BAA Limited Annual Report

For the year ended
31 December 2007

Business review

2 Management review and outlook
4 Financial performance
11 Risk management

Directors' report

13 Report of the directors

Directors' responsibilities

15 Statement of directors' responsibilities

Financial statements

Group

17 Independent auditors' report
18 Consolidated income statement
19 Consolidated statement of recognised income and expense
20 Consolidated balance sheet
21 Consolidated cash flow statement
22 Accounting policies
28 Significant accounting judgements and estimates
29 Notes to the financial statements

Company

58 Independent auditors' report
59 Company balance sheet
60 Accounting policies
64 Notes to the financial statements

Business review

The year ended 31 December 2007 represents the first twelve-month reporting period since the Ferrovial-led consortium acquired BAA Limited (formerly BAA plc) ('BAA'), through Airport Development and Investment Limited ('ADIL') in June 2006. The previous reporting period was for the nine-month period ended 31 December 2006. ADIL is the immediate parent company of BAA in the United Kingdom ('UK').

The principal activities of the BAA Limited and its subsidiaries ('the Group') are the provision and management of airport facilities in the UK and overseas. The Group is also involved in airport-related property development and owns and operates the Heathrow Express rail link between Heathrow and Paddington, London.

During the year, the investments in Budapest Airport and certain Australian airports were sold, and sale processes commenced in respect of World Duty Free Europe ('WDFE') and Airport Property Partnership ('APP'). It is management's expectation that WDFE and APP will be sold in the first half of 2008, and the assets and liabilities of these operations have been classified as held-for-sale at year end. WDFE and APP, along with the investments disposed of during the year, have been classified as discontinued operations in the income statement and cash flow statement at 31 December 2007. Prior period comparatives have been restated to reflect this classification.

This business review is presented under three sections:

Management review and outlook – overview of the year ended 31 December 2007, along the key factors likely to impact the Group in 2008.

Financial performance – presentation and explanation of the key drivers behind the underlying financial performance reported for the year ended 31 December 2007 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered.

Risk management – outline of the Group's approach to risk management, sources of assurance and highlight of the key business risks identified by the Group Executive Committee.

Management review and outlook

Review of 2007

Total passenger numbers in 2007 were 158.8 million, of which continuing operations (UK airports and Naples) contributed 155.7 million (2.0% increase on 2006). UK airports passengers numbers were 150.0 million (1.6% above 2006), with strong growth on North Atlantic, Chinese and Indian routes offsetting a decline in domestic traffic.

For continuing operations, revenues were £2,247 million (7.9% increase compared to 2006) which, after deducting costs of operations, resulted in an operating profit before tax of £627 million, and a net profit after tax of £495 million. The net profit after tax of discontinued operations (including the net gain on disposals) was £249 million.

2007 was undoubtedly a challenging year for the Group. The alleged terrorist attack at Glasgow Airport on 30 June 2007 was a stark reminder of the increasingly unpredictable security threat we face and the high-profile climate change debate during the year highlighted some of the important environmental considerations being addressed by our industry. The Group also faced investigations by the Competition Commission ('CC'), the Civil Aviation Authority ('CAA'), and the Transport Select Committee of the House of Commons. Most importantly, the Group continued to respond to pressure from passengers and airline customers to deliver a world class airport experience.

The sudden and marked changes in security procedures, announced by the Department for Transport ('DfT') in August 2006 and at various points since, continue to pose challenges for passengers and airport managers alike. The Group's airports have responded by investing heavily in new staff and equipment to reduce queues, whilst maintaining robust security standards. During 2007, the Group:

- significantly increased the number of security officers at its seven UK airports. By the end of December 2007, there were 2,200 more officers than in August 2006 representing an increase of around 70%
- opened 20% more security lanes at the London airports by reorganising existing space and removing retail outlets
- invested in new archway metal detectors and x-ray screening equipment at all airports that will lead to improvements in the security processes for passengers
- trialled body scanning technology, fingerprint and iris identification at the airports to explore ways of improving passenger throughput.

These additional resources increased security capacity and have reduced waiting times for passengers. In December 2007, security queues at Heathrow and Stansted were below 10 minutes for 94% of the time and Gatwick achieved queue times of less than 10 minutes for 97% of the time.

Improved security performance is only one element of the Group's programme to deliver rapid improvements in the level of service at the airports. The reliability of essential equipment such as lifts and escalators has also improved and all airports are now consistently achieving above 98% availability scores on these assets. During 2007, the airports spent an additional £30 million over and above existing budgets to clean, repair and improve existing facilities.

The Group has also been investing in new terminal facilities. By the end of 2007, Terminal 5 at Heathrow was 99% complete and it remains on track to open on 27 March 2008. Also at Heathrow, the reconfiguration of the check-in area in Terminal 1 commenced and the forecourt and Virgin Atlantic check-in zone at Terminal 3 were completely transformed. Gatwick too has been undergoing significant change and work to extend the departure lounge in the South Terminal is now well underway. Stansted has progressed with the extension of its arrivals area and Glasgow Airport started development on a new departure lounge, due to be completed in the autumn of 2008.

To deliver higher levels of passenger experience, the Group is clear that significant additional investment will also be needed to replace and renew existing terminal facilities. In the spring of 2007, the Group gained planning permission for a new terminal at Heathrow - Heathrow East - to replace the fifty year old Terminal 2 and adjacent Queen's Building. In the latter part of the year, the Government also launched a public consultation on the future development of the airport including plans to build a third runway and sixth terminal.

The public inquiry into the expansion of Stansted to a 35 million passenger airport was completed during the year, although the results are not yet known. The Aviation White Paper Progress Report was published by the DfT at the end of 2006 and re-stated the Government's commitment to the delivery of a second runway at Stansted as the first new runway in the South East of England. The Group has continued to develop plans for a second runway and associated facilities throughout 2007 and planning applications will be submitted shortly. These will include improvements to road and rail access to the airport.

The significant investment in resource and infrastructure is key to the Groups' commitment to put the passenger first and has been the focus of much scrutiny by the CAA and CC during the fifth quinquennial Price Control Review of Heathrow and Gatwick, which has continued throughout 2007. Following a reference by the Office of Fair Trading ('OFT'), the CC also commenced a full review of the Group's ownership of seven airports in the UK.

Outlook for 2008

Passenger Volumes

Passenger volumes at the seven UK airports are expected to increase by 1-2% during 2008 reflecting recent economic trends and the latest assessment of the likely response by airlines to the EU-US Open Skies agreement. Some carriers have already announced new transatlantic services, although the extra capacity may mean that load factors will initially be lower. Singapore Airlines will also commence commercial flights of the new Airbus A380 from Heathrow during March 2008.

As evidenced in 2006, and to a lesser extent in 2007, passenger traffic can be impacted by a variety of unforeseen events which (to a significant extent) are not directly controllable by the Group, such as the tightened security measures and weather conditions.

Aeronautical Revenues

In March 2008, the CAA will publish its price control review for both Heathrow and Gatwick for the period from 1 April 2008 to 31 March 2013 ('quinquennium 5'). In its draft proposals document published in November 2007, the CAA assumed a weighted average cost of capital ('WACC') of 6.2% at Heathrow and 6.5% at Gatwick. The Group continues to believe that these represent an unprecedented and unjustified reduction with respect to the overall level of cost of capital, especially considering recent market turbulence, and the marked change to previous regulatory settlements. Based on the assumptions outlined within the CAA's November 2007 document, the maximum levels of airport charges per passenger at Heathrow and Gatwick are outlined below:

2007/08 Prices	2008/09	2009/10	2010/11	2011/12	2012/13
Heathrow	£11.97	£12.84	£13.80	£14.81	£15.90
Gatwick	£6.07	£6.19	£6.32	£6.44	£6.57

The Government announced in January 2008, following industry consultation, that it rejected the CAA's proposal for de-designation of Stansted Airport. The CAA is therefore obliged to undertake a price control review of Stansted for the five-year period commencing 1 April 2009. This process will include a review by the CC which is expected to make its recommendations to the CAA in October 2008 prior to the final price determination being published early in 2009. During the 2007/08 period, price increases at Stansted will remain at RPI.

The remaining Group airports are not designated for the purposes of price cap regulation and are free to set charges in line with market forces.

Other Revenues

Steady growth in commercial revenues is expected across all airports over the next year although the impact of the Open Skies route changes and the significant airline relocation programme at Heathrow following the opening of Terminal 5 will offset much of the gains anticipated from this new facility.

Operating Costs

Rising utility prices, the additional costs of operating Terminal 5 at Heathrow and expenditure attributable to increasing service standards are evident within the outlook for 2008. During the year, however, as part of the programme to simplify the organisation, announced in 2007, a significant number of managerial and back office support staff will be leaving the business. Much of the cost of this programme was accounted for during 2007.

Disposals and Re-Financing

As part of the strategy to dispose of non-core assets, the sale of WDFE and APP are expected to be completed in the first half of 2008. Proceeds from these sales will be mainly used to re-pay acquisition debt held by ADIL.

ADIL and BAA anticipate that during 2008 it will finalise the permanent refinancing that was envisaged as part of the acquisition in 2006. Completion of permanent refinancing will not be possible prior to final determination of airport charges that will apply to Heathrow and Gatwick airports in quinquennium 5. The refinancing process assumes separation of regulated and non-regulated airports and establishing different long term funding structures for each group. Financing for the regulated airports assumes an investment-grade structure within a securitised group being put in place with the existing BAA Limited bonds to be migrated into that structure. Additional financing in that structure would be facilitated through the issue of new bonds and bank debt. The financing of the non-regulated airports is expected to be through bank debt.

Tax Changes

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement; some of which were enacted in the 2007 Finance Act and some are expected to be enacted in the 2008 Finance Act.

In particular, the UK Government announced in the March 2007 Budget that the Industrial Buildings Allowances ('IBAs') would be abolished over three years from 1 April 2008. The Group could be obliged to recognise an exceptional accounting loss in the form of a charge for deferred tax in the year in which IBA's abolition is substantively enacted. This accounting impact will be neutral in the long term as the loss will be offset in the following years in the form of reduced charges for deferred tax. The deferred tax liability which the Group would have had to provide at 31 December 2007 if these changes were substantively enacted amounts to £1.2 billion. The actual impact is expected to be £1.4 billion in 2008 when capital expenditure incurred in the period to substantive enactment is taken into account. However, the cash impact of the proposed abolition of IBA 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 Group. The impact of the proposed 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 Competition Commission ('CC') comments on its report to the CAA dated 28 September 2007. Under the existing regulatory framework, and assuming no further changes, the present value on the reduced cash flows for the existing assets would be approximately £500 million.

Capital expenditure

The current capital investment plans for the regulated airports in the period 2008/09 – 2017/18 is forecast to be in excess of £15 billion (2007/08 prices), depending on the outcome of certain planning applications, such as mixed-mode and runway 3 at Heathrow.

The capital plans for quinquennium 5 for the two largest London airports have received broad support from airline customers through the constructive engagement process, and as a result have received the approval of the CAA. The planned capital expenditure for quinquennium 5 for Heathrow and Gatwick (2007/08 prices) is £3,877 million and £874 million respectively.

Plans are well developed for the transformation of Heathrow following the opening of Terminal 5 with the reconfiguration of Terminal 1 to accommodate the STAR Alliance and the significant refurbishment of Terminals 3 and 4. The proposals also include the construction of the T5C satellite building and the development of a new terminal to replace Terminal 2 – Heathrow East. The Government's consultation into the potential expansion of Heathrow by means of a mixed mode runway operation and/or a third runway are due to conclude in February 2008, although publication of the findings and final decisions from the Government are not expected until later in the year.

At Gatwick, plans largely focus on the expansion of the North Terminal although in 2008 the South Terminal departure lounge extension will be completed and work will begin on the replacement of the inter-terminal track transit system. The extension to the arrivals area at Stansted will be finished in 2008 and the publication of the G1 planning inquiry is expected in the first half of the year. Applications for a second runway and associated infrastructure at Stansted will also be submitted during the early part of 2008. In Scotland, the departure lounge extension in Glasgow Airport will be finalised and Edinburgh Airport will also re-surface its runway over the next twelve months.

Market Enquiry

The CC investigation into the supply of airport services by the Group followed a reference by the OFT to the CC in March 2007. The CC has since taken evidence from a range of interested parties, and published an 'Issues Statement' in August 2007 which sets out the main areas it intends to investigate. The CC is currently collecting and assessing further evidence, and expects to produce a document entitled 'Emerging Thinking' by April 2008. The CC will request further evidence from interested parties before issuing its 'Provisional Findings' by August 2008. The CC expects to issue its final report in December 2008, although it has until March 2009 to complete its work if additional time is needed.

Financial performance

Some of the significant events and programmes that are highlighted in this Business Review have particular impacts on the way in which the financial results have been presented. The main areas of impact were:

- Discontinued operations – during the year the Group sold its investments in Budapest Airport and certain Australian airports. Further, the WDFE and APP operations have been classified as held-for-sale at year-end. The financial results of these operations, including the gains and losses on disposal, have been classified as discontinued operations and reported separately in the income statement and cash flow statement.
- Exceptional items relating to:
  - reorganisation costs - including 'Simplifying the Organisation' change programme
  - Heathrow Terminals 1 and 2 accelerated depreciation
  - Heathrow Terminal 5 launch / operational readiness costs
- The reporting of fair value gains and losses arising from the valuation of investment property and derivative financial instruments as 'certain re-measurements'.

These areas of impact are included in our statutory results. However, to make it easier for users of these financial statements to understand the sustainable performance of the business, the following commentary, in respect of revenue, operating costs and operating profit, is based on the underlying performance of the Group after adjusting for these items. To aid with the underlying performance analysis, comparable prior year figures have been provided for the Group's operations. As the comparative year ended 31 December 2006 did not represent a statutory reporting period for the Group, these comparatives figures are based on management accounts and are unaudited.

Summary of underlying performance

	Year ended 31 December 2007	9 months ended 31 December 2006	Year ended 31 December 2006[1]	Change[2] %
Revenue – continuing operations (£ million)	**2,247**	1,629	2,083	7.9
Operating profit – continuing operations (£ million)	**747**	549	659	13.4
Passenger traffic[3] (million)	**155.7**	120.5	152.7	2.0

Summary statutory results for the period

	Year ended 31 December 2007	9 months ended 31 December 2006	Year ended 31 December 2006[1]	Change[2] %
Revenue – continuing operations (£ million)	**2,247**	1,629	n/a	n/a
Operating profit – continuing operations (£ million)	**627**	579	n/a	n/a
Profit before tax – continuing operations (million)	**563**	478	n/a	n/a
UK airports' net retail income[4] (£ million)	**490**	369	471	4.0
UK airports' net retail income per passenger[5]	**£3.27**	£3.18	£3.20	2.3
Cash generated from continuing operations (£ million)	**982**	715	n/a	n/a
Capital expenditure – continuing operations[6](£ million)	**1,147**	1,106	n/a	n/a
Net debt [7] (£ million)	**6,955**	6,299	n/a	n/a

[1] Figures for the year ended 31 December 2006 are unaudited and are based on the Group's management accounts. Statutory results were not calculated or published for the year ended 31 December 2006, however comparative figures have been calculated for certain items.

[2] Based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited).

[3] Excludes Budapest Airport's 3.0 million passengers for the period 1 January 2007 until disposal date (6 June 2007) and 5.2 million for the nine months ended 31 December 2006 and 6.7 million for the year ended 31 December 2006.

[4] Defined as revenues received directly from third-party to charge retail operators and concession fees paid to UK airports by World Duty Free ('WDF') and WDF's operating profit.

[5] Defined as net retail income divided by the number of UK passengers (excluding helicopter passengers).

[6] Capital expenditure excludes capitalised interest.

[7] Excluding interest payable.

Statutory results – continuing operations

The statutory operating profit for the current and prior period includes the impact of the following items:

- £186 million net exceptional costs before certain re-measurements (nine months ended 31 December 2006: £112 million) including:
  - £80 million (nine months ended 31 December 2006: £22 million) reorganisation costs
  - £40 million (nine months ended 31 December 2006: £11 million) Terminal 5 launch / operational readiness costs
  - £66 million accelerated depreciation on Heathrow Terminals 1 and 2 (nine months ended 31 December 2006: £17 million Terminal 2 only).

In the nine months ended 31 December 2006 further exceptional items included £45 million bid advisory costs, £17 million staff related costs due to change in ownership.

- £66 million (nine months ended 31 December 2006: £142 million) operating profit related to 'certain re-measurements' reflecting the fair value gains and losses on investment property revaluations and disposals and the fair value gains and losses arising on the re-measurement 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).

- £249 million (nine months ended 31 December 2006: £103 million) – net profit after tax from discontinued operations.

The directors consider that reporting revenue and operating profit before the items listed above more accurately reflects the underlying performance of the Group's business. As such, underlying revenue and operating profit have been determined by adjusting for these items, as summarised below.

Reconciliation of statutory results to underlying operating profit performance

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m	Year ended 31 December 2006[1] £m	Change[2] %
Revenue – continuing operations				
Statutory (a)	**2,247**	1,629	n/a	n/a
Underlying revenue (d)	**2,247**	1,629	2,083	7.9
Operating costs – continuing operations				
Statutory (b)	**1,686**	1,192	n/a	n/a
Net exceptional costs	**(186)**	(112)	n/a	n/a
Underlying operating costs (e)	**1,500**	1,080	1,424	5.3
Other operating income – continuing operations				
Statutory (c)	**66**	142	n/a	n/a
Certain re-measurements	**(66)**	(142)	n/a	n/a
Underlying other operating income (f)	**-**	-	n/a	n/a
Operating profit – continuing operations				
Statutory (a – b + c)	**627**	579	n/a	n/a
Underlying operating profit (d – e + f)	**747**	549	659	13.4

[1] Underlying figures for the year ended 31 December 2006 are unaudited and are based on the Group's management accounts. Statutory results were not calculated or published for the year ended 31 December 2006.

[2] Based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited). Certain statutory percentage changes have not been calculated as statutory results for the year ended 31 December 2006 were not calculated or published.

The commentary below, in respect of revenue, operating costs and operating profit, is based on the underlying performance of the Group. The commentary on all other aspects of the Group's results is based on the statutory financial information.

Underlying performance
Revenue
Underlying revenue for the year was £2,247 million (nine months ended 31 December 2006: £1,629 million) and £2,083 million for the year ended 31 December 2006. A statutory to underlying performance reconciliation for the year ended 31 December 2006 is not able to be provided as it was not a statutory reporting period and information in this form was not published. The underlying performance for the year ended 31 December 2007 reflects a 2.0% increase in terminal passengers, a 10.9% rise in average aeronautical charges per passenger and a 2.3% increase in UK airports' net retail income per passenger compared to the year ended 31 December 2006. These items are shown in separate sections within this financial performance section.

Passenger traffic growth
Passenger traffic is a key driver of revenue for an airport business.

Traffic summary – BAA airports (excluding Budapest) (million)

	Year ended 31 December 2007	9 months ended 31 December 2006	Year ended 31 December 2006[1]	Change[2] %
Total				
Air transport movements (000's)	**1,359.6**	1,028.2	1,337.0	1.7
Terminal passengers	**155.7**	120.5	152.7	2.0
Passengers by location				
Heathrow	**67.9**	52.0	67.3	0.8
Gatwick	**35.2**	27.4	34.1	3.2
Stansted	**23.8**	18.8	23.7	0.3
Total regulated airports passengers	**126.9**	98.2	125.1	1.4
Glasgow	**8.7**	7.2	8.8	(1.1)
Edinburgh	**9.0**	6.8	8.6	5.0
Aberdeen	**3.4**	2.5	3.2	7.9
Southampton	**2.0**	1.5	1.9	2.8
Total UK passengers	**150.0**	116.2	147.6	1.6
Naples	**5.7**	4.3	5.1	13.3
Total	**155.7**	120.5	152.7	2.0

[1] Underlying figures for the year ended 31 December 2006 are unaudited and are based on Group's management accounts. Statutory results were not calculated or published for the year ended 31 December 2006.

[2] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006.

UK passenger traffic for the year ended 31 December 2007 was 1.6% higher than the comparative year ended 31 December 2006. Heathrow Airport's passenger traffic increased 0.8% against the comparative, which was assisted by strong growth in the North Atlantic sector.

Although heightened security measures applied to all UK airports during 2007, passengers have adapted to these requirements and the Group invested heavily in security staff and new security lanes to minimise both queues and passengers disruption caused by the new requirements.

Heathrow (+1.6%) and Gatwick (+4.8%) both saw increases in their North Atlantic traffic, spurred by the rising strength of the Sterling against the US dollar. At Heathrow the strongest growing country markets were China (including Hong Kong) which was up by 11.7% and India (+7.4%).

Gatwick, Edinburgh, Southampton and Aberdeen all recorded sharp increases in European scheduled traffic, ranging from 9.3% at Gatwick to 31.2% at Southampton. In all cases it was the expansion in low cost services which was mainly responsible. Glasgow experienced a slight decrease in passengers due to the weakening of the charter flights market.

Aeronautical charges

Aeronautical charges income (excluding Budapest) was £1,075 million for the year ended 31 December 2007 (nine months ended 31 December 2006: £760 million) and £951 million for the year ended 31 December 2006. Growth has been driven by tariff increases at the price-regulated London airports and supported by increased passenger traffic. The average aeronautical charge per passenger rose to £6.90 against the £6.31 for the nine months ended 31 December 2006 and £6.22 for the year ended 31 December 2006.

Aeronautical charges summary (by airport)

	Aeronautical charges				Per passenger			
	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m	Year ended 31 December 2006[1] £m	Change[2] %	**31 December 2007 £**	9 months ended 31 December 2006 £	Year ended 31 December 2006[1] £	Change[2] %
Heathrow	**624**	451	567	9.9	**9.21**	8.67	8.44	9.1
Gatwick	**175**	133	161	8.4	**4.97**	4.84	4.73	5.1
Stansted	**127**	64	79	62.0	**5.35**	3.40	3.32	61.5
Total regulated airports	**926**	648	807	14.7	**7.30**	6.60	6.45	13.2
Glasgow	**44**	36	45	(1.2)	**5.04**	5.04	5.04	(0.1)
Edinburgh	**49**	36	47	4.5	**5.41**	5.37	5.43	(0.5)
Aberdeen	**23**	16	21	8.7	**6.62**	6.54	6.57	0.7
Southampton	**13**	10	13	0.6	**6.57**	6.33	6.71	(2.1)
Total UK airports	**1,055**	746	933	13.1	**7.04**	6.42	6.32	11.3
Naples	**20**	14	18	15.7	**3.51**	3.36	3.57	(1.9)
Total airports	**1,075**	760	951	13.1	**6.90**	6.31	6.22	10.9

[1] Figures for the year ended 31 December 2006 are unaudited and are based on the Group's management accounts.
[2] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited).

The London airports (Heathrow, Gatwick and Stansted) are subject to economic regulation. The regulator of the three London airports, the CAA, has several statutory duties, one of which is to encourage investment in new facilities at these three airports in time to satisfy anticipated demands by users of the airports (airlines and passengers). In setting the cap on aeronautical pricing, the regulator, in effect, sets an allowed return on investment at these airports. The allowed rate of return in the current regulatory price control period (2003/04 to 2007/08) is 7.75% (pre-tax real) with increases in aeronautical pricing capped at RPI +6.5% a year at Heathrow and at RPI +0% at Gatwick and Stansted.

Airlines operating at Heathrow and Gatwick have been charged at the regulatory price cap and this has driven income growth in aeronautical charges. From 1 April 2007 Stansted ceased applying certain discounts against its aeronautical charges and moved to full tariff.

Retail income

UK airports' net retail income (excluding WDF) for the year ended 31 December 2007 was £490 million (nine months ended 31 December 2006: £369 million) and £471 million for the year ended 31 December 2006. Net retail income per UK passenger rose 2.3% to £3.27 against £3.20 for the comparative year.

Analysis of net retail income - excluding WDF

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m	Year ended 31 December 2006[1] £m	Change[2] %
UK				
Airside specialist shops	**74**	52	68	8.4
Landside shops and bookshops	**48**	38	48	0.3
Catering	**60**	45	58	3.6
Bureaux de change	**57**	43	57	(1.3)
Car parking	**164**	122	155	5.5
Car rental	**22**	17	21	5.3
Advertising (media sales)	**36**	28	34	5.0
Other retail	**29**	24	30	(0.5)
Total UK	**490**	369	471	4.0
Naples	**11**	7	9	20.9
Per passenger (£)[3]				
UK	**3.27**	3.18	3.20	2.3
Naples	**1.90**	1.79	1.78	6.7

[1] Figures for the year ended 31 December 2006 are unaudited and are based on the Group's management accounts.
[2] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited).
[3] These numbers have been calculated on un-rounded numbers.

Reconciliation of UK airports' net retail income and net retail income per passenger - excluding WDF

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m	Year ended 31 December 2006[1] £m	Change[2] %
UK airports' retail revenue	**656**	489	628	4.4
Less cost of sales	**(166)**	(120)	(157)	5.7
Net retail income	**490**	369	471	4.0
UK fixed wing passengers (million)	**149**	116	147	1.5
Net retail income per passenger[3]	**£3.27**	£3.18	3.20	2.3

[1] Figures for the year ended 31 December 2006 are unaudited and are based on the Group's management accounts.
[2] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited).
[3] Based on un-rounded numbers and excluding helicopter passengers.

Retail performed solidly with a 2.3% uplift in income per passenger. This was in spite of a difficult airport operational environment and weak retail performance on the High Street. Landside retailing was particularly hit by changes to security rules but a number of initiatives aimed at mitigating this proved effective.

Overall, performance reflected the success of our customer-led strategy with products and services tailored to meet the needs of the passenger mix in each terminal. The Group's dynamic approach to managing retail space ensures the offer remains flexible and relevant and enables us to respond to the turbulence the Group has experienced over the past year.

In addition, the Group has invested heavily in improving our travel services and car parking offer and creating a pricing strategy that more effectively reflects supply, demand and competitive pressures.

Other revenue
Other revenues consist of rental income from investment properties and operational facilities, along with rail and other incidental income.

Operating costs
The Group's underlying operating costs for the year ended 31 December 2007 were £1,500 million (nine months ended 31 December 2006: £1,080 million) and £1,424 million for the year ended 31 December 2006.

Underlying Group operating costs

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m	Year ended 31 December 2006[1] £m	Change[2] %
Staff costs	**595**	425	544	9.3
Rent and rates	**125**	89	117	7.7
Utilities	**114**	83	111	3.4
Maintenance	**184**	112	153	19.7
Retail costs	**41**	30	40	0.7
Depreciation and amortisation	**326**	226	299	9.1
Other costs	**209**	180	235	(11.1)
Capitalised costs	**(94)**	(65)	(75)	25.0
Group operating costs	**1,500**	1,080	1,424	5.3

[1] Figures for the year ended 31 December 2006 are unaudited and are based on the Group's management accounts.
[2] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited).

The factors set out below impacted the Group's underlying operating costs:

- Full year impact of costs associated with the hire of 2,200 additional security staff since August 2006 to implement tighter security measures and reduce queues
- Costs associated with the 'simplifying the organisation' change programme (refer below)
- Maintenance costs incurred as part of the 'fix the 'basics' programme to improve our facilities, including increased servicing of airport plant and equipment, painting, replacement of ageing fittings and cleaning
- The higher depreciation and amortisation charge reflects the increase in the depreciable cost of operational assets through our capital investment programme
- An increase in capitalised costs reflecting the Group's capital expenditure programme, particularly delivering Heathrow T5.

Operating profit
Underlying operating profit was £747 million (nine months ended 31 December 2006: £549 million) and £659 million for the year ended 31 December 2006 (representing an increase of 13.4%).

Performance by segment
On a segmental basis, underlying revenue and operating profit performance:

Underlying segmental analysis

	Year ended 31 December 2007		9 months ended 31 December 2006		Year ended 31 December 2006[1]		Change[2]	
	Revenue £m	**Operating profit £m**	Revenue £m	Operating profit £m	Revenue £m	Operating profit £m	Revenue %	Operating profit %
Price-regulated London airports	**1,923**	**622**	1,389	469	1,775	558	8.2	11.5
Heathrow[3]	**1,274**	**438**	926	329	1,199	398	6.2	10.2
Gatwick	**407**	**98**	314	98	388	109	4.6	(10.2)
Stansted	**242**	**86**	149	42	188	51	28.2	67.7
Scottish airports	**214**	**83**	160	64	202	76	4.4	9.1
Glasgow	**86**	**29**	67	26	84	29	1.2	-
Edinburgh	**87**	**38**	64	27	81	34	4.8	10.5
Aberdeen	**41**	**16**	29	11	37	13	10.8	26.3
Other airports	**65**	**14**	45	12	56	13	14.3	6.2
Southampton	**24**	**7**	17	6	22	7	9.1	(11.1)
Naples	**41**	**7**	28	6	34	6	17.6	18.3
Other operations[4]	**45**	**28**	35	4	50	12	(8.3)	140.0
Total	**2,247**	**747**	1,629	549	2,083	659	7.9	13.4

[1] Figures for the year ended 31 December 2006 are unaudited and are based on the Group's monthly management accounts.
[2] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the year ended 31 December 2007 against the comparative year ended 31 December 2006 (unaudited).
[3] Heathrow Express and Heathrow Connect rail services are included within the Heathrow Airport segment. The rail contribution to Heathrow's revenue and operating profit for the year was £80 million (nine months ended 31 December 2006: £58 million / year ended 31 December 2006: £76 million) and £21 million (nine months ended 31 December 2006: £14 million / year ended 31 December 2006: £18 million) respectively.
[4] 'Other operations' include BAA Lynton, fees from the Group's international retail and airport management contracts and other commercial operations.

Exceptional items
Exceptional items are based on statutory results rather than underlying results and relate to continuing operations.

Reorganisation costs
Costs associated with the Group's change programmes amounting to £80 million were charged in the year (nine months ended 31 December 2006: £22 million). The 'Simplifying the Organisation' programme, which commenced in late 2007 and will be carried out during 2008-09, is designed to build a more efficient company which is able to meet future challenges by removing duplication, and creating a simplified organisational structure, focussed on putting the passenger first. A provision for these costs, which relate solely to severance and pension payments, was recorded prior to year-end and meets the requirements of IAS 37 - Provisions, contingent liabilities and contingent assets. No cash payments have been made in respect of this provision in the year ended 31 December 2007. Certain costs associated with the Group's previous change programme 'Delivering Excellence' was also incurred during the year.

Heathrow Terminal 5 ('T5') launch / operational readiness costs
Heathrow T5 launch / operational readiness costs of £40 million (nine months ended 31 December 2006: £11 million) were incurred during the year. These costs are associated with managing the opening of Terminal 5 to ensure it is smoothly integrated into the Heathrow operations. This includes fit-out, facilitating the mobilisation of key contractors, the recruitment and enabling of staff, testing to ensure the building is 'fit for purpose', co-ordinating the major overnight move activities, IT costs and running and testing baggage systems.

Accelerated depreciation on Heathrow Terminals 1 and 2
With the anticipated development of Heathrow East, Terminals 1 and 2 at Heathrow Airport will be demolished. Depreciation on these assets has been accelerated amounting to an additional depreciation charge of £66 million in the year ended 31 December 2007 (nine months ended 31 December 2006: £17 million in relation to Terminal 2 only) to reflect the shortened useful lives of the assets.

Certain re-measurements

Investment property valuation
The investment property valuation at 31 December 2007 resulted in a gain of £45 million (31 December 2006: £163 million) relating to continuing operations. Refer Note 10 to the financial statements.

Derivatives
Financial derivatives recognised in finance costs have given rise to a net fair value loss in the income statement of £6 million (nine months ended 31 December 2006: gain of £28 million). The £6 million loss in 2007 is primarily due to £41 million loss on the equity swap derivative offset by £32 million gains on the forward starting interest rate swaps until termination, and one derivative which does not quality for hedge accounting. The gain in the prior year was largely in respect of £1,050 million forward starting interest rate swaps held at 31 December 2006, most of which were terminated during 2007.

Financial derivatives recognised in operating profit have given rise to a net fair value gain in the income statement of £21 million (nine months ended 31 December 2006: £21 million loss). The current year gain is mainly due to the change in valuation of electricity derivatives.

Net finance costs
The Group's net finance costs, on continuing operations and before certain re-measurements, were £58 million (nine months to 31 December 2006: £129 million), after capitalised interest of £260 million (nine months ended 31 December 2006: £137 million). The lower annualised year on year net finance cost is primarily due to interest received on the loan to ADIL and higher capitalised interest, offset by a higher interest charge due to higher average borrowings balance during the year. Capitalised interest reflects the Group's ongoing capital investment programme and related assets under construction, particularly Heathrow T5. Interest paid for the year amounts to £408 million (nine months ended 31 December 2006: £209 million)

Taxation
A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement; some of which were enacted in the 2007 Finance Act and some are expected to be enacted in the 2008 Finance Act (refer to Outlook for 2008 section).

The effect of the reduction in the UK Corporation tax rate from 30% to 28% with effect from 1 April 2008 (enacted in the 2007 Finance Act) has been to reduce the deferred tax provided at 31 December 2007 by £110 million. This £110 million decrease in deferred tax results in a tax credit of £114 million in the income statement and a decrease of other reserves by £4 million.

Before certain re-measurements, the tax charge for the period was £45 million (nine months ended 31 December 2006: £60 million).

As well as the tax charge associated with profits before certain re-measurements, an additional tax charge of £23 million (nine months ended 31 December 2006: £57 million) has been recognised within certain re-measurements. This comprises a current tax charge of £7 million and a deferred tax credit of £3 million arising from the net gains on derivative financial instruments and a deferred tax charge of £19 million arising from gains on investment properties.

Dividend
No dividend was paid or declared in the year ended 31 December 2007 (31 December 2006: £243 million).

Summary cash flow

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m
Cash generated from continuing operations	**982**	715
Tax paid and dividend received	**(7)**	(26)
Net cash generated from discontinued operations	**80**	56
Net cash flow from operations	**1,055**	745
Capital expenditure	**(1,147)**	(1,106)
Proceeds from issue of ordinary shares	**-**	102
Dividends paid	**-**	(243)
Investment activities of discontinued operations[1]	**1,578**	23
Proceeds from sale of assets[2]	**65**	55
Net interest paid	**(378)**	(180)
Loan to parent company	**(1,897)**	(114)
Other	**68**	(24)
Movement in net debt (excluding interest payable)	**(656)**	(742)

[1] Includes proceeds from disposals of operations.
[2] Excluding proceeds from disposals of operations.

Balance sheet

At 31 December 2007, the Group had net assets of £7,338 million (31 December 2006: £6,349 million).

Balance sheet position

	31 December 2007 £m	31 December 2006 £m
Total assets	**17,749**	15,878
Net assets (before pension surplus/(deficit))	**7,216**	6,582
Pension surplus/(deficit)	**122**	(233)
Net assets	**7,338**	6,349
Gross debt[1]	**7,095**	6,392
Cash and cash equivalents	**140**	93
Net debt[1]	**6,955**	6,299
Undrawn committed facilities	**1,270**	2,050

[1] Excluding interest payable.

Capital investment programme
Group capital expenditure in continuing operations and discontinued operations, excluding capitalised interest, and reflected in the balance sheet was £1,170 million in the year ended 31 December 2007 (31 December 2006: £1,025 million).

Regulatory Asset Base
The Regulatory Asset Base ('RAB') of BAA's London airports is provided to the CAA' and published for each year of the price control period ending on 31 March in the Regulatory Accounts of Heathrow, Gatwick and Stansted airports. The RAB is rolled forward according to the formula set by the CAA in 2003. The RABs for the year ended 31 March 2007 were: Heathrow - £8.4 billion, Gatwick - £1.5 billion, Stansted - £1.1 billion. At 31 December 2007, the estimated RABs for each airport were: Heathrow - £9.6 billion, Gatwick - £1.6 billion, Stansted - £1.1 billion.

Financing - excluding interest payable
Gross debt at 31 December 2007 was £7,095 million (31 December 2006: £6,392 million). At 31 December 2007, net debt had increased to £6,955 million (31 December 2006: £6,299 million). The Group had outstanding interest rate swaps of £825 million and cross-currency swaps of £1.7 billion (in respect of €1 billion 2012, €750 million 2014 and €750 million 2018 bonds). The mark to market valuation of these derivatives at 31 December 2007 implied a net asset of £88 million (31 December 2006: a net liability of £45 million).

Below is a table summarising movements in gross debt in the year:

Movement in gross debt - excluding interest payable

	£m
Gross debt 31 December 2006	**6,392**
Repayment of debt	(235)[1]
Increase in drawings – Senior capex facility	780
Increase in drawings – £200 million term facility	200
Joint ventures reclassified as held-for-sale or disposed of	(208)
Fair value revaluation	148
Amortisation of transaction costs, premiums and discounts	18
Gross debt 31 December 2007	**7,095**

[1] Repayment of BAA Limited 7.875% 2007 £200 million bond and European Investment Bank facilities of £35 million.

In February 2008 the immediate parent company (ADIL) entered into a new Senior Capex facility of £800 million. The Group will access that facility through ADIL.

Pensions

At 31 December 2007, under International Accounting Standards 19 – Employee Benefits, the Group had a surplus of assets over future liabilities of £122 million. This comprised a £144 million surplus in relation to the BAA Pension Scheme and a £22 million liability relating to other retirement benefits. This compares with a deficit of £233 million at 31 December 2006, comprising £212 million in relation to the BAA Pension Scheme and £21 million relating to other retirement benefits.

The BAA Pension Scheme assets grew by £147 million to £2,267 million (31 December 2006: £2,120 million) reflecting strong investment performance. The decline of the scheme's liabilities of £209 million to £2,123 million (31 December 2006: £2,332 million) was the result of changes in active membership, an increase in commutation rates, realignment of the pensionable salary base and an increase in the discount rate used to value the schemes future retirement obligations. The triennial actuarial valuation for the trustees of the scheme as at September 2007 has been performed and the results are anticipated to be made available in early 2008.

Contingent liabilities

The Group has contingent liabilities, comprising letters of credit, performance / surety bonds, performance guarantees and other items arising in the normal course of business amounting to £123 million at 31 December 2007 (31 December 2006: £192 million).

Refer to Note 31 for further details.

Accounting and reporting policies and procedures

This annual report complies with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards ('IFRS') from 1 April 2005 onwards. The consolidated results in the financial statements for the year ended 31 December 2007 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the nine months ended 31 December 2006. The BAA Limited entity ('the Company') accounts are stated under UK GAAP. The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the financial statements.

Risk management

Risk management is a key element of the Group activities. Risk management in the Group facilitates the identification, evaluation and effective management of the threats to the achievement of the Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed. Particular emphasis is given to safety and security, environmental, commercial, financial, reputational and legal risks with the framework ensuring that the Group's financial aspirations are not pursued at the expense of risk management, thus delivering a balanced control of risk, using formal risk management processes.

A key element of the risk management process is the risk-profiling methodology. This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at both inherent and residual level, after taking account of mitigating and controlling actions. Details are maintained in a hierarchy of risk registers used as the basis for regular review of risk management at Executive Committee and Board level. The risk registers are also used to inform decisions relating to the procurement of insurance cover.

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations and properly embed risk management within these operations. The operation of the process and the individual registers are subject to review by BAA's Business Assurance function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

The principal corporate risks as identified by the Executive Committee are:

Safety and security risks
Safety and security risks are regarded as an important risk to manage throughout the Group. The Group mitigates this risk by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Group works closely with government agencies, police and the Armed Forces to match security measures to a level commensurate with the current raised threat environment.

Assurance is provided through management reporting processes and a specialist compliance audit function, reporting directly to the Health, Safety, Security and Environment Committee.

Regulatory environment, legal and reputational risks
CAA regulation
As noted previously, the Group's operations at Heathrow, Gatwick and Stansted airports are subject to regulatory review by the CAA and CC every five years. The risk of an adverse outcome from the five-yearly review is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters.

Part of the regulatory framework is BAA's involvement in constructive engagement with the airlines. In order to manage the risk of adverse airline relations, all airlines have been invited to participate at all stages and to be represented on all fora – eg joint steering groups. When feedback was sought or processes measured, independent third parties have been utilised for data gathering and analysis to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides the airlines with the opportunity of airing views and sharing plans, thereby ensuring their ongoing requirements are articulated and understood.

Competition rules
The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Group breaching these regulations. Refer to the 'Outlook for 2008' section for details on the regulatory process and OFT investigation on competition.

Capacity shortfall
Failure to secure necessary planning permissions would lead to the Group having insufficient capacity to meet the expected demands of the industry resulting in increased congestion and declining passenger service. The Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in Government consultations and other advisory groups. However, it should be noted that, despite the mitigating action taken by management and a planned capital investment programme, which will provide additional capacity, it is anticipated that demand will continue to exceed available capacity in London throughout the next ten years. In addition, the investment in additional capacity at the Group's three London airports is dependent on the outcome of the regulatory settlements in 2008 and 2013.

Existing planning approvals provide for approximate passenger traffic growth at Heathrow (including T5) to 90 million, Gatwick to around 40 million and Stansted to around 25 million. Planning consent to grow Stansted passenger traffic to around 35 million passengers per annum using the existing single runway ('SG1') was refused by Uttlesford District Council in November 2006. The Group immediately submitted an appeal in order to obtain planning permission in line with Government policy. The inquiry into SG1 commenced in May 2007 and the outcome is pending. In January 2007, BAA announced details of its development proposal for Stansted Generation 2 ('SG2'). This proposal includes the provision of a second runway and terminal and will have an initial capacity for about 10 million passengers per annum. This proposal is subject to a separate planning inquiry.

The UK Government's Aviation White Paper *'The Future of Air Transport'* ('the White Paper') was published in December of 2003 and clarified the Government's policies regarding airport expansion for the whole of the country. It emphasised the need for airport operators to invest in delivering new capacity. The Group recognises a need to manage airport development following the White Paper in a way that does not lead to a loss of public or political confidence in BAA. To mitigate this risk, separate dedicated project teams (with relevant expertise and disciplines) for Heathrow and Stansted have been established to work closely with local communities, airlines and other interested parties.

Environment
Environmental risks need to be managed throughout the Group as they have the potential to impact the Group's reputation, and our licence to operate and to grow. The Group mitigates these risks at a number of levels, including environmental management systems and training programmes embedded with operations, clear environmental strategies, resource conservation initiatives, proactive and progressive influencing of third parties, stakeholder engagement and community relations programmes. The Company works closely with a range of stakeholders to ensure that the Group reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks
Capital projects
The Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Group mitigates this risk through adherence to a continually enhanced project process and by systems of project reviews before approval, during construction and after project completion. In addition, specific additional controls for Heathrow T5 were introduced, including the strengthening of the project management team and the commitment of dedicated specialist internal audit and risk management resources to reinforce assurance to the Board. Similar controls will also be adopted for the Stansted Generation 2 and Heathrow East terminal developments. All projects include an allowance for risk and opportunity.

'Simplifying the Organisation'

The Group has recently announced its 'Simplifying the Organisation' programme which is designed to build a more efficient company able to meet future challenges by removing duplication, and creating a simplified organisational structure, focussed on putting the passenger first. The programme, which commenced in late 2007, will be carried out during 2008-09. The Group has identified that failure to manage this change programme could lead to the non-realisation of the identified benefits and/or a significant cost overrun which could result in reduced customer service, damage to company reputation, industrial action and an inability to generate planned revenues. This risk is mitigated through clear plans and detailed business cases, assignment of work stream change leaders, workforce consultation, employee agreement plans, effective and timely communication, early engagement of affected third parties and frequent review of progress and issues by the Group's Executive Committee.

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the Group. Since it is not possible to identify the timing or period of such an effect, the Group carries out evaluations through a series of scenario planning exercises.

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations, and has an adverse financial and reputational impact on the Group is recognised. The Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. A three year Pay Agreement was reached in August 2006 covering negotiated grades within the Group. The Group could also be exposed in the short term to the effect of industrial action at key clients (i.e. airlines).

During 2007 the Group announced that it would close its defined benefits scheme to new joiners. Negotiations with the representative Unions were held in late 2007 and early 2008 with regard to the plan. The Unions threatened industrial action in early 2008, however this was averted through discussion and negotiation. The Company will continue to engage Unions and other interested parties on the progress of this initiative in order to avoid disruption to its operations.

Treasury

The Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations.

Treasury operates on a centralised non-speculative risk basis. The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury related financial risks inherent to the Group's business operations. To achieve this, the Group enters into interest rate swaps, cross currency interest rate swaps, foreign exchange spot and forward/swap transactions and equity swaps to protect against interest rate, currency and share price risk. The primary treasury related financial risks faced by the Group which are the focus of treasury policies, summarised as:

(a) Interest rates

The Group maintains a mix of fixed and floating rate debt. At the period end, the level of fixed-rate debt after hedging of derivatives at the period-end was 84%.

(b) Foreign currency

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge the related interest and principal payments. In cases where debt is raised in foreign currencies, 100% of the exposure is hedged in this way, subject to a de minimus limit. The Group uses foreign currency forward contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed. At December 2007, there were no significant unmatched exposures.

(c) Funding and liquidity

To ensure continuity of funding and flexibility, 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. During 2008 the parent company expects to finalise its permanent refinancing for the ADIL Group, including BAA. Financing for the regulated airports assumes an investment-grade structure being put in place with the existing BAA Limited bonds to be migrated into that structure. Additional financing in that structure would be facilitated through the issue of new bonds and bank debt. The financing of the non-regulated airports is expected to be through bank debt.

(d) Covenants

Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board and Executive Committee. The Group continues to comply with all borrowing obligations and financial covenants.

(e) Counterparty credit

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.

By order of the Board

Stephen Nelson	**José Leo**
Chief Executive	Chief Financial Officer
7 March 2008	7 March 2008

Report of the directors

BAA Limited Annual Report 31 December 2007

The directors present their report and the audited financial statements for the year ended 31 December 2007 (‘the year’).

Principal Activities
The principal activities of the Group are the provision and management of airport facilities in the UK and overseas. The Group is also involved in airport-related property development and owns and operates the Heathrow Express rail link between Heathrow and Paddington, London.

A review of the progress of the Group’s business during the year, the key performance indicators, principal business risks, likely future developments and post balance sheet events are reported in the Business Review on pages 2 to 12.

Results and Dividends
The results for the year are set out on page 4. No dividends were paid or proposed during the year.

Employment Policies
The Group’s employment policies are regularly reviewed and updated to ensure they remain effective. Our overall aim is to create and sustain a high performing organisation by building the commitment of our people.

We have defined a set of guiding principles to ensure fair recruitment and selection. We continue to aim to recruit, retain and develop high calibre people and have talent and succession management programmes for managerial roles.

The Group is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. We actively encourage a diverse range of applicants and commit to fair treatment of all applicants. Our investment in learning and development is guided by senior line managers who ensure that we provide the learning opportunities to support the competencies we see as key to the Group’s success.

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows, staff newspapers, and an intranet. We also operate frameworks for consultation in all the businesses where we have a majority shareholding. We are committed to managing people through change carefully and fairly.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. There is a high level of participation in the Group’s employment benefits scheme, the Bonus Saver Plan, which provides for employees and directors to be rewarded based on the Group’s performance.

Directors

The directors who served during the period and since the period end are as follows:

Sir Nigel Rudd	(Chairman)	Appointed 13 September 2007
Iñigo Meirás	(Deputy Chairman)	Appointed 10 May 2007
Stephen Nelson	(Chief Executive Officer)	
Luis Sanchez Salmerón	(Deputy Chief Executive Officer)	
Stuart Baldwin	(Alternate Director)	
José Leo	(Chief Financial Officer)	
Renaud Faucher		
Ang Eng Seng		
Ghislain Gauthier		
José María Perez Tremps		
Nicolás Villén Jiménez		
Lord Stevens		Appointed 13 September 2007
Richard Drouin		Appointed 13 September 2007
Juan Béjar Ochoa		Resigned 10 May 2007
Tony Douglas		Resigned 19 July 2007
Joaquín Ayuso García		Resigned 13 September 2007
Macky Tall		Resigned 13 September 2007
Rafael del Pino Calvo-Sotelo		Resigned 13 September 2007

Directors’ Interests
None of the directors had any interests in the ordinary shares of the Company at the end of the period or had interests in any of the Company’s subsidiaries at any time during the period. None of the directors had a material interest in any contract of significance with the Company or any of its subsidiary undertakings during the year.

Directors’ Indemnity
The Company’s Articles of Association provide that, subject to the provisions of the Companies Act, but without prejudice to any indemnity to which the person concerned might otherwise be entitled, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

Donations
The Group's charitable donations for the year amounted to £2,105,009 (31 December 2006: £1,345,000). The Group incurs expenditure, which may be classified as political donations under the Political Parties, Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part XA of the Companies Act 1985) . At the 2006 Annual General Meeting, the Company obtained a renewed shareholders' approval under this Act to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. Expenditure in the year ended 31 December 2007 which, in our view, may fall within this category is:

- Sponsorship of Scottish reception at Liberal Democrat Federal Conference £3,266 (nine month ended 31 December 2006: £7,269).

Payment Policy
The Company complies with the Department of Trade and Industry's better payment practice code which states that responsible companies should:

- Agree payment terms at the outset of a transaction and adhere to them
- Provide suppliers with clear guidance on payment procedures
- Pay bills in accordance with any contract agreed or as required by law
- Advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 18 day's purchases outstanding at 31 December 2007 (31 December 2006: 17 days), based on the average daily amount invoiced by suppliers during the year ended 31 December 2007.

Audit Information
The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's Consolidated Financial Statements for the year ended 31 December 2007 and that they have taken all steps that they ought to have taken as directors in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Financial Risk Management
The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on page 11 and 12 of the Risk Management section of the Business Review.

By order of the Board

Robert Herga
Company Secretary
7 March 2008

Registered Office:

130 Wilton Road
London
SW1V 1LQ

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 financial statements in accordance with International Accounting Standards and International Financial Reporting Standards (as adopted by the European Union) (IFRSs) 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)). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

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 the parent company financial statements comply with IFRSs and UK GAAP respectively, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 17 for the Group and on page 58 for the parent company.

Financial statements

Group

17 Independent auditors’ report
18 Consolidated income statement
19 Consolidated statement of recognised income and expense
20 Consolidated balance sheet
21 Consolidated cash flow statement
22 Accounting policies
28 Significant accounting judgements and estimates
29 Notes to the financial statements

Company

58 Independent auditors’ report
59 Company balance sheet
60 Accounting policies
64 Notes to the financial statements

Independent auditors' report to the members of BAA Limited

We have audited the Group financial statements of BAA Limited for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement 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 Limited for the year ended 31 December 2007.

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 that 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 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 IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit 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 Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
7 March 2008

Consolidated income statement for the year ended 31 December 2007

					Restated[2]		
		Year ended 31 December 2007			9 months ended 31 December 2006		
		Before certain re-measurements[1]	Certain re-measurements[1]	Total	Before certain re-measurements[1]	Certain re-measurements[1]	Total
	Note	£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	*1*	**2,247**	**-**	**2,247**	1,629	-	1,629
Operating costs	*2*	**(1,686)**	**-**	**(1,686)**	(1,192)	-	(1,192)
Other operating income							
Fair value gains on investment properties	*10*	**-**	**45**	**45**	-	163	163
Fair value gains/ (losses) on derivative financial instruments	*5b*	**-**	**21**	**21**	-	(21)	(21)
Operating profit	*1*	**561**	**66**	**627**	437	142	579
Analysed as:							
Operating profit before exceptional items		**747**	**66**	**813**	549	142	691
Exceptional Items	*4*	**(186)**	**-**	**(186)**	(112)	-	(112)
		561	**66**	**627**	437	142	579
Financing							
Finance income	*5a*	**108**	**-**	**108**	20	-	20
Finance costs	*5a*	**(166)**	**-**	**(166)**	(149)	-	(149)
Fair value (losses)/ gains on derivative financial instruments	*5b*	**-**	**(6)**	**(6)**	-	28	28
Profit before tax		**503**	**60**	**563**	308	170	478
Taxation	*6*	**(45)**	**(23)**	**(68)**	(60)	(57)	(117)
Profit for the period from continuing operations		**458**	**37**	**495**	248	113	361
Net profit from discontinued operations	*7*	**233**	**16**	**249**	60	43	103
Consolidated profit for the year		**691**	**53**	**744**	308	156	464
Attributable to:							
Equity holders of the parent		**690**	**53**	**743**	307	156	463
Minority interest		**1**	**-**	**1**	1	-	1
Proposed final dividend for the period	*8*			**-**			-
Dividends in the period	*8*			**-**			243

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

[2] Prior period comparatives have been restated as certain operations have been classified as discontinued during the year ended 31 December 2007. In accordance with IFRS, prior period comparatives in the income statement and cash flow statement have been restated. Prior period comparatives are not required to be restated in the balance sheet.

Consolidated statement of recognised income and expense for the year ended 31 December 2007

	Note	**Year ended 31 December 2007 £m**	9 months ended 31 December 2006 £m
Available-for-sale investments			
Gains taken to equity	*29*	**17**	4
Transferred to income statement	*29*	**(9)**	-
Cash flow hedges			
Gains/(losses) taken to equity	*29*	**82**	(30)
Transferred to income statement	*29*	**(139)**	58
Actuarial gain/(loss)	*21/30*	**375**	(58)
Net movement in currency translation reserve	*29*	**10**[1]	31
Deferred tax (charge)/credit on items transferred directly to equity	*20/29*	**(98)**[2]	15
Current tax credit/(charge) on items transferred to equity	*29*	**4**	(3)
Current tax taken directly to equity (share-based payments)		**-**	26
Deferred tax taken directly to equity (share-based payments)	*20*	**-**	(14)
Share based payments	*30*	**3**	-
Net income recognised directly in equity		**245**	29
Profit for the period		**744**	464
Total recognised income and expense for the period		**989**	493
Attributable to			
Equity holders of the parent		**986**	492
Minority interest		**3**	1
		989	493

[1] Includes minority interest of £2 million gain.

[2] Includes a deferred tax charge of £2 million in relation to assets classified as held-for-sale.

Consolidated balance sheet as at 31 December 2007

	Note	31 December 2007 £m	Restated[1] 31 December 2006 £m
Assets			
Non-current assets			
Property, plant and equipment	9	11,128	10,134
Investment properties	10	3,139	3,503
Intangible assets	11	80	130
Investment in associates	12	8	2
Available-for-sale investments	13	47	122
Derivative financial instruments	18	94	7
Retirement benefit surplus	21	122	-
Trade and other receivables	15	74	4
		14,692	13,902
Current assets			
Inventories	14	9	30
Trade and other receivables	15	2,348	392
Derivative financial instruments	18	10	1
Cash and cash equivalents	16	140	93
		2,507	516
Assets classified as held-for-sale	25	550	1,460
Total assets		17,749	15,878
Liabilities			
Non-current liabilities			
Borrowings	17	(6,621)	(6,156)
Derivative financial instruments	18	(2)	-
Deferred income tax liabilities	20	(1,713)	(1,687)
Retirement benefit obligations	21	-	(233)
Provisions	23	(105)	(95)
Trade and other payables	24	(16)	(22)
		(8,457)	(8,193)
Current liabilities			
Borrowings	17	(620)	(369)
Derivative financial instruments	18	(47)	(65)
Provisions	23	(95)	(51)
Current income tax liabilities		(299)	(135)
Trade and other payables	24	(627)	(591)
		(1,688)	(1,211)
Liabilities associated with assets classified as held-for-sale	25	(266)	(125)
Total liabilities		(10,411)	(9,529)
Net assets		7,338	6,349
Equity			
Capital and reserves			
Ordinary shares	26	1,102	1,102
Share premium	27	325	325
Revaluation reserve	28	386	388
Fair value and other reserves	29	53	84
Retained earnings	30	5,459	4,440
Total shareholders' equity		7,325	6,339
Minority interest in equity		13	10
Total equity		7,338	6,349

[1] Interest payable is included within current borrowings and the Senior Capex Facility is included within non-current borrowings at 31 December 2007. The comparative balance at 31 December 2006 has been reclassified from trade and other payables and current borrowings respectively.

The financial statements on pages 18 to 56 were approved by the Board of directors and authorised for issue on 7 March 2008 and signed on behalf of the Board.

Stephen Nelson
Chief Executive

José Leo
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 December 2007

	Note	Year ended 31 December 2007 £m	Restated[1] 9 months ended 31 December 2006 £m
Operating activities			
Cash generated from continuing operations	*32*	**982**	715
Dividends received		**-**	16
Income taxes paid		**(7)**	(42)
Cash generated from discontinued operations		**80**	56
Net cash from operating activities		**1,055**	745
Investing activities			
Purchase of:			
Property, plant and equipment		**(1,136)**	(1,091)
Investment properties	*10*	**(2)**	-
Intangible assets	*11*	**(9)**	(15)
Purchase of held-to-maturity financial assets		**-**	(524)
Proceeds from held-to-maturity financial assets on maturity		**-**	936
Loan to parent entity		**(1,897)**	(114)
Loan repayments received from associates and joint ventures		**-**	2
Proceeds from available-for-sale investments		**41**	-
Proceeds from sale of:			
Intangible assets		**-**	20
Investment properties		**10**	22
Property, plant and equipment		**14**	13
Purchase of available-for-sale investments		**-**	(5)
Investing activities of discontinued operations		**1,578**	23
Net cash used in investing activities		**(1,401)**	(733)
Financing activities			
Proceeds from issue of ordinary shares	*32*	**-**	102
Interest paid	*32*	**(408)**	(209)
Interest received	*32*	**30**	29
Proceeds from borrowings	*32*	**980**	200
Repayment of borrowings	*32*	**(235)**	(187)
Dividends paid to shareholders	*32*	**-**	(243)
Financing activities of discontinued operations		**(1)**	(18)
Net provided/(used in) by financing activities		**366**	(326)
Net increase/(decrease) in cash and cash equivalents		**20**	(314)
Cash and cash equivalents at beginning of period		**130**	444
Cash and cash equivalents at end of period	*16*	**150**	130

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

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 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, 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.

At the date of approving these financial statements, IFRS 7 'Financial Instruments – Disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements - Capital disclosures' were effective and have been adopted by the Group in these financial statements. IFRS 7 introduces new requirements relating to the financial instruments and does not have any impact on the presentation and valuation of the Group's financial instruments. IAS 1 introduces new disclosure requirements relating to capital. Further, the following International Financial Reporting Interpretations Committee ('IFRIC') interpretations, which were effective in 2007 have not been applied in these financial statements as they were not relevant to the Group:

- IFRIC 7 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies'
- IFRIC 8 'Scope of IFRS 2 'Share-based Payment'
- IFRIC 9 'Scope 'Re-assessment of Embedded Derivatives'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 12 'Service Concession Agreements'
- IFRIC 13 'Customer Loyalty Programmes'

At the date of approving these financial statements, the following IFRIC interpretations and IFRS have not been applied as they were not effective in 2007 and/or were relevant to the Group:

- IFRIC 14 'IAS19 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', is relevant to the Group and has no impact as the pension scheme surplus is recoverable by the Group under the Scheme rules.
- IFRS 8 'Operating segments' replaces IAS 14 'Reporting Financial Information by Segment' 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 European Union. The expected impact is still being assessed in detail by management.

Interpretation early adopted by the Group
IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions', was early adopted in 2007. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity settled or cash settled share-based payment transactions in the stand-alone accounts of the parent and group companies. In 2007 the ultimate parent entity, Ferrovial S.A., granted options in its shares to employees of the Group. These share options are accounted for as equity settled.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and all its subsidiaries, together with the Group's share of profits (net of interest and tax) and net assets of associated undertakings, accounted for using the equity method. The Group's share of assets and liabilities and revenues and costs of joint ventures are recorded under proportionate consolidation on the appropriate financial line item. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to minority interests in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover losses.

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.

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 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 reporting format is geographical segments based on the location of the business assets and operations.

As such, the following three main business segments are reported:

- Price regulated London airports
- Scottish airports
- Other airports

The 'Other airports' business segment includes Southampton and Naples airports.

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

- World Duty Free income is recognised as each sale is transacted, net of value added tax ('VAT')
- 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 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 a total net figure, on the face of the income statement, 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, 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 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 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 year end. The financial performance and cash flows of discontinued operations are separately reported.

Intangible assets
Goodwill
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. Identifiable assets, liabilities and contingent liabilities are grouped in cash generating units being individual price regulated and non-regulated airports and other operations which are organised and managed separately. Goodwill arising on acquisition is capitalised and is subject to an impairment review, either annually or more frequently if there is an indication that the carrying value of goodwill may be impaired. Any impairment is recognised immediately in the income statement. An impairment loss recognised in respect of goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

After the initial recognition, goodwill is carried at cost less any accumulated impairment losses.

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.

Asset management contracts
Intangible assets in respect of airport asset management contracts represent the right to operate externally owned airports and certain assets for the period of the contracts and are amortised on a straight-line basis over the remaining lives of the contracts, subject to impairment.

Other intangible assets
Intangible assets acquired separately or as a result of a business acquisition are capitalised at cost and fair value respectively. Where amortisation is charged on these assets, the expense is taken to the income statement through operating costs.

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. At the date of transition to IFRS, the Group elected to measure the majority of operational land at fair value and to use these fair values as deemed cost at that date. This excludes land acquired in 2002 for the construction of Terminal 5, as its carrying value is considered to be at an appropriate value given the recent acquisition of the land.

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 (excluding goodwill)
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.

Investments in associates
Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. The Group's share of net profits and losses of associates are included in the income statement net of interest and tax.

Investments in joint ventures
The Group adopts the proportionate consolidation method to account for its interests in joint ventures. Under proportionate consolidation, the Group's share of assets and liabilities and revenues and costs of joint ventures are recorded within the appropriate category in the consolidated balance sheet or consolidated income statement.

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.

Convertible bonds
Convertible bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is determined using the prevailing market interest rate for a similar non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option and recognised in shareholders' equity, net of income tax.

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.

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.

Employee benefits
Pension obligations
The Group's UK pension fund is a defined benefit scheme which is self-administered. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments or changes in actuarial assumptions are charged or credited in the statement of recognised income and expense in the period in which they arise. Past service cost is recognised immediately in the income statement to the extent that the benefits are already vested, otherwise it is amortised on a straight-line basis over the average period until the benefits become vested.

The amount of income or expenditure recognised in the income statement as staff costs, in relation to the defined benefit scheme, comprises the service cost of pension provision relating to the period, past service costs recognised in accordance with the above policy, the interest cost (being the increase in the present value of scheme liabilities since the benefits are closer to settlement) and the Group's long-term expected return on assets (based on the market value of the scheme assets at the start of the period, amended for expected changes in the period resulting from benefits payable and contributions receivable by the scheme).

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the scheme plus any unrecognised past service cost.

Employees in certain subsidiaries are members of separate defined contribution schemes. The pension costs charged to the income statement are the contributions payable by the Group during the year.

Share based payment
The Group operates an Executive Share Option Plan (ESOP) for directors and senior employees of the business. The ESOP is treated as an equity settled scheme in accordance with the grant of the options being made by Grupo Ferrovial, S.A the ultimate parent company.

The fair value of the employee services received in exchange for the grant of options under the ESOP is recognised as an expense over the vesting period of the options with the corresponding entry recorded in equity. The fair value of the options granted is measured using a binomial model adjusted by taking into account the exercise price, volatility, the term during which the benefits may be exercised, expected dividends, a risk-free interest rate and the expected timing of the exercise.

At each balance sheet date over the vesting period, the cumulative expense is re-estimated based on the number of options expected to vest with the impact recorded in the income statement and with a corresponding entry in equity.

On exercise of the options by the employees any expense associated with the acquisition of Ferrovial shares by the Group is recorded within equity as a deemed distribution.

The Group has entered into a number of cash-settled equity swaps that are treated as derivative financial instruments and are intended to hedge the future cash flows required on potential exercise of the options. The fair value of these equity swap arrangements is recorded in the balance sheet with the gain or loss incurred in the period recorded within financial income or expense.

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 Group'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 year-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.

The results of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (Sterling) are translated into Sterling at the average exchange rate and the balance sheets are translated at year-end exchange rates. Exchange differences arising on retranslation are taken directly to a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing exchange rate.

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 of a recognised 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 has a maturity of greater 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 risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement.

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 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 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 income statement

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.

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. As the development of Stansted will be the subject of a planning inquiry, the Group is pressing ahead with the necessary preparation of a planning application and environmental impact assessment. 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 highly probable 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 announced three voluntary schemes to compensate those people living near Stansted Airport, whose homes will be affected by the airport expansion. These costs are also capitalised as part of the runway development costs.

Investment properties
Investment properties were valued at a fair value at 31 December 2007 by Drivers Jonas, Chartered Surveyors, Strutt and Parker, Chartered Surveyors, King Sturge, Valuers and Surveyors, and the Company's Head of BAA Professional Services, John Arbuckle BLE (Hons). 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.

Financial instruments
The Group's investment in National Air Traffic Services Group ('NATS') is classified as an available-for-sale investment and recognised on the balance sheet at fair value. The investment is not quoted in an active market and the calculation of its fair value is based on a discounted cash flow model using forecasted cash flows and an appropriate discount rate selected by management.

Pensions
Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and future returns on pension scheme assets and charges to the income statement. The factors have been determined in consultation with the Group's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the statement of recognised income and expense.

Notes to the financial statements

1 Segment information

The Group's primary reporting format is business segments. The operating businesses are primarily the individual airports, which are organised and managed separately. The secondary format is geographical segments based on the location of the business assets and operations.

The 'Other airports' business segment includes Southampton and Naples.

The 'Other operations' business segment consists of corporate activities (including certain consolidation adjustments that are held at corporate level), BAA Lynton, the net income from international management contracts and other commercial operations.

World Duty Free Europe ('WDFE') and Airport Property Partnership ('APP') have been classified as assets held-for-sale on the balance sheet (as detailed in Note 25) and in discontinued operations in the income statement (refer Note 7) and cash flow statement. Discontinued operations also include businesses disposed of during the year.

Inter-segmental transactions are considered immaterial and are not analysed separately.

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 relates to continuing operations only.

	Year ended 31 December 2007				Restated 9 months ended 31 December 2006			
		Operating Profit[1]				Operating Profit[1]		
(a) Business segments	**Revenue £m**	**Before certain re-measurements[2] £m**	**Certain re-measurements[2] £m**	**Total £m**	Revenue £m	Before certain re-measurements[2] £m	Certain re-measurements[2] £m	Total £m
Price regulated London airports	**1,923**	**441**	**44**	**485**	1,389	421	132	553
Heathrow[3]	**1,274**	**283**	**(42)**	**241**	926	292	75	367
Gatwick	**407**	**81**	**53**	**134**	314	90	33	123
Stansted	**242**	**77**	**33**	**110**	149	39	24	63
Scottish airports	**214**	**77**	**3**	**80**	160	61	23	84
Other airports	**65**	**14**	**4**	**18**	45	12	7	19
Other operations	**45**	**29**	**15**	**44**	35	(57)	(20)	(77)
Total	**2,247**	**561**	**66**	**627**	1,629	437	142	579
Unallocated income and expenses								
Finance income		**108**	**-**	**108**		20	-	20
Finance costs		**(166)**	**-**	**(166)**		(149)	-	(149)
Fair value (losses)/gains on derivative financial instruments		**-**	**(6)**	**(6)**		-	28	28
Profit before tax		**503**	**60**	**563**		308	170	478
Taxation		**(45)**	**(23)**	**(68)**		(60)	(57)	(117)
Net profit for the period - continuing operations		**458**	**37**	**495**		248	113	361
Net profit for the period - discontinued operations		**233**	**16**	**249**		60	43	103
Consolidated profit for the period – for the period		**691**	**53**	**744**		308	156	464

[1] After exceptional items.
[2] Certain re-measurements (including those of associates) 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.
[3] Includes Heathrow rail related activities (Heathrow Express and Heathrow Connect).

(b) Business Segments	31 December 2007 Assets £m	 Liabilities £m	 Capital expenditure[1] £m	 Depreciation and amortisation[2] £m	31 December 2006 Assets £m	 Liabilities £m	 Restated Capital expenditure[1] £m	 Restated Depreciation and amortisation[2] £m
Price regulated London airports	**13,394**	**(631)**	**1,073**	**359**	12,482	(557)	954	213
Heathrow	**10,076**	**(480)**	**875**	**272**	9,374	(441)	802	150
Gatwick	**1,782**	**(89)**	**91**	**58**	1,702	(73)	66	41
Stansted	**1,536**	**(62)**	**107**	**29**	1,406	(43)	86	22
Scottish airports	**863**	**(39)**	**43**	**22**	833	(26)	29	15
Other airports	**204**	**(49)**	**35**	**7**	72	(46)	16	5
Other operations	**2,242**	**(124)**	**12**	**4**	832	(574)	7	11
Assets classified as held-for-sale[3]	**551**	**(266)**	**42**	**8**	1,460	(125)	34	-
Total	**17,254**	**(1,109)**	**1,205**	**392**	15,679	(1,328)	1,040	244
Investment in equity accounted associates								
Other airport interests	**8**	**-**	**-**	**-**	20	-	-	-
Total operations	**17,262**	**(1,109)**	**1,205**	**392**	15,699	(1,328)	1,040	244
Unallocated assets and liabilities								
Cash, borrowings[4] and available-for-sale investments	**187**	**(7,095)**	**-**	**-**	168	(5,948)	-	-
Derivative financial instruments	**104**	**(49)**	**-**	**-**	8	(65)	-	-
Retirement benefit surplus/ (obligations)	**122**	**-**	**-**	**-**	-	(233)	-	-
Taxation	**-**	**(2,012)**	**-**	**-**	-	(1,822)	-	-
Interest	**74**	**(146)**	**-**	**-**	3	(133)	-	-
Group	**17,749**	**(10,411)**	**1,205**	**392**	15,878	(9,529)	1,040	244

[1] Includes capital expenditure of £12 million (31 December 2006: £15 million) relating to intangible assets.
[2] Includes amortisation charge of £23 million (31 December 2006: £24 million) relating to intangible assets.
[3] Capital expenditure and depreciation and amortisation relating to discontinued operations for the nine months ended 31 December 2006 has been included within assets classified as held-for-sale.
[4] Excluding interest payable.

Segment assets include primarily airport runways and facilities allocated to the different cash generating units.

(c) Geographical Segments	Year ended 31 December 2007 Revenue £m	 Capital expenditure £m	 Segment assets £m	9 months ended 31 December 2006 Restated Revenue £m	 Restated Capital expenditure £m	 Segment assets £m
UK						
Airports	**2,161**	**1,122**	**14,373**	1,566	990	13,364
Other operations	**19**	**54**	**2,775**	12	24	826
	2,180	**1,176**	**17,148**	1,578	1,014	14,190
International						
Airports – Europe	**41**	**24**	**88**	28	26	1,483
Other operations - Rest of World	**26**	**5**	**18**	23	-	24
	67	**29**	**106**	51	26	1,507
Total	**2,247**	**1,205**	**17,254**	1,629	1,040	15,697
Investment in equity accounted associates						
UK			**8**			-
Rest of World			**-**			2
			8			2
Unallocated assets			**487**			179
Group			**17,749**			15,878

(d) Business and geographical segments

	Year ended 31 December 2007					Restated 9 months ended 31 December 2006				
Revenue	**Retail**	**Airport and other traffic charges**	**Property and operational facilities**	**Other**	**Total**	Retail	Airport and other traffic charges	Property and operational facilities	Other	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Price regulated London airports	**576**	**943**	**279**	**125**	**1,923**	436	656	205	92	1,389
Heathrow	**325**	**635**	**198**	**116**	**1,274**	241	457	144	84	926
Gatwick	**160**	**179**	**61**	**7**	**407**	127	135	47	5	314
Stansted	**91**	**129**	**20**	**2**	**242**	68	64	14	3	149
Other UK airports	**72**	**130**	**27**	**9**	**238**	53	99	20	5	177
Glasgow	**28**	**45**	**10**	**3**	**86**	21	36	8	2	67
Edinburgh	**27**	**49**	**9**	**2**	**87**	20	36	7	1	64
Aberdeen	**9**	**23**	**6**	**3**	**41**	6	17	4	2	29
Southampton	**8**	**13**	**2**	**1**	**24**	6	10	1	-	17
Other UK businesses	**8**	**-**	**-**	**11**	**19**	-	-	-	12	12
BAA Lynton	**-**	**-**	**-**	**5**	**5**	-	-	-	9	9
Other	**8**	**-**	**-**	**6**	**14**	-	-	-	3	3
Total UK	**656**	**1,073**	**306**	**145**	**2,180**	489	755	225	109	1,578
International airports										
Naples	**11**	**20**	**6**	**4**	**41**	7	14	4	3	28
Total Europe	**11**	**20**	**6**	**4**	**41**	7	14	4	3	28
Rest of World	**20**	**-**	**3**	**3**	**26**	14	-	-	9	23
Group	**687**	**1,093**	**315**	**152**	**2,247**	510	769	229	121	1,629

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 2007	9 months ended 31 December 2006
	£m	£m
Retail	**187**	143
Property and operational facilities	**81**	72
Other	**10**	7
Total	**278**	222

Total contingency rent[1] and rents from indefinite tenancies[2] recognised in revenue amounted to:

	Year ended 31 December 2007	9 months ended 31 December 2006
	£m	£m
Retail	**167**	123
Property and operational facilities	**20**	15
Total	**187**	138

[1] Contingency rents represent concession fees received from retail and commercial concessionaires.

[2] 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 million (nine months ended 31 December 2006: £2 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 31).

2 Operating costs- continuing operations

	Year ended 31 December 2007	Restated 9 months ended 31 December 2006
	£m	£m
Operating costs (including exceptional items) include the following:		
Staff costs		
Wages and salaries	**478**	292
Social security	**40**	32
Pensions[1]	**91**	68
Share-based payments	**3**	5
Other staff related	**25**	24
	637	421
Depreciation and amortisation		
Depreciation of property, plant and equipment	**369**	220
Amortisation of intangible assets		
Software	**23**	15
Asset management contract	**-**	9
	392	244
Other operating costs		
Loss on sale of:		
Property, plant and equipment	**3**	11
Retail expenditure	**29**	20
Retail marketing	**12**	10
Contract and agency staff	**58**	42
Maintenance and cleaning	**195**	114
Insurance	**22**	14
Bid advisory costs	**-**	45
Other marketing and communications	**14**	14
Rent and rates	**126**	89
Utilities	**117**	86
Police	**53**	42
General expenses	**128**	105
	757	592
Own work capitalised[2]	**(100)**	(65)
Total operating costs	**1,686**	1,192
Analysed as:		
Underlying operating costs	**1,500**	1,080
Exceptional costs	**186**	112
	1,686	1,192

[1] Includes a charge of £26 million (nine months ended 31 December 2006: £7 million) disclosed within exceptional items.
[2] Own work capitalised includes £71 million (nine months ended 31 December 2006: £41 million) in relation to staff costs.

Exceptional items included within operating costs are analysed in Note 4.

	Year ended 31 December 2007	Restated 9 months ended 31 December 2006
	£m	£m
The aforementioned charges include:		
Rentals under operating leases		
Plant and machinery	**32**	24
Other	**29**	12
	61	36
Property lease and sub lease charges		
Minimum lease payments	**30**	21

Property operating costs include £10 million (nine months ended 31 December 2006: £7 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(d)).

Auditors' remuneration

Auditors' remuneration relates to fees paid to PricewaterhouseCoopers LLP.

	Year ended 31 December 2007	9 months ended 31 December 2006
	£m	£m
Fees payable to the Company's auditor for the audit of the consolidation and the parent company accounts	**0.4**	0.5
Fees payable to the Company's auditors of its subsidiaries for other services:		
audit of the Company's subsidiaries, pursuant to legislation	**0.5**	0.5
other services pursuant to legislation	**0.1**	0.4
taxation services	**0.6**	0.2
corporate finance[1]	**3.1**	-
other services	**0.1**	0.9
	4.8	2.5

[1] Includes professional fees for services provided in relation to permanent refinancing activities.

Auditors' remunerations include services provided to both continuing and discontinued operations.

3 Employee information

a) Employee numbers

The average monthly number of employees (including executive directors) of the Group was as follows:

	Year ended 31 December 2007 Number	9 months ended 31 December 2006 Number
UK		
Airports	**10,174**	9,961
World Duty Free	**1,842**	1,989
BAA Lynton	**23**	26
Other operations	**422**	484
International		
Europe	**286**	2,644
Rest of World[1]	**39**	472
	12,786	15,576

[1] Employee numbers for Rest of World at 31 December 2006 included 444 employees of BAA Indianapolis where the Group does not bear normal employee risks and recovers all associated costs from Indianapolis Airport Authority. This airport management contract was terminated during the year.

b) Employees and directors

	Year ended 31 December 2007 £'000	9 months ended 31 December 2006 £'000
Key management compensation[1]		
Salaries and short-term employee benefits	**10,319**	6,564
Post-employment benefit contributions	**176**	453
Share based payments	**-**	705
	10,495	7,722

[1] Key management includes directors and members of the executive team of BAA who control and direct the Group's operational activities and resources.

c) Directors' remuneration

	Year ended 31 December 2007 £'000	9 months ended 31 December 2006 £'000
Aggregate emoluments	**5,823**	5,973
Sums paid to related parties for directors' services	**1,170**	154

As at 31 December 2007, one director (31 December 2006: six) had reached the maximum scheme benefits under a defined benefit scheme. At 31 December 2007, retirement benefits were accruing for one director under a defined benefit scheme. For the year ended 31 December 2007 £1,110 thousand (nine months ended 31 December 2006: £3,784 thousand) was paid to directors as compensation for loss of office.

Of the directors in office at 31 December 2007, nine of them did not receive any emoluments during the year.

Highest paid director

	Year ended 31 December 2007 £'000	9 months ended 31 December 2006 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**2,594**	2,611
Defined benefits scheme:		
Accrued pension at period end	**59**	244
Accrued lump sum	**666**	6,306

During the year ended 31 December 2007, the highest paid director was given a non-recurring payment of £1,500 thousand (nine months ended 31 December 2006: £1,600 thousand was paid as compensation for loss of office).

4 Exceptional items

	Year ended 31 December 2007 £m	Restated 9 months ended 31 December 2006 £m
Operating items		
Reorganisation costs		
Pension	**(26)**	(7)
Other staff related (including severance and redundancy)	**(54)**	(8)
General expenses (including programme design and implementation)	**-**	(7)
	(80)	(22)
Heathrow Terminal 1 and 2 accelerated depreciation	**(66)**	(17)
Heathrow Terminal 5 launch / operational readiness costs	**(40)**	(11)
Bid advisory costs	**-**	(45)
Staff related costs due to change in ownership	**-**	(17)
	(106)	(90)
Total exceptional items before income tax	**(186)**	(112)
Tax credit on exceptional items	**54**	19
Total exceptional items	**(132)**	(93)

Reorganisation costs

Costs associated with the Group’s change programmes amounting to £80 million were charged in the (nine months ended 31 December 2006: £22 million). The charge for the year ended 31 December 2007 is in relation to severance and pension payments, predominantly associated with the ‘Simplifying the Organisation’ programme which will be carried out during 2008-09. Certain costs associated with the Group’s previous change programme, ‘Delivering Excellence’, were also incurred during the year.

Accelerated depreciation on Heathrow Terminals 1 and 2

With the anticipated development of Heathrow East, Terminals 1 and 2 at Heathrow Airport will be demolished. Depreciation on these assets has been accelerated amounting to an additional depreciation charge of £66 million in the year ended 31 December 2007 (nine months ended 31 December 2006: £17 million in relation to Terminal 2 only) to reflect the shortened useful lives of the assets.

Heathrow Terminal 5 (‘T5’) launch / operational readiness costs

T5 launch / operational readiness costs of £40 million (nine months ended 31 December 2006: £11 million) were incurred during the year. These costs are associated with managing the opening of Terminal 5 to ensure it is smoothly integrated into the Heathrow operations, including fit-out, facilitating the mobilisation of key contractors, the recruitment and enabling of staff, testing to ensure the building is 'fit for purpose', co-ordinating the major overnight move activities, IT costs and running and testing baggage systems.

5 Financing – continuing operations

a) Net finance costs

	Note	**Year ended 31 December 2007 £m**	Restated 9 months ended 31 December 2006 £m
Finance income			
Interest and fee income from available for sale financial assets		**13**	4
Interest on loan to parent		**74**	-
Income from other financial assets		**5**	-
Interest on deposits		**13**	14
Interest on money market funds		**3**	2
		108	20
Finance costs			
Interest on borrowings			
Bonds		**(278)**	(218)
Bank loans and overdrafts		**(102)**	(29)
Interest payable on derivatives that do not qualify for hedge accounting		**(3)**	-
Facility fees		**(6)**	(10)
Convertible loan notes			
Interest payable		**(24)**	(18)
Accretion of debt liability		**(8)**	(8)
Unwinding of discount on Terminal 5 land purchase provision	*23*	**(5)**	(3)
Total borrowing costs		**(426)**	(286)
Less: capitalised borrowing costs	*9*	**260**	137
		(166)	(149)
Net finance costs before certain re-measurements		**(58)**	(129)

Net finance costs include financial results for continuing operations only. Finance income and finance costs from discontinued operations have been separately disclosed 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 5.95% (31 December 2006: 5.16%) to expenditure incurred on such assets.

b) Fair value gains/(losses) on financial instruments

	Year ended 31 December 2007 £m	Restated 9 months ended 31 December 2006 £m
Embedded derivatives in electricity purchase contracts	**21**	(17)
Fair value re-measurement of foreign currency balances	**-**	(4)
Derivative gains/(losses) in operating profit	**21**	(21)
Interest rate swaps: cash flow hedges	**(1)**	29
Interest rate swaps: Not in hedge relationships	**32**	-
Cross currency swaps: fair value hedges	**-**	(1)
Equity swap	**(41)**	-
Fair value re-measurement of foreign currency balances	**4**	-
Derivative (losses)/ gains in finance costs	**(6)**	28
Fair value gains on financial instruments	**15**	7

6 Taxation – continuing operations

	Year ended 31 December 2007 £m	Restated 9 months ended 31 December 2006 £m
UK Corporation Tax		
Current at 30% (31 December 2006: 30%)	**157**	87
Over provision in respect of previous years	**(40)**	(45)
Deferred Tax		
Current year	**25**	93
Prior period	**34**	(20)
Change in UK Corporation tax rate – impact on deferred tax assets and liabilities	**(114)**	-
Overseas Tax		
Current	**6**	3
Deferred	**-**	(1)
Taxation charge for the period	**68**	117

	Year ended 31 December 2007 £m	Restated 9 months ended 31 December 2006 £m
Profit before Tax	**563**	478

The tax on the Group's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the Group:

	Year ended 31 December 2007 £m	Restated 9 months ended 31 December 2006 £m
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 30% (31 December 2006: 30%)	**169**	143
Adjustments in respect of current income tax of previous years	**(40)**	(45)
Expenses not deductible for tax purposes	**19**	29
Provision in respect of assets held-for-sale	**-**	10
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**(114)**	-
Adjustments in respect of deferred income tax of previous years	**34**	(20)
Taxation charge for the period	**68**	117

A tax charge of £8 million (31 December 2006: £15 million) in respect of the accounting profit of APP is included within the tax charge above for continuing operations.

7 Discontinued operations

Discontinued operations consist of Budapest airport and the investments in Australian airports which were sold on 6 June 2007 and 8 November 2007 respectively, and WDFE and APP which are classified as held-for-sale at year end.

a) Net profit from discontinued operations

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m
Revenue	**379**	383
Fair value gains	**16**	43
Profit on disposal of operations	**280**	-
Operating costs		
Depreciation and amortisation	**(11)**	(26)
Other	**(296)**	(277)
Operating profit from discontinued operations	**368**	123
Share of profit of associates (net of interest and tax)	**6**	5
Financing:		
Financing income	**2**	4
Financing costs	**(21)**	(13)
Profit before tax from discontinued operations	**355**	119
Tax on profit of discontinued operations	**(106)**	(16)
Net profit from discontinued operations	**249**	103

b) Disposal of businesses

	Budapest book value at disposal £m	**Australia book value at disposal £m**	**31 December 2007 Total £m**
Property, plant and equipment	326	16	**342**
Investment property	71	10	**81**
Intangible assets (excluding goodwill)	891	38	**929**
Goodwill	59	-	**59**
Investments in associates	-	6	**6**
Other assets	96	13	**109**
Cash and cash equivalents	20	1	**21**
Deferred income tax liabilities	(34)	-	**(34)**
Provisions	(3)	(14)	**(17)**
Borrowings	-	(36)	**(36)**
Non current trade and other payables	(65)	-	**(65)**
Derivatives	-	(2)	**(2)**
Other liabilities	(13)	(2)	**(15)**
Net assets	**1,348**	**30**	**1,378**
Disposal costs	2	6	**8**
Foreign exchange reserves through income statement	(7)	(8)	**(15)**
Carrying value of disposed operations	**1,343**	**28**	**1,371**
Consideration:			
Cash and cash equivalents	1,020	342	**1,362**
Loan notes (discounted on acquisition)	222	-	**222**
Loan notes (non-cash) (Note 15)	67	-	**67**
	1,309	**342**	**1,651**
(Loss)/gain on disposal	**(34)**	**314**	**280**

Cash received was comprised of:

	£m
Budapest disposal:	
Cash and cash equivalents	1,020
Loan notes (discounted on acquisition)	222
Dividend (received on disposal)	18
	1,260
Australia disposal:	
Cash and cash equivalents	342
Total	**1,602**

8 Dividends paid and proposed

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m
Equity dividends declared and paid during the year		
Second interim dividend for the year ended 31 December 2007 of £nil (nine months ended 31 December 2006 of 15.25p)	**-**	165
Interim dividend for the year ended 31 December 2007 of £nil (nine months ended 31 December 2006: 7.0p)	**-**	78
	-	243

The directors did not declare or paid any dividend during the year ended 31 December 2007 (nine months ended 31 December 2006: £243 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 April 2006		5,632	974	579	86	687	4,137	**12,095**
Additions		10	2	14	-	-	999	**1,025**
Net transfers to investment properties	*10*	-	-	-	16	-	(18)	**(2)**
Transfers to completed assets		159	23	19	-	17	(218)	**-**
Borrowing costs capitalised	*5*	-	-	-	-	-	137	**137**
Disposals		(31)	(3)	(32)	(8)	(2)	(14)	**(90)**
Currency translation		2	1	4	(2)	-	(1)	**4**
Transferred to assets held-for-sale	*25*	(99)	(64)	(172)	-	-	(6)	**(341)**
Balance 1 January 2007		**5,673**	**933**	**412**	**92**	**702**	**5,016**	**12,828**
Additions		4	-	10	-	-	1,156	**1,170**
Net transfers to investment properties	*10*	-	-	-	8	-	(18)	**(10)**
Transfers to completed assets		302	204	62	19	11	(598)	**-**
Borrowing costs capitalised	*5*	-	-	-	-	-	260	**260**
Disposals		(21)	-	(2)	(1)	-	-	**(24)**
Currency translation		3	-	2	1	-	1	**7**
Transferred to assets held-for-sale	*25*	-	-	(72)	-	-	(16)	**(88)**
Balance 31 December 2007		**5,961**	**1,137**	**412**	**119**	**713**	**5,801**	**14,143**
Depreciation								
Balance 1 April 2006		**(1,790)**	**(222)**	**(314)**	**(29)**	**(160)**	**-**	**(2,515)**
Charge		(171)	(24)	(32)	(5)	(14)	-	**(246)**
Disposals		22	2	24	1	1	-	**50**
Currency translation		1	-	1	-	-	-	**2**
Transferred to assets held-for-sale	*25*	3	-	12	-	-	-	**15**
Balance 1 January 2007		**(1,935)**	**(244)**	**(309)**	**(33)**	**(173)**	**-**	**(2,694)**
Charge		(276)	(40)	(38)	(5)	(19)	-	**(378)**
Disposals		4	-	2	1	-	-	**7**
Currency translation		(2)	-	(1)	-	-	-	**(3)**
Transferred to assets held-for-sale	*25*	-	-	53	-	-	-	**53**
Balance 31 December 2007		**(2,209)**	**(284)**	**(293)**	**(37)**	**(192)**	**-**	**(3,015)**
Net book value 31 December 2007		**3,752**	**853**	**119**	**82**	**521**	**5,801**	**11,128**
Net book value 31 December 2006		3,738	689	103	59	529	5,016	10,134

Assets in the course of construction of £5,148 million (31 December 2006: £4,529 million) (excluding capitalised borrowing costs and the unwinding of the discount on the purchase of the Thames Water land) include £4,527 million (31 December 2006: £3,977 million) in respect of Terminal 5 at Heathrow Airport. This includes £179 million (31 December 2006: £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.

Assets in the course of construction also include £129 million (31 December 2006: £101 million) in respect of the development of a second runway and related infrastructure at Stansted Airport. The costs consist of £63 million (31 December 2006: £46 million) incurred in respect of the initial planning application preparation and £66 million (31 December 2006: £55 million) in respect of the purchase of domestic properties that fall within the expanded airport boundary. This includes a provision of £4 million (31 December 2006: £4 million) for the additional 10% payable under the Home Value Guarantee Scheme (HVGS) once planning permission has been obtained.

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £19 million (31 December 2006: £21 million).

Borrowing costs capitalised
The amount of borrowing costs included in the cost of Group assets was £1,195 million (31 December 2006: £935 million). Borrowing costs were capitalised at an average rate of 5.95% (31 December 2006: 5.16%).

A tax deduction of £260 million (31 December 2006: £137 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 gives 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 17.

10 Investment properties

	Note	Airport investment properties £m	Investment properties in joint ventures £m	Assets in the course of construction £m	Total £m
Valuation					
Balance 1 April 2006		2,904	391	90	**3,385**
Transfers to completed assets		4	-	(4)	**-**
Net transfers from operational assets	*9*	2	-	-	**2**
Disposals		-	(22)	-	**(22)**
Valuation gain[1]		164	42	-	**206**
Currency translation		3	-	-	**3**
Transfer to assets held-for-sale	*25*	(71)	-	-	**(71)**
Balance 1 January 2007		3,006	411	86	**3,503**
Additions		2	21	-	**23**
Transfers to completed assets		78	-	(78)	**-**
Net transfers from operational assets	*9*	10	-	-	**10**
Disposals		(10)	(18)	-	**(28)**
Valuation gain		45	16[2]	-	**61**
Transfer to assets held-for-sale	*25*	-	(430)	-	**(430)**
Balance 31 December 2007		3,131	-	8	**3,139**

[1] Includes discontinued operations.
[2] Included within net profit from discontinued operations.

Airport investment were valued at fair value at 31 December 2007 by Drivers Jonas, Chartered Surveyors, Strutt and Parker, Chartered Surveyors and John Arbuckle BLE (Hons), Head of BAA Professional Services.

Details of valuations performed are provided below:

	Note	**31 December 2007 £m**	31 December 2006 £m
Drivers Jonas		**2,175**	1,984
King Sturge		**430**	325
Strutt & Parker		**13**	13
At professional valuation		**2,618**	2,322
At directors' valuation		**951**	1, 252
		3,569	3,574
Transfer to assets held-for-sale	*25*	**(430)**	(71)
		3,139	3,503

The investment properties held by the joint venture partnership (APP) of £430 million were valued by King Sturge, Valuers and Surveyors have been transferred to assets classified as held-for-sale at 31 December 2007 (Note 25).

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 19,552m^2 in the period (31 December 2006: 16,907m^2) amounting to 0.85% (31 December 2006: 0.53%) 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 £4 million (31 December 2006: £2 million) for which a similar amount is included within operating costs.

Included in investment properties are assets with a carrying value of £71 million (31 December 2006: £72 million) which the Group has provided as security for the £30 million debentures due 2017 on behalf of a subsidiary. Security granted by the Group over its assets, including investment properties, is disclosed in Note 17.

11 Intangible assets

	Note	Goodwill	Software costs	Asset management contract	Other	Total
		£m	**£m**	**£m**	**£m**	**£m**
Cost						
Balance 1 April 2006		79	186	918	6	**1,189**
Additions		-	14	-	1	**15**
Disposals		(10)	(36)	-	-	**(46)**
Currency translation		-	-	22	-	**22**
Transferred to assets held-for-sale	*25*	(59)	-	(903)	-	**(962)**
Balance 1 January 2007		10	164	37	7	**218**
Additions		-	9	3	-	**12**
Disposals		-	-	(40)	-	**(40)**
Currency translation		-	-	-	-	**-**
Transferred to assets held-for-sale		-	-	-	-	**-**
Balance 31 December 2007		10	173	-	7	**190**
Amortisation						
Balance 1 April 2006		-	(108)	(4)	-	**(112)**
Charge for the year		-	(15)	(9)	-	**(24)**
Disposals		-	36	-	-	**36**
Transferred to assets held-for-sale	*25*	-	-	12	-	**12**
Balance 1 January 2007		-	(87)	(1)	-	**(88)**
Charge for the year		-	(23)	-	-	**(23)**
Disposals		-	-	1	-	**1**
Transferred to assets held-for-sale		-	-	-	-	**-**
Balance 31 December 2007		-	(110)	-	-	**(110)**
Net book value 31 December 2007		10	63	-	7	**80**
Net book value 31 December 2006		10	77	36	7	**130**

Goodwill
Goodwill is not amortised but is subject to an annual impairment test. Goodwill of £10 million relates to the Group's investment in Societa Gestione Servizi Aeroporti Campani (GESAC) and is allocated to the cash-generating unit ('CGU') defined as the totality of the Group's GESAC operations (Naples Airport). The recoverable amount of the CGU has been calculated based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management covering a five-year period.

Software costs
The capitalised computer 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 £15 million (31 December 2006: £40 million).

Asset management contract
The opening balance at 1 January 2007 represents the license to operate Perth's airport for 50 years to 2051. This license was disposed of as part of the sale of investments in Australian airports during the year.

12 Investments in associates

At 31 December 2007, the Group's principal associate was:

	% of share capital held	Activity	Country of incorporation
Advanced Transport Systems Limited	37.5	Transport	England & Wales

The Group share in equity of Advanced Transport Systems Limited ('ATS') represents an equity stake of 37.5% (31 December 2006: 19%). In October 2007 the Group increased its investment for a consideration of £2 million and its total investment increased to £8m (including goodwill of £3 million) at 31 December 2007 (31 December 2006: £5 million). This investment is accounted for as an associated undertaking as the Group has significant influence over the entity through representation on the board. At 31 December 2006 this investment was classified as an available-for-sale investment and reclassified to investment in associates from October 2007.

The investment in Australia Pacific Airports Corporation ('APAC') was disposed of in the period as part of the disposal of the Australian operations. The Group's equity stake at the date of disposal (8 November 2007) and at 31 December 2006 was 19.82%.

The summarised financial position and results of the Group's investment in associates accounted for using the equity method, is as follows:

	31 December 2007	31 December 2006
	£m	£m
Share of balance sheet		
Non-current assets	**4**	124
Current assets	**2**	10
Non-current liabilities	**-**	(124)
Current liabilities	**(1)**	(8)
Net assets	**5**	2

The share of net profits from APAC is included in net profit from discontinued operations. The share of profits from ATS in the year ended 31 December 2007 was £nil.

13 Available-for-sale investments

	Note	**31 December 2007** **£m**	31 December 2006 £m
Unlisted securities			
Balance 1 January 2007 / 01 April 2006		**122**	114
Additions		**-**	5
Disposals		**(47)**	(1)
Transferred to investment in associates		**(5)**	-
Transfer to assets classified as held-for-sale	*25*	**(40)**	-
Revaluation surplus transferred to equity	*29*	**17**	4
		47	122

Available for sale investments include £47 million (31 December 2006: £72 million) in National Air Traffic Services Group ('NATS'), the UK's national air traffic services provider. The investment in NATS represents a 4.19% equity interest and £24 million priority loan notes yielding a fixed interest rate of 8.5% with a maturity of 2032. During the year the £33 million undated loan notes were fully redeemed at the fair value of £41 million and £1 million were redeemed on the £24 million 2032 priority loan notes. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The equity investment is valued by discounting the forecast dividend stream and discounting an assigned terminal value to the equity in 2032. A rate of 10.5% (31 December 2006: 10.5%) has been used as the discount factor. The priority loan notes investment is valued by discounting future interest and principal payments.

In November 2007 the Group disposed of its investment in Northern Territory Airports (31 December 2006: £5 million).

The Group's share of investments in various unit trusts and limited partnerships held by APP have been transferred to assets classified as held-for-sale (Note 25) and its investment in ATS is treated as an equity-accounted associate at 31 December 2007 (Note 12).

Additional disclosure on credit risk management is included in Note 19.

14 Inventories

	31 December 2007 **£m**	31 December 2006 £m
Goods held for resale	**-**	23
Consumables	**9**	7
	9	30

The total amount of inventories consumed in the year relating to continuing operations was £nil (31 December 2006: £25 million).

The total amount of inventories consumed in the year relating to discontinued operations was £200 million (31 December 2006: £169 million).

There is no material difference between the balance sheet value of inventories and the replacement cost.

15 Trade and other receivables

	31 December 2007 **£m**	31 December 2006 £m
Non-current		
Other receivables	**74**	4
Total non-current	**74**	4
Current		
Trade receivables	**206**	219
Less: Provision for impairment	**(3)**	(3)
Trade receivables – net	**203**	216
Prepayments	**56**	30
Loan to the parent company	**1,967**	114
Interest receivable from parent company	**74**	-
Other receivables	**48**	32
Total current	**2,348**	392

The Group has provided an unsecured loan to its immediate parent company (ADIL) to service its interest costs and debt repayments. The outstanding amount of the loan as at 31 December 2007 was £1,967 million (31 December 2006: £114 million). The loan bears a floating interest rate based on the Group's average cost of borrowings. The rate as at 31 December 2007 was 7.37% (31 December 2006: 5.77%).

Non-current other receivables include £67 million 6.0% loan notes due 2011 which were received from Caisse de depot et placement du Quebec in connection with the disposal of Budapest Airport (Note 7). These notes are part of the investments of the Group and designated as loans and receivables under IAS 39.

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.

As of 31 December 2007, trade receivables of £158 million (31 December 2006: £186 million) were fully performing. Trade receivables of £41 million (31 December 2006: £29 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 2007 **£m**	31 December 2006 £m
Up to 3 months	**36**	29
over 3 months	**5**	-
	41	29

Movements in the provision for impairment of trade receivables are as follows:

	£m
Balance 1 April 2006	5
Provision for receivables impairment	-
Receivables written off during the year as uncollectible	(2)
Balance 1 January 2007	3
Provision for receivables impairment	2
Receivables written off during the year as uncollectible	(2)
Balance 31 December 2007	**3**

As of 31 December 2007, trade receivables of £7 million (31 December 2006: £4 million) were considered for impairment and of which an amount of £3 million (31 December 2006: £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 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 receivables is as follows:

	31 December 2007 **£m**	31 December 2006 £m
3 to 6 months	**3**	3
	3	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 19.

16 Cash and cash equivalents

	31 December 2007 **£m**	31 December 2006 £m
Cash at bank and in hand	**53**	49
Money market funds	**77**	44
Short-term deposits	**10**	-
	140	93

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk.

Money market funds held at 31 December 2007 total £77 million (31 December 2006: £44 million). The funds have no fixed maturity date, however the Group can withdraw its investment on demand. Returns are based on fund performance.

Included in the above cash balances is restricted cash at bank of £1 million (31 December 2006: £10 million), restricted money market funds of £7 million (31 December 2006: £7 million) and restricted short term deposits of £7 million (31 December 2006: £nil).

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:

	31 December 2007 **£m**	31 December 2006 £m
Cash at bank and in hand	**53**	49
Money market funds	**77**	44
Short-term deposits	**10**	-
Cash and cash equivalents held by operations classified as held-for-sale	**10**	37
	150	130

At 31 December 2007, cash and cash equivalents classified as held-for-sale (Note 25) includes balances held by APP and WDFE (31 December 2006: cash and cash equivalents held by Budapest Airport).

17 Borrowings

	31 December 2007 **£m**	Restated[1] 31 December 2006 £m
Current		
Unsecured		
BAA Limited bonds:		
7.875% £200 million due 2007	**-**	200
Bank Loans	**50**	36
	50	236
Borrowings from parent		
BAA Limited convertible bonds:		
2.94% of £424 million due 2008	**424**	-
Total current (excluding interest payable)	**474**	236
Interest payable	**146**	133
Total current	**620**	369
Non-current		
Secured		
£30 million Debentures due 2017	**30**	30
Bank loans	**-**	204
Senior Capex Facility	**980**	200
£200 million Term Facility	**200**	-
Unsecured		
BAA Limited bonds:		
3.875% €1,000 million due 2012	**732**	670
5.750% £400 million due 2013	**398**	397
4.500% €750 million due 2014	**554**	508
11.750% £300 million due 2016	**310**	310
4.500% €750 million due 2018	**548**	501
8.500% £250 million due 2021	**247**	247
5.125% £750 million due 2023	**738**	738
6.375% £200 million due 2028	**197**	197
5.750% £900 million due 2031	**893**	898
Bank loans	**369**	415
	6,196	5,315
Borrowings from parent		
Unsecured		
BAA Limited convertible bonds:		
2.940% £424 million due 2008	**-**	424
2.625% £425 million due 2009	**425**	417
	425	841
Total non-current	**6,621**	6,156
Total current and non-current (excluding interest payable)	**7,095**	6,392

[1] Interest payable is included within current borrowings and the Senior Capex Facility included within non-current borrowings at 31 December 2007. The comparative balance at 31 December 2006 have been reclassified from trade and other payables and current borrowings respectively.

BAA Limited bonds

- The 7.875% £200 million bond matured in February 2007 and was refinanced by a bank £200 million Term Facility.
- Bonds are carried at amortised cost and the carrying value includes amortised transaction costs, premiums and discounts. The effective interest rate on the bonds varies between 4.01% and 11.16%.
- Interest and principal payments on all Euro bonds are swapped to fixed Sterling payments through cross-currency interest rate swaps, with the exception of interest payments on £38 million nominal of the 2014 Euro bond, which are floating Sterling interest rate payments based on LIBOR. The details of these hedges are disclosed in Note 18.
- All BAA Sterling bonds bear fixed rate coupons. A portion of the 5.75% £900 million bond had been hedged for fair value risk and the interest payments on £200 million of this bond had been swapped into floating interest payments until June 2007, when the hedge was terminated. The detail of this hedge is disclosed in Note 18.
- Bonds issued under the £4.5 billion European Medium Term Note programme totalled £ 3,603 million (31 December 2006: £3,603 million). The carrying value of these bonds was £ 3,713 million as at 31 December 2007 (31 December 2006: £3,563 million).
- The Group's £424 million 2.94% convertible bonds convert at the option of the holder into fully-paid £1 ordinary shares of the Company at a price of 800 pence per share at any time up to 28 March 2008. The Group's £425 million 2.625% convertible bonds convert at the option of the holder into fully-paid £1 ordinary shares of the Company at a price of 576p per share at any time up to 5 August 2009. Unless previously redeemed or converted, the Group will redeem the bonds at par on 4 April 2008 and 19 August 2009 respectively.
- The BAA Lynton plc debenture due 2017 has a principal value of £30 million and is fully secured on certain investment properties of the Group.

Other borrowings

- The Senior Capex Facility was £980 million drawn as at 31 December 2007 (31 December 2006: £200 million). This revolving facility matures in 2011 and amounts repaid may be subsequently redrawn. The Libor interest payments on £350 million of the facility were fixed through Group's portfolio of interest rate swaps as at 31 December 2007. A commitment fee of 0.70% applies to undrawn amounts of this facility. The interest rates on the facility is based on Libor plus a margin. The margin on the facility as at 31 December 2007 was 2.00% (31 December 2006: 1.00%). The future contractual step-ups in the margin are as following:

January 2008:	0.125%
July 2008:	0.15%
January 2009:	0.20%
July 2009:	0.20%

- The £200 million Term Facility was drawn in February 2007 to repay the matured 7.875% £200 million bond. The facility matures in 2011 and bears floating interest rate based on Libor plus a margin. As at 31 December 2007 the margin on the facility was 0.90% and from 15 February 2008 increased to 1.00%.
- As at 31 December 2007 the unsecured bank loans include EIB bank loans of £411 million (31 December 2006: £444 million) and Euro denominated debt and overdrafts of BAA subsidiaries of £9 million (31 December 2006: £5 million). The EIB facilities amortise over the period to 2019. The interest rate on these facilities is predominantly floating, except for £20 million principal which is fixed at 6.58%.

- The £204 million of secured bank loans outstanding as at 31 December 2006 related to the debt of the Joint Ventures of the Group. These Joint Ventures were either disposed of in the year or classified as assets held-for-sale as at 31 December 2007.

BAA Limited and certain of its subsidiaries have given security over their respective assets in support of the £200 million Term Facility and the Senior Capex Facility as well as the ADIL Senior and Subordinated bank loan facilities. By virtue of an intercreditor agreement any claim under such security is limited so that the claim does not result in a breach of the financial covenants in the existing BAA Limited bonds. As at 31 December 2007 security, limited as stated above, is provided by BAA Limited and its subsidiaries in support of the Group debt totalling £1,180 million (31 December 2006: £200 million). In addition the amount of security provided in respect of the guarantees issued to support debt incurred by ADIL is £1.3 billion (31 December 2006: £2.3 billion). The total amount of the upstream guarantees is £1.8 billion as disclosed in Note 31.

Fair value of borrowings

	31 December 2007		31 December 2006	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Long-term debt	**6,196**	**5,847**	5,315	5,520
Long-term convertible debt (borrowings from parent)	**425**	**412**	841	787
	6,621	**6,259**	6,156	6,307

The fair value of short-term borrowings approximates their book value. Accrued interest is included as a current borrowing balance and not in the carrying amount of non-current borrowings. Accrued interest is included in the calculation of the fair value of 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.

Covenants

- The long dated BAA bonds (namely the £300 million due 2016, the £250 million due 2021, the £200 million due 2028 and the £900 million due 2031 bonds) contain customary covenants placing restrictions on distributions to certain shareholders, disposals, and the level of total and secured borrowings. The Net Borrowings of BAA Limited and its Subsidiaries should not exceed an amount equal to 1.75 times the Adjusted Capital and Reserves as such terms are defined in the bonds' documentation. Furthermore the covenants require that secured and other debt of the Group as defined in the documents should not exceed an amount equal to 0.5 times the Adjusted Capital and Reserves. The Group is also required to maintain a minimum average ratio of 2:1 of Consolidated Income Before Interest and Taxes to Consolidated Interest Payable, as such terms defined in the bonds' documentation. The restriction on borrowings calculation takes into consideration the guarantees and security issued by BAA Limited and certain of its subsidiaries in support of the ADIL debt to the extent that such guarantees do not result in a breach of the bond covenants. As a consequence, both restrictions on borrowings ratios reach the maximum allowed level at 31 December 2007.
- The EIB facilities contain certain restriction on change of control, as well as leverage and interest cover covenants. As at 31 December 2007 EIB has waived the change of control restriction and agreed to align the financial covenants under the facilities with those under long dated bonds. The waiver expires on 15 March 2008.
- The Senior Capex Facility and the £200 million Term Facility contain customary restrictions on change of control and distributions to shareholders as well as financial covenants. Under this facility the ADIL Group is required to maintain certain Debt Cover ratios and a minimum Cashflow Cover ratio as these terms are defined in the facilities. The required levels as at 31 December 2007 were less than 1.00 :1.00 for Debt Cover and minimum of 1.05:1.00 for Cashflow Cover ratio. In addition, ADIL Group is required to ensure that capital expenditure incurred during a quinquennium does not exceed 110% of the level set by CAA.
- All financial covenants have been tested and complied with as at 31 December 2007.

Additional disclosures on risk management and hedging of the borrowings are included in Notes 18 and 19.

18 Derivative financial instruments

2007	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Equity swap - no hedge accounting	120	-	(43)	**(43)**
Embedded derivative in electricity purchase contract	37	10	-	**10**
Forward foreign exchange contracts - no hedge accounting	6	-	-	**-**
Interest rate swaps - no hedge accounting	350	-	(4)	**(4)**
	513	**10**	**(47)**	**(37)**
Non-current				
Interest rate swaps - cash flow hedge	475	-	(2)	**(2)**
Cross-currency swaps - cash flow hedge	1,665	93	-	**93**
Cross-currency swaps - fair value hedge	38	1	-	**1**
	2,178	**94**	**(2)**	**92**
31 December 2007	**2,691**	**104**	**(49)**	**55**

2006		**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Embedded derivative in electricity purchase contract	37	-	(11)	**(11)**
Forward starting interest rate swaps - no hedge accounting	1,050	-	(39)	**(39)**
Forward foreign exchange contracts - no hedge accounting	26	-	(1)	**(1)**
Interest rate swaps - cash flow hedge	475	1	-	**1**
Cross-currency swaps - cash flow hedge	475	-	(13)	**(13)**
Cross-currency swaps - fair value hedge	38	-	(1)	**(1)**
	2,101	1	(65)	**(64)**
Non-current				
Interest rate swaps - fair value hedge	200	3	-	**3**
Cross-currency swaps - cash flow hedge	1,190	4	-	**4**
	1,390	7	-	**7**
31 December 2006	3,491	8	(65)	**(57)**

Any derivatives that are not in qualifying hedge relationships at the reporting date are presented as current irrespective of their maturities.

Equity swap
In 2007 the Group entered into a number of equity swaps to hedge share price risk under the Group's Executive Share Option Plan ('ESOP'), which is disclosed in Note 22.

Embedded derivative in electricity purchase contract
The Group has entered into electricity purchase contracts which allow it to fix the future purchase price of electricity. These contracts allow the Group to unlock the fixed price for an agreed minimum volume. The nature of the contacts gives rise to embedded derivatives, which are recognised in the balance sheet at their fair value. The movements in the fair value are recognised in operating expenses.

Interest rate swaps
Interest rate swaps with a notional principal of £475 million have been entered into 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). For part of the period ended 31 December 2006 the hedge relationship did not qualify for hedge accounting and an £8 million gain arising on both interest rate swaps and cross-currency interest rate swaps (see below) was recognised in the income statement. The losses deferred in equity reserves 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% (31 December 2006: 5.1% to 5.5%) and the floating rates are based on six month LIBOR.

The net fair value loss of £1 million (31 December 2006: £27 million gain) has been recognised in the period in the income statement in relation to derivatives that do not qualify for hedge accounting.

Interest rate swaps with a notional principal amount of £200 million were terminated during the year. The swaps had been entered into as a fair value hedge of £200 million of the £900 million bond due 2031. A fair value loss of £6 million has been recognised in the year in the income statement, to offset the fair value gain of £5 million on the hedged part of the bond.

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 3.9% and pays Sterling interest at a fixed rate of 5.1%, and under the €750 million (£510 million) swap, the Group receives Euro interest at a fixed rate of 4.5% and pays Sterling interest at a fixed rate of 5.4%. The losses deferred in equity reserves 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) swap. Under this swap, the Group receives Euro interest at a fixed rate of 4.5% and pays Sterling interest at a variable rate based on six month LIBOR. A part of this swap together with £475 million interest rate swap (see above) was designated as a cash flow hedge against currency and cash flow interest rate risk on the € 750 million bond due 2014. For a part of the period ended 31 December 2006 the swap did not qualify for hedge accounting and a loss of £8 million was recognised in the income statement. The losses deferred in equity reserves on this swap will be continuously released to the income statement over the period to maturity of the hedged bond.

£38 million of the cross currency swap is designated as a fair value hedge and is used to hedge currency and fair value interest rate risk on the € 750 million bond due 2014.

Foreign exchange contracts
Foreign exchange forward and swap contracts have been entered into buying US$1 million (31 December 2006: US$15 million), €6 million (31 December 2006: €22 million), Swiss Fr 2 million (31 December 2006: Swiss Fr 4 million) and Polish PLN 2 million (31 December 2006: PLN 8 million) 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.

19 Financial Instruments

Financial risk management objectives and policies
The Group's principal financial instruments, except derivatives, comprise bank loans, listed bonds, listed convertible 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. In 2007 the Group entered into a number of equity swaps to hedge share price risk under the ESOP.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Treasury's function is to identify, mitigate and hedge treasury-related financial risks inherent to the Group's business operations, in accordance with Group treasury policies.

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
The Group has overseas operations which give rise to limited exposure to foreign currency risk arising primarily with respect to the Euro currency. Foreign exchange risk mainly arises from future commercial transactions and investments in foreign operations. The Group does not hedge the translation risk related to investments in foreign operations.

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 minimus 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 2007, if the Sterling had strengthened 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 2006: decrease by £1 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 decreased by £4 million (31 December 2006: increase by £2 million).

As at 31 December 2007, if the Sterling had strengthened by 10% against the USD, with all other variables remaining constant, there would be nil effect on pre tax profit (31 December 2006: decrease by £1 million), and if the Sterling had weakened by 10% against the USD, with all other variables remaining constant, there would be £nil effect on pre tax profit (31 December 2006: increase by £1 million).

Price risk
The Group is not materially exposed to equity security price risk on investments held and classified on the consolidated balance sheet as available for sale.

The Group is exposed to share price risk of its ultimate parent, Grupo Ferrovial, S.A., arising from its ESOP programme. The Group uses equity swaps to manage this exposure. As at 31 December 2007, if the Ferrovial share price had strengthened or weakened by 10%, pre tax profit for the year would have increased or decreased by £8 million (31 December 2006: £nil).

The Group is exposed to the risk of an increase in the prices of commodities, in particular electricity, used within its operations. To manage the risk the Group enters into electricity purchase contracts which allow the Group to fix the future purchase price of electricity. As at 31 December 2007, if the electricity index had strengthened or weakened by 10%, pre tax profit for the year would have increased or decreased by £5 million (31 December 2006: £2 million).

Cash flow and fair value interest rate risk
The Group's interest rate risk arises 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 cash flow 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 2007, the Group's fixed: floating interest rate profile, after hedging, on net debt was 84:16 (31 December 2006: 85:15).

As at 31 December 2007, if interest rates had moved by 0.5%, this would have resulted in the following movement to pre tax profit and equity, due to movement in the interest charge and mark-to-market valuation of derivatives.

	31 December 2007		31 December 2006	
	P&L Impact £m	**Equity Impact £m**	P&L Impact £m	Equity Impact £m
0.5% increase	**(2)**	**(48)**	(43)	(49)
0.5% decrease	**2**	**50**	46	34

Credit risk
Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, 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.

Financial assets past due but not impaired are disclosed in Note 15.

The maximum exposure to credit risk in relation to financial assets of the Group, excluding amounts receivable from the immediate parent company, as at 31 December 2007 is £615 million (31 December 2006: £475 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 2007 £m	31 December 2006 £m
Floating rate facilities		
Expiring in more than two years	**1,270**	2,050
	1,270	2,050

In addition to the above, during February 2008 the immediate parent company (ADIL) entered into a new Senior Capex facility of £800 million. The Group will access that facility through ADIL.

As at 31 December 2007, overdraft facilities of £10 million (31 December 2006: £25 million) were available to the Group.

The table below analyses the Group's financial liabilities and net settled derivative financial liabilities based on the nominal balance as at 31 December 2007 and 2006 to the contractual maturity date. The amounts disclosed are based on contractual undiscounted cash flows.

	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	**474**	**469**	**1,970**	**4,068**
Borrowing interest payments	**382**	**374**	**938**	**2,130**
Derivative financial instruments	**(1)**	**(1)**	**(4)**	**(24)**
Trade payables	**224**	**-**	**-**	**-**

	31 December 2006			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	235	468	744	4,783
Borrowing interest payments	339	314	888	2,340
Derivative financial instruments	(1)	(1)	(3)	7
Trade payables	169	-	-	-

As at 31 December 2007 £424 million included in the category "One to two years" and £425 million included in the category "Two to five years" relate to payable to immediate parent under convertible bonds. These balances will be offset against loan receivable from parent and therefore will not have any impact on cash outflow.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December to the contractual maturity date.

	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	**97**	**97**	**262**	**202**
Cross currency derivative receipts	**(78)**	**(78)**	**(211)**	**(172)**

	31 December 2006			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross currency derivative payment	91	91	273	254
Cross currency derivative receipts	(72)	(72)	(215)	(207)

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.

Consistent with financial covenants contained in BAA long dated bonds, the Group monitors capital on the basis of the gearing ratio. Refer to Note 17 Borrowings for further disclosure on BAA 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 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**
Available-for-sale financial assets	-	-	-	47	**47**
Derivative financial instruments	-	10	94	-	**104**
Cash and cash equivalents	63	-	-	77	**140**
Trade receivables	203	-	-	-	**203**
Other receivables	121	-	-	-	**121**
Loan and interest receivable from parent company	2,041	-	-	-	**2,041**
Total Financial Assets	2,428	10	94	124	**2,656**

	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities £m**	**Total £m**
Borrowings	-	-	(7,095)	**(7,095)**
Derivative financial instruments	(47)	(2)	-	**(49)**
Trade payables	-	-	(224)	**(224)**
Total Financial Liabilities	(47)	(2)	(7,319)	**(7,368)**

	31 December 2006				
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for-sale £m	Total £m
Available-for-sale financial assets	-	-	-	122	122
Derivative financial instruments	-	1	7	-	8
Cash and cash equivalents	56	-	-	37	93
Trade receivables	216	-	-	-	216
Other receivables	36	-	-	-	36
Loan and interest receivable from parent company	114	-	-	-	114
Total Financial Assets	422	1	7	159	589

	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings	-	-	(6,392)	(6,392)
Derivative financial instruments	(65)	-	-	(65)
Trade payables	-	-	(169)	(169)
Total Financial Liabilities	(65)	-	(6,561)	(6,626)

At 31 December 2007, the company has not designated any financial assets or financial liabilities at fair value through income statement. The only financial assets and financial liabilities at fair value through income statement were derivatives that did not qualify for hedge accounting.

20 Deferred income tax

The amounts of deferred income tax provided are detailed below:

	Year ended 31 December 2007	9 months ended 31 December 2006
	£m	£m
Balance 1 January 2007/ 1 April 2006	**1,687**	1,643
Transfer to current income tax	**(4)**	-
Transfer of subsidiary to assets held-for-sale	**2**	(30)
Disposal of operations	**(14)**	-
(Credited)/charged to income statement	**(54)**[1]	72
Charged/ (credited) to equity	**92**	(1)
Change in tax rate – charge to equity	**4**	-
Balance sheet reclassification	**-**	3
Balance at 31 December	**1,713**	1,687

[1] Includes £(114) million credit to income statement for change in tax rate from 30% to 28% effective 1 April 2008.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Note	Excess of Capital Allowances over depreciation	Post Employment Benefits	Revaluations of investment property to fair value	Revaluations of Property, Plant, and Equipment	Other Fair Value Items	Provision for sale of overseas subsidiary	Other	**Total**
		£m	£m	£m	£m	£m	£m	£m	**£m**
Balance 1 April 2006		809	-	707	149	47	-	27	**1,739**
Charged to Income Statement		12	-	56	-	-	10	2	**80**
Reallocation		-	-	(15)	15	-	-	-	**-**
Transfer of subsidiary to asset held-for-sale	*25*	-	-	-	-	(33)	-	-	**(33)**
Balance sheet reclassification		-	-	-	-	-	-	3	**3**
(Credited) to equity		-	-	-	(3)	-	-	-	**(3)**
Balance 1 January 2007		**821**	**-**	**748**	**161**	**14**	**10**	**32**	**1,786**
Transfer from deferred income tax assets		-	(71)	-	-	-	-	-	**(71)**
Charged/(credited) to income statement		(20)	(13)	(20)	(11)	-	-	14	**(50)**
Transfer of subsidiary to assets held-for-sale	*25*	2	-	-	-	-	-	-	**2**
Disposal of operations		-	-	-	-	(14)	-	-	**(14)**
Change in tax rate charge/ (credited) to equity		-	12	(8)	-	-	-	-	**4**
Charged/(credited) to equity		-	105	-	(5)	-	-	-	**100**
Balance 31 December 2007		**803**	**33**	**720**	**145**	**-**	**10**	**46**	**1,757**

Deferred income tax assets

	Note	Post Employment Benefits	Share-based Payments	Capital Losses	IAS 32/39	Other	**Total**
		£m	£m	£m	£m	£m	**£m**
Balance 1 April 2006		47	22	-	23	4	**96**
Transfer of subsidiary to asset held-for-sale	*25*	-	-	-	-	(3)	**(3)**
Credited/(charged) to the income statement		6	(8)	18	(8)	-	**8**
Credited/(charged) to equity		18	(14)	-	(6)	-	**(2)**
Balance 1 January 2007		**71**	**-**	**18**	**9**	**1**	**99**
Transfer to deferred income tax liabilities		(71)	-	-	-	-	**(71)**
Transfer to current income tax		-	-	-	4	-	**4**
(Charged)/credited to the income statement		-	-	(1)	5	-	**4**
Credited to equity		-	-	-	8	-	**8**
Balance 31 December 2007		**-**	**-**	**17**	**26**	**1**	**44**

Deferred income tax credited/(charged) to equity during the year is as follows:

	Year ended 31 December 2007	9 months ended 31 December 2006
	£m	£m
Reserves in shareholders' equity		
Available-for-sale reserve	**(3)**	-
Cash flow hedge reserve	**11**	(6)
Change in tax rate	**(4)**	-
Indexation - operational land	**5**	3
Retirement benefit obligations	**(105)**	18
Share-based payments	**-**	(14)

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 2007 and some are expected to be enacted in the Finance Act 2008.

The effect of the changes enacted in the 2007 Finance Act has been to reduce the deferred tax provided at 31 December 2007 by £110 million. This £110 million decrease in deferred tax has increased profit by £114 million and decreased other reserves by £4 million. This decrease in deferred tax is due to the reduction in the UK Corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008.

The effect of the phased abolition of Industrial Buildings Allowances ('IBA') which is likely to be enacted in the 2008 Finance Act, is expected to increase the deferred tax liability provided as at 31 December 2007 by £1.2 billion in 2008, based on capital expenditure incurred as at 31 December

2007. The actual deferred tax impact is expected to increase to £1.4 billion when capital expenditure incurred during the period to substantive enactment (June 2008) is reflected.

21 Retirement benefit obligations

	Year ended **31 December 2007** **£m**	9 months ended 31 December 2006 £m
BAA Pension Scheme	**89**	65
Defined contribution schemes	**1**	1
Additional provision for unfunded pensions	**1**	2
Total operating charge to staff costs	**91**	68

	31 December 2007 **£m**	31 December 2006 £m
BAA Pension Scheme	**144**	(212)
Unfunded pension obligations	**(18)**	(17)
Post-retirement medical benefits	**(4)**	(4)
Surplus/(liability) recognised in the balance sheet	**122**	(233)

(a) BAA Pension Scheme

The Group operates one main pension scheme for its UK employees, the BAA Pension Scheme, which is a funded defined benefit scheme with both open and closed sections. The scheme's assets are held separately from the assets of the Group and are administered by trustees.

The value placed on the liabilities of the scheme as at 31 December 2007 is based on the initial results of the actuarial valuation underway at 30 September 2007. The value placed on the liabilities of the scheme as at 31 December 2006 is based on the results of the actuarial valuation undertaken at 30 September 2004. The liabilities have been updated by Mercer Limited, to take account of changes in economic and demographic assumptions, in accordance with IAS 19 - Employee Benefits. The plan assets are stated at their bid value at 31 December 2007 and 31 December 2006. The Group’s accounting policy is to recognise actuarial gains and losses as they occur in the statement of recognised income and expense.

The financial assumptions used to calculate scheme asset and liabilities under IAS 19 are:

	31 December 2007 **%**	31 December 2006 %
Rate of increase in pensionable salaries	**4.9**	4.6
Increase to deferred benefits during deferment	**3.4**	3.1
Increase to pensions in payment:		
Open section	**3.3**	3.0
Closed section	**3.4**	3.1
Discount rate	**5.8**	5.2
Inflation assumption	**3.4**	3.1
Expected return on plan assets		
Equities	**8.2**	8.0
Bonds	**5.0**	4.6
Other	**5.5**	5.0

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60-year old male pensioner of 24.8 years and 25.9 years from age 60 for a 40 year old male non-pensioner. The assumptions are the same as those used at 31 December 2006.

The accounting standard requires that the discount rate used be determined by reference to market yields at the balance sheet date on high quality fixed income investments. The currency and terms of these should be consistent with the currency and estimated term of the post-employment obligations. The discount rate has been based on the yield available on AA rated corporate bonds of a term similar to the liabilities.

The expected rate of inflation is an important building block for the salary growth and pension increase assumption. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked Government bonds.

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

For bond investments with fixed interest rates the expected yield is derived from their market value.

In respect of the equity investments, investment returns are variable and are generally considered "riskier" investments. It is generally accepted that the yield on equity investments contains a premium, the "equity risk premium", to compensate investors for the additional risk of holding this type of investment. There is significant uncertainty about the likely size of this risk premium. The assumption chosen is within the range of long term market expectations.

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 6.3% assumption (31 December 2006: 6.8%)

The amounts recognised in the income statement are as follows:

	Year ended **31 December 2007** **£m**	9 months ended 31 December 2006 £m
Current service cost	**88**	68
Finance cost on benefit obligation	**123**	83
Expected return on plan assets	**(135)**	(98)
Past service cost - routine items	**2**	2
Past service cost - exceptional items	**11**	17
Total operating charge to staff costs	**89**	72

Analysis of the amounts recognised in the statement of recognised income and expense:

	31 December 2007 **£m**	31 December 2006 £m
Actual return less expected return on plan assets	**(4)**	(57)
Experience gains and losses arising on the benefit obligation	**130**	(8)
Changes in assumptions underlying the present value of the benefit obligation	**249**	7
Actuarial gain/ (loss) recognised in the statement of recognised income and expense	**375**	(58)
Percentage of scheme liabilities	**17.7**	(2.4)

The actual return on plan assets was £131 million (31 December 2006: £41 million).

The target asset allocation is 40:60 equity to gilts. In order to achieve this, the scheme holds physical assets and also has entered into an asset swap agreement with an approved counterparty to effectively receive fixed returns in exchange for variable returns.

The amounts recognised in the balance sheet are determined as follows:

	31 December 2007 **£m**	31 December 2006 £m	31 March 2006 £m	31 March 2005 £m	31 March 2004 £m
Fair value of plan assets					
Equities	**1,116**	1,511	1,480	1,151	1,056
Bonds	**1,059**	571	567	501	459
Other	**92**	38	19	16	11
Total fair value of plan assets	**2,267**	2,120	2,066	1,668	1,526
Present value of benefit obligation	**(2,123)**	(2,332)	(2,196)	(1,850)	(1,666)
Surplus/(liability) recognised in the balance sheet[1]	**144**	(212)	(130)	(182)	(140)

[1] The pension scheme surplus (less the liabilities for other pension and post-retirement schemes) at 31 December 2007 is recognised as an asset in the balance sheet as it is recoverable by the Group under the Scheme rules.

Analysis of movement in the benefit obligation:

	31 December 2007 **£m**	31 December 2006 £m
Benefit obligation at beginning of year	**2,332**	2,196
Movement in the year:		
Current service cost	**88**	68
Finance cost	**123**	83
Members' contributions	**15**	11
Past service cost - routine items	**2**	2
Past service cost - exceptional items	**11**	17
Actuarial gain	**(379)**	-
Benefits paid (by fund and Group)	**(69)**	(45)
Benefit obligation at end of year	**2,123**	2,332

The Group has reached agreement with the Trustees to contribute the lesser of £70 million per annum and the annual cost of accruing benefits (as calculated using the FRS 17 accounting standard) for a period of 5 years from mid 2006. The Group expects to contribute £70 million to its pension plan in the year ending 31 December 2008.

Analysis of defined benefit obligation:

	31 December 2007 **£m**	31 December 2006 £m	31 March 2006 £m	31 March 2005 £m	31 March 2004 £m
Plans that are wholly or partly funded	**2,123**	2,332	2,196	1,850	1,666
Plans that are wholly unfunded	**22**	21	24	22	13
Total	**2,145**	2,353	2,220	1,872	1,679

Movements in the fair value of plan assets were as follows:

	31 December 2007 **£m**	31 December 2006 £m
Fair value of plan assets at beginning of period	**2,120**	2,066
Expected return on plan assets	**135**	98
Actuarial (loss)/gain	**(4)**	(58)
Employer contributions (including benefits paid and reimbursed)	**70**	48
Members' contributions	**15**	11
Benefits paid (by fund and Group)	**(69)**	(45)
Fair value of plan assets at end of year	**2,267**	2,120

History of experience gains and losses:

	Year ended 31 December 2007	9 months ended 31 December 2006	Year ended 31 March 2006	Year ended 31 March 2005	Year ended 31 March 2004
Difference between the expected and actual return on scheme assets:					
Amount £m	**(4)**	(57)	(274)	44	219
Percentage of scheme assets	**(0.2)**	(2.7)	13.3%	2.6%	14.4
Experience gains and losses on benefits obligations:					
Amount £m	**130**	(8)	14	19	32
Percentage of scheme liabilities	**6.1**	(0.3)	0.6%	1.0%	1.9%
Total amount recognised in the statement of recognised income and expense:					
Amount £m	**375**	(58)	72	(8)	188
Percentage of benefit obligation	**17.7**	(2.4)	3.3%	(0.5)%	11.3

b) Other Pension and Post-Retirement Liabilities

The Group provides unfunded pensions in respect of directors and senior employees whose benefits are restricted by the BAA Pension Scheme rules. The cost of these arrangements expensed against operating profit in the year is £1 million (31 December 2006: £2 million).

The Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement have been assessed by the actuary and this amount of £4 million (31 December 2006: £4 million) is included in the balance sheet, along with provision for unfunded pension obligations of £18 million (31 December 2006: £17 million).

The value of unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the pension scheme liabilities except that salary increases have been assumed to be 5.9% per annum (31 December 2006: 5.6%).

The Group also has defined contribution schemes in respect of employees of World Duty Free Europe Limited (classified as held-for-sale), Heathrow Express Operating Company Limited and BAA Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £1 million (31 December 2006: £1 million).

22 Share based payments

The Executive Share Option Plan (‘ESOP’) was introduced in 2007 with awards of options over Grupo Ferrovial shares made in each of February 2007, July 2007 and November 2007. Each grant was made by the ultimate parent, Grupo Ferrovial, S.A direct to employees of the Group. These option plans are recorded as equity settled in accordance with the grant being made by the ultimate parent company. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. Awards under the ESOP are generally reserved for full time directors and senior employees at senior management level and above. There are currently 460 employees eligible to participate in the ESOP.

Option grant date	**Number of options granted**	**Grant price and exercise price (€)**
Senior employees / February 2007	979,850	73.19
	296,353	78.54
Senior employees / July 2007	1,113,078	73.80
	14,690	72.36
Senior employees / November 2007	84,294	61.14

The exercise period for each of the issues made commences three years from the option grant date and lasts for three years. Vesting of the options is subject to continued employment and the achievement of targeted Group’s earnings before interest, tax, depreciation and amortisation (‘EBITDA’).

The reference value of the parent company’s shares is the listed price, calculated as the weighted average price for the twenty five stock market sessions immediately prior to the option grant date.

The reference number of shares used to calculate total remuneration is as follows:

	Number of shares	
	31 December 2007	**31 December 2006**
Opening number of shares	-	**-**
Options granted	2,488,265	**-**
Waivers	(415,271)	**-**
Options exercised	-	**-**
Closing number of shares	**2,072,994**	**-**

These remuneration schemes are measured and recognised in the income statement as indicated in accounting policies note. Staff expenses arising from these share based compensation schemes of £3 million (nine months ended 31 December 2006: £nil) were charged to the income statement in the year.

The values of the schemes granted in 2007 were calculated by assuming an estimated time of the options (life of options) of six years, three years time to vest, risk free rate estimated between 4.2% to 4.7% and expected dividend yield of 1.93%.

When the options were granted, the Group contracted a number of cash settled equity swaps. Amounts paid and received during the year under the equity swap contracts were £nil.

23 Provisions

	Disposal of Operations £m	Reorganisation £m	Obligations under land purchase £m	Other £m	Total £m
Balance 1 January 2007	8	39	95	4	**146**
Utilised	-	(27)	(1)	-	**(28)**
Charged to income statement	-	80	-	-	**80**
Released	(3)				**(3)**
Unwinding of discount charged and capitalised	-	-	5	-	**5**
Balance 31 December 2007	**5**	**92**	**99**	**4**	**200**
Current	5	84	6	-	**95**
Non-current	-	8	93	4	**105**
Balance 31 December 2007	**5**	**92**	**99**	**4**	**200**
Current	5	39	7	-	51
Non-current	3	-	88	4	95
Balance 31 December 2006	8	39	95	4	146

Disposals of operations

Provision carried forward relates to outstanding liabilities in respect of businesses disposed in prior years, including guarantees expiring between 2007 and 2011, which remain in place following the sale of World Duty Free Americas, Inc. In the current period, £3 million of this provision was released on the resolution of legal proceedings. It was held that the Group was not liable for any further costs.

Reorganisation

The Group commenced implementing its change programme ‘Simplifying the Organisation’ in late 2007. Costs associated with this programme are for severance and pension payments only. Certain costs associated with the ‘Delivering Excellence’ programme were also incurred in the year.

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 £99 million (31 December 2006: £95 million), net of discount, is expected to be utilised according to the following profile:

	31 December 2007 £m	31 December 2006 £m
Within one year	**6**	7
One to two years	**6**	3
Two to five years	**18**	13
Five to ten years	**26**	28
Over ten years	**43**	44
	99	95

Other

A provision of £4 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.

24 Trade and other payables

	31 December 2007 £m	Restated[1] 31 December 2006 £m
Non-current		
Other payables	**3**	8
Deferred income	**13**	14
	16	22
Current		
Trade payables	**224**	169
Other tax and social security	**12**	13
Other payables	**101**	137
Capital payables	**290**	272
	627	591

[1] Interest payable has been reclassified from current trade and other payables to current borrowings.

Trade payables are non-interest bearing and are generally on 30-day terms.

25 Assets held-for-sale

The major classes of assets and liabilities comprising the operations classified as assets held-for-sale are as follows:

		31 December 2007			31 December 2006	
		WDFE	**APP**	**Total**	Budapest	Total
	Note	**£m**	**£m**	**£m**	£m	£m
Goodwill	*11*	-	-	**-**	59	59
Intangible assets (excluding goodwill)	*11*	-	-	**-**	891	891
Property, plant and equipment	*9*	35	-	**35**	326	326
Investment property	*10*	-	430	**430**	71	71
Available for sale investments	*13*	-	40	**40**	-	-
Inventories		24	-	**24**	7	7
Trade and other receivables		5	4	**9**	68	68
Derivative financial instruments		-	-	**-**	1	1
Cash and cash equivalents	*16*	6	4	**10**	37	37
Deferred tax assets	*20*	2	-	**2**	-	-
Total assets classified as held-for-sale		72	478	**550**	1,460	1,460
Trade and other payables		49	21	**70**	88	88
Non current borrowings		-	183	**183**	-	-
Group relief payable		11	-	**11**	-	-
Deferred tax liabilities (fair value reserve)	*29*	-	2	**2**	-	-
Deferred tax liabilities	*20*	-	-	**-**	30	30
Provisions		-	-	**-**	7	7
Total liabilities classified as held-for-sale		**60**	**206**	**266**	125	125
Net assets of disposal Group		**12**	**272**	**284**	1,335	1,335

During 2007 sale processes commenced for BAA's interests in APP and WDFE. It is anticipated that these transactions will be completed in 2008. BAA considers that these transactions satisfy the requirements of IFRS 5 - 'Non-current assets held-for-sale and discontinued operations. As a consequence, assets and liabilities of £550 million and £266 million respectively have been reclassified as held-for-sale. No significant profit or loss is expected to be realised on the sales.

The investment properties held by APP were valued by King Sturge, Valuers and Surveyors.

The assets classified as held-for-sale balance at 31 December 2006 represented the assets and liabilities of Budapest Airport. This sale was completed in June 2007.

26 Share capital

	£
Authorised	
1,300,000,000 ordinary shares of £1 each	1,300,000,000
Balance at 1 January 2007 and 31 December 2007	1,300,000,000
Allotted and fully paid	
In issue at 1 January 2007: 1,102,400,315 ordinary shares of £1 each	1,102,400,315
In issue at 31 December 2007: 1,102,400,315 ordinary shares of £1 each	1,102,400,315

The immediate parent company, ADIL, owns 100% share capital of the Company. The ultimate parent of ADIL in UK is FGP Topco Limited, a company owned by Ferrovial Infraestructuras, S.A. (56.7%), Lernamara, S.L. (5.3%) (Grupo Ferrovial company); Britannia Airport Partners L.P. (29.0%) (a Caisse de dépôt et placement du Québec group company); and Baker Street Investment Pte Ltd (10%). The ultimate parent entity is of the majority shareholder (Ferrovial Infraestructuras, S.A.) is Grupo Ferrovial, S.A. (Spain).

27 Share premium

	£m
Balance 1 April 2006	245
Premium on shares issued	80
Balance 31 December 2007 and 31 December 2006	**325**

28 Revaluation reserve

	£m
Balance 1 April 2006 and 1 January 2007	388
Realisation of reserve	(2)
Balance 31 December 2007 and 31 December 2006	**386**

The revaluation reserve relates to the historic revaluation of operational assets that have since been reclassified to investment properties. Current revaluations of investment properties are included in the income statement.

29 Fair value and other reserves

	Note	Equity option Reserve	Cash flow Hedge Reserve	Available for sale Investments	Currency Translation Reserve	Capital Redemption Reserve	Total
		£m	£m	£m	£m	£m	£m
Balance 1 April 2006		65	(22)	-	(40)	27	30
Fair value (losses)/gains		-	(30)	4	-	-	(26)
Transferred to income statement		-	58	-	-	-	58
Deferred tax on fair value (gains)		-	(6)	-	-	-	(6)
Current tax on fair value (gains)		-	(2)	(1)	-	-	(3)
Currency translation		-	-	-	31	-	31
Balance 1 January 2007		65	(2)	3	(9)	27	**84**
Fair value gains		-	82	17	-	-	99
Transferred to income statement		-	(139)	(9)	-	-	(148)
Deferred tax on fair value losses/ (gains)		-	11	(3)	-	-	8
Deferred tax – Assets held-for-sale	*25*	-	(2)	-	-	-	(2)
Current tax on fair value losses		-	4	-	-	-	4
Currency translation		-	-	-	23	-	23
Cumulative translation gain transferred to income statement on disposal of discontinued operations	*7*	-	-	-	(15)	-	(15)
Balance 31 December 2007		**65**	**(46)**	**8**	**(1)**	**27**	**53**

30 Retained earnings

	£m
Balance 1 April 2006	4,243
Dividends paid	(243)
Net profit for the year	463
Share-based payments	16
Actuarial loss on pensions	(58)
Tax on actuarial loss on pensions	18
Tax on items taken to equity	1
Balance 1 January 2007	**4,440**
Net profit for the year	743
Realisation of reserves	2
Share-based payments	3
Actuarial gain on pensions	375
Tax on actuarial gain on pensions	(105)
Change in tax rate	(4)
Indexation of operating land	5
Balance 31 December 2007	**5,459**

Share–based payments for the period ended 31 December 2006 are in relation to share plans that were in place in the Company and closed out on acquisition by the Ferrovial-led consortium.

31 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 2007		31 December 2006	
	Land and buildings	**Other**	Land and buildings	Other
	£m	**£m**	£m	£m
Within one year	**22**	**46**	26	47
Within two to five years	**92**	**178**	79	179
After five years	**160**	**2,653**	127	2,720
	274	**2,877**	232	2,946

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 £2.9 billion operating lease commitments classified as ‘other’ are electricity supply equipments at the airports under a leased 75-year agreement with London Electricity Supply.

Non-cancellable operating lease commitments – Group as a lessor

Total future minimum rentals receivable as at the period end are as follows:

	31 December 2007		31 December 2006	
	Land and buildings	**Other**	Land and buildings	Other
	£m	**£m**	£m	£m
Within one year	**121**	**2**	109	9
Within two to five years	**335**	**-**	317	2
After five years	**518**	**-**	548	-
	974	**2**	974	11

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 2007 **£m**	31 December 2006 £m
Contracted for, but not accrued:		
Terminal 5, Heathrow Airport	**38**	108
Property, plant and equipment at Budapest Airport	**-**	174
Gatwick Landside Inter Terminal Transit System	**20**	-
Common User, Glasgow	**7**	-
Passenger Search X-Ray Heathrow	**7**	-
South terminal extension – Stansted	**6**	-
East terminal extension – Heathrow	**5**	-
Personal Rapid Transport	**5**	-
	88	282
Other projects	**91**	78
	179	360

The figures presented in the above table are contractual commitments to purchase goods and services at balance sheet date. The Group has in place long-term capital expenditure programmes covering its regulated airports. Our submission to the CAA in respect of quinquennium 5 included capital expenditure for Heathrow and Gatwick is £3,877 million and £874 million (2007/08 prices) respectively. . In line with our commitments with the regulator, capital expenditure expected for Heathrow and Gatwick during 2008 amounts £683 million and £181 million, respectively. Under the terms of regulation, certain penalties apply if capital expenditure does not meet certain triggering events. These penalties would not be significant in 2008.

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. As the development of Stansted will be the subject of a planning inquiry, the Group is pressing ahead with the necessary preparation of a planning application and environmental impact assessment. The anticipated costs of preparing for and undertaking the planning application are approximately £66 million to 31 March 2008. These costs are being capitalised as part of the runway and infrastructure development costs (Note 9). Total costs incurred to 31 December 2007 are £63 million (nine months ended 31 December 2006: £46 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 £100 million (with approximately £81 million being incurred in this regulatory period). These costs are being capitalised as part of the runway development costs (Note 9). Total value to 31 December 2007 is £66 million (31 December 2006: £55 million), including a £4 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 traffic 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, Gatwick, Glasgow and Edinburgh 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 and the Scottish airports, this is unlikely in the short-term. In respect of Heathrow, the Group is waiting on a Government decision following the DfT consultation on plans for expansion of the airport. Subject to the outcome of this decision, the Group will assess the options available and, should the Government's decision re-affirm its policy for adding capacity at Heathrow, it is possible that an announcement on its intention to apply for planning permission may be made in the five years following; although the nature and timing remains unknown. As a consequence of the significant uncertainty associated with decisions on potential future runways, it is not possible to quantify the Group's potential obligations under these schemes.

Contingent liabilities

The Group has contingent liabilities, comprising letters of credit, performance/ surety bonds, performance guarantees and other items arising in the normal course of business amounting to £123 million at 31 December 2007 (31 December 2006: £192 million).

Included in the above, in July 1998, the Company and its wholly-owned subsidiary 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 Company and Heathrow Airport Limited 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 amounts payable under this guarantee at 31 December 2007 was US$ 13.4 million.

In addition to the above, pursuant to the terms of the ADIL Senior Finance Documents and the ADIL Junior Finance Documents, BAA Limited, as an obligor, jointly and severally guarantees ADIL Senior and Subordinated bank loan facilities with all other obligors up to a maximum value that shall be no greater than the aggregate amount such as would not cause the financial and other covenants contained in the existing BAA Limited bonds to be breached. As at 31 December 2007 the guarantee, limited as stated above, is provided by BAA Limited , Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited and other obligors in support of ADIL Group debt totalling £1.8 billion (31 December 2006: £2.5 billion), of which the £1.3 billion is secured as disclosed in Note 17. The fair value of the guarantee provided by BAA Limited as of 31 December 2007 is not material.

The other obligors are BAA Partnership Limited, London Airports Limited, London Airports 1992 Limited, London Airports 1993 Limited, Scottish Airports Limited, World Duty Free Limited and World Duty Free (Europe) Limited.

32 Notes to the consolidated cash flow statement

(a) Reconciliation of net profit before tax to cash generated from continuing operations

	Note	**Year ended 31 December 2007 £m**	Restated 9 months ended 31 December 2006 £m
Operating activities			
Net profit before tax		**563**	478
Adjustments for:			
Finance income	*5a*	**(108)**	(20)
Finance costs	*5a*	**166**	149
Fair value gains on derivative		**(15)**	(7)
Depreciation[1]	*2*	**369**	220
Amortisation	*2*	**23**	24
Loss/(profit) on disposal of property, plant and equipment	*2*	**3**	11
Exceptional costs – staff related costs	*4*	**-**	17
Fair value gains on investment properties	*10*	**(45)**	(163)
Share-based payments expense	*2*	**3**	5
Decrease/(increase) in trade and other receivables		**51**	(11)
Decrease in inventories		**7**	1
Increase/ (decrease) in trade and other payables		**1**	(10)
Decrease in provisions		**50**	12
(Decrease)/ increase in retirement benefit obligations		**(86)**	9
Cash generated from continuing operations		**982**	715

[1] Includes Heathrow Terminals 1 and 2 accelerated depreciation reported as exceptional items.

(b) Financing – continuing operations

	Year ended 31 December 2007 £m	9 months ended 31 December 2006 £m
Issue of ordinary share capital	**-**	102
Dividends paid to shareholders	**-**	(243)
Term facility	**200**	-
Senior Capex facility	**780**	200
Current:		
Proceeds released from bank revolving credit facility	**-**	(187)
Repayment of bonds	**(200)**	-
Repayment of bank loan facilities	**(35)**	-
Interest paid	**(408)**	(209)
Interest received	**30**	29
	367	(308)

(c) Non-cash transactions

During 2007 the only non-cash transaction which has taken place is the collection of part of the proceeds from the disposal of Budapest through loan notes (refer Notes 7 and 15).

33 Related party transactions

During the year the Group entered into the following transactions with related parties:

	Year ended 31 December 2007 Sale of goods and services £m	9 months ended 31 December 2006 Sale of goods and services £m
Malev Rt[1]	**20**	24
Airport Property Partnership	**10**	5
Australia Pacific Airports Corporation	**9**	-
Swissport/Groundstar	**4**	2
Other	**-**	2
	43	33

[1] For the period until disposal of Budapest Airport on 6 June 2007.

	Year ended 31 December 2007 Purchase of goods and services £m	9 months ended 31 December 2006 Purchase of goods and services £m
Grupo Ferrovial	**(8)**	(1)
Caisse de dépôt et placement du Québec	**(1)**	-
	(9)	(1)

Balances outstanding with related parties were as follows:

	31 December 2007		31 December 2006	
	Amounts owed from related parties	**Amounts owed to related parties**	Amounts owed from related parties	Amounts owed to related parties
	£m	**£m**	£m	£m
Malev Rt	**-**	**-**	24	2
Airport Property Partnership	**10**	**-**	3	-
Australia Pacific Airports Corporation	**-**	**-**	1	-
Caisse de depot et placement du Quebec	**67**[1]	**-**	-	-
Ferrovial Infraestructuras, S.A.	**-**	**7**	-	1
Swissport/Groundstar	**1**	**-**	1	-
Airport Development and Investment Limited (Note 15)	**2,041**	**849**	114	841
	2,119	**856**	143	844

[1] Refer Notes 7 and 15.

Apart from transactions related to commercial activities, the Group also has transactions, in the ordinary course of business, with the fiscal authorities in Hungary.

Airport Development and Investment Limited (ADIL) received an unsecured loan from the Group and the amount outstanding at the 31 December 2007 was £1,967 million (31 December 2006: £114 million). The Group received interest of £74 million during the year (nine months ended 31 December 2006: £nil). Further details of the loan are provided in Note 15.

ADIL owns £424 million 2.94% and £425 million 2.625% convertible bonds in BAA Limited. Further details of these bonds are provided in Note 17.

The immediate parent entity of BAA Limited is Airport Development and Investment Limited, the UK parent entity is FGP Topco Limited, and the ultimate parent entity is Grupo Ferrovial, S.A (Spain).

34 Principal subsidiaries and joint ventures

Subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Airport owners and operators		**Duty-free retailing**
Heathrow Airport Limited†	Aberdeen Airport Limited†	World Duty Free Europe Limited†
Gatwick Airport Limited†	Southampton International Airport Limited†	
Stansted Airport Limited†	Societa Gestione Servizi Aeroporti Campani†* (65% holding)	
Glasgow Airport Limited†		
Edinburgh Airport Limited†		

† Held by a subsidiary undertaking

* Incorporated in Italy

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

As described in Note 31, the Company 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.

Joint ventures

At 31 December 2007, the Group's principal joint venture (which is not listed) is:

	% of share capital held	Activity	Country of incorporation
Airport Property Partnership ('APP')	50	Property development and management	United Kingdom

APP has a 31 December reporting date.

The investment is accounted for as a joint venture as the Group has joint control of this entity through its agreements with the other joint venture parties. During 2007 a sale process commenced for the Group's interest in APP. It is anticipated that this transaction will be completed in 2008. The Group's share of APP's assets and liabilities are classified as held-for-sale at the balance sheet date.

APP is 'tax transparent', and the liability for tax on APP's underlying profits rests with APP's investors. The Group's share of APP's tax charge and liabilities is reflected as part of the Group's tax charge and balance sheet tax position.

The investment in Airstralia Development Group Pty was disposed of on 8 November 2007 as part of the disposal of the Australian operations. The Group's share of investment as at 31 December 2006 and at the date of disposal was 15%. At the date of disposal, Airstralia Development Group Pty held a 100% interest in Western Airports Corporation Pty Limited, an Australian registered wholly owned subsidiary undertaking that manages Perth Airport. The Group's share of revenue and profit for the period to disposal was £9 million and £1 million respectively.

Financial statements

Company

58 Independent auditors’ report
59 Company balance sheet
60 Accounting policies
64 Notes to the financial statements

Independent auditors' report to the members of BAA Limited

We have audited the parent company financial statements of BAA Limited for the year ended 31 December 2007 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of BAA Limited for the year ended 31 December 2007.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the parent company financial statements. The information given in the Report of the Directors includes that 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 parent company financial statements. The other information comprises only the Report of the Directors and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company'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 parent company 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 parent company financial statements.

Opinion

In our opinion:

- The parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- The parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

7 March 2008

Company balance sheet as at 31 December 2007

			Restated[1]
		31 December	31 December
		2007	2006
	Note	**£m**	£m
Fixed assets			
Tangible assets	2	**8**	11
Investment in subsidiaries	3	**10,213**	11,238
Investment in joint ventures	3	**2**	2
Available-for-sale investments	4	**47**	72
Derivative financial instruments	9	**94**	7
Pension and other post-retirement surplus (net of deferred tax)	11	**92**	-
Trade and other receivables	5	**91**	679
		10,547	12,009
Current assets			
Trade and other receivables	5	**7,294**	6,387
Derivative financial instruments	9	**10**	1
Cash and short-term deposits	6	**118**	54
		7,422	6,442
Payables: amounts falling due within one year			
Trade and other payables	7	**(3,349)**	(5,588)
Borrowings	8	**(610)**	(365)
Derivative financial instruments	9	**(47)**	(65)
Net current assets		**3,416**	424
Total assets less current liabilities		**13,963**	12,433
Payables: amounts falling due after more than one year			
Trade and other payables	7	**(4)**	(2)
Borrowings	8	**(6,590)**	(5,917)
Derivative financial instruments	9	**(2)**	-
		(6,596)	(5,919)
Provisions for liabilities and charges			
Other provisions	10	**(29)**	(3)
Net assets excluding pension and other post-retirement liabilities		**7,338**	6,511
Pension and other post-retirement liabilities (net of deferred tax)	11	**-**	(160)
Net assets including pension and other post-retirement liabilities		**7,338**	**6,351**
Capital and reserves			
Called up share capital	12	**1,102**	1,102
Share premium	13	**325**	325
Revaluation reserve	14	**3,634**	3,375
Fair value and other reserves	15	**100**	93
Profit and loss account	16	**2,177**	1,456
Equity shareholders' funds		**7,338**	6,351

[1] Interest payable is included within current borrowings at 31 December 2007. The comparative balance at 31 December 2006 has been reclassified from trade and other payables.

The financial statements were approved by the Board of directors and authorised for issue on 7 March 2008 and signed on behalf of the Board.

Stephen Nelson
Chief Executive

José Leo
Chief Financial Officer

Accounting policies

Basis of accounting
The Company financial statements are prepared under the historical cost convention except for available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system, and in accordance with all applicable United Kingdom Accounting Standards. These exceptions to the historic cost convention have been measured at fair value as permitted by the Fair Value Directive as implemented in the amended Companies Act 1985.

The Company has not presented a cash flow statement or provided details of related party transactions as permitted under FRS 1 (revised) 'Cash Flow Statements' and FRS 8 'Related Party Disclosures' respectively.

Revenue
Revenue is recognised on an accruals basis in accordance with FRS 5, 'Reporting the substance of transactions' net of VAT, and comprises the recovery of costs from Group entities.

Interest
Interest payable is charged as incurred except where the borrowing finances tangible fixed assets in the course of construction. Such interest is 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. The interest is then charged to the income statement account as depreciation over the life of the relevant asset. All costs incurred directly in connection with the issue of debt are deducted from the proceeds and the net amount included in liabilities. Such costs, together with any premium or discount on issue, are credited/charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount of the liability.

Tangible fixed assets
Operational assets
Plant and equipment and 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 interest capitalised, own labour costs of construction-related project management and directly attributable overheads.

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
Plant and equipment

Motor vehicles	4 – 8 years
Office equipment	5 – 10 years
Computer equipment	4 – 5 years
Computer software	3 – 7 years

Investments in subsidiary undertakings
Investments in subsidiary undertakings, are stated at net asset value (as determined for the Group under International Financial Reporting Standards) and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Investments in subsidiary undertakings includes interest free loans to subsidiaries, that have no fixed repayment date.

Deferred taxation
In accordance with FRS 19, 'Deferred tax' deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when the obligation crystallises, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries, associates and joint ventures where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

Employee benefits
Pension costs
The Company's UK pension fund is a self administered defined benefit scheme. In accordance with FRS 17, 'Retirement benefits' the service cost of pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Company's long-term expected return on assets (based on the market value of the scheme assets at the start of the period) are included in the profit and loss account.

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax. Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience or assumption changes.

Further information on pension arrangements is set out in Note 11.

Share based payment
The Company operates an Executive Share Option Plan (ESOP) for directors and senior employees of the business. The ESOP is treated as an equity settled scheme in accordance with the grant of the options being made by Grupo Ferrovial, S.A the ultimate parent company.

The fair value of the employee services received in exchange for the grant of options under the ESOP is recognised as an expense over the vesting period of the options with the corresponding entry recorded in equity. The fair value of the options granted is measured using a binomial model adjusted by taking into account the exercise price, volatility, the term during which the benefits may be exercised, expected dividends, a risk-free interest rate and the expected timing of the exercise.

At each balance sheet date over the vesting period, the cumulative expense is re-estimated based on the number of options expected to vest with the impact recorded in the income statement and with a corresponding entry in equity.

On exercise of the options by the employees any expense associated with the acquisition of Ferrovial shares by the Company is recorded within equity as a deemed distribution.

The Company has entered into a number of cash-settled equity swaps that are treated as derivative financial instruments and are intended to hedge the future cash flows required on potential exercise of the options. The fair value of these equity swap arrangements is recorded in the balance sheet with the gain or loss incurred in the period recorded within financial income or expense.

Dividend distribution
A dividend distribution to the Company's shareholders is recognised as a liability in the 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.

Impairment of assets
The Company 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 Company 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.

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.

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 profit and loss account. 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 profit and loss account.

Assets classified as 'held-to-maturity' or 'loans and receivables' 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 Company'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 profit and loss account 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 Company commits to purchase or sell the asset.

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 Company 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 profit and loss account over the period of the borrowings using the effective interest method.

Convertible bonds
Convertible bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is determined using the prevailing market interest rate for a similar non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option and recognised in shareholders' equity, net of income tax.

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.

Financial risk management objectives and policies

The Company's principal financial instruments, except derivatives, comprise bank loans, listed bonds, listed convertible bonds, cash and cash equivalents. The main purpose of these instruments is to raise finance for the Company's operations.

The Company 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 Company's operations and its sources of finance. In 2007 the Company has entered into a number of equity swaps to hedge share price risk under the ESOP.

The Company does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Treasury's function is to identify, mitigate and hedge treasury-related financial risks inherent to the Company's business operations, in accordance with Company treasury policies.

The main risks arising from the Company'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

Foreign exchange risk mainly arises from future commercial transactions and investments in foreign operations. The Company does not hedge the translation risk related to investments in foreign operations.

For debt raised in foreign currencies, the Company uses cross-currency swaps to hedge the related interest and principal payments. In cases where debt is raised in foreign currencies, 100% of the exposure is hedged in this way, subject to a de minimus limit. The Company uses foreign currency forward contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

Price risk

The Company is not materially exposed to equity security price risk on investments held by the Company and classified on the consolidated balance sheet as available for sale.

The Company is exposed to share price risk of its ultimate parent, Grupo Ferrovial, S.A., arising from its ESOP programme. The Company uses equity swaps to manage this exposure.

The Company is exposed to the risk of an increase in the prices of commodities, in particular electricity, used within its operations. To manage the risk the Company enters in electricity purchase contracts which allow the Company to fix the future purchase price of electricity.

Cash flow and fair value interest rate risk

The Company's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company'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 Company enters interest rate swaps. These swaps may be designated to hedge underlying debt obligations.

The Company also uses floating rate interest bearing financial assets as a natural hedge of the exposure cash flow interest rate risk. The Company may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and accounts receivable. The Company has no significant concentrations of credit risk. The Company'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.

Liquidity risk

The Company's objective is to ensure continuity of funding and flexibility, ensuring debt maturities are spread over a range of dates, thereby ensuring that the Company is not exposed to excessive refinancing risk in any one year.

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 Company designates certain derivatives as either:

- fair value hedges, where they hedge the exposure to changes of a recognised assets 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 Company 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 Company 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 profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the profit and loss.

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 profit and loss.

Amounts accumulated in equity are recycled in the profit and loss 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 profit and loss. 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 profit and loss.

(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 profit and loss.

Notes to the financial statements

1 Company result for the year
As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £459 million (31 December 2006: £343 million loss).

2 Tangible assets

	Plant and equipment £m	Assets in the course of construction £m	**Total £m**
Cost			
Balance 1 January 2007	24	3	**27**
Additions	2	-	**2**
Transfer to completed assets	3	(3)	**-**
Disposals	(2)	-	**(2)**
Balance 31 December 2007	27	-	**27**
Depreciation			
Balance 1 January 2007	(16)	-	**(16)**
Charge	(5)	-	**(5)**
Disposals	2	-	**2**
Balance 31 December 2007	(19)	-	**(19)**
Net book value 31 December 2007	8	-	**8**
Net book value 31 December 2006	8	3	11

3 Investments

	Subsidiaries £m	Joint ventures £m	**Total £m**
Cost			
Balance 1 January 2007	7,485	2	**7,487**
Additions	98	-	**98**
Decrease in loans to subsidiary undertakings	(1,382)	-	**(1,382)**
Balance 31 December 2007	6,201	2	**6,203**
Revaluation			
Balance 1 January 2007	3,753	-	**3,753**
Revaluation surplus arising during the year	259	-	**259**
Balance 31 December 2007	4,012		**4,012**
Net book value 31 December 2007	**10,213**	**2**	**10,215**
Net book value 31 December 2006	11,238	2	11,240

The additions in the period of £98 million relate to the transfer of the investment in Societa Gestione Servizi Aeoporti Campani from BAA (International Holdings) Limited to BAA Limited on the disposal of BAA (International Holdings) Limited.

The decrease in loans to subsidiary undertakings includes £1,351 million which relates to the disposal of BAA (International Holdings) Limited.

Details of principal subsidiary undertakings are provided in Note 34 of the Group financial statements.

The investment in subsidiary undertakings (including interest free loans with no fixed repayment date) is stated at net asset value as determined for the Group under IFRSs.

4 Available-for-sale investments

	31 December 2007 £m	31 December 2006 £m
Unlisted securities		
Balance 1 January / 1 April	**72**	68
Disposal	**(42)**	-
Revaluation surplus transferred to equity	**17**	4
Balance	**47**	72

Available for sale investments include £47 million (31 December 2006: £72 million) in National Air Traffic Services Group (‘NATS’), the UK's national air traffic services provider. The investment in NATS represents a 4.19% equity interest and £24 million priority loan notes yielding a fixed interest rate of 8.5% with a maturity of 2032. During the year the £33 million undated loan notes were fully redeemed at the fair value of £41 million and £1 million were redeemed on the £24 million 2032 priority loan notes. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The equity investment is valued by discounting the forecast dividend stream and discounting an assigned terminal value to the equity in 2032. A rate of 10.5% (31 December 2006: 10.5%) has been used as the discount factor. The priority loan notes investment is valued by discounting future interest and principal payments.

5 Trade and other receivables

	31 December 2007 **£m**	31 December 2006 £m
Due within one year		
Amounts owed by subsidiary undertakings	**5,217**	6,105
Amounts owed by the parent company	**1,967**	114
Current income tax	**-**	31
Other receivables	**110**	137
	7,294	6,387

Trade receivables are non-interest bearing and are generally on 14 day terms.

	31 December 2007 **£m**	31 December 2006 £m
Due after more than one year		
Amounts owed by subsidiary undertakings	**-**	659
Deferred tax asset[1]	**24**	20
Other receivables[2]	**67**	-
	91	679
	7,385	7,066

[1] Provision has been made for deferred tax in accordance with FRS 19. The amounts provided in the accounts are detailed below.

[2] Non-current other receivables includes £67 million 6.0% loan notes due 2011 which were received in connection with the disposal of Budapest Airport.

The Company has provided an unsecured loan to its immediate parent company (ADIL) to service its interest costs and debt repayments. Details of loan are provided in Note 15 of the Group financial statements

These notes are part of the investments of the Group and designated as loans and receivables under FRS25.

	31 December 2007 **£m**	31 December 2006 £m
Amounts provided:		
Excess of capital allowances over depreciation	**(2)**	(13)
Financial instruments	**(24)**	(8)
Other short-term differences	**2**	1
	(24)	(20)

6 Cash and short-term deposits

	31 December 2007 **£m**	31 December 2006 £m
Cash at bank and in hand	**46**	17
Money market funds	**70**	37
Short-term deposits	**2**	-
	118	54

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk.

Money market funds held at 31 December 2007 total £70 million (31 December 2006: £37 million). The funds have no fixed maturity date, however the Company can withdraw its investment on demand. Returns are based on fund performance.

The fair value of cash and cash equivalents approximate their book value.

7 Trade and other payables

	31 December 2007 **£m**	Restated 31 December 2006 £m
Due within one year		
Unsecured payables		
Trade payables	**45**	54
Amounts owed to subsidiary undertakings	**3,134**	5,503
Corporation tax	**127**	-
Other tax and social security	**10**	9
Capital payables	**-**	2
Dividends payable	**4**	5
Other payables	**29**	15
	3,349	5,588
Due after more than one year		
Other payables	**4**	2

8 Borrowings

	Effective interest rate	**31 December 2007** **£m**	Restated[1] 31 December 2006 £m
Due within one year			
Unsecured			
BAA Limited bonds:			
7.875% £200 million due 2007	8.04%		200
Bank Loans	Various	**43**	34
		43	234
Borrowings from parent			
Unsecured			
BAA Limited convertible bonds:			
2.94% £424 million due 2008	6.42%	**424**	-
Total current (excluding interest payable)		**467**	234
Interest payable		**143**	131
Total current		**610**	365
Non-current			
Secured			
Senior Capex Facility	Various	**980**	200
£200 million Term Facility	Various	**200**	-
Unsecured			
BAA Limited bonds:			
3.875% €1,000 million due 2012	4.01%	**732**	670
5.750% £400 million due 2013	5.98%	**398**	397
4.500% €750 million due 2014	4.51%	**554**	508
11.750% £300 million due 2016	11.16%	**310**	310
4.500% €750 million due 2018	4.93%	**548**	501
8.500% £250 million due 2021	8.64%	**247**	247
5.125% £750 million due 2023	5.67%	**738**	738
6.375% £200 million due 2028	6.50%	**197**	197
5.750% £900 million due 2031	5.82%	**893**	898
Bank loans	Various	**368**	410
		6,165	5,076
Borrowings from parent			
Unsecured			
BAA Limited convertible bonds:			
2.940% £424 million due 2008	6.42%	**-**	424
2.625% £425 million due 2009	5.43%	**425**	417
		425	841
Total non-current		**6,590**	5,917
Total current and non-current (excluding interest payable)		**7,057**	6,151

[1] Interest payable is included within current borrowings, Senior Capex Facility included within non-current borrowings at 31 December 2007. The comparative balance at 31 December 2006 has been reclassified from trade and other payables and current borrowings respectively.

BAA bonds

- The 7.875% £200 million bond matured in February 2007 and was refinanced by a bank £200 million Term Facility.
- Bonds are carried at amortised cost and the carrying value includes amortised transaction costs, premiums and discounts.
- Interest and principal payments on all Euro bonds are swapped to fixed Sterling payments through cross-currency interest rate swaps, with the exception of interest payments on £38 million nominal of the 2014 Euro bond, which are floating interest rate payments based on LIBOR.
- All BAA Sterling bonds bear fixed rate coupons. A portion of the 5.75% £900 million bond had been hedged for fair value risk and the interest payments on £200 million of this bond had been swapped into floating interest payments until June 2007, when the hedge was terminated.
- Bonds issued under the £4.5 billion European Medium Term Note programme totalled £3,603 million (31 December 2006: £3,603 million). The carrying value of these bonds was £ 3,713 million as at 31 December 2007 (31 December 2006: £3,563 million).
- The Group's £424 million 2.94% convertible bonds convert at the option of the holder into fully-paid £1 ordinary shares of the Company at a price of 800 pence per share at any time up to 28 March 2008. The Group's £425 million 2.625% convertible bonds convert at the option of the holder into fully-paid £1 ordinary shares of the Company at a price of 576p per share at any time up to 5 August 2009. Unless previously redeemed or converted, the Group will redeem the bonds at par on 4 April 2008 and 19 August 2009 respectively.

Other borrowings

- The Senior Capex Facility was £980 million drawn as at 31 December 2007 (31 December 2006: £200 million). This revolving facility matures in 2011 and amounts repaid may be subsequently redrawn. The interest payments on £350 million of the facility were fixed through Group's portfolio of interest rate swaps as at 31 December 2007. A commitment fee of 0.70% applies to undrawn amounts of this facility. The interest rates on the facility is based on Libor plus a margin. The margin on the facility as at 31 December 2007 was 2.00% (31 December 2006: 1.00%). The future contractual step-ups in the margin are as following:

January 2008:	0.125%
July 2008:	0.15%
January 2009:	0.20%
July 2009:	0.20%

- The £200 million Term Facility was drawn in February 2007 to repay the matured 7.875% £200 million bond. The facility matures in 2011 and bears floating interest rate based on Libor plus a margin. As at 31 December 2007 the margin on the facility was 0.90% and from 15 February 2008 increased to 1.00%.
- As at 31 December 2007 the unsecured bank loans include EIB bank loans of £411 million (31 December 2006: £444 million). The EIB facilities amortise over the period to 2019. The interest rate on these facilities is predominantly floating, except for £20 million principal which is fixed at 6.58%

The Company and certain of its subsidiaries have given security over their respective assets in support of the £200 million Term Facility and the Senior Capex Facility as well as the ADIL Senior and Subordinated bank loan facilities. By virtue of an intercreditor agreement any claim under such security is limited so that the claim does not result in a breach of the financial covenants in the existing BAA Limited bonds. As at 31 December 2007 security, limited as stated above, is provided by the Company and its subsidiaries in support of the Company debt totalling £1,180 million (31 December 2006: £200 million). In addition the amount of security provided in respect of the guarantees issued to support the debt incurred by ADIL is £1.3 billion (31 December 2006: £2.3 billion). The total amount of the upstream guarantee disclosed in Note 18, is £1.8 billion.

Borrowings are repayable as follows:

	31 December 2007 **£m**	31 December 2006 £m
Within one year	**467**	434
Between one and two years	**468**	466
Between two and five years	**2,022**	534
After five years	**4,100**	4,717
	7,057	6,151

Borrowing facilities
The Company 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 2007 **£m**	31 December 2006 £m
Floating rate facilities		
Expiring in more than two years	**1,270**	2,050
	1,270	2,050

In February 2008 the immediate parent company (ADIL) entered into a new Senior Capex facility of £800 million. The Company will access that facility through ADIL once the existing undrawn Capex facility of £1,020 million (31 December 2006: £1,800 million) is fully drawn down. In addition, as at 31 December 2007, overdraft facilities of £10 million (31 December 2006: £25 million) were available to the Company.

9 Derivative financial instruments

The Company's derivative financial instruments are consolidated with those of the Group and are incorporated in the disclosure in Note 18 of the Group financial statements.

10 Other provisions

	Reorganisation £m
Balance 1 January 2007	3
Utilised	(2)
Charged to profit and loss account	28
Balance 31 December 2007	29
Classified as:	
Provisions for liabilities and charges	29

Reorganisation costs utilised during the year relate to the Group-wide programme to improve customer service and operational efficiency. In addition, a new provision has been set up for costs relating to a new initiative launched in the year entitled "Simplifying the Organisation".

11 Retirement benefit obligations

The total pension cost included within operating costs is derived as follows:

	Year ended **31 December 2007** **£m**	9 months ended 31 December 2006 £m
BAA Pension Scheme	**101**	87
Additional provision for unfunded pensions	**1**	(5)
Total operating charge to staff costs	**102**	82

Analysis of pension and other post retirement liabilities (net of deferred tax):

	31 December 2007 **£m**	31 December 2006 £m
BAA Pension Scheme	**108**	(145)
Other pension and post retirement schemes	**(16)**	(15)
Surplus/ (deficit) 31 December	**92**	(160)

(a) BAA Pension Scheme

The Company operates one main pension scheme for its UK employees, the BAA Pension Scheme, which is a funded defined benefit scheme with both open and closed sections. The scheme's assets are held separately from the assets of the Company and are administered by trustees.

The values placed on the liabilities of the scheme as at 31 December 2007 is based on the initial results of the actuarial valuation undertaken at 30 September 2007. The value placed on the liabilities of the scheme as at 31 December 2006 is based on the results of the actuarial valuation undertaken at 30 September 2004. The liabilities have been updated by Mercer Limited, to take account of changes in economic and demographic assumptions, in accordance with Financial Reporting Standard 17 'Retirement Benefits'. The Scheme assets are stated at their bid value at 31 December 2007 and 31 December 2006.

The financial assumptions used to calculate Scheme assets and liabilities under FRS 17 are:

	31 December 2007	31 December 2006
	%	%
Rate of increase in pensionable salaries	**4.9**	4.6
Increase to deferred benefits during deferment	**3.4**	3.1
Increase to pensions in payment:		
Open section	**3.3**	3.0
Closed section	**3.4**	3.1
Discount rate	**5.8**	5.2
Inflation assumption	**3.4**	3.1

The assumptions relating to longevity underlying the pensions liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60-year old male pensioner of 24.8 years and 25.9 years from age 60 for a 40 year old male non-pensioner. The assumptions are the same as those used at 31 December 2006.

Analysis of amounts charged to operating profit

	Year ended	9 months ended
	31 December 2007	31 December 2006
	£m	£m
Current service cost	**88**	68
Past service costs	**2**	2
Total operating charge pre-exceptional items	**90**	70
Exceptional past service cost	**11**	17
Total operating charge	**101**	87

Analysis of the amounts recognised in other finance income:

	31 December 2007	31 December 2006
	£m	£m
Interest on pension scheme liabilities	**(123)**	(83)
Expected return on pension scheme assets	**135**	98
Net return	**12**	15

Analysis of the amounts recognised in the statement of total recognised gains and losses:

	31 December 2007	31 December 2006
	£m	£m
Actual return less expected return on plan assets	**(4)**	(57)
Experience gains and losses arising on the benefit obligation	**130**	(8)
Changes in assumptions underlying the present value of the benefit obligation	**249**	7
Actuarial gain/(loss) recognised in the statement of recognised income and expense	**375**	(58)

Expected rates of return on assets were:

	31 December 2007	31 December 2006	31 March 2006	31 March 2005
	%	%	%	%
Equities	**8.2**	8.0	7.2	7.7
Bonds	**5**	4.6	4.5	4.9
Other	**5.5**	5.0	4.6	4.7

Assets in the scheme were:

	31 December 2007	31 December 2006	31 March 2006	31 March 2005
	£m	£m	£m	£m
Market value of assets				
Equities	**1,119**	1,514	1,484	1,157
Bonds	**1,062**	573	569	502
Other	**92**	38	19	16
Total market value of scheme assets	**2,273**	2,125	2,072	1,675
Present value of scheme liabilities	**(2,123)**	(2,332)	(2,196)	(1,850)
Surplus/ (deficit) in the scheme	**150**	(207)	(124)	(175)
Related deferred tax asset	**(42)**	62	37	52
Surplus/ (deficit) recognised in the balance sheet	**108**	(145)	(87)	(123)

Analysis of movement in surplus/(deficit) during the year:

	31 December 2007 **£m**	31 December 2006 £m
Deficit in scheme at 1 April	**(207)**	(124)
Movement in the year:		
Current service cost	**(88)**	(68)
Past service cost	**(13)**	(19)
Other finance income	**12**	16
Actuarial (loss)/gain	**375**	(58)
Contributions	**71**	46
Surplus/ (deficit) in scheme at end of period	**150**	(207)

History of experience gains and losses:

	Year ended **31 December 2007**	9 months ended 31 December 2006	Year ended 31 March 2006	Year ended 31 March 2005
Difference between the expected and actual return on scheme assets:				
Amount £m	**(4)**	(58)	273	43
Percentage of scheme assets	**(0.2)**	(2.7)	13.2	2.6
Experience gains and losses on benefits obligations:				
Amount £m	**130**	(8)	14	19
Percentage of scheme liabilities	**6.1**	(0.3)	0.6	1.0
Amount recognised in the statement of recognised gains and losses:				
Amount £m	**375**	(58)	71	(9)
Percentage of benefit obligation	**17.7**	(2.5)	3.2	(0.5)

(b) Other pension and post-retirement liabilities

The Company provides unfunded pensions in respect of directors and senior employees whose benefits are restricted by the BAA Pension Scheme rules. The impact of these arrangements in the accounts is as follows:

	Year ended **31 December 2007** **£m**	9 months ended 31 December 2006 £m
Amount charged to operating profit	**1**	(6)
Amount set off against other finance income	**1**	1
Amount recognised in the statement of total recognised gains and losses	**-**	2

The Company provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement have been assessed by the actuary and this amount of £3 million (31 December 2006: £3 million) is included in the balance sheet, along with provision for unfunded pension obligations of £16 million (31 December 2006: £15 million).

	31 December 2007 **£m**	31 December 2006 £m
Unfunded pension obligations	**(13)**	(12)
Post-retirement medical benefits	**(3)**	(3)
Deficit in scheme	**(16)**	(15)

The value of unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the pension scheme liabilities except that salary increases have been assumed to be 5.9% per annum (31 December 2006: 5.6%).

12 Share capital

	£
Authorised	
1,300,000,000 ordinary shares of £1 each	1,300,000,000
Balance 1 January 2007 and 31 December 2007	1,300,000,000
Allotted and fully paid	
In issue at 1 January 2007: 1,102,400,315 ordinary shares of £1 each	1,102,400,315
In issue 31 December 2007: 1,102,400,315 ordinary shares of £1 each	1,102,400,315

13 Share premium

	£m
Balance 1 January 2007	325
Premium on shares issued	-
Balance 31 December 2007	**325**

14 Revaluation reserve

	£m
Balance 1 January 2007	**3,375**
Investments in subsidiaries	259
Balance 31 December 2007	**3,634**

15 Fair value and other reserves

	Equity option Reserve £m	Fair value Reserve £m	Available for sale Investments £m	Capital Redemption Reserve £m	**Total £m**
Balance at 1 April 2006	65	(22)	-	27	**70**
Cash flow hedges:					
Fair value (losses)/gains	-	(30)	4	-	**(26)**
Transferred to profit and loss account	-	58	-	-	**58**
Deferred tax on fair value (gains)	-	(6)	-	-	**(6)**
Current tax on fair value (gains)	-	(2)	(1)	-	**(3)**
Balance at 1 January 2007	**65**	**(2)**	**3**	**27**	**93**
Cash flow hedges:					
Fair value gains	-	138	17	-	**155**
Transferred to profit and loss account	-	(136)	(9)	-	**(145)**
Deferred tax on fair value (gains)	-	-	(3)	-	**(3)**
Balance at 31 December 2007	**65**	**-**	**8**	**27**	**100**

16 Profit and loss account

	£m
Balance at 1 January 2007	**1,456**
Retained gains for the financial year	459
Actuarial gain on pensions net of deferred tax	375
Tax on actuarial gain on pensions	(105)
Share-based payments charge	3
Other movements	(11)
Balance at 31 December 2007	**2,177**

17 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Company as a lessee

Total future minimum rentals payable as at the period end are as follows:

	31 December 2007		31 December 2006	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within two to five years	**1**	**1**	1	1
After five years	**5**	**-**	1	-
	6	**1**	2	1

The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewable rights. The Company also operates plant and machinery under non-cancellable operating leases.

Details of the commitments are provided in Note 31 of the Group financial statements.

18 Contingent liabilities

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the course of business amounting to £123 million (31 December 2006: £192 million). Included in the above are the following:

> In July 1998, the Company and its wholly-owned subsidiary, 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 Company and Heathrow Airport Limited guarantee payments that are decreased 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 2007 was US$13.4 million (31 December 2006: US$14.5 million).

In addition to the above, pursuant to the terms of the ADIL Senior Finance Documents and the ADIL Junior Finance Documents, the Company, as an obligor, jointly and severally guarantees ADIL Senior and Subordinated facilities with all other obligors up to a maximum value that shall be no greater than the aggregate amount such as would not cause the financial and other covenants contained in the BAA Limited bonds to be breached. The fair value of the guarantee provided by the Company and other obligors as of 31 December 2007 is not material. Further details are provided in Note 31 of the Group financial statements.

The other obligors are BAA Partnership Limited, BAA (International Holdings) Limited, London Airports Limited, Gatwick Airport Limited, Heathrow Airport Limited, Stansted Airport Limited, London Airports 1992 Limited, London Airports 1993 Limited, Scottish Airports Limited, World Duty Free Limited and World Duty Free (Europe) Limited.

19 Share based payments

The Company recognised a total expense, within staff related costs, in relation to share based payments of £3 million (nine months ended 31 December 2006: £nil).

Details of share based payments are provided in Note 22 of the Group financial statements.

20 Dividends paid and proposed

Details of dividends paid for the year are provided in Note 8 of the Group financial statements.

21 Auditor's remuneration

Auditor's remuneration paid to PricewaterhouseCoopers LLP for the performance of the statutory audit amounted to £0.2 million (31 December 2006: £0.2 million).

Details of fees for other services are provided in Note 2 of the Group financial statements.

22 Directors' remuneration

Details of directors' remuneration for the year are provided in Note 3 of the Group financial statements.

23 Employees and directors

The average monthly number of employees (including executive directors) of the Company was 10,275 (31 December 2006: 9,884).

Of the above employees, 10,100 (31 December 2006: 9,701) are wholly employed in providing services to subsidiary undertakings of the Group and their wages and salaries and other related costs of employment are charged to those subsidiaries.

Registered office

BAA Limited, 130 Wilton Road, London SW1V 1LQ

Registered in England No. 1970855