BAA AIRPORTS LIMITED
(formerly BAA Limited)
Report and Financial Statements
for the year ended 31 December 2008

Company Registration Number 1970855

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Luis Sanchez Salmeron
Eng Seng Ang
Ghislain Gauthier

SECRETARY

Carol Hui — Appointed 22 April 2009

REGISTERED OFFICE

130 Wilton Road
London
SW1V 1LQ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Kintyre House
209 West George Street
Glasgow
G2 2LW

BANKERS

The Royal Bank of Scotland Plc
Large Corporate Service Centre
2 ½ Devonshire Square
London
EC2M 4XJ

Barclays Bank Plc
Pall Mall Corporate Banking
50 Pall Mall
London
SW1Y 5AX

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for BAA Airports Limited (formerly BAA Limited) for the year ended 31 December 2008 (the 'year'). The company changed it's name on 6 October 2008 to BAA Airports Limited.

PRINCIPAL ACTIVITIES

BAA Airports Limited (the 'Company') is an indirect subsidiary of BAA Limited (formerly Airport Development and Investment Limited), ultimately owned in the UK by FGP Topco Limited.("Group") The Company is the main services provider for BAA Limited's seven UK airports. The Company employs all of the staff running the operational and provides corporate and centralised services to the BAA Limited's airports through a Shared Services Agreement which was formalised in August 2008. In addition, the Company is an indirect holding company of BAA (SP) Limited, which is the parent company within a ring-fenced group which owns Heathrow, Gatwick and Stansted airports and operates the Heathrow Express rail link between Heathrow and Paddington station.

GROUP RESTRUCTURING

In August 2008, the Group successfully completed a corporate reorganisation and implemented a new permanent financing structure for the group. Details of the refinancing are described below:

- The corporate reorganisation enabled separate ownership and financing for the three London airports of Heathrow, Gatwick and Stansted (the 'Designated Airports'), which stayed as indirect subsidiaries of BAA Airports Limited, and for BAA's other UK airports of Edinburgh, Glasgow, Aberdeen and Southampton (the 'Non-Designated Airports'), as well as BAA Lynton Limited, which were sold to BAA (NDH1) Limited, owned by BAA Limited.
- The Designated Airports, together with Heathrow Express Operating Company Limited became indirect wholly-owned subsidiaries of BAA (SP) Limited, forming a ring-fenced sub-group with an investment grade long term financing structure.
- The financing for the Designated Airports group included £4.4 billion of drawn bank facilities, £2.75 billion of capital expenditure and working capital facilities, £0.4 billion of drawn loan facilities from the European Investment Bank, and £4.5 billion of bonds, previously held by BAA Airports Limited, which were cancelled and reissued by BAA Funding Limited, which is the vehicle used within the ring-fenced structure for issuance of bonds.
- BAA (SP) Limited became a direct wholly-owned subsidiary of BAA (SH) Limited to which a subordinated debt facility of £1.566 billion (£1.966 billion prior to the refinancing) was migrated from BAA Limited. BAA (SH) Limited is itself an indirect wholly-owned subsidiary of BAA Airports Limited.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

No significant changes to the activities of the Company are expected in the foreseeable future. Key events and future developments which may however significantly impact the financial position or performance of the Company and BAA Group have been disclosed below.

REPORT OF THE DIRECTORS (continued)

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (continued)

Regulatory developments

Competition Commission enquiry into BAA's ownership of UK airports

On 19 March 2009, the Competition Commission ('CC') concluded its investigation on the supply of airport services by BAA in the UK. Its final report called for structural and behavioural remedies as well as providing recommendations on regulatory and policy matters for consideration by other governmental bodies.

The structural remedies include the disposal of Gatwick and Stansted to different purchasers as well as one of either Edinburgh or Glasgow airport within two years. They are expected to be sold in sequence, beginning with Gatwick followed by Stansted, followed by either Edinburgh or Glasgow.

Suggested behavioural remedies for Heathrow include strengthening consultation processes with the airlines and provisions on quality of service which have been already largely implemented. The CC has also recommended that the Department for Transport ('DfT') consider adopting a licence based regime of economic regulation of UK airports.

On 18 May 2009, BAA applied to the Competition Appeal Tribunal to review the CC's report on two separate grounds. The first was that the report is affected by apparent bias because of links between a member of the CC panel and an organisation interested in acquiring the airports that BAA is required to sell. The second ground was that the CC failed to take into account the adverse financial impact of introducing competition, in particular by requiring BAA to sell three airports within two years in the current financial and economic circumstances. The next steps in the appeal process include a case management conference that is expected to be held on 1 July 2009.

Gatwick disposal

Given the CC's findings earlier in its investigation, on 17 September 2008, BAA announced plans to sell Gatwick airport. The sale process is progressing in line with plan with several initial bids received during January 2009. The sale process is expected to be completed in the first half of 2009.

Shared Services Agreement

All employees of BAA Limited and its subsidiaries (the 'BAA Group') are employed directly by the Company activities (with the exception of Heathrow Express Operating Company Limited) which also acts as the provider of corporate and administrative services to the BAA Group. The Company is the administrator of the related defined benefit and defined contribution pension plans and grants all employee benefits.

On 18 August 2008, the Company entered into a Shared Services Agreement ('SSA') under which the Company provides the BAA Group with operational staff and corporate services. The main features this agreement are included below.

REPORT OF THE DIRECTORS (continued)

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (continued)

Shared Services Agreement (continued)

(i) Operational staff
The Company charges the BAA Group for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of the Company in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to the employee share options.

(ii) Corporate and centralised services
The Company also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the Shared Service Agreement with a mark-up of 7.5% except for IT applications where full costs were recharged.

(iii) Pensions
Under the SSA the current period service cost for the Company pension schemes are recharged to each of the airports within the BAA Group. Cash contributions are made directly to the pension trustee of the Company defined benefit scheme on behalf of the Company. The airports also have a legal obligation to fund any pension deficit related to the Company pension plans under the SSA.

Further details and accounting implications are included in Note 1 to the financial statements.

Sale of investments
As a part of the Corporate reorganisation previously described, BAA Airports Limited sold it's investment in Southampton International Airport Limited, BAA Lynton Limited to BAA (NDH1) Limited, and Heathrow Express Operating Company Limited into the ring-fenced group. The rest of the Non-Designated airports were sold by their parent company (Scottish Airports Limited). A profit of £125.7 million was recognised on the transfer at fair value of the Southampton International Airport Limited subsidiary The profit in the prior year related to the profit on disposal of BAA International Holdings Limited. Refer Note 11 for further details.

RESULTS AND DIVIDENDS

The statutory results for the year are set out on page 15. An interim dividend was paid on 18 August 2008 of £1,536.1 million (139.34p per share) (31 December 2007: £nil).

EMPLOYMENT POLICIES

The Company'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 Company is committed to giving full and fair consideration to applicants for employment.

REPORT OF THE DIRECTORS (continued)

EMPLOYMENT POLICIES (continued)

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. There is a high level of participation in the Group's employment benefits scheme, the Bonus Saver Plan, which provides for employees and directors to be rewarded based on the Group's performance.

DIRECTORS

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

Luis Sanchez Salmeron	
Eng Seng Ang	
Ghislain Gauthier	
Sir Nigel Rudd	Resigned 18 September 2008
Stuart Baldwin	Resigned 18 September 2008
Colin Matthews	Appointed 1 April 2008 and resigned 18 September 2008
Inigo Meiras	Resigned 18 September 2008
Lord Stevens	Resigned 18 September 2008
Jose Leo	Resigned 18 September 2008
Renaud Faucher	Resigned 18 September 2008
Richard Drouin	Resigned 18 September 2008
Jose Maria Perez Tremps	Resigned 18 September 2008
Nicolas Villen Jimenez	Resigned 18 September 2008
Stephen K J Nelson	Resigned 18 September 2008

DIRECTORS' INTERESTS

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Company as part of the FGP Topco Group actively manages all identified corporate risks including risks relating to the overall financial position and performance of the FGP Topco Group (the 'Group'). Details of risk management policies of FGP Topco, can be found in its financial statements.

REPORT OF THE DIRECTORS (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

RISK MANAGEMENT

Risk management is a key element of the BAA Group operations, of which BAA Airports Limited and it's subsidiaries form part. This has been centrally managed as part of the BAA Group and in addition the operating companies have a fully dedicated senior team which implements and manages risk closely following the Group's guidelines. The Executive Committee and Board referred to in the notes below relates to the Executive Committee and Board of BAA Limited.

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

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

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations and properly embed risk management within these operations. The operation of the process and the individual registers are subject to review by the Group'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.

Safety and security risks

Safety and security risks are regarded as important risks to manage. The Company and subsidiaries mitigate these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company and subsidiaries work 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 at the BAA Group level.

REPORT OF THE DIRECTORS (continued)

RISK MANAGEMENT (continued)

Regulatory environment, legal and reputational risks

Civil Aviation Authority ('CAA') regulation

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

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

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company and subsidiaries, given their 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 Company and subsidiaries breaching these regulations. Refer to the 'Review of Business and Future Developments' section for details on the CC enquiry into BAA's ownership of UK airports and the impact on competition.

Capacity shortfall

Failure to secure necessary planning permissions would lead to the Company and subsidiary having insufficient capacity to meet the expected demands of the industry resulting in increased congestion and declining passenger service. The Company 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 three London airports is dependent on the outcome of the regulatory settlements in 2013 for Heathrow and Gatwick and 2014 for Stansted.

Existing planning approvals provide for approximate passenger traffic growth at Heathrow (including Terminal 5 ('T5')) to 90 million, Gatwick to around 40 million and Stansted to around 35 million. The Company and subsidiaries has 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 which is due to commence shortly.

REPORT OF THE DIRECTORS (continued)

RISK MANAGEMENT (continued)

Capacity shortfall (continued)

The UK Government's Aviation White Paper *'The Future of Air Transport'* ('the White Paper') was published in December 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 Company and subsidiaries 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 the Group. 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 as they have the potential to impact the Company and subsidiaries' reputation, and licence to operate and to grow. The Company and subsidiaries mitigate these risks at a number of levels, including environmental management systems and training programmes embedded with operations, clear environmental strategies, resource conservation initiatives, proactive and progressive influencing of third parties, stakeholder engagement and community relations programmes. The Company and subsidiaries work closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Capital projects

The Company and subsidiaries recognise that failure to control key capital project costs and delivery could damage their financial standing and reputation. The Company and subsidiaries mitigate 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 developed by the Group for Heathrow Terminal 5 were introduced, including the strengthening of the project management team and the commitment of dedicated specialist internal audit and risk management resources to reinforce assurance to the Board. Similar controls will also be adopted for the Stansted Generation 2 and Heathrow East terminal developments. All projects include an allowance for risk and opportunity.

Changes in demand

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

REPORT OF THE DIRECTORS (continued)

RISK MANAGEMENT (continued)

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 Company and subsidiaries is recognised. The Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. A three year Pay Agreement was reached in August 2006 covering negotiated grades within the BAA Group and new negotiations are taking place in 2009 for the next pay deal. The Company could also be exposed in the short-term to the effect of industrial action at key clients (i.e. airlines).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management objectives are aligned with its intermediate parent company, BAA Limited, and can be found in the financial statements of that company. The treasury policies of the BAA Limited group of companies are detailed in the "Risk Management" section on page 16 of the BAA Limited annual report for the year ended 31 December 2008.

During the period, the Company's principal financial instruments, except derivatives, comprised bank loans, listed bonds, listed convertible bonds, cash and cash equivalents. The Company also held derivative transactions, principally interest rate swaps, cross currency swaps and forward currency contracts.

As a result of the refinancing as detailed in 'Group Restructuring', the main risks arising from the Company's financial instruments as at 31 December 2008 were therefore limited to cashflow interest rate risk, price risk, credit risk and liquidity risk.

Cash flow interest rate risk

The Company's cash flow interest rate risk arises primarily from amounts due to/from other Group undertakings which is issued at variable interest rates.

Price risk

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

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

REPORT OF THE DIRECTORS (continued)

RISK MANAGEMENT (continued)

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Company has no significant concentrations of credit risk. The Company's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used. The credit risks of the BAA Group are further discussed in its financial statements and the directors do not consider that the Company faces any additional significant credit risks.

Liquidity risk

As at 31 December 2008, the Company had cash and cash equivalents of £78.7 million (31 December 2007: £119.0 million), of which £74.4 million at 31 December 2008 was cash not related to the Shared Services Agreement.

DIRECTORS' INDEMNITY

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

PAYMENT POLICY

The Company complies with the UK Government's Better Payment Practice Code which states that responsible companies should:

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

The Company had 18 day's purchases outstanding at 31 December 2008 (31 December 2007: 18 days), based on the average daily amount invoiced by suppliers during the year ended 31 December 2008.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's Financial Statements for the year ended 31 December 2008 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.

REPORT OF THE DIRECTORS (continued)

AUDITORS

Pursuant to the provisions of section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will automatically be re-appointed as Auditors of the Company.

On behalf of the Board

Carol Hui
Company Secretary

28 May 2009

Registered Office:

130 Wilton Road
London
SW1V 1LQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Company's financial statements comply with applicable UK GAAP, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the BAA website which includes information related to the Company is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Carol Hui
Company Secretary

28 May 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAA AIRPORTS LIMITED

We have audited the financial statements of BAA Airports Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, Note of Historical Cost Profit and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the 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 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 financial statements give a true and fair view and are 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 financial statements.

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 financial statements. This other information comprises only the Report of the Directors, Officers and Professional Advisors and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAA AIRPORTS LIMITED (continued)

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 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 financial statements.

Opinion

In our opinion:

- the 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 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
29 May 2009

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Turnover – continuing operations	2	**711.1**	633.9
Operating costs – ordinary	4	**(707.7)**	(604.3)
Operating income – exceptional	5	**18.1**	4.1
Total operating costs		**(689.6)**	(600.2)
Operating profit – continuing operations		**21.5**	33.7
Profit on sale of investments in subsidiaries – exceptional	5	**125.7**	334.2
Net interest receivable and similar charges	7	**502.6**	30.9
Fair value losses on derivative financial instruments	7	**(51.1)**	(63.8)
Dividends receivable	3	**1,384.7**	213.9
Profit on ordinary activities before taxation		**1,983.4**	548.9
Tax charge on profit on ordinary activities	8	**(142.0)**	(90.1)
Profit after taxation for the financial year	21	**1,841.4**	458.8

The notes on pages 19 to 53 form an integral part of these financial statements.
All profit and loss recognised in the current and prior year is from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit for the financial year	21	**1,841.4**	458.8
Unrealised revaluation (deficit)/surplus:	21	**(5,178.2)**	259.0
Unrealised dividends receivable	3	**6,229.4**	-
Deferred tax credit /(charge) on items transferred directly to equity[1]		**6.9**	(116.0)
Current tax credit/(charge) on items transferred directly to equity	22	**11.0**	(4.0)
Other net recognised losses and gains relating to the year:			
Actuarial (loss)/gain (gross of deferred tax)	17	**(59.4)**	375.0
Other movements	21	**(17.1)**	-
Fair value losses	22	**(4.2)**	(136.0)
Total recognised gains and losses relating to the year		**2,829.8**	836.8

1 This includes a deferred tax credit of £16.9 million (2007: £116.0 million charge) relating to retirement benefit obligations.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit for the financial year	21	**1,841.4**	458.8
Unrealised dividends receivable	3	**6,229.4**	-
Dividends paid	9/21	**(1,536.1)**	-
Retained profit for the financial year		**6,534.7**	458.8
Unrealised revaluation (deficit)/surplus:			
Revaluation reserve	21	**(3,634.0)**	259.0
Profit and loss reserve	21	**(1,544.2)**	-
Other net recognised losses and gains relating to the year		**(57.9)**	269.9
Net addition to shareholders' funds		**1,298.6**	987.7
Opening shareholders' funds		**7,338.7**	6,351.0
Closing shareholders' funds		**8,637.3**	7,338.7

The notes on pages 19 to 53 form an integral part of these financial statements.

NOTE OF HISTORICAL COST PROFIT AND LOSSES
For the year ended 31 December 2008

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Reported profit on ordinary activities before taxation	**1,983.4**	548.9
Adjusted for:		
Unrealised dividends receivable	**6,229.4**	-
Fair value gains and losses on derivatives contracts:		
- Interest rate swaps	**(15.7)**	(32.8)
- Cross currency interest rate swaps	**(4.3)**	58.9
- Equity swaps	**73.9**	41.0
- Electricity purchase contracts	**9.1**	(21.0)
- Foreign exchange contracts	**(2.2)**	(4.0)
Historical cost profit on ordinary activities before taxation	**8,273.6**	591.9
Historical cost profit on ordinary activities after taxation	**5,915.6**	413.7

BALANCE SHEET
As at 31 December 2008

	Notes	31 December 2008 £m	31 December 2007 £m
FIXED ASSETS			
Tangible assets	10	**9.4**	8.4
Investments	11	**5,430.1**	10,261.6
		5,439.5	10,270.0
CURRENT ASSETS			
Debtors : due within one year	12	**430.5**	7,304.0
: due after more than one year	12	**6,208.4**	185.0
Cash at bank and in hand	13	**78.7**	119.0
TOTAL CURRENT ASSETS		**6,717.6**	7,608.0
CREDITORS:			
amounts falling due within one year	14	**(3,391.6)**	(4,006.3)
NET CURRENT ASSETS		**3,326.0**	3,601.7
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,765.5**	13,871.7
CREDITORS:			
amounts falling due after more than one year	15	**(155.8)**	(6,596.0)
Provisions for liabilities and charges	18	**(25.4)**	(29.0)
NET ASSETS (Excluding pension asset)		**8,584.3**	7,246.7
Net defined benefit pension asset	17	**53.0**	92.0
NET ASSETS		**8,637.3**	7,338.7
CAPITAL AND RESERVES			
Called up share capital	19	**1,102.4**	1,102.4
Share premium	20	**325.3**	325.3
Revaluation reserve	21	**-**	3,634.0
Fair value and other reserves	22	**32.6**	100.0
Profit and loss reserve	21	**7,177.0**	2,177.0
TOTAL SHAREHOLDERS' FUNDS		**8,637.3**	7,338.7

The notes on pages 19 to 53 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 May 2009 and were signed on its behalf by:

Luis Sanchez Salmeron
Director

Eng Seng Ang
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

1. ACCOUNTING POLICIES

Basis of accounting
These financial statements have been prepared under historical cost convention, as modified by the revaluation of certain tangible fixed assets, investments in subsidiaries and financial instruments in accordance with the Companies Act 1985 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) except as set out within the accounting policies note.

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Cash flow statement and related party transactions

The Company is wholly owned by FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2008. The results of the Company are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2008 (the intermediate parent entity and the smallest group to consolidate these financial statements for the period). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1, 'Cash flow statements (revised 1996)'.

The Company is also exempt under the terms of FRS 8, 'Related Party Disclosures', from disclosing related party transactions with entities that are related to, or part of the FGP Topco Limited group.

Comparative balances for 31 December 2007 have been presented using millions rounded to one decimal place. This treatment varies from 31 December 2007 Annual Report where balances were rounded to the nearest million. This has resulted in some immaterial rounding differences.

Consolidated financial statements

The Company has taken advantage of the exemption provided by section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of BAA Limited and it and its subsidiary undertakings are included in the consolidated financial statements of that company. BAA Limited is a company registered in England and Wales.

The financial statements present information about the Company as an individual entity only and not as a group.

Turnover
Turnover 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 in accordance with the Shared Services Agreement which is discussed further below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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.

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 financial performance.

Additional details of items disclosed as exceptional are provided in Note 5.

Tangible fixed assets
Plant, equipment and other assets are stated at cost less accumulated depreciation. 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 Company.

The Company 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 assets in the course of construction, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows:

Office equipment	5 – 10 years
Computer equipment	4 – 5 years
Computer software	3 – 7 years

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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 income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value 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 profit and loss account in those expense categories consistent with the function of the impaired assets.

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 change in the estimates used to determine the asset's recoverable amount since the latest 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 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 subsidiary undertakings

Investments in subsidiary undertakings are stated at net asset value (consistent with the Group under UK GAAP) 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.

Investments in joint ventures

Investments in joint ventures are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Deferred tax

In accordance with FRS 19, 'Deferred Tax', deferred tax is provided in full on timing differences which 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 they crystallise 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.

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.

Leases

(i) Company as lessor

Leases where the Company retains substantially all the risks and benefits of ownership are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as the income.

(ii) Company as lessee

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Shared Services Agreement ('SSA')

All employees of the BAA Group are employed directly by the Company which also acts as the provider of corporate and administrative services to the BAA Group. The Company is the administrator of the related defined benefit and defined contribution pension plans and grants all employee benefits.

On 18 August 2008, the Company entered into a SSA under which the Company provides the BAA Group with operational staff and corporate services.

(i) Operational staff

The Company charges the BAA Group for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of the Company in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to the employee share options. All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

(ii) Corporate and centralised services
The Company also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the shared service agreement with a mark-up of 7.5% except for IT applications where full costs were recharged. The total mark-up charged to the BAA Group amounted to £9.7 million during the year (2007: £9.2 million).

(iii) Pensions
Under the SSA the current period service cost for the Company pension schemes are recharged to each of the airports within the BAA Group. Cash contributions are made directly to the pension trustee of the Company defined benefit scheme on behalf of the Company. The airports also have a legal obligation to fund any pension deficit related to the Company pension plans under the SSA. These amounts will not be settled until the cash outflows are required.

In the year to 31 December 2008 an amount of £19.3 million was recorded as a one-off exceptional past-service credit in the profit and loss account relating to the commitment entered by the BAA Group's airports to fund the unfunded pension schemes existing at BAA Airports Limited. This amount was related to the pension deficit existing at that date for the Company's unfunded schemes (UURBs and medical schemes). These amounts will not be settled until the cash outflows are required. The Group's main Defined Benefit Scheme as at 31 December 2008 had a £95 million surplus. Therefore, no further amounts were required to be charged under the SSA in relation to unfunded pension obligations.

Provisions
Provisions are recognised when the Company 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.

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

Cash and cash equivalents
Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise of term deposits less than one year (other than cash) and investments in money market managed funds.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)
Employee benefits
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 17.

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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 '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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Financial risk management objectives and policies
The Company's principal financial instruments, except derivatives, comprise amounts owed to and from group undertakings and cash and cash equivalents.

The Company also enters into derivative transactions, principally equity swaps to hedge share price risk under the ESOP and electricity derivatives to hedge the operating cost of electricity of the Group.

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

The main risks arising from the Company's financial instruments are market risk (including cash flow interest rate risk and price risk) and credit risk. The Board approves prudent treasury policies for managing each of the risks summarised below.

Cash flow interest rate risk
The Company's cash flow interest rate risk arises primarily from amounts owed to and from other group undertakings which are issued at variable interest rates.

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

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

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

Credit risk
Credit risk arises from cash and cash equivalents, derivative financial instruments, and accounts receivable. The Company has no significant concentrations of credit risk. The Company's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Liquidity risk
The Company is not materially exposed to liquidity risk since the main activities and operations are related to the Shared Services Agreement entered with the BAA Group's airports, which have their own funding structures, and payment terms are specified in the agreement. However, the Company has no credit facilities available to face other payments which might arise and might not be attributable to the Shared Services Agreement. The Company holds cash and cash equivalents to cover any such risk for an amount of £74.4 million which the Directors consider that will cover any potential future payment for the foreseeable future.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- fair value hedges, where they hedge the exposure to changes of a recognised assets or liability or
- cash flow hedges, where they hedge the exposure to variability in cash flows that are either attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives that do not qualify for hedge accounting are classified as a current asset or liability.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

(a) Fair value hedge (continued)
If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss.

Amounts accumulated in equity are recycled in the profit and loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss.

(c) Derivatives at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised immediately in the profit and loss.

In August 2008 derivatives held by the Company which were designated as a fair value hedge and a cash flow hedge to hedge the changes in fair value or the changes in cash flows of the underlying BAA Limited bonds, were novated to BAA Funding Limited along with the bonds as part of the refinancing. The Company's remaining derivatives held as at 31 December 2008 are designated as derivatives at fair value through profit and loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

2. SEGMENTAL ANALYSIS

The directors consider the business has only one segment. All of the Company's revenue arises in the United Kingdom from other group companies under the terms of the SSA referred to in Note 1.

3. DIVIDENDS RECEIVED

		Year ended 31 December 2008 £m	£m	Year ended 31 December 2007 £m
		Realised	**Unrealised**	Realised
Interim dividends for the year ended 31 December 2008				
Scottish Airports Limited – £37.77 per £1 ordinary share (31 December 2007: 37.34p per £1 ordinary share)	(a)	-	**1,507.2**	14.9
BAA International Limited - 139.68p per £1 ordinary share (31 December 2007:nil per £1 ordinary share)	(a)	-	**37.3**	-
London Airports Limited – 406.9p per £1 ordinary share (31 December 2007: 5.3p per £1 ordinary share)	(a)	-	**3,746.0**	48.8
London Airports 1992 Limited – 132.9p per £1 ordinary share (31 December 2007: 11.7p per £1 ordinary share)	(a)	-	**938.6**	82.9
BAA International Holdings Limited – £nil per £1 ordinary share (31 December 2007: £55.4 million per £1 ordinary share)	(b)	-	-	55.4
BAA Insurance Services Limited – £3 per £1 ordinary share (31 December 2007: £8 per £1 ordinary share)	(d)	-	**0.3**	0.8
BAA Partnership Limited	(d)	-	-	11.1
World Duty Free Limited – 147.4p per £0.023 ordinary share (31 December 2007: nil per £1 ordinary share)	(b)	**647.9**	-	-
Heathrow Express Operating Company Limited – £17.5 million per £1 ordinary share (31 December 2007: £nil per £1 ordinary share)	(c)	**35.0**	-	-
BAA DSH Limited – 27.97p per £1 ordinary share (31 December 2007: nil p per £1 ordinary share)	(e)	**701.8**	-	-
		1,384.7	**6,229.4**	213.9

(a) As part of the wider BAA Group refinancing, referred to in the Report of the Directors; dividends were received representing the subsidiary entity's profit on the transfer of subsidiaries at fair value.

(b) These dividends were paid by the subsidiary following the external sale of these subsidiaries investments.

(c) This dividend was paid by the subsidiary prior to it's transfer to Heathrow Airport Limited, at fair value.

(d) Annual trading dividend received from this subsidiary.

(e) Surplus cash paid up the Group on refinancing to allow BAA Limited to repay external debt.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

4. OPERATING COSTS - ORDINARY

Operating costs	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Staff costs	529.0	429.7
Social security costs	7.2	7.2
Pension costs	56.8	89.5
Other staff related costs	18.4	14.1
Share-based payments	3.7	0.4
Staff costs[1]	615.1	540.9
Retail expenditure	10.5	11.5
Depreciation – owned assets	3.1	4.7
Maintenance expenditure	37.6	29.0
Rent and rates	4.9	3.5
Utility costs	2.0	1.3
Embedded derivatives in electricity purchase contracts[2]	9.1	(21.0)
General expenses	34.0	30.9
Other intra-group charges[3]	45.5	51.0
Capitalised staff costs[4]	(54.6)	(47.5)
	707.2	604.3
Loss on disposal of tangible fixed assets	0.5	-
	707.7	604.3

1. Staff costs comprise all BAA Group's employee costs. Refer to SSA accounting policy in Note 1.

2. Refer to Note 7

3. Other intra-group charges comprise of central recharges to Group airports for corporate services.

4. Staff costs incurred in completion of assets are deducted from charges to airports. The cost of the capital projects are settled directly by the company.

Operating costs include:	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Training expenditure	1.7	1.5
Rentals under operating leases		
- Plant and machinery	1.3	1.6
Services provided by the Company's auditor		
- Fees payable for the audit	0.4	-
- Fees payable for other professional services[1]	3.9	3.1

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

5. EXCEPTIONAL ITEMS

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Operating exceptional costs:-		
Reorganisation costs (a)	(1.2)	(0.5)
Pension credit/(costs) (b)	19.3	(1.0)
Other exceptional income (c)	-	5.6
	18.1	4.1
Non-operating income – exceptional		
Profit on sale of investments in subsidiaries (d)	125.7	334.2

(a) £1.2 million was charged during the year associated with restructuring programmes (2007: charge of £0.5 million). The charge in the year ended 31 December 2007 was in relation to severance and pension payments associated with the 'Simplifying the Organisation' restructuring programme carried out during 2008-2009.

(b) £19.3 million pension credit relates to the charging of accumulated past service pension costs not previously charged to the airports within the BAA Group in relation to Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits. The airports share of these costs have been allocated on the basis of pensionable salary.

(c) In the year to 31 December 2007, costs incurred in 2006 amounting to £5.6 million and relating to Heathrow Terminal 5 were recharged to Heathrow Airport Limited. These costs were incurred by the Company on behalf of Heathrow Airport Limted.

(d) A profit of £125.7 million was recognised on the transfer, at fair value, of the Company's investments in Southampton International Airport Limited, BAA Lynton Limited, to BAA (NDH1) Limited and Heathrow Express Operating Company Limited into the ring-fenced group. The Profit in the prior year related to the profit on disposal of BAA International Holdings Limited. Refer Note 11 for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

6. EMPLOYEE INFORMATION

(a) Employee numbers

All of the Company's employees were based in the United Kingdom and the average monthly number of employees (including executive directors) of the Company was as follows:

	Year ended 31 December 2008 No.	Year ended 31 December 2007 No.
Airports	**11,129**	9,544
BAA Lynton Management Limited	**18**	24
Other Operations	**179**	184
	11,326	9,752

(b) Directors emoluments

As a result of the group reorganisation that took place on refinancing, the Board and Executive team transferred from the Company to BAA Limited. All the remuneration of the Directors continued to be paid by the Company.

The Directors' remuneration and highest paid director tables provide information on the directors who held office throughout the year and those who have transferred from the Company to BAA Limited as part of the group reorganisation and Board reformation. Where Directors have been transferred during the year, the amounts reported relate to the period in which individuals are Directors of this Company i.e. from 1 January 2008 to 17 September 2008. A pro-rata amount has been reported in relation to sums paid to related parties for directors' services.

During the year, one of the directors (31 December 2007: one) had retirement benefits accruing to them under a defined benefits scheme.

During the year, one of the directors (31 December 2007: none) had retirement benefits accruing to them under a defined contribution scheme.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Directors' emoluments		
Aggregate emoluments	**2,575**	5,823
Termination benefits	**3,094**	-
Value of Company pension contributions to defined contribution scheme	**115**	-
Sums paid to related parties for directors' services	**900**	1,170
	6,684	6,993

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

6. EMPLOYEE INFORMATION (continued)

Number of directors who:	31 December 2008 No.	31 December 2007 No.
- are members of a defined benefit pension scheme	1	1
- are members of a defined contribution pension scheme	1	-

Eight directors (2007: nine directors) did not receive any emoluments in their capacity as directors of the Company.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Highest paid director's remuneration		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	696	2,594
Defined benefits scheme:		
Accrued pension at year end	-	59
Accrued lump sum	-	666
Defined contribution scheme:		
Value of company pension contributions to defined contribution scheme	115	-

During the year ended 31 December 2008, the highest paid director was given non-recurring payments of £nil (2007: £1.5 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. NET INTEREST RECEIVABLE AND SIMILAR CHARGES

Interest payable	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest on bank borrowings	**93.2**	99.9
Interest on bonds	**178.6**	309.0
Interest on borrowings from other group undertakings	**129.2**	239.8
Interest payable on derivative financial instruments	**94.6**	6.0
Commitment fees	**3.1**	6.3
	498.7	661.0
Interest receivable		
Interest receivable from other group undertakings	**(619.2)**	(654.7)
Interest receivable on derivative financial instruments	**(85.5)**	(2.0)
Interest receivable on bank and money market deposits	**(3.3)**	(16.5)
Interest from available for sale financial assets	**(0.5)**	(14.4)
Interest from other financial instruments	**(7.6)**	(4.3)
	(716.1)	(691.9)
Fair value gain on novation of BAA Limited bonds	**(285.2)**	-
Net interest receivable	**(502.6)**	(30.9)

Fair value losses/(gains) on financial instruments

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Embedded derivatives in electricity purchase contracts	**9.1**	(21.0)
Derivative losses /(gains) in operating profit	**9.1**	(21.0)
Interest rate swaps not in hedge relationships	**(20.0)**	26.1
Equity swap	**73.9**	41.4
Fair value re-measurements of foreign currency balances	**(2.8)**	(3.7)
Derivative losses in finance costs	**51.1**	63.8

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax			
Group relief payable		**154.7**	116.1
Adjustments in respect of prior periods		**9.9**	(10.0)
Total current tax		**164.6**	106.1
Deferred tax			
Origination and reversal of timing differences – non pension	12	**(26.3)**	(13.0)
Origination and reversal of timing differences – pension		**3.7**	(12.0)
Abolition of Industrial Building Allowances balancing adjustment – impact of deferred tax asset/ liability		**-**	9.0
Total deferred tax		**(22.6)**	(16.0)
Tax charge on profit on ordinary activities		**142.0**	90.1

Reconciliation of tax charge

The standard average rate of current tax for the year, based on the UK standard rate of corporation tax is 28.5% (2007: 30%). The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit on ordinary activities before tax	**1,983.4**	548.9
Tax on profit on ordinary activities at 28.5/30%	**565.3**	164.7
Effect of:		
Permanent differences	**10.1**	4.9
Non-taxable income	**(431.3)**	(72.5)
Temporary timing difference	**10.6**	19.0
Adjustments to tax charge in respect of prior periods	**9.9**	(10.0)
Current tax charge for the year	**164.6**	106.1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The standard average rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

In addition a number of other changes to the UK corporation tax system were announced in the March 2007 Budget Statement, some of which were enacted in the 2007 Finance Act and some in the 2008 Finance Act.

The accounting impact of the abolition of Industrial Building Allowances (IBAs) in the financial statements of the Company, prepared under UK GAAP, is significantly different to that disclosed in the consolidated financial statements of BAA Limited, which were prepared under IFRS. Under UK GAAP, the accounting impact of the abolition of balancing adjustments for IBAs (in respect of prior claims) resulted in a release of a deferred tax liability of £9 million in the year ended 31 December 2007. This contrasts with IFRS where BAA Limited has been obliged to recognise a deferred tax charge equivalent to the loss of future tax relief on expenditure already incurred.

9. DIVIDENDS PAID

Equity- Ordinary	**Year ended 31 December 2008 £m**	Year ended 31 December 2007 £m
A dividend of 139.34 pence per share was paid in the year (2007: £nil per share).	**1,536.1**	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

10. TANGIBLE ASSETS

	Plant, equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation			
1 January 2008	26.6	0.5	27.1
Additions at cost	2.4	-	2.4
Inter-company transfer	0.9	1.7	2.6
Disposals	-	(0.3)	(0.3)
31 December 2008	**29.9**	**1.9**	**31.8**
Depreciation			
1 January 2008	18.7	-	18.7
Charge for the year	3.1	-	3.1
Inter-company transfer	0.6	-	0.6
31 December 2008	**22.4**	-	**22.4**
Net book value			
31 December 2008	**7.5**	**1.9**	**9.4**
31 December 2007	7.9	0.5	8.4

11. INVESTMENTS

	Subsidiaries £m	Joint ventures £m	Available for sale investments £m	Total £m
Cost				
At 1 January 2008	6,201.0	1.9	46.7	6,249.6
Additions	2,792.3	-	-	2,792.3
Disposals	(365.0)	-	(23.9)	(388.9)
Decrease in loans to subsidiary undertakings	(3,217.5)	-	-	(3,217.5)
At 31 December 2008	**5,410.8**	**1.9**	**22.8**	**5,435.5**
Revaluations				
1 January 2008	4,012.0	-	-	4,012.0
Revaluation deficit in the year:	(4,012.0)	-	(5.4)	(4,017.4)
31 December 2008	-	-	**(5.4)**	**(5.4)**
Net book value				
31 December 2008	**5,410.8**	**1.9**	**17.4**	**5,430.1**
31 December 2007	10,213.0	1.9	46.7	10,261.6

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

11. INVESTMENTS (continued)

Subsidiaries
During the year the Company disposed of it's investments in Southampton International Airport Limited, BAA Lynton Limited and Heathrow Express Operating Company Limited. The Company acquired the entire share capital of BAA (DSH) Limited in the year. Both the disposals and acquisitions were part of the wider group restructure referred to in the Report of the Directors.

The loans to subsidiary undertakings at 31 December 2007 were repaid during the year as part of the Group refinancing.

The revaluation deficit in the year arose as a result of the transfer of subsidiary undertakings at fair value; and as a result of the dividends received from subsidiary undertakings. Refer Note 3.

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

Holding companies
BAA (AH) Limited †
BAA (SH) Limited †
BAA (SP) Limited †
BAA (DSH) Limited

Airport Owners and Operators
Heathrow Airport Limited†
Gatwick Airport Limited†
Stansted Airport Limited†
Societa Gestione Servizi Aeroporti Campani S.p.A.†* (65% holding)

Other entities
BAA Enterprises Limited
Airport Property Partnership†
BAA Funding Limited †#

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

As described in Note 24, BAA Limited and Heathrow Airport Limited have entered into a cross-border lease and leaseback establishing a special purpose vehicle, Paddington Railcars Company Limited ('PRC'), to act as an intermediate entity under the various lease agreements. Since the activities of PRC are effectively under the direct control of Heathrow Airport Limited under the terms of the lease agreement, PRC is deemed a quasi-subsidiary of the Company and its profit, assets, liabilities and cash flows have been consolidated into the Group.

Available for sale investments
Available for sale investments include £17.4 million (31 December 2007: £46.7 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. During the year the £23.9 million NATS 2032 Priority Loan Notes were fully redeemed at their fair value of £25.0 million. The Company does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available for sale investments.
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 8.0% (31 December 2007: 10.5%) has been used as the discount factor. The priority loan notes investment was valued by discounting future interest and principal payments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

12. DEBTORS

	31 December 2008 £m	31 December 2007 £m
Due within one year:		
Trade and other receivables	**23.4**	110.0
Amounts owed by group undertakings (a)	**217.7**	5,217.0
Amounts owed by the parent undertaking (b)	**187.7**	1,967.0
Derivative financial instruments[1]	**1.7**	10.0
	430.5	7,304.0
Due after more than one year:		
Amounts owed by the parent undertaking (c)	**6,115.6**	-
Deferred tax asset (d)	**40.3**	24.0
Other receivables (e)	**52.5**	67.0
Derivative financial instruments (f)	**-**	94.0
	6,208.4	185.0
	6,638.9	7,489.0

1 This relates to the unamortised portion of fair value of derivative financial instrument on the date of novation

(a) Amounts owed by group undertakings
Included within amounts due from subsidiary undertakings is £11.6 million due from the Designated Airports and £9.2 million due from the Non-designated airports. These amounts arise on inter-company trading under the Shared Service Agreement, are interest free, and are cash settled monthly. Refer note 1.
There are further amounts of £161.7 million due from other subsidiary undertakings of the Company which have arisen over a number of years and accrue interest at 1.5% over Bank of England base rate. There are no fixed terms for repayment.
There are amounts owed by group undertakings that existed prior to refinancing, these amount to £35.2 million which are interest free with no fixed terms for repayment.

(b) Amounts owed by the parent undertaking
This relates to interest payable by the parent entity on the £6,115.6 million, loan due after more than one year.

(c) Amounts owed by parent undertaking
Amounts owed by parent undertakings relates to BAA Airports Holdco Limited. This amount accrues interest at 8.24% and is repayable on demand but it is not expected to be repaid for a period of at least 12 months from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

12. DEBTORS (continued)

(d) Analysis of deferred tax balances are as follows:

	31 December 2008 £m	31 December 2007 £m
At 1 January	24.0	20.0
Credited to profit and loss account	26.3	4.0
Credited to equity	(10.0)	-
At 31 December	40.3	24.0

Analysis of the deferred tax balance, which represents full provision, is as follows:

	31 December 2008 £m	31 December 2007 £m
Excess of depreciation over capital allowances	(4.0)	(2.0)
Other short-term timing differences	(12.6)	2.0
Financial instruments	(23.7)	(24.0)
	(40.3)	(24.0)

Provision has been made for deferred taxation in accordance with FRS 19 'Deferred Tax'.

(e) Other receivables
Non-current other receivables include £52.5 million (31 December 2007: £67.0 million) in connection with 6.0% loan notes due 2011 which were received from Caisse de Depot et Placement du Quebec with the disposal of Budapest Airport. £14.5 million of these loan notes were redeemed during the year ended 31 December 2008.

(f) Derivative financial instruments
Derivative financial instruments due within one year comprise of the fair value of electricity purchase contracts which allow the Group to fix the future purchase price of electricity. These contracts allow the Group to unlock the fixed price for an agreed minimum volume. The nature of the contracts gives rise to embedded derivatives, which are recognised in the balance sheet at their fair value. The movements in the fair value are recognised in operating costs.

Derivative financial instruments due after more than one year as at 31 December 2007 comprise of the fair value of the cross currency swaps held by BAA Airports Limited to hedge currency and cashflow interest rate risk on the Eurobonds previously held by BAA Airports Limited. These cross currency swaps and the underlying bonds were novated to BAA Funding Limited upon refinancing in August 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

13. CASH AND CASH EQUIVALENTS

	31 December 2008 £m	31 December 2007 £m
Cash at bank and in hand	**0.3**	46.5
Money market funds	**78.4**	70.3
Short-term deposits	**-**	2.2
	78.7	119.0

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

Money market funds held at 31 December 2008 totalled £78.4 million (2007: £70.3 million). The funds have no fixed maturity date, however the Company can withdraw its investment on demand. Returns are based on performance.

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

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2008 £m	31 December 2007 £m
Trade creditors	**36.4**	45.3
Borrowings (note 16)	**-**	609.8
Amounts owed to group undertakings **(a)**	**2,896.5**	3,133.5
Corporation tax payable	**98.2**	100.1
Group relief payable **(b)**	**154.7**	26.6
Other tax and social security	**1.0**	9.5
Capital creditors	**0.2**	0.3
Dividends payable	**3.7**	3.9
Other payables	**83.8**	31.3
Derivative financial instruments (c)	**117.1**	46.0
	3,391.6	4,006.3

(a) Amounts owed to group undertakings
Included within amounts due to subsidiary undertakings is £29.8 million due from the Designated Airports; £18.3 million due to the Non-designated Airports. These amounts arise on inter-company trading under the Shared Service Agreement, are interest free, and are cash settled monthly. Refer note 1.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)

(a) Amounts owed to group undertakings (continued)
There are further balances that existed prior to refinancing of £2,822.8 million due to other subsidiary undertakings of the Company which have arisen over a number of years and accrue interest at 1.5% over Bank of England base rate. There are no fixed terms for repayment.
There are further balances that existed prior to refinancing of £25.6 million due to other subsidiaries of the Company which have arisen over a number of years, which are interest free and have no fixed terms for repayment.

(b) Group relief payable

Group relief is payable to other entities in the wider BAA Group who have surrendered losses in the period.

(c) Derivative financial instruments
The Group has entered into a number of equity swaps to hedge share price risk under the Group's Executive Share Option Plan ('ESOP'). In 2008 the Group entered into a further equity swap of 710,000 shares to hedge share price risk under the ESOP. The total ESOP derivative portfolio consists of 2.9 million shares at a total mark to market liability of £117.1 million as at 31 December 2008 (2007: 2.2 million shares with mark to market liability of £42.6 million). This amount is covered under the Shared Services Agreement and in the case it had to be settled, it would be charged to and be provided by the BAA Group's airports.

Included in the balance of derivative financial instruments as at 31 December 2007, are those interest rate swaps previously held in BAA Airports Limited which were not in a hedge relationship and therefore classified as current creditors. These interest rate swaps were novated to other entities in the BAA Group upon refinancing in August 2008.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2008 £m	31 December 2007 £m
Borrowings (note 16)	-	6,590.1
Amounts owed to subsidiary undertakings (a)	**155.1**	-
Other payables	**0.7**	3.9
Derivative financial instruments (b)	-	2.0
	155.8	6,596.0

(a) Amounts owed to subsidiary undertakings

These are further amounts owed by group undertakings which are interest free with no fixed terms for repayment.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

(b) Derivative financial instruments

Included in the balance of derivative financial instruments as at 31 December 2007, are those interest rate swaps previously held in BAA Airports Limited designated as a cash flow hedge against interest rate risk on the €750 million bond due 2014. Both the interest rate swaps and the underlying bond were novated to BAA Funding Limited upon refinancing in August 2008.

16. BORROWINGS

	31 December 2008 £m	31 December 2007 £m
Due within one year		
Unsecured		
Bank Loans	-	42.8
Borrowings from parent		
Unsecured		
BAA Limited convertible bonds:		
2.94% £424 million due 2008	-	424.0
Total current (excluding interest payable)	-	466.8
Interest payable	-	143.0
Total current (Note 14)	-	609.8
Non-current		
Secured		
Senior Capex Facility	-	980.0
£200 million Term Facility	-	200.0
Unsecured		
BAA Limited bonds:		
3.875% €1,000 million due 2012	-	732.0
5.750% £400 million due 2013	-	397.8
4.500% €750 million due 2014	-	553.6
11.750% £300 million due 2016	-	309.6
4.500% €750 million due 2018	-	548.1
8.500% £250 million due 2021	-	247.4
5.125% £750 million due 2023	-	738.5
6.375% £200 million due 2028	-	197.2
5.750% £900 million due 2031	-	893.4
Bank loans	-	367.5
	-	6,165.1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

16. BORROWINGS (continued)

Borrowings from parent		
Unsecured		
BAA Limited convertible bonds:		
2.625% £425 million due 2009	-	425.0
	-	425.0
Total non-current (Note 15)	-	6,590.1
Total current and non-current (excluding interest payable)	-	7,056.9

[1] Interest payable is included within current borrowings, Senior Capex Facility included within non-current borrowings at 31 December 2007.

BAA bonds

In August 2008, as part of the BAA refinancing, the bonds previously issued by BAA Airports Limited (formerly BAA Limited) were cancelled and replaced by new bonds issued by BAA Funding Limited. The bonds now issued by BAA Funding Limited are secured in 2008.

Other borrowings

The Senior Capex Facility was drawn from £980 million as at 31 December 2007 up to a balance of £2,000 million during the year, but then fully repaid as part of the BAA refinancing in August 2008.

The £200 million Term Facility was drawn in February 2007 to repay the matured 7.875% £200 million bond and was fully repaid as part of the BAA refinancing in August 2008.

The unsecured bank loans comprise EIB bank loans. These were fully repaid in April 2008 by BAA Airport Limited, and were subsequently redrawn by Heathrow Airport Limited as part of the BAA refinancing in August 2008. The EIB bank loans now drawn by Heathrow Airport Limited are secured in 2008.

Borrowings from parent

The convertible bonds were issued by BAA Airports Limited and acquired by BAA Limited (formerly Airport Development and Investment Limited) in June 2006. The 2.94% £424 million bond due 2008 matured in April 2008 and the terms of the 2.625% £425 million bond due 2009 were amended so that the maturity date was August 2008 and this therefore also matured in 2008.

17. RETIREMENT BENEFIT OBLIGATIONS

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

The value placed on the liabilities of the scheme as at 31 December 2008 is based the initial results of detailed calculations as at 30 September 2008 and with reference to the results of the formal valuation as at 30 September 2007 . The value placed on the liabilities of the scheme as at 31 December 2007 is based on the results of the actuarial valuation undertaken at 30 September 2007. The liabilities have been updated by Mercer Limited, to take account of changes in economic and demographic assumptions, in accordance with Financial Reporting Standard 17 'Employee Benefits'. The plan assets are stated at their bid value at 31 December 2008 and 31 December 2007. The accounting policy is to recognise actuarial gains and losses as they occur in the statement of total recognised income and expense.

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

	Year ended 31 December 2008 £m	**Year ended 31 December 2007 £m**
BAA Pension Scheme	**56**	**89**
Additional provision for unfunded pensions	**2**	**1**
Total operating charge to staff costs [1]	**58**	**90**

1 This is a group figure and includes amounts charged to other group companies.

	31 December 2008 £m	31 December 2007 £m
BAA Pension Scheme	**95**	150
Unfunded pension obligation	**(15)**	(18)
Post-retirement medical benefits	**(5)**	(4)
Asset at end of year	**75**	128
Related deferred tax liability	**(22)**	(36)
Asset recognised in the balance sheet	**53**	92

(a) BAA Pension Scheme

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

	31 December 2008 %	31 December 2007 %
Rate of increase in pensionable salaries	**4.4**	4.9
Increase to deferred benefits during deferment	**2.9**	3.4
Increase to pensions in payment:		
Open section	**2.8**	3.3
Closed section	**2.9**	3.4
Discount rate	**6.0**	5.8
Inflation assumption	**2.9**	3.4
Expected return on plan assets		
- Equities	**7.6**	8.2
- Bonds	**6.4**	5.0
- Other	**2.0**	5.5

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

The assumptions relating to longevity underlying the pensions liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60-year old male pensioner of 24.8 years and 25.9 years from age 60 for a 40 year old male non-pensioner. The assumptions are the same as those used at 31 December 2007.

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 yield on fixed and indexed linked Government bonds.

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

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

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

The expected return for each asset class was then weighted, based on the target allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.9% assumption (2007:6.3%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

The amounts charged to operating profit are as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current service cost	67	88
Finance cost on benefit obligation	124	123
Expected return on plan assets	(143)	(135)
Past service cost - routine items	1	2
Past service cost – exceptional items	7	11
Total operating charge to staff costs	56	89

Statement of total recognised gains and losses:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Actual return less expected return on plan assets	(349)	(4)
Experience gains and losses arising on the benefit obligation	24	130
Changes in assumptions underlying the present value of the benefit obligation	266	249
Actuarial (loss)/gain recognised in the statement of recognised income and expense	(59)	375

The actual loss on plan assets was £205 million (31 December 2007 a return of £130 million).

Cumulative amount of actuarial losses immediately recognised: £220 million.

The principal elements of the actuarial loss of £59 million for 31 December 2008 has resulted from:

- a decrease in the financial assumptions for valuing the expected return on plan assets; equities rate from 8.2% in 2007 to 7.6% in 2008, and other rates from 5.5% in 2007 to 2.0% in 2008, contributing in total £349 million to the actual return on plan assets.
- an increase in the discount rate financial assumption from 5.8% in 2007 to 6.0% in 2008 resulting in a decrease of £76 million in the present value of the defined benefit obligation.
- a decrease in the inflation rate financial assumption from 3.4% in 2007 to 2.9% in 2008 resulting in a decrease of £180 million in the present value of the defined benefit obligation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

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

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

	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 March 2006 £m	31 March 2005 £m
Fair value of plan assets					
Equities	**946**	1,119	1,514	1,484	1,157
Bonds	**1,113**	1,062	573	569	502
Other	**23**	92	38	19	16
Total market value of plan assets	**2,082**	2,273	2,125	2,072	1,675
Present value of scheme liabilities	**(1,987)**	(2,123)	(2,332)	(2,196)	(1,850)
Gross surplus/(deficit) in scheme at end of period	**95**	150	(207)	(124)	(175)
Related deferred tax (liability)/asset	**(22)**	(42)	62	37	52
Surplus/ (deficit) recognised in the balance sheet	**73**	108	(145)	(87)	(123)

Analysis of movement in the benefit obligation:

	31 December 2008 £m	31 December 2007 £m
Benefit obligation at beginning of the year	**2,123**	2,332
Movement in the year:		
Current service cost	**67**	88
Finance cost	**124**	123
Members' contributions	**16**	15
Past service cost - routine items	**1**	2
Past service cost – exceptional items	**7**	11
Actuarial gain	**(280)**	(379)
Benefits paid (by fund and group)	**(71)**	(69)
Benefit obligation at end of year.	**1,987**	2,123

The Group has reached an agreement with the Trustees to contribute £80 million per annum for a period of 3 years from 1 January 2009. The Group therefore expects to contribute £80 million to its pension plan in the year ending 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

Analysis of defined benefit obligations:

	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 March 2006 £m	31 March 2005 £m
Plans that are wholly or partly funded	**(1,987)**	(2,123)	(2,332)	(2,196)	(1,850)
Plans that are wholly unfunded	**(20)**	(22)	(21)	(24)	(22)
Total	**(2,007)**	(2,145)	(2,353)	(2,220)	(1,872)

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

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Fair value of plan assets at the beginning of year	**2,273**	2,125
Expected return on plan assets	**143**	135
Actuarial gain/(loss)	**(349)**	(4)
Employer contributions (including benefits paid and reimbursed)	**70**	71
Members' contributions	**16**	15
Benefits paid (by fund and Company)	**(71)**	(69)
Fair value of plan assets at end of year	**2,082**	2,273

History of experience gains and losses:

	Year ended 31 December 2008	Year ended 31 December 2007	9 months ended 31 December 2006	Year ended 31 March 2006	Year ended 31 March 2005
Difference between the expected and actual return on scheme assets:					
Amount £m	**(349)**	(4)	(58)	273	43
Percentage of scheme assets	**(16.8%)**	(0.2%)	(2.7%)	13.2%	2.6%
Experience gains and losses on benefits obligations:					
Amount £m	**24**	130	(8)	14	19
Percentage of scheme liabilities	**1.2%**	6.1%	(0.3%)	0.6%	1.0%
Amount recognised in the statement of recognised income and expense:					
Amount £m	**(59)**	375	(58)	71	(9)
Percentage of scheme liabilities	**(3.0%)**	17.7%	(2.5%)	3.2%	(0.5%)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

(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 cost of these arrangements expensed against operating profit in the period is £0.8 million. (2007: £0.5 million)

The Company provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement have been assessed by the actuary and this amount of £4 million (2007: £4 million) is included in the balance sheet, along with provision for unfunded pension obligations of £16 million (2007: £18 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 5.4% per annum (2007: 5.9%).

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	Reorganisation Costs £m
1 January 2008		29.0
Charged to profit and loss account	5	1.2
Utilised in the year		(4.8)
31 December 2008		**25.4**

The Company commenced implementing its restructuring programme 'Simplifying the Organisation' in late 2007. Costs associated with this programme are for severance and pension payments only. Additional amounts provided in the year are in relation to the Company's restructuring programmes. All amounts are expected to be utilised in 2009. See Note 5 for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

19. CALLED UP SHARE CAPITAL

	31 December 2008 £m	31 December 2007 £m
Authorised		
1,300,000,000 ordinary shares of £1 each	**1,300.0**	1,300.0
Called up, allotted and fully paid		
1,102,400,315 ordinary shares of £1 each	**1,102.4**	1,102.4

20. SHARE PREMIUM

	31 December 2008 £m
Balance at 1 January 2008 and 31 December 2008	**325.3**

21. RESERVES

	Profit and loss reserve £m	Revaluation reserve £m	Total £m
At 1 January 2008	2,177.0	3,634.0	5,811.0
Profit after tax for the year	1,841.4	-	1,841.4
Unrealised dividends receivable	6,229.4	-	6,229.4
Dividend paid	(1,536.1)	-	(1,536.1)
Revaluation deficit	(1,544.2)	(3,634.0)	(5,178.2)
Actuarial loss on pensions net of deferred tax	(42.8)	-	(42.8)
Share-based payments charge	4.9	-	4.9
Transfer between reserves	64.5	-	64.5
Other movements	(17.1)	-	(17.1)
At 31 December 2008	**7,177.0**	**-**	**7,177.0**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

22. 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 January 2008	64.9	0.4	7.8	26.9	100.0
Reclassifications	-	(1.0)	1.0	-	-
Cash flow hedge:					
Fair value gains/(losses)	-	0.2	(4.4)	-	(4.2)
Transfer to profit and loss reserve	(64.9)	-	0.4	-	(64.5)
Current tax on fair value gains	-	11.0	-	-	11.0
Deferred Tax on fair value gains/(losses)	-	(11.0)	1.3	-	(9.7)
Balance at 31 December 2008	-	**(0.4)**	**6.1**	**26.9**	**32.6**

23. COMMITMENTS

Commitments under operating leases

At 31 December 2008, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land & buildings 31 December 2008 £m	Land & buildings 31 December 2007 £m	**Other leases 31 December 2008 £m**	Other leases 31 December 2007 £m
Leases which expire:				
- within one year	**0.3**	-	**0.2**	0.1
- within two to five years	**0.6**	5.3	**0.4**	0.6
	0.9	5.3	**0.6**	0.7

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

24. CONTINGENT LIABILITIES

The Company has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £112.0 million at 31 December 2008 (31 December 2007: £123.0 million).

Included in the above, in July 1998, the Company and Heathrow Airport Limited entered into a cross-border lease and leaseback in relation to the Heathrow Express rolling stock owned by Heathrow Airport Limited. The companies guarantee payments that are defeased by a deposit of US$59.4 million with Rabobank and US$15 million in US Government securities. In addition, they guarantee early termination payments. The amounts payable under this guarantee at 31 December 2008 was US$12.3 million. This trade guarantee was cancelled in January 2009.

The Company has provided a guarantee to the Deutsche Trustee Company Limited (the Bond Trustee) for itself and on behalf of the BAA Guaranteed Bondholders in respect of bonds with a final legal maturity of no later than 2018 issued by BAA Funding Limited.

25. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is BAA Airports Holdco Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited and the ultimate parent of FGP Topco Limited is Grupo Ferrovial, S.A. (Spain), which is the largest group to consolidate these financial statements.

The Company's results are also included in the consolidated financial statements of BAA Limited for the year ended 31 December 2008, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2008.

Copies of the financial statements of FGP Topco Limited and BAA Limited, may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.