" means in relation to any Sub Class of Bearer Bonds a permanent global bond in the form or substantially in the form set out in Part 2 (Form of Permanent Global Bonds) of Schedule 3 (Forms of Global and Definitive Bonds, Receipts, Coupons and Talons) to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Bearer Bonds of the same Sub Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

"**Permitted Business**" means the business of owning, operating and developing the Designated Airports undertaken by the Security Group as at the Initial Issue Date (including, without limitation, provision of facilities for and connected with aeronautical activities including retail, car parks, advertising and surface transport and the development thereof) and thereafter any new business undertaken by the Security Group the revenues from which are reasonably expected by the applicable Borrower or Borrowers to be brought into account by the applicable Regulator as at the following Review Date for the purpose of imposing price caps pursuant to Section 40(4) of the Airports Act or would be if the relevant Designated Airport remained designated.

"**Permitted Disposal**" means any disposal which:

(a) is made in the ordinary course of business of the disposing entity or in connection with an arm's length transaction entered into for *bona fide* commercial purposes for the benefit of the Permitted Business;

(b) is of assets in exchange for other assets comparable or superior as to type, value and quality;

(c) would not result in the Senior RAR for each subsequent Relevant Date calculated by reference to the most recently occurring Reporting Date (adjusted on a *pro forma* basis to take into account the proposed disposal) adjusted for any prepayment to be made out of all or part of the net proceeds of such Permitted Disposal, being prior to 1 April 2018 more than or equal to 0.70, and thereafter, more than or equal to 0.725;

(d) is a disposal for cash on arm's length terms of any surplus or obsolete or worn out assets which, in the reasonable opinion of the applicable Borrower, are not required for the efficient operation of its business and which does not cause a Trigger Event under Paragraphs 1 and 2 of Part 1 (Trigger Events) of Schedule 3 (Trigger Events) to the Common Terms Agreement;

(e) is of any Equipment pursuant to or to be leased under a Finance Lease;

(f) is a disposal of all or part of a Designated Airport (including by way of a sale of the shares in the Borrower which owns the relevant Designated Airport) required by, or pursuant to undertakings given to any Regulator;

(g) is a disposal made in connection with any outsourcing, subject, where applicable, to compliance with the Outsourcing Policy;

(h) insofar as the same give rise to an obligation on the part of the Obligor, is made in compliance with the Public Procurement Rules;

(i) is a disposal or surrender of tax losses which is permitted pursuant to the Tax Deed of Covenant;

(j) is the disposal made on arm's length terms of assets forming part of any business which is not a Permitted Business;

(k) unless paragraph 7 (No Disposal to Joint Ventures) of Part 2 (Trigger Event Consequences) of Schedule 3 (Trigger Events) of the CTA applies, is (1) a disposal of assets made on arm's length terms entered into for *bona fide* commercial purposes to a company, partnership or a Joint Venture which is or will upon such acquisition become an Obligor or (2) is a disposal of a Non Relevant Activity Asset made on arm's length terms entered into for *bona fide* commercial purposes to a Permitted Joint Venture;

(l) is a Minor Disposal;

(m) is of the issued share capital of a member of the Security Group to another member of the Security Group;

(n) is a disposal of Authorised Investments;

(o) constitutes the payment of cash and other funds not otherwise prohibited by the Finance Documents;

(p) is made in respect of any asset under or pursuant to any compulsory purchase powers exercised by the relevant authority under whose remit such asset may fall; or

(q) arises as a result of any Permitted Security Interest,

provided that, notwithstanding (a) to (q) (inclusive) above, HAL shall not dispose or sell the whole or substantially the whole of Heathrow and the immediate Holding Company for the time being of HAL shall not dispose of or sell any shares in HAL (whether in a single transaction or through a series of transactions and whether related or not) to any party other than a member of the Security Group save with the consent of the relevant Borrower Secured Creditors.

"**Permitted Financial Indebtedness**" means:

(a) in the case of the Borrowers:

  (i) Financial Indebtedness incurred under the Borrower Loan Agreements; and

  (ii) Financial Indebtedness incurred under the Authorised Credit Facilities the providers of which have acceded to the Common Terms Agreement and the STID,

  which, in either case, will not result in a breach of the Additional Indebtedness Tests,

  (iii) any Financial Indebtedness arising under Treasury Transactions to which a Borrower is party and Borrower Hedging Agreements, in each case entered into in accordance with the Hedging Policy;

  (iv) the amount of any liability under an advance or deferred purchase agreement if either (i) one of the primary reasons behind entering into the agreement is to raise finance or (ii) the relevant payment is advanced or deferred for a period in excess of 90 days;

  (v) any overdraft owing to any bank, up to a maximum aggregate amount at any time of an amount up to 0.5 per cent. of Total RAB net of all current account balances held with such bank (it being understood that the provider(s) of any such overdraft will not be required to accede to the STID);

  (vi) any Financial Indebtedness under any finance leases, up to a maximum aggregate capitalised amount of 0.5 per cent. of Total RAB (such finance lessor in respect of such finance leases shall not be required to accede to the STID);

  (vii) any Financial Indebtedness pursuant to such other arrangements as have been approved by the Qualifying Borrower Secured Creditors by way of an Extraordinary Voting Matter;

  (viii) any Financial Indebtedness arising in the ordinary course of business of the Borrowers under any standby letter of credit facility or similar ancillary facility up to a maximum aggregate amount at any time of up to 0.5 per cent. of Total RAB; and

  (ix) Financial Indebtedness incurred under a Borrower Liquidity Facility Agreement,

  provided that at no time shall the aggregate of Financial Indebtedness arising under sub paragraphs (v), (vi) and (ix) above exceed 1 per cent. of Total RAB; and

(b) in the case of any Obligor or in the case of (ii) and (iii) below, the Security Parent and Asset Holdco:

  (i) any Financial Indebtedness constituted by the guarantee of the Borrowers' obligations under each Borrower Loan Agreement, the relevant Capex Facilities, the Working Capital Facilities and the other Authorised Credit Facilities;

  (ii) any Financial Indebtedness incurred under any Working Capital Facilities for the purpose set out in item (b) of that definition;

  (iii) any Financial Indebtedness incurred under the Security Parent Debenture;

  (iv) any Financial Indebtedness owed to any other Obligor;

  (v) any Financial Indebtedness under any subordinated shareholder loans;

  (vi) any Bankers Automated Clearing System indebtedness owed to any bank of which it is a customer and which provides payment clearing services to it;

  (vii) the amount of any liability under an advance or deferred purchase agreement if either (i) one of the primary reasons behind entering into the agreement is to raise finance or (ii) the relevant payment is advanced or deferred for a period in excess of 90 days;

  (viii) any Financial Indebtedness under the Composite Guarantee Deed; and

  (ix) any Financial Indebtedness constituted by the guarantee by the Obligors of amounts due under the Subordinated Facility Agreement.

"**Permitted Inter Company Distribution**" means any payment which is to be made by an Obligor under a Permitted Inter Company Loan for the purposes of providing funds to the recipient to enable it to:

(a) fund the making of a dividend payment on the same date to an Obligor; or

(b) meet its payments under any Permitted Inter Company Loan.

"**Permitted Inter-Company Loan**" means any loan contemplated in the Reorganisation Steps.

"**Permitted Joint Venture**" means a Joint Venture:

(a) which is not an Obligor;

(b) of which the principal business would, if undertaken by an Obligor, be a Permitted Business or fall within the Permitted Non Regulated Business Limits; and

(c) which is either:

(i) a Non RAB Enhancing JV provided that the aggregate of all amounts (1) invested or (2) for which commitments have been given (including by way of guarantee or similar surety of the obligations of a Non RAB Enhancing JV) by all or any of the Obligors in respect of all Non RAB Enhancing JVs shall not exceed at any time 5 per cent. of Total RAB; or

(ii) a RAB Enhancing JV provided that the regulatory assets of all RAB Enhancing JVs shall not represent at any time more than 10 per cent. of Total RAB.

"**Permitted Lease Termination**" means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

(a) Loss: Pursuant to any provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment save that the relevant Obligor will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if (i) a Loan Acceleration Notice has been delivered or (ii) a Loan Event of Default is subsisting or would occur as a result of such payment;

(b) Illegality: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that the relevant Obligor will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) a Loan Acceleration Notice has been delivered or (ii) a Loan Event of Default is subsisting or would occur as a result of such payment;

(c) Voluntary Prepayment/Termination: Pursuant to any provision of a Finance Lease whereby the relevant Obligor is or will be entitled to voluntarily terminate (and require payment of a termination sum), or prepay the Rentals relating to the leasing of the relevant Equipment under such Finance Lease provided that (i) no Loan Acceleration Notice has been delivered or (ii) no Loan Event of Default is subsisting or would occur as a result of such payment; and

(d) Incorrect Tax Assumptions: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where any of the tax assumptions contained in such Finance Lease prove to be incorrect save that the relevant Obligor will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) a Loan Acceleration Notice has been delivered or (ii) a Loan Event of Default is subsisting or would occur as a result of such payment.

"**Permitted Non Regulated Business Limits**" means, in respect of all businesses which are not or are not expected to be or have never been or were never expected to be Permitted Businesses, that the average of any expenses incurred in connection with such businesses during the current Relevant Period and the immediately two preceding Relevant Periods does not exceed 2 per cent. of Total RAB.

"**Permitted Security Interest**" means any security interest falling under paragraphs (a) to (t) (inclusive) below which is created by any Obligor:

(a) a Security Interest created under the Security Documents or contemplated by the Transaction Documents;

(b) a Security Interest created under or contemplated by the Senior/Subordinated Intercreditor Agreement or in connection with any Subordinated Debt on terms no more favourable than the security granted to the Subordinated Secured Creditors (having regard also to the terms of the Senior/Subordinated Intercreditor Agreement);

(c) any Security Interest specified in Schedule 9 (Borrower Cash Management) to the Common Terms Agreement, if the principal amount thereby secured is not increased;

(d) a Security Interest comprising a netting or set off arrangement entered into by a member of the Security Group in the ordinary course of its banking arrangements;

(e) a right of set off, banker's liens or the like arising by operation of law or by contract by virtue of the provision of any overdraft facility (including an Ancillary Facility which is an overdraft comprising more than one account) and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft;

(f) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the Security Group in good faith and with a reasonable prospect of success;

(g) any Security Interest created in respect of any pre judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the Security Group by appropriate procedures and with a reasonable prospect of success;

(h) a security interest comprising a netting or set off arrangement entered into under any hedge arrangement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set off relating to such hedge arrangement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);

(i) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;

(j) a Security Interest created over shares and/or other securities acquired in accordance with the Common Terms Agreement held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange;

(k) a Security Interest approved by the Borrower Security Trustee, the holder of which has become a party to the STID;

(l) a Security Interest over or affecting any asset acquired on arm's length terms after the date hereof and subject to which such asset is acquired, if:

   (i) such Security Interest was not created in contemplation of the acquisition of such asset;

   (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Security Group; and

   (iii) unless such Security Interest falls within any of Paragraphs (m) to (t) below (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;

(m) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;

(n) a Security Interest arising under or contemplated by any Finance Leases, hire purchase agreements, conditional sale agreements or other agreements for the acquisition or disposal of assets on deferred purchase terms where the counterparty becomes party to the STID provided that the provider of any lease, hire purchase or conditional sale agreements in respect of assets acquired or disposed of in the ordinary course of business on deferred purchase terms and for an aggregate amount not exceeding 0.5 per cent. of Total RAB shall not be required to become a party to the STID;

(o) a right of set off existing in the ordinary course of trading activities between a Borrower and its suppliers or customers;

(p) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business provided that such lien is discharged within 30 days of any member of the Security Group becoming aware that the amount owing in respect of such lien has become due;

(q) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;

(r) any retention of title arrangements entered into by any Obligor in the ordinary course of business;

(s) any escrow arrangements entered into with the Highways Agency in respect of construction costs; or

(t) in addition to any Security Interests subsisting pursuant to the above, any other Security Interests provided that the aggregate principal amount secured by such Security Interests does not at any time exceed an amount equal to 0.5 per cent. of Total RAB.

"**Permitted Variances**" means, in respect of any Obligor, the difference between:

(a) the amount of regulatory capital expenditure actually incurred by such Obligor in the regulatory year immediately preceding the next price determination for such Obligor and the amount of regulatory capital expenditure assumed by the Regulator to be incurred by such Obligor during such regulatory year as at the date that the regulatory asset base, published by the Regulator for the regulatory year immediately following such price determination, is effective;

(b) the net proceeds from disposals of regulatory assets actually achieved by such Obligor in the regulatory year immediately preceding the next price determination for such Obligor and the amount of the net proceeds from disposals of regulatory assets assumed by the Regulator to be achieved by such Obligor during such regulatory year as at the date that the regulatory asset base, published by the Regulator for the regulatory year immediately following such price determination, is effective;

(c) the actual outcome in respect of any other item in the regulatory year immediately preceding the next price determination for such Obligor and the amount specifically assumed by the Regulator to be the outcome for such regulatory year as at the date that the regulatory asset base, published by the Regulator for the regulatory year immediately following such price determination, is effective,

in each case as certified by the Finance Director or Chief Financial Officer of the Security Group Agent on behalf of each Obligor in each Compliance Certificate in respect of which the Calculation Date for such Compliance Certificate falls in the regulatory year following the price determination for such Obligor and setting out the amount of each adjustment and the basis therefor.

"**Potential Loan Event of Default**" means any event which, with the lapse of time and/or the giving of any notice and/or the making of any determination (in each case where the lapse of time and/or giving of notice and/or determination is provided for in the terms of such Loan Event of Default, and assuming no intervening remedy), will become a Loan Event of Default.

"**Principal Paying Agent**" means Deutsche Bank AG, London Branch as principal paying agent under the Agency Agreement, or its Successors thereto.

"**Programme"** means the bond programme established by the Issuer admitted to the Official List and authorised to trade on the London Stock Exchange.

"**Projected Excess Cashflow Before Capex**" means the Security Group's projection as to the amount of surplus cash that, absent a Trigger Event, will be available to pay Restricted Payments in respect of that 12 month period following the most recently occurring Calculation Date after adding back any projected Capital Expenditure less any amounts assumed to be drawn under the Capex Facilities.

"**Public Procurement Rules**" means the Public Contracts Regulations 2006 (SI 2006 No 5), the Utilities Contracts Regulations 2006 (SI 2006 No 6), the Public Contracts (Scotland) Regulations 2006 (SSI 2006 No 1) and the Utilities Contracts (Scotland) Regulations 2006 (SI 2006 No 2) implementing in the United Kingdom Directives 2004/18/EC (public sector) and 2004/17/EC (utilities sector) respectively, including any jurisprudence by the European Community and the UK courts and the case law of the European Commission including the soft law instructions (Guidelines, Communications, Notice, etc.) issued by the European Commission from time to time.

"**Qualifying Borrower Senior Debt**" means at any time:

(a) the principal amount outstanding under the Borrower Loan Agreements corresponding to the Class A Wrapped Bonds and Class A Unwrapped Bonds;

(b) the amount owed by the Borrowers to the Issuer in respect of the mark to market value of any transaction or transactions arising under Cross Currency Hedging Agreements in respect of the Class A Bonds to the extent that such value represents an amount which would be payable to the relevant Cross Currency Hedge Counterparties if an early termination date was designated at such time in respect of such transaction or transactions;

(c) the principal amount outstanding under each Capex Facility at such time to the extent that such amount is designated Senior Debt (ranking *pari passu* with other Senior Debt);

(d) the principal amount outstanding under each Working Capital Facility at such time;

(e) the principal amount outstanding under the Refinancing Facility at such time to the extent that such amount is designated Senior Debt (ranking *pari passu* with other Senior Debt);

(f) the principal amount outstanding to EIB under the EIB Facilities;

(g) (subject to the applicable Finance Lessor under a Finance Lease acceding to the STID as a Borrower Secured Creditor designated as Senior Debt), the termination value of any Finance Leases at such time; and

(h) the principal amounts outstanding under any other Authorised Credit Facility at such time ranking *pari passu* with the above (but excluding for the avoidance of doubt any Borrower Liquidity Facilities or Interest Rate Hedging Agreements with any Borrower Hedge Counterparties).

"**Qualifying Borrower Secured Creditors**" has the meaning given to it in clause 10.1.3 of the STID.

"**RAB**" or "**Regulatory Asset Base**" means in respect of any Obligor as at any date the sum of (i) the Regulatory RAB of such Obligor as at such date and (ii) the Transfer RAB of such Obligor as at such date.

"**RAB Enhancing JV**" means a Joint Venture:

of which all or any of the assets are included by the Regulators in the Regulatory RAB of any Obligor investing in such Joint Venture or are expected to be included by the Regulators in the Regulatory RAB of any Obligor investing in such Joint Venture at the next Review Date; or

the shares or other investment in which are included by the Regulators in the Regulatory RAB of any Obligor owning such shares or investing in such Joint Venture or are expected to be included by the Regulators in the Regulatory RAB of any Obligor owning such shares or otherwise investing in such Joint Venture at the next Review Date.

"**Rating Agencies**" means Fitch and S&P and any further or replacement rating agency appointed by the Issuer to provide a public credit rating or ratings for the Senior Debt and the Junior Debt and public underlying ratings in respect of Class A Wrapped Bonds and Class B Wrapped Bonds for so long as the Issuer seeks such public credit rating or public underlying rating and they are willing and able to provide credit ratings generally (and "**Rating Agency**" means any one of them).

"**Ratings Confirmation**" in respect of a proposed action means a confirmation by the relevant Rating Agencies, in respect of each class of the relevant Bonds, to the effect that the then ratings on such class of Bonds would not be reduced below the lower of (i) the credit ratings of such Bonds as at the Initial Issue Date or (ii) the then current credit ratings (before the proposed action).

"**Receipts**" means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts and Talons issued pursuant to Condition 14 (Replacement of Bonds, Coupons, Receipts and Talons).

"**Receiptholders**" has the meaning given thereto in the Conditions.

"**Refinancing Facility**" means the term loan facility of an aggregate facility amount of £4,400,000,000 to be made available to the Borrowers by the Refinancing Facility Providers on or about the Initial Issue Date pursuant to the Refinancing Facility Agreement.

"**Refinancing Facility Agent**" means The Royal Bank of Scotland plc or any successor thereto.

"**Refinancing Facility Agreement**" means the facility agreement to be dated on or about the Initial Issue Date under which the Refinancing Facility is made available to Borrowers.

"**Refinancing Facility Providers**" means the Initial Refinancing Facility Providers together with any further refinancing facility providers which provide the Borrower with the Refinancing Facility and accede to the Common Terms Agreement and the STID.

"**Registrar**" means Deutsche Bank Trust Company Americas as registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement.

"**Regulators**" means the Civil Aviation Authority ("**CAA**") and the Competition Commission, and any other additional or replacement governmental authority which may from time to time regulate any of the Obligors' businesses or in respect of which any Obligor is required to comply.

“**Regulatory Accounts**” means the individual financial information of each Borrower, each prepared in the form required (for so long as they are required) by the “accounts condition” to BAA’s permission to levy airport charges.

“**Regulatory Change**” means any change in law, enactment, order, regulation, regulatory policy, guideline, industry code or regulatory permit or licence after the Initial Issue Date which impacts on the performance, scope or details of the services provided pursuant to the Shared Services Agreement in any material respect.

“**Regulatory Period**” means the period in respect of which the maximum charges to airport users at Heathrow are fixed by (currently) the Civil Aviation Authority (currently a five year period).

“**Regulatory RAB**” means in respect of any Obligor:

(a) in respect of any date in the current year (the “Relevant Current Year Date”), the regulatory asset base for such Obligor as set out in the last published Regulatory Accounts of such Obligor plus cumulative regulatory capital expenditure incurred between the date to which the Regulatory Accounts related and the Relevant Current Year Date plus indexation accrued between the date to which the Regulatory Accounts relate and the Relevant Current Year Date less (i) regulatory depreciation (as adjusted for indexation) accrued between the date to which the Regulatory Accounts relate and the Relevant Current Year Date and (ii) (A) the net proceeds received from any disposal of regulatory assets during the Relevant Current Year or (B), where such amount differs, the amount the Obligor reasonably expects the Regulator to apply in reduction of such Obligor’s regulatory asset base as a consequence of such disposal;

(b) in respect of each 12 month period starting on the first day of the current year and for each successive 12 month period up to 31 December of the financial year immediately preceding the year in which falls the Date Prior of such Obligor, the regulatory asset base for such Obligor as set out in the latest published Regulatory Accounts for such Obligor plus cumulative regulatory capital expenditure spent or to be spent by such Obligor to the end of such 12 month period plus indexation to the end of such 12 month period less (i) regulatory depreciation (as adjusted for indexation) to the end of such 12 month period and (ii) (A) the net proceeds forecast to be received from any disposal of regulatory assets during the Relevant Period or (B), where such amount differs, the amount the Obligor reasonably expects the Regulator to apply in reduction of such Obligor’s regulatory asset base as a consequence of such projected disposal; and

(c) if the Calculation Date falls within the 18 month period immediately prior to the year in which falls the Date Prior of such Obligor and in respect of the 12 month period starting on the first day of the financial year in the same year as the Date Prior of such Obligor, the regulatory asset base most recently submitted to the Regulators by such Obligor for the regulatory period commencing immediately following the Date Prior of such Obligor plus cumulative regulatory capital expenditure to be spent by such Obligor in the 9 month period from the Date Prior of such Obligor plus indexation for the 9 month period from the Date Prior of such Obligor less (i) regulatory depreciation (as adjusted for indexation) for the 9 month period from the Date Prior of such Obligor and (ii) (A) the net proceeds forecast to be received from any disposal of regulatory assets during the Relevant Period or (B), where such amount differs, the amount the Obligor reasonably expects the Regulator to apply in reduction of such Obligor’s regulatory asset base as a consequence of such projected disposal,

Provided that:

(i) in relation to each of (a), (b) and (c) above, the regulatory asset base of each Obligor shall be the regulatory asset base after any profiling (as adjusted for indexation) that may be applied by the Regulator in accordance with the most recent price determination for such Obligor;

(ii) if the opening regulatory asset base for such Obligor as specified in the Regulatory Accounts of such Obligor for the first regulatory year is not equal to the regulatory asset base published by the Regulator for such Obligor as the opening regulatory asset base for that regulatory year, the Regulatory RAB of such Obligor shall be determined not by reference to the regulatory asset base published in the Regulatory Accounts of such Obligor but instead by reference to the opening regulatory asset base published by the Regulator as adjusted by such Obligor for any Permitted Variances;

(iii) if any Regulator has stated in any correspondence or other communication with such Obligor that any capital expenditure which the Obligor in its Regulatory Accounts has accounted for or expects will be accounted for as regulatory capital expenditure will not be included in the regulatory asset base of such Obligor for the start of the regulatory year immediately following the next price determination, the amount of such regulatory capital expenditure shall be excluded as part of the calculation of the Regulatory RAB of such Obligor;

(iv) if any Regulator has stated in any correspondence or other communication with such Obligor that the aggregate amount it will apply as a deduction from the regulatory asset base of such Obligor for the start of the regulatory year immediately following the next price determination, on account of disposals of regulatory assets will differ from the aggregate amount of deductions from the regulatory asset base of such Obligor accounted for by such Obligor as a consequence of disposals of regulatory assets in its Regulatory Accounts, the amount by which the Regulator's deduction exceeds or is less than the amount deducted by such Obligor from its regulatory asset base in its Regulatory Accounts shall be deducted from (in the case of an excess) or added to (in the case of any shortfall) the regulatory asset base of such Obligor as part of the calculation of Regulatory RAB of such Obligor; and

(v) if the auditors of an Obligor qualify their statement of opinion in relation to any regulatory capital expenditure included by the Obligor in the regulatory asset base of such Obligor as specified in the Regulatory Accounts of the Obligor, the amount of the regulatory capital expenditure to which such qualification relates shall be excluded as part of the calculation of the Regulatory RAB of such Obligor.

"**Relevant Date**" means in respect of the Senior RAR or Junior RAR in respect of any Reporting Date means: (i) 31 December in the year immediately preceding such Reporting Date; (ii) each subsequent 31 December to the year immediately preceding the year in which falls the relevant Date Prior; and (iii) if the Reporting Date falls within the 18 month period immediately prior to the year in which falls the relevant Date Prior, 31 December in the same year as the relevant Date Prior, provided that the first Relevant Date shall be 31 December 2008.

"**Relevant Date Prior**" means, at any time, the date which is one day before the commencement of the next Regulatory Period.

"**Relevant Debt**" has the meaning given to it in the Hedging Policy.

"**Relevant EBITDA**" means the earnings before interest, tax, depreciation and amortisation and pre-exceptional costs (revenues minus expenses) in respect of a business of the Borrower which was brought into account or not expressly disallowed by the CAA for any price determination published by the Regulator for that Borrower for the purpose of imposing price caps pursuant to Section 40(4) of the Airports Act but which ceases to be brought into account or is expressly disallowed for such purpose.

"**Relevant Financial Guarantor**" means, in relation to any Class of Wrapped Debt, the Financial Guarantor which provides a Financial Guarantee in respect of such Class of Wrapped Debt.

"**Relevant Multiple**" means the multiple determined by dividing the Relevant Transfer Value by the sum of the Relevant EBITDA for the three financial years of the relevant Borrower prior to the Relevant Transfer Date as determined by reference to the audited financial statements of such Borrower for such financial years divided by 3.

"**Relevant Period**" means each of the following periods in respect of the Senior ICR or Junior ICR in respect of any Reporting Date:

(a) the period of 12 months ending on the last day of the Financial Year in the year preceding such Reporting Date;

(b) the period of 12 months starting on 1 January in the same year as such Reporting Date;

(c) each subsequent 12 month period up to 31 December of the year immediately preceding the year in which falls the Relevant Date Prior; and

(d) if such Reporting Date falls within the 18 month period prior to the year in which falls the Relevant Date Prior, the 12 month period from 1 January in the same year as the Relevant Date Prior,

provided that the first Relevant Period shall be the 12 month period ending on 31 December 2009.

"**Relevant Transfer Date**" means the first date from which a business of a Borrower which was brought into account or not expressly disallowed by the CAA for any price determination published by the Regulator for that Borrower for the purpose of imposing price caps pursuant to Section 40(4) of the Airports Act ceases to be brought into account or is expressly disallowed for such purpose.

"**Relevant Transfer Value**" means in respect of any business of a Borrower which was brought into account by the CAA for the price determination for any regulatory period for the purpose of imposing price caps pursuant to Section 40(4) of the Airports Act and which ceases to be brought into account for such purpose, unless and until a transfer value has been published by the CAA for such business representing the reduction in the regulatory asset base of such Borrower as determined by the CAA, the transfer value attributed by the Borrower to such business in its most recent Regulatory Accounts and, following publication by the CAA of a transfer value for such business, such published transfer value excluding, in either case, the transfer value published by the CAA or attributed by the Borrower to any assets which are held by a Joint Venture which is not an Obligor.

"**Rental**" means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.

"**Rental Payment Date**" means any date on which Rental is scheduled to be paid under any Finance Lease.

"**Rental Period**" means, in respect of a Finance Lease, each period falling between two consecutive Rental Payment Dates under such Finance Lease.

"**Reorganisation Steps**" means the steps set out in the Steps Paper detailing the reorganisation process in connection with BAA and its Affiliates.

"**Reporting Date**" means 30 June and 31 December in each year starting on 31 December 2008 or any other date as may be agreed as a result of a change in the financial year end or regulatory year end date of any Obligor.

"**Review Date**" means the date falling at the end of each regulatory period from which the regulatory asset base published by the Regulator is effective.

"**Reservations**" means the reservations contained in the legal opinions as to matters of law (and not fact) relating to the enforceability of obligations by virtue of (i) the nature of the remedies available in the relevant jurisdictions in which the relevant enforcement occurs (including the power to stay proceedings), (ii) the provisions of the Limitations Act 1980, (iii) any limitations resulting from applicable laws of bankruptcy, insolvency, reorganisation or other similar laws relating to or affecting the enforcement of creditors' rights generally and (iv) general equitable principles regardless of whether such enforceability is considered in a proceeding in equity or at law.

"**Reserve Account Beneficiary**" means Deutsche Trustee Company Limited.

"**Restricted Payment**" means (i) any payment under or in respect of Subordinated Debt, (ii) any payment under or in respect of any guarantee granted to any creditor subordinated to the Borrower Secured Creditors pursuant to the Senior/Subordinated Intercreditor Agreement, and (iii) any payment (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any direct or indirect affiliate of an Obligor which is not itself an Obligor or the Issuer other than:

(a) payments made pursuant to and in accordance with the Shared Services Agreements;

(b) payments made pursuant to and in accordance with any contracts entered into with any sponsor in compliance with the covenants set out in the Common Terms Agreement;

(c) payments made pursuant to a Permitted Inter Company Distribution (other than pursuant to the Security Parent Debenture where the conditions for making the same pursuant to Schedule 2 (Covenants), Part 3 (General Covenants), paragraph 32 (Permitted Inter-Company Distributions) of the Common Terms Agreement are not met);

(d) payments made in the ordinary course of the relevant Obligor's business on arm's length terms; or

(e) payments made pursuant to and in accordance with the provisions of the Tax Deed of Covenant, save for any excess amounts permitted to be paid in accordance with clause 2.12 of the Tax Deed of Covenant.

"**Restricted Payment Condition**" means each of the conditions in Paragraph 31 (Restricted Payments) of Part 3 (General Covenants) Schedule 2 (Covenants) to the Common Terms Agreement which must be satisfied or waived by the Borrower Security Trustee before a Restricted Payment may be made by the Issuer or an Obligor.

"**Security Agreement**" means the deed of charge and guarantee executed in favour of the Borrower Security Trustee and the Subordinated Security Trustee by each of the Obligors on or about the Initial Issue Date, any Legal Charge and any other deed of charge supplemental thereto.

"**Security Documents**" means:

(a) for as long as amounts remain owing under the Subordinated Facility Agreement, the Existing Security Agreements;

(b) the Security Agreement;

(c) the Obligor Floating Charge Agreement;

(d) the STID and each deed of accession thereto, together with any deed supplemental to the STID and referred to in the STID as a "Supplemental Deed";

(e) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Borrower Secured Creditor in respect of the Borrower Secured Liabilities.

"**Security Group**" means Asset Holdco, the Security Parent, the Borrowers, HEX Opco and any other Subsidiary of any member of the group (other than the Issuer) which accedes, *inter alia*, to the Common Terms Agreement, the STID in accordance with the terms of the Transaction Documents and, for so long as amounts remain outstanding under the Subordinated Facility Agreements, the Senior/Subordinated Intercreditor Agreement,

"**Security Group Agent**" means:

(a) BAA in its capacity as the agent of the Security Group in accordance with sub clause 17.4.3 of the Common Terms Agreement; and

(b) upon and following termination of the agency of BAA in accordance with sub clause 17.4.3 of the Common Terms Agreement, HAL pursuant to its appointment under sub clause 17.4.4 of the Common Terms Agreement.

"**Security Interest**" means:

(a) any mortgage, pledge, lien, charge, assignment or hypothecation or other encumbrance securing any obligation of any person;

(b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Security Parent**" means BAA (SP) Limited, a company incorporated in England and Wales (registered number 6458621).

"**Security Parent Debenture**" means the loan note issued by Security Parent on 31 January 2008 as amended on 29 February 2008, and as to be further amended on the Initial Issue Date.

"**Senior Debt**" means any financial accommodation that is, for the purposes of the STID, to be treated as Senior Debt and includes:

(a) all Qualifying Borrower Senior Debt; and

(b) all Interest Rate Hedging Agreements and the Cross Currency Hedging Agreements entered into by the Obligors in relation to such Senior Debt. "Senior Finance Documents" means the "Finance Documents" as defined in the Master Definitions Agreement.

"**Senior Net Indebtedness**" means, as at any date, and without double counting:

(a) the Outstanding Principal Amount and the Indexation Accretion Amount (or, in respect of a future date, forecast to be outstanding) under any Senior Debt on such date; and

(b) the principal amount of any other Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date under paragraphs (a) (iv) (ix) inclusive of the definition of Permitted Financial Indebtedness, excluding any Financial Indebtedness that remains a contingent liability, (and the principal amount outstanding under any finance lease relating to paragraph (a)(vi) shall be determined as if it were a Finance Lease under paragraph (g) of the definition of Outstanding Principal Amount),

together with all indexation accrued on any such liabilities, but excluding any early termination amount relating to any Hedging Agreement which has not crystallised as referred to in paragraph (f) of the definition of Outstanding Principal Amount (other than, for the avoidance of doubt, any Indexation Accretion Amount and less all amounts held in Authorised Investments or cash in any bank account of the Security Group and the Issuer (excluding any Excluded Cash and Excluded Issuer Cash).

"**Senior/Subordinated Intercreditor Agreement**" means the intercreditor agreement dated 6 April 2006, between, *inter alios*, the Obligors, the Borrower Security and the Subordinated Security Trustee, as amended from time to time.

"**Senior RAR**" means the ratio of Senior Net Indebtedness to Total RAB.

"**Series**" means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub Class with any Sub Class issued on such Issue Date.

"**Shared Services Agreement**" means the shared services agreement to be entered into on or prior to the Initial Issue Date between BAA, the Borrower Security Trustee and certain Obligors.

"**SSA Ancillary Documents**" means the Pensions Agreement, the Cross Licensing Agreement and the deeds for the provision of IT services to be entered into pursuant to clause 11.3 of the Shared Services Agreement.

"**STAL**" means Stansted Airport Limited, a company incorporated in England and Wales (registered number 01990920).

"**Standard & Poor's**" or "**S&P**" means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. or any successor to the rating business of Standard & Poor's Rating Services.

"**Standby Drawing**" has the meaning given to it in the relevant Liquidity Facility Agreement.

"**Subordinated Security Trustee**" means The Royal Bank of Scotland plc as security trustee for the Subordinated Secured Creditors under the Subordinated Facility Agreement.

"**Subordinated Debt**" means any Financial Indebtedness that is fully subordinated, in a manner satisfactory to the Borrower Security Trustee, to the Senior Debt and Junior Debt and where the relevant credit provider has acceded to the Common Terms Agreement and the STID.

"**Subsidiary**" means:

(a) a subsidiary within the meaning of section 736 of the Companies Act; and

(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act.

as such in the relevant Final Terms or, if no such rate is specified, zero.

"**Steps Paper**" means the steps paper prepared by PricewaterhouseCoopers LLP dated on or about the Initial Issue Date and addressed to FGP Topco Limited and certain of its subsidiaries detailing the reorganisation process in connection with BAA and its Affiliates.

"**STID**" means the security trust and intercreditor deed entered into on or about the Initial Issue Date between, among others, the Borrower Security Trustee, the Obligors, the Bond Trustee and each Relevant Financial Guarantor which accedes thereto, together with any deed supplemental to the STID and referred to in the STID as a "Supplemental Deed".

"**Sub Class**" means, with respect to a Class of Bonds, those Bonds which are identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Price, such Sub Class comprising one or more Tranches of Bonds.

"**Subordinated Bonds**" means any bonds issued by the Issuer which pursuant to the Issuer Deed of Charge rank in point of payment and security subordinate to the Class A Bonds and the Class B Bonds.

"**Subordinated Debt**" means any Financial Indebtedness that is fully subordinated, in a manner satisfactory to the Borrower Security Trustee, to the Senior Debt and Junior Debt and where the relevant credit provider has acceded to the Common Terms Agreement and the STID.

"**Subordinated Facility Agreement**" means the subordinated facility agreement dated 7 April 2006 as amended from time to time.

"**Subordinated Secured Creditors**" means the Finance Parties under (and as defined in) the Subordinated Facility Agreement.

"**Successor**" means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agent, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as the office(s) for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

"**Supplemental Deed**" means a deed supplemental to the STID entered into by the Borrower Security Trustee on its own behalf and on behalf of the Borrower Secured Creditors in the circumstances referred to in clause 2.1 (Accession of Additional Borrower Secured Creditor) or clause 3 (Additional Finance Documents) of the STID.

"**Supported EIB Facilities**" means the EIB Facilities existing or available to any Obligor on the Initial Issue Date and any other EIB Facilities in respect of which EIB requires a Borrower Liquidity Facility to be maintained in respect of potential EIB Liquidity Shortfalls, in each case to the extent permitted pursuant to paragraph 36 of Part 3 of Schedule 2 to the CTA.

"**Talons**" means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Bonds (other than Zero Coupon Bonds), such talons being in the form or substantially in the form set out in Part 6 (Form of Talon) of Schedule 3 (Forms of Global and Definitive Bonds, Receipts, Coupons and Talons) to the Bond Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 14 (Replacement of Bonds, Receipts, Coupons and Talons).

"**Tax Deed of Covenant**" means the deed to be entered into on or about the Initial Issue Date by (among others) the relevant Obligors, the Issuer, the Borrower Security Trustee and the Bond Trustee.

"**Temporary Global Bond**" means in relation to any Tranche of Bearer Bonds a temporary global bond in the form or substantially in the form set out in Part 1 (Form of Temporary Global Bond) of Schedule 3 (Forms of Global and Definitive Bonds, Receipts, Coupons and Tables) to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Total RAB**" means, at any date, the aggregate of the RAB of each Obligor less the aggregate of the RAB attributable to any RAB Enhancing JV as at such date.

"**Tranche**" means all Bonds which are identical in all respects (save for the Issue Date, Interest Commencement Date and Issue Price).

"**Tranche A Loan**" means a Tranche A loan designated as Senior Debt under the Refinancing Facility Agreement (any two or more, together, the "**Tranche A Loans**").

"**Tranche B Loans**" means a Tranche B loan designated as Junior Debt under the Refinancing Facility Agreement (any two or more, together, the "**Tranche B Loans**").

"**Transfer Agent**" means the transfer agent appointed under the Agency Agreement, including any Successors thereto.

"**Transaction Documents**" means:

(a) each Finance Document;

(b) the Shared Services Agreement, the SSA Ancillary Documents and the BSC Services Agreement; and

(c) any other document designated as such by the Borrower Security Trustee and the Issuer.

"**Transfer RAB**" means, at any date, in respect of any Obligor the aggregate of the product of (a) the sum of the Relevant EBITDA for the three financial years of such Obligor preceding such date as determined by reference to the audited financial statements of such Obligor for such financial years where available or, otherwise, the management accounts of such Obligor divided by 3 and (b) the Relevant Multiple.

"**Treasury Transaction**" means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, index linked agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate or price.

"**Trigger Event**" means any of the events or circumstances identified as such in Part 1 of Schedule 3 (Trigger Events) to the Common Terms Agreement.

"**UK Listing Authority**" or "UKLA" means the Financial Services Authority in its capacity as competent authority under FSMA.

"**Unwrapped Debt**" or "Unwrapped Bond" means any indebtedness or bond (respectively) that does not have the benefit of a guarantee from a Financial Guarantor.

"**Working Capital Facilities**" means the facilities, including the Initial WCF, made available to (a) the Borrowers to fund their working capital needs and (b) to the Security Parent and Asset Holdco to fund on an intra day basis a Permitted Inter Company Distribution.

"**Working Capital Facility Providers**" or "**WCF Provider**" means the Initial Working Capital Facility Providers together with any further working capital facility providers which provide the Borrower with Working Capital Facilities and accede to the Common Terms Agreement and the STID.

"**Wrapped Debt**" or "Wrapped Bond" means any indebtedness or bond (respectively) that has the benefit of a financial guarantee from a Relevant Financial Guarantor.

"**Zero Coupon Bond**" means a Bond specified as such in the relevant Final Terms and on which no interest is payable.

PROVISIONS FROM THE COMMON TERMS AGREEMENT

Paragraph 4 (*Earnings from Investments*) of Part 2 *(Financial Information)* of Schedule 2 *(Covenants)* of the Common Terms Agreement.

In calculating the ratios pursuant to Paragraph 2 (Financial Ratios) of Part 2 (Financial Information) of Schedule 2 (Covenants), each Obligor shall ensure that:

(a) earnings from any Joint Ventures which are not Obligors will:

  (i) only contribute towards a maximum of 5 per cent. of Cashflow from Operations (unless a Ratings Confirmation from at least two Rating Agencies (including S&P) is obtained in advance and provided that the contribution of earnings from such Joint Ventures shall not, notwithstanding such Ratings Confirmation, exceed 10 per cent. of Cashflow from Operations); and

  (ii) only be treated as "earned" to the extent that cash is actually received or was received by any of the Obligors for the benefit of such Obligor; and

(b) with respect to any earnings during the Relevant Period from Joint Ventures (regardless of whether such Joint Ventures are Obligors) such earnings shall not include any profit that is ultimately intended for the benefit of, or to be repaid to, the partner of the relevant Joint Venture during the Relevant Period.

Paragraph 7 (*Financial Indebtedness*) of Part 3 *(General Covenants)* of Schedule 2 *(Covenants)* of the Common Terms Agreement.

The "Additional Indebtedness Tests" are:

(i) to incur additional Senior Debt, the Senior RAR as at the date such Financial Indebtedness is to be incurred, by reference to the most recently delivered audited annual financial statements or unaudited semi-annual financial statements of the Security Group pursuant to paragraph 1(a) or (b) (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Covenants) or, if more recent, the latest management accounts of the Security Group, taking into account the proposed additional Financial Indebtedness, must be less than 0.725.

(ii) to incur additional Junior Debt, the Junior RAR as at the date such Financial Indebtedness is to be incurred, by reference to the most recently delivered audited annual financial statements or unaudited semi-annual financial statements of the Security Group pursuant to paragraph 1(a) or (b) (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Covenants) or, if more recent, the latest management accounts of the Security Group, taking account of the proposed additional Financial Indebtedness, must be less than 0.90.

(c) No Obligor may incur or change the scheduled maturity date of any Financial Indebtedness if as a result of doing so there would fall due (i) in any period of 24 months, an aggregate principal amount (including accretions by indexation and excluding amounts relating to any Hedging Agreement which have not crystallised) in excess of 30 per cent. of Total RAB at the relevant time and (ii) within one Five Year Period, in excess of 50 per cent. of Total RAB at the relevant time.

(d) For purposes of paragraph (c) above, "relevant time" shall mean the proposed date of incurrence of such Financial Indebtedness or date of change to the relevant scheduled maturity date of such Financial Indebtedness. The due date for any Financial Indebtedness under any inflation linked Hedging Agreement shall be the earlier of (i) the date on which such inflation linked Hedging Agreement may be terminated at the election of the applicable Hedging Counterparty, (ii) the scheduled termination date of such inflation linked Hedging Agreement and (iii) the date specified in the relevant Hedging Agreement on which such inflation linked Hedging Agreement (other than in respect of a pre-hedge) will terminate pursuant to any mandatory termination provisions specified in the relevant Hedging Agreement.

Paragraph 16 (*Loans and Credit)* of Part 3 *(General covenants)* of Schedule 2 *(Covenants)* of the Common Terms Agreement.

(a) Except as provided in Paragraph 16(b) below, each Obligor undertakes that it shall not make or grant any loan, guarantee or indemnity to any third party.

(b) Paragraph 16(a) does not apply to:

  (i) any loan, guarantee or indemnity provided by a Borrower in the ordinary course of its business;

  (ii) any guarantee or indemnity provided by a Borrower to any purchaser under or in connection with any sale and purchase agreement relating to a Permitted Disposal by such Borrower;

  (iii) any Permitted Inter Company Loan;

  (iv) any loan made by way of a permitted Restricted Payment;

  (v) any authorised guarantee agreement entered into by a Borrower in respect of leasehold real estate property disposed of in accordance with the terms of this Agreement;

  (vi) the guarantee in respect of Senior Debt and Junior Debt contained in the Security Agreement;

  (vii) any other loan or guarantee which constitutes Permitted Financial Indebtedness of such Obligor; and

  (viii) any loan made by an Obligor to any other Obligor.

Paragraph 25 (*Arm's length terms)* of Part 3 *(General covenants)* of Schedule 2 *(Covenants)* of the Common Terms Agreement.

(a) Subject to Paragraph 25(b) below, no Obligor may enter into any arrangement or contract with any person otherwise than on an arm's length basis or on terms no less favourable to such Obligor than would reasonably be expected to be obtained in a comparable arm's length transaction with a person which is not an Associate, unless such transaction is expressly permitted under the terms of the Finance Documents and provided that this covenant does not apply to dealings (i) as between Obligors; (ii) any license or lease granted to HM Revenue & Customs, Immigration Services, Metropolitan Police Special Branch or to any other public service to occupy space at the Designated Airports at no cost or any cost that is below market rates or which is otherwise required to be granted by state or applicable law; or (iii) as between BAA and the Obligors pursuant to the Shared Services Agreement or the SSA Ancillary Documents.

(b) No Obligor shall be in breach of Paragraph 25(a) with respect to any single arrangement or contract with a contract counterparty if, taken as a whole, each of the arrangements and contracts with such contract counterparty and any Affiliate thereof taken together are on arm's length terms or on terms no less favourable to such Obligor than would reasonably be expected to be obtained in a comparable transaction with a person which is not an Associate and taking each of those arrangements and contracts as a whole.

Paragraph 31 (*Restricted Payments)* of Part 3 *(General Covenants)* of Schedule 2 *(Covenants)* of the Common Terms Agreement.

Subject to Paragraph 32 (Permitted Inter Company Distributions) below, no Obligor will make a Restricted Payment unless the Restricted Payment Condition is satisfied. The Restricted Payment Condition will be satisfied if:

(a) no Loan Event of Default or Potential Loan Event of Default is subsisting or would result from the making of the Restricted Payment;

(b) no Trigger Event is subsisting or would result from the making of the Restricted Payment; and

(c) the Restricted Payment is made within the 90-day period commencing on the date of delivery of the most recent Compliance Certificate or, if later, the date on which any Financial Statements required to be delivered with such Compliance Certificate are delivered.

Paragraph 32 (*Permitted Inter-Company Distributions*) of Part 3 (*General Covenants*) of Schedule 2 (*Covenants*) of the Common Terms Agreement.

(a) No Obligor will make a Permitted Inter Company Distribution unless the following conditions are met:

   (i) no Default has occurred and is continuing or will result from the Permitted Inter Company Distribution;

   (ii) the making of the Permitted Inter Company Distribution is not illegal or unenforceable; and

   (iii) such Permitted Inter Company Distribution is made against irrevocable payment instructions directing the recipient account bank to remit the proceeds thereof on receipt by Sub Holdco and Designated Sub Holdco, as the case may be, to the relevant account of the Security Parent, Borrower or Asset Holdco, as the case may be, for same day value.

DEFINED TERMS FROM THE INTERCREDITOR AGREEMENT

"**Accounting Principles**" means generally accepted accounting principles in the United Kingdom, including International Financial Reporting Standards (IFRS).

"**Additional Bond Creditors**" means the Additional Bondholders and each Creditor Representative in relation to those Additional Bondholders.

"**Additional Bond Discharge Date**" means the first date on which all Additional Bond Liabilities have been fully and finally discharged to the satisfaction of the Creditor Representatives in relation to such Additional Bond Liabilities, whether or not as the result of an enforcement, and the Additional Bondholders are under no further obligation to provide financial accommodation to either of the Debtors under the Debt Documents.

"**Additional Bond Documents**" means each document or instrument entered into between the Borrower and an Additional Bond Creditor which creates or evidences any Additional Bonds.

"**Additional Bond Liabilities**" means the Liabilities owed by the Debtors to the applicable Creditor Representative on behalf of the relevant Additional Bondholders or to any Additional Bondholders (as the case may be) under the Additional Bond Documents at any time.

"**Additional Bondholders**" means the holders from time to time of Additional Bonds.

"**Additional Bondholder Agent**" means each trustee or agent appointed to act for, and on behalf of, holders of Additional Bond Liabilities under the terms of the Additional Bond Documents relevant to those Additional Bondholders which has acceded to this Agreement as the Creditor Representative of those Additional Bondholders.

"**Additional Bonds**" means any bonds, notes or any other public or private debt securities issued by the Borrower, provided that:

(a) the creditors (or a trustee on their behalf) have acceded to the Intercreditor Agreement in accordance with Clause ?15.4 of the Intercreditor Agreement (Accession of Additional Bondholders and Creditor Representatives);

(b) the Financial Indebtedness in respect of such bonds, notes or other securities constitutes Permitted Borrower Debt; and

(c) such Financial Indebtedness is permitted to be incurred by the terms of the Note Documents and any Additional Bond Documents in existence at the relevant time.

"**Additional Credit Facilities**" means any credit facility provided to the Borrower, provided that:

(a) the creditors have acceded to the Intercreditor Agreement in accordance with Clause ?15.3 (Accession of Credit Facilities Lenders, Creditor Representatives and Credit Facility Arrangers);

(b) prior to the Original Credit Facilities Discharge Date, the Financial Indebtedness in respect of such facilities constitutes Permitted Borrower Debt; and

(c) such Financial Indebtedness is permitted to be incurred by the terms of the Note Documents, any Additional Credit Facilities Documents and any Additional Bond Documents in existence at the relevant time.

"**Additional Credit Facilities Agent**" means any person or entity appointed, in accordance with the relevant Additional Credit Facilities Documents in relation to any relevant Additional Credit Facilities Liabilities, for and on behalf of the relevant Additional Credit Facilities Finance Parties as their trustee, agent or representative and which has acceded as a party to the Intercreditor Agreement in such capacity.

"**Additional Credit Facilities Class**" means all Additional Credit Facilities Lenders which have Additional Credit Facilities Liabilities under or in connection with the same Additional Credit Facilities Documents and have equal rights to vote for, or instruct the relevant Additional Credit Facilities Agent to, accelerate those Additional Credit Facilities Liabilities.

"**Additional Credit Facilities Documents**" means each document entered into between a Debtor and Additional Credit Facilities Lenders setting out the terms of any loan, credit or debt facility which creates or evidences Additional Credit Facilities Liabilities.

"**Additional Credit Facilities Finance Party**" means with respect to particular Additional Credit Facilities Liabilities, the Additional Credit Facilities Agent, the Security Agent and each Additional Credit Facilities Lender which is owed any Additional Credit Facilities Liabilities or which has any Credit Facilities Commitment.

"**Additional Credit Facilities Lender**" means each "Lender" as defined in each Additional Credit Facilities Agreement.

"**Additional Credit Facilities Liabilities**" means the Liabilities owed by the Debtors to the Additional Credit Facilities Lenders under or in connection with the Additional Credit Facilities Documents.

"**Borrower**" means BAA (SH) plc.

"**Charged Property**" means all of the assets which from time to time are, or are expressed to be, the subject of the Transaction Security.

"**Consent**" means any consent, approval, release or waiver or agreement to any amendment.

"**Credit Facilities Agent**" means:

(a) in relation to the Original Credit Facilities Agreement, the Original Credit Facilities Agent; and

(b) in relation to the Additional Credit Facilities Documents, the relevant Additional Credit Facilities Agent.

"**Credit Facilities Arranger**" means:

(a) in relation to the Original Credit Facilities, the Original Credit Facilities Arrangers; and

(b) in relation to the Additional Credit Facilities, any person who becomes party to the Intercreditor Agreement as a Credit Facilities Arranger pursuant to Clause 15 (Changes to the Parties).

"**Credit Facilities Commitment**" means:

(a) a "Commitment" under and as defined in the Original Credit Facilities Agreement; and

(b) a commitment or any equivalent concept under any Additional Credit Facilities Documents.

"**Credit Facilities Documents**" means:

(a) Original Credit Facilities Documents; and

(b) the Additional Credit Facilities Documents.

"**Credit Facilities/Hedging Creditors**" means the Credit Facilities Lenders and the Hedge Counterparties.

"**Credit Facilities/Hedging Discharge Date**" means the first date on which all Credit Facilities/Hedging Liabilities have been fully and finally discharged to the satisfaction of the relevant Creditor Representative(s) (in the case of the Credit Facilities Liabilities) and each Hedge Counterparty (in the case of its Hedging Liabilities), whether or not as the result of an enforcement, and the Credit Facilities/Hedging Creditors are under no further obligation to provide financial accommodation to any Debtor under the Debt Documents.

"**Credit Facilities/Hedging Liabilities**" means the Credit Facilities Liabilities and the Hedging Liabilities.

"**Credit Facilities Lenders**" means each Original Credit Facilities Lender and each Additional Credit Facilities Lender.

"**Credit Facilities Liabilities**" means the Original Credit Facilities Liabilities and the Additional Credit Facilities Liabilities.

"**Creditor Representative**" means:

(a) in relation to the Original Credit Facilities Lenders, the Original Credit Facilities Agent;

(b) in relation to any Additional Credit Facilities Class, the applicable Credit Facilities Agent;

(c) in relation to any Noteholders, the Note Trustee; and

(d) in relation to any Additional Bondholders, each Additional Bondholder Agent.

"**Debtor**" means the Borrower or the Parent.

"**Debt Document**" means each of the Intercreditor Agreement, the Primary Creditor Documents, the Security Documents, any agreement evidencing the terms of the Parent Liabilities and any other document designated as such by the Security Agent and the Borrower.

"**Delegate**" means any delegate, agent, attorney or co trustee appointed by the Security Agent.

"**Financial Indebtedness**" means, without double counting any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds (other than performance and similar bonds), notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with Accounting Principles, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any counter-indemnity obligation in respect of a guarantee, bond (other than performance or similar bonds), standby or documentary letter of credit or any other instrument issued by a bank or financial institution where the underlying liability otherwise constitutes Financial Indebtedness;

(g) any amount raised by the issue of redeemable shares which are capable of being redeemed on or before the Final Discharge Date other than those held by a member of the Group;

(h) any amount of any liability under an advance or deferred purchase agreement if (i) the primary reason behind entering into the agreement is to raise finance or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 180 days after the date of supply;

(i) any arrangement entered into primarily as a method of raising finance pursuant to which an asset sold or otherwise disposed of by that person is contemplated or intended to be re acquired by a member of the Group (whether following the exercise of an option or otherwise);

(j) any amount raised under any other transaction (including any forward sale or purchase agreement) to the extent treated as a borrowing under Accounting Principles but excluding, for the avoidance of doubt, any amount in respect of any provision deficit of any member of the Group); and

(k) the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (a) to (j) above.

"**Final Discharge Date**" means the later to occur of the Credit Facilities/Hedging Discharge Date, the Note Discharge Date and the final Additional Bond Discharge Date.

"**Group**" means the Borrower and its Subsidiaries.

"**Hedge Counterparty**" means any person which becomes Party as a Hedge Counterparty pursuant to the Intercreditor Agreement.

"**Hedging Agreement**" means any master agreement, confirmation, schedule or other agreement entered into by the Borrower for the purposes of hedging interest rate or currency risk that is permitted, under the terms of the Credit Facilities Documents and the Pari Passu Bond Documents, to share in the Transaction Security.

"**Hedging Liabilities**" means the Liabilities owed by a Debtor to the Hedge Counterparties under or in connection with the Hedging Agreements.

"**IFRS**" means international accounting standards within the meaning of IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

"**Liabilities**" means all present and future liabilities and obligations at any time of a Debtor to any Primary Creditor under the Debt Documents, both actual and contingent and whether incurred solely or jointly or in any other capacity together with any of the following matters relating to or arising in respect of those liabilities and obligations:

(a) any refinancing, novation, deferral or extension;

(b) any claim for breach of representation, warranty or undertaking or on an event of default or under any indemnity given under or in connection with any document or agreement evidencing or constituting any other liability or obligation falling within this definition;

(c) any claim for damages or restitution; and

(d) any claim as a result of any recovery by a Debtor of a Payment on the grounds of preference or otherwise,

and any amounts which would be included in any of the above but for any discharge, non provability, unenforceability or non-allowance of those amounts in any insolvency or other proceedings.

"**Noteholders**" means the holders from time to time of Notes.

"**Notes**" means the notes issued or to be issued by the Borrower under the Note Trust Deed.

"**Note Creditors**" means the Noteholders and the Note Trustee.

"**Note Discharge Date**" means the first date on which all Note Liabilities have been fully and finally discharged to the satisfaction of the Note Trustee, whether or not as the result of an enforcement.

"**Note Documents**" means the Intercreditor Agreement, the Note Trust Deed, the Notes, the Security Documents and each other document or instrument entered into between the Borrower and a Note Creditor setting out the terms of any Notes or security which creates or evidences any Notes.

"**Note Liabilities**" means the Liabilities owed by the Borrower to the Note Trustee on behalf of the Noteholders or to the Noteholders under the Note Documents at any time.

"**Note Trust Deed**" means the trust deed constituting the Notes and made between the Note Trustee, the Borrower and the Parent and the schedules thereto (including the terms and conditions of the Notes set out therein).

"**Note Trustee**" means any trustee appointed to act for, and on behalf of, Noteholders under the terms of the Note Documents relevant to those Noteholders, in each case who has acceded to the Intercreditor Agreement in that capacity.

"**Original Credit Facilities**" means Facility A, Facility B and Facility C under and each as defined in the Original Credit Facilities Agreement.

"**Original Credit Facilities Agent**" means the Royal Bank of Scotland plc.

"**Original Credit Facilities Agreement**" means the credit facilities agreement dated on or about the date of the Intercreditor Agreement and made between among others, the Parent, the Borrower, the Original Credit Facilities Lenders and the Original Credit Facilities Agent.

"**Original Credit Facilities Arrangers**" means Morgan Stanley Bank International Limited and the Royal Bank of Scotland plc.

"**Original Credit Facilities Discharge Date**" means the first date on which the Credit Facilities/Hedging Liabilities owed to the Original Credit Facilities Lenders have been fully and finally discharged to the satisfaction of the Original Credit Facilities Agent, whether or not as a result of an enforcement, and the Original Credit Facilities Lenders are under no further obligation to provide financial accommodation to a Debtor under the Original Credit Facilities Documents.

"**Original Credit Facilities Documents**" means the credit facilities agreement dated on or about the date of the Intercreditor Agreement and made between among others, the Parent, the Borrower, the Original Credit Facilities Lenders and the Original Credit Facilities Agent.

"**Original Credit Facilities Liabilities**" means the Liabilities owed by the Debtors to the Original Credit Facilities Lenders under or in connection with the Original Credit Facilities Documents.

"**Original Credit Facilities Lender**" means each "Lender" (as defined in the Original Credit Facilities Agreement).

"**Parent**" means BAA (DSH) Limited.

"**Parent Liabilities**" means all money and liabilities owed by the Borrower to the Parent including, but not limited to, those in respect of dividends and other distributions and Financial Indebtedness.

"**Pari Passu Bond Creditors**" means the Noteholders, the Additional Bondholders, the Note Trustee and each Creditor Representative in relation to any Additional Bondholder.

"**Pari Passu Bond Documents**" means the Note Documents and the Additional Bond Documents.

"**Pari Passu Bond Liabilities**" means the Note Liabilities and the Additional Bond Liabilities.

"**Pari Passu Bondholders**" means the Noteholders and the Additional Bondholders.

"**Payment**" means, in respect of any Liabilities (or any other liabilities or obligations), a payment, prepayment, repayment, redemption, purchase, re-purchase, defeasance or discharge of those Liabilities (or other liabilities or obligations).

"**Party**" means a party to the Intercreditor Agreement.

"**Permitted Borrower Debt**" has the meaning given to that term in the Original Credit Facilities Agreement.

"**Primary Creditors**" means the Credit Facilities/Hedging Creditors and the Pari Passu Bond Creditors.

"**Primary Creditor Documents**" means the Hedging Agreements, the Credit Facilities Documents and the Pari Passu Bond Documents

"**Primary Creditor Liabilities**" means the Credit Facilities/Hedging Liabilities and the Pari Passu Bond Liabilities.

"**Receiver**" means a receiver or receiver and manager or administrative receiver of the whole or any part of the Charged Property.

"**Request**" means:

(a) a request for a Consent in relation to any of the terms of this Agreement;

(b) a request to participate in any other vote of Primary Creditors under the terms of this Agreement;

(c) a request to approve any other action under this Agreement; or

(d) a request to provide any confirmation or notification under this Agreement,

and, in each case, references to this Agreement shall include, but not be limited to, Clause 9 (Enforcement of Transaction Security) and Clause 11 (Consents, Amendments and Override).

"**Secured Obligations**" means all the Liabilities and all other present and future obligations at any time due, owing or incurred by each Debtor to any Secured Party under the Debt Documents, both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

"**Secured Parties**" means the Security Agent, any Receiver or Delegate and each of the Creditor Representatives, the Credit Facilities Arrangers and the Primary Creditors from time to time but, in the case of the Creditor Representatives, each Credit Facilities Arranger or each Primary Creditor, only if it (or, in the case of any Pari Passu Bondholders, its Creditor Representative) is a party to the Intercreditor Agreement or has acceded to the Intercreditor Agreement, in the appropriate capacity, pursuant to Clause 15.7 of the Intercreditor Agreement.

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"**Security Agent**" means Deutsche Trustee Company Limited and its successors, as security agent for the Transaction Security under the Intercreditor Agreement and the Transaction Security Documents.

"**Security Documents**" means:

(a) each of the Transaction Security Documents;

(b) any other document entered into at any time by a Debtor creating any guarantee, indemnity, Security or other assurance against financial loss in favour of the Secured Parties as security for the Secured Obligations; and

(c) any Security granted under any covenant for further assurance in any of the documents set out in paragraphs (a) and (b) above.

"**Subsidiary**" means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

"**Subsidiary Group Company**" has the meaning given to "Obligor" in the Master Definitions Agreement.

"**Transaction Security**" means the Security created or evidenced or expressed to be created or evidenced under or pursuant to the Security Documents.

"**Transaction Security Documents**" means:

(a) the debenture of the Issuer (including a first-ranking charge of all the issued share capital of BAA (SP) Limited;

(b) the debenture of the Parent (including a first-ranking charge of all the issued share capital of the Issuer); and

(c) any other document entered into by the Issuer or the Parent creating or expressed to create any Security over all or any art of the Parent's or the Issuer's assets in respect of the obligations under the Permitted Borrower Debt.

FINANCIAL INFORMATION

Unaudited special purpose consolidated financial statements of the Issuer for the nine months ended 30 September 2010 follow on page F-2.

Audited annual consolidated financial statements of the Issuer for the financial year ended 31 December 2009 follow on page F-9.

Audited annual consolidated financial statements of the Issuer for the financial year ended 31 December 2008 follow on page F-66.

BAA (SH) plc

(Formerly BAA (SH) Limited)

Special purpose unaudited consolidated financial statements for the nine months ended 30 September 2010

Basis of preparation

The special purpose unaudited consolidated financial statements of the BAA (SH) plc (formerly BAA (SH) Limited) group, comprising the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated Summary Statement of Cash Flows, have been prepared for the nine months ended 30 September 2010. They should be read in conjunction with the annual report and financial statements for the year ended 31 December 2009, which have been prepared in accordance with IFRSs as adopted by the European Union and have been prepared applying consistent accounting principles to those applied for the year ended 31 December 2009.

They do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2009 were approved by the Board of directors on 31 March 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was 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.

Consolidated income statement for the nine months ended 30 September 2010

	Unaudited Nine months ended 30 September 2010 £m	Unaudited Nine months ended 30 September 2009 £m	Audited Year ended 31 December 2009 £m
Continuing operations			
Revenue	**1,546**	1,480	1,978
Operating costs	**(1,120)**	(1,407)	(1,821)
Other operating costs			
Fair value gain/(loss) on investment properties	**17**	(149)	(93)
Operating profit/(loss)	**443**	(76)	64
Analysed as:			
Operating profit before exceptional items	**377**	176	336
Exceptional items	**66**	(252)	(272)
Financing			
Finance income	**116**	114	151
Finance costs	**(661)**	(589)	(788)
Fair value loss on financial instruments	**(12)**	(163)	(120)
	(557)	(638)	(757)
Exceptional impairment of property, plant and equipment	**(104)**	—	—
Loss before tax	**(218)**	(714)	(693)
Taxation credit	**96**	188	164
Loss for the period from continuing operations	**(122)**	(526)	(529)
Net profit/(loss) from discontinued operations	**15**	(107)	(120)
Consolidated loss for the period	**(107)**	(633)	(649)

Consolidated statement of comprehensive income for the nine months ended 30 September 2010

	Unaudited Nine months ended 30 September 2010 £m	Unaudited Nine months ended 30 September 2009 £m	Audited Year ended 31 December 2009 £m
Loss for the period	**(107)**	(633)	(649)
Other comprehensive income:			
Cash flow hedges			
(Losses)/gains taken to equity	**(223)**	38	14
Transferred to income statement	**76**	130	208
Indexation of operating land	**—**	—	3
	(147)	168	225
Total comprehensive loss for the period	**(254)**	(465)	(424)

Items in the statement above are disclosed net of tax.

Consolidated statement of financial position as at 30 September 2010

	Unaudited 30 September 2010 £m	Audited 31 December 2009 £m
Assets		
Non-current assets		
Property, plant and equipment	**10,043**	9,940
Investment properties	**2,097**	2,084
Intangible assets	**53**	55
Derivative financial instruments	**583**	683
Trade and other receivables	**38**	49
	12,814	12,811
Current assets		
Inventories	**5**	5
Trade and other receivables	**342**	307
Current income tax assets	**8**	—
Restricted cash	**—**	143
Cash and cash equivalents	**59**	240
	414	695
Total assets	**13,228**	13,506
Liabilities		
Non-current liabilities		
Borrowings	**(9,784)**	(10,434)
Derivative financial instruments	**(587)**	(338)
Deferred tax liabilities	**(1,936)**	(2,027)
Provisions	**(45)**	(18)
Trade and other payables	**(3)**	(5)
	(12,355)	(12,822)
Current liabilities		
Borrowings	**(667)**	(195)
Provisions	**(46)**	(322)
Current income tax liabilities	**—**	(29)
Trade and other payables	**(336)**	(336)
	(1,049)	(882)
Total liabilities	**(13,404)**	(13,704)
Net liabilities	**(176)**	(198)
Equity		
Capital and reserves		
Ordinary shares	**3,109**	2,792
Revaluation reserve	**365**	365
Merger reserve	**(1,771)**	(1,771)
Fair value reserve	**(258)**	(108)
Retained earnings	**(1,621)**	(1,476)
Total equity	**(176)**	(198)

Consolidated statement of changes in equity for the nine months ended 30 September 2010

	Attributable to owners of the Company					
	Share capital £m	**Revaluation reserve[1] £m**	**Merger reserve £m**	**Fair value reserve £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 January 2009 (audited)	2,509	365	(2,865)	(330)	264	(57)
Comprehensive income:						
Loss for the year	—	—	—	—	(649)	(649)
Other comprehensive income:						
Profit on re-measurement of the following:						
Cash flow hedges net of tax	—	—	—	222	—	222
Transferred from merger reserve to retained earnings	—	—	1,094	—	(1,094)	—
Indexation of operating land	—	—	—	—	3	3
Total comprehensive income	**—**	**—**	**1,094**	**222**	**(1,740)**	**(424)**
Transactions with owners:						
Proceeds from shares issued	283	—	—	—	—	283
Total transactions with owners	**283**	**—**	**—**	**—**	**—**	**283**
Balance at 1 January 2010 (audited)	**2,792**	**365**	**(1,771)**	**(108)**	**(1,476)**	**(198)**
Comprehensive income:						
Loss for the period	—	—	—	—	(107)	(107)
Other comprehensive income:						
Loss on re-measurement of the following:						
Cash flow hedges net of tax	—	—	—	(148)	—	(148)
Change in tax rate	—	—	—	(2)	3	1
Total comprehensive income	**—**	**—**	**—**	**(150)**	**(104)**	**(254)**
Transactions with owners/fellow subsidiaries:						
Proceeds from shares issued	317	—	—	—	—	317
Capital distributions	—	—	—	—	(16)	(16)
Tax on capital distributions	—	—	—	—	(25)	(25)
Total transactions with owners/ fellow subsidiaries	**317**	**—**	**—**	**—**	**(41)**	**276**
Balance at 30 September 2010 (unaudited)	**3,109**	**365**	**(1,771)**	**(258)**	**(1,621)**	**(176)**

1 The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the income statement.

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

	Unaudited Nine months ended 30 September 2010 £m	Unaudited Nine months ended 30 September 2009 £m	Restated[1] Audited Year ended 31 December 2009 £m
Operating activities			
Operating profit/(loss)	**443**	(76)	64
Adjustments for:			
Depreciation and amortisation (including exceptional depreciation)	**378**	390	511
Fair value (gain)/loss on investment properties	**(17)**	149	93
Changes in working capital:			
Net movement in inventories, receivables and payables	**16**	27	(5)
(Decrease)/increase in provisions	**(9)**	(11)	2
Difference between pension charge and cash contributions	**(24)**	(17)	(32)
Exceptional pension (credit)/charge	**(97)**	200	218
Cash generated from continuing operations	**690**	662	851
Taxation—group relief received	**1**	44	50
Cash generated from discontinued operations	**—**	95	132
Net cash from operating activities	**691**	801	1,033
Investing activities			
Net capital expenditure	**(610)**	(646)	(876)
Discontinued operations – pension, disposal (costs)/ proceeds and investing activities	**(124)**	(120)	1,234
Net cash (used in)/provided by investing activities	**(734)**	(766)	358
Financing activities			
Financing activities	**(2)**	216	390
Net interest paid	**(279)**	(371)	(487)
Restricted cash	**143**	—	(143)
Financing activities of discontinued operations	**—**	(34)	(1,093)
Net cash used in financing activities	**(138)**	(189)	(1,333)
Net (decrease)/increase in cash and cash equivalents	**(181)**	(154)	58

1 The presentation of certain balances has been restated to be consistent with current year disclosures.

BAA (SH) Limited

Audited annual consolidated financial statements for the year ended 31 December 2009

Statement of directors' responsibilities in respect of the Annual report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

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

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

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Group. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

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

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page F-11 for the Group.

By order of the Board

Shu Mei Ooi
Company Secretary

31 March 2010

Independent auditors' report to the members of BAA (SH) Limited

We have audited the Group financial statements of BAA (SH) Limited for the year ended 31 December 2009 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page F-10, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of the Group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and article 4 of the IAS regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of BAA (SH) Limited for the year ended 31 December 2009.

Paul Cragg (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

31 March 2010

Consolidated income statement for the year ended 31 December 2009

	Note	Year ended 31 December 2009 Before certain remeasurements £m	Certain re-measurements[2] £m	Total £m	Restated[1] Year ended 31 December 2008 Before certain remeasurements £m	Certain remeasurements[2] £m	Total £m
Continuing operations							
Revenue	*1*	**1,978**	—	**1,978**	1,827	—	1,827
Operating costs	*2*	**(1,821)**	—	**(1,821)**	(1,570)	—	(1,570)
Other operating costs							
Fair value loss on investment properties	*10*	—	**(93)**	**(93)**	—	(147)	(147)
Operating profit/(loss)	*1*	**157**	**(93)**	**64**	257	(147)	110
Analysed as:							
Operating profit/(loss) before exceptional items		**429**	**(93)**	**336**	373	(147)	226
Exceptional items	*4*	**(272)**	—	**(272)**	(116)	—	(116)
Financing							
Finance income	*5a*	**151**	—	**151**	65	—	65
Finance costs	*5a*	**(788)**	—	**(788)**	(693)	—	(693)
Fair value (loss)/gain on financial instruments	*5b*	—	**(120)**	**(120)**	—	129	129
		(637)	**(120)**	**(757)**	(628)	129	(499)
Loss before tax		**(480)**	**(213)**	**(693)**	(371)	(18)	(389)
Taxation—ordinary	*6*	**114**	**50**	**164**	106	10	116
Taxation—exceptional[3]	*6*	—	—	—	(1,069)	—	(1,069)
Taxation		**114**	**50**	**164**	(963)	10	(953)
Loss for the year from continuing operations		**(366)**	**(163)**	**(529)**	(1,334)	(8)	(1,342)
Net loss from discontinued operations[4]	*7*	**(85)**	**(35)**	**(120)**	(65)	(27)	(92)
Consolidated loss for the year		**(451)**	**(198)**	**(649)**	(1,399)	(35)	(1,434)
Interim dividends paid during the year	*8*	—	—	—	(702)	—	(702)

1 Comparatives restated for change in accounting for accretion on index-linked swaps (refer Accounting policies).

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

3 The exceptional tax charge relates to an exceptional tax item rather than the tax effect of the exceptional items. Exceptional tax charges for the year ended 31 December 2008 included £1,175 million due to the abolition of Industrial Buildings Allowance, of which £106 million related to discontinued operations.

4 Includes the results of Gatwick as a result of its classification as discontinued operations.

Consolidated statement of comprehensive income for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss for the year		**(649)**	(1,434)
Other comprehensive income:			
Cash flow hedges			
Gains/(losses) taken to equity	*27*	**14**	(17)
Transferred to income statement	*27*	**208**	(313)
Indexation of operating land	*19/27*	**3**	3
Other comprehensive income for the financial year net of tax		**225**	(327)
Total comprehensive loss for the year		**(424)**	(1,761)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27 'Tax relating to components of comprehensive income'.

Consolidated statement of financial position as at 31 December 2009

	Note	31 December 2009 £m	31 December 2008[1] £m
Assets			
Non-current assets			
Property, plant and equipment	*9*	**9,940**	9,687
Investment properties	*10*	**2,084**	2,153
Intangible assets	*11*	**55**	65
Derivative financial instruments	*17*	**683**	961
Trade and other receivables	*13*	**49**	50
		12,811	12,916
Current assets			
Inventories	*12*	**5**	5
Trade and other receivables	*13*	**307**	410
Derivative financial instruments	*17*	**—**	7
Restricted cash	*14*	**143**	—
Cash and cash equivalents	*15*	**240**	167
		695	589
Assets classified as held-for-sale	*22*	**—**	1,865
Total assets		**13,506**	15,370
Liabilities			
Non-current liabilities			
Borrowings	*16*	**(10,434)**	(10,275)
Derivative financial instruments	*17*	**(338)**	(666)
Deferred income tax liabilities	*19*	**(2,027)**	(2,116)
Provisions	*20*	**(18)**	(109)
Trade and other payables	*21*	**(5)**	(6)
		(12,822)	(13,172)
Current liabilities			
Borrowings	*16*	**(195)**	(222)
Provisions	*20*	**(322)**	(46)
Current income tax liabilities		**(29)**	(9)
Trade and other payables	*21*	**(336)**	(459)
		(882)	(736)
Liabilities associated with assets classified as held-for-sale	*22*	**—**	(1,519)
Total liabilities		**(13,704)**	(15,427)
Net liabilities		**(198)**	(57)
Equity			
Capital and reserves			
Ordinary shares	*23*	**2,792**	2,509
Revaluation reserve	*24*	**365**	365
Merger reserve	*25*	**(1,771)**	(2,865)
Fair value reserve	*26*	**(108)**	(330)
Retained earnings	*28*	**(1,476)**	264
Total equity		**(198)**	(57)

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

The financial statements set out on pages F-12 to F-65 were approved by the Board of directors and authorised for issue on 31 March 2010 and signed on behalf of the Board.

Jose Leo
Director

Frederick Maroudas
Director

Consolidated statement of changes in equity for the year ended 31December 2009

	Note	Share capital £m	Revaluation reserve[1] £m	Merger reserve £m	Fair value reserve £m	Retained earnings £m	Total equity £m
		Attributable to owners of the Company					
Balance at 1 January 2008		2,509	365	(2,865)	—	2,397	2,406
Comprehensive income:							
Loss for the year		—	—	—	—	(1,434)	(1,434)
Other comprehensive income:							
Profit/(loss) on re-measurement of the following:							
Cash flow hedges net of tax	*27*	—	—	—	(330)	—	(330)
Indexation of operating land	*19/27*	—	—	—	—	3	3
Total comprehensive income		—	—	—	(330)	(1,431)	(1,761)
Transactions with owners:							
Dividends paid during the year	*8*	—	—	—	—	(702)	(702)
Total transactions with owners		—	—	—	—	(702)	(702)
Balance at 1 January 2009		2,509	365	(2,865)	(330)	264	(57)
Comprehensive income:							
Loss for the year		—	—	—	—	(649)	(649)
Other comprehensive income:							
Profit/(loss) on re-measurement of the following:							
Cash flow hedges net of tax	*27*	—	—	—	222	—	222
Transferred from merger reserve to retained earnings	*25/28*	—	—	1,094	—	(1,094)	—
Indexation of operating land	*19/27*	—	—	—	—	3	3
Total comprehensive income		**—**	**—**	**1,094**	**222**	**(1,740)**	**(424)**
Transactions with owners:							
Proceeds from shares issued	*23*	283	—	—	—	—	283
Total transactions with owners		**283**	**—**	**—**	**—**	**—**	**283**
Balance at 31 December 2009		**2,792**	**365**	**(1,771)**	**(108)**	**(1,476)**	**(198)**

1 The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the income statement.

Consolidated cash flow statement for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Operating activities			
Cash generated from continuing operations	*30*	**851**	638
Taxation—group relief received		**50**	31
Cash generated from discontinued operations		**132**	126
Net cash from operating activities		**1,033**	795
Investing activities			
Purchase of:			
Property, plant and equipment		**(836)**	(641)
Investment properties		**(24)**	(250)
Intangible assets		**(16)**	(28)
Acquisition of Heathrow Express Operating Company Limited		**—**	(4)
Investing activities of discontinued operations and disposal proceeds		**1,234**	(114)
Net cash provided by/(used in) investing activities		**358**	(1,037)
Financing activities			
Proceeds from issue of ordinary shares		**283**	—
Proceeds from issuing bonds		**925**	—
(Repayment)/drawdown of refinancing facility		**(1,067)**	3,350
Drawdown of capital expenditure facility		**450**	250
Drawdown of EIB facility		**—**	435
Repayment of EIB facility		**(43)**	(18)
Interest paid		**(487)**	(80)
Interest received		**—**	1
Prepayment of derivative interest		**(114)**	—
Cancellation of derivatives		**(43)**	—
Payment of bond/loan arrangement costs		**(1)**	(15)
Increase/(decrease) in amounts owed to group undertakings		**—**	(3,616)
Restricted cash	*14*	**(143)**	—
Financing activities of discontinued operations		**(1,093)**	117
Net cash (used in)/provided by financing activities		**(1,333)**	424
Net increase in cash and cash equivalents		**58**	182
Cash and cash equivalents at beginning of year		**182**	—
Cash and cash equivalents at end of year	*15*	**240**	182

Accounting policies

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

Primary financial statements format

The IFRS primary financial statements are presented in accordance with IAS 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:

i Fair value gains and losses on investment property revaluations and disposals;

ii Derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship;

iii The associated tax impacts of the items in (i) and (ii) above.

Basis of accounting

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

Going concern

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

Consequently the directors have reviewed the cash flow projections of the Group taking into account:

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (Note 16 'Borrowings').

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

Changes in accounting policy and disclosures

(a) Changes in accounting policy

Accretion on index-linked financial instruments

Following a £235 million index-linked bond issue in 2009, the Group has changed the way accretion on index-linked swaps is presented in the income statement. 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 finance costs will improve presentation of the Group's income statement. Comparatives have been restated to present the results on a consistent basis. The new treatment resulted in a £42 million reclassification from 'Fair value (losses)/gains on financial instruments' to 'Net finance costs' in 2008. The current year result is a £16 million gain recognised in the Group's 'Net finance costs'.

(b) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS's as of 1 January 2009:

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009.

  The amendment required enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosure, there is no impact on the income statement for the year.

- IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009.

  The revised standard prohibits the presentation of items of income and expenses in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owners changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on the income statement for the year.

- IFRS 2 (amendment), 'Share-based payment' – effective 1 January 2009, deals with vesting conditions and cancellations.

  It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

- IFRS 8, 'Operating Segments' – effective from 1 January 2009.

  Requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14, 'Segmental Reporting'. As the new guidance only impacts presentation aspects, there is no impact on the income statement for the year.

- IFRIC 12, 'Service Concession Arrangements' – effective from 1 January 2009.

  Addresses the accounting by operators of public-private service concession arrangements. The group has assessed the impact of this interpretation and has concluded that it does not have a significant impact on the Group's financial statements.

(c) Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRIC 17, 'Distributions of non-cash assets to owners' – effective on or after 1 July 2009.

  The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRC 17 from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- IAS 27 (revised), 'Consolidated and separate financial statements' – effective from 1 July 2009.

  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (revised), 'Business combinations' – effective from 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment), 'Intangible assets'.

  The Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not have a material impact on the Group's financial statements.

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'.

  The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The Group will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- IAS 1 (amendment), 'Presentation of financial statements'.

  The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other asset for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- IFRS 2 (amendments), 'Group cash-settled and share based payment transactions'.

  In addition to incorporating IFRIC 8, 'Scope of IFRS 2' and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' – effective on or after 1 July 2010.

  This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 41 of IAS 39. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss. It is not expected to have a material impact on the Group financial statements.

- IFRS 9, 'Financial instruments'.

  The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The IASB sees this first instalment on classification and measurement of financial assets as a stepping stone to future improvements in the financial reporting of financial instruments and is committed to completing its work on classification and measurement of financial instruments expeditiously. The new guidance is not expected to have a material impact on the Group's financial statements.

Business combinations

Basis of consolidation

The Group financial statements consolidate the financial statements of BAA (SH) Limited and all its subsidiaries.

The ultimate UK parent undertaking of BAA (SH) Limited and its subsidiaries was before and remains after the group reconstruction, FGP Topco Limited.

During 2008, as part of the Group refinancing the company acquired BAA (SP) Limited, the security Group that owns the Designated Airports comprising of the UK regulated airports of Heathrow and Stansted. It also operates the Heathrow Express rail service between Heathrow and Paddington, London. BAA (SP) Limited is the holding company of BAA Funding Limited, which is the bond issuer for the security group. In addition, £1.6 billion of subordinated debt, previously held at BAA Limited, was transferred to BAA (SH) Limited and on-lent to BAA (SP) Limited in the form of a debenture.

The group reconstruction outlined above is outside of the scope of IFRS 3, Business Combinations, as the combining entities are both before and after the reconstruction ultimately controlled by the same party (FGP Topco Limited) and control was not transitory. Therefore in accordance with IAS 8, accounting policies, changes in accounting estimates and errors, the directors have developed an appropriate accounting policy for common control transactions. The Group financial statements consolidate the financial statements of the Company and all its subsidiaries, using the merger method of accounting (also known as 'predecessor accounting'). The policies adopted and explained below are comparable to those under UK GAAP.

The predecessor accounting principles applied are as follows:

– The acquired entities results are included in the groups consolidated financial statement as if the entities had always been combined and comparative amounts prepared accordingly.

– The group does not restate assets and liabilities to their fair values. Instead, the group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company adjusted only to achieve harmonisation of accounting policies.

– No goodwill arises in predecessor accounting, the differences arising on consolidation are included in a merger reserve.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition of subsidiaries by the Group is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair values at the acquisition date.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed to or from the Group.

Inter-group balances and transactions of the continuing operations are eliminated during the consolidation process. Transactions between continuing and discontinued operations that are expected to continue post sale are not eliminated from continuing operations in order to present the continuing operations on a basis consistent with the underlying trading.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Segment reporting

For the purposes of Group reporting, the reportable segments are consistent with those operating segments reported upon on a monthly basis to the chief operating decision-maker. The chief operating decision maker is considered to have responsibility for allocating resources and assessing performance of the operating segments has been identified as the Board.

The Group's operating segments are organised according to their regulatory environment, type of operation and geographical location. The operating segments are primarily the individual airports, and Heathrow Express ('HEX') which are organised and managed separately on the basis of the above operating environment. As such, the following operating segments are reported to the Board on a monthly basis:

- Designated group (price regulated airports of Heathrow and Stansted and rail operations HEX);
- Discontinued operations (Gatwick).

Revenue

Revenue is recognised in accordance with IAS 18 'Revenue' and comprises:

Aeronautical

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

Retail

- Concession fee based upon turnover certificates supplied by concessionaires

Other

- Property letting sales, recognised on a straight-line basis over the term of the rental period
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale
- Usage charges made for operational systems (e.g. check-in-desks), recognised as each service period is provided
- Other charges levied for passenger and baggage operation when these services are rendered
- Other invoiced sales, recognised on the performance of the service
- Turnover from ticket sales, recognised at the time of travel

Government grants

On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. No such grants have been received in 2009. Grants received are treated as deferred income until such time as the terms of the grant are satisfied at which time it is recognised as revenue in the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and ready for use. Such borrowing costs are capitalised once planning permission has been obtained and/or where projects are in the early stages of planning but the directors are satisfied that the necessary consents will be received. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

Exceptional items

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

Such events may include gains or losses on the disposal of businesses or assets that do not qualify as discontinued operations, major reorganisation of businesses, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project. Additional details of exceptional items are provided as and when required as set out in Note 4 'Exceptional items'.

Assets classified as held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management are committed to the sale, and the sale is expected to be completed within one year of the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Discontinued operations

Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are classified as held-for-sale at year end. The financial performance and cash flows of discontinued operations are separately reported within Note 7 'Discontinued operations'.

Intangible assets

Internally-generated intangible assets

Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- An intangible asset is created that can be separately identified
- It is probable that the intangible asset created will generate future economic benefits
- The development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the statement of financial position date, as determined at the interim and full-year reporting dates by the directors and by external valuers at least once every five years. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Property, plant and equipment

Operational assets

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

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

Depreciation

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

Terminal complexes	**Fixed asset lives**
Terminal building, pier and satellite structures	20-60 years
Terminal fixtures and fittings	5-20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5-20 years
Tunnels, bridges and subways	50-100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10-15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Railways	
Rolling stock	8-40 years
Tunnels	100 years
Track metalwork	5-10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4-8 years
Office equipment	5-10 years
Computer equipment	4-5 years
Computer software	3-7 years
Other land and buildings	
Short leasehold properties	Over period of lease

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each reporting period.

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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

Leases

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

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

Inventories

Inventories are stated at the lower of cost and net realisable value.

Deferred income

Contractual income is treated as deferred income and released to the income statement over the life of the contract.

Provisions

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts, where offset is allowed.

Restricted cash

Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

Financial instruments

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less provision for impairment.

Investments

On initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through the income statment, directly attributable transaction costs. After initial recognition, investments that are classified as 'held-for-trading' and 'available-for-sale' are measured at fair value. Fair value gains or losses on investments held-for-trading are recognised in the income statement. Fair value gains or losses on available-for-sale investments are recognised in a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative fair value gain or loss previously reported in equity is included in the income statement. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the security is impaired. If impairment is indicated, the cumulative fair value gain or loss previously reported in equity is included in the income statement.

Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised in the statement of financial position at their amortised cost, using the effective interest rate method, less any provision for impairment.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are carried at amortised cost using the effective interest rate method. Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity are classified as 'held-to-maturity' and are carried at amortised cost using the effective interest rate method. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are de-recognised or impaired, as well as through the amortisation process.

For investments that are traded in an active market, fair value is determined by reference to quoted market bid prices at the reporting date. For investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows, or by reference to the current market value of similar investments.

Purchases and sales of investments are recognised on trade-date being the date on which the Group commits to purchase or sell the asset.

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the asset disposal, and disposal is expected to be completed within one year of the date of classification. Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

Bonds issue costs

Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables

Trade and other payables are non interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

- fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge exposure to variability in cash flows that are either attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging interest rate risk on borrowings.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised in the income statement over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. This accounting policy also relates to the scenario whereby the forecast transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives at fair value through the income statement

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their gross amount in finance costs and finance income in the income statement.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Share capital

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

Shared Services Agreement

All employees of the Group's airports are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Group. BAA Airports Limited is the administrator and sponsor of the related defined benefit pension plans and grants all employee benefits.

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

Operational staff

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

Corporate and centralised services

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

Pension costs

Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Group's airports and Heathrow Express Operating Company Limited (HEX) on the basis of their pensionable pay base. This charge is included within ordinary staff pension costs (refer Note 2 'Operating costs').

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

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

Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the shareholder's right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting. Interim dividends are recognised when paid.

Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in equity within the fair value reserve.

Significant accounting judgements and estimates

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

Capitalisation of costs incurred prior to planning permission being obtained

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

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

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

As at 31 December 2009, the costs capitalised in respect of the development of SG2 are £83 million in relation to planning application preparation and £107 million in respect of the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. Despite the delays in the start date for the inquiry, BAA believes that it is highly probable given overall Government policy and expected increases in passenger numbers over time, that planning permission for a second runway at Stansted will be obtained and the project will be developed such that future benefits will flow to the Group. If Government policy was to change such that the planning consents for the development of SG2 become less likely, elements of the costs currently capitalised may need to be written off through the income statement.

In 2006, the Government re-affirmed its support for a third runway at Heathrow being the South East of England's second new runway to be developed. The Department for Transport (DfT) released a report in 2007 entitled 'Adding Capacity at Heathrow Airport' with further consultation to follow on the development. The resulting consultation reported on noise and air quality and surface access implications and had invited comments on proposals for making better use of the existing two runways until R3 was developed. A further consultation document, the 'Impact Assessment' was prepared by the DfT which found that even after accounting for the costs of climate change, development of a three-runway Heathrow would bring benefits if potential capacity were fully realised. In January 2009, the UK Government announced that it was satisfied that the conditions for the development of R3 set out in the White Paper could be met thereby further confirming the Government's support for a third runway. The Government at this time also set a target of 2005 levels for UK aviation emissions to be met by 2050. The Committee on Climate Change, an independent body of experts advising the Government on how the UK can make the transition to a low-carbon economy, reported during December 2009 that the development of a third runway at Heathrow is not incompatible with meeting the year 2050 target for UK aviation emissions to reduce back to 2005 levels.

As at 31 December 2009, approximately £10 million in preliminary costs have been capitalised in relation to the development of the third runway at Heathrow relating to planning and development costs, including internal time and advisory fees with no purchases of domestic properties or land within the proposed boundaries having taken place to date. BAA believes that it is highly probable, given overall Government policy, DfT announcements regarding the development of R3, airline community support and the expected increases in passenger numbers over time, that planning permission for a third runway at Heathrow will be obtained.

Investment properties

Investment properties were valued at a fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors and Strutt and Parker, Chartered Surveyors. The valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 70% percent of the investment properties comprise car parks and airside assets at the Group's airports and these are considered less vulnerable to market volatility than the overall market. Given recent declines in property prices, independent valuations were obtained for 100 percent of the investment properties.

Taxation

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

Hedge accounting

From 1 October 2008, certain interest rate swaps were designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions, based on management expectation that it is highly probable these derivatives will match future sterling funding issuances which will occur to refinance existing debt. As at 31 December 2009, £98 million of fair value losses (2008: £301 million) on these derivatives, have been deferred into the cash flow hedge reserve.

Management assesses on a regular basis the extent to which terms of future financing are expected to match the profiles of the hedges, and adjusts the accounting accordingly. Any such change in the expected financing may require the recycling of the cash flow hedge reserve through the income statement.

Fair value of derivative financial instruments

The fair value of derivative financial instruments is determined by using valuation techniques. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The valuation technique used by the Group is a discounted cash flow methodology.

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the Board for allocating resources and assessing performance. These segments are organised according to their regulatory environment, type of operation and geographic location.

The 'Other operations' segment consists of corporate activities and other commercial operations.

The performance of the above segments is measured on a revenue and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

The reportable segments derive their revenues from a number of sources including aeronautical, retail, property and facilities (including property income and utilities income), and other (includes railway income) products and services and this information is also provided to the Board on a monthly basis.

During the year the Group formally disposed of Gatwick. The performance of Gatwick is distinguished from the performance of continuing Group operations in the annual reports through classification as discontinued operations.

Table (a) details total revenue from external customers to 31 December 2009 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) are EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2008.

Table (c) details depreciation and amortisation, fair value adjustments and profit and loss on disposals by reportable segment. The fair value adjustment information is not provided to the Board by reportable segment, but is included in this note to the accounts as additional information.

Table (d) details asset, liability and capital expenditure information by reportable segment. The assets and liabilities information by segment is not provided to the Board.

Revenue and non-current asset information by geographical segment is detailed in (e).

Segment information for the year ended 31 December 2009 is as follows:

Table (a)

	Segment revenue					EBITDA		
	Aero-nautical £m	**Retail £m**	**Property & facilities £m**	**Other £m**	**Total revenue from external customers £m**	**Pre exceptional items £m**	**Exceptional items[1] £m**	**Post exceptional items £m**
Designated group	**1,093**	**440**	**259**	**186**	**1,978**	**885**	**(217)**	**668**
Heathrow	961	352	240	91	1,644	744	(181)	563
Heathrow Express	—	—	—	91	91	39	—	39
Stansted	132	88	19	4	243	102	(36)	66
Other operations	—	—	—	—	—	—	—	—
Total	**1,093**	**440**	**259**	**186**	**1,978**	**885**	**(217)**	**668**

Reconciliation of statutory information	
Unallocated income and expenses	
Depreciation and amortisation	**(511)**
Operating profit (before certain re-measurements)	**157**
Fair value loss on investment properties (certain re-measurements)	**(93)**
Finance income	**151**
Finance costs	**(788)**
Fair value loss on financial instruments (certain re-measurements)	**(120)**
Loss before tax	**(693)**
Taxation – ordinary	**114**
Taxation – ordinary (certain re-measurements)	**50**
Taxation	**164**
Loss for the year – continuing operations	**(529)**
Net loss from discontinued operations[2]	**(120)**
Consolidated loss for the year	**(649)**

1 Exceptional items for statutory reporting purposes includes £55 million accelerated depreciation as compared to £nil for segmental reporting.

2 Includes the results of Gatwick.

Revenues of approximately £530 million (2008: £576 million) are derived from a single external customer of which £52 million relates to discontinued operations (2008: £62 million). This revenue is included in the Heathrow segment above.

Segment information for the year ended 31 December 2008 is as follows:

Table (b)

	Segment revenue restated[1]					EBITDA restated[1]		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total revenue from external customers £m	Pre exceptional items £m	Exceptional items[2] £m	Post exceptional items £m
Designated group	980	419	240	188	1,827	729	(10)	719
Heathrow	835	328	221	98	1,482	576	(7)	569
Heathrow Express	—	—	—	86	86	36	—	36
Stansted	145	91	19	4	259	117	(3)	114
Other operations	—	—	—	—	—	5	—	5
Total	980	419	240	188	1,827	734	(10)	724

Reconciliation to statutory information	
Unallocated income and expenses	
Depreciation and amortisation	(467)
Operating profit (before certain re-measurements)	257
Fair value loss on investment properties (certain re-measurements)	(147)
Finance income	65
Finance costs[1]	(693)
Fair value gain on financial instruments (certain re-measurements)[1]	129
Loss before tax	(389)
Taxation – ordinary	106
Taxation – ordinary (certain re-measurements)	10
Taxation – exceptional	(1,069)
Taxation	(953)
Loss for the year – continuing operations	(1,342)
Net loss from discontinued operations[3]	(92)
Consolidated loss for the year	(1,434)

1 Information restated to reflect the reclassification of the accretion on index-linked swaps from fair value loss on financial instruments to finance costs (Note 5 'Financing').

2 Exceptional items for statutory reporting purposes is £116 million (refer to Note 4 'Exceptional items') as compared to £10 million for segmental reporting for a credit in relation to provisions that are no longer required and pension costs.

3 Includes the results of Gatwick.

Table (c)

	31 December 2009			31 December 2008		
	Depreciation & amortisation[1] £m	Fair value losses[2] £m	Loss on disposal £m	Depreciation & amortisation[1] £m	Fair value losses[2] £m	Loss on disposal £m
Designated group	**(511)**	**(93)**	—	(467)	(147)	(1)
Heathrow	**(431)**	**(52)**	—	(397)	(59)	(1)
Heathrow Express	**(41)**	—	—	(37)	—	—
Stansted	**(39)**	**(41)**	—	(33)	(88)	—
Continuing operations	**(511)**	**(93)**	—	(467)	(147)	(1)
Discontinued operations	—	**(49)**	**(161)**	(47)	(43)	—
Total Group	**(511)**	**(142)**	**(161)**	(514)	(190)	(1)

1 Includes intangible amortisation charge of £27 million (2008: £27 million) and for Heathrow includes exceptional depreciation of £55 million (2008: £84 million), refer to Note 4 'Exceptional items'.
2 Reflects fair value gains and losses on investment properties only.

Table (d)

	31 December 2009			31 December 2008		
	Assets[1] £m	Liabilities £m	Capital expenditure £m	Assets[1] £m	Liabilities £m	Capital expenditure £m
Designated group	**12,363**	**(642)**	**773**	12,222	(551)	892
Heathrow	**9,750**	**(564)**	**707**	9,539	(499)	779
Heathrow Express	**1,118**	**(8)**	**14**	1,154	(6)	14
Stansted	**1,495**	**(70)**	**52**	1,529	(46)	99
Other operations	**1**	**(39)**	—	7	(6)	—
Classified as held-for-sale[2]	—	—	—	1,850	(88)	124
Total operations	**12,364**	**(681)**	**773**	14,079	(645)	1,016
Unallocated assets and liabilities:						
Cash and borrowings[3]	**383**	**(10,629)**		182	(11,539)	
Derivative financial instruments	**683**	**(338)**		968	(666)	
Taxation[4]	—	**(2,056)**		38	(2,514)	
Amounts owed from/(to) group undertakings	**76**	—		103	(63)	
Total Group	**13,506**	**(13,704)**	**773**	15,370	(15,427)	1,016

1 Segment assets include primarily airport runways and facilities.
2 Includes Gatwick capital expenditure and excludes borrowings of £nil (2008: £1,042 million) and cash of £nil (2008: £15 million) and tax charges of £nil (2008: £389 million).
3 Includes Gatwick cash of £nil (2008: £15 million) and borrowings of £nil (2008: £1,042 million).
4 Includes Gatwick taxation of £nil (2008: £389 million).

(e) Revenue and non-current asset information by geographical segment

BAA (SH) Limited is domiciled in the UK. All revenue from external customers comes from the UK which for the year ended 31 December 2009 is £1,978 million (2008: £1,827 million). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

The total of non-current assets excluding financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts held in the UK is £12,128 million (2008: £11,955 million). There are no non-current assets held outside the UK.

2 Operating costs – continuing operations

	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Operating costs (including exceptional items) include the following:		
Employment costs[2]		
Wages and salaries	**233**	252
Social security	**20**	21
Pensions	**18**	38
Share-based payments	**4**	3
Contract and agency staff	**7**	16
Other staff related:		
Share of Group's change in pension deficit	**218**	13
Other	**9**	18
	509	361
Depreciation, amortisation and impairment charges		
Depreciation of property, plant and equipment	**484**	440
Amortisation of intangible assets		
Software	**27**	27
	511	467
Other operating costs		
Loss on sale of: Property, plant and equipment	**—**	1
Retail expenditure	**35**	22
Maintenance and cleaning	**147**	141
Rent and rates	**129**	106
Utilities	**126**	94
Police	**39**	42
Air navigation charges	**65**	47
General expenses	**132**	155
Intra-group charges/other	**147**	167
Own work capitalised[3]	**(19)**	(33)
Total operating costs	**1,821**	1,570
Analysed as:		
Adjusted operating costs	**1,549**	1,454
Exceptional costs	**272**	116
	1,821	1,570

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

2 Employment costs include recharges from BAA Airports Limited for employee services to the Group. Refer to Shared Services Agreement in the Accounting policies.

3 Own work capitalised includes £4 million (2008: £10 million) in relation to staff costs including contract and agency staff.

Exceptional items included within operating costs are analysed in Note 4 'Exceptional items'.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
The aforementioned charges include:		
Rentals under operating leases		
Plant and machinery	**33**	30
Other	**32**	25
	65	55
Property lease and sub lease charges		
Minimum lease payments	**32**	25

Property operating costs include £10 million (2008: £9 million) in respect of coaching and management fees relating to the provision of car parking facilities for airline and other airport workers. This amount is recovered through the sale of airport passes and is included within property and facilities income (Note 1(a) and 1(b) 'Segment information').

Auditors' remuneration

Auditors' remuneration relates to fees paid to PricewaterhouseCoopers LLP.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Fees payable to the Company's auditors of its subsidiaries for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**0.3**	0.3
Other services pursuant to legislation	**0.1**	—
Corporate finance	**0.6**	—
IT review	**0.8**	—
Other services	**0.1**	—
	1.9	0.3

Auditors' remuneration includes services provided to both continuing and discontinued operations.

In 2008 services provided by the auditors in relation to the wider BAA Group's refinancing were borne by BAA Limited.

3 Employee information and Directors' emoluments

Employee numbers

The Group has no employees. However, all staff costs for the Group's operations are borne by BAA Airports Limited which recharges all such costs directly to the Group's subsidiaries. The average number of employees of BAA Airports Limited engaged in the Group's continuing operations during the year was 6,885 (2008: 7,122). The number of employees engaged in discontinued operations was 2,274 (2008: 2,186).

Directors' remuneration

None of the directors who served BAA (SH) Limited during the year received emoluments from the Company.

L Sanchez Salmeron was a director of BAA Airports Limited, BAA Limited and FGP Topco Limited until 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed in all three sets of financial statements for that period where relevant. J Leo was a director of BAA Limited for the year and BAA Airports Limited from 31 July 2009. His remuneration was paid by BAA Airports

Limited and is disclosed within the respective financial statements for the period for which he was a director. F Maroudas was paid by, but is not a director of, BAA Airports Limited. The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided.

In accordance with a long term incentive scheme, a cash amount could be awarded to one director (2008: none), which would vest in 2012 contingent on achieving or surpassing EBITDA targets over a three year period. As the financial performance is uncertain at this stage the above emoluments do not contain any value in relation to this award.

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

During the year, none of the directors (2008: one) had retirement benefits accruing to them under a defined benefit pension scheme and one of the directors (2008: none) had retirement benefits accruing to them under a defined contribution pension scheme.

4 Exceptional items

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Pension[1]	**218**	13
Reorganisation income	**(1)**	(3)
Heathrow Terminals 1 and 2 accelerated depreciation[2]	**55**	84
Heathrow Terminal 5 launch/operational readiness costs	**—**	22
Total exceptional items before income tax	**272**	116
Tax credit on exceptional items	**(76)**	(33)
Total exceptional items	**196**	83

1 During 2009 total exceptional pension costs of £218 million (2008: £13 million) were incurred. £216 million (2008: £nil) was in relation to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme and £2 million (2008: £13 million) in relation to UURBS, in accordance with the Shared Services Agreement ('SSA'). For more information on pension costs charged refer to the Accounting policies.

2 With the development of the new Terminal 2, the existing Terminals 1 and 2 at Heathrow airport will be demolished necessitating an additional depreciation charge of £55 million in the year to 31 December 2009 (2008: £84 million) to reflect the shortened useful lives of the assets.

5 Financing – continuing operations

a) Net finance costs

	Note	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Finance income			
Interest receivable on derivatives not in hedge relationship		**151**	64
Interest on deposits		**—**	1
		151	65
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments		**(333)**	(116)
Bank loans and overdrafts and related hedging instruments		**(368)**	(162)
Interest payable on derivatives not in hedge relationship		**(88)**	(91)
Facility fees		**(18)**	(24)
Interest on group borrowings		**—**	(381)
Unwinding of discount on Terminal 5 land purchase and other provisions	*20*	**(3)**	(15)
Total borrowing costs		**(810)**	(789)
Less: capitalised borrowing costs	*9*	**22**	96
		(788)	(693)
Net finance costs before certain re-measurements		**(637)**	(628)

1 Restated for change in accounting for accretion on index-linked swaps.

The net finance costs above are for continuing operations only. Finance income and finance costs for discontinued operations are disclosed in Note 7 'Discontinued operations'.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 2.87% (31 December 2008: 6.92%) to expenditure incurred on such assets.

b) Fair value (losses)/gains on financial instruments

	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Interest rate swaps: cash flow hedges[2]	**21**	(24)
Interest rate swaps: not in hedge relationship	**—**	(13)
Cross-currency interest rate swaps: cash flow hedges[2]	**(12)**	35
Index-linked swaps: not in hedge relationship	**(126)**	123
Fair value re-measurements of foreign exchange contracts and currency balances	**(3)**	8
Fair value (losses)/gains on financial instruments	**(120)**	129

1 Restated for change in accounting for accretion on index-linked swaps.
2 Hedge ineffectiveness on derivatives in a hedge relationship.

6 Taxation – continuing operations

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
UK Corporation Tax		
Current tax at 28% (31 December 2008: 28.5%)	**9**	(70)
Over provision in respect of prior years	**(1)**	(20)
Deferred Tax		
Current year	**(176)**	(39)
Prior year	**4**	13
Ordinary taxation credit for the year	**(164)**	(116)
Deferred tax		
Current year	**—**	1,069
Exceptional taxation charge for the year	**—**	1,069

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss before tax	**(693)**	(389)

The tax on the Group's loss before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting losses of the Group:

Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 28% (31 December 2008: 28.5%)	**(194)**	(110)
Adjustments in respect of current income tax of previous years	**(1)**	(20)
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**—**	1
Expenses not deductible for tax purposes	**27**	—
Adjustments in respect of deferred income tax of previous years	**4**	13
Ordinary taxation credit for the year	**(164)**	(116)
Deferred tax – impact of the abolition of industrial buildings allowances	**—**	1,069
Exceptional taxation charge for the year	**—**	1,069

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement, in particular the UK Government announced that Industrial Buildings Allowances ('IBAs') would be abolished over three years from 1 April 2008. As a consequence, the Group recognised an exceptional accounting loss in the form of a deferred tax charge amounting to £1,175 million (£106 million of which relates to discontinued operations). In effect, the accounting charge reflected as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

7 Discontinued operations

Discontinued operations represents components of the Group that have been disposed of or classified as held-for-sale during the year. In accordance with IFRS 5 – 'Non-current assets held-for-sale and discontinued operations', the results and cash flows of this 'disposal group' are reported separately from the performance of continuing operations at each reporting date.

Gatwick was sold on 3 December 2009 and the results to the date of disposal are reported in (a) below.

a) Net loss from discontinued operations

	Year ended 31 December 2009			Year ended 31 December 2008		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	**Before certain re-measurements £m**	**Certain re-measurements £m**	**Total £m**
Revenue	**440**	—	**440**	465	—	465
Operating costs						
Depreciation and amortisation	—	—	—	(47)	—	(47)
Other	**(281)**	—	**(281)**	(297)	—	(297)
Other items						
Fair value losses on investment property	—	**(49)**	**(49)**	—	(43)	(43)
Operating profit from discontinued operations	**159**	**(49)**	**110**	121	(43)	78
Analysed as:						
Operating profit before exceptional items	**158**	**(49)**	**109**	112	(43)	69
Exceptional items	**1**	—	**1**	9	—	9
Financing						
Financing costs	**(67)**	—	**(67)**	(56)	—	(56)
	(67)	—	**(67)**	(56)	—	(56)
Loss on disposal of operations[1]	**(161)**	—	**(161)**	—	—	—
(Loss)/profit before tax from discontinued operations	**(69)**	**(49)**	**(118)**	65	(43)	22
Taxation – ordinary	**(15)**	**13**	**(2)**	(24)	16	(8)
Taxation – exceptional	—	—	—	(106)	—	(106)
Tax (charge)/credit on (loss)/profit of discontinued operations	**(15)**	**13**	**(2)**	(130)	16	(114)
Net loss from discontinued operations	**(84)**	**(36)**	**(120)**	(65)	(27)	(92)

1 Includes £106 million impairment charge on investment in Gatwick up to the date of disposal and £55 million loss on disposal.

b) Disposal of business

On 3 December 2009, the BAA Group sold Gatwick for cash consideration of £1,445 million and deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure. Sale proceeds were used primarily to repay bank debt. In addition, at 31 December 2009, £143 million of the proceeds were being held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. The remainder of the sale proceeds are being utilised to fund transaction costs including legal and other advisory fees and directly attributable separation costs.

The loss on disposal arising is detailed below:

	£m
Property, plant and equipment	**1,277**
Investment property	**613**
Other assets	**45**
Cash and cash equivalents	**39**
Corporation tax receivable	**9**
Deferred income tax liabilities	**(375)**
Other liabilities	**(101)**
Net assets	**1,507**
Add: Disposal costs	**73**
Carrying value of disposed operations	**1,580**
Consideration:	
Cash and cash equivalents	**(1,419)**
Loss on disposal	**(161)**

The loss on disposal of Gatwick includes an impairment charge of £106 million that was recognised in 2009 prior to disposal, as a result of the carrying value of Gatwick airport's assets being greater than their expected recoverable amount less disposal costs at the time.

8 Dividends

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Equity dividends declared and paid during the year		
Interim dividends paid	—	702
	—	702

The Company paid an interim dividend of 28p per ordinary share, amounting to £702 million, on 18 August 2008. No dividends were declared or paid in 2009.

9 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
Balance 1 January 2008		5,177	971	498	91	680	5,728	**13,145**
Additions		9	—	3	—	—	726	**738**
Net transfers from/(to) investment properties	10	—	—	—	2	—	(9)	**(7)**
Transfers from/(to) completed assets		3,748	328	97	18	685	(4,876)	**—**
Inter-company transfers		—	—	—	—	—	22	**22**
Borrowing costs capitalised		—	—	—	—	—	100	**100**
Disposals		(4)	—	(2)	—	(8)	—	**(14)**
Reclassifications		125	—	(10)	(12)	—	(103)	**—**
Transferred to assets held-for-sale	22	(1,440)	(193)	(120)	(29)	—	(73)	**(1,855)**
Balance 1 January 2009		7,615	1,106	466	70	1,357	1,515	**12,129**
Additions		4	—	4	—	—	725	**733**
Net transfers from/(to) investment properties	10	3	—	—	16	—	(21)	**(2)**
Transfers from/(to) completed assets		784	31	89	6	5	(915)	**—**
Inter-company transfers		(6)	—	—	—	—	—	**(6)**
Borrowing costs capitalised	5	—	—	—	—	—	22	**22**
Disposals		(171)	(3)	(1)	(9)	—	—	**(184)**
Balance 31 December 2009		**8,229**	**1,134**	**558**	**83**	**1,362**	**1,326**	**12,692**
Depreciation								
Balance 1 January 2008		(1,899)	(248)	(365)	(19)	(168)	—	(2,699)
Charge		(375)	(40)	(30)	(5)	(36)	—	(486)
Disposals		4	—	2	—	8	—	14
Reclassifications		2	—	21	(9)	(14)	—	—
Transferred to assets held-for-sale	22	571	73	79	6	—	—	729
Balance 1 January 2009		(1,697)	(215)	(293)	(27)	(210)	—	(2,442)
Charge	2	(365)	(38)	(36)	(4)	(41)	—	(484)
Disposals		165	3	1	3	—	—	172
Inter-company transfers		2	—	—	—	—	—	2
Balance 31 December 2009		**(1,895)**	**(250)**	**(328)**	**(28)**	**(251)**	**—**	**(2,752)**
Net book value 31 December 2009		**6,334**	**884**	**230**	**55**	**1,111**	**1,326**	**9,940**
Net book value 31 December 2008		5,918	891	173	43	1,147	1,515	9,687

Property, plant and equipment includes £105 million (2008: £179 million) for the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated and the acquisition cost represents the present value of the payment made at the end of January 2010. Previously the estimated deferred payments were to be made over 30 years (from the date of acquisition) to the vendor in compensation for relocation. However, a full and final settlement, extinguishing all further payment obligations has been agreed, resulting in a decrease to the acquisition cost.

Assets in the course of construction include £190 million (2008: £167 million) in respect of the development of a second runway and related infrastructure at Stansted and £10 million in respect of a third runway and related infrastructure at Heathrow. With respect to Stansted, the costs consist of £83 million (2008: £79 million) incurred in relation to the planning application preparation and £107 million (2008: £88 million) in relation to the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. This includes a provision of £5 million (2008: £5 million) for additional payments once planning permission has been obtained. Costs capitalised in respect of the third runway at Heathrow relate solely to planning and development costs, with no purchases of domestic properties or land having taken place as at 31 December 2009. Assets in the course of construction also include the second satellite under construction for Terminal 5 (T5C), the remaining phases of the satellite building for Terminal 2 as well as Terminal 4 extension and Terminal 3 refurbishments at Heathrow.

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £21 million (2008: £20 million).

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,143 million (2008: £1,215 million). Borrowing costs were capitalised at an average rate of 2.87% (2008: 6.92%).

A tax deduction of £22 million (2008: £96 million) for capitalised borrowing costs, excluding the unwinding of the provision for the obligation for Terminal 5 land purchase, was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 16 'Borrowings'.

10 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
Balance 1 January 2008		2,733	7	2,740
Additions		—	250	250
Transfers to/(from) completed assets		246	(246)	—
Net transfers from operational assets	*9*	7	—	7
Valuation loss		(190)	—	(190)
Transfer to assets held-for-sale	*22*	(651)	(3)	(654)
Balance 1 January 2009		2,145	8	2,153
Additions		4	18	22
Transfers to/(from) completed assets		17	(17)	—
Net transfers from operational assets	*9*	2	—	2
Valuation loss		(93)	—	(93)
Balance 31 December 2009		**2,075**	**9**	**2,084**

Airport investment properties were valued at fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors and Strutt & Parker, Chartered Surveyors.

Details of the valuations performed are provided below:

	Note	31 December 2009 £m	31 December 2008 £m
Drivers Jonas		**2,072**	2,795
Strutt and Parker		**12**	12
At professional valuation		**2,084**	2,807
At directors' valuation		**—**	—
		2,084	2,807
Transfer to assets held-for-sale	*22*	**—**	(654)
		2,084	2,153

All valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the reliability or remittance of income or proceeds on disposal.

Void areas amounted to 8,007m^2 in the year (2008: 38,385m^2) representing 0.75% (2008: 3.15%) of the Group's investment property portfolio.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £3 million (2008: £3 million) for which a similar amount is included within operating costs.

Security granted by the Group over its assets, including investment properties, is disclosed in Note 16 'Borrowings'.

11 Intangible assets

	Note	£m
Cost		
Balance 1 January 2008		175
Additions		28
Transferred to assets held-for-sale	*22*	—
Balance 1 January 2009		**203**
Additions		18
Transferred to assets held-for-sale		(13)
Balance 31 December 2009		**208**
Amortisation		
Balance 1 January 2008		(111)
Charge for the year		(27)
Balance 1 January 2009		**(138)**
Charge for the year		(27)
Disposals		12
Balance 31 December 2009		**(153)**
Net book value 31 December 2009		**55**
Net book value 31 December 2008		65

All intangible assets relate to capitalised computer software costs.

These software costs principally relate to operating and financial software. These assets are being amortised over a period of between three and seven years. Amortisation for the year has been charged through operating costs.

Software costs include assets in the course of construction of £20 million (2008: £12 million).

12 Inventories

	31 December 2009 £m	31 December 2008 £m
Consumables	**5**	5
	5	5

The total amount of inventories consumed in the year relating to continuing operations was £6 million (2008: £1 million) and relating to discontinued operations was £1 million (2008: £1 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

13 Trade and other receivables

	31 December 2009 £m	Restated[1] 31 December 2008 £m
Non-current		
Prepayments	**49**	50
Total non-current	**49**	50
Current		
Trade receivables	**186**	206
Less: Provision for impairment	**(3)**	(2)
Trade receivables – net	**183**	204
Prepayments	**28**	28
Group tax relief receivable	**—**	38
Amounts owed by group undertakings[2]	**40**	98
Amounts owed by group undertakings – pensions[3]	**36**	5
Other receivables	**20**	37
Total current	**307**	410

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

2 Amounts owed by group undertakings largely relate to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports that will be remitted to the airports in due course. This amount is payable on demand and accrues interest at Bank of England base rate +1.5%.

3 Amounts owed by group undertakings – pensions is the receivable from BAA Airports Limited, net of current service cost charges to date, due to cash contributions made directly by the Group's airports and HEX to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited.

Non-current prepayments of £49 million represent refinancing fees paid in 2008 on facilities not yet drawn and future bond issuances (2008: £50 million). Refinancing fees paid on facilities are amortised over the term of the facility whereas fees paid for future bond issuances will be allocated to the bonds when issued and amortised using the effective interest rate method.

The fair value of loans, trade and other receivables are not materially different from the carrying value.

Unless otherwise stated, trade and other receivables do not contain impaired assets.

Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security.

As of 31 December 2009, trade receivables of £121 million (2008: £118 million) were fully performing. Trade receivables of £62 million (2008: £86 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2009 £m	31 December 2008 £m
Up to 3 months	**41**	80
Over 3 months	**21**	6
	62	86

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 1 January 2009	2
Provision for receivables impairment	1
Receivables written off during the year as uncollectible	—
At 31 December 2009	**3**

As of 31 December 2009, trade receivables of £3 million (2008: £3 million) were considered for impairment and of which an amount of £3 million (2008: £2 million) was provided for, with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of provisions for impaired receivables have been included in 'general expenses' in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery. The ageing of these trade receivables is as follows:

	31 December 2009 £m	31 December 2008 £m
3 to 6 months	**3**	2
	3	2

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 18 'Financial instruments'.

14 Restricted cash

	31 December 2009 £m	31 December 2008 £m
Cash account	**143**	—

At 31 December 2009, £143 million of the proceeds from the sale of Gatwick airport were being held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. For more details regarding the Gatwick disposal refer to Note 7 'Discontinued operations'.

15 Cash and cash equivalents

	31 December 2009 £m	31 December 2008 £m
Cash at bank and in hand	**5**	25
Short-term deposits	**235**	142
	240	167

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates their book value.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, excluding Gatwick disposal proceeds held in escrow, held for the purpose of meeting short-term cash commitments, and consists of:

	Note	31 December 2009 £m	31 December 2008 £m
Cash at bank and in hand		**5**	25
Short-term deposits		**235**	142
Cash and cash equivalents held-for-sale	*22*	**—**	15
		240	182

16 Borrowings

	31 December 2009 £m	31 December 2008 £m
Current		
Secured		
Bank loans – EIB	**41**	43
Total current (excluding interest payable)	**41**	43
Interest payable	**154**	179
Total current	**195**	222
Non-current		
Secured		
Bonds:		
3.975% €1,000 million due 2012	**842**	893
5.850% £400 million due 2013	**368**	363
4.600% €750 million due 2014	**613**	656
12.450% £300 million due 2016	**377**	387
4.600% €750 million due 2018	**582**	628
9.200% £250 million due 2021	**285**	287
5.225% £750 million due 2023	**612**	606
6.750% £700 million due 2026	**685**	—
7.075% £200 million due 2028	**197**	197
6.450% £900 million due 2031	**838**	837
3.334%+RPI £235 million due 2039	**234**	—
Total bonds	**5,633**	4,854
Syndicated term facility	**2,254**	3,289
Capital expenditure facility	**652**	197
Subordinated facility	**1,564**	1,563
Bank loans	**331**	372
Total bank loans	**4,801**	5,421
Total non-current	**10,434**	10,275
Total current and non-current (excluding interest payable)	**10,475**	10,318

Syndicated term facility

The syndicated term facility has decreased during the year mainly due to the application of the proceeds from the bond issues together with part of the proceeds from the sale of Gatwick airport in prepaying the facility (including £1,050 million of the syndicated term facility repaid that is included in discontinued operations).

Bonds

The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two bond issues that generated proceeds of £924 million (net of issuance costs).

The bonds are all issued by BAA Funding Limited. The maturity dates listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and BAA Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled maturity date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later.

Fair value of borrowings	31 December 2009		31 December 2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Long term debt	**10,434**	**10,821**	10,275	9,182

The fair value of current borrowings approximates book value. Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Securities and guarantees

Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations under their financing arrangements and to the Subordinated Creditors under the subordinated facility held by BAA (SH) Limited. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors under these financing arrangements.

BAA (DSH) Limited, ADI Finance 2 Limited, BAA Limited, BAA Airports Holdco Limited and BAA Airports Limited are also guarantors under the subordinated facility. All the guarantors, apart from ADI Finance 2 Limited, are party to the transaction security which secures liabilities arising under the subordinated facility.

BAA Pension Trustee Company Limited (the BAA Pension Trustee) has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Obligors.

BAA Funding Limited has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

Additional disclosures on risk management and hedging of borrowings are included in Note 17 'Derivative financial instruments' and Note 18 'Financial instruments'.

17 Derivative financial instruments

2009	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts – no hedge accounting	**9**	**—**	**—**	**—**
	9	**—**	**—**	**—**
Non-current				
Interest rate swaps – cash flow hedge	**4,225**	**3**	**(166)**	**(163)**
Cross-currency swaps – cash flow hedge	**1,703**	**652**	**—**	**652**
Index-linked swaps – no hedge accounting	**2,206**	**28**	**(172)**	**(144)**
	8,134	**683**	**(338)**	**345**
At 31 December 2009	**8,143**	**683**	**(338)**	**345**

Restated 2008[1]	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts – no hedge accounting	45	7	—	7
	45	7	—	7
Non-current				
Interest rate swaps – cash flow hedge	4,426	72	(354)	(282)
Cross-currency swaps – cash flow hedge	1,703	758	—	758
Index-linked swaps – no hedge accounting	2,206	131	(312)	(181)
	8,335	961	(666)	295
At 31 December 2008	8,380	968	(666)	302

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

Interest rate swaps

Interest rate swaps are maintained by the Group, and designated as cash flow hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed borrowings. The gains and losses deferred in equity on the cash flow hedges described above will be continuously released to the income statement over the period of the hedged risk.

Index-linked swaps have been entered into to economically hedge debt instruments and RPI linked revenue.

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on Euro-denominated bond issues. The gains and losses deferred in equity on these swaps will be continuously released to the income statement over the period to maturity of the hedged bonds.

Foreign exchange contracts

Foreign exchange forward and swap contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

Fair value of derivative financial instruments

The valuation technique used by the Group is a discounted cash flow methodology. In 2009, the Group has revisited the input data used in the discounted cash flow methodology to exclude the initial credit and execution costs. This change in estimates impacted the fair value of derivatives by a gain of £82 million with a corresponding entry in the income statement within 'Fair value (losses)/ gains on financial instruments'. This amount will be reversed through the income statement over the life of the derivatives.

18 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, cash and short-term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into hedging transactions, principally interest rate swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

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

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing these risks which are summarised below.

Foreign exchange risk

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge all interest and principal payments, subject to a de minimis limit. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

As at 31 December 2009, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £18 million and £22 million respectively (2008: £13 million decrease and £15 million increase respectively).

As at 31 December 2009, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, there would have been nil impact in the annual pre-tax profit (2008: £0.3 million increase and £0.4 million decrease respectively).

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group.

The Group is exposed to RPI risk on its index-linked bond and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2009, with all other variables remaining constant, if the RPI had increased or decreased by 10%, annual pre-tax profit would have decreased or increased by £76 million and £74 million respectively (2008: £54 million decrease and £53 million increase respectively).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 70% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for forecast issuance of debt.

As at 31 December 2009, the Group's fixed floating interest rate profile, after hedging, on gross debt was 83:17 (2008: 76:24).

As at 31 December 2009, each 0.50% change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the interest income, interest charge and mark-to-market valuation of derivatives.

	31 December 2009		**31 December 2008**	
	Income statement impact £m	**Equity impact £m**	**Income statement impact £m**	**Equity impact £m**
0.50% increase	**28**	**150**	17	195
0.50% decrease	**(30)**	**(160)**	(18)	(214)

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A-/A-1.

As at 31 December 2009, the Group had total credit risk with derivative counterparties of its interest rate swaps, index-linked swaps and cross-currency swaps of £683 million (2008: £961 million). The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with short- and long-term credit ratings below A-2/F1 and BBB+/A, respectively.

Financial assets past due but not impaired are disclosed in Note 13 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2009 was £1,269 million (2008: £1,376 million).

Liquidity risk

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

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at 31 December:

	31 December 2009 £m	**31 December 2008 £m**
Floating rate facilities		
Expiring in more than two years	**2,050**	**2,500**

As at 31 December 2009, overdraft facilities of £10 million were available (2008: £5 million).

The table below analyses the gross undiscounted contractual cash flows on the Group's financial liabilities and net settled derivative financial instruments as at 31 December to the contractual maturity date.

	31 December 2009			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	**41**	**1,824**	**4,471**	**4,024**
Borrowing interest payments	**489**	**449**	**1,014**	**2,635**
Derivative financial instruments	**(21)**	**—**	**152**	**834**
Trade payables	**110**	**—**	**—**	**—**

	31 December 2008			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	43	1,041	6,409	3,638
Borrowing interest payments	620	586	1,168	2,134
Derivative financial instruments	(74)	(16)	104	309
Trade payables	110	—	—	—

The tables below analyse the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December 2009 and 31 December 2008 to the contractual maturity date.

	31 December 2009			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	**36**	**54**	**125**	**100**
Cross-currency derivative receipts	**(96)**	**(96)**	**(219)**	**(122)**

	31 December 2008			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	44	44	167	144
Cross-currency derivative receipts	(104)	(104)	(274)	(198)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group regularly reviews and maintains or adjusts its capital structure as appropriate in order to achieve these objectives.

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to the Regulatory Asset Base ('RAB'). Net debt is external nominal net debt at the entity within the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels, including BAA (SH) Limited and BAA (SP) Limited. Gearing ratios of each of these as are set out below:

	31 December 2009	31 December 2008
Net debt to RAB at BAA (SH) Limited	**0.86**	0.88
Net total debt to RAB at BAA (SP) Limited	**0.73**	0.76
Net senior debt to RAB at BAA (SP) Limited	**0.67**	0.68

The decrease in gearing ratios in 2009 is largely the result of strong cash flow and the impact of inflation on the RAB.

Financial instruments by category

The Group's financial instruments as classified in the financial statements as at 31 December can be analysed under the following IAS 39 categories:

	31 December 2009			
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Total £m
Derivative financial instruments	—	28	655	683
Cash and cash equivalents	383	—	—	383
Trade receivables	183	—	—	183
Other receivables	20	—	—	20
Total financial assets	**586**	**28**	**655**	**1,269**

	31 December 2009			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings	—	—	(10,475)	(10,475)
Derivative financial instruments	(172)	(166)	—	(338)
Trade payables	—	—	(110)	(110)
Total financial liabilities	**(172)**	**(166)**	**(10,585)**	**(10,923)**

	31 December 2008			
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Total £m
Derivative financial instruments	—	138	830	968
Cash and cash equivalents	167	—	—	167
Trade receivables	204	—	—	204
Other receivables	37	—	—	37
Total financial assets	408	138	830	1,376

	31 December 2008			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings	—	—	(10,318)	(10,318)
Derivative financial instruments	(312)	(354)	—	(666)
Trade payables	—	—	(110)	(110)
Total financial liabilities	(312)	(354)	(10,428)	(11,094)

At 31 December 2009, the Group has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2009.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through the income statement	—	28	—	28
Derivatives qualifying for hedge accounting	—	655	—	655
Total assets	—	683	—	683
Liabilities				
Liabilities at fair value through the income statement	—	(172)	—	(172)
Derivatives qualifying for hedge accounting	—	(166)	—	(166)
Total liabilities	—	(338)	—	(338)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross-currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

At 31 December 2009, all of the resulting fair value estimates in the Group are included in level 2.

19 Deferred income tax

The net movement on the deferred income tax account is as follows:

	Note	2009 £m	2008 £m
Balance 1 January		**2,116**	1,490
Transfer of subsidiary to asset held-for-sale	*22*	**—**	(373)
Disposal of operations		**(3)**	—
Credited to income statement[1]		**(169)**	(45)
Impact of abolition of Industrial Buildings Allowances – charged to income statement[2]		**—**	1,175
Charged/(credited) to equity		**83**	(131)
Balance 31 December		**2,027**	2,116

1 Includes a £3 million charge (2008: £18 million credit) to income statement relating to discontinued activities.

2 A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement, in particular the UK Government announced that Industrial Buildings Allowance ('IBA's') would be abolished over three years from 1 April 2008. As a consequence, the Group recognised an exceptional accounting loss in the form of a deferred tax charge amounting to £1,175 million in 2008 (£106 million of which related to discontinued activities). In effect, the accounting charge reflected as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Tax on rolled over gains £m	Other £m	Total £m
Balance 1 January 2009	1,669	476	12	52	2,209
Credited to income statement	(84)	(29)	—	(35)	(148)
Disposal of operations	(3)	13	—	(13)	(3)
Credited to equity	—	(3)	—	—	(3)
Balance at 31 December 2009	**1,582**	**457**	**12**	**4**	**2,055**

Deferred income tax assets

	IAS 32/39 £m	Total £m
Balance at 1 January 2009	(93)	(93)
Credited to the income statement	(21)	(21)
Charged to equity	86	86
Balance 31 December 2009	**(28)**	**(28)**

Deferred income tax (credited)/charged to equity during the year is as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Fair value reserves in shareholder's equity		
Cash flow hedge reserve	**86**	(128)
Indexation – operational land	**(3)**	(3)
Total	**83**	(131)

20 Provisions

	Note	Disposal of operations £m	Reorganisation £m	Obligations under land purchase £m	Pension £m	Other £m	Total £m
Balance at 1 January 2009		—	25	111	13	6	155
Utilised		—	(17)	(2)	—	(1)	(20)
Charged to income statement		35	—	—	218	23	276
Release		—	—	(74)	—	—	(74)
Unwinding of discount charged and capitalised	*5*	—	—	3	—	—	3
Balance 31 December 2009		**35**	**8**	**38**	**231**	**28**	**340**
Current		35	8	38	231	10	322
Non-current		—	—	—	—	18	18
Balance 31 December 2009		**35**	**8**	**38**	**231**	**28**	**340**
Current		—	25	8	13	—	46
Non-current		—	—	103	—	6	109
Balance 31 December 2008		**—**	**25**	**111**	**13**	**6**	**155**

Disposal of operations

A provision of £35 million (2008: £nil) is held for costs associated with the disposal of Gatwick.

Reorganisation

Costs associated with the Group reorganisation are for severance and pension payments only. All amounts are expected to be utilised in 2010.

Obligations under land purchase

This provision relates to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land were relocated, and the initial provision was made in the amount of the present value of the estimated payments to be made over course of 30 years as per the agreement. However, agreement has been reached over a full and final payment settlement of £38 million, payable by Heathrow to the vendor by the end of January 2010 as discussed in further detail in Note 9 'Property, plant and equipment'.

The provision of £38 million (2008: £111 million), net of discount, is expected to be utilised as follows:

	31 December 2009 £m	31 December 2008 £m
Within one year	**38**	8
One to two years	**—**	7
Two to five years	**—**	22
Five to ten years	**—**	26
Over ten years	**—**	48
	38	111

Pension

A provision of £231 million (2008: £13 million) is held in relation to pensions, representing the legal obligation the Group's airports and HEX have under the Shared Services Agreement to fund their share of BAA Airports Limited pension deficit and related pension liabilities. £216 million (2008: £nil) of the provision relates to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme. £15 million (2008: £13 million) is held for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical benefits. These provisions will only be settled when the cash outflow is requested by BAA Airports Limited. For more information on pension costs charged refer to the Accounting policies note.

21 Trade and other payables

	31 December 2009 £m	Restated[1] 31 December 2008 £m
Non-current		
Deferred income	**5**	6
Total non-current	**5**	6
Current		
Trade payables	**110**	110
Other tax and social security	**7**	7
Other payables	**33**	60
Capital payables	**186**	219
Amounts owed to group undertakings	**—**	63
Total current	**336**	459

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

Trade payables are non-interest bearing and are generally on 30-day terms.

22 Assets held-for-sale

	Note	31 December 2009 £m	31 December 2008 £m
Property, plant and equipment	*9*	—	1,126
Investment property	*10*	—	654
Inventories		—	3
Trade and other receivables		—	67
Cash and cash equivalents	*15*	—	15
Total assets classified as held-for-sale		—	1,865
Trade and other payables		—	(82)
Current borrowings[1]		—	(9)
Non-current borrowings		—	(1,033)
Group relief payable		—	(16)
Deferred tax liabilities	*19*	—	(373)
Provisions		—	(6)
Total liabilities classified as held-for-sale		—	(1,519)
Net assets of disposal group		—	346

1 Current borrowings relates to interest payable amounts.

On 3 December 2009 Gatwick Airport Limited was sold. No operations were classified as held-for-sale as at 31 December 2009.

23 Share capital

	2009 £	2008 £
Authorised		
9,000,000,000 ordinary shares of £1 each	9,000,000,000	9,000,000,000
Allotted and fully paid		
At 1 January – 2,509,350,689 ordinary shares of £1 each	2,509,350,689	2,509,350,689
Issue of 260,000,000 ordinary shares of £1 each	260,000,000	—
Issue of 22,629,685 ordinary shares of £1 each	22,629,685	—
In issue at 31 December – 2,791,980,374/2,509,350,689 ordinary shares of £1 each	**2,791,980,374**	**2,509,350,689**

On 13 November 2009, the Company issued 260,000,000 ordinary shares of £1.00 each to BAA (DSH) Limited. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (SP) Limited.

A further 22,629,685 ordinary shares were issued at £1.00 each to BAA (DSH) Limited on 4 December 2009. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (SP) Limited.

24 Revaluation reserve

	£m
Balance 1 January 2009/31 December 2009	365

The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the income statement.

25 Merger reserve

	£m
Balance 1 January 2009	2,865
Realisation of merger reserve – Gatwick airport disposal	(1,094)
Balance 31 December 2009	**1,771**

26 Fair value reserve

	Cash flow hedge reserve £m
At 1 January 2009	(330)
Fair value gains	19
Transferred to income statement	289
Deferred tax on fair value gains	(86)
Balance 31 December 2009	**(108)**

27 Tax relating to components of comprehensive income

	Year ended 31 December 2009			Year ended 31 December 2008		
	Before tax £m	Tax (charge)/ credit £m	After tax £m	Before tax £m	Tax (charge)/ credit £m	After tax £m
Cash flow hedges						
Gains/(loss) taken to equity	**19**	**(5)**	**14**	(24)	7	(17)
Transferred to income statement	**289**	**(81)**	**208**	(434)	121	(313)
Indexation of operating land	**—**	**3**	**3**	—	3	3
Other comprehensive income	**308**	**(83)**	**225**	(458)	131	(327)
Current tax	**—**	**—**	**—**	—	—	—
Deferred tax (Note 19 'Deferred income tax')	**—**	**(83)**	**—**	—	131	—
	—	**(83)**	**—**	—	131	—

28 Retained earnings

	£m
Balance 1 January 2009	264
Net loss for the year	(649)
Indexation of operating land	3
Realisation of merger reserve – Gatwick airport disposal	(1,094)
Balance 31 December 2009	**(1,476)**

29 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

Total future minimum rentals payable as at the year end are as follows:

	31 December 2009		31 December 2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**12**	**44**	14	38
Within two to five years	**45**	**189**	41	149
After five years	**44**	**2,142**	46	2,549
	101	**2,375**	101	2,736

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewable rights. The Group also leases plant and machinery under non-cancellable operating leases.

A significant portion of the £2.4 billion commitments classified as 'Other' relates to electricity supply equipment at the airports leased on agreement with London Electricity Supply ('LES'). The lease has 74 years remaining. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to LES as neither the Group nor LES are able to split the base fee between a 'capital' and 'maintenance' charge.

Non-cancellable operating lease commitments – Group as a lessor

Total future minimum rentals receivable as at the year end are as follows:

	31 December 2009		31 December 2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**81**	**—**	83	—
Within two to five years	**257**	**—**	244	—
After five years	**1,629**	**—**	1,525	—
	1,967	**—**	1,852	—

The Group uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Public car parks and car rental facilities are operated under concession agreements subject to minimum guaranteed payments, the amounts for which are included above.

Non-cancellable electricity purchase commitment

Total future minimum electricity payments as at the year end are as follows:

	31 December 2009 £m	31 December 2008 £m
Within one year	**57**	50
Within two to five years	**74**	131
After five years	**—**	—
	131	181

The Group has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Group until March 2012. Such commitments are for the normal purchase, sale or usage of electricity and hence are accounted for as ordinary purchase contracts.

Group commitments for property, plant and equipment

	31 December 2009 £m	31 December 2008 £m
Contracted for, but not accrued:		
Heathrow Airport – Terminal 5C	**106**	7
Heathrow Airport – Terminal 2A Building	**11**	—
Heathrow Airport – North West stands and taxi lanes	**10**	—
Heathrow Airport – Terminal 2B Phase 2	**8**	—
Heathrow Airport – Eastern Apron	**6**	6
Heathrow Airport – Terminal 4 airline relocations	**3**	6
Heathrow Airport – Terminal 2B North East Stands	**—**	5
Heathrow Airport – Post Terminal 5 transfer	**—**	16
Gatwick Airport – Landside Inter Terminal Transit System	**—**	14
	144	54
Other projects	**30**	71
	174	125

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at its airports. The Group's submission to the CAA in respect of quinquennium 5 included capital expenditure for Heathrow of £4,542 million (in 2007/08 prices). In line with commitments with the regulator, capital expenditure expected for Heathrow during 2010 amounts to £1,004 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project. The capital programme included in Stansted's current price determination foresees total investment of £125 million until the end of March 2014. Capital expenditure expected for Stansted during 2010 amounts to £40 million.

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

In relation to the development of a second runway at Stansted, at 31 December 2009 the Group has capitalised costs, within runway development costs, of £83 million in relation to planning application preparation and £107 million in respect of the purchase of domestic properties and land for those people living near Stansted Airport whose homes will be affected by the airport expansion under voluntary schemes (the Home Value Guarantee Scheme (HVGS), the Home Owners Support Scheme and the Special Cases Scheme). The current estimate of the net cost of the blight compensation schemes is up to £110 million. Total value to 31 December 2009 is £107 million (2008: £88 million), including a £5 million provision for additional payments which will become due once planning permission is obtained for the second runway.

As part of its commitment to the development of a third runway at Heathrow, the Group is operating two voluntary blight schemes (the Property Market Support Bond (PMSB) for those properties within the indicative boundary of Runway 3/Terminal 6 and the Home Owners Support Scheme for those properties within the 66db leq contour for aircraft noise associated with Runway 3).

These schemes were the subject of extensive public consultation by BAA. The terms and conditions of the scheme were published by Heathrow Airport Limited in 2005. The intention at that time was to "trigger" access to the schemes when BAA announced its intention to submit a planning application for the third runway. Following the January 2009 Government announcement confirming policy support for a third runway, the BAA Board decided to allow home owners covered by PMSB to sell their properties under the scheme for one year. The current estimate for the cost of the PMSB is up to £300 million. As at 31 December 2009, no properties had been acquired under the scheme.

The Group is also required by the Government to offer noise mitigation measures relating to existing airport activities. Based on the Group's evaluation, payments under current noise schemes are estimated at £31 million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings and assistance with the costs of relocation for dwelling owners. The Group is committed to reviewing these schemes in 2010.

In June 2006, the Government announced its conclusions for the 2006-2012 night flights regime at the Group's airports. The regime commits the Group to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62 million over the five years from 2008. The Government is expected to consult on proposals for the post 2012 night flights regime during 2010. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

The January 2009 Government announcement 'Adding Capacity at Heathrow' requires the Group to review existing insulation and mitigation schemes; and to consider extending its noise insulation schemes to all community buildings and households in the new 57dBA contour that will experience an increase in noise of 3dBA or more.

Until further consultation is carried out with the local communities, the significance of the Group's obligations in implementing these schemes is uncertain.

Other commitments

In July 2008, the Group reached agreement with the Trustees of the BAA Airports Limited defined benefit pension scheme to contribute £70 million per annum for a period of three years ending 31 December 2011. The Group expects to contribute this amount to the pension plan in the year ending 31 December 2010.

Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £265 million at 31 December 2009 (2008: £317 million).

Under the SSA hedging costs properly incurred by BAA Airports Limited in relation to the Employee Share Ownership Plan (ESOP) may be recharged to the Group. At 31 December 2009, the ESOP swap held in BAA Airports Limited had a fair value loss of £70 million (2008: £117 million). The Group may be obligated to settle its share of these amounts in the future, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability and included in the amount above.

30 Notes to the consolidated cash flow statement

Reconciliation of net loss before tax to cash generated from continuing operations

	Note	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Operating activities			
Net loss before tax		**(693)**	(389)
Adjustments for:			
Finance income	*5a*	**(151)**	(65)
Finance costs	*5a*	**788**	693
Fair value loss/(gain) on financial instruments	*5b*	**120**	(129)
Depreciation[2]	*2*	**429**	356
Amortisation	*2*	**27**	27
Loss on sale of property, plant and equipment	*2*	**—**	1
Exceptional costs[2]	*2/4*	**55**	84
Fair value loss on investment properties	*10*	**93**	147
Decrease/(increase) in trade and other receivables		**97**	(240)
Increase in inventories		**—**	(1)
(Decrease)/increase in trade and other payables		**(81)**	130
Increase in provisions		**2**	2
Decrease in deferred income		**(21)**	—
Difference between pension charge and cash contributions		**186**	22
Cash generated from continuing operations		**851**	638

1 The presentation of balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
2 Heathrow Terminals 1 and 2 accelerated depreciation reported as exceptional items.

31 Related party transactions

During the year the Group entered into the following transactions with related parties:

	Year ended 31 December 2009 Sale of goods and services £m	Year ended 31 December 2008 Sale of goods and services £m
Swissport/Groundstar	**2**	4

	Year ended 31 December 2009 Purchase of goods and services £m	Year ended 31 December 2008 Purchase of goods and services £m
Ferrovial Agroman	**96**	23
Amey Airport Services Limited	**4**	1
Amey Community Limited	**1**	—
	101	24

Balances outstanding with related parties were as follows:

	31 December 2009		31 December 2008	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	**Amounts owed by related parties £m**	**Amounts owed to related parties £m**
Swissport/Groundstar	**—**	**—**	1	—
Ferrovial Agroman	**—**	**1**	—	—
	—	**1**	1	—

32 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is BAA (DSH) Limited, a company registered in England and Wales.

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

The Group's results are also included in the audited consolidated financial statements of BAA Limited and FGP Topco Limited for the year ended 31 December 2009.

Copies of the financial statements of FGP Topco Limited and BAA Limited may be obtained by writing to the Company Secretary at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

33 Principal subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding companies

BAA (AH) Limited†
BAA (SP) Limited

Airport owners and operators

Heathrow Airport Limited†
Stansted Airport Limited†

Other

BAA Funding Limited†#
Heathrow Express Operating Company Limited†

† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom.

34 Subsequent events

In January 2010, the £500 million equity injection announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares of £1.00 each to BAA (DSH) Limited. The proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares in BAA (SP) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share.

BAA (SH) Limited

Audited annual consolidated financial statements for the year ended 31 December 2008

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). In preparing the group financial statements, the directors have also elected to comply with IFRS's, issued by the International Accounting Standards Board (IASB). The Group and Parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period.

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

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State that the Group and parent company financial statements comply with IFRSs as adopted by the European Union and IFRS's issued by the IASB, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and with regards to the Group's financial statements, Article 4 of the IAS Regulations. They are responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the BAA website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page F-68 for the Group.

By order of the board

Shu Mei Ooi

Company Secretary

29 May 2009

Independent auditors' report to the members of BAA (SH) Limited

We have audited the Group financial statements of BAA (SH) Limited for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement, the accounting policies, the significant accounting judgements and estimates and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of BAA (SH) Limited for the year ended 31 December 2008.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group financial statements. The information given in the Report of the Directors includes specific information presented in the Business Review that is cross referred from the Report of the Directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Report of the Directors, the Statement of directors' responsibilities and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

29 May 2009

Consolidated income statement for the year ended 31 December 2008

	Note	**Year ended 31 December 2008**			Year ended 31 December 2007[2]		
	Note	**Before certain re-measurements[1] £m**	**Certain re-measurements[1] £m**	**Total £m**	Before certain re-measurements[1] £m	Certain re-measurements[1] £m	Total £m
Continuing operations							
Revenue	*1*	**1,827**	**—**	**1,827**	1,566	—	1,566
Operating costs	*2*	**(1,570)**	**—**	**(1,570)**	(1,213)	—	(1,213)
Other operating costs							
Fair value losses on investment properties	*10*	**—**	**(147)**	**(147)**	—	(13)	(13)
Operating profit	*1*	**257**	**(147)**	**110**	353	(13)	340
Analysed as:							
Operating profit before exceptional items		**373**	**(147)**	**226**	510	(13)	497
Exceptional items	*4*	**(116)**	**—**	**(116)**	(157)	—	(157)
		257	**(147)**	**110**	353	(13)	340
Financing							
Finance income	*5a*	**65**	**—**	**65**	—	—	—
Finance costs	*5a*	**(651)**	**—**	**(651)**	(195)	—	(195)
Fair value gains on derivative financial instruments	*5b*	**—**	**87**	**87**	—	—	—
Loss before tax		**(329)**	**(60)**	**(389)**	158	(13)	145
Taxation—ordinary	*6*	**94**	**22**	**116**	2	52[4]	54
Taxation—exceptional[3]	*6*	**(1,069)**	**—**	**(1,069)**	—	—	—
Taxation (charge)/credit		**(975)**	**22**	**(953)**	2	52	54
(Loss)/profit for the period from continuing operations		**(1,304)**	**(38)**	**(1,342)**	160	39	199
Net (loss)/profit from discontinued operations	*7*	**(65)**	**(27)**	**(92)**	46	28	74
Consolidated (loss)/profit for the year		**(1,369)**	**(65)**	**(1,434)**	206	67	273
Interim dividends paid during the year	*8*	**(702)**	**—**	**(702)**	(151)[5]	—	(151)

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

2 Comparative income statement information includes Gatwick in discontinued operations.

3 Total exceptional deferred tax charge of £1,175 million related to the abolition of Industrial Buildings Allowances, of which £106 million relates to discontinued operations.

4 Includes a tax credit of £48 million due to a change in the UK corporation tax rate from 30% to 28% which took effect from 1 April 2008.

5 This amount includes £65 million relating to Gatwick Airport Limited.

Consolidated statement of recognised income and expense for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Cash flow hedges			
Losses taken to equity	*24*	**(24)**	—
Transferred to income statement	*24*	**(434)**	—
Deferred tax credit on items transferred directly to equity	*18/24/25*	**131**	4
Net (expense)/income recognised directly in equity		**(327)**	4
(Loss)/profit for the year	*25*	**(1,434)**	273
Total recognised (expense)/income for the year		**(1,761)**	277

Consolidated balance sheet as at 31 December 2008

	Note	As at 31 December 2008 £m	As at 31 December 2007 £m
Assets			
Non-current assets			
Property, plant and equipment	*9*	**9,687**	10,446
Investment properties	*10*	**2,153**	2,740
Intangible assets	*11*	**65**	64
Derivative financial instruments	*16*	**830**	—
Trade and other receivables	*13*	**—**	574
		12,735	13,824
Current assets			
Inventories	*12*	**5**	8
Trade and other receivables	*13*	**397**	793
Derivative financial instruments	*16*	**138**	—
Cash and cash equivalents	*14*	**167**	—
		707	801
Assets classified as held-for-sale	*21*	**1,865**	—
Total assets		**15,307**	14,625
Liabilities			
Non-current liabilities			
Borrowings[1]	*15*	**(10,275)**	(1,813)
Derivative financial instruments	*16*	**(354)**	—
Deferred income tax liabilities	*18*	**(2,116)**	(1,490)
Provisions	*19*	**(109)**	(97)
Trade and other payables	*20*	**(6)**	(12)
		(12,860)	(3,412)
Current liabilities			
Borrowings[1]	*15*	**(222)**	(8,230)
Derivative financial instruments	*16*	**(312)**	—
Provisions	*19*	**(46)**	(56)
Current income tax liabilities		**(9)**	(10)
Trade and other payables	*20*	**(396)**	(511)
		(985)	(8,807)
Liabilities associated with assets classified as held-for-sale	*21*	**(1,519)**	—
Total liabilities		**(15,364)**	(12,219)
Net (liabilities)/assets		**(57)**	2,406
Equity			
Capital and reserves			
Ordinary shares	*22*	**2,509**	2,509
Revaluation reserve	*23*	**365**	365
Fair value and other reserves	*24*	**(330)**	—
Merger reserves	*24*	**(2,865)**	(2,865)
Retained earnings	*25*	**264**	2,397
Total Equity		**(57)**	2,406

1 Interest payable is included within current borrowings.

The financial statements set out on pages F-70 to F-119 were approved by the Board of directors and authorised for issue on 29 May 2009 and signed on behalf of the Board.

Jose Leo
Director

Luis Sanchez Salmeron
Director

Consolidated cash flow statement for the year ended 31 December 2008

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Operating activities		
Continuing operations		
Net (loss)/profit before tax	**(389)**	145
Adjusted for:		
Finance income	**(65)**	—
Finance costs	**651**	195
Fair value gain on derivative financial instruments	**(87)**	—
Depreciation	**467**	308
Loss on disposal of property plant and equipment	**1**	1
Fair value loss on investment properties	**147**	13
Changes in working capital		
Increase in stock and debtors	**(174)**	(18)
Increase/(decrease) in creditors	**68**	(7)
Increase in provisions	**19**	17
Cash generated from continuing operations	**638**	654
Taxation—group relief received[2]	**21**	—
Cash generated from discontinued operations	**136**	152
Net cash from operating activities	**795**	806
Investing activities		
Purchase of:		
Property, plant and equipment	**(891)**	(967)
Investment properties	**—**	—
Intangible assets	**(28)**	(9)
Investing activities of discontinued operations	**(114)**	(89)
Net cash used in investing activities	**(1,033)**	(1,065)
Acquisition of Heathrow Express Operating Company Limited	**(4)**	—
Dividend paid	**—**	(151)
Financing activities		
Drawdown on refinancing facility	**3,350**	—
Drawdown on capex facility	**250**	—
Drawdown of EIB facility	**435**	—
Repayment of EIB facility	**(18)**	—
Payment of loan arrangement fees	**(15)**	—
(Decrease)/increase in amounts owed to group	**(3,616)**	393
Net interest paid	**(79)**	—
Financing activities from discontinued operations	**117**	17
Net cash generated from financing activities	**424**	410
Net increase in cash and cash equivalents	**182**	—
Cash and cash equivalents at beginning of period	**—**	—
Cash and cash equivalents at end of period	**182**	—

1 Comparative income statement information includes Gatwick in discontinued operations.

2 This amount includes £10 million group relief paid to Gatwick

For the purpose of the cash flow statement, cash and cash equivalents, with an original maturity of three months or less and held for the

purpose of meeting short-term cash commitments, comprise:

- cash at bank and cash in hand
- short-term deposits
- money market funds
- cash balances held by operations classified as held-for-sale.

Accounting policies

Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the amended Companies Act 1985.

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

Going concern

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

In concluding that the going concern assumption is appropriate the directors have reviewed the cashflow projections of the Group taking into account:

- the forecast passenger numbers, revenue and operating cashflows from the underlying operations;
- the forecast level of capital expenditure; and
- the Group funding structure following the refinancing in August 2008 and the significant committed facilities that are available to the Group (note 15).

As a result of the review, having made appropriate enquiries of management and allowing for headroom to accommodate a reasonable downside scenario (including a fall in passenger numbers), the directors have a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement over the coming twelve month period. All of the Group's financial covenants (see note 15) have been met and are forecast to be met for the foreseeable future.

Application of accounting standards

At the date of approving these financial statements, IFRIC 14 'IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' was effective and has been adopted by the Group in these financial statements. Further, the following International Financial Reporting Interpretations Committee ('IFRIC') interpretations, which were effective in 2008 have not been applied in these financial statements as they were not relevant to the Group:

- IFRIC 12 'Service Concession Agreements'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

At the date of approving these financial statements, the following IFRIC interpretations and IFRS have not been applied as they were not effective in 2008 and/or were not relevant to the Group:

- IFRIC 15 'Agreements for the Construction of Real Estate'; not yet effective.
- IFRIC 17 'Distributions of Non-cash Assets to Owners'; not yet effective.
- IFRS 8 'Operating segments' replaces IAS 14—Segment Reporting and aligns the segments information on the same basis as that used for the internal reporting purposes. The standard is subject to endorsement by the EU. The expected impact is still being assessed in detail by management.
- IAS 1 'Presentation of Financial Statements—Comprehensive revision including requiring a statement of comprehensive income'; not yet effective.
- IAS 1 'Presentation of Financial Statements—Amendments relating to disclosure of puttable instruments and obligations arising on liquidation'; not yet effective.
- IAS 1 'Presentation of Financial Statements—Amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 16 'Property, Plant and Equipment—Amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.

- IAS 19 'Employee Benefits—Amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 23 'Borrowing Costs—Comprehensive revision to prohibit immediate expensing and amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 27 'Consolidated and Separate Financial Statements—Consequential amendments arising from amendments to IFRS 3, amendment relating to cost of an investment on first-time adoption and amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 28 'Investments in Associates—Consequential amendments arising from amendments to IFRS 3 and amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 29 'Financial Reporting in Hyperinflationary Economies—Amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 31 'Interests in Joint Ventures—Consequential amendments arising from amendments to IFRS 3 and amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 32 'Financial Instruments: Presentation—amendments relating to puttable instruments and obligations arising on liquidation'; not yet effective.
- IAS 36 'Impairment of Assets—amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 38 'Intangible Assets—amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.
- IAS 39 'Financial Instruments: Recognition and Measurement—Amendments resulting from May 2008 Annual Improvements to IFRSs and Amendments for eligible hedged items'; not yet effective.
- IAS 40 'Investment Property—Amendments resulting from May 2008 Annual Improvements to IFRSs'; not yet effective.

Basis of consolidation

The ultimate UK parent undertaking of BAA (SH) Limited and its subsidiaries was before and remains after the group reorganisation, FGP Topco Limited.

During 2008, as part of the Group refinancing the company acquired BAA (SP) Limited, the security Group that owns the Designated Airports comprising of the UK regulates airports of Heathrow, Gatwick, and Stansted. It also operates the Heathrow Express rail service between Heathrow and Paddington, London. BAA (SP) Limited is the holding company of BAA Funding Limited, which is the bond issuer for the security group. In addition, £1.6 billion of subordinated debt, previously held at BAA Limited, was transferred to BAA (SH) Limited and on-lent to BAA (SP) Limited in the form of a debenture.

The group reorganisation outlined above is outside of the scope of IFRS 3, Business Combinations, as the combining entities are both before and after the reconstruction ultimately controlled by the same party (FGP Topco Limited) and control was not transitory. Therefore in accordance with IAS 8 the directors have developed an appropriate accounting policy for common control transactions. The Group financial statements consolidate the financial statements of the Company and all its subsidiaries, using the merger method of accounting (also known as 'predecessor accounting'). The policies adopted and explained below are comparable to those under UK GAAP.

The predecessor accounting principles applied are as follows:

– The acquired entities results are included in the groups consolidated financial statement as if the entities had always been combined and comparative amounts prepared accordingly.
– The group does not restate assets and liabilities to their fair values. Instead, the group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company adjusted only to achieve harmonisation of accounting policies.
– No goodwill arises in predecessor accounting, the differences arising on consolidation are included in a merger reserve.

Primary financial statements format

The IFRS primary financial statements are presented in accordance with IAS 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses (including those of associates). These items are:

(i) Fair value gains and losses on investment property revaluations and disposals

(ii) Derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship

(iii) The associated tax impacts of the items in (i) and (ii) above.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination and are recognised as an expense when incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Segment reporting

The BAA Group is organised according to its regulatory environment, geographical location and type of operation. The operating businesses are primarily the individual airports, which are organised and managed separately. The secondary format is geographical segments based on the location of the business assets and operations.

BAA SH operations comprise the designated/regulated airports of:

- Heathrow
- Gatwick (currently held for sale)
- Stansted

Operations falling outside of the main business segments are reported as 'other operations'.

Revenue

Revenue is recognised in accordance with IAS 18 'Revenue' and comprises:

Airport and other traffic charges

Primarily:

- Passenger charges based on the number of departing passengers on departure
- Aircraft landing charges levied according to weight on landing
- Aircraft parking charges based on a combination of weight and time parked
- Other charges levied for passenger and baggage handling when these services are rendered

Retail

- Concession fees from retail and commercial concessionaires at or around airports are based upon turnover certificates supplied by concessionaires.

Property and operational facilities

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

Other

- Other income includes rail income from ticket sales, recognised at the time of travel.

Government grants

On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. No such grants have been received in 2008 in relation to any UK airports. Grants received are treated as deferred income until such time as the terms of the grant are satisfied at which time it is recognised as revenue in the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and ready for use. Such borrowing costs are capitalised once planning permission has been obtained and/or where projects are in the early stages of planning but the directors are satisfied that the necessary consents will be received. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Exceptional items

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

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

Additional details of items disclosed as exceptional are provided.

Assets classified as held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are not depreciated and are measured at the lower of their previous carrying amount and fair value less costs to sell.

Discontinued operations

Discontinued operations consist of business segments and other non-core assets that have either been sold during the period or are classified as held-for-sale at period end. The financial performance and cash flows of discontinued operations are separately reported.

Intangible assets

Internally-generated intangible assets

Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- An intangible asset is created that can be separately identified
- It is probable that the intangible asset created will generate future economic benefits
- The development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the balance sheet date, as determined at the interim and full-year reporting dates by the directors and by external valuers at least once every five years. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Property, plant and equipment

Operational assets

Terminal complexes, airfield assets, plant and equipment, rail assets, and Group occupied properties are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation

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

Fixed asset lives

Terminal complexes	
Terminal building, pier and satellite structures	20-60 years
Terminal fixtures and fittings	5-20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5-20 years
Tunnels, bridges and subways	50-100 years
Airfields	
Runway surfaces	10-15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Airport transit systems	
Rolling stock	20 years
Track	50 years
Railways	
Rolling stock	8-40 years
Tunnels	100 years
Track metalwork	5-10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4-8 years
Office equipment	5-10 years
Computer equipment	4-5 years
Computer software	3-7 years
Other land and buildings	
Short leasehold properties	Over period of lease

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the asset does not generate cash flows that are independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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

Leases

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

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

Inventories

Inventories are stated at the lower of cost and net realisable value.

Provisions

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts, where offset is allowed.

Financial instruments

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

Investments

On initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. After initial recognition, investments that are classified as 'held-for-trading' and 'available for sale' are measured at fair value. Fair value gains or losses on investments held for trading are recognised in the income statement. Fair value gains or losses on available for sale investments are recognised in a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative fair value gain or loss previously reported in equity is included in the income statement. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the security is impaired. If impairment is indicated, the cumulative fair value gain or loss previously reported in equity is included in the income statement.

Assets classified as 'loans and receivables' or 'held to maturity' are recognised on the balance sheet at their amortised cost, using the effective interest rate method, less any provision for impairment.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are carried at amortised cost using the effective interest method. Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity are classified as 'held to maturity' and are carried at amortised cost using the effective interest method. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are de-recognised or impaired, as well as through the amortisation process.

For investments that are traded in an active market, fair value is determined by reference to quoted market bid prices at the reporting date. For investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows, or by reference to the current market value of similar investments.

Purchases and sales of investments are recognised on trade-date being the date on which the Group commits to purchase or sell the asset.

Investments are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the asset disposal, and disposal is expected to be completed within 12 months. Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

Bonds issue costs

Prepaid fees in relation to the future issuance of debt are held on balance sheet on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables

Trade and other payables are not interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

Share capital

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

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- fair value hedges, where they hedge the exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge the exposure to variability in cash flows that are either attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives that do not qualify for hedge accounting are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest rate risk on borrowings.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. This accounting policy also relates to the scenario where by the forecast transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their gross amount in finance costs and finance income in the income statement.

In August 2008 as part of the BAA refinancing, a portion of the interest payable on some of the derivatives which were novated from BAA Limited and BAA Airports Limited to other companies in the BAA Group was paid prior to novation. The prepayment forms part of the fair value of these derivatives on their initial recognition in the new company.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Shared Service Agreement

All employees are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Group. BAA Airports Limited is the administrator of the related defined benefit and defined contribution pension plans and grants all employee benefits.

On 18 August 2008, the Group's airports entered into a Shared Service Agreement (SSA) with BAA Airports Limited by which the latter became the shared services provider for the Group with operational staff and corporate services.

(a) Operational staff

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

(b) Corporate and centralised services

BAA Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the Shared Service Agreement with a mark-up of 7.5% except for IT applications where full costs were recharged to the Group. The total mark-up charged to the Group amounted to £9 million during the year (2007: £8 million).

(c) Pension costs

Under the Shared Service Agreement the current period service cost for the BAA Airports Limited pension schemes are recharged to the Group. Cash contributions are made directly to the pension trustee of the BAA Airports Limited defined benefit scheme on behalf of BAA Airports Limited. The Group also has a legal obligation to fund any pension deficit related to BAA Airports Limited pension plans under the Shared Service Agreement. In the year to 31 December 2008 an amount of £13 million has been recorded as a one-off exceptional past-service cost in the income statement relating to unfunded pension schemes existing at BAA Airports Limited. However these amounts will not be settled until the cash outflows are required by BAA Airports Limited and are accordingly recorded as long term provisions. (Refer note 19).

Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the shareholders' right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting. Interim dividends are recognised when paid.

Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the parent's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in equity within the fair value reserve.

Significant accounting judgements and estimates

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

White Paper

The UK Government's Aviation White Paper *'The Future of Air Transport'* ('the White Paper'), published on 16 December 2003, sets out the Government's policy for runway development in the UK. The Government chose a second runway at Stansted as its preferred location for the first new runway in the South East of England. The development of Stansted will be the subject of a planning inquiry, and BAA submitted its planning application to Uttlesford District Council on 11 March 2008. The costs incurred to date have been capitalised as part of the runway development costs. This is based on management's belief that it is virtually certain the necessary consents will be received and the project will be developed to achieve a successful delivery of an asset such that future benefits will flow to the Group.

Additionally, the Group has promoted three voluntary schemes to compensate those people living near Stansted Airport whose homes will be affected by the airport expansion. These costs have also been capitalised as part of the runway development costs.

Investment properties

Investment properties were valued at a fair value at 31 December 2008 by Drivers Jonas, Chartered Surveyors and Strutt and Parker, Chartered Surveyors. These valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence.

Taxation

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

Hedge Accounting

From 1 October 2008, certain interest rate swaps for £1.8 billion notional were designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions, based on management expectation that it is highly probable these derivatives will match future sterling funding issuances which will occur to refinance existing debt. In 2008, £301 million of fair value losses on these derivatives, arising from a reduction in UK interest rates have been recognised in the cash flow hedge reserve.

Management assesses on a regular basis the extent to which terms of future financing are expected to match the profiles of the hedges, and adjusts the accounting accordingly. Any such change in the expected financing may require the recycling of the cash flow hedge reserve through the income statement.

Notes to the financial statements

1 Segment information

The Group's primary reporting format is by business segments with the operating businesses, primarily of the individual airports, being organised and managed separately. The secondary reporting format is by geographical segments based on the location of the business assets and operations.

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

Gatwick Airport Limited has been classified as assets held-for-sale on the balance sheet (as detailed in Note 21) and in discontinued operations in the income statement (Note 7) and cash flow statement.

Inter-segmental transactions are considered immaterial and are not analysed separately. Inter segment borrowings and interest costs are eliminated as all debt is managed centrally. The basis of recharges between the airports and corporate segments is performed on an objective basis in accordance with the Shared Service Agreement, entered into upon refinancing in August 2008.

The following tables present details of revenue, operating profit, profit before tax and certain asset and liability information in respect of the business and geographic segments. Whilst not required by IAS 14 'Segment Reporting', additional revenue disclosure is provided in respect of the revenue streams by nature.

All information relates to both continuing and discontinued operations, with the exception of income statement items which relate to continuing operations only.

(a) Business segments

	Year ended 31 December 2008				Year ended 31 December 2007[1]			
		Operating profit[2]				Operating profit[2]		
	Revenue £m	Before certain re-measurements £m	Certain re-measurements[3] £m	Total £m	Revenue £m	Before certain re-measurements £m	Certain re-measurements[3] £m	Total £m
Designated airports	**1,827**	**253**	**(147)**	**106**	1,566	353	(13)	340
Heathrow[4 5]	**1,568**	**172**	**(59)**	**113**	1,324	278	(46)	232
Stansted	**259**	**81**	**(88)**	**(7)**	242	75	33	108
Other operations[6]	**—**	**4**	**—**	**4**	—	—	—	—
Total	**1,827**	**257**	**(147)**	**110**	1,566	353	(13)	340
Unallocated income and expenses								
Finance income		**65**	**—**	**65**		—	—	—
Finance costs		**(651)**	**—**	**(651)**		(195)	—	(195)
Fair value gains on derivative financial instruments		**—**	**87**	**87**		—	—	—
(Loss)/profit before tax		**(329)**	**(60)**	**(389)**		158	(13)	145
Taxation – ordinary		**94**	**22**	**116**		2	52[8]	54
Taxation – exceptional[7]		**(1,069)**	**—**	**(1,069)**		—	—	—
Taxation		**(975)**	**22**	**(953)**		2	52	54
Net (loss)/profit for the period – continuing operations		**(1,304)**	**(38)**	**(1,342)**		160	39	199
Net loss/(profit) from discontinued operations		**(65)**	**(27)**	**(92)**		46	28	74
Net (loss)/profit for the year		**(1,369)**	**(65)**	**(1,434)**		206	67	273

1 Comparative income statement information includes Gatwick in discontinued operations.
2 After exceptional items.
3 Certain re-measurements consist of fair value gains and losses on investment property revaluations and disposals and the gains and losses arising on the re-measurement and disposal of derivative financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship, together with the related tax impact of these items.
4 All rail income and associated costs are included in Heathrow.
5 This amount excludes £8 million inter-company revenue received from Heathrow Express Operating Company Limited ('HEX') as it is eliminated at Heathrow Airport Limited level since HEX was acquired by Heathrow Airport Limited during the year.
6 Other operations are HEX, BAA Funding Limited, BAA (AH) Limited and BAA (SP) Limited.
7 Total exceptional deferred tax charge of £1,175 million related to the abolition of Industrial Building Allowances, of which £106 million relates to discontinued operations.
8 Includes a tax credit of £48 million due to a change in the UK corporation tax rate from 30% to 28% which took effect from 1 April 2008.

(b) Business Segments

	31 December 2008				31 December 2007[1]			
	Assets £m	Liabilities £m	Capital Expenditure[2] £m	Depreciation and Amortisation[3] £m	Assets £m	Liabilities £m	Capital Expenditure[2] £m	Depreciation and Amortisation[3] £m
Designated airports	**12,222**	**(551)**	**892**	**467**	13,482	(624)	1,073	365
Heathrow	**10,693**	**(505)**	**793**	**433**	10,169	(473)	875	279
Gatwick	**—**	**—**	**—**	**—**	1,778	(89)	91	57
Stansted	**1,529**	**(46)**	**99**	**34**	1,535	(62)	107	29
Other operations	**7**	**(6)**	**—**	**—**	—	—	—	—
Assets classified as held for sale[4]	**1,850**	**(88)**	**124**	**47**	—	—	—	—
Total operations	**14,079**	**(645)**	**1,016**	**514**	13,482	(624)	1,073	365
Unallocated assets and liabilities								
Cash, amounts due by group undertakings and borrowings[5]	**222**	**(11,539)**			1,143	(10,043)		
Derivative financial instruments	**968**	**(666)**			—	—		
Taxation	**38**	**(2,514)[6]**			—	(1,552)		
Group	**15,307**	**(15,364)**	**1,016**	**514**	14,625	(12,219)	1,073	365

1 Comparative income statement information includes Gatwick in discontinued operations.
2 Includes capital expenditure additions of £28 million (31 December 2007: £9 million) relating to intangible assets.
3 Includes amortisation charge of £27 million (31 December 2007: £23 million) relating to intangible assets.
4 Includes discontinued operations in respect of capital expenditure and excludes Gatwick borrowings of £1,042 million and cash of £15 million and tax charges of £389 million.
5 Includes Gatwick cash of £15 million and borrowings of £1,042 million.
6 Includes Gatwick tax liability of £389 million.

(c) Business and geographical segments

	Year ended 31 December 2008					Year ended 31 December 2007[1]				
	Retail £'000	Airport and other traffic charges £'000	Property and operational facilities £'000	Other £'000	Total £'000	Retail £'000	Airport and other traffic charges £'000	Property and operational facilities £'000	Other[1] £'000	Total £'000
UK airports	**419**	**980**	**240**	**188**	**1,827**	416	761	218	171	1,566
Heathrow	**328**	**835**	**221**	**184**	**1,568**	325	634	198	167	1,324
Stansted	**91**	**145**	**19**	**4**	**259**	91	127	20	4	242
Other operations	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Group	**419**	**980**	**240**	**188**	**1,827**	416	761	218	171	1,566

1 Comparative income statement information includes Gatwick in discontinued operations.

The segmental information above analyses revenue by origin. Revenue by destination is not materially different to revenue by origin.

The total rental income derived from the Group's investment properties, included in the segmental disclosure above, is as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Retail	**99**	100
Property and operational facilities	**48**	27
Other	**29**	16
Total	**176**	143

Total contingency rent[2] and rents from indefinite tenancies[3] recognised in revenue amounted to:

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Retail	**99**	100
Property and operational facilities	**17**	17
Total	**116**	117

1 Comparative income statement information includes Gatwick in discontinued operations.
2 Contingency rents represent concession fees received from retail and commercial concessionaires.
3 Indefinite tenancies are typically multi-let offices and industrial premises where a standard indefinite tenancy is used, which is determinable by the tenant on 3 months' notice at any time.

Services provided to tenants (service charges, maintenance rents and heating rents) earned revenue of £1.3 million (2007: £1.0 million).

Guaranteed minimum payments relating to certain investment properties are excluded from the definition of contingency rents and are disclosed within minimum rentals receivable under non-cancellable operating leases (Note 26).

2 Operating Costs – continuing operations

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Operating costs (including exceptional items) include the following:		
Staff costs[2]		
Wages and salaries	**268**	247
Social security	**21**	16
Pensions[3]	**38**	42
Share-based payments	**3**	2
Other staff related	**31**	13
	361	320
Depreciation and amortisation		
Depreciation of property, plant and equipment	**439**	284
Amortisation of intangible assets		
Software	**27**	24
	466	308
Other operating costs		
Loss on sale of:		
Property, plant and equipment	**1**	1
Retail expenditure	**22**	14
Maintenance expenditure	**141**	108
Rent and rates	**106**	76
Utility costs (including distribution fees)	**94**	82
Police	**42**	34
Air navigation charges[4]	**47**	—
General expenses[5]	**123**	59
Other intra-group charges[6]	**167**	211
	743	585
Total operating costs	**1,570**	1,213
Analysed as:		
Adjusted operating costs	**1,454**	1,056
Exceptional costs	**116**	157
	1,570	1,213

1 Comparative income statement information includes Gatwick in discontinued operations.

2 Staff costs include recharges from BAA Airports Limited to the Group for employee services. Refer to Shared Service Agreement in the Accounting Policy note.

3 Pension costs comprise recharges from BAA Airports Limited for current service cost of the pension plan to the Group. Reductions in the current service costs recharged are related to the changes in the actuarial assumptions used to calculate the Group's current service cost (mostly due to the increase of the discount rate). However, the group reached an agreement with the pension trustees in respect of the cash contributions to be provided in the next three years (refer to note 26).

4 During the year, National Air Traffic Services ceased billing the airlines for aircraft handling within the airports landing and departure zone and now bill the BAA airports directly. BAA then recharges this to the airlines.

5 Increase in general expenses mainly contributed to £13.2m in cleaning, £9.1m in service quality rebates, £10.1m for noise and blight, £10.5m for connect/baggage and £9.9m for costs to provide services for Passengers with Restricted Mobility (PRM) which were sourced directly by the airlines in 2007.

6 This amount includes costs in relation to the corporate and centralised services under the Shared Service Agreement in accounting policies. The reduction in other intra-group charges during the year is mainly due to the elimination of intra-group charges made by HEX as it became part of the Group during the year. Intra-group charges made by HEX in the prior year were £55 million.

Exceptional items included within operating costs are analysed in Note 4.

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
The aforementioned charges include:		
Rentals under operating leases		
Plant and machinery	**30**	31
Other	**25**	11
	55	42
Property lease and sub lease charges		
Minimum lease payments	**25**	11

Property operating costs include £8.7 million (31 December 2007: £4.9 million) in respect of coaching and management fees relating to the provision of car parking facilities for airline and other airport workers. This amount is recovered through the sale of airport passes and is included within property and operational facilities income (Note 1(c)).

Auditors' remuneration

Auditors' remuneration relates to fees paid to PricewaterhouseCoopers LLP.

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Fees payable to the Company's auditors of its subsidiaries for other services:		
audit of the Company's subsidiaries, pursuant to legislation	**0.3**	0.2
taxation services	**—**	0.1
	0.3	0.3

Auditors' remuneration includes services provided to both continuing and discontinued operations.

Services provided by the auditors in relation to the wider BAA Group's refinancing were borne by BAA Limited (formerly Airport Development and Investment Limited).

3 Employee information

Employee numbers

The Group has no employees. All staff costs are borne by BAA Airports Limited which recharges all such costs directly to the airports as described in the Accounting Policies under the 'Shared Service Agreement'. Previously this was included in a management charge. The average number of employees of BAA Airports Limited engaged in operations of the Group during 2008 was 9,308 (2007: 7,600).

Directors' remuneration

None of the directors who served BAA (SH) Limited during the year received emoluments from the Company.

During the year, one of the directors (2007: one) had retirement benefits accruing to them under BAA Airports Limited's defined benefits scheme.

4 Exceptional items

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Operating items		
Pension[(a)]	**(13)**	—
Reorganisation income/(costs)[(b)]	**3**	(51)
	(10)	(51)
Heathrow Terminals 1 and 2 accelerated depreciation[(c)]	**(84)**	(66)
Heathrow Terminal 5 launch/operational readiness costs[(d)]	**(22)**	(40)
	(106)	(106)
Total exceptional items before income tax	**(116)**	(157)
Tax credit on exceptional items	**33**	45
Total exceptional items	**(83)**	(112)

1 Comparative income statement information includes Gatwick in discontinued operations.

(a) £13 million (2007: £nil) of accumulated past service pension costs not previously charged to the Group by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits was incurred as a consequence of the commitments entered into by the individual airports in the Shared Service Agreement in relation to pensions. The share of these costs have been allocated to the groups airports on the basis of pensionable salaries for the year ended 31 December 2008.

(b) A release of £3 million was credited during the year associated with restructuring programmes (2007: charge of £51 million). The amount released resulted from higher staff turnover than historic experience, lower than expected cost for each reduction in headcount and certain headcount reduction not being made due to the decision to sell Gatwick. The charge in the year ended 31 December 2007 was in relation to severance and pension payments associated with the 'Simplifying the Organisation' programme carried out during 2008-2009.

(c) With the anticipated development of Terminal 2A, Terminals 1 and 2 at Heathrow airport will be demolished necessitating an additional depreciation charge of £84 million in the year to 31 December 2008 (2007: £66 million) to reflect the shortened useful lives of the assets.

(d) Operational readiness costs of £22 million (2007: £40 million) relating to management of the opening of Heathrow Terminal 5 were incurred during the year.

5 Financing – continuing operations

a) Net finance costs

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Finance income		
Interest receivable on derivatives not in a hedging relationship	**64**	—
Interest on money market funds	**1**	—
	65	—
Finance costs		
Interest on borrowings:		
Bonds	**(116)**	—
Bank loans & overdrafts	**(162)**	—
Interest payable on derivatives which do not qualify for hedge accounting	**(49)**	—
Facility fees	**(24)**	—
Interest on loan to parent	**(381)**	(446)
Unwinding of discount on Terminal 5 land purchase provisions	**(15)**	(5)
Total borrowing costs	**(747)**	(451)
Less: capitalised borrowing costs	**96**	256
	(651)	(195)
Net finance costs before certain re-measurements	**(586)**	(195)

1 Comparative income statement information includes Gatwick in discontinued operations.

The net finance costs above include financial results for continuing operations only. Finance income and finance costs from discontinued operations have been disclosed separately in Note 7.

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

b) Fair value (losses)/gains on financial instruments

	Year ended 31 December 2008 £m	Year ended 31 December 2007[1] £m
Interest rate swaps: cash flow hedges[2]	**(24)**	—
Interest rate swaps: not in hedge relationship	**(13)**	—
Index-linked swaps: not in hedge relationship	**81**	—
Cross currency interest rate swaps: cash flow hedges[2]	**35**	—
Fair value re-measurements of foreign currency balances	**8**	—
Fair value gains on financial instruments in net finance costs	**87**	—

1 Comparative income statement information includes Gatwick in discontinued operations.
2 Hedge ineffectiveness.

6 Taxation

	Year ended 31 December 2008 £m	Year ended[1] 31 December 2007 £m
UK Corporation Tax		
Current tax at 28.5% (31 December 2007: 30%)	**(70)**	28
Over provisions in respect of prior years	**(20)**	(13)
Deferred Tax		
Current year	**(39)**	14
Prior period	**13**	13
Change in UK corporation tax rate—impact on deferred tax assets and liabilities	**—**	(96)
Ordinary taxation credit for the year	**(116)**	(54)
Deferred tax		
Current year	**1,069**	—
Exceptional taxation charge for the year	**1,069**	—

	Year ended 31 December 2008 £m	Year ended[1] 31 December 2007 £m
Profit/(loss) before tax	**(389)**	145

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits/(losses) of the Group as follows:

Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 28.5% (31 December 2007: 30%)	**(110)**	44
Expenses not deductible for tax purposes	**—**	(1)
Change in UK corporation tax rate	**1**	(97)
Adjustments in respect of current income tax of previous years	**(20)**	(13)
Adjustments in respect of deferred income tax of previous years	**13**	13
Ordinary taxation credit for the year	**(116)**	(54)
Deferred tax—impact arising from the abolition of Industrial Buildings Allowances	**1,069**	—
Exceptional taxation charge for the year	**1,069**	—

1 Comparative income statement information includes Gatwick in discontinued operations.

A number of changes to UK corporation tax system were announced in the March 2007 Budget statement; some of which were enacted in the 2007 Finance Act and some in the 2008 Finance Act.

In particular, the UK Government announced that Industrial Buildings Allowances ('IBAs') would be abolished over three years from 1 April 2008. As a consequence, the Group has been obliged to recognise in 2008 an exceptional accounting loss in the form of a deferred tax charge amounting to £1,175 million (£106 million of which relates to discontinued operations) following substantive enactment which occurred in July 2008. In effect, this accounting charge reflects as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before substantive enactment. There is no impact on cash in 2008 and the accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

The cash impact of the abolition of IBAs on the Group in 'quinquennium 5' is not material due to the transitional period regime applicable to 2011 and the low taxable income base of the Group. The impact of the abolition on future periods is uncertain due to the potential regulatory change to a post-tax allowed return (as is the case in other regulated industries), following the CC's comments in its report to the CAA dated 28 September 2007. Under the existing regulatory framework, the present value of the reduced cash flows for the existing assets would be approximately £370 million.

This loss has been recorded in accordance with IAS 12 – Income Taxes. However, the accounting treatment at present required for the abolition of IBAs differs significantly from that expected in the new IAS 12. The current exposure draft (issued in March 2009) indicates that a loss would not be required to be booked.

7 Discontinued operations

During 2008 a sale process commenced for the Group's interest in Gatwick Airport Limited. The Group considers that this transaction satisfies the requirements of IFRS 5—'Non-current assets held-for-sale and discontinued operations'.

Net profit from discontinued operations

	Year ended 31 December 2008			Year ended 31 December 2007[1]		
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	**465**	—	**465**	410	—	410
Fair value (losses)/gains	—	**(43)**	**(43)**	—	39	39
Operating costs						
Depreciation and amortisation	**(47)**	—	**(47)**	(57)	—	(57)
Other	**(297)**	—	**(297)**	(273)	—	(273)
Operating profit from discontinued operations	**121**	**(43)**	**78**	80	39	119
Analysed as:						
Operating profit before exceptional items	**112**	**(43)**	**70**	97	39	136
Exceptional items	**9**	—	**8**	(17)	—	(17)
Financing						
Finance income	**3**	—	**3**	5	—	5
Finance costs	**(63)**	—	**(63)**	(32)	—	(32)
Capitalised Interest	**4**	—	**4**	2	—	2
Net finance costs	**(56)**	—	**(56)**	(25)	—	(25)
Profit before tax from discontinued operations	**65**	**(43)**	**22**	55	39	94
Taxation—ordinary	**(24)**	**16**	**(8)**	(9)	(11)	(20)
Taxation—exceptional[2]	**(106)**	—	**(106)**	—	—	—
Tax (charge)/credit on profit of discontinued operations	**(130)**	**16**	**(114)**	(9)	(11)	(20)
Net profit from discontinued operations	**(65)**	**(27)**	**(92)**	46	28	74
Interim dividends paid	—	—	—	65	—	65

1 Comparative income statement information includes Gatwick in discontinued operations.

2 Total exceptional deferred tax charge of £106 million related to the abolition of Industrial Buildings Allowances.

8 Dividends

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Equity dividends declared and paid during the year		
Interim dividends paid (see below)	**702**	121[1]
Final dividend paid (see below)	**—**	30
	702	151

1 This amount includes £65 million relating to Gatwick Airport.

The company paid an interim dividend of £702 million (28p per share) on 18 August 2008. Prior year dividend payments relate to payments made by Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited to their previous immediate parent entity amounting to £151 million.

9 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
Balance 1 January 2007		4,890	773	451	66	669	5,001	**11,850**
Additions		1	—	1	—	—	1,062	**1,064**
Net transfers from/(to) investment properties	*10*	—	—	—	8	—	(31)	**(23)**
Transfers from/(to) completed assets		290	198	46	17	11	(562)	**—**
Borrowing costs capitalised	*5/7*	—	—	—	—	—	258	**258**
Disposals		(4)	—	—	—	—	—	**(4)**
Transferred to assets held-for-sale	*21*	—	—	—	—	—	—	**—**
Balance 1 January 2008		**5,177**	**971**	**498**	**91**	**680**	**5,728**	**13,145**
Additions		9	—	3	—	—	976	**988**
Net transfers from/(to) investment properties	*10*	—	—	—	2	—	(259)	**(257)**
Transfers from/(to) completed assets		3,748	328	97	18	685	(4,876)	**—**
Inter-company transfers		—	—	—	—	—	22	**22**
Borrowing costs capitalised	*5/7*	—	—	—	—	—	100	**100**
Disposals		(4)	—	(2)	—	(8)	—	**(14)**
Reclassification		125	—	(10)	(12)	—	(103)	**—**
Transferred to assets held-for-sale	*21*	(1,440)	(193)	(120)	(29)	—	(73)	**(1,855)**
Balance 31 December 2008		**7,615**	**1,106**	**466**	**70**	**1,357**	**1,515**	**12,129**
Depreciation								
Balance 1 January 2007		(1,639)	(212)	(346)	(15)	(149)	—	**(2,361)**
Charge		(263)	(36)	(19)	(4)	(19)	—	**(341)**
Disposals		3	—	—	—	—	—	**3**
Transferred to assets held for sale	*21*	—	—	—	—	—	—	**—**
Balance 1 January 2008		**(1,899)**	**(248)**	**(365)**	**(19)**	**(168)**	**—**	**(2,699)**
Charge		(375)	(40)	(30)	(5)	(36)	—	**(486)**
Disposals		4	—	2	—	8	—	**14**
Reclassification		2	—	21	(9)	(14)	—	**—**
Transferred to assets held for sale	*21*	571	73	79	6	—	—	**729**
Balance 31 December 2008		**(1,697)**	**(215)**	**(293)**	**(27)**	**(210)**	—	**(2,442)**
Net book value 31 December 2008		**5,918**	**891**	**173**	**43**	**1,147**	**1,515**	**9,687**
Net book value 31 December 2007		3,278	723	133	72	512	5,728	10,446

Property, plant and equipment includes £179 million (2007: £179 million) for the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated and the acquisition cost represents the present value of the estimated deferred payments to be made over 35 years (from the date of acquisition) to the vendor in compensation for relocation. The present value of the outstanding deferred consideration is included within provisions in the balance sheet (refer to note 19).

Assets in the course of construction include £167 million (2007: £129 million) in respect of the development of a second runway and related infrastructure at Stansted Airport. The costs consist of £79 million (2007: £63 million) incurred in respect of the initial planning application preparation and £88 million (2007: £66 million) in respect of the purchase of domestic properties that fall within the expanded airport boundary. This includes a provision of £5 million (2007: £4 million) for the additional 10% payable under the Home Value Guarantee Scheme (HVGS) once planning permission has been obtained. Assets in the course of construction also include the second satellite under construction for Terminal 5 (T5C), the future first satellite for Terminal 2 as well as Terminal 4 Extension and Terminal 3 refurbishments at Heathrow.

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £20 million (2007: £17 million).

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,215 million (2007: £1,115 million). Borrowing costs were capitalised at an average rate of 6.92% (2007: 5.95%).

Capitalised interest of £96 million has been treated as tax deductible in the period.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in note 15.

10 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
Balance 1 January 2007		2,685	8	2,693
Additions		—	—	—
Net transfers from operational assets	*9*	24	(1)	23
Disposals		(2)	—	(2)
Valuation gain		26	—	26
Balance 1 January 2008		2,733	7	2,740
Additions		—	—	—
Net transfers from operational assets	*9*	253	4	257
Disposals		—	—	—
Valuation loss[1]		(190)	—	(190)
Transfer (to)/from assets held-for-sale	*21*	(651)	(3)	(654)
Balance 31 December 2008		**2,145**	**8**	**2,153**

1 Included within net loss from discontinued operations is £43 million relating to Gatwick Airport Limited.

Airport investment properties were valued at fair value at 31 December 2008 by Drivers Jonas, Chartered Surveyors and Strutt and Parker, Chartered Surveyors.

Details of the valuations performed are provided below:

	Note	31 December 2008 £m	31 December 2007 £m
Drivers Jonas		**2,795**	1,884
Strutt and Parker		**12**	13
At professional valuation		**2,807**	1,897
At directors' valuation		**—**	843
		2,807	2,740
Less Transferred to Assets held-for-sale	*21*	**(654)**	—
		2,153	2,740

The investment properties held by Gatwick have been transferred to assets classified as held-for-sale at 31 December 2008 (Note 21).

The investment properties held by Gatwick have been transferred to assets classified as held-for-sale at 31 December 2008.

All valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the realisability or remittance of income or proceeds on disposal.

Void areas amounted to 38,385m2 in the period (31 December 2007: 13,018m2) representing 3.15% (31 December 2007: 1.10%) of the Group's investment property portfolio.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £3 million (31 December 2007: £4 million) for which a similar amount is included within operating costs.

Security granted by the Group over its assets, including investment properties, is disclosed in Note 15.

11 Intangible assets

	Note	£m
Cost		
Balance 1 January 2007		166
Additions		9
Disposals		—
Transferred to assets held-for-sale	*21*	—
Balance 1 January 2008		175
Additions		28
Transferred to assets held-for-sale		—
Balance 31 December 2008		**203**
Amortisation		
Balance 1 January 2007		(87)
Charge for the year		(24)
Disposals		—
Balance 1 January 2008		(111)
Charge for the year		(27)
Transferred to assets held-for-sale	*21*	—
Balance 31 December 2008		**(138)**
Net book value 31 December 2008		**65**
Net book value 31 December 2007		64

All intangible assets relate to capitalised computer software costs.

These software costs principally relate to operating and financial software. These assets are being amortised over a period of between three and seven years. Amortisation for the year has been charged through operating costs.

Software costs include assets in the course of construction of £12 million (2007: £15 million).

12 Inventories

	As at 31 December 2008 £m	As at 31 December 2007 £m
Consumables	**5**	8
	5	8

The total amount of inventories consumed in the year relating to continuing operations was £1 million (2007: £nil). The total amount of consumables consumed in the year relating to discontinued operations was £1 million (2007: £nil). There is no material difference between the balance sheet value of inventories and the replacement cost.

13 Trade and other receivables

	31 December 2008 £m	31 December 2007 £m
Non-current		
Amounts owed from group undertakings	**—**	574[2]
Current		
Trade receivables	**206**	166
Less: Provision for impairment	**(2)**	(3)
Trade receivables – net	**204**	163
Prepayments	**78**	28
Group tax relief receivable	**38**	—
Amounts owed from group undertakings[1]	**40**	569[2]
Other receivables	**37**	33
Total current	**397**	793

1 Amount owed by group undertakings largely relates to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports that will be remitted to the airports in due course. This amount is repayable on demand and accrues interest at Bank of England base rate +1.5%.

2 These amounts were fully settled on refinancing in August 2008. Refer to Note 5 for interest accrued on the balance during the current year prior to settlement.

The fair values of loans, trade and other receivables are not materially different from the carrying value. Unless otherwise stated, trade and other receivables do not contain impaired assets. Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security. There are no related party amounts in trade and other receivables.

As of 31 December 2008, trade receivables of £118 million (2007: £122 million) were fully performing. Trade receivables of £86 million (2007: £41 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2008 £m	31 December 2007 £m
Up to 3 months	**80**	40
Over 3 months	**6**	1
	86	41

Additional disclosure on credit risk is included in Note 19.

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 1 January 2007	—
Provision for receivables impairment	3
Receivables written off during the year as uncollectible	(2)
At 1 January 2008	1
Provision for receivables impairment	1
Receivables written off during the year as uncollectible	—
At 31 December 2008	**2**

As of 31 December 2008, trade receivables of £2 million (2007: £3 million) were considered for impairment of which an amount of £2 million (2007: £3 million) was provided with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of provisions for impaired receivables has been included in 'general expenses' in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery. The ageing of these receivables is as follows:

	31 December 2008 £m	31 December 2007 £m
3 to 6 months	**2**	3
	2	3

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling.

Additional disclosure on credit risk management is included in Note 17.

14 Cash and cash equivalents

	31 December 2008 £m	31 December 2007 £m
Cash at bank and in hand	**25**	—
Short-term deposits	**142**	—
	167	—

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximate their book value.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, and consists of:

	Note	31 December 2008 £m	31 December 2007 £m
Cash at bank and in hand		**25**	—
Short-term deposits		**142**	—
Cash and cash equivalents held by operations classified as held-for-sale	*21*	**15**	—
		182	—

At 31 December 2008, cash and cash equivalents classified as held-for-sale includes balances held by Gatwick Airport Limited, refer to note 21.

15 Borrowings

	31 December 2008 £m	31 December 2007 £m
Current		
Secured		
Bank Loans – EIB	**43**	—
Unsecured		
Amounts owed to group undertakings	**—**	7,030[1]
Intercompany loans[1]	**—**	1,199[1]
Total current (excluding interest payable)	**43**	8,229
Interest payable	**179**	1
Total current	**222**	8,230
Non-current		
Secured		
BAA Funding Limited bonds:		
3.975% €1,000 million due 2012	**893**	—
5.850% £400 million due 2013	**363**	—
4.600% €750 million due 2014	**656**	—
12.450% £300 million due 2016	**387**	—
4.600% €750 million due 2018	**628**	—
9.200% £250 million due 2021	**287**	—
5.225% £750 million due 2023	**606**	—
7.075% £200 million due 2028	**197**	—
6.450% £900 million due 2031	**837**	—
Total BAA Funding Limited bonds	**4,854**	—
Senior Refinancing Facility	**2,700**	—
Junior Refinancing Facility	**589**	—
Subordinated Facility due 2011	**1,563**	—
Initial Credit Facility	**197**	—
Bank Loans – EIB	**372**	—
Unsecured		
BAA (SP) Limited debenture	**—**	1,600[2]
Amounts owed to group undertakings	**—**	213[1]
Total non-current	**10,275**	1,813
Total current and non-current (excluding interest payable)	**10,318**	10,042

1 These amounts were fully settled on refinancing in August 2008. Refer to Note 5 for interest accrued on the balance during the current year prior to settlement.

2 Relates to the BAA (SP) Limited Debenture which has been treated as if it had been issued in the prior year as a result of the application of merger accounting. Refer to detail below.

BAA Funding Limited bonds

In August 2008, as part of the BAA Limited refinancing, the bonds previously issued by BAA Airports Limited (formerly BAA Limited) were cancelled and replaced by new bonds issued by BAA Funding Limited. The BAA Funding Limited bonds were recognised at initial fair value and then subsequently carried at amortised cost using the effective interest rate method.

In August 2008, as part of the wider BAA refinancing, costs of £44 million were incurred in relation to the issue of bonds by BAA Funding Limited and these have been included in the carrying value of the bonds above. Bonds are carried at amortised cost using the effective interest rate method and the carrying value includes un-amortised transaction costs, premiums and discounts. The effective interest rate on the bonds varies between 6.28% and 7.75%.

The dates listed above for the BAA Funding Limited bonds correspond to the maturity dates of the loans between the airport operating company of Heathrow Airport Limited and the funding vehicle, BAA Funding Limited. Failure to repay these loans on their maturity date will be an event of default allowing BAA Funding Limited to take action under its loan agreement, such as appointing an administrative receiver to Heathrow Airport Limited.

The bonds issued by BAA Funding Limited have a legal maturity date two years after the maturity date of the corresponding loan with Heathrow Airport Limited. If Heathrow Airport Limited fails to repay its loans to BAA Funding Limited on their maturity dates then the corresponding bond of BAA Funding Limited will not be in default for at least another two years during which time the relevant bond will have a floating interest rate of Libor plus 4%.

Interest and principal payments on all Euro bonds are swapped to fixed Sterling payments through cross-currency and interest rate swaps. All BAA Sterling bonds bear fixed rate coupons.

Bonds issued under the £4.5 billion European Medium Term Note programme totalled £3,603 million. The carrying value of these bonds was £3,907 million as at 31 December 2008.

Refinancing Facilities

In August 2008 as part of the BAA refinancing, £3,400 million Senior refinancing facility and £1,000 million Junior refinancing facilities were drawn by Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited (the "Borrowers"), in order to repay the Senior Facilities previously held by BAA Limited since its acquisition of the former BAA plc in 2006. The facilities held by Heathrow Airport Limited and Stansted Airport Limited included in borrowings above have the following partial maturities of £250 million in 2010, £1 billion in 2011, £1 billion in 2012, and £1.1 billion in 2013. The amount drawn by Gatwick Airport Limited (Senior £650 million, Junior £400 million) is classified as Assets Held for Sale as at 31 December 2008 and has maturities of £750 million in 2010, and £300 million in 2013.

The interest on these facilities is based on Libor with a margin of 2.00% on the Senior Facility and 2.75% on the Junior Facility as at 31 December 2008. The interest rate margin changes with the facility balances as follows:

Senior Facility		Junior Facility	
Less than £1,200 million	1.25%	Less than £330 million	2.00%
Between £1,200 million and £2,200 million	1.50%	Between £330 million and £660 million	2.50%
Between £2,200 million and £3,200 million	1.75%	Greater than £660 million	2.75%
Greater than £3,200 million	2.00%		

In addition, the contractual margin step ups on the Senior and Junior facilities are 0.25% in August 2010 and 0.25% each six months thereafter, provided that the aggregate increase in the margin shall be limited to 1.50% per annum.

The prepayment of the Senior Refinancing Facility and Junior Refinancing Facility regardless of where the facility is held, are based on the terms of the Refinancing Facility Agreement. This states that in the event of a disposal of an airport, the repayment of the facilities are firstly applied in repayment of the Initial Credit Facility to ensure the required capex headroom is met, then applied to refinancing facilities with a maturity date falling within 12 months of the date of prepayment and then applied to refinancing facilities in descending order of the final maturity date, until the Senior RAR is no more than or equal to 0.70 and the Junior RAR is no more than or equal to 0.85. The remaining proceeds are then applied to refinancing facilities in ascending order of the final maturity date. On disposal of Gatwick, 100% of the net proceeds are expected to be set against the refinancing facility.

The balance of the designated group Initial Credit Facility used to fund capital expenditure as at 31 December 2008 was £250 million. The interest rate on this facility is based on Libor with a margin of 2.00% as at 31 December 2008. In addition, there are contractual margin step ups of 0.25% in August 2010 and 0.25% each six months thereafter provided that the aggregate increase in the margin shall be limited to 1.50% per annum. If there is no balance outstanding on the Refinancing Facility the margin shall be 1.00%.

Subordinated Facility due 2011

The £2,000 million Subordinated Facility was drawn in full on 10 July 2006 by BAA Limited (formerly Airport Development and Investment Limited) and partially repaid in 2007. In August 2008, £400 million of this facility was repaid as part of the BAA refinancing and was also novated from BAA Limited to BAA (SH) Limited. The interest on the facility is based on Libor with a margin of 4.00% as at 31 December 2008 (2007: 4.00%).

Other Borrowings

Secured bank loans comprise £417 million (excluding capitalised debt costs) of European Investment Bank ('EIB') facilities split between current and non-current. The EIB facilities amortise over the period to 2022. The interest rate on these facilities is predominant floating, except for £13 million EIB principal which is fixed at 6.21%.

BAA (SP) Limited Debenture

The BAA (SP) Limited Debenture was issued in January 2008 to BAA Airports Limited. at the balance in 31 December 2007 relates to this debenture which has been treated as if it had been issued in the prior year as a result of the application of merger accounting. On refinancing in August 2008, £34.2 million was repaid and the remaining balance novated from BAA Airports Limited to BAA (SH) Limited, and therefore eliminates in the Group as at 31 December 2008. The current balance payable from BAA (SP) Limited to BAA (SH) Limited is used to generate interest payment to BAA (SH) Limited in order to pay the external interest on the Subordinated Facility. The interest on the BAA (SP) Limited Debenture is 0.01% above the rate of the Subordinated Facility, and the debenture has a final redemption date of May 2011.

All of the above borrowings are recorded at amortised cost.

Amount owed to group undertakings and other intercompany loans

As at 31 December 2007, the amount owed to group undertakings of £7,030 million accrued interest at Bank of England base rate +1.5% and the intercompany loan of £1,199 million to BAA Airports Limited and London Airports 1992 Limited accrued interest at Bank of England base rate +1.0%. Amounts owed to group undertakings of £213 million accrued interest with fixed rates between 5.75% and 6.58%. These loans were all settled in full as part of the refinancing in August 2008.

Fair value of borrowings	**31 December 2008**		**31 December 2007**	
	Book value £m	**Fair value £m**	**Book value £m**	**Fair value £m**
Non-current				
Long-term debt	**10,275**	**9,182**	1,813	1,820
	10,275	**9,182**	1,813	1,820

The fair value of short-term borrowings approximates book value. Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Covenants

The Subordinated Facility contains customary restrictions on change of control and distributions to shareholders as well as financial covenants. Under this facility, the Group is required to maintain certain debt cover and cash flow cover ratios. The required levels as at 31 December 2008 were less than 1:1 for the debt cover ratio and a minimum of 1.05:1 for the cash flow cover ratio.

The BAA Funding Limited bonds, Refinancing Facilities and the Initial Credit Facilities are required to comply with the covenants under the Common Terms Agreement (CTA). There are certain covenant threshold requirements under the CTA which must be maintained.

		Forecasting event	Trigger event	Financial covenant[1]
Senior Interest Cover Ratio	To be greater than	1.60	1.40	1.05
Junior Interest Cover Ratio	To be greater than	1.40	1.20	n/a
Senior Net Indebtedness to Total RAB (RAR)	To be less than	0.70	0.70	0.925
Junior Net Indebtedness to Total RAB (RAR)	To be less than	0.85	0.85	n/a

1 Three year period average for Interest Cover Ratio from the three year period ending 31 December 2012.

Following the occurrence of a Trigger Event (as defined above) which is continuing, the Obligors are prohibited from making certain payments ("Restricted Payments"), mainly in relation to payments in respect of the Subordinated Facility and payments to other BAA group companies outside of the security group, and are obliged to make repayments of amounts outstanding under the senior debt facilities of the security group, equivalent to the amount of Restricted Payments that would otherwise have been made.

Following the occurrence of a Forecasting Event (as defined above) which is continuing, the Investor Report issued under the CTA shall disclose information of all forward looking ratios until the end of the current regulatory period, rather than just the 12 month forward looking ratio. In addition, the Investor Report and Compliance Certificate issued under the CTA shall disclose the forecasted Restricted Payments which are to be made within the 90 days commencing from the delivery of such report.

All covenants have been tested and complied with as at 31 December 2008.

Additional disclosures on risk management and hedging of borrowings are included in Note 16 and 17.

Securities and guarantees

BAA (DSH) Limited (immediate parent entity of BAA (SH) Limited), Heathrow Airport Limited, Gatwick Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations to the Borrower Secured Creditors under the August 2008 refinancing documents and to the Subordinated Creditors (at BAA (SH) Limited) under the Subordinated Facility.

BAA (DSH) Limited and its subsidiaries (other than BAA Funding Limited and Heathrow Airport Community Board Insulation Limited), plus ADI Finance 2 Limited, BAA Limited, BAA Airports Holdco Limited and BAA Airports Limited are guarantors under the Subordinated Facility. All the guarantors, apart from ADI Finance 2 Limited, are party to transaction security which secures liabilities arising under the Subordinated Facility.

BAA Pension Trustee Company Limited (the BAA Pension Trustee) is a Borrower Secured Creditor and has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking *pari passu* with the Class A creditors of the Obligors.

BAA Airports Limited (formerly BAA Limited) has provided a guarantee to Deutsche Trustee Company Limited (the Bond Trustee) for itself and on behalf of the BAA Guaranteed Bondholders in respect of bonds with a final legal maturity of no later than 2018 issued by BAA Funding Limited.

BAA Funding Limited has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

Heathrow Airport Limited, Gatwick Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee in favour of The Royal Bank of

Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

Liquidity

As at 31 December 2008, the Group had cash and cash equivalents of £167 million excluding cash held by entities classified as assets held for sale (2007: £nil) and undrawn committed facilities of £2,500 million (2007: £nil).

16 Derivative financial instruments

2008

	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Forward foreign exchange contracts – no hedge accounting	45	7	—	7
Index-linked interest rate swaps – no hedge accounting	2,206	131	(312)	(181)
	2,251	**138**	**(312)**	**(174)**
Non-current				
Interest rate swaps – cash flow hedge	4,426	72	(354)	(282)
Cross-currency swaps – cash flow hedge	1,703	758	—	758
	6,129	**830**	**(354)**	**476**
At 31 December 2008	**8,380**	**968**	**(666)**	**302**

Any derivatives that are not in qualifying hedge relationships at the reporting date are presented as current irrespective of their maturities.

As part of the BAA refinancing in August 2008, some of the derivatives previously held at BAA Airports Limited (formerly BAA Limited) and BAA Limited (formerly Airport Development and Investment Limited) were novated into the Group.

Interest rate swaps

The fixed interest rates on the swaps vary from 4.7% to 5.5%. The floating rates for all interest rate swaps are based on three and six month Libor rates. In 2008 a £24 million loss was recognised in the income statement due to ineffectiveness in relation to the cash flow hedges as described above. In addition a £13 million loss was recognised in the income statement in relation to the swaps that did not qualify for hedge accounting during the period. The gains and losses deferred in equity on the cash flow hedges described above will be continuously released to the income statement over the period of the hedged risk.

During the period, swaps with a notional principal of £1,813 million were designated as cash flow hedges against interest rate risk on the Group's Refinancing Facility effective 1 October 2008.

In addition to the novated swaps, new interest rate swaps with notional amount totalling £113 million were also taken out during the period. These swaps, together with £400 million notional amount of interest rate swaps have been designated as a cash flow hedge against currency and interest rate risk on the €750 million bond due 2014 in conjunction with a cross currency swap (see below). The gains and losses deferred in equity on these swaps will be continuously released to the income statement over the period to maturity of the hedged bond. The fixed interest rates vary from 5.1% to 5.5% (2007: nil) and the floating rates are based on six month Libor.

New interest rate swaps with a total notional amount of £200 million were entered into during the year. The fixed interest rates vary from 5.2% to 5.4% (2007: nil) for all the swaps and the floating rates are based on three and six month Libor. These swaps have been designated as a cash flow hedge against interest rate risk on the Subordinated Facility during the period.

Index-linked swaps with a notional principal of £2,206 million (2007: £nil) were entered into to economically hedge cash flows on future issuance of index-linked debt and RPI based revenue. The real fixed interest rates, before applying RPI accretion, vary from 2.2% to 8.4% and the receive leg of the swaps was fixed at rates varying from 2.2% to 12.4%. Index-linked swaps did not qualify for hedge accounting during the period. A gain of £81 million was recognised in the income statement.

Cross currency swaps

Two cross currency swaps have been entered into by the Group to hedge currency and cash flow interest rate risk on the €1 billion bond due 2012 and the €750 million bond due 2018. Under the €1 billion (£680 million) swap, the Group receives Euro interest at a fixed rate of 4.0% and pays Sterling interest at fixed rates which vary from 5.2% to 5.4%, and under the €750 million (£510 million) swap, the Group receives Euro interest at a fixed rate of 4.6% and pays Sterling interest at fixed rates which vary from 5.5% to 5.7%. The gains and losses deferred in equity on these swaps will be continuously released to the income statement over the period to maturity of the hedged bonds.

In addition, the Group entered into a €750 million (£513 million) cross currency swap. Under this swap, the Group receives Euro interest at a fixed rate of 4.6% and pays Sterling interest at a variable rate based on six month Libor. This swap together with the £400 million interest rate swap (see above) novated from BAA Airports Limited and the new £113m interest rate swap, were designated as a cash flow hedge against currency and cash flow interest rate risk on the €750 million bond due 2014. The gains and losses deferred in equity on this swap will be continuously released to the income statement over the period to maturity of the hedged bond.

Foreign exchange contracts

Foreign exchange forward and swap contracts have been entered into buying US $12 million (2007: nil), €28 million (2007: nil), Swiss Fr 8 million (2007: nil) and Polish PLN 1 million (2007: nil) against Sterling. The currency forwards and swaps are used to manage exposures relating to future capital expenditure although hedge accounting is not sought for these derivatives.

17 Financial Instruments

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, cash and short-term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions, principally interest rate swaps, cross currency swaps and forward currency contracts. The purpose of these derivatives is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent to the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate risk, foreign currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Board approves prudent treasury policies for managing each of the risks summarised below.

Foreign exchange risk

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge the related interest and principal payments and 100% of the exposure is hedged in this way, subject to a de minimis limit. The Group uses foreign currency forward contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed. As at 31 December 2008, there were no significant unmatched exposures.

As at 31 December 2008, if the Sterling had strengthened by 10% against the Euro, with all other variables remaining constant, pre-tax profit for the year would have decreased by £2 million (31 December 2007: increased by £3 million), and if the Sterling had weakened by 10% against the Euro, with all other variables remaining constant, pre-tax profit for the year would have increased by £3 million (31 December 2007: decreased by £4 million).

As at 31 December 2008, if the Sterling had strengthened by 10% against the USD, with all other variables remaining constant, pre-tax profit for the year would have increased by £0.3 million (31 December 2007: £nil effect on pre tax profit), and if the Sterling had weakened by 10% against the USD, with all other variables remaining constant, the pre-tax profit for the year would have decreased by £0.4 million (31 December 2007: £nil effect on pre tax profit).

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group.

The Group is exposed to RPI price risk on index-linked derivatives held to economically hedge cash flows on future issuance of index-linked debt and RPI based revenue. As at 31 December 2008, if the RPI Index had increased 10%, with all other variables remaining constant, pre-tax profit for the year would have decreased by £54 million and the impact on current year hedge reserve in equity would be nil (31 December 2007: nil impact on pre-tax profit and equity). If the RPI Index had decreased 10%, with all other variables remaining constant, pre-tax profit for the year would have increased by £53 million and the impact on current year hedge reserve in equity would be nil (31 December 2007: nil impact on pre-tax profit and equity).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 70% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

As at 31 December 2008, the Group's fixed floating interest rate profile, after hedging, on net debt was 76:24. The Group had no external borrowings as of 31 December 2007.

As at 31 December 2008, if interest rates had moved by 0.50%, this would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the interest income, interest charge and mark-to-market valuation of derivatives.

	31 December 2008		**31 December 2007**	
	Income statement impact £m	**Equity impact £m**	**Income statement impact £m**	**Equity impact £m**
0.50% increase	**17**	**195**	—	—
0.50% decrease	**(18)**	**(214)**	—	—

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Accordingly, at 31st December 2008, cash and cash equivalents were held with market counterparties with credit ratings ranging from AAA to A (Long Term) and A-1+ to A-1 (Short Term). Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A-/A-1.

As at 31 December 2008, the Group had total credit risk with derivative counterparties of its interest rate swaps, index linked swaps and cross currency swaps of £961 million. Of these asset positions, the counterparties with credit rating of A+ had assets of £471 million, AA+ had assets of £104 million, AA had assets of £252 million and AA- had assets of £134 million. BAA Limited monitors the credit rating of the derivative counterparties on a daily basis and ensures no positions are held with counterparties with a credit rating of below BBB+/A.

Financial assets past due but not impaired are disclosed in Note 13. The maximum exposure to credit risk as at 31 December 2008 is £1,209 million (2007: £196 million).

Liquidity risk

The Group's objective is to ensure continuity of funding and flexibility, ensuring debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

The Group has the following undrawn committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	31 December 2008 £m	31 December 2007 £m
Floating rate facilities		
Expiring in more than two years	**2,500**	—

The above facilities were taken out during the year as part of BAA Refinancing. Refer to Note 15, Borrowings. As at 31 December 2008, overdraft facilities of £5 million were available (31 December 2007: £10 million).

The tables below analyse the Group's financial liabilities and net settled derivative financial liabilities based on the nominal balance as at 31 December to the contractual maturity date. The amounts disclosed are based on contractual undiscounted cash flows.

	31 December 2008			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**43**	**1,041**	**6,409**	**3,638**
Borrowing interest payments	**620**	**586**	**1,168**	**2,134**
Derivative financial instruments	**(74)**	**(16)**	**104**	**309**
Trade payables	**110**	**—**	**—**	**—**

	31 December 2007			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	8,242	—	1,600	200
Borrowing interest payments	747	176	281	3
Trade payables	142	—	—	—

The tables below analyse the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December 2008 and 31 December 2007 to the contractual maturity date.

	31 December 2008			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross currency derivative payment	44	44	167	143
Cross currency derivative receipts	(104)	(104)	(274)	(198)

	31 December 2007			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross currency derivative payment	—	—	—	—
Cross currency derivative receipts	—	—	—	—

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

Refer to Note 15 for further disclosure on the Group's compliance with financial covenants.

Financial Instruments by category

The financial instruments of the Group as classified in the financial statements as at 31 December, can be analysed under the following IAS 39 categories:

	31 December 2008				
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for-sale £m	Total £m
Derivative financial instruments	—	138	830	—	968
Trade receivables	204	—	—	—	204
Other receivables	37	—	—	—	37
Total Financial Assets	241	138	830	—	1,209

	31 December 2008			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings	**—**	**—**	**(10,318)**	**(10,318)**
Derivative financial instruments	**(312)**	**(354)**	**—**	**(666)**
Trade payables	**—**	**—**	**(110)**	**(110)**
Total Financial Liabilities	**(312)**	**(354)**	**(10,428)**	**(11,094)**

	31 December 2007				
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for-sale £m	Total £m
Trade receivables	163	—	—	—	163
Other receivables	33	—	—	—	33
Total Financial Assets	196	—	—	—	196

	31 December 2007			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings	—	—	(10,042)	(10,042)
Trade payables	—	—	(142)	(142)
Total Financial Liabilities	—	—	(10,184)	(10,184)

At 31 December 2008, the company has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

18 Deferred income tax

The net movement on the deferred income tax account is as follows:

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Balance 1 January 2008		**1,490**	1,551
Credited to income statement		**(45)**[1]	(57)[3]
Impact of abolition of Industrial Buildings Allowances – charged to income statement		**1,175**[2]	—
Credited to equity		**(131)**	(4)
Transfer of subsidiary to asset held-for-sale	*21*	**(373)**	—
Balance 31 December 2008		**2,116**	1,490

1 Includes £18 million credit to income statement relating to discontinued operations.

2 A number of changes to UK corporation tax were announced in the March 2007 Budget statement; some of which were enacted in the Finance Act 2008. The effect of the phased abolition of IBAs which was enacted in the 2008 Finance Act, has resulted in an increase in the deferred tax liability provided as at 31 December 2008 by £1,175 million (£106 million of which relates to discontinued operations), based on capital expenditure incurred prior to substantive enactment which occurred in July 2008. The recognition of this liability has no cash impact and it will unwind over the life of the underlying assets.

3 Includes £11 million charge to income statement relating to discontinued operations.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Note	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Tax on rolled over gains £m	Other £m	Total £m
Balance 1 January 2007		**779**	**736**	**13**	**23**	**1,551**
Credited to income statement		(13)	(41)	(1)	(2)	**(57)**
Credited to equity		—	(4)	—	—	**(4)**
Balance 31 December 2007		**766**	**691**	**12**	**21**	**1,490**
(Credited)/charged to income statement		(54)	(62)	—	36	**(80)**
Impact of abolition of IBAs charged to income statement		1,175	—	—	—	**1,175**
Credited to equity		—	(3)	—	—	**(3)**
Transfer of subsidiary to asset held-for-sale	*21*	(218)	(150)	—	(5)	**(373)**
Balance at 31 December 2008		**1,669**	**476**	**12**	**52**	**2,209**

Deferred income tax assets

	IAS 32/39 £m	Total £m
Balance at 1 January 2008	—	**—**
Credited to the income statement	(35)	**(35)**
Credited to equity	128	**128**
Balance 31 December 2008	**93**	**93**

Deferred income tax credited to equity during the year is as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Fair value reserves in shareholders' equity		
Cash flow hedge reserve	**128**	—
Indexation – operational land	**3**	4
Total	**131**	4

19 Provisions

	Note	Reorganisation £m	Obligations under land purchase £m	Pension £m	Other £m	Total £m
Balance at 1 January 2008		50	99	—	4	153
Utilised		(8)	(1)	—	—	(9)
Charged/(released) to income statement		(15)	—	17	2	
Capitalised in non-current assets		—	—	—	—	—
Unwinding of discount charged and capitalised		—	13	—	2	15
Transfer to liabilities held for sale	*21*	(2)	—	(4)	—	(6)
Balance 31 December 2008		**25**	**111**	**13**	**6**	**155**
Current		25	8	13	—	46
Non-current		—	103	—	6	109
Balance 31 December 2008		**25**	**111**	**13**	**6**	**155**
Current		50	6	—	—	56
Non-current		—	93	—	4	97
Balance 31 December 2007		50	99	—	4	153

Reorganisation

The Group commenced implementing its restructuring programme 'Simplifying the Organisation' in late 2007. Costs associated with this programme are for severance and pension payments only. Amounts released resulted from higher staff turnover than historic experience, lower than expected cost for each reduction in headcount and certain headcount reduction not being made due to the decision to sell Gatwick. All amounts are expected to be utilised in 2009. See note 4 for further details.

Obligations under land purchase

This provision relates to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated, and provision has been made for the present value of the estimated payments to be made over the next 30 years to the vendor in compensation for this. The provision of £111 million (2007: £99 million), net of discount, is expected to be utilised according to the following profile:

	As at 31 December 2008 £m	As at 31 December 2007 £m
Within one year	**8**	6
One to two years	**7**	6
Two to five years	**22**	18
Five to ten years	**26**	26
Over ten years	**48**	43
	111	99

Pension

A provision of £17 million (2007: £nil) for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits was made in the year. This provision, which was held by BAA Airports Limited in previous years has been charged to the Group's airports as a result of the Shared Service Agreement, as airports are committed to fund any unfunded pension plan obligation of BAA Airports Limited (refer to accounting policies for details). This provision is based on the Group's share of the unfunded scheme valuation performed for BAA Airports Limited and will only be settled when the cash outflow is requested by BAA Airports Limited.

Other

A provision of £5 million is held for the additional 10% payment due under a compensation scheme (once planning permission has been obtained) for the second runway and related infrastructure at Stansted Airport.

A provision of £2 million has been made for the early termination cost of a lease agreement entered into by the Group in 1998 in relation to rolling stock owned by the Group and operated by its subsidiary company, Heathrow Express Operating Company Limited. On 13 January 2009, the lease agreement was terminated, as a result of a credit rating downgrade of a third party obligor under the lease agreement (refer to note 26).

20 Trade and other payables

	31 December 2008 £m	31 December 2007 £m
Non-current		
Deferred income	**6**	12
Total non-current	**6**	12
Current		
Trade payables	**110**	142
Group relief payable	**—**	52
Other tax and social security	**7**	—
Other payables	**60**	48
Capital payables	**219**	269
Total current	**396**	511

Trade payables are non-interest bearing and are generally on 30-day terms. These include no related party transactions.

21 Asset held-for-sale

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	Note	31 December 2008 Gatwick £m
Property, plant and equipment	*9*	**1,126**
Investment property	*10*	**654**
Inventories		**3**
Trade and other receivables		**67**
Cash and cash equivalents	*14*	**15**
Total assets classified as held for sale		**1,865**
Trade and other payables		**(82)**
Current borrowings[1]		**(9)**
Non-current borrowings		**(1,033)**
Group relief payable		**(16)**
Deferred tax liabilities	*18*	**(373)**
Provisions	*19*	**(6)**
Total liabilities classified as held for sale		**(1,519)**
Net assets of disposal Group		**346**

1 Current borrowings relates to interest payable amounts.

During 2008 a sale process commenced for the Group's interest in Gatwick Airport Limited. The Group considers that this transaction satisfies the requirements of IFRS 5 – 'Non-current assets held-for-sale and discontinued operations'. As a consequence, assets and liabilities of £1,865 million and £1,519 million respectively have been reclassified as held-for-sale.

22 Share capital

	£
9,000,000,000 ordinary shares of £1 each	9,000,000,000
Balance at incorporation and 31 December 2008	**9,000,000,000**
Authorised	
In issue at incorporation: 2 ordinary shares of £1 each	2
Issue of 2,509,350,687 ordinary shares of £1 each	2,509,350,687
In issue at 31 December 2008: 2,509,350,689 ordinary shares of £1 each	**2,509,350,689**

On 31 January 2008, there was an issue of 2,040,757,000 ordinary shares of £1 each and on 29 February 2008 there was a further issue of 468,593,687 ordinary shares of £1 each.

23 Revaluation reserve

	£m
Balance 1 January 2008/31 December 2008	365

The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the income statement.

24 Fair value and other reserves

	Merger reserves £m	Cash flow hedge reserve £m	Total £m
Balance at 1 January 2008	(2,865)	—	**(2,865)**
Fair value losses	—	(24)	**(24)**
Transferred to income statement	—	(434)	**(434)**
Deferred tax on fair value losses	—	128	**128**
Balance 31 December 2008	**(2,865)**	**(330)**	**(3,195)**

25 Retained earnings

	£m
Balance 1 January 2008	2,397
Net loss for the year	(1,434)
Dividends paid during the year	(702)
Indexation – operational land	3
Balance 31 December 2008	**264**

26 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

Total future minimum rentals payable as at the period end are as follows:

	31 December 2008		31 December 2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**14**	**38**	10	45
Within two to five years	**41**	**149**	26	177
After five years	**46**	**2,549**	28	2,654
	101	**2,736**	64	2,876

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewable rights. The Group also leases plant and machinery under non-cancellable operating leases.

The significant portion of the £2.7 billion operating lease commitments classified as 'other' is electricity supply equipment at the airports leased under a 75-year agreement with London Electricity Supply, ('LES'). The amounts disclosed are the total estimated charges under the agreement and thus include both the actual lease commitment and the significant maintenance element of the fee payable to LES as both the Group and LES are unable to split the base fee between a 'capital' and 'maintenance' charge.

Non-cancellable operating lease commitments – Group as a lessor

Total future minimum rentals receivable as at the period end are as follows:

	31 December 2008		31 December 2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**83**	**—**	94	—
Within two to five years	**244**	**—**	250	—
After five years	**538**	**—**	428	—
	865	**—**	772	—

The Group uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is determinable by the tenant on three months' notice at any time.

However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Public car parks and car rental facilities are operated under concession agreements subject to minimum guaranteed payments, the amounts for which are included above.

Group commitments for property, plant and equipment

	31 December 2008 £m	31 December 2007 £m
Contracted for, but not accrued:		
Terminal 5, Heathrow airport	**—**	38
Terminal 4 – airline relocations	**6**	—
Eastern Apron Heathrow	**6**	—
Terminal 5C	**6**	—
Heathrow – Terminal 2B North East Stands (Heathrow Eastern Campus programme)	**5**	—
Post T5 Transfer	**16**	—
Gatwick Landside Inter Terminal Transit System	**14**	20
Passenger Search X-Ray Heathrow	**—**	7
South Terminal extension – Stansted	**—**	6
East terminal extension – Heathrow	**—**	5
	53	76
Other projects	**71**	76
	124	152

The figures represented in the above table are contractual commitments to purchase goods and services at the balance sheet date. The Group has in place long-term capital expenditure programmes covering its airports. BAA's submission to the CAA in respect of quinquennium 5 included capital expenditure for Heathrow and Gatwick of £4,787 million and £920 million (2007/08 prices) respectively. In line with commitments with the regulator, capital expenditure expected for Heathrow and Gatwick during 2009 amounts to £1,016 million and £210 million respectively. Under the terms of regulation, penalties are incurred if certain key projects are not delivered by a specified date. The amount of the penalty is linked to the return BAA is estimated to earn on the anticipated cost of the project.

The White Paper sets out the Government's policy for runway development in the UK. The Government chose a second runway at Stansted as its preferred location for the first new runway in the South East of England. The development of Stansted will be the subject of a planning inquiry, and the Group submitted its planning application to Uttlesford District Council on 11 March 2008 and the announcement of the start date of the related public enquiry is currently outstanding, pending the government's consideration of the implications for the timing of the inquiry of a potential change of ownership of Stansted as a result of the Competition Commission's recommendation that BAA should divest, amongst others, Stansted Airport. The anticipated costs of preparing the planning applications and taking those applications up to the commencement of the inquiry were approximately £90 million. These costs are being capitalised as part of the runway and infrastructure development costs (as detailed in Note 9). Total costs incurred to 31 December 2008 are £79 million (2007: £63 million).

As part of its commitment to the Stansted development, the Group is operating three voluntary blight schemes (the Home Value Guarantee Scheme (HVGS), the Home Owners Support Scheme and the Special Cases Scheme) for those people most affected by the airport expansion. The current estimate of the net cost of the blight and compensation schemes is up to £110 million (with approximately £96 million being incurred in the regulatory period to 31 March 2009). These costs are being capitalised as part of the runway development costs (as detailed in Note 9). Total value to 31 December 2008 is £88 million (2007: £66 million), including a £5 million provision for the additional 10% payment which will become due under the HVGS blight scheme once planning permission has been obtained for the second runway at Stansted.

The White Paper also commits the Group (and other airport operators) to offering noise mitigation measures for existing airports and voluntary blight schemes for future airport activity at the larger UK airports (those with more than 50,000 air transport movements a year). The Group carried out a detailed examination of these White Paper provisions and consulted extensively with local communities at its airports on the implementation of potential schemes. Based on the Group's evaluation, payments under the White Paper current noise schemes are estimated at £31 million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings, and assistance with the costs of relocation for dwelling owners.

In June 2006, the Government announced its conclusions for the 2006-2012 night flights regime at BAA's London airports. The regime commits BAA to introducing a new domestic noise insulation scheme at Heathrow, Gatwick and Stansted to address the impact of night flights on local communities. Based on the Group's evaluation, payments under this scheme are estimated to total £62 million, spread over the five year period commencing 2008.

In addition, there are live blight schemes to support the market for housing in areas identified for potential future runways at Heathrow and Gatwick airports. Obligations under these schemes will only crystallise once the Group announces its intention to pursue a planning application for a new runway. In the case of Gatwick airport, this is unlikely in the short-term. In respect of Heathrow, the government has announced support for the need for a third runway at Heathrow and the Group is now reviewing the implications of the announcement with the intention of reaching a point where it will announce an intention to submit a planning application.

The January 2009 Government Announcement for Adding Capacity at Heathrow requires the Group to review existing insulation and mitigation schemes; and to consider extending its noise insulation schemes to all community buildings and households in the new 57dBA contour that will experience an increase in noise of 3dBA or more.

Until further consultation is carried out with the local communities, the significance of the costs related to the implementation of these schemes remain uncertain. It is too early to quantify the Group's potential obligations under these schemes.

Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £317 million at 31 December 2008 (2007: £7 million).

Included in the above, in July 1998, BAA Airports Limited and Heathrow Airport Limited entered into a cross-border lease and leaseback in relation to the Heathrow Express rolling stock owned by Heathrow Airport Limited. The companies guarantee payments that are defeased by a deposit of US$59.4 million with Rabobank and US$15 million in US Government securities. In addition, they guarantee early termination payments. The amount payable under this guarantee at 31 December

2008 was US$12.3 million. The cross border lease transaction was terminated on 13 January 2009 with Heathrow Airport Limited making a termination payment of US$3.3 million.

easyJet have obtained leave to bring a judicial review of the CAA's price cap determination for Gatwick Airport for Q5. The easyJet challenge relates principally to the amount of operating expenditure allowed. They maintain the CAA has not had sufficient regard to the recommendations of the Competition Commission and has unfairly and unlawfully allowed security cost submitted at a late stage of the review. The case was heard in the High Court in March 2009 with judgement expected shortly. If easyJet are successful it is likely the issue will be remitted to the CAA for their reconsideration. Should the CAA determine that the airport charges cap should be lower Gatwick Airport Limited would be required to rebate the amount of airport charges levied in excess of the amended cap. On the basis of legal advice received the Board is confident no such rebate will arise.

Under the shared service agreement hedging costs incurred by BAA Airports Limited in relation to the Employee Share Ownership Plan (ESOP) may be recharged to the Group's airports. At 31 December 2008, the ESOP swap held in BAA Airports Limited had a fair value loss of £117 million. The Group may be obligated to settle its share of these amounts (£102 million) in the future, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability.

27 Related party transactions

During the year the Group entered into the following transactions with related parties:

Sale of goods and services

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Swissport/Groundstar	4	4
	4	4

Purchase of goods and services

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Ferrovial Agroman	**26**	—
Amey Airport Services Limited	**1**	—
	27	—

Balances outstanding with related parties were as follows:

	31 December 2008		31 December 2007	
	Amounts owed from related parties £m	Amounts owed to related parties £m	Amounts owed from related parties £m	Amounts owed to related parties £m
Swissport/Groundstar	**1**	**—**	1	—
	1	**—**	1	—

28 Ultimate parent undertaking and controlling party

The immediate parent undertaking during the financial year is BAA (DSH) Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited and the ultimate parent of FGP Topco Limited is Grupo Ferrovial, S.A. (Spain), which is the smallest and largest Group to consolidate these financial statements.

The Company's results are also included in the consolidated financial statements of BAA Limited (formerly known as Airport Development and Investment Limited) and FGP Topco Limited for the year ended 31 December 2008.

Copies of the financial statements of BAA Limited and FGP Topco Limited may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.

29 Principal subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding companies

BAA (AH) Limited†
BAA (SP) Limited

Airport owners and operators

Heathrow Airport Limited†
Gatwick Airport Limited†
Stansted Airport Limited†

Other

BAA Funding Limited†#
Heathrow Express Operating Company Limited†

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† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom.

BAA Airports Limited and Heathrow Airport Limited have entered into a cross-border lease and leaseback establishing a special purpose vehicle, Paddington Railcars Company Limited ('PRC'), to act as an intermediate entity under the various lease agreements. Since the activities of PRC are effectively under the direct control of Heathrow Airport Limited under the terms of the lease agreement, PRC is deemed a quasi-subsidiary of the Company and its profit, assets, liabilities and cash flows have been consolidated into the Group.

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