

ANNUAL REPORT AND FINANCIAL STATEMENTS

Birmingham Airport Holdings Limited

FOR THE YEAR ENDED 31 MARCH 2010

BIRMINGHAM AIRPORT HOLDINGS LIMITED

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BIRMINGHAM AIRPORT HOLDINGS LIMITED

COMPANY INFORMATION

For the year ended 31 March 2010

REGISTERED NUMBER	3312673	
DIRECTORS	J L Hudson Chairman	
	Councillor T Ali	Birmingham City Council
	Councillor M A Bird	Walsall MBC
	N Boserup	Airport Group Investments Limited
	D Calaca	Airport Group Investments Limited
	Councillor D M Caunt	Dudley MBC
	Councillor D C Cooper	Sandwell MBC
	P Dransfield	Birmingham City Council
	Councillor T Huxtable	Birmingham City Council
	P Kehoe	Chief Executive Officer
	M Morsillo	Airport Group Investments Limited
	Councillor J Mutton	Coventry City Council
	Councillor N Patten	Wolverhampton City Council
	Councillor G E Richards	Solihull MBC
	C Thomazi	Airport Group Investments Limited
	Councillor P Tilsley	Birmingham City Council
	M Toms	Airport Group Investments Limited
COMPANY SECRETARY	M J Kelly	

BIRMINGHAM AIRPORT HOLDINGS LIMITED

COMPANY INFORMATION

For the year ended 31 March 2010

EXECUTIVE BOARD

Paul Kehoe
Chief Executive Officer

Michael Joseph Kelly
Deputy Chief Executive Officer

Mark Hattersley
Finance Director

William Heynes
Operations Director

Martyn Lloyd
Air Services Development Director

Elaine Clarke
Head of Personnel

John Morris
Head of Government & Industry Affairs

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered accountants and registered auditors
Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT

BANKERS

National Westminster Bank Plc
2 St Philips Place, Birmingham B3 3RB

SOLICITORS

Eversheds LLP
115 Colmore Row, Birmingham B3 3AL

REGISTERED OFFICE

Diamond House
Birmingham International Airport
Birmingham
West Midlands
B26 3QJ

BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' REPORT

For the year ended 31 March 2010

The Directors present their report and group financial statements for the year ended 31 March 2010.

Principal Activity

The principal activity of the Group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations. The key operating objectives of the group can be summarised as follows
“The safe and secure processing of passengers and aircraft through the provision of facilities and infrastructure in a sustainable and efficient manner. We aim to provide a value-for-money service, recognising the efforts of our employees and our partners, which will generate a profitable future for the Group. We also recognise the wider impacts of our business and aim to mitigate the impacts of our operations on the local community, whilst assisting the region to develop and grow through improved connectivity”

Results & Dividends

The Group profit for the year after taxation amounted to £0.592 million (2009: £9.889 million). There were no dividends paid in the year (July 2008: 1.81p per £1 share amounting to £5.792 million and December 2008: 0.84p per £1 share amounting to £2.688 million), resulting in a retained profit for the year of £0.592 million (2009: £1.409 million).

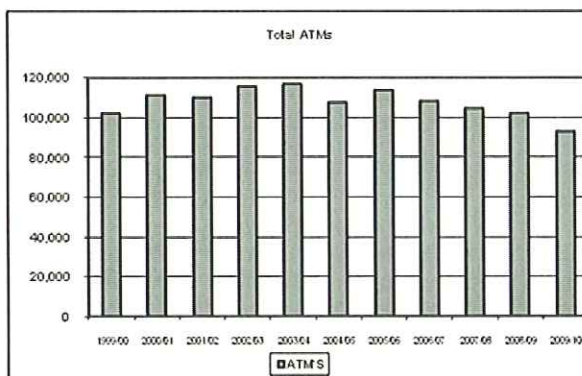
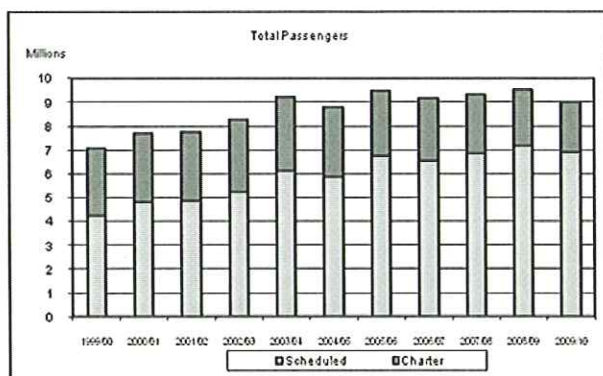
Market Position & Business Environment

Birmingham Airport celebrated its 70th year anniversary in what was a very challenging year for air travel and the aviation industry as it continued to be impacted by the economic recession. This resulted in passenger numbers across the UK declining by 7.3% (2009: 5%).

In Birmingham, despite the weak demand the airport managed to out-perform the UK aviation industry with passenger numbers falling by 5.2% to 9.0m (2009: 9.5m). In what was a difficult trading year with strong competition amongst airports for traffic, Birmingham maintained its market share within our 1-hour catchment area at 39%.

Within the market sectors, long haul traffic reversed the downward trend and grew by 11.5%, primarily due to growth by Emirates (with Dubai now being the second largest route from Birmingham), PIA and the summer operation of the US Airways service to Philadelphia. The low cost sector contracted by 4.2% driven by the reduction in the bmibaby operation (following Lufthansa’s acquisition of the BMI Group) partially offset by growth from Ryanair (full year of four based aircraft) and Monarch Scheduled. Scheduled traffic reduced by 7.5% impacted by a downturn in business traffic along with charter traffic declining by 10.1% reflecting the recession and the increased cost of the Euro zone, although there has been growth in the medium haul leisure routes to Turkey and Egypt as holiday makers seek destinations outside of the Euro zone.

Looking at the year ahead, as the UK emerges from the recession, airlines are taking a cautious view leaving limited prospects for additional capacity in 2010. Despite this there are a number of new route launches from Birmingham including Praia (Cape Verde) and three additional French routes to Avignon, Bellegrade and Rennes. However, Birmingham, like the rest of the UK, has experienced fresh new challenges with the unprecedented closure of UK airspace for 6 days in April along with further closures in May, as a result of the volcanic eruption of Eyafallajoeikull in Iceland. As a result of these recent disruptions it is likely that Birmingham will experience another year of decline, with a recovery expected in 2011.



BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 March 2010

Financial Performance

Income	2010 £m	2009 £m	% Change over 2009
Aeronautical income	51.6	54.7	(5.7%)
Commercial income	52.5	53.0	(0.9%)
Total revenue	104.1	107.7	(3.3%)

The Airport has two sources of income; aeronautical income which is generated from charges levied to airlines for the use of the facilities and commercial income generated from the commercial activities on the Airport site.

In the year, aeronautical income reduced by 5.7% reflecting the reduction in passengers and the changing mix of traffic. This has resulted in the yield (income per passenger) reducing from £5.75 to £5.72.

Despite the fall in passengers, the commercial income reduction was limited to 0.9% compared to the previous year and for the first time in the 70 years history of the airport commercial income was greater than aeronautical income. This was primarily due to a strong performance by the concession operations, with increases in tax & duty free shops, catering and other retailing and reflected a full year of income for the two hotels, which opened in September 2008. Property and recharge income reduced in line with the lower passenger numbers. As a result, commercial income per passenger increased by 4.9% from £5.56 to £5.83.

Operating Costs	2010 £m	2009 £m	% Change over 2009
Employee costs	23.4	23.8	(1.7%)
Running costs	42.4	42.9	(1.2%)
Depreciation & other charges	22.2	19.8	12.1%
Total operating costs	88.0	86.5	1.7%

Total operating costs at £88m have increased by 1.7% in the year due to the increase in depreciation as a result of the new international pier and multi storey car park extension coming into operation during the year. Like many businesses during the recession, the airport's focus has been on managing its cost base to mitigate the downturn in income whilst positioning itself for a future return of growth.

Employee costs reduced by 1.7%, as a result of the lower head count, following two restructuring programmes, running costs reduced by 1.2%, despite a £1.3m increase in business rates, as a result of the focus on cost reduction programmes, energy conservation and procurement efficiencies.

During the year, as a response to the weaker demand and lower aeronautical income, the Group undertook a two stage restructuring programme. A total of 75 posts were made redundant within the support and terminal services functions resulting in £2.9m of exceptional costs. In a further response to the ongoing challenges, the company on the 27th April 2010 entered into a 90 day consultation period with its employees to close the final salary pension scheme to future accrual and to introduce a common set of terms and conditions for staff. The consultation also includes the offering of voluntary redundancy packages in a number of operational areas.

Operating profit (before exceptional items) decreased by £5.0m to £16.2m (2009: £21.2m) as a result of the lower income and higher depreciation charges. Net interest costs, before capitalised interest, increased to £10.2m (2009: £6.6m) as a result of lower cash balances, lower interest rates and increased pension interest charges (lower returns on pension assets under accounting standard FRS 17).

Included in the tax charge of £3.7m (2009: £5.8m) was corporation tax of £2.6m (2009: £5.4m) and deferred tax of £1.1m (2009: £0.4m) producing a combined tax effective rate of 86.3% for the year (2009: 37.0%). The effective tax rate reflects the high level of non qualifying depreciation, mainly as a result of asset revaluations and the phasing out of industrial buildings allowances.

There were no ordinary dividends paid during the year (2009: £8.5m) resulting in a retained profit of £0.6m (2009: £1.4m).

Net capital expenditure reduced to £32.9m (2009: £51.3m) with the completion of the new international pier and multi storey car park extension. Within the year there were 2 new capital projects to note, a state of the art control centre was constructed and opened in March 2010 and the 'One Terminal' project commenced, which will amalgamate the two existing terminals and have a single passenger search security area, with the majority of the scheme due for completion in 2010/11.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 March 2010

The Group generated £34.4m cash from operating activities during the year (2009: £38.9m) a reduction of 11.6% over the previous year, primarily as a result of lower income and the exceptional costs associated with restructuring. Financing cash outflow increased by £3.0m as a result of the lower cash balances and lower interest rates. Including the capital expenditure detailed above, there was a net cash outflow of £9.7m (2009: £30.3m) with short term deposits/cash reducing to £11.7m (2009: £22.2m). The Group's net debt has increased by £10.6m to £112.3m (2009: £101.7m). Looking forward, the Company has strong operating cash-flows and bank facilities to meet its on going liabilities as they fall due.

Safety & Security

The airport takes its responsibilities for managing its health and safety systems, policies and practices very seriously putting considerable effort into its health and safety activities over the past 12 months, including developing the risk management plan, improved information gathering and documentation. Working closely with the British Safety Council in seeking to deliver better training and information a number of staff have gained level 1, level 2 and level 3 qualifications in safety.

The challenges facing aviation security have continued to increase with the introduction of enhanced security screening regimes imposed to combat additional threats to passenger safety and security. Although the threat level has reduced to 'significant', the pressures on the Security Department to balance DfT compliance with passenger throughput remain. Notwithstanding this, Security staff continue to perform extremely well and have maintained very impressive detection rates of both prohibited items and cash. Enhancements to security processing as part of the One Terminal Project will ensure that the Security Department can continue to meet the objectives of the business and meet the peak demands of the summer period. The Department is well placed to meet the challenges arising from the implementation of the new National Aviation Security Programme 2010.

Airside Safety

The safe operation of the airfield infrastructure is a core business priority. Continual review and development of the Aerodrome Safety Management System continued through the year, under-pinned with a collaborative approach to safety with the Airport's partners working in the airside environment. The joint venture company providing fire and rescue services, BHX Fire and Rescue, continued to perform well. On the 9th September, in support of the Airport's 70th Anniversary celebrations, the Airfield saw the first ever scheduled service of an Airbus A380 into a UK regional airport – CAA approval being granted after the team had demonstrated that very thorough planning and evaluation had been undertaken and suitable procedures developed to ensure safety where full ICAO Code F facilities were not provided.

The winter of 2009-10 proved to be an even greater challenge than the previous year with what turned out to be the coldest winter in the UK for 30 years. Prudent investment by the Airport in new snow removal and de-icing equipment over the previous 3 – 4 years played a key role in helping to minimise the disruption of the winter conditions with Birmingham faring better than many other UK airports, being closed for shorter periods and available to accept diversions when others were closed. The number of airside accidents and incidents remained at a very low level throughout the year despite the winter conditions experienced.

The Airport continues to work closely with the Safety Regulation Group at the CAA on current safety priorities and initiatives and is fully engaged with the changes that are happening in the regulatory environment as we move towards a single European regulatory authority (EASA) in 2013-14.

Opportunities and Risks

Whilst the Airport's share of the 1-hour catchment area has remained at 39% this year, the 61% unsatisfied local demand continues to be viewed as a significant opportunity for growth and the main focus for the future. In the longer term, the extension of the runway, the government announcement for the location of the new high speed rail station adjacent to the Airport and the new government's limit on development of the Airports in the South East, opens up new opportunities for the Airport. The Airport is confident that its location, facilities and potential market leave it well placed to deal with these challenges.

Many of the risks that could affect the Airport's growth prospects and the levels of air traffic are similar to those identified in the previous year's report, including the economic environment, increased taxation and the environmental lobby. The Airport recognises the importance of adopting a sustainable approach to the operation and future development of the airport, whilst mitigating its impact on local communities and has received accreditation from the Carbon Trust. The Airport contributed £50,000 to the Community Trust Fund, during the year to assist organisations in the local community affected by aircraft activity.

Although it is not possible to forecast 'One off events', whether they be volcanic eruptions, health scares, severe weather or terrorist type activities, they continue to pose a risk and the airport carefully considers such factors when developing medium and long term plans.

The Group operates a Defined Benefit Pension Scheme, which has been closed to new employees although remains open for future service accrual. The increasing challenges posed by defined benefit pension schemes are well documented and as previously mentioned the Group has entered into a consultation period to close the scheme to future accrual.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 March 2010

Financial Risk Management

The Group has a number of policies in place to manage its financial risks, along with a risk management programme which are reported to the Board and Audit Committee. Where actions are necessary and not covered by the policies in place, approval is sought from the relevant Board meeting.

Interest Rate Risk

The Group's policy is to maintain an appropriate mix of credit facilities within Board approved parameters. Currently the interest cost is fixed as there has been no drawdown on the Group's variable rate loan facility. The Group has considered and is satisfied with the current debt structure. The Group's cash is invested under strict Board approved parameters, which places a cap on the amount which can be invested in a single institution/product. Throughout the year and currently, cash is invested in funds on the money market which, whilst exposing the Group to interest rate risk on the receivable side, does maintain liquidity and access to funds.

Liquidity Risk

It is the Group's policy to ensure continuity of funding by active management of working capital and maintaining sufficient committed facilities to meet anticipated funding requirements, whilst ensuring that the Group is not exposed to excessive refinancing in any one year. The £45m, committed un-drawn, loan facility and £11.7m cash are considered sufficient to meet the Group's ongoing funding requirements.

Credit Risk

The Group policy requires appropriate credit checks of potential customers prior to the commencement of operation and regular reviews thereafter. In addition, due to the current economic climate additional focus has been directed at day to day reviews and management of this risk. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Price Risk

The Group has no significant exposure to any single element of price risk. The largest single risk is wage inflation and the Group has some influence through negotiation with its employees. Other exposures relate to general market inflation and building costs during periods of expansion.

Covenant Risk

The Group continues to comply with the financial covenants, relating to net worth, gearing and interest cover which are included in both the corporate bond and bank facility. These are monitored on an ongoing basis with formal testing certified by the Auditors and reported to the Audit Committee.

CORPORATE GOVERNANCE STATEMENT

Combined Code

The Group is committed to high standards of Corporate Governance. Although the Group has no obligation to comply with the updated Combined Code issued by the Financial Reporting Council in June 2008 (the Code), the Board supports the principles and standards required by the Code and the main provisions have been applied during the year, having regard to the size and best interests of the Group.

The Board

The Board is responsible to the Shareholders for the proper management of the Group, meeting bi-monthly to formulate, review and approve the Group's strategy, policies, budgets, trading performance, capital expenditure proposals, strategy execution, funding performance and policy proposals. The Board comprises up to 21 Non-Executive Directors representing the balance of shareholders' interests, including the Chairman, plus one Executive Director, with senior executives in attendance as required. The Chairman and Non-Executive Directors are considered independent by the Board and the roles of Chairman and Chief Executive Officer are separate and clearly defined.

Board Committees

The Board has established a number of committees having specific delegated authority. The main committees and their responsibilities are set out below:

BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 March 2010

Audit Committee

The Audit Committee is responsible for reviewing a wide range of financial matters and the monitoring of internal controls, which are in force to ensure the integrity of the financial information reported to the Shareholders. The Committee also monitors the work of the internal and external auditors, the system of reporting and control covering risk management, Health and Safety systems and the internal control systems. The Committee comprises up to six Non-Executive Directors, with the Chief Executive Officer, Deputy Chief Executive Officer, Finance Director, Internal Audit Manager and external auditors in attendance.

Remuneration Committee

The Remuneration Committee is responsible for the ongoing determination of employment contract terms, remuneration and other benefits, including the design and operation of performance-related bonus schemes supporting the achievement of the Group's objectives. The Committee is chaired by the Chairman and includes six Non-Executive Directors with the Chief Executive Officer, Deputy Chief Executive Officer, Finance Director, and Head of Human Resources in attendance as required

Corporate and Social Responsibility

The Group recognises the increasing importance of effective management of corporate and social responsibility (CSR) and its link with corporate governance. The Group acknowledges its responsibilities to its stakeholders, shareholders, employees, customers and the wider communities the Airport serves and endeavours to inform them of the way it conducts its business. Corporate, social and ethical risks are identified and managed as part of the Group's risk assessment and management processes.

Internal Audit

Internal Audit independently reviews the effective operation of the Group's main systems of internal control. A risk-based approach has been adopted which is linked to the Group's risk management programme. The internal audit work plan is approved by the Audit Committee annually and the progress on the plan is reviewed at each meeting. Internal Audit reports its findings to both management and to the Audit Committee.

Internal Control

The Code has extended the requirement that the Board reviews the effectiveness of the Group's system of internal financial control to cover all controls including financial, operational, compliance and risk management.

The Directors have overall responsibility for the Group's system of internal control, which aims to safeguard assets and shareholders' investment, to ensure that proper accounting records are maintained, to ensure compliance with statutory and regulatory requirements and to ensure the effectiveness and efficiency of operations. The system has been designed to manage rather than eliminate the risk of failure to achieve business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

Control Environment

The key elements of the internal control environment are as follows:

- Clearly defined organisational structures and lines of authority;
- Regular board meetings with a formal schedule of matters reserved to the Board for decision;
- Board approval of key business objectives, long term strategies, annual budgets and revised forecasts during the year;
- Monitoring performance on a monthly basis against budget and key performance indicators with remedial action being taken where appropriate; Established procedures for planning, approval and monitoring capital projects;
- An internal audit function; and
- The operation of policies, procedures and standards covering the main business and operational activities, including capital projects, financial reporting, health and safety and human resources.

Operational Control

To ensure that the Airport conducts its business in a safe and secure operating environment and complies with all relevant legislation regular audits are carried out by health and safety, fire safety, security and operational staff. The procedures of both the Airport's own staff and those of 3rd parties operating on the Airport site are monitored to ensure proper compliance. Any deficiencies that are discovered are reported to management and followed up to ensure safe working conditions are maintained at all times.

Risk Management

The Board have the ultimate responsibility for the management of the Group's business and operational risks. There is an established process for the ongoing review of all the Group's significant risks comprising identification, evaluation and management. The responsibility for individual risks is clearly defined and the principal risks are formally documented, with regular reports to management and the Audit Committee.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 March 2010

Directors

The statutory directors during the year and up to the date of signing the financial statements were as follows:-

T Ali		P Kehoe	
M A Bird	(Appointed 12/10/09)	M Morsillo	(Appointed 12/12/09)
N Boserup		J Mutton	(Appointed 02/06/10)
D Calaca	(Appointed 16/12/09)	J G O'Hare	(Resigned 12/10/09)
D M Caunt		N Patten	
D C Cooper	(Appointed 11/12/09)	G E Richards	
P Dransfield		K Taylor	(Resigned 02/06/10)
A J Elliott	(Resigned 16/12/09)	W.H. Thomas	(Resigned 11/12/09)
L R Gregory	(Resigned 02/06/10)	C Thomazi	
T Huxtable	(Appointed 02/06/10)	P Tilsley	
J L Hudson		M Toms	

The Group operates an All Employee Share Ownership Plan (AESOP) whereby all employees can subscribe for shares subject to Inland Revenue and Scheme limits. The Group may also gift shares to employees in proportion to those subscribed for, although conditions are attached which enables the shares to be recovered under certain circumstances. The shares subscribed for and gifted through the AESOP scheme are purchased from the share holding of the Employee Share Ownership Plan Trust (ESOP) which, prior to the introduction of the Scheme, held 8,909,700 1p ordinary shares of the Company equating to 2.75% of the ordinary shares in issue.

Employee contribution

Employee contribution to our business is key to our success. The Company commits to meet the Investors in People Standard, ensuring the skills and knowledge of all our employees are updated to meet changes in our Industry. It is the Company policy to regularly exchange information concerning the operation with its employees. The continued high level of employee take up of the All Employee Share Ownership Plan has continued this year enabling all employees to have the opportunity to share in the success of the Company.

Equal opportunities and employment of disabled persons

The Company is committed to ensuring that all members of the community have the opportunity to apply for vacancies as they arise within the Company; also, to ensure that applications receive fair treatment. We continue to meet the Two Ticks Positive about Disabled People Standard and all applications for employment from disabled people are considered within this framework.

Supplier payment policy

Although the Group does not publish a formal code on payment practice, it remains the Group's policy to agree terms of payment with suppliers in advance to ensure that they are made fully aware of our payment procedure. All payments are made under the agreed terms wherever possible. The Company itself does not have any significant trade creditors.

Political and charitable contributions

During the year the Company made various charitable contributions, primarily to the Birmingham International Airport Community Trust Fund, totalling £50,000. Political contributions were made as follows: Labour Party £2,430, Conservative Party £3,780, Liberal Democrat Party £810, and others £540.

Future Developments

The Company will continue to operate Birmingham International Airport, providing additional facilities and infrastructure as required to maintain the successful operation of the Airport.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future and have, therefore, adopted the going concern basis for the preparation of the financial statements for the year ended 31 March 2010.



On behalf of the Board:

J L Hudson (Chairman)

Registered number: 3312673

BIRMINGHAM AIRPORT HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- (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.

AUDITORS

PricewaterhouseCoopers LLP have confirmed their willingness to continue in office as auditors and accordingly, shall be deemed re-appointed.

BY ORDER OF THE BOARD


M J Kelly
Company Secretary

14 July 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BIRMINGHAM AIRPORT HOLDINGS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Birmingham Airport Holdings Limited for the year ended 31 March 2010 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Group Note of Historical Profits and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profits and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Stephen Snook (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

16/7/10

BIRMINGHAM AIRPORT HOLDINGS LIMITED

GROUP PROFIT AND LOSS ACCOUNT for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
TURNOVER	2	104,127	107,661
Operating costs		(87,957)	(86,475)
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	3	16,170	21,186
Exceptional Items	3b	(2,871)	-
OPERATING PROFIT AFTER EXCEPTIONAL ITEMS		13,299	21,186
Interest receivable		153	2,733
Interest payable	6	(9,122)	(8,210)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,330	15,709
Tax on profit on ordinary activities	7	(3,738)	(5,820)
PROFIT FOR THE YEAR	22	592	9,889

All results are derived from continuing operations

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		2010 £000	2009 £000
Profit on ordinary activities after taxation		592	9,889
Asset revaluation		-	482
Actuarial losses on pension scheme	25	(3,930)	(7,194)
Movement on current tax relating to pension contributions		416	-
Movement on deferred tax relating to pension scheme actuarial gain		684	2,014
Total Recognised Gains and Losses for the Year		(2,238)	5,191

GROUP NOTE OF HISTORICAL COST PROFITS AND LOSSES

		2010 £000	2009 £000
Reported profit on ordinary activities before taxation		4,330	15,709
Excess depreciation on revalued assets		4,322	4,381
Historical Cost Profit On Ordinary Activities Before Taxation		8,652	20,090
Historical Cost Profit For The Year Retained After Taxation And Dividends		4,914	5,790

BIRMINGHAM AIRPORT HOLDINGS LIMITED

GROUP BALANCE SHEET

As at 31 March 2010

	Notes	2010 £000	2009 £000
FIXED ASSETS			
Tangible assets	10	430,932	423,304
CURRENT ASSETS			
Stocks and development land	12	1,065	1,044
Debtors	13	12,990	15,988
Cash at bank and in hand		11,725	22,240
		<u>25,780</u>	<u>39,272</u>
CREDITORS: amounts falling due within one year	15	(34,943)	(41,198)
NET CURRENT LIABILITIES		<u>(9,163)</u>	<u>(1,926)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>421,769</u>	<u>421,378</u>
CREDITORS: amounts falling due after more than one year	16	(129,862)	(129,955)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(14,107)	(12,939)
NET ASSETS EXCLUDING PENSION LIABILITY		<u>277,800</u>	<u>278,484</u>
PENSION LIABILITY	25	(20,757)	(18,999)
NET ASSETS INCLUDING PENSION LIABILITY		<u>257,043</u>	<u>259,485</u>
CAPITAL AND RESERVES			
Called up share capital	21	3,240	3,240
Share premium account	22	43,644	43,644
Merger reserve	22	25,588	25,588
Revaluation reserve	22	110,413	114,735
Profit and loss account	22	74,158	72,278
TOTAL SHAREHOLDERS' FUNDS	22	<u>257,043</u>	<u>259,485</u>

The financial statements on pages 12 to 35 were approved by the Board of Directors on 14 July 2010 and were signed on its behalf by:


J L Hudson
Chairman


P Kehoe
Chief Executive Officer


BIRMINGHAM AIRPORT HOLDINGS LIMITED

COMPANY BALANCE SHEET

As at 31 March 2010

	Notes	2010 £000	2009 £000
FIXED ASSETS			
Investments	11	290,231	269,293
CURRENT ASSETS			
Debtors	13	35	171
Cash at bank and in hand		4,013	20,013
		<u>4,048</u>	<u>20,184</u>
CREDITORS: amounts falling due within one year	15	(2,165)	(2,149)
NET CURRENT ASSETS		<u>1,883</u>	<u>18,035</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>292,114</u>	<u>287,328</u>
CREDITORS: amounts falling due after more than one year	16	(151,937)	(152,594)
NET ASSETS		<u>140,177</u>	<u>134,734</u>
CAPITAL AND RESERVES			
Called up share capital	21	3,240	3,240
Share premium account	22	43,644	43,644
Merger reserve	22	51,380	51,380
Profit and loss account	22	41,913	36,470
TOTAL SHAREHOLDERS' FUNDS	22	<u>140,177</u>	<u>134,734</u>

The financial statements on pages 12 to 35 were approved by the Board of Directors on 14 July 2010 and were signed on its behalf by:



J L Hudson
Chairman



Paul Kehoe
Chief Executive Officer

BIRMINGHAM AIRPORT HOLDINGS LIMITED

GROUP CASH FLOW STATEMENT

For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	3c	34,364	38,963
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest paid		(7,641)	(7,594)
Interest received		292	3,248
Interest element of finance lease rental payments		(4)	(10)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(7,353)	(4,356)
TAXATION			
UK Corporation tax paid		(3,818)	(5,110)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(32,855)	(51,624)
Receipts from sales of fixed assets		1	330
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(32,854)	(51,294)
EQUITY DIVIDENDS PAID		-	(8,480)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(9,661)	(30,277)
MANAGEMENT OF LIQUID RESOURCES			
Decrease in short term deposits		16,000	31,747
FINANCING			
Decrease in long term borrowings	14	-	-
Capital element of finance lease rental payments	14	(30)	(57)
Lease and leaseback premium	14	(620)	(773)
Net sale of own shares from share trust		(204)	(315)
NET CASH OUTFLOW FROM FINANCING		(854)	(1,145)
INCREASE IN CASH	14	5,485	325

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2010

1. ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention modified to include the revaluation of certain assets in accordance with applicable accounting standards in the United Kingdom.

BASIS OF PREPARATION

These accounts have been prepared to give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2010 and of the profit or loss of the Group for the year then ended. The accounts have consequently been prepared to comply with all accounting standards and the Companies Act 2006.

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of Birmingham Airport Holdings Limited and its subsidiary undertakings drawn up to 31 March 2010. No profit and loss account is presented for Birmingham Airport Holdings Limited as permitted by section 408 of the Companies Act 2006.

PENSIONS

The Group operates a defined benefit pension scheme that requires contributions to be made to a separately administered fund. The accounting for the pension scheme is in accordance with Financial Reporting Standard 17 ('FRS 17'), 'Retirement Benefits' which was published on 30 November 2000. The Group has complied with the requirements of this FRS and consolidated the pension deficit into its accounts.

The pension cost is determined by an independent qualified actuary on the basis of a triennial valuation using the projected unit method using assumptions agreed between the Trustees and the company. Actuarial gains and losses are recognised in full on the Balance Sheet. Actuarial gains and losses are also recognised through the Statement of Total Recognised Gains and Losses as incurred. Payments to the defined contribution scheme are charged against profits as incurred.

The most recent full actuarial valuation at 31 October 2006 identified a company funding requirement of 20.6% of Pensionable Earnings plus £2,786,400 per annum for 10 years from 1 January 2008.

EUROPEAN REGIONAL DEVELOPMENT FUND, TRANS EUROPEAN NETWORKS AND LOCAL TRANSPORT PLAN GRANTS

European Regional Development Fund (ERDF) grants, Trans European Networks (TENS) grants and Local Transport Plan (LTP) grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is provided on all tangible fixed assets, other than land, at rates calculated to write off the cost or valuation, less estimated residual value of each asset evenly over its expected useful life. In addition, the carrying values of tangible fixed assets are reviewed for continued applicability in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The principal useful lives are as follows:

Buildings	between 5 and 50 years
Runways, taxiways and infrastructure	between 10 and 50 years
Plant and equipment	between 4 and 30 years
Motor vehicles	between 4 and 15 years

Freehold land and buildings (primarily off-site residential properties) belonging to certain subsidiary companies are held as investment properties and are accounted for in accordance with SSAP 19. Consequently their open market value is reviewed internally on an annual basis, with an external valuation every five years performed by an appropriately qualified valuer. If any identified deficit is expected to be permanent it is recognised in the profit and loss account for the year. Depreciation has not been provided as the directors believe this is necessary in order for the accounts to give a true and fair view. If it had been provided, it would not be material. Depreciation is one of the many factors reflected in the annual valuation.

The Group revalues land, buildings and infrastructure of a further subsidiary in accordance with Financial Reporting Standard 15 ('FRS 15') 'Tangible Fixed Assets', with Independent valuations being undertaken every five years. An Independent Valuation was undertaken in 2006 (Note 10).

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

1. ACCOUNTING POLICIES (CONTINUED)

CAPITALISED INTEREST

Interest on funding obtained to finance capital projects is capitalised subject to valuation exceeding cost. Once projects have been commissioned no further interest is capitalised.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated at the balance sheet date, but not reversed except for the following:

- Deferred tax assets are only recognised where, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which they can be recovered.
- In respect of fixed asset revaluations, deferred tax is not provided unless there is a binding agreement to sell the asset at the balance sheet date. However, no provision is made if any gain is to be rolled over into replacement assets.

The Group has elected not to discount the deferred tax assets and liabilities. Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

STOCKS AND DEVELOPMENT LAND

Stores of consumable items and development land held within stock are valued at the lower of purchase cost and estimated net realisable value. Costs associated with holding the land are expensed as incurred.

DEBT ISSUE COSTS

Debt issue costs are initially deducted from the carrying value of the related debt instrument and are subsequently charged to the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

PROVISIONS

Provisions will be recognised relating to any present obligation in respect of the development of the airport site, where it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the expected value can be made. Where the effect if the time value of money is not material, provisions are not discounted.

ACCOUNTING FOR LEASES

Assets obtained under finance lease contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and are depreciated over the shorter of the lease term or their useful lives. An exception to this is an on-site office block where a subsidiary company has a call option on the lease (Note 24). The asset is therefore being depreciated over its useful life. The interest element of such contracts is charged to the profit and loss account over the period of the lease in proportion to the outstanding balance of repayments. Payments under contract hire agreements and operating leases are charged to the profit and loss account as incurred.

Rentals receivable under operating leases are included in turnover on an accruals basis.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

2. TURNOVER

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax. Turnover, profit before tax and net assets relate to the Group's principal activity of the operation and management of Birmingham International Airport and its related activities. All are generated in the United Kingdom. Turnover comprises:

- Aeronautical income: sales relate to aeronautical activities net of rebates, incentives and value added tax and is recognised at the point of passenger and aircraft departure.
- Concession and property income: concession rentals net of value added tax relating to retail activities on the site and revenues relating to property lettings, service charges, utility recharges and usage charges for operational systems. Concession income for car parking is recognised at the end of the parking stay and income from all other activities is recognised in the period to which it relates on an accruals basis.

	2010	2009
	£000	£000
Aeronautical income	51,577	54,718
Concession and property income and recharges	52,550	52,943
	<u>104,127</u>	<u>107,661</u>

3. OPERATING PROFIT

	2010	2009
	£000	£000
a) This is stated after charging / (crediting):		
Services provided by the company's auditor		
Fees payable for the audit	79	79
Fees payable for other services	17	17
Depreciation		
Owned assets	21,877	20,576
Assets held under finance leases	336	337
Amortisation		
European Regional Development Fund grants	(19)	(25)
Trans European Networks grants	(46)	(46)
Local Transport Plan grant	(104)	(104)
Operating lease rentals		
Plant and equipment	96	127
Other	447	447
Rents	(5,309)	(5,271)
Concessions	(39,483)	(39,196)
Loss/(Profit) on disposal of fixed assets	89	(80)

b) Exceptional Operating Costs

During the year restructuring costs (being mostly severance pay and related costs) of £2.871m were recognised.

c) Reconciliation of operating profit to net cash inflow from operating activities.	2010	2009
	£000	£000
Operating profit	13,299	21,186
Depreciation	22,213	20,913
(Profit)/Loss on disposals of fixed assets	89	(80)
Amortisation of deferred income and grants	(169)	(175)
Difference between pension charge and cash contribution	(3,525)	(918)
Increase in stocks	(21)	(56)
Decrease/(Increase) in debtors and prepayments	2,830	(1,503)
(Decrease)/Increase in creditors and accruals	(359)	464
Increase/(Decrease) in provisions	7	(868)
Net cash inflow from operating activities	<u>34,364</u>	<u>38,963</u>

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

4. DIRECTORS' EMOLUMENTS

	2010	2009
	£000	£000
Emoluments (excluding pension contributions)	<u>427</u>	<u>209</u>
Emoluments in respect of the highest paid director are:		
	2010	2009
	£000	£000
Total emoluments (excluding pension contributions)	<u>387</u>	<u>169</u>
Pension contributions	<u>25</u>	<u>11</u>
Total emoluments (including pension contributions)	<u>412</u>	<u>180</u>

5. STAFF COSTS

	2010	2009
	£000	£000
Wages and salaries	<u>19,502</u>	<u>19,745</u>
Social security costs	<u>1,732</u>	<u>1,599</u>
Other pension costs	<u>2,130</u>	<u>2,432</u>
	<u>23,364</u>	<u>23,776</u>

The average monthly number of employees during the year comprised:

	2010	2009
	Number	Number
Engineering	<u>72</u>	<u>74</u>
Operations and security	<u>402</u>	<u>412</u>
Support services	<u>94</u>	<u>134</u>
Terminal services	<u>73</u>	<u>75</u>
	<u>641</u>	<u>695</u>

6. INTEREST PAYABLE

	2010	2009
	£000	£000
Bank loans and overdrafts	<u>80</u>	<u>77</u>
Preference share dividend	<u>971</u>	<u>971</u>
Corporate bond	<u>6,663</u>	<u>6,663</u>
Other interest	<u>628</u>	<u>623</u>
Finance lease	<u>4</u>	<u>10</u>
Capitalised	<u>(1,261)</u>	<u>(1,092)</u>
FRS 17 finance expense (Note 25)	<u>2,037</u>	<u>958</u>
	<u>9,122</u>	<u>8,210</u>

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES	2010	2009
	£000	£000
UK Corporation tax – current year	3,167	5,788
UK Corporation tax – adjustment in respect of prior years	(585)	(413)
	<u>2,582</u>	<u>5,375</u>
Deferred tax – current year	655	(138)
Deferred tax – adjustment in respect of prior years	501	30
Deferred tax – on pension deficit movement	-	553
Tax on profit on ordinary activities	<u>3,738</u>	<u>5,820</u>
Current tax credited to Statement of Total Recognised Gains and Losses	(416)	-
Deferred tax credited to Statement of Total Recognised Gains and Losses	(684)	(2,014)
Total tax charged in financial statements	<u>2,638</u>	<u>3,806</u>
Deferred tax credited to provisions for liabilities and charges (Note 20)		
Deferred tax – current year	655	(138)
Deferred tax – adjustment in respect of prior years	501	30
	<u>1,156</u>	<u>(108)</u>
Deferred tax credited to pension liability (Note 25)		
Deferred tax on pension deficit movement charged in the profit and loss account	-	553
Deferred tax charged to Statement of Total Recognised Gains and Losses	(684)	(2,014)
	<u>(684)</u>	<u>(1,461)</u>

The deferred tax charge arises in respect of the origination and reversal of timing differences.

Factors affecting the tax charge for the year

Tax assessed on the profit on ordinary activities for the year is higher (2009: lower) than the ordinary rate of Corporation Tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	2010	2009
	£000	£000
Profit on ordinary activities before tax	4,330	15,709
Profit on ordinary activities at the standard rate of tax of 28% (2009:28%)	1,212	4,399
Effects of:		
Disallowed expenses	3,913	3,442
Industrial Buildings Allowances for the year	(1,309)	(1,635)
Capital allowances in advance of depreciation	(521)	477
Short term timing differences	(128)	(339)
Movement on Pension liability	-	(553)
Capital Gain	-	2
Small companies rate relief	-	(5)
Adjustments in respect of prior years	(585)	(413)
Current tax charge for year	<u>2,582</u>	<u>5,375</u>

The disallowable expenses include £3.495 million (2009: £3.008 million) relating to non qualifying depreciation.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The profit dealt with in the accounts of the parent undertaking was £5.647 million (2009: £18.065 million).

9. DIVIDENDS

	2010	2009
	£000	£000
2009 no final dividend paid (2008: 1.81p)	-	5,792
2010 no interim dividend paid (2009: 0.84p)	-	2,688
	-	8,480

The ESOP Trust waived its right to the payment of a dividend on the 3,893,545 ordinary shares that it owns (Note 22).

10. TANGIBLE FIXED ASSETS - GROUP

Tangible fixed assets (excluding assets in the course of construction, plant and equipment, short leasehold land and investment properties held by a subsidiary company, First Castle Developments Limited) were valued as at 31 March 2006 by Atisreal Limited, Chartered Surveyors. The valuation was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors and with Financial Reporting Standard 15 (Tangible Fixed Assets) issued by the Accounting Standards Board. Due to the specialist nature of the Airport's assets, the depreciated replacement cost methodology was used for operational assets. For other assets/land, the open market value methodology was used. The valuation of £320.780 million identified a £60.578 million increase in value. The valuation was reviewed internally during the year and the Directors feel the carrying values brought forward are still appropriate.

In addition, the investment properties held by the subsidiary company, First Castle Developments Limited, were valued at their open market value in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors on 31 March 2009 by Phoenix Beard Ltd. The valuation of £5.196 million identified impairments of £6,076 and gains of £481,576 giving a net gain of £475,500.

	Land & Buildings		Runways, Taxiways, Infrastructure	Plant and Equipment	Assets in Course of Construction	Total
	Freehold	Leasehold				
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2009	279,861	200	113,920	104,374	41,393	539,748
Additions	1,050	-	-	-	27,619	28,669
Capitalised Interest	-	-	-	-	1,261	1,261
Transfer	62,705	-	2,980	2,512	(68,197)	-
Disposals	(132)	-	-	(79)	-	(211)
At 31 March 2010	343,484	200	116,900	106,807	2,076	569,467
Depreciation						
At 1 April 2009	26,192	-	15,676	74,576	-	116,444
Provided in the Year	10,865	-	6,376	4,972	-	22,213
Disposals	(59)	-	-	(63)	-	(122)
At 31 March 2010	36,998	-	22,052	79,485	-	138,535
Net Book Value						
At 31 March 2010	306,486	200	94,848	27,322	2,076	430,932
At 31 March 2009	253,669	200	98,244	29,798	41,393	423,304

A cumulative amount of £10.109 million (2009: £8.848 million) relating to capitalised interest is included within the cost of fixed assets. Interest capitalised during the year amounted to £1.261 million (2009: £1.092 million) at a capitalisation rate of 6.5% (2009: 6.5%)

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

10. TANGIBLE FIXED ASSETS – GROUP (CONTINUED)

Included in land and buildings is land at a value of £38.968 million (2009: £37.856 million) and investment properties at a value of £5.353 million (2009: £5.196 million) which are not depreciated (Note 1). The net book value includes the following for assets held under finance leases and hire purchase contracts.

	2010	2009
	£000	£000
Net Book Value	<u>8,487</u>	<u>8,823</u>
Land and Buildings		

On the historical cost basis, tangible fixed assets would have been included as follows:

	Land & Buildings		Runways, Taxiways, Infrastructure	Plant and Equipment	Assets in Course of Construction	Total
	Freehold £000	Leasehold £000	£000	£000	£000	£000
At 31 March 2010						
Cost	285,050	202	142,040	106,807	2,076	536,175
Depreciation	(72,351)	-	(64,995)	(79,485)	-	(216,831)
Net Book Value	<u>212,699</u>	<u>202</u>	<u>77,045</u>	<u>27,322</u>	<u>2,076</u>	<u>319,344</u>
At 31 March 2009						
Cost	222,476	202	139,059	104,374	41,393	507,504
Depreciation	(64,601)	-	(59,885)	(74,576)	-	(199,062)
Net Book Value	<u>157,875</u>	<u>202</u>	<u>79,174</u>	<u>29,798</u>	<u>41,393</u>	<u>308,442</u>

TANGIBLE FIXED ASSETS - COMPANY

Birmingham Airport Holdings Limited has no tangible fixed assets.

11. INVESTMENTS

GROUP AND COMPANY: SUBSIDIARY UNDERTAKINGS

Name of Company	Country of Incorporation	Holding	Proportion Held	Year End	Nature of Business
Birmingham International Airport limited	England	Ordinary Shares	100%	31/3	Airport Terminal Management & Operation
Euro-Hub (Birmingham) Limited	England	Ordinary Shares Preference Shares	100% (a) 100% (b)	31/3	Non Trading
Birmingham Airport (Finance) PLC	England	Ordinary Shares	100%	31/3	Financing
First Castle Developments Limited	England	Ordinary Shares	100% (c)	31/3	Property Holding Company
Birmingham Airport Developments Limited	England	Ordinary Shares	100% (c)	5/4	Site Development
BHX Fire and Rescue Limited	England	Ordinary Shares	90% (c)/(d)	31/3	Airport Rescue and Fire Fighting Services

(a) 25% held by a subsidiary undertaking

(b) 30% held by a subsidiary undertaking

(c) held by a subsidiary undertaking

(d) Birmingham International Airport Limited has the right to 100% of the dividends from this company

All other investments held by the company.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

11. INVESTMENTS (CONTINUED)

COMPANY	Subsidiary Undertakings £000
Shares	143,745
Loans	125,548
At 1 April 2009	<u>269,293</u>
Movement during year	
Increase in loans	20,938
Investment at 31 March 2010	<u>290,231</u>
Comprising	
Shares	143,745
Loans	146,486
Net Book Value at 31 March 2010	<u>290,231</u>

The loans of £146.486 million (2009: £125.548 million) are unsecured and there are no formal arrangements for the repayment of the amounts and consequently this amount is strictly repayable on demand. However in practice this balance represents a long term advance and is unlikely to be repaid within one year.

12. STOCKS AND DEVELOPMENT LAND

	Group	
	2010 £000	2009 £000
Consumables	<u>365</u>	344
Development land	<u>700</u>	700
	<u>1,065</u>	<u>1,044</u>

13. DEBTORS

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade debtors	<u>6,843</u>	8,862	-	-
Other debtors	760	2,397	-	-
Prepayments and accrued income	<u>5,387</u>	4,729	<u>35</u>	171
	<u>12,990</u>	<u>15,988</u>	<u>35</u>	<u>171</u>

There are no debtors falling due after more than one year (2009: £nil).

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

14. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT & ANALYSIS OF CHANGES IN NET DEBT

	2010	2009
	£000	£000
INCREASE/(DECREASE) IN CASH IN YEAR	5,485	325
Movement in short term deposits	(16,000)	(31,747)
Capital element of finance lease rental payments	41	57
Lease and leaseback premium	620	773
Change in net debt resulting from cashflows	(9,854)	(30,592)
Lease and leaseback - accrued interest	(620)	(773)
Movement in corporate bond – non cash	(100)	(101)
MOVEMENT IN NET DEBT IN THE YEAR	(10,574)	(31,466)
OPENING NET DEBT	(101,730)	(70,264)
CLOSING NET DEBT AT 31 MARCH	(112,304)	(101,730)

	1 April		Non-cash	31 March
	2009	Cashflow	Movements	2010
	£000	£000	£000	£000
Cash at bank and in hand	2,240	5,485		7,725
Short term deposits	20,000	(16,000)	-	4,000
Finance lease obligations	(41)	41	-	-
Lease and leaseback premium	(4,732)	620	(620)	(4,732)
Corporate bond	(103,813)	-	(100)	(103,913)
Redeemable Preference Shares	(15,384)	-	-	(15,384)
Net Debt	(101,730)	(9,854)	(720)	(112,304)

Short term deposits are included within cash at bank and in hand in the balance sheet. The amounts included for finance leases are net of prepayments.

15. CREDITORS: amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Obligations under finance leases	-	41	-	-
Trade creditors	2,658	2,364	-	-
Corporation Tax	1,599	3,252	639	521
Other taxes and social security costs	393	438	-	-
Deferred income	5,616	5,610	-	-
ERDF, LTP and TENS grants	170	170	-	-
Accruals	24,507	29,323	1,526	1,628
	34,943	41,198	2,165	2,149

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

16. CREDITORS: amounts falling due after more than one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Preference shares	15,384	15,384	15,384	15,384
Obligations under finance leases	-	-	-	-
Amounts owed to group undertakings	-	-	136,553	137,210
Net premium arising on lease and leaseback (Note 26)	4,732	4,732	-	-
Deferred income	648	672	-	-
Corporate bond (Note 17)	103,913	103,813	-	-
ERDF, LTP and TENS grants	5,185	5,354	-	-
	<u>129,862</u>	<u>129,955</u>	<u>151,937</u>	<u>152,594</u>

The inter-company loan is unsecured and there are no formal arrangements for the repayment of the amounts and consequently this amount is strictly repayable on demand. However in practice this balance represents a long term advance and is unlikely to be repaid within one year.

17. LOANS

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Loans falling due in one year or less	-	-	-	-
Loans falling due in two to five years	-	-	136,553	137,210
Loans falling due in over five years	105,000	105,000	-	-
	<u>105,000</u>	<u>105,000</u>	<u>136,553</u>	<u>137,210</u>
Less un-amortised issue costs and discount	(1,087)	(1,187)	-	-
	<u>103,913</u>	<u>103,813</u>	<u>136,553</u>	<u>137,210</u>

Loans not wholly repayable within 5 years

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Bonds repayable on 22 February 2021	105,000	105,000	-	-
Less un-amortised issue costs and discount	(1,087)	(1,187)	-	-
	<u>103,913</u>	<u>103,813</u>	<u>-</u>	<u>-</u>

The corporate bonds will mature, unless previously redeemed or purchased or cancelled, on 22 February 2021. Interest on the bonds is payable annually on 22 February at a fixed rate of 6.25 per cent on the par value. The bonds are listed on the London Stock Exchange. The bonds were issued at a discount of 1.102 per cent, which, if amortised into the cashflow, gives an interest rate of 6.349 per cent.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bonds, bank loans, and cash. The main purpose of these financial instruments is to raise and provide finance for the Group's operations. The Group does not enter into any form of derivative financial instruments. As permitted by FRS 13 'Derivatives and Other Financial Instruments', the following financial information excludes all of the Group's short term debtors and creditors.

Funding

The Group's funding is provided by its £105 million bond issue, £45 million 'club' loan facility, £1 million overdraft facility and £11.7 million cash reserves.

Interest rate risk

The Group's borrowings are a combination of fixed and floating rate liabilities. The bond is at a fixed interest rate of 6.25 per cent equating to a rate of 6.349 per cent if the launch discount of 1.102 per cent is amortised back into the cashflow. The new bank 'club' facility is based upon LIBOR (fixed at each draw-down) and a defined mark up.

Currency exposures

The Group has no overseas investments and all invoicing is carried out in sterling. Currency exposure relates to ongoing operating costs when materials and services are sourced from overseas. These are not considered to be a significant part of the Group's business. Future capital projects may include some element of currency exposure in which case consideration will be given to hedging the exposure.

Borrowing facilities

The Group has undrawn committed borrowing facilities. The facilities available at 31 March in respect of which all conditions precedent had been met were as follows:

	2010 £000	2009 £000
Expiring in one year or less	-	1,000
Expiring in more than one year but not more than two years	-	40,000
Expiring in more than two years	45,000	-
	<u>45,000</u>	<u>41,000</u>

Preference shares

The Company has in issue £15,383,600 of cumulative redeemable preference shares with a fixed coupon rate of 6.31% and no voting rights. They are redeemable at par after 26 March 2012.

Interest rate risk and profile of financial assets

The interest rate profile of the financial assets of the Group as at 31 March was as follows:

	Floating Rate £000	No Interest Is Earned £000	Total £000
2010 Sterling	11,236	489	11,725
2009 Sterling	22,099	141	22,240

Floating rate financial assets comprise surplus cash balances deposited on the overnight and short term money markets. The interest rate is based upon prevailing market rates and is set upon deposit. The financial assets on which no interest is earned comprise surplus cash balances and uncleared transactions.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk and profile of financial liabilities

	Financial Liabilities			Total £000	Fixed Rate Liabilities Weighted Average	
	Fixed Rate £000	Floating Rate £000	No Rate £000		Interest Rate %	Fixed Period Years
2010 Sterling	125,116	-	4,553	129,669	6.52%	12
2009 Sterling	125,157	-	4,541	129,698	6.57%	13

The above financial liabilities do not include a deduction for the un-amortised issues costs and discount of £1.087 million (2009: £1.187 million).

Maturity profile of the Group's financial liabilities

	2010 £000	2009 £000
In one year or less, or on demand	-	41
In more than one year but not more than two years	-	-
In more than two years but not more than five years	4,553	4,541
In more than five years	125,116	125,116
	<u>129,669</u>	<u>129,698</u>

Fair value of financial assets and financial liabilities

Set out below is a comparison of book value and fair value of all the Group's financial assets and financial liabilities as at 31 March 2010.

	Book Value 2010 £000	Fair Value 2010 £000	Book Value 2009 £000	Fair Value 2009 £000
Cash (including short term deposits)	11,725	11,725	22,240	22,240
Bonds	(103,913)	(98,382)	(103,813)	(97,085)
Preference shares	(15,384)	(15,429)	(15,384)	(15,450)
Finance leases	-	-	(41)	(33)
Development provisions	(4,553)	(4,553)	(4,541)	(4,541)
Pension scheme liability	(20,757)	(20,757)	(18,999)	(18,999)

Market value has been used to determine the fair value of the bonds and discounted cashflows for the fair value of the preference shares and finance leases. A fair value for the lease and leaseback liability cannot be determined due to the nature of the transaction (Note 26) and its predominantly non financial nature.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

19. OBLIGATIONS UNDER LEASE CONTRACTS (GROUP)	2010 £000	2009 £000
a. Finance lease obligations: amounts payable		
Within one year	-	41
In the second to fifth year inclusive	-	-
After five years	-	-
	<u>-</u>	<u>41</u>

	Land and Buildings		Other	
	2010 £000	2009 £000	2010 £000	2009 £000
b. Non-cancellable operating leases				
Annual commitments under leases which expire:				
Within one year	-	-	7	24
In the second to fifth year inclusive	-	-	52	57
After five years	447	447	-	-
	<u>447</u>	<u>447</u>	<u>59</u>	<u>81</u>

20. PROVISIONS FOR LIABILITIES AND CHARGES (GROUP)	Development Related £000	Deferred Tax £000	Total £000
At 1 April 2009	4,541	8,398	12,939
Provided during the year	187	1,156	1,343
Utilised during the year	(175)	-	(175)
At 31 March 2010	<u>4,553</u>	<u>9,554</u>	<u>14,107</u>

Development Related Provisions

The Group is fully committed to a positive environmental policy including the provision of a defined noise insulation scheme, financial penalties to support night flying restrictions and provisions for payments under the Land Compensation Act 1973. Provisions are made in line with foreseen liabilities. An element of the development related provision relates to potential claims which, by their nature are uncertain, arising under the Land Compensation Act as a result of certain developments being undertaken at the Airport. The timing for the transfer of the related economic benefits are not expected to be significant within the next 12 months. With regards to the Noise Insulation scheme, the future liability for the next twelve months for the Noise Insulation scheme is estimated at £200,000 (2009: £200,000).

Deferred Taxation Provided	2010 £000	2009 £000
Capital allowances in advance of depreciation	9,858	8,831
Other timing differences	(304)	(433)
	<u>9,554</u>	<u>8,398</u>

Deferred tax has not been provided on the revaluation surplus as there is no present intention to dispose of any of the revalued fixed assets. The above does not include deferred tax assets disclosed in Note 25.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

21. SHARE CAPITAL

Authorised, allotted, called up and fully paid

	Group & Company		Group & Company	
	2010	2009	2010	2009
	Number	Number	£000	£000
'A' ordinary shares of 1p each	315,082,900	315,082,900	3,151	3,151
'B' ordinary shares of 1p each	8,909,700	8,909,700	89	89
1 special (non-participating) voting share of £1	1	1	-	-
	323,992,601	323,992,601	3,240	3,240
6.31% cumulative redeemable preference shares of 1p each	1,538,360,000	1,538,360,000	15,384	15,384

The 'B' ordinary shares carry the same rights as the 'A' ordinary shares except they have no voting rights. The preference shares are redeemable at par after 26 March 2012 and carry no voting rights. On a winding up of the company the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, 1p per share plus any accrued dividend. The holder of the special voting share is not entitled to participate in any dividend or any other distribution of income declared, made or paid by the Company. On a winding up, the holder of the special voting share has a right to receive the nominal value following payments to preference and ordinary shareholders.

22. RECONCILIATION OF MOVEMENT OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

GROUP

	Share Capital	Share Premium Account	Merger Reserve	Revaluation Reserve	Profit And Loss Account	Total Shareholders Funds
	£000	£000	£000	£000	£000	£000
At 1 April 2008	3,240	43,644	25,588	118,634	71,983	263,089
Profit for the year	-	-	-	-	9,889	9,889
Dividends paid	-	-	-	-	(8,480)	(8,480)
Actuarial gain on pension scheme	-	-	-	-	(7,194)	(7,194)
Movement on deferred tax on pension scheme	-	-	-	-	2,014	2,014
Transfer of excess depreciation on asset revaluation	-	-	-	(4,381)	4,381	-
Asset revaluation	-	-	-	482	-	482
Net sales of own shares from share trust	-	-	-	-	(315)	(315)
At 31 March 2009	3,240	43,644	25,588	114,735	72,278	259,485
Profit for the year	-	-	-	-	592	592
Dividends paid	-	-	-	-	-	-
Actuarial loss on pension scheme	-	-	-	-	(3,930)	(3,930)
Movement on deferred tax on pension scheme	-	-	-	-	1,100	1,100
Transfer of excess depreciation on asset revaluation	-	-	-	(4,322)	4,322	-
Net sales of own shares from share trust	-	-	-	-	(204)	(204)
At 31 March 2010	3,240	43,644	25,588	110,413	74,158	257,043

The cumulative amount of Goodwill charged to the Merger Reserve is £25.792 million (2009: £25.792 million).

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

22. RECONCILIATION OF TOTAL SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES (CONTINUED)

COMPANY	Share	Share	Merger	Profit	Total
	Capital	Premium		and Loss	
	Account	Account	Reserve	Account	Holders
	£000	£000	£000	£000	Funds
					£000
At 1 April 2008	3,240	43,644	51,380	27,200	125,464
Profit for the year	-	-	-	18,065	18,065
Dividends paid	-	-	-	(8,480)	(8,480)
Net sales of own shares from share trust	-	-	-	(315)	(315)
At 31 March 2009	3,240	43,644	51,380	36,470	134,734
Profit for the year	-	-	-	5,647	5,647
Dividends paid	-	-	-	-	-
Net sales of own shares from share trust	-	-	-	(204)	(204)
At 31 March 2010	3,240	43,644	51,380	41,913	140,177

Birmingham Airport Holdings Limited is the sponsoring company of an ESOP Trust. 'B' ordinary shares to the value of £2.750 million were issued on 26 March 1997 by Birmingham Airport Holdings Limited and they were financed by the ESOP Trust by way of a loan from the Group's syndicated facility. The loan is guaranteed by Birmingham Airport Holdings Limited and its subsidiary companies.

The shares and funding liabilities of the Trust are recognised on the Company's balance sheet because the Company is deemed to have de facto control until such time as the shares held by the Trust vest unconditionally with the employees. A scheme has been agreed with the Inland Revenue under the All Employee Share Ownership Plan (AESOP) legislation with the first shares being bought by and gifted to employees in September 2001. The Trust bears its own expenses and has waived its right to the payment of a dividend in the year.

ESOP Shares	Own Shares	Own Shares
	Number	£000
Investment at 1 April 2009	3,893,545	1,805
Shares vested in employees	(330,501)	(153)
Shares purchased from employees	484,326	357
Investment at 31 March 2010	4,047,370	2,009

23. CAPITAL COMMITMENTS

GROUP	2010	2009
	£000	£000
Amounts contracted but not provided for in the accounts	2,189	20,612

There are no capital commitments in the Company.

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

24. CONTINGENT LIABILITIES

On 15 March 2000, a subsidiary Company entered into an arms-length lease arrangement with Birmingham International Airport Limited Pension Scheme to develop an office block. As part of the arrangements, another subsidiary Company has a call option over the office block property and there is a put option granting Birmingham International Airport Limited Pension Scheme the right to put the lease. The potential liability if the option had been exercised at 31 March 2010 would have been £nil (2009: £40,585).

On 13 February 2001 guarantees were provided by Birmingham Airport Holdings Limited, Birmingham International Airport Limited and Euro-Hub (Birmingham) Limited in support of a £105 million Corporate Bond issued by Birmingham Airport (Finance) PLC. The bond is for a period of 20 years maturing on the 22 February 2021 and carries a fixed interest rate of 6.25% per annum.

On 16 December 2005, Birmingham Airport Holdings Limited, Birmingham International Airport Limited and Euro-Hub (Birmingham) Limited provided guarantees to The Royal Bank of Scotland plc and Lloyds TSB Bank plc in support of a £40 million banking facility made available to Birmingham Airport Holdings Limited. The facility was for a period of 5 years, with an expiry date of 23 November 2010. This facility and the associated guarantees were cancelled on 25 June 2010.

On 25 June 2010 the Company along with other members of the Group provided guarantees to Santander UK plc and The Royal Bank of Scotland plc in support of a £45 million banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of 5 years, with an expiry date of 25 June 2015. At the date of signing these accounts, the total amount outstanding under the facility was £nil.

25. PENSION COMMITMENTS

A subsidiary undertaking of the Group operates a defined benefit pension scheme for permanent employees, which is funded by the payment of contributions to a separately administered trust fund. The pension cost is determined by an independent qualified actuary on the basis of a triennial valuation using the projected unit method using assumptions agreed between the Trustees and the company. The most recent full actuarial valuation at 31 October 2006 identified a company funding requirement of 20.6% of Pensionable Earnings plus £2,786,400 per annum for 10 years from 1 January 2008. The above contributions are expected to fund the deficit identified within the scheme over the period to 31 December 2017.

The principal methods and assumptions used and the results of the valuation are shown below:-

	Valuation (31 October 2006)
Valuation method	Projected Unit
Employer's regular pension cost	20.6%
Investment rate of return: - prior to retirement	6.6%
- after retirement	4.4%
Future increases in salaries	4.0%
Increases in pensions (bulk of membership)	3.0%
Market value of assets	£61.7m
Level of funding (actuarial value of assets as a percentage of accrued service liabilities)	76%

A qualified independent actuary has updated the Actuarial Valuation of 31 October 2006. The main financial assumptions used are as follows:

	2010	2009	2008
Rate of inflation	3.50%	3.00%	3.60%
Rate of increase of salaries	4.00%	4.00%	4.60%
Rate of increase in actual pensions	3.40%	2.90%	3.50%
Rate of increase in deferred pensions	3.50%	3.00%	3.60%
Discount rate	5.60%	6.50%	6.40%
Expected return on assets	6.96%	5.76%	6.85%
Post retirement mortality	PMA92/PFA92 With year of birth improvements and medium cohort	PMA92/PFA92 With year of birth improvements and medium cohort	PMA92/PFA92 With year of birth improvements and medium cohort

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

25. PENSION COMMITMENTS (Continued)

The assets and liabilities of the scheme and the expected return on the scheme assets are as follows:-

	2010 %	2010 £000	2009 %	2009 £000	2008 %	2008 £000
Equities	8.00%	45,957	7.50%	30,501	7.50%	44,274
GTAA funds	8.00%	1,501	7.50%	1,465	7.50%	1,839
Target Return Funds	7.50%	7,313	-	-	-	-
Corporate Bonds	5.2%	20,966	5.25%	15,766	5.50%	14,939
Cash	0.50%	2,563	0.50%	9,047	4.75%	4,901
Other Investments	-	-	10.00%	30	10.00%	91
Market value of scheme's assets		<u>78,300</u>		<u>56,809</u>		<u>66,044</u>
Actuarial value of scheme's liabilities		<u>(107,129)</u>		<u>(83,196)</u>		<u>(87,211)</u>
Deficit in scheme		<u>(28,829)</u>		<u>(26,387)</u>		<u>(21,167)</u>
Related deferred tax asset		<u>8,072</u>		<u>7,388</u>		<u>5,927</u>
Net Pension Liability		<u>(20,757)</u>		<u>(18,999)</u>		<u>(15,240)</u>

The FRS 17 liability has increased during the year as set out below.

Changes in the present value of the defined benefit obligation

	2010 £000	2009 £000
Opening defined benefit obligation	83,196	87,211
Service cost	1,956	2,621
Contributions by members	679	710
Past service costs	-	-
Settlements and curtailments	579	297
Interest cost	5,422	5,617
Actuarial losses/(gains)	18,077	(10,778)
Benefits paid	<u>(2,780)</u>	<u>(2,482)</u>
Closing defined benefit obligation	<u>107,129</u>	<u>83,196</u>

Changes in the fair value of scheme assets

	2010 £000	2009 £000
Opening fair value of scheme assets	56,809	66,044
Expected return	3,385	4,659
Actuarial gains/(losses)	14,147	(17,972)
Contributions by employer	6,060	5,850
Contributions by members	679	710
Benefits paid	<u>(2,780)</u>	<u>(2,482)</u>
Closing fair value of scheme assets	<u>78,300</u>	<u>56,809</u>

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class. The expected returns for each asset class have been set with reference to market yields and include an allowance for expenses.

The actual return on scheme assets in the year was a gain of £17.532 million. (2009: £13.313 million loss).

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

25. PENSION COMMITMENTS (Continued)

Analysis of amount charged to operating profit:

	2010 £000	2009 £000
Current service cost	1,956	2,621
Past service cost	-	-
Curtailment and settlements	579	297
Total charged to operating profit	<u>2,535</u>	<u>2,918</u>
Expected return on pension scheme assets	3,385	4,659
Interest on pension scheme liabilities	<u>(5,422)</u>	<u>(5,617)</u>
Amount charged to other financial charges	<u>(2,037)</u>	<u>(958)</u>

In addition, the following amounts have been recognised in the Statement of Total Recognised Gains and Losses.

	2010 £000	2009 £000
Actual return less expected return on pension scheme assets	14,147	(17,972)
Experience gains and losses on liabilities	(606)	-
Changes in assumptions underlying the present value of the scheme liabilities	<u>(17,471)</u>	<u>10,778</u>
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	<u>(3,930)</u>	<u>(7,194)</u>

History of experience gains and losses:

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation	(107,129)	(83,196)	(87,211)	(86,257)	(79,765)
Scheme assets	78,300	56,809	66,044	65,456	58,985
Surplus/ (deficit)	<u>(28,829)</u>	<u>(26,387)</u>	<u>(21,167)</u>	<u>(20,801)</u>	<u>(20,780)</u>
Difference between expected and actual return on scheme assets:					
-percentage of scheme assets	14,147 18.0%	(17,972) -31.6%	(8,855) -13.4%	(125) -0.2%	8,048 13.6%
Experience gains and losses on scheme liabilities:					
-percentage of scheme liabilities	(606) -0.6%	- -	- -	2,049 2.3%	(217) -0.3%
Amount recognised in the Statement of Total Recognised Gains and Losses:					
-percentage of scheme liabilities	<u>(3,930)</u> -3.70%	<u>(7,194)</u> -8.7%	<u>(3,738)</u> -4.3%	<u>(189)</u> -0.2%	<u>2,877</u> 3.6%

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £32.025 million (2009: £29.085 million).

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

26. TRANSACTIONS WITH RELATED PARTIES

The Company has taken advantage of the exemption in FRS 8, Related Party Transactions, from disclosing the transactions with related parties between members of the Group. With regards to other related parties, all the existing shareholders except the ESOP Trust have rights to appoint Directors and have done so. They have therefore been considered as related parties under FRS 8 and any transactions between them and the Birmingham Airport Holdings Limited Group during the year ended 31 March 2010 are disclosed below.

West Midland District Councils

Birmingham City Council, Coventry City Council, Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Solihull Metropolitan Borough Council, Walsall Metropolitan Borough Council and Wolverhampton City Council ("The Districts") are shareholders. The dividends paid to The Districts in the year amounted to £0.971 million (2009: £5.178 million).

In 1995 Birmingham International Airport Limited entered into arms-length lease arrangements with Solihull Metropolitan Borough Council on behalf of the West Midlands District Councils, all of which were shareholders in the Company at that time. Under such arrangements, the Company granted a 999 year lease over land and buildings situated at Birmingham International Airport in exchange for a total fair value premium of £100 million and a peppercorn rent. At the same time the shareholders granted Birmingham International Airport Limited a 150 year lease over the same property for a total fair value premium of £96.500 million.

In accordance with SSAP 21 "Accounting for leases and hire purchase contracts", the net premium arising as adjusted for associated stamp duty and legal costs has been treated as a finance lease in the accounts of the Group and is disclosed at Note 16.

Under the lease arrangement, the Company pay a basic rent of £600,000 p.a. from 1 April 2007 subsequently index linked each year for the remaining lease period. In addition, a turnover based rent is payable calculated as 0.4% of turnover less the basic rent in the period. The total amount paid in 2010 was £620,254 (2009: £772,600). The amount at the end of the year was £4.732 million (2009: £4.732 million), all of which is due after more than one year.

In February 2002 the Group completed a 150 year lease agreement with Birmingham City Council for land adjacent to the airport site. A lease premium of £200,000 was paid with a peppercorn rent for the remaining lease term along with costs of £2,000. In accordance with SSAP21 "Accounting for leases and hire purchase contracts", the lease payments have been treated as a finance lease in the accounts of the Group. The amount due at the end of the year was £nil.

Solihull Metropolitan Borough Council

Solihull Metropolitan Borough Council provided a grant during 2002/03 of £5.237 million from the West Midlands Local Transport Plan fund towards the cost of building a Multi Modal Interchange. The building has been capitalised in the Company's accounts and the grant will be released to income on a straight line basis over the life of the asset. At the 31 March 2010, £4.495 million was held within deferred income (2009: £4.601 million).

Solihull Metropolitan Borough Council is the local authority for the airport and transacts with the Company in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arms length basis at a full commercial rate.

Airport Group Investments Limited

Airport Group Investments Limited (AGIL) is a shareholder in the Company. The Group has an agreement for the Airport to claim consortium relief on tax losses surrendered to the Group by AGIL. The tax benefit is claimed in arrears and the full benefit transferred to AGIL. No payments were made during the year and at the balance sheet date there were no amounts outstanding.

Birmingham International Airport Limited Pension Scheme

On 15 March 2000 the Group entered into an arms-length lease agreement with the Birmingham International Airport Limited Pension Scheme to lease the new office block. Under the lease, the Pension Scheme granted the Group a 10 year lease in exchange for a lease premium of £7,244,000 and an annual payment of £67,046. This 10 year period has now ceased and is replaced by an annual payment of £1,250.

In accordance with SSAP21 "Accounting for leases and hire purchase contracts", the lease payments have been treated as a finance lease in the accounts of the Group and are disclosed in Notes 15 and 16. The amount due at the end of the year was £nil (2009: £40,585).

BIRMINGHAM AIRPORT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2010

26. TRANSACTIONS WITH RELATED PARTIES (Continued)

BHX Fire and Rescue Limited

BHX Fire and Rescue Limited is a 90% subsidiary of Birmingham International Airport Limited and provides fire and rescue services to the Airport. The company is managed by Serco Limited (10% shareholder). Fire and rescue costs are recharged to Birmingham International Airport Limited, through Serco and during the year were £4.292m (2009: £4.275m). The amount due at the end of the year was £44,791 (2009: nil).

27. POST BALANCE SHEET EVENTS

On the 27th April 2010 the company entered into a 90 day consultation period to close the final salary pension scheme to future accrual and to introduce a common set of terms and conditions for staff. The consultation also included offers of voluntary redundancy in some operational areas of the business.