HEATHROW AIRPORT LIMITED

Report and Financial Statements
for the year ended 31 December 2007

Company Registration Number 1991017

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M W Bullock — Managing Director
L Sanchez Salmeron
J Leo

SECRETARY

S Welch

REGISTERED OFFICE

130 Wilton Road
London
SW1V 1LQ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
WC2N 6RH

BANKERS

Barclays Bank Plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

SOLICITORS

Herbert Smith LLP
Exchange House
Primrose Street
London
EC2A 2HS

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for Heathrow Airport Limited ('the Company') for the year ended 31 December 2007 ('the year').

PRINCIPAL ACTIVITIES

The Company owns and is the licensed operator of Heathrow Airport.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year ended 31 December 2007, Heathrow Airport's passenger traffic of 67.9 million was 0.8% higher (increased by 514,000) than the year ended 31 December 2006. Notwithstanding the summer's adverse press coverage, the Camp for Climate action, the threat of strikes and the fog in late December 2007, air traffic movements improved 1% compared with 2006 totalling 472,756 and load factors (passengers per aircraft) grew from 73.3% to 73.5%.

The impact of the Autumn 2006 security changes were felt throughout the year with passengers' hand luggage still restricted to one bag. The operations team recruited an additional 640 security officers during the year and invested in new x-ray scanning technology to provide both better equipment and more security lanes in all terminals. The beneficial result was passengers queuing for the target of less than 10 minutes 94% of the time whilst maintaining the integrity of the search process. The "one bag rule" was lifted on 7 January 2008 with little operational impact.

The Heathrow East Terminal development continued its evolution with the current scheme and was endorsed to deliver an operational solution and an opening date in 2012 at an estimated cost of £1.3 billion.

Terminal 5 ('T5') was formally handed over to HAL operations on 17 September with the build programme 99% complete. The operational readiness phase saw two advanced proving trials, the opening of early retail spaces and the successful planning of the Restricted Zone implementation for late February 2008. Her Majesty the Queen officially opened T5 on 14 March 2008: accompanied by the Duke of Edinburgh, the Queen paved the way for the operational start of Heathrow's new terminal on the morning of 27 March 2008 when a British Airways flight from Hong Kong arrived safely and ahead of schedule. Capital expenditure on T5 during the year was £550 million with total project spend to date, on budget and amounting to over £4.5 billion.

Capital expenditure on other projects totalled £303 million, delivering the new Terminal 3 ('T3') forecourt redevelopment, south wing extension and the zone A refit. A further £118 million remains to be spent including the completion of T5 live projects and T3 transfer passenger facility modifications.

In addition to longer term infrastructure investments across the airport, Heathrow embarked on a quick delivery programme from August to address other operational parts of the business. Termed "Fix the Basics", over £20 million was spent in passenger areas covering more extensive cleaning, repairing broken lights, seats and other equipment, upgrading flooring and signage as well as children's' play areas in all International Departure Lounges, giant murals in piers and new road markings outside all terminals. This spend, covering high visibility areas had an immediate impact amongst passengers and airlines: both being well received by all as well as enhancing Heathrow's reputation with its staff as a better place to work and service its customers. This programme will continue into 2008.

REPORT OF THE DIRECTORS (continued)

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (continued)

On 11 March 2008, the Civil Aviation Authority published its decision for price controls for Heathrow Airport for the five years from 1 April 2008 to 31 March 2013. Refer Post Balance Sheet Events section.

RESULTS AND DIVIDENDS

An interim dividend of 18.924p per share, amounting to £71,950,000 was paid during the year (six months ended 31 December 2006: nil). During the period under review, a preferential dividend of 8.938p per share, amounting to £1,962,815 (six months ended 31 December 2006: £1,799,074) was paid on the irredeemable preference shares and a preferential dividend of 3.317p per share, amounting to £3,317 (six months ended 31 December 2006: £ nil) was paid on the redeemable preference shares.

The profit after taxation for the financial year amounted to £174.1 million (six months ended 31 December 2006: £75.0 million).

BOARD OF DIRECTORS

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

M W Bullock	appointed 19 January 2007 – Managing Director
J Leo	
Luis Sanchez Salmeron	appointed 21 September 2007
S K J Nelson	resigned 31 March 2008
R D Herga	resigned as alternate to S K J Nelson 31 March 2008
A J Douglas	resigned 19 July 2007

DIRECTORS' INTERESTS

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

EMPLOYEES

The Company has no direct employees. The staff are employed by BAA Limited (the Company's intermediate parent entity in the UK).

PAYMENT PRACTICE

The Company's policy is to follow the Better Payment Practice Code which is reproduced in the report and accounts of BAA Limited. The Company had 20 days purchases outstanding at 31 December 2007 (six months ended 31 December 2006: 16 days) based on the average daily amount invoiced by suppliers during the year.

REPORT OF THE DIRECTORS (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Company actively manages all identified corporate risks, of which the principal ones are:

Safety and security risks
Safety and security risks are regarded as an important risk to manage. The Company mitigates this risk by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company and BAA Limited and its subsidiaries ('the BAA Group') 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.

Regulatory – CAA regulator
The Company's operations are subject to regulatory review by the CAA and Competition Commission every five years and the risk of an adverse review is mitigated by a dedicated team which ensures full compliance with the formal regulatory requirements and establishes a sound relationship with the regulator.

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, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the BAA Group's internal legal department, has reduced the likelihood of the Company breaching these regulations.

Capacity shortfall
The Company's failure to secure the necessary planning permission would lead to the Company having insufficient capacity to meet the expected demands of the airline industry, resulting in increased congestion and declining passenger service. The Company mitigates this risk through extensive consultation with community groups and authorities. However, despite the Company's mitigating actions, it is anticipated that demand will exceed capacity over the next ten years. The planned capital expenditure for quinquennium 5 for Heathrow (2007/08) prices is £4,542 million. Existing planning approvals provide for 480,000 air traffic movements per annum, which allows for up to 90 million passengers per annum.

REPORT OF THE DIRECTORS (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Environment

The Company recognises that environment risks can impact on its reputation and licence to operate and to expand. The Company mitigates these risks at a number of levels, including environmental management systems and training programmes embedded with operations, clear environmental strategies, resource conservation initiatives, proactive and progressive influencing of third parties, stakeholder engagement and community relations programmes. The Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Capital Projects

The Company recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Company mitigates this risk through adherence to a continually enhanced project process and by systems of project reviews before approval, during construction and after project completion. In addition, specific additional controls for Heathrow T5 were introduced, including the strengthening of the project management team at the BAA Group level and the commitment of dedicated specialist internal audit and risk management resources to reinforce assurance to the Board.

Changes in demand

The Company recognises that there is a risk in that unanticipated long-term changes in passenger demand could lead to misaligned operational capacity. To mitigate this risk, the Company participates in group scenario planning exercises to evaluate the effects of such possible changes.

Simplify the organisation

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

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 is recognised. The wider BAA 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. The Company could also be exposed in the short term to the effect of industrial action at key clients (i.e. airlines).

Further details of the risk management policies of BAA Limited can be found in its financial statements.

REPORT OF THE DIRECTORS (continued)

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. Furthermore, details of the treasury policies for the wider BAA Group are also given in the financial statements of BAA Limited.

The Company's principal financial instruments comprise amounts due to/from other BAA Group undertakings, including BAA Limited. The Company does not use financial instruments for speculative purposes.

The main risks arising from the Company's financial instruments are market risk (primarily fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Cash flow and fair value interest rate risk
The Company's interest rate risk arises from amounts due to/from other BAA Group undertakings. The Company deposits funds with, and borrows funds from BAA Limited on a daily basis and either pays or receives interest on such funds at Bank of England base rate +1.5%. Amounts due to/from other BAA Group undertakings issued at variable interest rates expose the Company to cash flow interest rate risk.

Credit risk
The Company has no significant concentrations of credit risk other than amounts owed by other BAA Group undertakings. 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 noted above, the Company deposits funds with, and borrows funds from BAA Limited on a daily basis to ensure sufficient funding is available.

The Company has guaranteed certain of the financial obligations of BAA Limited and of its intermediate parent, Airport Development and Investment Limited ('ADIL'). Details of these guarantees are provided in Note 20.

REPORT OF THE DIRECTORS (continued)

POST BALANCE SHEET EVENTS

As disclosed in Note 22, on 31 January 2008, ownership of this Company was transferred from London Airports 1992 Limited to BAA Limited at open market value. BAA Limited subsequently has sold its interest in the Company to another subsidiary company, BAA (AH) Limited.

As disclosed in Note 22, on 11 March 2008, the Civil Aviation Authority published its decision for price controls for Heathrow Airport for the five years from 1 April 2008 to 31 March 2013. It sets out the maximum charges for each passenger of £12.80 per passenger in 2008/09, an increase of £2.44 on a like for basis, representing a 23.9 per cent increase in real terms from the current (2007/08) price cap, with allowed charges subsequently increasing in each of the following four years by no more than the retail price index (RPI) plus 7.5 per cent each year. The CAA left the cost of capital unchanged at 6.2% pre tax real.

On 27 March 2008, T5 opened for business.

DIRECTORS' INDEMNITY

Every director of the Company is indemnified by a BAA Group indemnity insurance policy which provides cover for any loss or liability incurred in their capacity as directors.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the directors is aware, there is no relevant audit information (meaning information needed by the Company's auditors in connection with preparing their report) that has not been disclosed to the Company's auditors. Each of the directors believes that he or she has taken all steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

By order of the Board

Susan Welch

S Welch
Company Secretary

17 April 2008

Registered Office:
130 Wilton Road
London
SW1V 1LQ

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 period.

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 above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 9.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEATHROW AIRPORT LIMITED

We have audited the financial statements of Heathrow Airport Limited for the year ended 31 December 2007 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, 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 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 the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it.

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.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEATHROW AIRPORT LIMITED (continued)

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 2007 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
Chartered Accountants and Registered Auditors
London

18 April 2008

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Revenue – continuing operations	2	**1,324.8**	636.8
Operating costs - ordinary	3	**(892.7)**	(418.2)
Operating costs - exceptional	4	**(154.2)**	(21.2)
Total operating costs		**(1,046.9)**	(439.4)
Operating profit – continuing operations		**277.9**	197.4
Net interest payable and similar charges	7	**(185.6)**	(88.3)
Profit on ordinary activities before taxation		**92.3**	109.1
Tax credit/(charge) on profit on ordinary activities	8	**81.8**	(34.1)
Profit on ordinary activities after taxation	18	**174.1**	75.0

There are no material differences between the profit on ordinary activities before taxation and the profit on ordinary activities after taxation for the period and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Profit for the financial period	18	**174.1**	75.0
Unrealised revaluation (deficit)/surplus	18	**(45.8)**	71.7
Revaluation adjustment	10/18	**(6.0)**	-
Total recognised gains and losses relating to the period		**122.3**	146.7

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Profit for the financial period	18	**174.1**	75.0
Dividends paid	9/18	**(71.9)**	-
Retained profit for the financial period		**102.2**	75.0
Revaluation (deficit)/surplus	18	**(45.8)**	71.7
Revaluation adjustment	10/18	**(6.0)**	-
Net addition to shareholders' funds		**50.4**	146.7
Opening shareholders' funds		**1,918.2**	1,771.5
Closing shareholders' funds		**1,968.6**	1,918.2

BALANCE SHEET
As at 31 December 2007

	Note	31 December 2007 £m	31 December 2006 £m
FIXED ASSETS			
Tangible assets	10	**9,427.9**	8,624.7
CURRENT ASSETS			
Stocks	11	**2.0**	2.0
Debtors: due within one year	12	**586.8**	588.7
: due after more than one year	12	**379.9**	354.3
TOTAL CURRENT ASSETS		**968.7**	945.0
CREDITORS: amounts falling due within one year	13	**(7,794.1)**	(6,948.1)
NET CURRENT LIABILITIES		**(6,825.4)**	(6,003.1)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,602.5**	2,621.6
CREDITORS: amounts falling due after more than one year	14	**(18.8)**	(27.3)
Provisions for liabilities and charges	15	**(615.1)**	(676.1)
NET ASSETS		**1,968.6**	1,918.2
CAPITAL AND RESERVES			
Called up share capital	16	**380.2**	380.2
Share premium account	17	**23.2**	23.2
Revaluation reserve	18	**1,128.6**	1,181.4
Profit and loss reserve	18	**436.6**	333.4
TOTAL SHAREHOLDERS' FUNDS		**1,968.6**	1,918.2

These financial statements were approved by the Board of Directors on 17 April 2008 and were signed on its behalf by:

J Leo
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with the Companies Act 1985 and applicable accounting standards.

The validity of the going concern assumption depends on the continued support of the Company's parent company, BAA Limited. The Company has received confirmation from BAA Limited that support will continue for the foreseeable future. In light of this support, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis.

The principal accounting policies are set out below.

Revenue

Revenue is recognised in accordance with Financial Reporting Standard (FRS) 5 'Reporting the substance of transactions', net of VAT, and comprises primarily:

- Airport and other traffic charges
  - Passenger charges levied on departing passengers on departure
  - Aircraft landing charges levied according to weight on landing
  - Aircraft parking charges based on a combination of weight and time parked
  - Other charges levied for passenger and baggage handling when these services are rendered

- Property and operational facilities
  - Property letting sales, recognised on a straight-line basis over the term of the rental period
  - Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided
  - Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale
  - Other invoiced sales, recognised on the performance of the service

- Retail
  - Concession fees based upon turnover certificates supplied by concessionaires.

- Rail
  - Revenues from ticket sales, recognised at the time of travel.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Fixed assets

(i) Operational assets

Terminal complexes, airfield assets, plant and equipment, rail assets and Company occupied properties 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.

(ii) Investment properties

Investment property, which is property held to earn rentals and/or capital appreciation, is valued at the balance sheet date at open market value. All investment properties are revalued annually by the directors and at least once every five years by external valuers. Any surplus or deficit on revaluation is transferred to the revaluation reserve with the exception of deficits below original cost which are expected to be permanent, which are charged to the profit and loss account.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits are recognised on completion.

In accordance with Statement of Standard Accounting Practice (SSAP) 19, 'Accounting for Investment Properties', no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 1985 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Fixed assets (continued)

(iii) Depreciation

Depreciation is provided on operational assets, other than land and 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:

• Terminal building, pier and satellite structures	20 - 60 years
• Terminal fixtures and fittings	5 - 20 years
• Airport plant and equipment:	
• baggage systems	15 years
• screening equipment	7 years
• lifts, escalators, travelators	20 years
• other plant and equipment including runway lighting and building plant	5 - 20 years
• Airport tunnels, bridges and subways	50 - 100 years
• Runway surfaces	10 - 15 years
• Runway bases	100 years
• Taxiways and aprons	50 years
• Railways:	
• Rolling stock	8 - 40 years
• Tunnels	100 years
• Track metalwork	5 - 10 years
• Track bases	50 years
• Signals and electrification work	40 years
• Motor vehicles	4 - 8 years
• Office equipment	5 - 10 years
• Computer equipment	4 - 5 years
• Computer software	3 - 7 years
• Short leasehold properties	over period of lease

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Capitalisation of 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 a firm decision to proceed has been taken until the asset is complete and ready for use. It is then charged to the profit and loss account as depreciation over the life of the relevant asset.

Stocks

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value.

Deferred taxation

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

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.

Pensions

All employees are employed directly by BAA Limited and are entitled to join its defined benefits pension scheme, the BAA Pension Scheme ('the scheme'). The Company is unable to identify its share of the scheme's underlying assets and liabilities on a consistent and reasonable basis and, as such, has not recognised an asset or liability in the balance sheet of the respective scheme. In accordance with the exemption allowed by paragraph 9(b) of FRS 17, the Company is recharged its appropriate allocation of the pension service costs by BAA Limited. This cost is charged to the profit and loss account in the period it is incurred.

Share based payments

A number of senior employees of BAA Limited are entitled to participate in an executive share option plan ('ESOP') based on the shares of the ultimate parent, Grupo Ferrovial, S.A.. 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 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 as an intercompany liability with BAA Limited, as amounts relating to the employees of BAA Limited engaged in the operation of Heathrow Airport Limited are recharged in full by BAA Limited. 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 profit and loss account and with a corresponding entry in equity.

Further details of the scheme are provided in Note 6.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

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.

Cash flow statement and related party disclosures

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 2007. The results are also included in the audited consolidated financial statements of BAA Limited (intermediate parent entity) for the year ended 31 December 2007. 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)'. A summary cash flow statement has been included at Note 24.

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

2. SEGMENTAL ANALYSIS

The directors consider the business has only one segment. All of the Company's revenue arises in the United Kingdom and additional details of the revenue generated by each of the Company's key activities are given below.

Revenue	**Year ended 31 December 2007 £m**	6 months ended 31 December 2006 £m
Airport and other traffic charges	**634.6**	304.0
Retail	**324.9**	160.7
Property and operational facilities	**197.7**	96.1
Rail	**79.5**	38.2
Other	**88.1**	37.8
	1,324.8	636.8

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

3. OPERATING COSTS – ORDINARY

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Wages and salaries	156.3	70.9
Social security costs	12.6	5.9
Pension costs	31.5	18.4
Other staff related costs	10.9	4.5
Share-based payments	1.5	-
Staff costs	212.8	99.7
Retail expenditure	11.8	5.7
Depreciation – owned assets	203.6	92.9
Maintenance expenditure	86.3	32.8
Rent and rates	65.7	30.7
Utility costs	46.0	22.8
Police costs	26.7	17.2
General expenses	34.2	18.3
Distribution fee	21.3	10.4
Other intra-group charges	184.0	81.6
	892.4	412.1
Loss on disposals of tangible fixed assets	0.3	6.1
	892.7	418.2

Operating costs include:	Year ended 31 December 2007 £m	6 Months ended 31 December 2006 £m
Training expenditure	4.1	2.6
Rentals under operating leases		
- Plant and machinery	21.5	10.4
- Other operating leases	9.7	4.1
Services provided by the Company's auditor		
- Fees payable for the audit	0.1	0.1
- Tax advisory work	0.1	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

3. OPERATING COSTS – ORDINARY (continued)

Employee information

The Company has no employees. All staff costs are borne by BAA Limited which levies a management charge inclusive of staff costs.

The average number of employees of BAA Limited engaged in the operation of Heathrow Airport during the year was 4,545 (six months ended 31 December 2006: 4,301).

4. OPERATING COSTS – EXCEPTIONAL

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Reorganisation costs **(a)**	**43.1**	4.4
Exceptional depreciation **(b)**	**66.3**	11.6
Terminal 5 operational readiness costs **(c)**	**44.8**	5.2
	154.2	21.2

(a) Costs associated with the wider BAA Group's change programmes amounting to £43.1 million were charged in the year (six months ended 31 December 2006: £4.4 million). The charge for the year ended 31 December 2007 is in relation to severance and pension payments associated with the 'Simplifying the Organisation' programme which will be carried out during 2008-09. The closing provision (Note 15) at 31 December 2007 is £27.7 million.

(b) With the anticipated development of Heathrow East, Terminals 1 and 2 at Heathrow Airport will be demolished. Depreciation on these assets has been accelerated amounting to an additional depreciation charge of £66.3 million in the year ended 31 December 2007 (six months ended 31 December 2006: £11.6 million in relation to Terminal 2 only) to reflect the shortened useful lives of the assets.

(c) T5 operational readiness costs of £44.8 million (six months ended 31 December 2006: £5.2 million) were incurred during the year. These costs are associated with managing the opening of Terminal 5 to ensure it is smoothly integrated into the Heathrow operations, including fit-out, facilitating the mobilisation of key contractors, the recruitment and enabling of staff, testing to ensure the building is 'fit for purpose', co-ordinating the major overnight move activities, IT costs and running and testing baggage systems. The costs for the year ended 31 December 2007 include an inter-group charge of £4.7 million for expenses which were not recharged in the prior period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

5. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2007 £'000	6 months ended 31 December 2006 £'000
Directors' emoluments		
Aggregate emoluments	**1,414**	495
Compensation for loss of office	**1,110**	-
	2,524	495

Number of directors who:	Year ended 31 December 2007 No.	6 months ended 31 December 2006 No.
- are members of a defined benefit pension scheme	**4**	6
- exercised share options	**-**	5

S K J Nelson and J Leo were directors of BAA Limited during the year and their remuneration was paid by BAA Limited and is disclosed in its financial statements. Luis Sanchez Salmeron was also a director of BAA Limited at the date of his appointment as a director of the Company and his remuneration is disclosed in its financial statements. The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided.

One director (six months ended 31 December 2006: one director) did not receive any emoluments in their capacity as a director of the Company.

	Year ended 31 December 2007 £'000	6 months ended 31 December 2006 £'000
Highest paid director's remuneration		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**2,203**	318
Highest paid director's pension		
Accrued pension at end of the period	**137**	101

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

6. SHARE BASED PAYMENTS

The Executive Share Option Plan ('ESOP') was introduced in 2007 with awards of options over Grupo Ferrovial, S. A. shares made in each of February 2007, July 2007 and November 2007. Each grant was made by the ultimate parent, Grupo Ferrovial, S.A direct to employees of the BAA Group. These option plans are recorded as equity settled in accordance with the grant being made by the ultimate parent company and are recharged in full by BAA Limited.

Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. Awards under the ESOP are generally reserved for full time directors and senior management employees. There are currently 460 employees within the BAA Group who are eligible to participate in the ESOP.

During the year, the following options were issued to directors and senior management of the BAA Group.

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

No options were issued during the six month period to 31 December 2006.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

6. SHARE BASED PAYMENTS (continued)

The reference number of shares used to calculate total remuneration for the BAA Group is as follows:

	Number of shares	
	Year ended 31 December 2007	6 months ended 31 December 2006
Opening number of shares	-	-
Options granted	2,488,265	-
Waivers	(415,271)	-
Closing number of shares	**2,072,994**	-

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

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Interest payable		
EIB onlending agreement with BAA Limited	**1.1**	2.4
Current intra-group loans	**454.8**	182.7
Dividend paid on £1.00 redeemable preference shares at 3.317p per share (six months ended 31 December 2006: 3.65p per share)	-	-
Dividend payable on £0.01 irredeemable preference shares each 8.938p per share (six months ended 31 December 2006: 8.44p per share[1])	**2.0**	0.9
Unwinding of discount on provisions	**5.3**	2.1
	463.2	188.1
Interest capitalised	**(251.9)**	(88.9)
Interest receivable		
Receivable on intra-group loans	**(25.7)**	(10.9)
Net interest payable	**185.6**	88.3

[1] Being the annual irredeemable preference shares dividend payable. The charge for the six months ended 31 December 2006 represents the accrual for that period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Note	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Current tax			
Group relief payable		**6.1**	37.8
Adjustments in respect of prior periods		**(12.6)**	-
Total current tax		**(6.5)**	37.8
Deferred tax			
Origination and reversal of timing differences		**34.1**	(3.7)
Abolition of industrial building balancing adjustments			-
– impact on deferred tax liabilities		**(71.0)**	
Change in tax rate – impact on deferred tax liabilities		**(38.4)**	
Total deferred tax	15	**(75.3)**	(3.7)
Tax (credit)/charge on profit on ordinary activities		**(81.8)**	34.1

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (31 December 2006: 30%). The actual tax charge for the current year and prior period differs from 30% for the reasons set out in the following reconciliation:

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Profit on ordinary activities before tax	**92.3**	109.1
Tax on profit on ordinary activities at 30%	**27.7**	32.7
Effect of:		
Permanent differences	**1.4**	1.5
Depreciation for the year in excess of capital allowances	**49.2**	29.8
Capitalised interest	**(70.6)**	(26.1)
Impact of change in tax rate	**(1.5)**	-
Other short term timing differences	**(0.1)**	(0.1)
Adjustments to tax charge in respect of prior periods	**(12.6)**	-
Current tax (credit)/charge for the period	**(6.5)**	37.8

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The standard rate of corporation tax in the UK changed to 28% with effect from 1 April 2008. Other than this change, and the unprovided deferred tax discussed in the paragraph below and Note 15, there are no items which would materially affect the future tax charge.

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Taxable gains will crystallise only if the property were sold without it being possible to claim rollover relief. The total amount of tax unprovided for is £245.0 million (31 December 2006: £276.4 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

9. DIVIDENDS

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Equity - Ordinary		
Interim for the year ended 31 December 2007 – 18.9p per share declared and paid on 31 March 2007 (6 months ended 31 December 2006: £ nil).	**71.9**	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

10. TANGIBLE ASSETS

	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Rail assets £m	Group occupied properties £m	Plant equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation									
1 January 2007	1,388.8	65.1	2,623.8	439.0	666.9	40.6	250.0	4,646.8	**10,121.0**
Additions at cost	-	-	0.9	-	-	-	0.8	873.2	**874.9**
Transfers to completed assets	14.3	-	181.5	158.1	12.6	11.7	67.5	(445.7)	**-**
Interest capitalised	-	-	-	-	-	-	-	251.9	**251.9**
Disposals	(1.9)	-	(0.8)	-	-	-	-	-	**(2.7)**
Reclassifications	(8.3)	-	-	-	(0.3)	6.8	(0.8)	2.6	**-**
Revaluation	(43.4)	(2.4)	-	-	-	-	-	-	**(45.8)**
Revaluation adjustment (Note 18)	-	-	-	-	-	(6.0)	-	-	**(6.0)**
31 December 2007	**1,349.5**	**62.7**	**2,805.4**	**597.1**	**679.2**	**53.1**	**317.5**	**5,328.8**	**11,193.3**
Depreciation									
1 January 2007	-	-	1,031.9	108.5	162.2	15.5	178.2	-	**1,496.3**
Charge for the year	-	-	187.5	23.6	19.4	2.5	36.9	-	**269.9**
Disposals	-	-	(0.8)	-	-	-	-	-	**(0.8)**
31 December 2007	**-**	**-**	**1,218.6**	**132.1**	**181.6**	**18.0**	**215.1**	**-**	**1,765.4**
Net Book Value									
31 December 2007	**1,349.5**	**62.7**	**1,586.8**	**465.0**	**497.6**	**35.1**	**102.4**	**5,328.8**	**9,427.9**
31 December 2006	1,388.8	65.1	1,591.9	330.5	504.7	25.1	71.8	4,646.8	8,624.7

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

10. TANGIBLE ASSETS (continued)

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2007 by Drivers Jonas, Chartered Surveyors at £879.1 million. The remaining investment properties and land held for development were valued at open market value by Mr John Arbuckle BLE (Hons), Head of BAA Professional Services, at £533.1 million, resulting in a total valuation of £1,412.2 million. These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, *inter alia*, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a deficit of £45.8 million has been recognised in the revaluation reserve.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, have been shown at historical cost.

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £862.7 million (31 December 2006: £631.4 million). £251.9 million (31 December 2006: £88.9 million) has been capitalised in the period at a capitalisation rate of 5.95% (31 December 2006: 5.16%) based on a weighted average cost of BAA Group borrowings.

A tax deduction of £251.9 million for capitalised interest was taken in the period. Subsequent depreciation of the capitalised interest is disallowed for tax purposes, consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2007 was £283.6 million (31 December 2006: £272.3 million).

BAA Group occupied properties

BAA Group occupied properties are freehold except for certain short leasehold properties with a net book value at 31 December 2007 of £17.3 million (31 December 2006: £18.7 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

10. TANGIBLE ASSETS (continued)

Leased assets

The Company had assets rented to third parties under operating leases as follows:

	31 December 2007 £m	31 December 2006 £m
Cost or valuation	**1,675.6**	1,695.4
Accumulated depreciation	**(106.9)**	(90.9)
Net book amount	**1,568.7**	1,604.5

A significant proportion of freehold property is occupied by third parties under concession and management agreements.

Assets in the course of construction

Assets in the course of construction include £4,527.0 million (31 December 2006: £3,977.0 million) in respect of Terminal 5. This includes £179.0 million (31 December 2006: £179.0 million) for the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated and the acquisition cost represents the present value of the estimated deferred payments to be made over 35 years (from the date of acquisition) to the vendor in compensation for relocation. The present value of the outstanding deferred consideration is included within provisions in the balance sheet (Note 15).

Security

BAA Limited has granted security over the Company's assets as disclosed in the BAA Group's report and accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

11. STOCKS

	31 December 2007 £m	31 December 2006 £m
Raw materials and consumables	**2.0**	2.0

The replacement cost of raw materials and consumables at 31 December 2007 and 31 December 2006 was not materially different than the amount at which they are included in the accounts.

12. DEBTORS

	31 December 2007 £m	31 December 2006 £m
Due within one year:		
Trade debtors	**105.5**	99.2
Amounts owed by group undertakings	**435.7**	435.9
Other debtors	**45.6**	42.1
Group relief	**-**	11.5
	586.8	588.7
Due after more than one year:		
Loan to group undertaking	**379.9**	354.2
Other debtors	**-**	0.1
	379.9	354.3
	966.7	943.0

Amounts due from group undertakings are repayable on demand. Both the trading debt and loan accrue interest at Bank of England base rate + 1.5%.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2007 £m	31 December 2006 £m
Trade creditors	**89.4**	57.7
Capital creditors	**214.0**	218.1
Amounts owed to group undertakings	**6,241.0**	5,394.9
Loans (refer below)	**1,198.8**	1,198.8
Corporation tax payable	**7.8**	5.4
Group relief payable	**6.1**	37.8
Other creditors	**8.6**	6.7
Deferred income	**27.9**	28.1
Interest accrual	**0.5**	0.6
	7,794.1	6,948.1

Amounts due to group undertakings are repayable on demand and accrue interest at Bank of England base rate + 1.5%.

The loans from BAA Limited and London Airports 1992 Limited have been advanced as follows. Interest rates are fixed.

	Interest Rate	**31 December 2007 £m**	31 December 2006 £m
Loans from BAA Limited	5.75%	**451.8**	451.8
Loans from BAA Limited	6.58%	**7.0**	7.0
Loans from London Airports 1992 Limited	5.75%	**740.0**	740.0
		1,198.8	1,198.8

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

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

	Interest Rate	Repayment Period	31 December 2007 £m	31 December 2006 £m
Loans				
Loans from BAA Limited	6.58%	2001-2010	**13.2**	20.5
Preference shares	**Nominal value**	**Number**		
Preference shares	£1	100,000	**0.1**	0.1
Irredeemable preference shares	£0.01	21,960,014	**0.2**	0.2
Deferred income			**5.3**	6.5
			18.8	27.3

BAA Limited has advanced the above loans to the Company under an 'on lending' agreement. Interest rates are fixed.

All loans are unsecured. The borrowings are repayable as follows:

	31 December 2007 £m	31 December 2006 £m
In more than one year, but not more than two years	**7.0**	7.0
In more than two years, but not more than five years	**6.2**	13.5
	13.2	20.5

The £1 preference shares carry an entitlement to an annual dividend fixed by reference to the prospective real redemption rate, based on projected inflation rate of 3%, of 2.5% index linked 2016 UK gilts, uplifted for movements in the RPI.

The preference shares of £1 are redeemable by the Company on 16 January 2016 at £1.37 per share, uplifted for movements in the RPI. On a return of capital on winding up or capital reduction, the holders of the preference shares shall be entitled to a sum calculated in accordance with the Articles of Association, in priority to any payment to the holders of any other class of shares other than the holders of irredeemable preference shares.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The irredeemable £0.01 preference shares carry an entitlement to an annual dividend, uplifted by reference to the RPI.

The holder of the preference shares shall only be entitled to attend and vote at General Meetings at which a resolution is proposed to abrogate, vary or modify their rights, in which case preference and ordinary shares shall carry equal voting rights.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	Deferred tax (a) £m	Obligations under land purchase (b) £m	Reorganisation Costs (c) £m	Total £m
1 January 2007		**563.6**	**95.3**	**17.2**	**676.1**
(Credited)/charged to profit and loss account	8/4	(75.3)	-	43.1	**(32.2)**
Utilised in the year		-	(1.5)	(32.6)	**(34.1)**
Unwinding of discount charged and capitalised	7	-	5.3	-	**5.3**
31 December 2007		**488.3**	**99.1**	**27.7**	**615.1**

(a) Analysis of the deferred tax balances are as follows:

	31 December 2007 £m	31 December 2006 £m
Excess of capital allowances over depreciation	**489.7**	565.4
Other timing differences	**(1.4)**	(1.8)
	488.3	563.6

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	Unprovided	
	31 December 2007 £m	31 December 2006 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**239.3**	270.4
Tax on rolled-over gains if replacement assets were sold at their current valuations	**5.7**	6.0
	245.0	276.4

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

The effect of the changes enacted in the 2007 Finance Act has been to reduce the deferred tax provided at 31 December 2007 by £109.4 million with a corresponding increase in the profit for the year of £109.4 million. This decrease in the deferred tax liability is due to the reduction in the UK Corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008 (£38.4 million) and the abolition of balancing adjustments for Industrial Buildings Allowances (£71.0 million).

The other changes to be enacted, which are expected in the Finance Act 2008, would have no further effects on the deferred tax provided at 31 December 2007.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(b) Provision relates to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated and provision has been made for the present value of the estimated payments to be made over 35 years (from the date of acquisition) to the vendor in compensation for this. The provision of £99.1 million (31 December 2006: £95.3 million) is expected to be payable in the following profile:

	31 December 2007 £m	31 December 2006 £m
Within one year	**6.2**	6.3
One to two years	**6.1**	3.4
Three to five years	**18.6**	13.6
Five to ten years	**25.7**	28.2
Over ten years	**42.5**	43.8
	99.1	95.3

(c) The Company commenced its change programme, 'Simplifying the Organisation', in late 2007. Costs associated with this programme are for severance and pension payments only. Certain costs associated with the 'Delivering Excellence' programme were also incurred in the year.

16. CALLED UP SHARE CAPITAL

	31 December 2007 £m	31 December 2006 £m
Authorised		
380,200,100 ordinary shares of £1 each	**380.2**	380.2
Called up, allotted and fully paid		
380,200,002 ordinary shares of £1 each	**380.2**	380.2

17. SHARE PREMIUM ACCOUNT

	2007 £m
1 January 2007 and 31 December 2007	**23.2**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

18. RESERVES

	Profit and loss reserve £m	Revaluation Reserve £m	Total £m
1 January 2007	333.4	1,181.4	**1,514.8**
Profit for the financial year	174.1	-	**174.1**
Dividends paid	(71.9)	-	**(71.9)**
Revaluation deficit	-	(45.8)	**(45.8)**
Revaluation surplus on disposal	1.0	(1.0)	-
Revaluation adjustment	-	(6.0)	**(6.0)**
31 December 2007	**436.6**	**1,128.6**	**1,565.2**

During the year, previously recognised valuation gains amounting to £6.0 million were released as a result of the reclassification of a number of investment properties to BAA Group occupied properties.

19. COMMITMENTS

Capital

Capital expenditure contracted commitments amount to £109.9 million (31 December 2006: £162.4 million).

Commitments under operating leases

At 31 December 2007, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land & buildings 31 December 2007 £m	**Other leases 31 December 2007 £m**	Land & buildings 31 December 2006 £m	Other leases 31 December 2006 £m
Leases which expire:				
- within one year	**0.5**	**0.1**	4.0	0.2
- within two to five years	**3.7**	**1.0**	1.7	1.0
- after five years	**4.9**	**26.6**	4.9	26.6
	9.1	**27.7**	10.6	27.8

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

19. COMMITMENTS (continued)

Other commitments

In June 2006, the Government announced its conclusions for 2006-2012 night flights regime at BAA London airports. The regime commits BAA to introducing a new domestic noise insulation scheme at Heathrow, Gatwick and Stansted to address the impact of night flights on local communities. Based on the BAA Group's evaluation, payments under this scheme are estimated to total £62 million, spread over the five year period commencing 2008.

In addition there is a blight scheme to support the market for housing in areas identified for potential future runways. Obligations under this scheme will only crystallise once the BAA Group announces its intention to pursue a planning application for a new runway. The BAA Group is waiting on a Government decision following DfT consultation on plans for expansion of the airport. Subject to the outcome of this decision, the BAA Group will assess the options available and, should the Government's decision re-affirm its policy for adding capacity at Heathrow, it is possible that an announcement on its intention to apply for planning permission may be made in the five years following; although the nature and timing remains unknown. As a consequence of the significant uncertainty associated with decisions on potential future runways, it is not possible to quantify the Company's obligations under these schemes.

20. CONTINGENT LIABILITIES

In July 1998, the Company and BAA Limited, 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 various leasing arrangements. The Company has entered into an agreement to lease to and to lease back from PRC the assets comprising the Heathrow Express rolling stock. As part of the arrangement, the Company and Heathrow Airport Limited guarantee payments that are decreased by a deposit of US$59.4 million with Rabobank and US$15 million in US Government securities. In addition, they guarantee early termination payments. The amounts payable under this guarantee at 31 December 2007 was US$13.4 million.

The Company is a joint guarantor of the £400 million 5.75% bond due 2013, the two £150 million 11.75% bonds due 2016, the £250 million 8.5% bond due 2021, the £750 million 5.125% bond due 2023, the £200 million 6.375% bond due 2028, the £900 million 5.75% bond due 2031, the €1,000 million 3.875% bond due 2012, the €750 million 4.5% bond due 2014 and the €750 million 4.5% bond due 2018, all issued by BAA Limited.

The Company is also a joint guarantor of four loan facilities, all fully drawn, provided by the European Investment Bank to its parent company BAA Limited, to the extent of £410.3 million.

In addition, the Company is a joint guarantor in respect of the terms of the ADIL Senior Finance Documents and the ADIL Junior Finance Documents. The Company, as an obligor, jointly and severally guarantees the ADIL Senior and Subordinated facilities with all other obligors up to a maximum value that shall be no greater than the aggregate amount such as would not cause the financial and other covenants contained in the existing BAA Limited bonds to be breached.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

20. CONTINGENT LIABILITIES (continued)

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

21. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The immediate parent undertaking during the financial year is London Airports 1992 Limited, a company registered in England and Wales. Subsequent to the year end the immediate parent of the Company is BAA (AH) Limited (Note 22).

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 2007, 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 Airport Development and Investment Limited (intermediate parent entity) and FGP Topco Limited for the year ended 31 December 2007.

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.

22. POST BALANCE SHEET EVENTS

On 31 January 2008, ownership of this Company was transferred from London Airports 1992 Limited to BAA Limited at open market value. BAA Limited subsequently has sold its interest in the Company to another subsidiary company, BAA (AH) Limited.

On 11 March 2008, the Civil Aviation Authority published its decision for price controls for Heathrow Airport for the five years from 1 April 2008 to 31 March 2013. It sets out the maximum charges for each passenger of £12.80 per passenger in 2008/09, an increase of £2.44 on a like for basis, representing a 23.9 per cent increase in real terms from the current (2007/08) price cap, with allowed charges subsequently increasing in each of the following four years by no more than the retail price index (RPI) plus 7.5 per cent each year. The CAA left the cost of capital unchanged at 6.2% pre tax real.

On 27 March 2008, T5 opened for business.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

23. QUASI SUBSIDIARIES

The Company and its intermediate parent, BAA 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 various leasing arrangements. The Company has entered into an agreement to lease to and to lease back from PRC the assets comprising the Heathrow Express rolling stock. The net book value of these assets at 31 December 2007 is £43.0 million (31 December 2006: £45.9 million). Since the activities of PRC are effectively under the direct control of the Company under the terms of the lease agreement, PRC is deemed a quasi-subsidiary of the Company.

PRC's results are included in the consolidated financial statements of BAA Limited for the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

24. SUMMARY CASH FLOW STATEMENT

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Net cash inflow from operating activities	**1,401.6**	821.1
Net interest paid	**(432.3)**	(181.0)
Corporation tax (paid) / received	**(11.3)**	22.3
Dividends paid	**(71.9)**	-
Net capital expenditure	**(878.8)**	(534.0)
Cash outflow before use of liquid resources and financing	**7.3**	128.4
Net decrease in debt	**(7.3)**	(128.4)
Increase/(decrease) in cash in the year	**-**	-

Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 December 2007 £m	6 months ended 31 December 2006 £m
Operating profit	**277.9**	197.4
Depreciation – ordinary	**203.6**	92.9
Depreciation – exceptional	**66.3**	11.6
(Increase)/decrease in stock and debtors	**(9.5)**	53.8
Increase in amounts owed to group undertakings	**820.4**	466.5
Increase in creditors	**32.2**	8.7
Loss on tangible fixed asset disposals	**0.3**	6.1
Increase/(decrease) in provisions	**10.4**	(15.9)
Net cash inflow from operating activities	**1,401.6**	821.1

Note

Items settled through BAA Limited current account relating to taxation, interest and fixed asset transfers, are treated as paid for the purposes of this cash flow statement.