COMPANY NO: 1970855

BAA Limited Annual Report

For the nine months ended 31 December 2006

Business review

Directors' report

Directors' responsibilities

Financial statements

Group

Company

Business review

This nine-month period ended 31 December 2006 has been one of the most significant in the history of BAA Limited (formerly BAA plc) ('the Company'). At the time of publishing our Annual Report for the year ended 31 March 2006, a consortium led by Grupo Ferrovial, S.A. ('the Ferrovial Consortium') had made offers ('the offers') to acquire all of the capital issued and to be issued by the Company and all the bonds that were convertible into shares of the Company.

On 26 June 2006, Airport Development and Investment Limited ('ADIL'), a company formed by the Ferrovial Consortium to acquire the Company and its subsidiaries ('the Group'), announced that its offers had become unconditional. On satisfying the conditions of the offers, ADIL, under the London Stock Exchange ('LSE') listing rules, and subject to certain other conditions, compulsorily acquired the remaining shares and convertible bonds of the Company.

On 10 July 2006, ADIL announced via the LSE Regulatory Information System that, it and the Company had commenced the proceedings necessary to delist the Company's shares and convertible bonds in accordance with the applicable regulations. On 11 July 2006, an announcement in this respect was published in the UK edition of the Financial Times, from which date there was a delisting period of 20 business days. Delisting was official on 15 August 2006 and the Company changed its status from a plc to a private (Limited) company.

The ultimate parent company of ADIL in the UK is FGP Topco Ltd, a company owned by Ferrovial Infraestructuras, S.A. (62%), Caisse de dépôt et placement du Québec (28%) and Baker Street Investment Pte Ltd (10%).

Subsequent to acquisition by ADIL, a substantial number of the incumbent directors resigned from the Board of Directors ('the Board'). As such, the Company's Board has a significantly new composition at 31 December 2006. Despite the changes that have taken place during the nine-month period, the Group has adopted a 'business-as-usual' approach and we believe our underlying operations have been largely unaffected by the change in ownership.

In other significant initiatives, the Group changed its reporting date to 31 December (previously 31 March) to align with Grupo Ferrovial, S.A. (the ultimate majority shareholder). As such, the financial information presented in this business review and the following financial report is for the nine months ended 31 December 2006 and for the balance sheet at that date.

The Group's financial performance for the nine months ended 31 December 2006 has been presented against both the year ended 31 March 2006 and the comparative prior year nine-month period ended 31 December 2005. The period to period change percentages are calculated on the comparative nine month period due to seasonality associated with the underlying business. The figures stated for the nine month ended 31 December 2005 (or as at that date) are unaudited.

During the year the Group changed its accounting treatment for joint venture entities to proportionately consolidate the financial performance for the reporting period and the financial position at 31 December 2006 (previously joint venture entities were equity accounted). The effect of this change in policy is that the Company's share of each of the joint venture entities' assets, liabilities, income and expenses are combined on a line-by-line basis with similar items in the rest of the Group, rather than a single-line entry to recognise the Company's share of profits and investments in joint venture entities. This change in policy has no impact on net profit or reserves. Prior period comparatives have been restated to reflect this change in policy. The impact of restatement on prior year comparatives is set out in the Group's accounting policies disclosures under the 'investment in joint ventures' section. The BAA Limited entity accounts (reported under UK GAAP) continues to use the equity method to account for its interests in joint venture entities.

The Company entered into a Memorandum of Understanding ('MoU') during October 2006 with the Hochtief Consortium to purchase Budapest Airport Zrt, BAA's subsidiary company which owns Budapest Airport. BAA considers that the transaction satisfies the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'. As a consequence, assets and liabilities of Budapest Airport have been reclassified as held-for-sale. No significant profit or loss is expected to be realised.

This business review is presented under two sections:

Financial performance – where we aim to explain the key drivers behind the underlying financial performance reported for the nine months ended 31 December 2006 and provide an analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered, as well as the key drivers of the Group's ongoing financial performance, including the outlook for 2007.

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

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

- Exceptional items relating to:
  - reorganisation costs
  - Heathrow Terminal 5 operational readiness
  - bid advisory costs
  - staff related costs due to change in ownership
  - Heathrow Terminal 2 accelerated depreciation
  - profit on sale of Budapest Airport's ground handling operations
  - profit on the sale of Heathrow land
- 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.

The results of Budapest Airport have also been excluded from the underlying performance as it was not held for the entire period in the year ended 31 March 2006.

Joint-venture entities have been excluded as they were not proportionately consolidated for the nine months ended 31 December 2005.

Financial performance

Summary of underlying performance

	9 months to 31 December 2006	12 months to 31 March 2006	9 months to 31 December 2005[2]	Change[1] %
Revenue (£ million)	**1,833**	2,232	1,723	6.4
Operating profit (£ million)	**577**	*710*	*574*	*0.5*
Passenger traffic[3] (million)	**120.5**	149.2	117.0	3.0

Summary statutory results for the year

	9 months to 31 December 2006	12 months to 31 March 2006[7]	9 months to 31 December 2005[2]	Change[1] %
Revenue (£ million)	**2,012**	2,313		
Operating profit (£ million)	**702**	926		
Profit before tax (million)	**597**	757		
UK airports' net retail income[4] (£ million)	**488**	*616*	*478*	*2.1*
UK airports' net retail income per passenger[5]	**£4.21**	£4.28	£4.24	(0.7)
Cash generated from operations (£ million)	**598**	986		
Capital expenditure[6] (£ million)	**1,106**	1,485		
Net debt (£ million)	**6,299**	5,557		

[1]Based on the percentage change for the nine months ended 31 December 2006 against the comparative period ended 31 December 2005 (unaudited).
[2]*Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts. Statutory results were not* calculated or published for the nine months ended 31 December 2005, however comparative figures have been calculated for certain items.
[3]Excludes Budapest Airport's *6.7 million passengers for the nine months ended 31 December 2006 and 1.6 million for the three months post-acquisition* in the year ended 31 March 2006.
[4]Defined as revenues received directly from third-party retail operators, 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]Statutory revenue, operating profit and profit before tax for the year ended 31 March 2006 have been restated for the change in policy to proportionately consolidate joint venture entities.

Statutory results

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

- £100 million net exceptional costs before certain re-measurements (31 March 2006: £39 million) including:
  - £22 million (31 March 2006: £61 million) reorganisation costs
  - £11 million (31 March 2006: £4 million) Terminal 5 operational readiness costs
  - £45 million (31 March 2006: £15 million) bid advisory costs
  - £17 million (31 March 2006: £nil) staff related costs due to change in ownership
  - £17 million (31 March 2006: £nil) accelerated depreciation on Heathrow Terminal 2
  - £(10) million (31 March 2006: £nil) profit on sale of Budapest Airport's ground handling operations
  - £(2) million (31 March 2006: £(41) million) profit on sale of Heathrow land
- £185 million (31 March 2006: £229 million) operating profit related to 'certain re-measurements' (including those of joint ventures and associates) 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 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).

The directors consider that reporting revenue and operating profit before the items listed above more accurately reflects the underlying performance of BAA's business. As such, underlying revenue and operating profit have been determined by adjusting for these items (in addition to Budapest Airport and joint venture entities), as summarised below:

Reconciliation of statutory results to underlying operating profit performance

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m	9 months to 31 December 2005[2] £m	Change[1] %
Revenue				
Statutory (a)	**2,012**	2,313		
Budapest Airport adjustment[3]	**(151)**	(43)		
Joint venture entities proportionate consolidation	**(28)**	(38)		
Underlying revenue (d)	**1,833**	2,232	1,723	6.4
Operating costs				
Statutory (b)	**1,495**	1,616		
Net exceptional costs	**(100)**	(39)		
Budapest Airport adjustment[2]	**(127)**	(43)		
Joint venture entities proportionate consolidation	**(12)**	(12)		
Underlying operating costs (e)	**1,256**	1,522	1,149	9.3
Other operating income				
Statutory (c)	**185**	229		
Certain re-measurements	**(185)**	(229)		
Underlying other operating income (f)	**–**	–	–	–
Operating profit				
Statutory (a – b + c)	**702**	926		
Underlying operating profit (d – e + f)	**577**	710	574	0.5

[1] Based on the percentage change for the nine months ended 31 December 2006 against the comparative period ended 31 December 2005 (unaudited). Certain statutory percentage changes have not been calculated as the statutory results for the nine months ended 31 December 2005 were not calculated or published.

[2] Underlying figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts. Statutory results were not calculated or published for the nine months ended 31 December 2005.

[3] Budapest Airport's results were excluded from the underlying results for the year ended 31 March 2006 as the business was only owned by BAA for three months of that year. The results have also been excluded from the nine-months ended 31 December 2006 to provide underlying results.

The commentary below, in respect of revenue, operating costs and operating profit, is based on the underlying performance of the Group. The performance of Budapest Airport, which was acquired in December 2005 and reported as an adjustment to statutory revenue and operating costs to arrive at underlying financial performance for the year ended 31 March 2006, has been treated similarly in the current reporting period. Budapest Airport is included in the 'Other airports' segment. In addition, joint-venture entities have been excluded as they were not proportionately consolidated for the nine months ended 31 December 2005. 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 nine-month period was £1,833 million (31 March 2006: £2,232 million) and £1,723 million for the nine months ended 31 December 2005. A statutory to underlying performance reconciliation for the nine months ended 31 December 2005 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 nine months ended 31 December 2006 reflects a 3.0% increase in terminal passengers, a 4.1% rise in average aeronautical charges per passenger and a 0.7% decrease in UK airports' net retail income per passenger compared to the nine months ended 31 December 2005. 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)*

	9 months to 31 December 2006	12 months to 31 March 2006	9 months to 31 December 2005[2]	Change[1] %
Total				
Air transport movements (000's)	**1,028.2**	1,319.2	1,010.5	1.8
Terminal passengers	**120.5**	149.2	117.0	3.0
Passengers by location				
Heathrow	**52.0**	67.4	52.1	(0.2)
Gatwick	**27.4**	32.8	26.2	4.8
Stansted	**18.8**	22.2	17.4	8.3
Glasgow	**7.2**	8.8	7.2	0.1
Edinburgh	**6.8**	8.5	6.7	1.7
Aberdeen	**2.5**	3.0	2.3	10.4
Southampton	**1.5**	1.9	1.5	3.5
Total UK passengers	**116.2**	144.6	113.4	2.5
Naples	**4.3**	4.6	3.6	19.0
Total	**120.5**	149.2	117.0	3.0

[1] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the nine months ended 31 December 2006 against the comparative period ended 31 December 2005 (unaudited).
[2] Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts.

UK passenger traffic for the nine months ended December 2006 was 2.5% higher than the comparative nine month period ended 31 December 2005. Heathrow Airport's passenger traffic decreased 0.2% for the comparative period as it was impacted by the tightening of security measures after 10 August (particularly the North Atlantic long-haul flights) and the heavy fog that descended on London in the week leading up to Christmas. These events affected Heathrow to a greater extent than the other London airports.

The growth in passenger traffic was assisted by the continued expansion in European scheduled services (particularly out of Stansted and Gatwick) and other long-haul operations (predominantly India and China).

Charter traffic continued its declining trend during the period.

Aeronautical charges
Aeronautical charges income (excluding Budapest) was £760 million for the nine-month period ended 31 December 2006 (31 March 2006: £898 million) and £710 million for the nine months ended 31 December 2005. 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 £6.31 against the £6.03 for the year ended 31 December 2006 and £6.06 for the nine months ended 31 December 2005.

Aeronautical charges summary (by airport)

	Aeronautical charges				***Per passenger***			
	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m	9 months to 31 December 2005[2] £m	Change[1] %	**31 December 2006[1] £**	31 March 2006[1] £	31 December 2005[1, 2] £	Change[1] %
Heathrow	**451**	532	415	8.7	**8.67**	7.89	7.96	8.9
Gatwick	**133**	153	125	6.4	**4.84**	4.67	4.76	1.6
Stansted	**64**	72	58	10.4	**3.40**	3.26	3.34	1.9
Glasgow	**36**	45	37	(1.0)	**5.04**	5.09	5.10	(1.2)
Edinburgh	**36**	47	36	0.2	**5.37**	5.50	5.45	(1.5)
Aberdeen	**16**	19	15	10.7	**6.54**	6.56	6.53	0.2
Southampton	**10**	13	10	(2.2)	**6.33**	7.02	6.70	(5.4)
Total UK airports	**746**	881	696	7.2	**6.42**	6.10	6.14	4.6
Naples	**14**	17	14	1.6	**3.36**	3.73	3.74	(10.1)
Total airports	**760**	898	710	7.0	**6.31**	6.03	6.06	4.1

[1] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the nine months ended 31 December 2006 against the comparative period ended 31 December 2005 (unaudited).
[2] *Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts.*

The London airports (Heathrow, Gatwick and Stansted) are subject to economic regulation. The regulator of the three London airports, the Civil Aviation Authority ('CAA'), has several statutory duties, one of which is to encourage investment in new facilities at these three airports in line with the interests of users of the airports (airlines and passengers). In setting the cap on aeronautical pricing, the regulator, in effect, sets a targeted return on investment at these airports. The targeted 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 Airport and at RPI +0% at Gatwick and Stansted airports.

Airlines operating at Heathrow and Gatwick airports have been charged at the regulatory price cap and this has driven income growth in aeronautical charges.

Retail income

UK airports' net retail income for the nine months ended 31 December 2006 was £488 million (31 March 2006: £616 million) and £478 million for the nine months ended 31 December 2005. Net retail income per UK passenger fell 0.7% to £4.21 against £4.24 for the comparative nine month period.

Analysis of net retail income

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m	9 months to 31 December 2005[2] £m	Change[1] %
UK				
World Duty Free ('WDF')	**124**	152	122	1.2
Airside specialist shops	**52**	66	50	3.3
Landside shops and bookshops	**38**	49	39	(2.8)
Catering	**45**	55	42	6.7
Bureaux de change	**42**	53	38	10.6
Car parking	**121**	157	122	(1.1)
Car rental	**17**	20	15	7.5
Advertising (media sales)	**26**	35	27	(1.8)
Other retail	**23**	29	23	4.0
Total UK	**488**	616	478	2.1
Naples	**7**	9	7	11.8
Per passenger (£)[1]				
UK	**4.21**	4.28	4.24	(0.7)
Naples	**1.72**	1.83	1.74	(1.1)

[1] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the nine months ended 31 December 2006 *against the comparative period ended 31 December 2005 (unaudited).*

[2] Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts.

Reconciliation of UK airports' net retail income and net retail income per passenger

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m	9 months to 31 December 2005[2] £m	Change[1] %
UK airports' retail revenue	**385**	477	362	6.4
World Duty Free revenue	**310**	385	304	1.8
Less cost of sales	**(207)**	(246)	(188)	10.1
Net retail income	**488**	616	478	2.1
UK fixed wing passengers (million)	**115.9**	144.2	112.9	2.6
Net retail income per passenger	**£4.21**	£4.28	£4.24	(0.7)

[1] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the nine months ended 31 December *2006 against the comparative period ended 31 December 2005 (unaudited).*

[2] Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts.

Despite a period of increased security measures and tightened controls on hand-luggage, the UK airports retail operations produced sound results during the period, which reflects management's continuing efforts to:

- Provide adequate staffing levels at peak passenger times
- Concentrate on the on-going management of targeted brands
- Improve store layouts
- Improve service levels for passengers.

Net retail income has been assisted by strong passenger traffic numbers, a key driver of performance in this area of the business, but it should be noted that net retail income per passenger fell during the period.

Operating costs
The Group's underlying operating costs for the nine months ended 31 December 2006 were £1,256 million (31 March 2006: £1,522 million) and £1,149 million for the nine months ended 31 December 2005.

Underlying group operating costs

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m	9 months to 31 December 2005[2] £m	Change[1] %
Staff costs	**429**	535	394	8.8
Contract and agency costs	**31**	34	25	*26.6*
Rent and rates	**91**	110	86	6.5
Utilities	**85**	100	73	16.5
Maintenance	**116**	155	113	2.7
Retail cost of goods sold/other	**166**	189	147	13.0
Depreciation	**233**	292	217	7.2
Other costs	**170**	198	150	13.7
Capitalised costs	**(65)**	(91)	(56)	15.1
Group operating costs	**1,256**	1,522	1,149	9.3

[1] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the nine months ended 31 December 2006 against the comparative period ended 31 December 2005 (unaudited).
[2] Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts.

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

- Staff costs increased 8.8% as a result of annual salary increases and higher pension charges
- Additional contract and agency costs were incurred as a result of the tightening of security measures and the travel disruption caused by the London fog prior to Christmas
- Occupancy (rent and rates) and related costs (utilities) increased reflecting the full period charge of price increases and significant new facilities that came into service in the prior period
- The higher depreciation charge reflects the increase in the depreciable cost of property, plant and equipment through our capital investment programme.

Operating profit
Underlying operating profit was £577 million (31 March 2006: £710 million) and £574 million for the nine months ended 31 December 2005 (representing an increase of 0.5%.

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

Segmental analysis

	9 months to 31 December 2006		12 months to 31 March 2006		*9 months to 31 December 2005[2]*		*Change[1]*	
	Revenue £m	**Operating profit £m**	Revenue £m	Operating profit £m	Revenue £m	Operating profit £m	Revenue %	Operating profit %
Price-regulated London airports	**1,295**	**470**	1,570	596	1,208	473	7.3	(0.4)
Heathrow[3]	**869**	**330**	1,077	447	820	345	6.0	(4.2)
Gatwick	**285**	**98**	326	100	257	88	10.7	11.4
Stansted	**141**	**42**	167	49	131	40	7.6	5.8
Scottish airports	**151**	**64**	185	69	142	58	6.1	10.6
Glasgow	**62**	**26**	77	27	60	24	2.8	9.1
Edinburgh	**61**	**27**	75	31	57	25	6.7	8.8
Aberdeen	**28**	**11**	33	11	25	9	12.7	19.2
Other airports	**44**	**12**	52	15	41	13	9.4	(12.4)
Southampton	**16**	**6**	21	9	16	7	1.9	(16.4)
Naples	**28**	**6**	31	6	25	6	14.2	(7.4)
World Duty Free	**310**	**21**	385	26	304	20	1.8	5.3
Other operations[4]	**33**	**10**	40	4	28	10	17.9	–
Total	**1,833**	**577**	2,232	710	1,723	574	6.4	0.5

[1] These numbers have been calculated on un-rounded numbers and are based on the percentage change for the nine months ended 31 December 2006 against the comparative period ended 31 December 2005 (unaudited).
[2] Figures for the nine months ended 31 December 2005 are unaudited and are based on the Group's management accounts.
[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 nine month period was £58 million (31 March 2006: £74 million / 31 December 2005: £56 million) and £14 million (31 March 2006: £16 million / 31 December 2005: £12 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.

Reorganisation costs

Costs associated with change programmes of £22 million were incurred in the nine-month period (31 March 2006: £61 million). The major costs of implementing this UK-wide programme in this period were redundancy payments and related pension costs, along with expenditure to design and implement changed organisation structures and business processes.

The programme is designed to drive improvement in customer service and operational efficiency by bringing decision-making closer to the customer and creating a leaner and more effective management structure. This is before the four-fold increase in security requirements set by the Department for Transport ('DfT') on 10 August and the resultant future potential impacts on our business models, which will remain under review.

Heathrow Terminal 5 ('T5') operational readiness costs

T5 operational readiness costs of £11 million (31 March 2006: £4 million) were incurred during the nine-month period. There will be further significant exceptional spend relating to the T5 launch in the lead up to it commencing operations in March 2008. These costs relate to Heathrow Airport (including IT, retail and Heathrow Express) and World Duty Free.

Bid advisory costs

The advisory costs incurred in relation to the acquisition by ADIL were £45 million for the nine months to December 2006 (31 March 2006: £15 million).

Staff related costs due to change in ownership

The declaration that the final offers by ADIL were unconditional on 26 June 2006 was treated as a change in control for the purposes of calculating the expense of equity settled awards, previously granted. The effect of the change in control and the vesting of share awards resulted in a charge of £17 million, which included National Insurance costs, compensation for loss of office and pension costs.

Accelerated depreciation on Heathrow Terminal 2

With the anticipated development of Heathrow East (refer 'Transforming Heathrow' below), Terminal 2 at Heathrow Airport will be demolished. Depreciation on this asset has been accelerated amounting to an additional depreciation charge of £17 million in the nine months to 31 December 2006 (31 March 2006: £nil) to reflect its shortened useful life.

Profit on sale of Budapest Airport's ground handling operations

The sale of the ground handling operations of Budapest Airport realised a profit of £10 million.

Profit on sale of Heathrow land

On 21 March 2006, the sale of land to allow the development of a hotel adjacent to Terminal 5 at Heathrow Airport was completed. An exceptional profit of £41 million was recognised in the year ended 31 March 2006. A further £2 million has been recognised in the current period.

Certain re-measurements

Investment property valuation

The investment property valuation at 31 December 2006 resulted in a gain of £206 million (refer note 9 to the financial statements). This reflects £164 million related to Group properties and £42 million in respect of the Group's share of the gain on revaluation of the Airport Property Partnership ('APP') investment property portfolio. This compares to the gain of £225 million in the prior period.

Derivatives

Financial derivatives have given rise to a net fair value gain of £7 million compared with a loss of £49 million in the year ended 31 March 2006. This gain is largely in respect of £1,050 million forward starting interest rate swaps held at 31 December 2006. The gain is a consequence of the rise in long-term interest rates between 1 April 2006 and 31 December 2006 from 4.73% to 5.54%.

Share of profit of associates (net of interest and tax and after certain re-measurements)

The Group's share of operating profit (after interest and tax and certain re-measurements) of its associates was £5 million (31 March 2006: £6 million).

Net finance costs

The Group's net finance costs before certain re-measurements were £138 million (31 March 2006: £122 million), after capitalised interest of £137 million (31 March 2006: £151 million). Capitalised interest reflects the Group's ongoing capital investment programme and related assets under construction, particularly Heathrow T5.

Taxation

Before certain re-measurements, the tax charge for the period was £76 million (31 March 2006: £174 million) and represents an effective tax rate of 20%. This is less than that implied by the UK statutory rate of 30% due to the release of corporation tax provisions and the recognition of capital losses in respect of previous years.

As well as the tax charge associated with profits before certain re-measurements, an additional tax charge of £57 million (31 March 2006: £51 million) has been recognised within certain re-measurements. This comprises a current tax credit of £7 million and a deferred tax charge of £8 million arising from the net gains on derivative financial instruments and a deferred tax charge of £56 million arising from gains on investment properties.

Dividend

A second interim dividend, which was proposed for the year ended 31 March 2006, of £165 million was paid during the nine month period ended 31 December 2006. Further, an interim dividend of £78 million was paid to ADIL, the immediate parent entity, out of post-acquisition profits on 10 November 2006.

Cash flow
Cash generated from operations was £771 million (31 March 2006: £986 million).

Summary cash flow

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Cash generated from operations	771	986
Interest, tax and dividends received	(213)	(295)
Net cash flow from operations	558	691
Capital expenditure	(1,106)	(1,485)
Issue of ordinary share capital	102	21
Dividends paid	(243)	(231)
Proceeds from sale of assets	78	74
Loan to parent company	(114)	–
Purchase of Budapest Airport	–	(1,281)
Other	(17)	(65)
Movement in net debt	(742)	(2,276)

Balance sheet
At 31 December 2006, the Group had net assets of £6,349 million (31 March 2006: £5,992 million) and gearing (net debt over net assets) had increased to 99% from 93%.

Balance sheet position

	9 months to 31 December 2006	12 months to 31 March 2006
Total assets	15,878	15,463
Net assets (before pension deficit)	6,582	6,146
Pension deficit	(233)	(154)
Net assets	6,349	5,992
Gross debt	6,392	6,463
Cash and short-term investments	93	906
Net debt	6,299	5,557
Undrawn committed facilities	2,050	1,000
Net debt/net assets (gearing)	99%	93%

Capital investment programme
Group capital expenditure, excluding capitalised interest, and reflected in the balance sheet was £1,106 million in the nine months ended 31 December 2006 (31 March 2006: £1,485 million).

Transforming Heathrow
BAA is developing and implementing investment plans to transform the operations and passenger experience at Heathrow over the coming years, with T5 and 'Heathrow East' being the most significant projects.

T5 phase 1, which incorporates the main terminal building and Satellite 1, was approximately 90% complete as at 31 December 2006. The project continues to make good progress and the development remains on budget and on schedule to open in March 2008, with phase 2 (Satellite 2) due to be completed by 2011/12.

Key areas of progress on T5 during the period included:

- The installation of state of the art driverless trains to operate on T5's tracked transit system; a light rail system to provide an essential underground link between the various terminal buildings which make up the T5 campus.
- After a 20-month closure, the Piccadilly Line station at Terminal 4 reopened on 17 September 2006, exactly on schedule.

Heathrow Airport has also submitted an outline planning application for a new passenger terminal, 'Heathrow East', to the London Borough of Hillingdon. The plans for Heathrow East (which are subject of course to obtaining planning consent and an acceptable regulatory proposal from the CAA) set out the demolition of Terminal 2 and the Queen's Building in the central area of the airport. On the same site, a single replacement terminal would be constructed to significantly improve the quality of service offered at Heathrow Airport. Terminal 1 would be closed as a passenger-processing facility once Heathrow East has become operational. The terminal would not increase the capacity of the airport but would replace outdated buildings. Significant exceptional costs would be incurred in relation to this project, including accelerated depreciation on Terminal 2 (of which £17 million has been charged in the nine months ended 31 December 2006).

Financing
Gross debt at 31 December 2006 was £6,392 million (31 March 2006: £6,463 million). At 31 December 2006, net debt had increased to £6,299 million (31 March 2006: £5,557 million). The Group had outstanding interest rate swaps of £1.05 billion, cross-currency swaps totalling £1.7 billion (in respect of €1 billion 2012, €750 million 2014 and €750 million 2018 bonds) as well as a £200 million fixed-to-floating interest rate swap maturing in 2012. The mark to market valuation of these derivatives at 31 December 2006 implied a liability of £45 million (compared to a £43 million liability on derivatives outstanding at 31 March 2006).

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

Movement in gross debt

	£m
Gross debt at 1 April 2006	**6,463**
Repayments of committed facilities	(22)
Repayment of debt	(125)
Repayment of drawings under revolving credit facility	(50)
Increase in drawings under new revolving credit facility	200
Other	(74)
Gross debt 31 December 2006	**6,392**

Pensions
At 31 December 2006, under International Accounting Standards 19 – Employee Benefits, BAA had a deficit of assets over future liabilities of £233 million. This comprised £212 million in relation to the BAA Pension Scheme and £21 million relating to other retirement benefits. This compares with a deficit of £154 million at 31 March 2006, comprising £130 million in relation to the BAA Pension Scheme and £24 million relating to other retirement benefits.

The BAA Pension Scheme assets grew by £54 million to £2,120 million (31 March 2006: £2,066 million). The growth of the scheme's liabilities of £136 million to £2,332 million (31 March 2006: £2,196 million) was driven by an increase in the inflation rate used to assess the present value of future liabilities from 2.9%pa to 3.1%pa, anticipated increase in pensionable salaries and adjustments to mortality assumptions reflecting longer life expectancy. The next triennial actuarial valuation of the scheme is due in September 2007.

Contingent liability
Holders of US$109 million of bonds of World Duty Free Americas, Inc. (now known as DFA Inc.), which was sold in October 2001, issued proceedings against BAA plc (now BAA Limited), World Duty Free plc and the purchaser of DFA Inc. in May 2002 claiming the defendants had fraudulently conveyed the assets of DFA Inc. The plaintiffs remaining claim is for US$39 million (£19.9 million) and punitive damages of the same amount. A trial in December 2003 found BAA plc and World Duty Free plc not liable to the bond holders on all counts. The WDFA bondholders appeal on two points of law was heard in November 2004 and reheard in October 2005. The Court hearing the appeal found for the plaintiffs on both points of law and ordered the case to be sent back to the Court of First Instance. BAA plc appealed to the Court of Appeal which is the supreme court for the State of Maryland and a hearing took place in October 2006. The decision is still awaited. The Board remains confident of a successful outcome.

On 22 December 2006 Wallis Ingatlan Zrt ('Wallis'), a Hungarian property company, issued proceedings in the Budapest Metropolitan Court against BA Zrt (the holding company for Budapest Airport) claiming that an agreement had been concluded establishing a partnership between Wallis and BA Zrt in relation to real estate development at Budapest Airport which BA Zrt by its actions had rendered impossible to perform. Wallis seek either a declaration that they jointly own certain real estate at the airport or a ruling that they are entitled to compensation in the sum of ten billion HUF (£26.8 million) and interest. The Company has been advised that the claim is without merit and it will be vigorously defended.

Outlook for 2007
The key drivers of our business remain unchanged and are set out below. The forecast of passenger traffic for 2007 reflects sustainable growth for 2007 and beyond and is aligned with our capital investment programmes. As witnessed in 2006, passenger traffic can be impacted by a variety of unforeseen events which (to a significant extent) are not directly controllable by BAA, such as the tightened security measures and weather conditions.

Passenger traffic forecasts continue to be monitored closely to ensure business planning remains focussed on consumer trends, economic and market forces, competition, airline developments and other factors. Passenger traffic forecasts are under constant review, and conditions affecting our business are ever-changing and may change forecasts that are published periodically.

The sale of Budapest Airport to Hochtief Consortium is expected to be completed during 2007. No significant profit or loss is expected to be realised on this sale.

The regulatory process
2007 is an important year in BAA's regulatory process. It is likely that the Company will be reviewed by the Competition Commission ('CC') in two parallel reviews.

First, the prices at Heathrow and Gatwick will be reviewed. The CAA establishes the prices that the BAA can set from 1 April 2008. The process to set these prices is well underway, having begun in early 2005. The CAA has made its initial proposals for Heathrow and Gatwick. It has proposed RPI +4 to RPI + 8 at Heathrow and RPI –2 to RPI +2 at Gatwick. The CAA has proposed that Stansted Airport be deregulated and the Government will be consulting on this proposal in due course. BAA's response to these proposals was published on 5 February 2007. BAA rejected the CAA's proposals as failing to incentivise BAA to invest at the airports. The next stage in the process sees a six month review by the CC before the CAA sets prices early in 2008.

Second, the structure of BAA will be reviewed. The Office of Fair Trading ('OFT') launched an investigation into the UK airports sector in 2006. In December 2006, it reported that it suspected that the ownership by BAA of its airports, the system of economic regulation of airports, and capacity constraints combine to prevent, restrict or distort competition. In that light, the OFT proposes to refer the supply of airport services by BAA within the UK to the CC. BAA responded on 8 February 2007. BAA does not consider that the OFT has made a case that the break up of BAA is necessary. BAA does agree with the OFT that regulation and capacity are areas that should be scrutinised by the CC. This review is expected to take up to two years to complete.

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 end 31 December 2006 are presented on an IFRS basis, along with the comparative information for the year ended 31 March 2006. It should be noted that the BAA Limited entity accounts continue to be stated under UK GAAP. BAA's accounting policies and areas of significant accounting judgements and estimates are detailed within the financial statements. Of note, during the period the accounting policy for the treatment of joint venture entities was changed to proportionately consolidate BAA's share of the assets, liabilities, income and expenses of joint venture entities. The impact of this change is included within the accounting policies section of the financial statements.

Drivers of future performance
The key influencers of the Group's financial prospects are: the number of passengers, aeronautical charges (per passenger charges to the airlines), retail income from commercial activities (eg car parks, shops, advertising etc), operating efficiency and effectiveness, and our capital investment plans. Developments in the regulatory, legislative and planning environments may also impact both our day-to-day operations, for example our security services, and our ability to physically grow and develop the business for the medium and longer-term. Many of these factors have been discussed above or elsewhere in this document. The comments below focus on those areas considered to have the greatest material impact on the Group's future financial performance.

Aeronautical charges
London airports
In the UK, under the Airports Act, BAA's price-regulated London airports (Heathrow, Gatwick and Stansted) are subject to economic regulation. The CAA sets a price cap for airport charges at each airport for a five-year period (or 'quinquennium'). The charges within the price cap include the runway landing charge, the aircraft parking charge and the departing passenger charge.

The price cap is set with reference to forecasts for traffic volumes, capital investment, operating costs and operating revenue as well as allowing BAA a reasonable rate of return on its investments. The inclusion of retail and property income when calculating the overall price cap is referred to as the 'single till'. Under this model of regulation the retail and property activities are used to subsidise aeronautical activities.

In February 2003, the CAA published its decision on the price caps that apply for the period 1 April 2003 until 31 March 2008 (quinquennium 4).

The current regulatory period expires on 31 March 2008 and the formal process for setting the charges for quinquennium 5 (the period running 2008/09 to 2012/13) began in December 2005 when the CAA published for consultation its policy issues paper. This consultation paper was designed to inform airports, airlines and stakeholders of the CAA's statutory duties and functions, the market and policy context relevant to the reviews, and its provisional assessment of the regulatory policies it might adopt in setting airport price controls.

In December 2006, the CAA published its initial proposals for Heathrow and Gatwick. BAA's response to this document was sent in February 2007. BAA rejected CAA's proposals. The next stage in the process is the formal reference to the Competition Commission that is due in April 2007. The CAA has proposed that Stansted Airport be de-regulated (and therefore not subjected to price caps) and the Government will be consulting upon this proposal in due course.

Maximum allowable yield

	2003/04 out-turn	2004/05 out-turn	2005/06 out-turn	2006/07 RPI plus	2007/08 RPI plus
Heathrow	£6.48	£7.08	£7.82	+6.5%	+6.5%
Gatwick	£4.32	£4.44	£4.65	+0.0%	+0.0%
Stansted	£4.89	£5.03	£5.18	+0.0%	+0.0%

The pricing regime at Heathrow has been linked to five triggers related to the Terminal 5 project and at Gatwick to the completion of Pier 6. The first three triggers at Heathrow were achieved in the year ended 31 March 2006. The remaining triggers were met in the nine months ended 31 December 2006. The Gatwick trigger has been met.

Other airports
By contrast, other BAA airports are subject to either much lighter economic regulation or no economic regulation, and hence are free to set their charges to airlines directly with customers (the airline users).

Capital investment programme
The capital investment programme is currently under review to take into account the ever-changing economic, social, regulatory and climatic environment that the Group operates in. Capital investment programmes are based on long-term forecasts and require extensive planning and consultation with various stakeholders and other affected parties.

Risk management

Risk management in BAA facilitates the identification, evaluation and effective management of the threats to the achievement of BAA'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 BAA'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 BAA's risk-profiling methodology. This determines the threats to the achievement of business objectives 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 BAA 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 currently:

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. BAA 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 above, the Group's operations at Heathrow, Gatwick and Stansted airports are subject to regulatory review by the CAA and Competition Commission 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 2007' 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 was refused by Uttlesford District Council in November 2006. BAA immediately submitted an appeal in order to obtain planning permission in line with Government policy. The inquiry will commence on 30 May and is expected to last for around six weeks. On 30 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 BAA'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. BAA 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
BAA recognises that failure to control key capital project costs and delivery could damage BAA's 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 have been 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.

Delivering Excellence
BAA has identified that failure to manage the Delivering Excellence 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, 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. This programme is well advanced.

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. In the current environment, should the scenario planning indicate an event could have a substantial impact, scenario based exercises are carried out.

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. BAA 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 Company.

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. It's purpose is to identify, mitigate and hedge residual treasury-related financial risks inherent to the Group's business operations. To achieve this, the Group enters into forward starting interest rate swaps and foreign exchange spot and forward/swap transactions to protect against interest rate and currency risk. The primary treasury-related financial risks faced by the Group are the focus of treasury policies covering:

(a) Interest rates
To maintain a mix of fixed and floating rate debt within Board-approved parameters of a minimum of 70% fixed rate on existing and forecast debt. The level of fixed-rate debt borrowings at the year-end was 86%.

(b) Foreign currency
BAA uses foreign currency forward contracts to hedge capital expenditure in foreign currency once a project is certain to go ahead. At December 2006, 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.

(d) Covenants
Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board and Executive Committee. BAA 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. The details of derivatives and other financial instruments are set out in Note 18 to the financial statements.

By order of the Board

Stephen Nelson
Chief Executive

26 February 2007

José Leo
Chief Financial Officer

26 February 2007

Report of the directors

BAA Annual Report 31 December 2006

The directors present their report and the audited financial statements for the nine month period to 31 December 2006 ('the period').

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, duty-free retailing, and owns and operates the Heathrow Express and Heathrow Connect rail link between Heathrow and Paddington, London.

A review of the progress of the Company's business, during the period, the key performance indicators, principal business risks and likely future developments are reported in the Business Review on pages 2 to 13.

Results and Dividends
The results for the period are set out on page 3. An Interim dividend of 15.25 pence per ordinary share for the year ended 31 March 2006 was paid on 11 August 2006. An Interim dividend of 7.0 pence per ordinary share for the period ended 31 December 2006 was paid on 10 November 2006.

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 Company'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. As a result of the acquisition of the Company by Airport Development and Investment Limited, a company held by a consortium, our Group Sharesave Scheme and the BAA Share Incentive Plan had to close. However, we are currently in the process of replacing these plans and we hope that a high level of our staff will decide to participate in our new plan once launched.

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

Eng Seng Ang	appointed 26 June 2006
Marcus Agius	resigned 20 December 2006
Stuart Baldwin	appointed 24 November 2006
Anthony Ball	resigned 26 June 2006
Juan Béjar Ochoa	appointed 26 June 2006
Mark Clare	resigned 26 June 2006
Michael Clasper	resigned 13 July 2006
Robert Cote	appointed 26 June 2006 resigned 31 October 2006
Rafael del Pino Calvo-Sotelo	appointed 20 December 2006
Antony Douglas	appointed 13 July 2006
Margaret Ewing	resigned 4 October 2006
Renaud Faucher	appointed 31 October 2006
Christopher Fay	resigned 26 June 2006
Joaquín Ayuso García	appointed 26 June 2006
Ghislain Gauthier	appointed 26 June 2006
José Leo	appointed 24 November 2006
Stephen Nelson	appointed 1 April 2006
Lucas Osorio Iturmendi	appointed 26 June 2006 resigned 24 November 2006
José María Pérez Tremps	appointed 26 June 2006
Alice Perkins	resigned 26 June 2006
David Roberts	resigned 26 June 2006
Luis Sánchez Salmeron	appointed 26 June 2006
Macky Tall	appointed 26 June 2006
Mick Temple	resigned 13 July 2006
Michael Toms	resigned 13 July 2006
Nicolás Villén Jiménez	appointed 26 June 2006
Tony Ward	resigned 13 July 2006

Directors' Interests
The Company is exempted from disclosing interests of the directors in the share capital of the ultimate parent company by virtue of the Companies (Disclosure of Director's Interests) (Exemptions) Regulation 1985 (SI 1985 no 802).

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 directors of the company shall be indemnified by the Company against any costs incurred by them in defending any proceedings brought against them as directors in which they are acquitted or judgement is given in their favour or relief from any liability is granted to them by the court.

Donations
The Group's charitable donations for the nine month period amounted to £1,345,000 (31 March 2006: £1,313,000). BAA 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, BAA 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 9 months ended 31 December 2006 which, in our view, may fall within this category is:

- Sponsorship of table at Scottish Liberal Democrat Gala Dinner £2,000
- Sponsorship of Scottish reception at Liberal Democrat Party Conference 2006 £7,269

Total £9,269

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 deal and stick 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 17 days purchases outstanding at 31 December 2006, based on the average daily amount invoiced by suppliers during the period ended 31 December 2006. This compared to 22 days as at 31 March 2006.

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 nine month period to 31 December 2006 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 Company's financial risk management objectives and policies, including hedging policies along with the Company's exposure to risk can be found on pages 12 to 13 of the Risk Management section of the Business Review.

By order of the Board

Rachel Rowson

Rachel Rowson
Company Secretary

26 February 2007

Statement of directors' responsibilities

United Kingdom Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss and cash flow 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 judgments and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, 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 Group will continue in business within the foreseeable future.

The directors confirm that they have complied with the above requirements in preparing the financial statement.

The directors are responsible for ensuring that the Company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for the system of internal control, and for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities. The directors are also responsible for ensuring that all information relevant to the audit has been made available to the auditors.

The above statement should be read in conjunction with the statement of the auditors' responsibilities.

Financial statements

Group

Company

Independent auditors' report to the members of BAA Limited

We have audited the Group financial statements of BAA Limited for the nine month period ended 31 December 2006 which comprise the consolidated income statement, consolidated statement of recognised income and expense, consolidated balance sheet, 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 nine month period ended 31 December 2006.

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 (IFRSs) 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 Business Review section of 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 IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the nine month period then ended;
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- The information given in the Report of the Directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 February 2007

Consolidated income statement for the 9 months to 31 December 2006

	Note	9 months to 31 December 2006 Before certain re-measurements[1] £m	Certain re-measurements[1] £m	Total £m	Restated[2] 12 months to 31 March 2006[2] Before certain re-measurements[1] £m	Certain re-measurements[1] £m	Total £m
Continuing operations							
Revenue	1	**2,012**	**-**	**2,012**	2,313	-	2,313
Operating costs	2	**(1,495)**	**-**	**(1,495)**	(1,616)	-	(1,616)
Other operating income							
Fair value gains on investment properties	9	**-**	**206**	**206**	-	225	225
Fair value (losses)/gains on derivative financial instruments	19	**-**	**(21)**	**(21)**	-	4	4
Operating profit	1	**517**	**185**	**702**	697	229	926
Analysed as:							
Operating profit before exceptional items		**617**	**185**	**802**	736	229	965
Exceptional Items	4	**(100)**	**-**	**(100)**	(39)	-	(39)
		517	**185**	**702**	697	229	926
Share of profit of associates (net of interest and tax)	11	**5**	**-**	**5**	6	-	6
Financing							
Finance income	5	**24**	**-**	**24**	44	-	44
Finance costs	5	**(162)**	**-**	**(162)**	(166)	-	(166)
Fair value gains/(losses) on derivative financial instruments	19	**-**	**28**	**28**	-	(53)	(53)
Profit before tax		**384**	**213**	**597**	581	176	757
Taxation	6	**(76)**	**(57)**	**(133)**	(174)	(51)	(225)
Profit for the period from continuing operations		**308**	**156**	**464**	407	125	532
Attributable to:							
Equity holders of the parent		**307**	**156**	**463**	406	125	531
Minority interest		**1**	**-**	**1**	1	-	1
Proposed final dividend for the period	7			**-**			165
Dividends in the period	7			**243**			232

[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 year comparatives have been restated for the change in accounting policy to proportionately consolidate the Group's share of joint venture entities' assets, liabilities, income and expenses. The restatement of prior year comparatives has been made in the consolidated income statement, balance sheet, cash flow statement, and in the notes accompanying the financial statements. No restatement of prior year comparatives was required in the consolidated statement of recognised income and expense. The impact of the restatement on prior year comparatives is set out in the Group's accounting policies disclosures under 'investment in joint ventures'.

Consolidated statement of recognised income and expense for the 9 months to 31 December 2006

	Note	**9 months to 31 December 2006 £m**	12 months to 31 March 2006 £m
Available-for-sale investments			
Gains taken to equity	*29*	**4**	2
Cash flow hedges			
Losses taken to equity	*29*	**(30)**	(2)
Transferred to income statement	*29*	**58**	(33)
Actuarial (loss)/gain	*21*	**(58)**	72
Currency translation on foreign operations	*29*	**31**	(41)
Deferred tax credit/(charge) on items transferred directly to equity	*20*	**15**	(12)
Current tax (charge)/credit on items transferred to equity	*29*	**(3)**	*2*
Current tax taken directly to equity (share-based payments)		**26**	-
Deferred tax taken directly to equity (share-based payments)	*20*	**(14)**	13
Net income recognised directly in equity		**29**	1
Profit for the period from continuing operations		**464**	532
Total recognised income and expense for the period		**493**	533
Attributable to			
Equity holders of the parent		**492**	532
Minority interest		**1**	1
		493	533

Consolidated balance sheet as at 31 December 2006

	Note	31 December 2006 £m	Restated 31 March 2006 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**10,134**	9,580
Investment properties	9	**3,503**	3,385
Intangible assets	10	**130**	1,077
Investment in associates	11	**2**	10
Available-for-sale investments	12	**122**	114
Derivative financial instruments	18	**7**	40
Trade and other receivables	14	**4**	8
		13,902	14,214
Current assets			
Inventories	13	**30**	30
Trade and other receivables	14	**392**	306
Derivative financial instruments	18	**1**	7
Held-to-maturity financial assets	15	**-**	412
Cash and short-term deposits	16	**93**	494
		516	1,249
Assets classified as held for sale	24	**1,460**	-
Total assets		**15,878**	15,463
Liabilities			
Non-current liabilities			
Borrowings	17	**(5,956)**	(6,180)
Derivative financial instruments	18	**-**	(14)
Deferred income tax liabilities	20	**(1,687)**	(1,643)
Retirement benefit obligations	21	**(233)**	(154)
Provisions	22	**(95)**	(107)
Trade and other payables	23	**(22)**	(83)
		(7,993)	(8,181)
Current liabilities			
Borrowings	17	**(436)**	(283)
Derivative financial instruments	18	**(65)**	(69)
Provisions	22	**(51)**	(63)
Current income tax liabilities		**(135)**	(152)
Trade and other payables	23	**(724)**	(723)
		(1,411)	(1,290)
Liabilities associated with assets classified as held for sale	24	**(125)**	-
Total liabilities		**(9,529)**	(9,471)
Net assets		**6,349**	5,992
Equity			
Capital and reserves			
Ordinary shares	25	**1,102**	1,080
Share premium	26	**325**	245
Own shares held	27	**-**	(4)
Revaluation reserve	28	**388**	388
Fair value and other reserves	29	**84**	30
Retained earnings	30	**4,440**	4,243
Total shareholders' equity		**6,339**	5,982
Minority interest in equity		**10**	10
Total equity		**6,349**	5,992

The financial statements were approved by the Board of directors and authorised for issue on 26 February 2007 and signed on behalf of the Board.

Stephen Nelson
Stephen Nelson
Chief Executive

José Leo
Chief Financial Officer

Consolidated cash flow statement for the 9 months to 31 December 2006

	Note	9 months to 31 December 2006 £m	Restated 12 months to 31 March 2006[1] £m
Operating activities			
Cash generated from operations	*33*	**771**	986
Dividends received		**16**	18
Interest paid		**(216)**	(255)
Interest received		**29**	35
Income taxes paid		**(42)**	(93)
Net cash from operating activities		**558**	691
Investing activities			
Purchase of:			
Property, plant and equipment		**(1,091)**	(1,431)
Investment property	*9*	**-**	(27)
Intangible assets	*10*	**(15)**	(27)
Purchase of held-to-maturity financial assets		**(524)**	(1,551)
Proceeds from held-to-maturity financial assets on maturity		**936**	1,356
Cash placed on deposits over three months		**-**	(100)
Cash returned from deposits over three months		**-**	60
Net cash (placed)/returned on short-term deposit		**-**	556
Loan to parent entity		**(114)**	-
Loan repayments received from associates and joint ventures		**2**	1
Proceeds from sale of:			
Intangible assets		**20**	-
Investment property		**22**	1
Property, plant and equipment		**36**	73
Purchase of available-for-sale investments		**(5)**	(1)
Acquisition of subsidiary (net of cash and cash equivalents)		**-**	(1,281)
Net cash used in investing activities		**(733)**	(2,371)
Financing activities			
Proceeds from issue of ordinary shares		**102**	21
Proceeds from borrowings		**200**	3,330
Repayment of borrowings		**(198)**	(1,413)
Repayment of forward starting interest rate swaps		**-**	(28)
Proceeds from sale of own shares		**-**	18
Dividends paid to shareholders		**(243)**	(231)
Net (used in)/provided by financing activities	*33*	**(139)**	1,697
Net (decrease)/increase in cash and cash equivalents		**(314)**	17
Cash and cash equivalents at beginning of year		**444**	427
Cash and cash equivalents at end of year[1]	*16*	**130**	444

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.

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, the following IFRS and International Financial Reporting Interpretations Committee (IFRIC), which have not been applied in these financial statements, were in issue but not yet effective:
- IFRIC 7 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies'
- IFRIC 8 'Scope of IFRS 2 'Share-based payment transactions'
- IFRIC 9 'Reassessment of Embedded Derivatives'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 11 'Group and Treasury Shared Transactions'
- IFRIC 12 'Service Concession Agreements'
- IFRS 7 'Financial Instruments – Disclosures'
- IFRS 8 'Operating Segments'

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Changes in accounting policies
During the year the Group changed its accounting treatment for joint venture entities to proportionately consolidate the financial performance for the reporting period and the financial position at 31 December 2006 (previously joint venture entities were equity accounted). The effect of this change in policy is that the Group's share of each of the joint venture entities' assets, liabilities, income and expenses are combined on a line-by-line basis with similar items in the rest of the Group, rather than a single-line entry to recognise the Group's share of profit and investment in joint venture entities. This change in policy has no impact on net profit or reserves. Prior period comparatives have been restated to reflect this change in policy and the impacts on the consolidated income statement, consolidated balance sheet and consolidated cash flow statement have been set out under the accounting policy for 'investments in joint ventures' within this section.

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.

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 together with
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.

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
- Aircraft landing charges levied according to weight
- *Aircraft parking charges based on a combination of weight and time parked*
- Other charges levied for passenger and baggage handling.

Retail
- World Duty Free income is recognised as each sale is transacted
- 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.

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 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.

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. 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.

On acquisition, goodwill is allocated to cash-generating units for the purpose of impairment testing. The Group's current goodwill balance has been allocated to the cash-generating units that represent the Group's investment in those related operations.

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 the airport 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
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

Previously, the Group carried investments in joint ventures in the balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the joint venture less any impairment. The Group's share of net profits and losses of joint ventures was included in the income statement net of interest or tax. This method of accounting is commonly known as the equity method. An alternative method of accounting is permissible under IAS 31 'Interests in Joint Ventures' known as proportionate consolidation. The Group has taken the decision to adopt the proportionate consolidation method in accounting for 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 balance sheet or income statement. This is a presentational change only and there is no impact on the net assets or profit of the Group. This change in accounting policy has been undertaken to align the accounting policy of the Group with the accounting policies applied in its' parent company.

The figures as at 31 March 2006 have been restated from the amounts previously reported to reflect this change in accounting policy as follows:

Consolidated balance sheet	31 March 2006	
	As previously reported £m	**As restated proportionate consolidation £m**
Property, plant & equipment	9,565	**9,580**
Investment properties	2,994	**3,385**
Intangible assets	1,041	**1,077**
Investment in joint ventures	248	**-**
Other non-current assets	132	**172**
Current assets	1,225	**1,249**
Non current assets held for sale	-	**-**
Total assets	15,205	**15,463**
Long-term borrowings	(5,956)	**(6,180)**
Other non-current liabilities	(1,987)	**(2,001)**
Current liabilities	(1,270)	**(1,290)**
Total liabilities	(9,213)	**(9,471)**
Net assets	5,992	**5,992**

Consolidated cash flow statement	31 March 2006	
	As previously reported £m	**As restated proportionate consolidation £m**
Net cash from operating activities	977	986
Net cash from investing activities	(2,369)	(2,371)
Net cash from financing activities	1,697	1,697
Net increase in cash and cash equivalents	10	17
Cash and cash equivalents at the beginning of year	427	427
Cash and cash equivalents at the end of year	437	444

Consolidated income statement

	31 March 2006					
	As previously reported			As restated proportionate consolidation		
	Before certain re-measurements[1]	Certain re-measurements[1]	Total	Before certain re-measurements[1]	Certain re-measurements[1]	Total
	£m	£m	£m	£m	£m	£m
Continuing operations						
Revenue	2,275	-	2,275	2,313	-	2,313
Operating costs	*(1,604)*	-	*(1,604)*	*(1,616)*	-	*(1,616)*
Other operating income:						
Fair value gains on investment *properties*	-	184	184	-	225	225
Fair value (losses)/gains on derivative financial instruments	-	4	4	-	4	4
Operating profit	**671**	**188**	**859**	**697**	**229**	**926**
Analysed as:						
Operating profit before exceptional items	710	188	898	736	229	965
Exceptional Items	(39)	-	(39)	(39)	-	(39)
	671	**188**	**859**	**697**	**229**	**926**
Share of profit of associates (net of interest and tax)	19	41	60	6	-	6
Financing						
Finance income	44	-	44	44	-	44
Finance costs	(153)	-	(153)	(166)	-	(166)
Fair value gains/(losses) on *derivative financial instruments*		(53)	(53)	-	(53)	(53)
Profit before tax	**581**	**176**	**757**	**581**	**176**	**757**
Taxation	(174)	(51)	(225)	(174)	(51)	(225)
Profit for the period from continuing operations	**407**	**125**	**532**	**407**	**125**	**532**
Attributable to:						
Equity holders of the parent	406	125	531	406	125	531
Minority interest	1		1	1	-	1

[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.

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.

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.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in equity attributable to the Company's equity holders.

Income tax

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 payments

Following the 100% acquisition of BAA by the Ferrovial Consortium in June 2006, all share awards were exercised.

Equity-settled share-based payments, under share schemes, were measured at fair value at the date of grant. The fair value determined at the grant date was expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

For the Executive Share Option Scheme ('ESOS') and the Sharesave Scheme, the fair value of awards was measured using the Black-Scholes option pricing model. The fair value of awards made under the Performance Share Plan ('PSP') was based on the market value of shares at the date of grant adjusted to reflect a Total Shareholder Return market-based performance condition. The fair value of awards made under the Deferred Annual Bonus Scheme ('DAB') was based on the market value of the shares at the date of grant.

No expense was recognised (any previously recognised expense was reversed) for awards that did not ultimately vest except where vesting was conditional upon a measure linked to BAA plc's share price ('a market condition') or other market conditions. The likelihood of achieving the market condition was taken into account in the fair value and, therefore, the award was treated as vesting irrespective of whether or not the market condition was satisfied, provided that any other performance condition was met.

Where an award was cancelled, it was treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award was recognised immediately in the income statement.

The cost of share-based compensation schemes was recognised as an expense within staff costs in the income statement.

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.

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, listed convertible bonds, cash, short-term deposits and commercial paper. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions, principally interest rate swaps, cross currency swaps and forward currency contracts. The purpose of these derivatives is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge residual 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 (fair value interest rate risk, foreign currency risk and interest rate re-pricing risk), credit risk, liquidity risk and cash flow interest rate risk. The Board approves, annually, prudent treasury policies for managing each of the risks summarised below.

Market risk

The Group operates internationally and its balance sheet is exposed to foreign currency risk arising primarily with respect to the Australian Dollar, the Hungarian Forint and the Euro. The Group's policy is to seek to mitigate the effects of material structural currency exposures by matching overseas investments and forecasted cash flows with borrowings denominated in the same currency where freely available.

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.

Credit risk
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.

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's policy is to ensure there are sufficient forecasted cash balances and undrawn committed facilities to fund forecast capital expenditure requirements for 18 months or 12 months forecast net funding requirement, whichever is greater.

Price risk
The Group is not materially exposed to equity security price risk on investments held by the Group and classified on the consolidated balance sheet as available for sale at fair value through equity. The Group does not have significant exposure to commodity price risk.

Cash flow and fair value interest rate risk
The Group's interest rate risk arises from its short-term and long-term 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 fixed-to-floating interest rate swaps. These swaps are designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group undertakes forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

Accounting for derivative financial instruments
The Group uses derivative financial instruments, such as foreign currency contracts, interest rate swaps and cross-currency swaps to hedge risks associated with interest rate and foreign currency fluctuations. Such derivative instruments are recognised on the balance sheet at fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the risk being hedged.

Hedges are classified as:
- Fair value hedges, where they hedge the exposure to changes in the fair value of a recognised asset or liability
- Cash flow hedges, where they hedge the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset, liability or forecasted transaction
- Hedges of net investments in foreign operations.

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.

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 to the income statement in the same period that the hedged item is recognised in the income statement. However, where the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment) or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the asset or liability.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement. Gains and losses accumulated in equity are recycled to the income statement on disposal of the foreign operation.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Subject to the above, fair value changes in the value of derivative financial instruments recorded in the income statement are classified under either finance income, finance costs or as part of operating profit, depending on the nature of the derivative financial instrument.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is recycled to the income statement at the same time as the hedged item. For hedges of forecasted transactions, if the forecast transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is transferred to the income statement immediately.

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 (excluding those acquired on the acquisition of Budapest Airport), were valued at a fair value at 31 December 2006 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 Company'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 Company'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 Company'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 liability for pension schemes is reflected in the statement of recognised income and expense.

Contingent liabilities

A provision for legal costs has been made for the legal action brought against the Group by WDFA bond holders of US$109 million of loan notes of World Duty Free Americas Inc. (now known as DFA Inc.). The Board remains confident of a successful outcome to this litigation.

On 22 December 2006 Wallis Ingatlan Zrt ('Wallis'), a Hungarian property company, issued proceedings in the Budapest Metropolitan Court against BA Zrt (the holding company for Budapest Airport) claiming that an agreement had been concluded establishing a partnership between Wallis and BA Zrt in *relation to real estate development at Budapest Airport which BA Zrt by its actions had rendered impossible to perform. Wallis seek either a declaration* that they jointly own certain real estate at the airport or a ruling that they are entitled to compensation in the sum of ten billion HUF (£26.8 million) and interest. The Company has been advised that the claim is without merit and it will be vigorously defended.

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, Naples and Budapest airports. The results for the prior year include the three-month post-acquisition contribution for Budapest Airport. Budapest Airport has been reclassified as an asset held for sale as detailed in Note 24.

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.

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 continuing operations.

	9 months to 31 December 2006				Restated 12 months to 31 March 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	**1,295**	**421**	**132**	**553**	1,570	549	143	692
Heathrow[3]	**869**	**292**	**75**	**367**	1,077	421	45	466
Gatwick	**285**	**90**	**33**	**123**	326	82	29	111
Stansted	**141**	**39**	**24**	**63**	167	46	69	115
Scottish airports	**151**	**61**	**23**	**84**	185	67	27	94
Other airports	**195**	**46**	**7**	**53**	95	11	10	21
World Duty Free	**310**	**21**	**-**	**21**	385	26	-	26
Other operations	**61**	**(32)**	**23**	**(9)**	78	44	49	93
Total	**2,012**	**517**	**185**	**702**	2,313	697	229	926
Share of associate's profit (net of interest and taxation)								
Other airports		**5**	**-**	**5**		6	-	6
Unallocated income and expenses								
Finance income				**24**				44
Finance costs				**(162)**				(166
Fair value gains/(losses) on derivative financial instruments				**28**				(53
Profit before tax				**597**				757
Income tax expense				**(133)**				(225
Net profit for the period				**464**				532

[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 2006 Assets £m	Liabilities £m	Capital expenditure £m	Depreciation and amortisation £m	Restated 31 March 2006 Assets £m	Liabilities £m	Capital expenditure £m	Depreciation and amortisation £m
Price regulated London airports	12,482	(557)	954	213	11,499	(562)	1,430	247
Heathrow	9,374	(441)	802[1]	150[2]	8,540	(436)	1,280[1]	167[2]
Gatwick	1,702	(73)	66	41	1,647	(84)	84	51
Stansted	1,406	(43)	86	22	1,312	(42)	66	29
Scottish airports	833	(26)	29	15	794	(36)	46	19
Other airports	72	(46)	16[1]	5[2]	1,514	(140)	19[1]	13[2]
World Duty Free	54	(40)	3	7	49	(37)	8	10
Other operations	778	(534)	12	10	545	(484)	14	10
Assets classified as held for sale	1,460	(125)	26	20[2]	-	-		
Total	*15,679*	*(1,328)*	*1,040*	*270*	*14,401*	*(1,259)*	*1,517*	*299*
Investment in equity accounted associates								
Other airport interests	20				34			
Total operations	15,699	(1,328)	1,040	270	14,435	(1,259)	1,517	299
Unallocated assets and liabilities								
Cash, borrowings and available-for-sale investments	168	(5,948)			973	(6,119)		
Derivative financial instruments	8	(65)			47	(83)		
Retirement benefit obligations	-	(233)			-	(154)		
Taxation	-	(1,822)			-	(1,795)		
Interest	3	(133)			8	(61)		
Group	15,878	(9,529)	1,040	270	15,463	(9,471)	1,517	299

[1] Includes capital expenditure of £15 million (31 March 2006: £27 million) relating to intangible assets.
[2] Includes amortisation charge of £24 million (31 March 2006: £25 million) relating to intangible assets.

(c) Geographical Segments	31 December 2006 Revenue £m	Capital expenditure £m	Segment assets £m	Restated 31 March 2006 Revenue £m	Capital expenditure £m	Segment assets £m
UK						
Airports	1,462	990	13,364	1,776	1,482	12,396
Other operations and World Duty Free	356	24	826	432	18	564
Total	1,818	1,014	14,190	2,208	1,500	12,960
International						
Airports - Europe	179	26	1,483	74	13	1,411
Other operations - Rest of World	15	-	24	31	4	54
Total	194	26	1,507	105	17	1,465
Total operations	2,012	1,040	15,697	2,313	1,517	14,425
Investment in equity accounted associates						
Rest of World			2			10
Total			2			10
Unallocated assets			179			1,028
Group			*15,878*			*15,463*

(d) Business and geographical segments continued

Revenue	9 months to 31 December 2006 Retail £m	Airport and other traffic Charges £m	Property and operational facilities £m	Other £m	Total £m	Restated 12 months to 31 March 2006 Retail £m	Airport and other traffic charges £m	Property and operational facilities £m	Other £m	Total £m
Price regulated London airports	342	656	205	92	1,295	427	769	257	117	1,570
Heathrow	184	457	144	84	869	241	540	189	107	1,077
Gatwick	98	135	47	5	285	113	156	51	6	326
Stansted	60	64	14	3	141	73	73	17	4	167
Other UK airports	43	99	20	5	167	50	124	24	8	206
Glasgow	16	36	8	2	62	20	45	9	3	77
Edinburgh	17	36	7	1	61	19	47	7	2	75
Aberdeen	5	17	4	2	28	6	19	6	2	33
Southampton	5	10	1	-	16	5	13	2	1	21
Other UK businesses	310	-	-	29	339	385	-	-	35	420
World Duty Free	310	-	-	-	310	385	-	-	-	385
APP	-	-	-	19	19	-	-	-	26	26
BAA Lynton	-	-	-	9	9	-	-	-	7	7
Other	-	-	-	1	1	-	-	-	2	2
Total UK	695	755	225	126	1,801	862	893	281	160	2,196
International airports										
Naples	7	14	4	3	28	9	17	5	-	31
Budapest	10	51	13	77	151	3	14	4	22	43
Total Europe	17	65	17	80	179	12	31	9	22	74
Rest of World	14	-	-	18	32	18	-	-	25	43
Group	726	820	242	224	2,012	892	924	290	207	2,313

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:

	9 months to 31 December 2006 £m	Restated 12 months to 31 March 2006 £m
Retail	143	200
Property and operational facilities	72	85
Other	7	7
Total	222	292

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

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Retail	123	156
Property and operational facilities	15	19
Total	138	175

[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 £2 million (31 March 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 (as analysed in Note 31).

2 Operating costs

	9 months to 31 December 2006 £m	Restated 12 months to 31 March 2006 £m
Operating costs (including exceptional items) include the following:		
Staff costs		
Wages and salaries	**333**	423
Social security	**39**	39
Pensions[1]	**68**	70
Pensions – future enhancements[2]	**-**	13
Share-based payments	**5**	13
Other staff related	**33**	43
	478	601
Depreciation and amortisation		
Depreciation of property, plant and equipment	**246**	274
Amortisation of intangible assets		
Software	**15**	22
Asset management contract	**9**	3
	270	299
Other operating costs		
Loss/(profit) on sale of:		
Property, plant and equipment	**6**	(44)
Budapest Airport's ground handling operations	**(10)**	-
Retail expenditure	**153**	175
Retail marketing	**13**	14
Contract and agency staff	**42**	35
Maintenance and cleaning	**123**	182
Insurance	**15**	20
Bid advisory costs	**45**	15
Other marketing and communications	**14**	15
Fund and asset management costs	**10**	10
Rent and rates	**95**	111
Utilities	**91**	104
Police	**42**	52
General expenses[4]	**173**	121
	812	810
Own work capitalised[3]	**(65)**	(94)
Total operating costs	**1,495**	1,616
Analysed as:		
Underlying operating costs	**1,395**	1,577
Exceptional costs	**100**	39
	1,495	1,616

[1] Includes a charge of £17 million (31 March 2006: £3 million) disclosed within exceptional items.
[2] Included within exceptional items.
[3] Own work capitalised includes £41 million (31 March 2006: £77 million) in relation to staff costs.
[4] Includes costs of sales for fuel business in Budapest Airport of £63 million (31 March 2006: £16 million)

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

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
The aforementioned charges include:		
Rentals under operating leases		
Plant and machinery	**24**	32
Other	**13**	26
	37	58
Property lease and sub lease charges		
Minimum lease payments	**21**	26

Property operating costs include £7 million (31 March 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.

BAA Limited	**9 months to 31 December 2006 £m**	12 months to 31 March 2006 £m
Fees payable to the Company's auditor for the audit of the consolidation and the parent company accounts	**0.5**	0.4
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	**0.4**	0.7
taxation services	**0.2**	0.2
other services	**0.9**	0.6
	2.5	2.4

3 Employee information

a) Employee numbers

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

	9 months to 31 December 2006 Number	12 months to 31 March 2006 Number
UK		
Airports	**9,961**	9,567
World Duty Free	**1,989**	1,901
BAA Lynton	**26**	26
Other operations	**484**	511
International		
Europe	**2,644**	2,860
Rest of World[1]	**472**	472
	15,576	15,337

[1] Employee numbers for Rest of World include *446 (31 March 2006: 445)* employees of BAA Indianapolis where the Group does not bear normal employee risks and recovers all associated costs from Indianapolis Airport Authority.

b) Employees and directors

	9 months to 31 December 2006 £'000	12 months to 31 March 2006 £'000
Key management compensation		
Salaries and short-term employee benefits	**6,564**	6,061
Post-employment benefit contributions	**453**	272
Share based payments	**705**	1,666
	7,722	7,999

The key management compensation above includes executive directors.

c) Directors' remuneration

	9 months to 31 December 2006 £'000	12 months to 31 March 2006 £'000
Aggregate emoluments	**5,973**	3,437
Sums paid to third parties for directors' services	**154**	198

Retirement benefits accrued to 6 (31 March 2006: 7) directors during the period under a defined benefits scheme. At 31 December 2006, retirement benefits are accruing for 3 directors. During the period 6 (31 March 2006: 5) directors exercised options over a number of £1 shares in BAA plc. For the nine months ended 31 December 2006 £3,784 thousand (31 March 2006: £nil) was paid to directors as compensation for loss of office.

Of the directors in office at 31 December 2006, 7 did not receive emoluments during the period.

Highest paid director

	9 months to 31 December 2006 £'000	12 months to 31 March 2006 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**2,611**	1,081
Defined benefits scheme:		
Accrued pension at period end	**244**	229
Accrued lump sum	**6,306**	3,590

During the period the highest paid director exercised options over a number of £1 shares in BAA plc. The increase in the accrued lump sum payable is due to early retirement and a longer pension payment period than previously anticipated. Compensation for loss of office of £1,600 thousand was paid in the nine months ended 31 December 2006.

4 Exceptional items

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Operating items		
Reorganisation costs		
Pension	**(7)**	(16)
Other staff related (including severance and redundancy)	**(8)**	(38)
General expenses (including programme design and implementation)	**(7)**	(7)
	(22)	(61)
Terminal 5 operational readiness costs	**(11)**	(4)
Bid advisory costs	**(45)**	(15)
Staff related costs due to change in ownership	**(17)**	-
Terminal 2 accelerated depreciation	**(17)**	-
Profit on sale of Budapest Airport's ground handling operations	**10**	-
Profit on sale of Heathrow land	**2**	41
	(78)	22
Total exceptional items before income tax	**(100)**	(39)
Tax credit on exceptional items	**15**	7
Total exceptional items	**(85)**	(32)

Reorganisation costs
The implementation of the change programme ('Delivering Excellence') to improve customer service and operational efficiency is almost complete. Costs of £22 million were incurred during the nine months to 31 December 2006 (31 March 2006: £61 million).

Terminal 5 operational readiness costs
Costs of £11 million were incurred in the nine months to 31 December 2006 (31 March 2006: £4 million). Further significant costs will be incurred in the lead up to "go live" in March 2008.

Bid advisory costs
The advisory costs incurred in relation to the acquisition of BAA plc by Airport Development and Investment Limited ('ADIL') were £45 million for the nine months to December 2006 (31 March 2006: £15 million).

Staff related costs due to change in ownership
The declaration that the final offers by ADIL were unconditional on 26 June 2006 was treated as a change in control and resulted in a charge of £17 million, including National Insurance costs, compensation for loss of office and pension costs.

Terminal 2 accelerated depreciation
As part of its programme to deliver world class facilities for passengers, Heathrow proposes to build a new terminal, called Heathrow East, which will replace Terminal 2. The expected productive life of Terminal 2 has subsequently been reduced and a charge of £17 million has been made for additional depreciation during the period.

Profit on sale of Budapest Airport's ground handling operations
The sale of Budapest Airport's ground handing operations took place during the period to 31 December 2006 resulting in a profit of £10 million.

Profit on sale of Heathrow land
On 21 March 2006, the sale of land to allow the development of a hotel adjacent to Terminal 5 at Heathrow Airport was completed. An exceptional profit of £41 million was recognised in the period. A further £2 million has been recognised in the current period.

5 Net finance costs

	Note	9 months to 31 December 2006 £m	Restated 12 months to 31 March 2006 £m
Finance income			
Interest on bank deposits and commercial paper		**24**	44
Finance costs			
Interest on bank overdrafts and loans		**(270)**	(260)
Convertible loan notes			
Interest payable		**(18)**	(29)
Accretion of debt liability		**(8)**	(21)
Unwinding of discount on Terminal 5 land purchase provision		**(3)**	(7)
Total borrowing costs		**(299)**	(317)
Less: capitalised borrowing costs	8	**137**	151
		(162)	(166)
Net finance costs		**(138)**	(122)

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 5.16% (31 March 2006: 5.26%) to expenditure incurred on such assets.

6 Taxation

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
UK Corporation Tax		
Current at 30% (31 March 2006: 30%)	**96**	69
Over provision in respect of previous years	**(45)**	(5)
Deferred Tax		
Current Year	**92**	158
Prior Year	**(20)**	(1)
Overseas Tax		
Current	**10**	6
Deferred	**-**	(2)
	133	225

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Profit before Tax	**597**	757
Taxation attributable to associates	**2**	3
Accounting Profit before Tax	**599**	760

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:

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 30% (31 March 2006: 30%)	**180**	228
Adjustments in respect of current income tax of previous years	**(45)**	(5)
Taxation attributable to associates	**(2)**	(3)
Expenses not deductible for tax purposes	**10**	6
Provision in respect of assets held for sale	**10**	-
Adjustments in respect of deferred income tax of previous years	**(20)**	(1)
	133	225

The average effective tax rate was 22% (31 March 2006: 30%). The effective tax rate has reduced due to the release of corporation tax provisions in respect of prior years no longer required (£45 million) and the recognition of capital losses arising in an earlier period (£18 million).

7 Dividends paid and proposed

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Equity dividends declared and paid during the year		
Second interim dividend for the year ended 31 March 2006 of 15.25p (Final for year ended 31 March 2005 of 14.3p per share)	**165**	154
Interim dividend for the period ended 31 December 2006 of 7.0p (31 March 2006: 7.25p per share)	**78**	78
	243	232
Equity dividend proposed for approval at the AGM		
Proposed dividend for the year ended 31 March 2006 of 15.25p per share	**-**	165

During the period to 31 December 2006, the directors declared an interim dividend for the year ended 31 March 2006 of 15.25p per share (31 March 2005: final dividend 14.3p per share) that was paid on 11 August 2006 to shareholders on the register at 9 June 2006.

On 10 November 2006 the Directors declared and paid to all shareholders on the register at that date an interim dividend of £78m (7.0p per share) in respect of the period ended 31 December 2006.

8 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 - Restated								
Balance 1 April 2005		5,228	856	404	83	660	3,009	**10,240**
Additions		5	-	11	1	-	1,446	**1,463**
Acquisition of subsidiary		95	64	174	-	-	8	**341**
Net transfers to investment properties	9	(41)	-	-	-	-	-	**(41)**
Transfers to completed assets		363	59	5	12	27	(466)	**-**
Borrowing costs capitalised	5	-	-	-	-	-	151	**151**
Disposals		(15)	(3)	(9)	(12)	-	(11)	**(50)**
Currency translation		(3)	(2)	(6)	2	-	-	**(9)**
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	9	-	-	-	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	24	(99)	(64)	(172)	-	-	(6)	**(341)**
Balance 31 December 2006		5,673	933	412	92	702	5,016	**12,828**
Depreciation								
Balance 1 April 2005		(1,629)	(194)	(285)	(25)	(141)	-	**(2,274)**
Charge		(187)	(30)	(33)	(5)	(19)	-	**(274)**
Net transfers to investment properties	9	13	-	-	-	-	-	**13**
Disposals		13	2	5	1	-	-	**21**
Currency translation		-	-	(1)	-	-	-	**(1)**
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	24	3	-	12	-	-	-	**15**
Balance 31 December 2006		(1,935)	(244)	(309)	(33)	(173)	-	**(2,694)**
Net book value 31 December 2006		3,738	689	103	59	529	5,016	**10,134**
Net book value 31 March 2006		3,842	752	265	57	527	4,137	**9,580**

Assets in the course of construction of £4,529 million (31 March 2006: £3,787 million) (excluding capitalised borrowing costs and the unwinding of the discount on the purchase of the Thames Water land) include £3,977 million (31 March 2006: £3,348 million) in respect of Terminal 5 at Heathrow Airport. This includes £179 million (31 March 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 £101 million (31 March 2006: £68 million) in respect of the development of a second runway and related infrastructure at Stansted Airport. The costs consist of £46 million (31 March 2006: £33 million) incurred in respect of the initial planning application preparation and £55 million (31 March 2006: £35 million) in respect of the purchase of domestic properties that fall within the expanded airport boundary. This includes a provision of £4 million (31 March 2006: £3 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 £21 million (31 March 2006: £22 million).

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £935 million (31 March 2006: £798 million). Borrowing costs were capitalised at an average rate of 5.16% (31 March 2006: 5.26%).

A tax deduction of £137 million (31 March 2006: £142 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.

9 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 2005 - Restated		2,610	350	78	**3,038**
Additions		-	-	27	**27**
Transfers to completed assets		15	-	(15)	**-**
Acquisition of subsidiary		71	-	-	**71**
Net transfers from operational assets	*8*	28	-	-	**28**
Disposals		(1)	-	-	**(1)**
Valuation gain		184	41	-	**225**
Currency translation		(3)	-	-	**(3)**
Balance 1 April 2006		2,904	391	90	**3,385**
Transfers to completed assets		4	-	(4)	**-**
Net transfers from operational assets	*8*	2	-	-	**2**
Disposals		-	(22)		**(22)**
Valuation gain		164	42	-	**206**
Currency translation		3	-	-	**3**
Transfer to assets held for sale	*24*	(71)	-	-	**(71)**
Balance 31 December 2006		3,006	411	86	**3,503**

Airport investment properties (excluding those acquired on the acquisition of Budapest Airport Zrt) were valued at fair value at 31 December 2006 by Drivers Jonas, Chartered Surveyors, Strutt and Parker, Chartered Surveyors and John Arbuckle BLE (Hons), Head of BAA Professional Services. The investment properties held by the joint venture entity APP were valued by King Sturge, Valuers and Surveyors. Details of the valuations performed are provided below:

	31 December 2006 £m	31 March 2006 £m
Drivers Jonas	**1,984**	2,926
King Sturge	**325**	369
Strutt & Parker	**13**	12
At professional valuation	**2,322**	3,307
At directors' valuation	**1,181**	78
	3,503	3,385

At 31 December 2006, the airport investment properties at directors' valuation were valued at fair value by John Arbuckle BLE (Hons), Head of BAA Professional Services. 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.

The investment properties acquired at Budapest Airport were independently valued on acquisition by Cushman and Wakefield, Chartered Surveyors.

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 £2 million (31 March 2006: £2 million) for which a similar amount is included within operating costs.

Void areas amounted to 16,907m^2 in the period (31 December 2006: 30,936m^2) amounting to 0.53% (31 March 2006: 1.35%) of the Group's investment property portfolio.

10 Intangible assets

	Note	Goodwill £m	Software costs £m	Asset management contract £m	Other £m	Total £m
Cost - Restated						
Balance 1 April 2005		10	159	37	6	**212**
Additions		-	27	-	-	**27**
Acquisition of subsidiary		70	-	910	-	**980**
Currency translation		(1)	-	(29)	-	**(30)**
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	24	(59)	-	(903)	-	**(962)**
Balance 31 December 2006		10	164	37	7	**218**
Amortisation						
Balance 1 April 2005		-	(86)	(1)	-	**(87)**
Charge for the year		-	(22)	(3)	-	**(25)**
Balance 1 April 2006		-	(108)	(4)	-	**(112)**
Charge for the year		-	(15)	(9)	-	**(24)**
Disposals		-	36	-	-	**36**
Transferred to assets held for sale	24	-	-	12	-	**12**
Balance 31 December 2006		-	(87)	(1)	-	**(88)**
Net book value 31 December 2006		10	77	36	7	**130**
Net book value 31 March 2006		79	78	914	6	1,077

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 £40 million (31 March 2006: £28 million).

Asset management contract

The asset management contract includes the right to operate Budapest Airport Zrt, together with the entitlement to use certain associated assets, for a period of 75 years from 22 December 2005. The amortisation period is 75 years from this date, subject to impairment. The asset management contract has been transferred to assets held for sale as a result of the decision to sell Budapest Airport.

The remaining balance of £36 million (31 March 2006: £36 million) represents the licence to operate Perth's airport for 50 years to 2051.

11 Investment in associates

At 31 December 2006, the Group's principal associate was:

	% of share capital held	Activity	Country of incorporation
Australia Pacific Airports Corporation	19.8	Holding company	Australia

Australia Pacific Airports Corporation owns the licence to develop and operate Melbourne Airport and Launceston Airport and has a reporting date of 30 June.

This investment is accounted for as an associated undertaking as the Group has significant influence over the entity through representation on the board and management of the operation.

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

	31 December 2006 £m	31 March 2006 £m
Share of balance sheet		
Non-current assets	**124**	136
Current assets	**10**	5
Non-current liabilities	**(124)**	(126)
Current liabilities	**(8)**	(5)
Net assets	**2**	10

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Share of revenue and profit		
Revenue	22	30
Operating costs	(10)	(14)
Net finance costs	(5)	(7)
Profit before tax	7	9
Taxation	(2)	(3)
Net profit	5	6

12 Available-for-sale investments

	31 December 2006 £m	Restated 31 March 2006 £m
Unlisted securities		
Balance 1 April 2006	114	108
Additions	5	1
Acquisition of subsidiary	-	3
Disposals	(1)	-
Revaluation surplus transferred to equity	4	2
Balance	122	114

Available for sale investments include £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, £24 million priority loan notes repayable in 2032, yielding a fixed interest rate of 8.5%, and £33 million undated loan notes yielding a fixed interest rate of 11.68%. 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 £33 million undated loan notes are valued as perpetual debt. The £24 million priority loan notes are valued by discounting the interest and principal cashflows. 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 March 2006: 10.5%) has been used as the discount factor.*

Available-for-sale investments also includes –

- £40 million (31 March 2006: £40 million) representing the Group's share of investments in various unit trusts and limited partnerships held by APP (which are valued quarterly based on net asset value).
- £5 million (31 March 2006: £2 million) being the equity invested in Northern Territory Airports. During the period the investment in Advanced Transport Systems Limited (ATS) increased by £5 million resulting in an increased total holding of 19%.

Budapest Airport disposed of its investment in ground handling operations during the period.

13 Inventories

	31 December 2006 £m	31 March 2006 £m
Goods held for resale	23	19
Consumables	7	11
	30	30

The total amount of inventories consumed in the period was £194 million (31 March 2006: £193 million).

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

14 Trade and other receivables

	31 December 2006 £m	Restated 31 March 2006 £m
Non-current		
Other debtors	4	8
Current		
Trade debtors	219	185
Less: Provision for impairment	(3)	(5)
Trade debtors - net	216	180
Prepayments	30	21
Loan to parent	114	-
Other debtors	32	105
Total current	392	306

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

15 Held-to-maturity financial assets

	31 December 2006 £m	31 March 2006 £m
Commercial paper	-	412

No Commercial paper was held at 31 December 2006 (31 March 2006: £412m, with an average maturity of two months earning interest at an average rate of 4.55%).

16 Cash and short-term deposits

	31 December 2006 £m	Restated 31 March 2006 £m
Cash at bank and in hand	93	160
Short-term deposits	-	334
	93	494

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

Short-term deposits held at 31 December 2006 totalled £nil (31 March 2006: £334 million, had an average term-to-maturity of two months and had an effective interest rate of 4.49%). They include an amount of £nil (31 March 2006: £50 million) net cash placed on deposit for hedging purposes and which does not meet the definition of cash and cash equivalents in the consolidated cash flow statement.

Cash at bank and in hand is subject to cash flow interest rate risk and short-term deposits are subject to fair value interest rate risk.

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 comprise the following:

	31 December 2006 £m	Restated 31 March 2006 £m
Cash at bank and in hand	93	160
Short-term deposits	-	284
Cash and cash equivalents held by Budapest Airport classified as held-for-sale (Note 24)	37	-
	130	444

17 Borrowings

	Effective *interest rate*	31 December 2006 £m	Restated 31 March 2006 £m
Current			
Unsecured			
BAA Limited bonds:			
7.875% £200 million due 2007	8.04%	200	200
Bank Loans	Various	236	83
Total current		436	283
Non-current			
Secured			
Debentures due 2017	10.25%	30	30
Bank loans	Various	204	224
Unsecured			
BAA Limited bonds:			
3.875% €1,000 million due 2012	4.01%	670	693
5.750% £400 million due 2013	5.98%	397	397
4.500% €750 million due 2014	4.51%	508	525
11.750% £300 million due 2016	11.16%	310	311
4.500% €750 million due 2018	4.93%	501	519
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%	898	903
Bank loans	Various	415	563
		5,115	5,347
Borrowings from parent			
Unsecured			
BAA Limited convertible bonds:			
2.940% £424 million due 2008	6.42%	424	424
2.625% £425 million due 2009	5.43%	417	409
		841	833
Total non-current		5,956	6,180
Total current and non-current		6,392	6,463

The secured borrowings are secured on certain properties and are subject to fair value interest rate risk.

Current and non-current bank loans include both fixed and floating interest rate loans. The fixed rate loans have a weighted average effective interest rate of 5.82% (31 March 2006: 7.79%). The interest rates on the floating rate loans are based on LIBOR plus a margin which varies between 10 and 100 basis points. The weighted average effective interest rate on floating rate loans was 5.67% (31 March 2006: 4.67%). The fixed rate loans are subject to fair value interest rate risk and the floating rate loans are subject to cash flow interest rate risk.

Bonds issued under its £4.5 billion European Medium Term Note programme totalled £3,759 million (31 March 2006: £3,759 million).

During the nine months ended 31 December 2006, ADIL, the parent of BAA Limited, acquired the Group's outstanding convertible bonds.

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.

On 23 August 2006 bondholders converted bonds with a nominal value of £375,000 into ordinary shares in BAA Limited.

Fair value of borrowings

			Restated	
	31 December 2006		31 March 2006	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Long-term debt	**5,115**	**5,320**	5,347	5,674
Long-term convertible debt	**841**	**787**	833	1,067
	5,956	**6,107**	6,180	6,741

The carrying amount of short-term borrowings approximates book value.

Borrowing facilities
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 2006 £m	31 March 2006 £m
Floating rate facilities		
Expiring within one year	**-**	50
Expiring between one and two years	**-**	950
Expiring in more than two years	**2,050**	-
	2,050	1,000

The £1 billion revolving credit facility was cancelled on 21 August 2006. BAA Limited is a joint obligor with its 100% parent ADIL to a £2.25 billion facility maturing in April 2011. As at 31 December 2006, £200 million had been drawn on the facility.

In addition, as at 31 December 2006, overdraft facilities of £25 million (31 March 2006: £25 million) were available to the Group.

18 Derivative financial instruments

Additional disclosures are set out in the accounting policies relating to risk management.

	Assets £m	Liabilities £m	Total £m
Current			
Forward starting interest rate swaps	-	(69)	**(69)**
Forward foreign exchange contracts	1	-	**1**
Electricity derivative	6	-	**6**
	7	(69)	**(62)**
Non-current			
Interest rate swaps - cash flow hedge	-	(14)	**(14)**
Interest rate swaps - fair value hedge	9	-	**9**
Cross-currency swap - cash flow hedge	29	-	**29**
Cross-currency swap - fair value hedge	2	-	**2**
	40	(14)	**26**
At 31 March 2006	47	(83)	**(36)**
Current			
Forward starting interest rate swaps	-	(39)	**(39)**
Forward foreign exchange contracts	-	(1)	**(1)**
Electricity derivative	-	(11)	**(11)**
Interest rate swaps	1	-	**1**
Cross currency swaps – cash flow hedge	-	(14)	**(14)**
	1	(65)	**(64)**
Non-current			
Interest rate swaps - fair value hedge	3	-	**3**
Cross-currency swap - cash flow hedge	4	-	**4**
	7	-	**7**
At 31 December 2006	8	(65)	**(57)**

Net fair values of derivative financial instruments
The net fair values of derivative financial instruments and designated for cash flow hedges at the balance sheet date were:

	31 December 2006 £m	31 March 2006 £m
Contracts with positive fair values		
Cross currency swap	**4**	29
Contracts with negative fair values		
Cross currency swap	**(14)**	-
Interest rate swap	**-**	(14)
	(10)	15

Interest rate risk
The exposure of the Group to interest rate changes when income earning financial assets and interest bearing financial liabilities either mature or reprice is as follows:

	31 December 2006				
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m	**Total £m**
Financial Assets	93	4	-	236	**333**

	31 March 2006 - Restated				
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m	**Total £m**
Financial Assets	906	8	-	114	**1,028**

Financial assets less than one year comprise cash of £93 million (31 March 2006: £160 million). There were no short-term deposits (31 March 2006: £334 million) or commercial paper (31 March 2006: £412 million) at 31 December 2006.

Financial assets with a maturity of between one and two years consists of other debtors.

Financial assets greater than five years includes (i) the investment in, and two loans of £24 million and £33 million made to, NATS (classified as available-for-sale investments). The loans have effective interest rates of 8.5% and 11.68% respectively. The £24 million loan is repayable in 2032 whilst the £33 million does not have an agreed maturity date but is repayable by NATS anytime subject to certain conditions being met; (ii) a loan from BAA Limited to its parent company which attracts an interest rate of 5.82%. The loan matures in 2011; (iii) £40 million (31 March 2006: £40 million) representing the Group's share of investments in various unit trusts and limited partnerships held by its APP joint venture. The underlying assets have an interest rate risk.

	31 December 2006				
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m	**Total £m**
Total borrowings	(828)	(432)	(431)	(4,701)	**(6,392)**
Effect of interest rate and cross currency swaps	(248)	-	-	248	-
Financial Liabilities	(1,076)	(432)	(431)	(4,453)	**(6,392)**

	31 March 2006 - Restated				
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m	**Total £m**
Total borrowings	(697)	(7)	(975)	(4,784)	**(6,463)**
Effect of interest rate and cross currency swaps	(262)	-	-	262	-
Financial Liabilities	(959)	(7)	(975)	(4,522)	**(6,463)**

Interest rate swaps

The notional principal amount of the outstanding forward starting interest rate swaps was £1,050 million (31 March 2006: £1,050 million). These do not meet the criteria for hedge accounting under IAS 39 and the net fair value gain of £30 million (31 March 2006: £50 million loss) has been recognised in the period in the income statement. The fixed interest rates vary from 5.1% to 5.3% (31 March 2006: 5.2% to 5.9%) and the floating rates are based on six month LIBOR.

Interest rate swaps with a notional principal amount of £200 million (31 March 2006: £200 million) have been entered into as a fair value hedge of existing bonds with a nominal value of £200 million. A fair value loss of £6 million (31 March 2006: £1 million gain) has been recognised in the year in the income statement, to match the fair value gain of £5 million (31 March 2006: £3 million loss) in the bonds. The fixed interest rate was 5.75% and the floating interest rate was 5.3% (31 March 2006: 4.8%).

Interest rate swaps with a notional principal of £475 million were entered into as a cash flow hedge of the interest exposure on the €750 million bond in conjunction with a cross currency swap (see below). For the three-month period ended 31 December 2006 the hedge relationship did not meet the criteria to achieve hedge accounting and an £8 million gain was recognised in the income statement. The gains deferred in equity prior to 30 September 2006 will reverse to the income statement over the life of the bond (eight years). The fixed interest rate was 5.3% (31 March 2006: 5.2%) and the floating rate was 5.2% (31 March 2006: 5.1%).

Cross-currency swaps

The Group has entered into three cross-currency swaps in relation to the three Euro bonds. For each swap the principal amounts exchanged were Euro and Sterling. Under the €1 billion (£680 million) swap entered into on 15 February 2006, the Group receives Euro interest at a fixed rate of 3.9% and pays Sterling interest at a fixed rate of 5.13%. On 15 February 2006, the Group entered into a €750 million (£510 million) swap whereby it receives Euro interest at a fixed rate of 4.5% and pays Sterling interest at a fixed rate of 5.37%.

Both cross-currency swaps have been entered into as cash flow hedges of the currency and interest rate exposures on the €1 billion due 2012 and €750 million due 2018. The gain deferred in equity will reverse to the income statement over the life of the swaps (6 years and 12 years respectively).

In September 2004, the Group entered into a €750 million against £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 LIBOR 5.1% (31 March 2006: 5.1%). For the three-month period ended 31 December 2006 the hedge relationship did not meet the criteria to achieve hedge accounting and a loss of £8 million was recognised in the income statement.

Currency risk

Foreign exchange forward and swap contracts have been entered into buying US$15 million (31 March 2006: US$26 million), €22 million (31 March 2006: €56 million), Swiss Fr4 million (31 March 2006: Swiss Fr13 million), Polish PLN 8 million (31 March 2006: £nil) and Japanese ¥nil (31 March 2006: ¥29 million) against Sterling. The currency forwards and swaps are used to manage exposures relating to future capital expenditure and debt raised in foreign currency although hedge accounting is not sought for these derivatives. The currency swaps and futures mature within two years.

Credit risk

At the balance sheet date, the book value approximates the maximum credit risk to which the Group was exposed.

Fair values of non-derivative financial instruments

Where market values are not available, fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and applying year-end exchange rates.

19 Fair value gains and losses on derivative financial instruments

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Electricity contracts	**(17)**	5
Foreign currency contracts	**(4)**	(1)
Derivative (losses)/gains and in operating profit	**(21)**	4
Cross currency and fixed to floating interest rate swaps	**(3)**	(3)
Forward starting interest rate swaps	**31**	(50)
Derivative gains/(losses) in finance costs	**28**	(53)
Total	**7**	(49)

20 Deferred income tax

The net movement on the deferred income tax account is as follows

	9 months to 31 December 2006 £m	Restated 12 months to 31 March 2006 £m
Balance 1 April	**1,643**	1,458
Acquisition of subsidiary	**-**	31
Transfer of subsidiary to asset held for sale	**(30)**	-
Charged to income statement	**72**	155
Transferred to equity	**(1)**	(1)
Balance sheet reclassification	**3**	-
Balance	**1,687**	1,643

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Note	Excess of Capital *Allowances over* depreciation £m	Revaluations of investment *property to fair* value £m	Revaluations of Property, *Plant, and* Equipment £m	Other Fair *Value* Items £m	Provision for sale of *overseas* subsidiary £m	Other £m	**Total £m**
Balance 1 April 2005 - Restated		681	641	151	14	-	37	**1,524**
Acquisition of subsidiary		-	-	-	33	-	-	**33**
Charged/(credited) to the Income Statement		128	66	-	-	-	(10)	**184**
(Credited) to equity		-	-	(2)	-	-	-	**(2)**
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*	*24*	-	-	-	(33)	-	-	**(33)**
Balance sheet reclassification		-	-	-	-	-	3	**3**
(Credited) to equity		-	-	(3)	-	-	-	**(3)**
Balance 31 December 2006		821	748	161	14	10	32	**1,786**

Deferred income tax assets

	Note	Post Employment Benefits £m	Share-based Payments £m	Capital Losses £m	IAS 32/39 £m	Other £m	**Total £m**
Balance 1 April 2005		62	4	-	-	-	**66**
Acquisition of subsidiary		-	-	-	-	2	**2**
Charged to the income statement		6	5	-	16	2	**29**
(Charged)/credited to equity		(21)	13	-	7	-	**(1)**
Balance 1 April 2006		47	22	-	23	4	**96**
Transfer of subsidiary to asset held for sale	*24*	-	-	-	-	(3)	**(3)**
Credited/(charged) to the income statement		6	(8)	18	(8)	-	**8**
Credited/(charged) to equity		18	(14)	-	(6)	-	**(2)**
Balance 31 December 2006		71	-	18	9	1	**99**

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

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Reserves in shareholders' equity		
Cash flow hedge reserve	**(6)**	7
Indexation - operational land	**3**	2
Retirement benefit obligations	**18**	(21)
Share-based payments	**(14)**	13

21 Retirement benefit obligations

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
BAA Pension Scheme	**65**	65
Defined contribution schemes	**1**	2
Additional provision for unfunded pensions	**2**	3
Total operating charge to staff costs	**68**	70

	31 December 2006 £m	31 March 2006 £m
BAA Pension Scheme	**(212)**	(130)
Unfunded pension obligations	**(17)**	(20)
Post-retirement medical benefits	**(4)**	(4)
Liability recognised in the balance sheet	**(233)**	(154)

(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 values placed on the liabilities of the scheme as at 31 December 2006 and 31 March 2006 are based on the results of the actuarial valuation undertaken at 30 September 2004. The liabilities have been updated by Mercer Human Resource Consulting 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 2006 and 31 March 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 plan assets and liabilities under IAS 19 are:

	31 December 2006 %	31 March 2006 %
Rate of increase in pensionable salaries	**4.6**	4.4
Increase to deferred benefits during deferment	**3.1**	2.9
Increase to pensions in payment:		
Open section	**3.0**	2.8
Closed section	**3.1**	2.9
Discount rate	**5.2**	5.0
Inflation assumption	**3.1**	2.9
Expected return on plan assets		
Equities	**8.0**	7.2
Bonds	**4.6**	4.5
Other	**5.0**	4.6

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 differ from those used at 31 March 2006 when the relevant figures were 22.7 and 24.8 respectively.

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 term 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. However, differences in demand for these can distort this implied figure. The Bank of England target inflation rate has also been considered in setting this assumption.

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) and the historical level of the risk premium associated with the other asset classes in which the portfolio is invested.

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 6.8% assumption overall (31 March 2006: 6.4%).

The amounts recognised in the income statement are as follows:

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Current service cost	**68**	73
Finance cost on benefit obligation	**83**	101
Expected return on plan assets	**(98)**	(115)
Past service cost - routine items	**2**	3
Past service cost - exceptional items	**17**	3
Total operating charge to staff costs	**72**	65

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

	31 December 2006 £m	31 March 2006 £m
Actual return less expected return on plan assets	**(57)**	274
Experience gains and losses arising on the benefit obligation	**(8)**	14
Changes in assumptions underlying the present value of the benefit obligation	**7**	(216)
Actuarial (loss)/gain recognised in the statement of recognised income and expense	**(58)**	72

The actual return on plan assets was £41 million (31 March 2006: £389 million).

In November 2006, the Trustees and the Company elected to shift the investment profile of the BAA Pension Scheme ('the Scheme') assets from 70:30 to 40:60 equity to gilts, effectively swapping higher risk variable returns from equities for more stable fixed returns from gilts. Rather than sell the underlying equities and purchase gilts, the Scheme entered into an asset swap agreement with an approved counterparty to effectively receive fixed returns in exchange for variable returns. At 31 December 2006 the swap was out-of-the-money by £27 million, reflecting that equities had out-performed gilts during this period.

Effective 6 April 2006 the rules of the Scheme were amended to allow greater commutation of pension benefits to members of the fund in accordance with changes to the applicable legislation. The rule change provides members access to their cash benefit sooner than otherwise available (at reduced amounts reflecting the withdrawal of entitlements at an earlier date). This change allows members increased control over their pension benefits. The effect of this rule change was to reduce the Scheme's liabilities by £30 million (pre-tax), which has been reflected in the statement of recognised income and expense.

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

	31 December 2006 £m	31 March 2006 £m
Fair value of plan assets		
Equities	**1,511**	1,480
Bonds	**571**	567
Other	**38**	19
Total fair value of plan assets	**2,120**	2,066
Present value of benefit obligation	**(2,332)**	(2,196)
Liability recognised in the balance sheet	**(212)**	(130)

Analysis of movement in the benefit obligation:

	31 December 2006 £m	31 March 2006 £m
Benefit obligation at beginning of year	**2,196**	1,850
Movement in the year:		
Current service cost	**68**	73
Finance cost	**83**	101
Members' contributions	**11**	13
Past service cost - routine items	**2**	3
Past service cost - exceptional items	**17**	3
Actuarial loss	**-**	202
Benefits paid (by fund and Group)	**(45)**	(49)
Benefit obligation at end of year	**2,332**	2,196

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 FRS17 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 2007.*

Analysis of defined benefit obligation:

	31 December 2006 £m	31 March 2006 £m
Plans that are wholly or partly funded	**2,332**	2,196
Plans that are wholly unfunded	**21**	24
Total	**2,353**	2,220

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

	31 December 2006 £m	31 March 2006 £m
Fair value of plan assets at beginning of period	**2,066**	1,668
Expected return on plan assets	**98**	115
Actuarial (loss)/gain	**(58)**	274
Employer contributions (including benefits paid and reimbursed)	**48**	45
Members' contributions	**11**	13
Benefits paid (by fund and Group)	**(45)**	(49)
Fair value of plan assets at end of year	**2,120**	2,066

History of experience gains and losses:

	31 December 2006	31 March 2006
Difference between the expected and actual return on scheme assets:		
Amount £m	**(57)**	274
Percentage of scheme assets	**(2.7)**	13.3
Experience gains and losses on benefits obligations:		
Amount £m	**(8)**	14
Percentage of scheme liabilities	**(0.3)**	0.6
Total amount recognised in the statement of recognised **income and expense:**		
Amount £m	**(58)**	72
Percentage of benefit obligation	**(2.4)**	3.3

(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 expenses against operating profit in the period was £2 million (31 March 2006: £3 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 March 2006: £4 million) is included in the balance sheet, along with provision for unfunded pension obligations of £17 million (31 March 2006: £20 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 5.6% per annum (31 March 2006: 5.4%).*

The Group also has defined contribution schemes in respect of employees of World Duty Free Europe Limited, 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 period is £1 million (31 March 2006: £2 million).

22 Provisions

	Disposal of operations[1] £m	Reorganisation[2] £m	Obligations under land purchase[3] £m	Other[4] £m	**Total £m**
Balance 1 April 2006	8	45	106	11	**170**
Utilised	-	(23)	(14)	(1)	**(38)**
Capital items	-	-	-	1	**1**
Charged to income statement	-	17	-	-	**17**
Unwinding of discount charged and capitalised	-	-	3	-	**3**
Transferred to assets held for sale (Note 24)	-	-	-	(7)	**(7)**
Balance 31 December 2006	8	39	95	4	**146**
Current	5	39	7	-	**51**
Non-current	3	-	88	4	**95**
Balance 31 December 2006	8	39	95	4	**146**
Current	-	44	19	-	**63**
Non-current	8	1	87	11	**107**
Balance 31 March 2006	8	45	106	11	**170**

[1] 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.

[2] *The Group continues to implement initiatives under the change programme, Delivering Excellence.*

[3] 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 £95 million (31 March 2006: £106 million), net of discount, is expected to be utilised according to the following* profile:

	31 December 2006 **£m**	31 March 2006 £m
Within one year	**7**	19
One to two years	**3**	3
Two to five years	**13**	12
Five to ten years	**28**	28
Over ten years	**44**	44
	95	106

[4] *The opening balance includes £8 million of provisions acquired or set up on the acquisition of Budapest Airport Zrt in relation to legal and other claims.* Of this, £1 million was utilised in the period, with the balance of £7 million transferred to 'assets held for sale'. In addition, 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.

23 Trade and other payables

	31 December 2006 **£m**	Restated 31 March 2006 £m
Non-current		
Other creditors	**8**	67
Deferred income	**14**	16
	22	83
Current		
Trade creditors	**169**	194
Other tax and social security	**13**	12
Other creditors	**137**	132
Capital creditors	**272**	324
Interest creditor	**133**	61
	724	723

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

24 Assets held for sale

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

	Note	**31 December 2006** **£m**	31 March 2006 £m
Goodwill	*10*	**59**	-
Intangible assets	*10*	**891**	-
Property, plant and equipment	*8*	**326**	-
Investment property	*9*	**71**	-
Inventories		**7**	-
Trade and other receivables		**68**	-
Derivative financial instruments		**1**	-
Cash and cash equivalents		**37**	-
Total assets classified as held for sale		**1,460**	-
Trade and other payables		**(88)**	-
Deferred tax liabilities	20	**(30)**	-
Provisions	22	**(7)**	-
Total liabilities classified as held for sale		**(125)**	-
Net assets of disposal group		**1,335**	-

BAA entered into a Memorandum of Understanding during October 2006 with the Hochtief Consortium to purchase Budapest Airport Zrt, BAA's subsidiary company which owns Budapest airport. BAA considers that the transaction satisfies the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'. As a consequence, assets and liabilities of Budapest Airport have been reclassified as held-for-sale. No significant profit or loss is expected to be realised on the sale.

25 Share capital

	£
Authorised	
1,300,000,000 ordinary shares of £1 each	1,300,000,000
Balance at 1 April 2006 and 31 December 2006	1,300,000,000
Allotted and fully paid	
In issue at 1 April 2006: 1,080,361,331 ordinary shares of £1 each	1,080,361,331
Issue of ordinary shares of £1 each under the share and share option schemes and plans	22,038,984
In issue at 31 December 2006: 1,102,400,315 ordinary shares of £1 each	1,102,400,315

On 26 June 2006, ADIL, announced that the offers to acquire all of the capital issued and to be issued by BAA plc and all the bonds that were convertible into shares of BAA ('the offers') had become unconditional. On satisfying the conditions of the offers, ADIL, under the London Stock Exchange ('LSE') listing rules, and subject to certain other conditions, could compulsorily acquire the remaining shares and convertible bonds of BAA on issue.

On 10 July 2006, ADI announced via the LSE Regulatory Information System that it and BAA had commenced the proceedings necessary to delist BAA's shares and convertible bonds of BAA in accordance with the applicable regulations. On 11 July 2006, an announcement in this respect was published in the UK edition of the Financial Times, from which date there was a delisting period of 20 business days. Delisting was official on 15 August 2006 and the Company changed its status from a plc to a private (Limited) company.

The ultimate parent company of ADIL in the UK is FGP Topco Limited, a company owned by Ferrovial Infraestructuras, S.A. (62%), Caisse de depot et placement du Quebec (28%), and Baker Street Investment Pte Ltd (10%).

Share options

As at 31 December 2006, there were no options granted to directors and staff remaining outstanding:

		Number of ordinary shares of £1 each	
Period of exercise	Option price	**31 December 2006**	31 March 2006
BAA 1996 Share Option Scheme			
24 June 2000 – 23 June 2007	537.5p	-	121,515
11 November 2000 – 10 November 2007	511.0p	-	25,380
26 June 2001– 25 June 2008	665.5p	-	929,345
3 November 2001– 2 November 2008	668.0p	-	98,350
24 June 2002 – 23 June 2009	641.0p	-	1,153,719
29 November 2002 – 28 November 2009	454.5p	-	452,604
30 June 2003 – 29 June 2010	510.0p	-	741,204
1November 2003 – 31 October 2010	573.0p	-	715,767
20 June 2004 – 19 June 2011	632.5p	-	831,932
28 November 2004 – 27 November 2011	587.0p	-	1,090,939
26 June 2005 – 25 June 2012	597.5p	-	1,026,154
2 December 2005 – 1 December 2012	524.0p	-	1,133,923
24 June 2006 – 23 June 2013	495.0p	-	1,797,471
10 November 2006 – 9 November 2013	476.0p	-	2,122,876
Sharesave Schemes			
1 February 2006 – 31 July 2006	459.0p	-	44,177
1 February 2005 – 31 July 2005, and 1 February 2007 – 31 July 2007	445.0p	-	1,369,307
1 February 2006 – 31 July 2006, and 1 February 2008 – 31 July 2008	452.0p	-	1,352,702
1 February 2007 – 31July 2007, and 1 February 2009 – 31 July 2009	382.0p	-	5,192,986
1 February 2008 – 31 July 2008, and 1 February 2010 – 31 July 2010	461.0p	-	4,032,854
1 February 2009 – 31 July 2009, and 1 February 2011 – 31 July 2011	496.0p	-	3,557,049
Deferred Annual Bonus Scheme			
1 August 2003 – 31 July 2010	0.0p	-	13,682
30 July 2004 – 29 July 2011	0.0p	-	41,250
31 July 2005 - 30 July 2012	0.0p	-	5,651
31 July 2005 - 31 August 2006	0.0p	-	604
1 January 2006 - 29 January 2007	0.0p	-	1,879
1 January 2006 - 7 February 2008	0.0p	-	3,864
2 March 2006 - 29 January 2007	0.0p	-	11,593
2 March 2006 - 4 February 2008	0.0p	-	11,940
		-	27,880,717

Share awards

As at 31 December 2006, there were no contingent share awards granted to directors and staff remaining outstanding.

		Number of ordinary shares of £1 each	
Normal Release date	Option Price	**31 December 2006**	31 March 2006
Performance Share Plan			
18 June 2007	550.8p	-	2,107,293
18 June 2007	586.3p	-	138,942
20 June 2008	607.7p	-	2,276,097
20 June 2008	633.2p	-	219,023
Deferred Annual Bonus 2005 Scheme			
15 August 2008	606.8p	-	233,394
Special Share Award			
12 September 2008	622.2p	-	8,036
		-	4,982,785

26 Share premium

	£m
Balance 1 April 2005	*228*
Premium on shares issued	17
Balance 1 April 2006	245
Premium on shares issued	80
Balance 31 December 2006	**325**

27 Own shares held

	£m
Balance 1 April 2005	(29)
Disposals (exercised options)	25
Balance 1 April 2006	(4)
Disposals (exercised options)	4
Balance 31 December 2006	-

The BAA Employee Share Trust ('the BEST') was established to enable the Group to co-ordinate and manage the funding and delivery of shares to employees who exercised options or received shares under its employee share schemes.

The BEST was a discretionary trust established for the benefit of all employees. The Trustee of the BEST was an independent trust company based in Jersey. Historically, the Trustee purchased the Company's ordinary shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group. During the year, the Board decided that no further shares would be purchased for these liabilities.

Since the 100% acquisition of BAA by the Ferrovial Consortium in June 2006, no company owned shares have been held.

28 Revaluation reserve

	£m
Balance 1 April 2005	389
Realisation of reserve	(1)
Balance 1 April 2006 and 31 December 2006	***388***

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

	Equity option Reserve £m	Cashflow Hedge Reserve £m	Available for sale Investments £m	Currency Translation Reserve £m	Capital Redemption Reserve £m	Total £m
Balance at 1 April 2005	65	3	(1)	1	27	**95**
Cash flow hedges:						
Fair value (losses)/gains	-	(2)	2	-	-	-
Transferred to income statement	-	(33)	-	-	-	**(33)**
Deferred tax on fair value losses	-	7	-	-	-	**7**
Current tax on fair value losses/(gains)	-	3	(1)	-	-	**2**
Currency translation	-	-	-	(41)	-	**(41)**
Balance at 1 April 2006	65	(22)	-	(40)	27	**30**
Cash flow hedges:						
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 losses/gains	-	(2)	(1)	-	-	**(3)**
Currency translation	-		-	31	-	**31**
Balance at 31 December 2006	65	(2)	3	(9)	27	**84**

The amount of £58 million transferred to the income statement represents the gain on revaluation of mark-to-market cross-currency swaps.

30 Retained earnings

	£m
Balance 1 April 2005	3,864
Dividends paid	(232)
Net profit for the year	531
Share-based payments	26
Actuarial gain on pensions	72
Tax on actuarial gain on pensions	(21)
Tax on items taken to equity	2
Realisation of reserves	1
Balance at 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 at 31 December 2006	**4,440**

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 2006		31 March 2006	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**26**	**47**	24	47
Within two to five years	**79**	**179**	80	179
After five years	**127**	**2,720**	144	2,753
	232	**2,946**	248	2,979

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' is electricity supply equipment at the airports leased under a 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 2006		31 March 2006	
	Land and *buildings* £m	***Other* £m**	Land and *buildings* £m	*Other* £m
Within one year	**109**	**9**	115	9
Within two to five years	**317**	**2**	291	9
After five years	**548**	**-**	569	-
	974	**11**	975	18

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 2006 £m	31 March 2006 £m
Contracted for, but not accrued:		
Terminal 5, Heathrow Airport	**108**	355
Property, plant and equipment at Budapest Airport	**174**	181
Multi-storey car park 1 refurbishment, Heathrow Airport	**-**	1
A380 preparatory works, Heathrow Airport	**2**	-
Multi-storey car park new build, Heathrow Airport	**-**	6
Terminal 4 fire alarms, Heathrow Airport	**1**	6
Runway, Stansted Airport	**-**	10
Cul de sac, Stansted Airport	**-**	5
	285	564
Other projects	**75**	58
	360	622

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 (as detailed in Note 8). Total costs incurred to 31 December 2006 are £46 million (31 March 2006: £33 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 £69 million being incurred in this regulatory period). These costs are being capitalised as part of the runway development costs (as detailed in Note 8). Total value to 31 December 2006 is £55 million (31 March 2006: £35 million), including a £4 million provision for the additional 10% payment 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 noise schemes are estimated at £7 million per annum for the next four years and up to £350 million over the next 29 years for blight schemes.

In June 2006, the Government announced it's 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 to address the impact of night flights on local communities. Based on the Group's evaluation, payments under this scheme are estimated to total £70 million, spread over the five year period commencing 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 £192 million at 31 December 2006 (31 March 2006: £198 million). Included in the above are the following:

(i) The Company has provided a limited guarantee to Indianapolis Airport Authority (IAA), supported by a US$50 million letter of credit, to guarantee its obligations under the 13-year management contract with IAA which expires on 31 December 2008.

(ii) 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 amount payable under this guarantee at 31 December 2006 was US$14.5 million.

(iii) The Company has provided parent guarantees in respect of €75 million as security for the development commitments of Budapest Airport Zrt and €10 million as a performance guarantee related to a potential acquisition that did not proceed. This latter guarantee has been cancelled since 10 January 2007.

(iv) Holders of US$109 million of bonds of World Duty Free Americas, Inc. (now known as DFA Inc.), sold in October 2001, issued proceedings against BAA Limited (formerly BAA plc), World Duty Free plc and the purchaser of DFA Inc. in May 2002 claiming the defendants had fraudulently conveyed the assets of DFA Inc. The plaintiffs' remaining claim is for US$39 million and punitive damages of the same amount. A trial in December 2003 found BAA Limited and World Duty Free plc not liable to the bond holders on all counts. The WDFA bondholders appeal on two points of law was heard in November 2004 and reheard in October 2005. The Court hearing the appeal found for the plaintiffs on both points of law and ordered the case to be sent back to the Court of First Instance. BAA Limited appealed to the Court of Appeal which is the supreme court for the State of Maryland and a hearing took place in October 2006. The decision is still awaited. The board remains confident of a successful outcome.

(v) On 22nd December Wallis Ingatlan Zrt ('Wallis'), a Hungarian property company issued proceedings in the Budapest metropolitan court against BA Zrt claiming that an agreement had been concluded establishing a partnership between Wallis and BA Zrt in relation to real estate development at Budapest Airport which BA Zrt by its actions had rendered impossible to perform. Wallis seek either a declaration that they jointly own certain real estate at the airport or a ruling that they are entitled to compensation in the sum of ten billion HUF and interest. The Company has been advised that the claim is without merit and it will be vigorously defended.

(vi) 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 the 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 Existing Bonds to be breached.

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.

32 Share-based payments

The Group recognised a total expense, within staff costs, in relation to share based payments of £5 million (31 March 2006: £13 million) which relates to equity settled schemes.

Following the 100% acquisition of BAA by the Ferrovial Consortium in June 2006, all share awards were exercised.

The schemes in operation during the period were as follows.

Performance Share Plan ('PSP')

The final award under the PSP was made on 30 November 2005. The PSP provided for the grant of free shares in the form of contingent shares.

Shares in relation to the awards were held in trust and would have been released to participants at the end of a 3-year performance period, dependent upon the extent to which the performance condition was satisfied. Following the change of control, a portion of the outstanding PSP awards vested immediately and the remaining PSP awards lapsed. The awards vested on a pro-rata basis to reflect the extent to which the vesting period had elapsed and the performance condition was satisfied.

The fair value of shares awarded under the PSP were calculated using the market value of shares adjusted to take into account the Total Shareholder Return ('TSR') market-based performance condition, using a pricing model. The model took into account the interdependency between share price performance and TSR vesting. The model incorporated expectations about volatility and the correlation of share price returns of BAA plc to a defined comparator group.

Expected volatility was determined based on the median historical volatility of the share price of the comparator group over three years to the grant date.

Expected share price correlation was determined based on the median historic correlation between the constituents of the comparator group measured over 3 years to the grant date.

No PSP awards were granted during the period. The inputs into the pricing model for the PSP awards granted in the prior year were as follows:

	31 March 2006	
	20 June 2005	30 November 2005
Weighted average share price	£6.07	£6.36
Expected volatility	25%	21%
Expected life	36 months	31 months
Correlation of share price returns	30%	25%

The Group recognised a total expense in relation to PSP awards of £1.6 million (31 March 2006: £5 million).

Deferred Annual Bonus Scheme ('DAB')

The final award under the DAB was made in August 2005. Under the DAB, participants were given the choice to defer a portion of their annual bonus into the Company's shares for 3 years. The DAB was equity settled and participants received an award of free matching shares at the end of the deferral period. Following the change of control the DAB awards granted in 2003 and 2004 vested in full, the awards granted in 2005 vested on a pro-rata basis to reflect the extent to which the vesting period had elapsed, and the performance condition was satisfied.

The fair value of matching shares awarded under the DAB was based on the market value of the shares on the grant date.

The Group recognised a total expense in relation to DAB awards of £0.5 million (31 March 2006: £1 million).

Sharesave Scheme

The final award under the Sharesave Scheme was made on 30 November 2005. Under the Sharesave Scheme, HM Revenue and Customs approved and un-approved awards were made. The Sharesave Scheme awards were equity settled and based on a 3 or 5 year monthly savings contract. Participants were granted share options with an exercise price at a 20% discount to the average quoted market price of BAA plc shares with a vesting period of either 3 years or 5 years. Following the change of control the Sharesave Scheme awards vested to the extent to which the savings contract had been completed, therefore the vesting of awards was effectively pro-rated for time.

	31 December 2006		31 March 2006	
	Options	**Weighted average exercise price (in £)**	Options	Weighted average exercise price (in £)
Outstanding at beginning of period	***15,549,075***	***4.40***	15,505,483	4.28
Granted during the period	-	-	3,602,849	4.96
Forfeited during the period	**(79,485)**	**4.60**	(1,283,874)	4.28
Expired during the period	**(8,115,631)**	**4.40**	-	-
Exercised during the period	**(7,353,959)**	**4.40**	(2,275,413)	4.49
Outstanding at the end of the period	-	-	15,549,075	4.40
Exercisable at the end of the period	-	-	1,411,976	4.45

The weighted average share price at the date of exercise for Sharesave options exercised during the period was £9.35.

The fair value of the Sharesave awards was measured using the Black-Scholes pricing model. The model takes into account expectations about volatility, dividends and the life of the awards.

No Sharesave awards were granted during the period. The inputs into the Black-Scholes model for awards granted in the prior year (on 2 December 2005 under both the 38-month and 62-month schemes) are as follows:

	2 December 2005 (38 months)	2 December 2005 (62 months)
Share price	*£6.20*	*£6.20*
Exercise price	£4.96	£4.96
Expected volatility	19%	24%
Risk free rate	4.32%	4.30%
Expected dividends	4.50%	4.50%

Expected volatility was based on the historical volatility of the BAA plc share price. This reflects the assumption that historical volatility is indicative of future trends which may not necessarily be the actual outcome.

The Group recognised a total expense in relation to the Sharesave Scheme of £2.5 *million* (31 *March 2006: £5 million*).

Executive Share Option Scheme – The BAA 1996 Share Option Scheme ('ESOS')
The ESOS was replaced by the PSP in 2004 and no awards have been made under the ESOS since November 2003. Under the ESOS, options were granted with an exercise price equal to the average market price of BAA plc shares on the date of grant. The options were equity settled and became exercisable at the end of a 3-year performance period, dependent upon the extent to which the performance condition had been satisfied. All of the outstanding ESOS options vested upon the change of control.

	31 December 2006		31 March 2006	
	Options	**Weighted average exercise price (in £)**	Options	Weighted average exercise price (in £)
Outstanding at beginning of period	**12,241,179**	**5.53**	18,588,103	5.56
Forfeited during the period	-	-	(216,094)	5.38
Expired during the period	-	-	(270,864)	6.39
Exercised during the period	**(12,241,179)**	**5.53**	(5,859,966)	5.57
Outstanding at the end of the period	-	-	12,241,179	5.53
Exercisable at the end of the period	-	-	8,320,832	5.85

The weighted average share price at the date of exercise for ESOS options exercised during the year was £9.35.

The fair value of the ESOS awards were calculated using the Black-Scholes pricing model.

The Group recognised a total expense in relation to ESOS of £0.7 million (31 March 2006: £2 million).

One-off share award
A one-off award of 8,036 free shares was made in the twelve months to 31 March 2006 with a three year vesting period. Following the change of control the award vested pro-rated for time.

Summary of awards outstanding at 31 December 2006
There were no share awards outstanding as at 31 December 2006.

Summary of fair values

There were no share awards granted during the financial period. The weighted average fair values for PSP awards, DAB awards, and one-off share awards and Sharesave grants during the previous financial year are as follows:

	31 December 2006	31 March 2006
PSP	-	£3.41
DAB	-	£6.06
Sharesave - 3 year expected life	-	£1.48
Sharesave - 5 year expected life	-	£1.85
One-off share award	-	£6.23

33 Notes to the consolidated cash flow statement

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

	Note	9 months to 31 December 2006 £m	Restated 12 months to 31 March 2006 £m
Operating activities			
Net profit before tax		**597**	757
Adjustments for:			
Finance income	*5*	**(24)**	(44)
Finance costs	*5*	**162**	166
Fair value (gains)/losses on derivative financial instruments	*19*	**(7)**	49
Depreciation[1]	*8*	**229**	274
Amortisation	*10*	**24**	25
Loss/(profit) on disposal of property, plant and equipment	*2*	**(4)**	(3)
Exceptional profit on disposal of property related assets	*2*	**(2)**	(41)
Exceptional costs		**34**	80
Fair value gains on investment properties	*9*	**(206)**	(225)
Share-based payments expense	*2*	**5**	13
Share of profit of associates (net of interest and tax)	*11*	**(5)**	(6)
(Increase)/decrease in trade and other receivables		**(41)**	(13)
Increase in inventories		**(7)**	(3)
Decrease in trade and other payables		**-**	(26)
Decrease in provisions		**7**	(39)
Increase in retirement benefit obligations		**9**	22
Cash generated from operations		**771**	986

[1] Excludes Terminal 2 accelerated depreciation included within exceptional items.

(b) Financing

	9 months to 31 December 2006 *£m*	12 months to 31 March 2006 *£m*
Issue of ordinary share capital	**102**	21
Sale of own shares by the BEST	**-**	18
Dividends paid to shareholders	**(243)**	(231)
Repayment of forward starting interest rate swaps	**-**	(28)
Borrowings		
Current:		
Proceeds released from bank revolving credit facility	**(198)**	1,290
Repayment of bank revolving credit facility	**200**	(1,290)
(Decrease)/increase in other borrowings	**-**	(91)
Non-current:		
Proceeds received from issue of 4.5% €750 million bonds due 2018	**-**	510
Proceeds received from issue of 5.125% €750 million bonds due 2023	**-**	750
Proceeds received from issue of 3.875% €1 billion due 2012	**-**	680
Increase in other borrowings	**-**	68
	(139)	1,697

34 Related party transactions

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

	31 December 2006 Sale of goods and services £m	31 March 2006 Sale of goods and services £m
Malev Rt	**24**	9
Airport Property Partnership	**5**	5
Australia Pacific Airports Corporation	**-**	11
Swissport/Groundstar	**2**	-
Other	**2**	1
	33	26

Balances outstanding with related parties were as follows

	31 December 2006		31 March 2006	
	Amounts owed from related parties £m	**Amounts owed to related parties £m**	Amounts owed from related parties £m	Amounts owed to related parties £m
Malev Rt	**24**	**2**	2	3
Airport Property Partnership	**3**	**-**	2	-
Australia Pacific Airports Corporation	**1**	**-**	5	-
Ferrovial Infraestructuras, S.A.	**-**	**1**	-	-
Swissport/Groundstar	**1**	**-**	-	-
	29	**3**	9	3

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

ADIL (BAA's parent entity) owns £424 million 2.94% and £425 million 2.625% convertible bonds in BAA Limited. Further details of these bonds are shown in Note 17.

The immediately parent entity of BAA is ADIL, the UK parent entity is FGP Topco Limited, and the ultimate parent entity is Grupo Ferrovial, S.A. (Spain).

35 Principal subsidiaries and joint ventures

Subsidiaries

The principal subsidiaries whose financial position materially affect 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†	Budapest Airport Zrt# (75% -1 vote share holding)	
Edinburgh Airport Limited†		

† Held by a subsidiary undertaking
* *Incorporated in Italy*
# Incorporated in Hungary

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in Great Britain. 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 2006, the Group's principal joint ventures (both of which are unlisted) were:

	% of share capital held	Activity	Country of incorporation
Airport Property Partnership ('APP')	50	Property development and management	Great Britain
Airstralia Development Group Pty Limited	15	Holding company	Australia

APP has a 31 December reporting date and Airstralia Development Group Pty Limited has a 30 June reporting date.

These investments are accounted for as joint ventures as the Group has joint control of these entities through its agreements with the other joint venture parties.

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.

Airstralia Development Group Pty Limited holds a 100% interest in Westralia Airports Corporation Pty Limited, an Australian registered wholly owned subsidiary undertaking that manages Perth International Airport.

The summarised financial position and results of the Group's investment in joint ventures, accounted for using the proportionate consolidation method, is as follows:

	31 December 2006 £m	31 March 2006 £m
Share of balance sheet		
Non-current assets	**504**	482
Current assets	**13**	24
Non-current liabilities	**(220)**	(238)
Current liabilities	**(19)**	(20)
Net assets	**278**	248

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Share of revenue and profit		
Revenue	**28**	38
Operating costs	**(12)**	(12)
Fair value gain on investment properties	**42**	41
Net finance costs	**(10)**	(13)
Net profit before and after tax	**48**	54

Financial statements

Company

Independent auditors' report to the members of BAA Limited

We have audited the parent company financial statements of BAA Limited for the nine month period ended 31 December 2006 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 nine month period ended 31 December 2006.

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 Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if 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 2006;
- The parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Report of Directors is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 February 2007

Company balance sheet as at 31 December 2006

	Note	31 December 2006 £m	31 March 2006 £m
Fixed assets			
Tangible assets	2	**11**	9
Investment in subsidiaries	3	**11,238**	10,886
Investment in joint ventures	3	**2**	2
Available-for-sale investments	4	**72**	68
Derivative financial instruments	10	**7**	40
		11,330	11,005
Current assets			
Trade and other receivables	5	**7,066**	6,627
Held-to-maturity financial assets	6	**-**	412
Derivative financial instruments	10	**1**	7
Cash and short-term deposits	7	**54**	444
		7,121	7,490
Creditors: amounts falling due within one year			
Trade and other payables	8	**(5,719)**	(6,232)
Borrowings	9	**(434)**	(282)
Derivative financial instruments	10	**(65)**	(69)
Net current assets		**903**	907
Total assets less current liabilities		**12,233**	11,912
Creditors: amounts falling due after more than one year			
Trade and other payables	8	**(2)**	(2)
Borrowings	9	**(5,717)**	(5,797)
Derivative financial instruments	10	**-**	(14)
		(5,719)	(5,813)
Provisions for liabilities and charges			
Other provisions	11	**(3)**	(3)
Net assets excluding pension and other post-retirement liabilities		**6,511**	6,096
Pension and other post-retirement liabilities (net of deferred tax)	12	**(160)**	(104)
Net assets including pension and other post-retirement liabilities		**6,351**	5,992
Capital and reserves			
Called up share capital	13	**1,102**	1,080
Share premium	14	**325**	245
Own shares held	15	**-**	(4)
Revaluation reserve	16	**3,375**	2,722
Fair value and other reserves	17	**93**	70
Profit and loss account	18	**1,456**	1,879
Equity shareholders' funds		**6,351**	5,992

The financial statements were approved by the Board of directors and authorised for issue on 26 February 2007 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 profit and loss 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
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 12.

Share-based payments
Following the 100% acquisition of BAA Limited by the Ferrovial Consortium in June 2006, all share awards were exercised.

The Company had a number of employee share schemes detailed in the Note 32 of the Group financial statements. The equity-settled share-based payments under these schemes, were measured at fair value at the date of grant. The fair value determined at the grant date was expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

For the Executive Share Option Scheme ('ESOS') and the Sharesave Scheme, the fair value of awards was measured using the Black-Scholes option pricing model. The fair value of awards made under the Performance Share Plan ('PSP') was based on the market value of shares at the date of grant adjusted to reflect a Total Shareholder Return market-based performance condition. The fair value of awards made under the Deferred Annual Bonus Scheme ('DAB') was based on the market value of the shares at the date of grant.

No expense was recognised (any previously recognised expense was reversed) for awards that do not ultimately vest except where vesting is conditional upon a measure linked to BAA plc's share price ('a market condition') or other market conditions. The likelihood of achieving the market condition is taken into account in the fair value and, therefore, the award was treated as vesting irrespective of whether or not the market condition was satisfied, provided that any other performance condition was met.

Where an award was cancelled, it was treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award was recognised immediately in the profit ad loss account.

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 (other than derivatives) comprise bank loans, listed bonds, listed convertible bonds, cash, short-term deposits and commercial paper. The main purpose of these instruments is to raise finance for the Group'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 Group's operations and its sources of finance.

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

The main risks arising from the Company's financial instruments are market risk (fair value interest rate risk, foreign currency risk and interest rate re-pricing risk), credit risk, liquidity risk and cash flow interest rate risk. The Board approves, annually, prudent treasury policies for managing each of the risks summarised below.

Market risk
The Group operates internationally and its balance sheet is exposed to foreign currency risk arising primarily with respect to the Australian Dollar, the Hungarian Forint and the Euro. The Company's policy is to seek to mitigate the effects of material structural currency exposures by matching overseas investments and forecasted cash flows with borrowings denominated in the same currency where freely available.

For debt raised in foreign currency, the Company uses cross currency swaps to hedge the related interest and principal payments. In cases where debt is raised in foreign currency, 100% of the exposure is hedged in this way, subject to a deminimus limit.

Credit risk
The Company has no significant concentrations of credit risk. 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. The Company's policy is to ensure there are sufficient forecasted cash balances and undrawn committed facilities to fund the Group's forecast capital expenditure requirements for 18 months or 12 months forecast net funding requirement, whichever is greater.

Price risk
The Company does not have significant exposure to equity security price risk or commodity price risk.

Cash flow and fair value interest rate risk
The Company's interest rate risk arises from its short-term and long-term 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 into fixed-to-floating interest rate swaps. These swaps are designated to hedge underlying debt obligations. The Company also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Company undertakes forward starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

Accounting for derivative financial instruments
The Company uses derivative financial instruments, such as foreign currency contracts, interest rate swaps and cross currency swaps to hedge risks associated with interest rate and foreign currency fluctuations. Such derivative instruments are recognised on the balance sheet at fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the risk being hedged.

Hedges are classified as:
- Fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability
- Cash flow hedges, which hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset, liability or forecasted transaction.

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 account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 account. Amounts accumulated in equity are recycled to the profit and loss account in the same period that the hedged item is recognised in the profit and loss account. However, where the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment) or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the asset or liability.

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 loss of the Company for the year attributable to shareholders was £343 million (31 March 2006: £1,322 million profit).

2 Tangible assets

	Plant and equipment £m	Assets in the course of construction £m	*Total* £m
Cost			
Balance 1 April 2006	26	1	**27**
Additions	3	2	**5**
Disposals	(5)	-	**(5)**
Balance 31 December 2006	24	3	**27**
Depreciation			
Balance 1 April 2006	(18)	-	**(18)**
Charge	(3)	-	**(3)**
Disposals	5	-	**5**
Balance 31 December 2006	(16)	-	**(16)**
Net book value 31 December 2006	8	3	**11**
Net book value 31 March 2006	8	1	9

3 *Investments*

	Subsidiaries £m	*Joint ventures* £m	**Total** **£m**
Cost			
Balance 1 April 2006	7,786	2	**7,788**
Decrease in loans to subsidiary undertakings	(301)	-	**(301)**
Balance 31 December 2006	7,485	2	**7,487**
Revaluation			
Balance 1 April 2006	3,100	-	**3,100**
Revaluation surplus arising during the year	653	-	**653**
Balance 31 December 2006	3,753	-	**3,753**
Net book value 31 December 2006	11,238	2	**11,240**
Net book value 31 March 2006	10,886	2	10,888

Details of principal subsidiary undertakings are provided in Note 35 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. Comparative figures have been restated.

4 Available-for-sale investments

	31 December 2006 **£m**	*31 March 2006* £m
Unlisted securities		
Balance 1 April	**68**	66
Revaluation surplus transferred to equity	**4**	2
Balance	72	68

Available for sale investments represent £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, £24 million priority loan notes repayable in 2032, yielding a fixed interest rate of 8.5%, and £33 million undated loan notes yielding a fixed interest rate of 11.68%. The Company does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The £33 million undated loan notes are valued as perpetual debt. The £24 million priority loan notes are valued by discounting the interest and principal cashflows. 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 March 2006: 10.5%) has been used as the discount factor.

5 Trade and other receivables

	31 December 2006 £m	31 March 2006 £m
Due within one year		
Trade debtors	-	3
Amounts owed by subsidiary undertakings	6,219	6,114
Corporation tax	31	12
Other debtors	137	19
	6,387	6,148

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

	31 December 2006 £m	31 March 2006 £m
Due after more than one year		
Amounts owed by subsidiary undertakings	659	420
Deferred tax asset[1]	20	59
	679	479
	7,066	6,627

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

	31 December 2006 £m	31 March 2006 £m
Amounts provided:		
Excess of capital allowances over depreciation	(13)	(14)
Share based payments	-	(22)
Financial instruments	(8)	(22)
Other short-term differences	1	(1)
	(20)	(59)

6 Held-to-maturity financial assets

	31 December 2006 £m	31 March 2006 £m
Commercial paper	-	412

No Commercial paper was held at 31 December 2006 (31 March 2006: £412m with an average maturity of two months earning interest at an average rate of 4.55%).

7 Cash and short-term deposits

	31 December 2006 £m	31 March 2006 £m
Cash at bank and in hand	54	136
Short-term deposits	-	308
	54	444

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

Short-term deposits held at 31 December 2006 totalled £nil (31 March 2006: £308 million had an average term-to-maturity of two months and had an effective interest rate of 4.49%).

8 Trade and other payables

	31 December 2006 £m	31 March 2006 £m
Due within one year		
Unsecured creditors		
Trade creditors	**54**	61
Amounts owed to subsidiary undertakings	**5,503**	6,047
Other tax and social security	**9**	12
Other creditors	**15**	52
Capital creditors	**2**	-
Dividends payable	**5**	-
Interest creditor	**131**	60
	5,719	6,232
Due after more than one year		
Other creditors	**2**	2

9 Borrowings

	Effective interest rate	31 December 2006 £m	31 March 2006 £m
Due within one year			
Unsecured			
BAA Limited bonds:			
7.875% £200 million due 2007	8.04%	**200**	200
Bank Loans	Various	**234**	82
Total current		**434**	282
Non-current			
Unsecured			
BAA Limited bonds:			
3.875% €1,000 million due 2012	4.01%	**670**	693
5.750% £400 million due 2013	5.98%	**397**	397
4.500% €750 million due 2014	4.51%	**508**	525
11.750% £300 million due 2016	11.16%	**310**	311
4.500% €750 million due 2018	4.93%	**501**	519
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%	**898**	903
Bank loans	Various	**410**	434
		4,876	4,964
Borrowings from parent			
Unsecured			
BAA Limited convertible bonds:			
2.940% £424 million due 2008	6.42%	**424**	424
2.625% £425 million due 2009	5.43%	**417**	409
		841	833
Total non-current		**5,717**	5,797
Total current and non-current		**6,151**	6,079

The fixed rate loans are subject to fair value interest rate risk and the floating rate loans are subject to cash flow interest rate risk.

BAA Limited bonds and convertible debt are subject to fair value interest rate risk.

Further details of the unsecured BAA Limited bonds and convertible bonds are provided in Note 17 of the Group financial statements.

Borrowings are repayable as follows:

	31 December 2006 £m	31 March 2006 £m
Between one and two years	**466**	7
Between two and five years	**534**	845
After five years	**4,717**	4,530
	5,717	5,382
In one year or less on demand	**434**	697
	6,151	6,079

Borrowing facilities

The Group has the following undrawn committed borrowing facilities (to which the Company is an obligor) available at 31 December in respect of which all conditions precedent had been met at that date:

	31 December 2006 £m	31 March 2006 £m
Floating rate facilities		
Expiring within one year	-	50
Expiring between one and two years	-	950
Expiring in more than two years	2,050	-
	2,050	1,000

The £1 billion revolving credit facility was cancelled on 21 August 2006. BAA Limited is a joint obligor with its 100% parent ADIL to a £2.25 billion facility maturing in April 2011. As at 31 December 2006, £200 million had been drawn on the facility.

In addition, as at 31 December 2006, overdraft facilities of £25 million (31 March 2006: £25 million) were available to the Company.

10 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.

11 Other provisions

	Reorganisation £m
Balance 1 April 2006	3
Utilised	(3)
Charged to profit and loss account	3
Balance 31 December 2006	3
Classified as:	
Provisions for liabilities and charges	3

Reorganisation costs recognised during the year relate to a Group-wide programme to improve customer service and operational efficiency. Further details on this programme can be found in Note 4 of the Group financial statements.

12 Retirement benefit obligations

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

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
BAA Pension Scheme	87	79
Additional provision for unfunded pensions	(5)	2
Total operating charge to staff costs	82	81

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

	31 December 2006 £m	31 March 2006 £m
BAA Pension Scheme	(145)	(87)
Other pension and post retirement schemes	(15)	(17)
	(160)	(104)

(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 2006 and 31 March 2006 are based on the results of the actuarial valuation undertaken at 30 September 2004. The liabilities have been updated by Mercer Human Resource Consulting Limited, to take account of changes in economic assumptions, in accordance with Financial Reporting Standard 17 'Retirement Benefits'. The Scheme assets are stated at their mid-market value at 31 December 2006 and 31 March 2006.

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

	31 December 2006 %	31 March 2006 %
Rate of increase in pensionable salaries	**4.6**	4.4
Increase to deferred benefits during deferment	**3.1**	2.9
Increase to pensions in payment:		
Open section	**3.0**	2.8
Closed section	**3.1**	2.9
Discount rate	**5.2**	5.0
Inflation assumption	**3.1**	2.9

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 pensioner. The assumptions differ from those used at 31 March 2006 when the relevant figures were 22.7 and 24.8 respectively.

Analysis of amounts charged to operating profit

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Current service cost	**68**	73
Past service costs	**2**	3
Total operating charge pre-exceptional items	**70**	76
Exceptional past service cost	**17**	3
Total operating charge	**87**	79

Analysis of the amounts recognised in other finance income:

	31 December 2006 £m	31 March 2006 £m
Interest on pension scheme liabilities	**(83)**	(101)
Expected return on pension scheme assets	**99**	115
Net return	**16**	14

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

	31 December 2006 £m	31 March 2006 £m
Actual return less expected return on plan assets	**(57)**	273
Experience gains and losses arising on the benefit obligation	**(8)**	14
Changes in assumptions underlying the present value of the benefit obligation	**7**	(216)
Actuarial (loss)/gain recognised in the statement of recognised income and expense	**(58)**	71

Expected rates of return on assets were:

	31 December 2006 %	31 March 2006 %	31 March 2005 %	31 March 2004 %
Equities	**8.0**	7.2	7.7	7.7
Bonds	**4.6**	4.5	4.9	5.0
Other	**5.0**	4.6	4.7	4.0

Assets in the scheme were:

	31 December 2006 £m	31 March 2006 £m	31 March 2005 £m	31 March 2004 £m
Market value of assets				
Equities	**1,514**	1,484	1,157	1,056
Bonds	**573**	569	502	459
Other	**38**	19	16	11
Total market value of scheme assets	**2,125**	2,072	1,675	1,526
Present value of scheme liabilities	**(2,332)**	(2,196)	(1,850)	(1,666)
Deficit in the scheme	**(207)**	(124)	(175)	(140)
Related deferred tax asset	**62**	37	52	42
Liability recognised in the balance sheet	**(145)**	(87)	(123)	(98)

Analysis of movement in deficit during the year:

	31 December 2006 £m	31 March 2006 £m
Deficit in scheme at 1 April	**(124)**	(175)
Movement in the year:		
Current service cost	**(68)**	(73)
Past service cost	**(19)**	(6)
Other finance income	**16**	14
Actuarial (loss)/gain	**(58)**	71
Contributions	**46**	45
Deficit in scheme at end of period	**(207)**	(124)

History of experience gains and losses:

	31 December 2006	31 March 2006	31 March 2005	31 March 2004
Difference between the expected and actual return on scheme assets:				
Amount £m	**(58)**	273	43	219
Percentage of scheme assets	**(2.7)**	13.2	2.6	14.4
Experience gains and losses on benefits obligations:				
Amount £m	**(8)**	14	19	32
Percentage of scheme liabilities	**(0.3)**	0.6	1.0	1.9
Amount recognised in the statement of recognised gains and losses:				
Amount £m	**(58)**	71	(9)	188
Percentage of benefit obligation	**(2.5)**	3.2	(0.5)	11.3

(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:

	9 months to 31 December 2006 £m	12 months to 31 March 2006 £m
Amount charged to operating profit	**(6)**	3
Amount set off against other finance income	**1**	1
Amount recognised in the statement of total recognised gains and losses	**2**	1

The Company provides post-retirement medical benefits to certain pensioners. Total premium paid during the year in respect of these benefits was £315,639 (31 March 2006: £307,340). The present value of the future liabilities under this arrangement have been assessed by the actuary and is included in the balance sheet, along with provision for unfunded pension obligations, net of deferred tax, under pension and post-retirement liabilities as follows:

	31 December 2006 £m	31 March 2006 £m
Unfunded pension obligations	**(12)**	(14)
Post-retirement medical benefits	**(3)**	(3)
Deficit in scheme at end of period	**(15)**	(17)

The value of unfunded pensions has been assessed by the actuary using the same assumptions as those to calculate the pension scheme liabilities except that salary increases have been assumed to be 5.6% per annum (31 March 2006: 5.4%).

13 Share capital

	£
Authorised	
1,300,000,000 ordinary shares of £1 each	1,300,000,000
Balance at 1 April 2006 and 31 December 2006	1,300,000,000
Allotted and fully paid	
In issue at 1 April 2006: 1,080,361,331 ordinary shares of £1 each	1,080,361,331
Issue of ordinary shares of £1 each under the share and share option schemes and plans	22,038,984
In issue at 31 December 2006: 1,102,400,315 ordinary shares of £1 each	1,102,400,315

14 Share premium

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

15 Own shares held

	£m
Balance 1 April 2006	(4)
Disposals (exercised options)	4
Balance 31 December 2006	-

The BAA Employee Share Trust ('the BEST') was established to enable the Company to co-ordinate and manage the funding and delivery of shares to employees who exercised options or received shares under its employee share schemes.

The BEST was a discretionary trust established for the benefit of all employees. The Trustee of the BEST was an independent trust company based in Jersey. Historically, the Trustee purchased the Company's ordinary shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group.

Since the 100% acquisition of BAA by the Ferrovial Consortium in June 2006, no company owned shares have been held.

16 Revaluation reserve

	£m
Balance 1 April 2006	2,722
Revaluation of investments	653
Balance 1 April 2006 and 31 December 2006	3,375

17 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 2005	65	3	(1)	27	**94**
Cash flow hedges:					
Fair value (losses)/gains	-	(2)	2	-	**-**
Transferred to profit and loss account	-	(33)	-	-	**(33)**
Deferred tax on fair value losses	-	7	-	-	**7**
Current tax on fair value losses/(gains)	-	3	(1)	-	**2**
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 losses/gains	-	(2)	(1)	-	**(3)**
Balance at 31 December 2006	65	(2)	3	27	**93**

18 Profit and loss account

	£m
Balance at 1 April 2006	**1,879**
Retained loss for the financial year	(343)
Actuarial gain on pensions net of deferred tax	(40)
Share-based payments charge	5
Other movements	(45)
Balance at 31 December 2006	**1,456**

19 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 2006		31 March 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	**1**	**-**	1	-
	2	**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.

20 Contingent liabilities

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £192 million at 31 December 2006 (31 March 2006: £323 million). Included in the above are the following:

(i) The Company has provided a limited guarantee to Indianapolis Airport Authority ('IAA'), supported by a US$50 million letter of credit, to guarantee its obligations under the 13-year management contract with IAA which expires on 31 December 2008.

(ii) 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 amount payable under this guarantee at 31 December 2006 was US$14.5 million.

(iii) The Company has provided parent guarantees in respect of €75 million as security for the development commitments of Budapest Airport Zrt and €10 million as a performance guarantee related to a potential acquisition that did not proceed. This latter guarantee has been cancelled since 10 January 2007.

(iv) Holders of US$109 million of bonds of World Duty Free Americas, Inc. (now known as DFA Inc.), sold in October 2001, issued proceedings against *BAA Limited (formerly BAA plc), World Duty Free plc and the purchaser of DFA Inc. in May 2002 claiming the defendants had fraudulently conveyed* the assets of DFA Inc. The plaintiffs' remaining claim is for US$39 million and punitive damages of the same amount. A trial in December 2003 found BAA Limited and World Duty Free plc not liable to the bond holders on all counts. The WDFA bondholders appeal on two points of law was heard in November 2004 and reheard in October 2005. The Court hearing the appeal found for the plaintiffs on both points of law and ordered the case to be sent back to the Court of First Instance. BAA Limited appealed to the Court of Appeal which is the supreme court for the State of Maryland and a hearing took place in October 2006. The decision is still awaited. The board remains confident of a successful outcome.

(v) 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 the 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 Existing Bonds to be breached. The fair value of the guarantee provided by BAA Limited as of 31 December 2006 is not material.

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.

21 Share based payments

The Company recognised a total expense, within staff costs, in relation to share-based payments of £5 million (31 March 2006: £13 million).

Following the 100% acquisition of BAA by the Ferrovial Consortium in June 2006, all share awards were exercised.

Details of the following schemes in operation during the period, including the pricing models used in determining fair values and movements in awards are provided in Note 32 of the Group financial statements:

- Performance Share Plan
- Deferred Annual Bonus Scheme
- Sharesave Scheme
- Executive Share Option Scheme

22 Dividends paid and proposed

Details of dividends paid for the period are provided in Note 7 of the Group financial statements.

23 Auditors' remuneration

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

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

24 Directors' remuneration

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

25 Employees and directors

The average monthly number of employees (including executive directors) of the Company was 9,884 (31 March 2006: 9,595).

Of the above employees, 9,701 (31 March 2006: 9,373) 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, Belgrave House, 76 Buckingham Palace Road, London SW1W 9TQ

Registered in England No. 1970855