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# Board of directors

**For more detailed biographies visit:**  
[www.baa.com/biographies](http://www.baa.com/biographies)

**Key**

* Independent non-executive director
<b>a</b> Audit and Assurance Committee member
<b>b</b> Nomination Committee member
<b>c</b> Remuneration Committee member
<b>d</b> Health, Safety, Security and Environment Committee member
<b>e</b> Ethics Committee member

Details of the work of these board committees, together with meeting attendance records, are given in the corporate governance statement on pages 52 to 55. Details of directors' remuneration packages and service contracts are given in the report on directors' remuneration on pages 56 to 64.

**Marcus Agius (1)** (b,d,e)  
**Chairman**  
**Chairman, Nomination Committee**

Marcus, 59, was appointed Chairman in April 2002. He has been a director since August 1995 and was Deputy Chairman between July 1998 and March 2002. He is Chairman of Lazard, London, and Deputy Chairman of Lazard Group LLC. He holds MA and MBA degrees from Cambridge University and Harvard Business School.

**Tony Ball (2)**\* (b,c)  
**Non-Executive Director**

Tony, 50, was appointed a director in June 2004. He is Chairman of the Advisory Board of Kabel Deutschland GmbH, Chairman of Ingenious Media Active Capital, a director of Sky Italia and a trustee of the Media Trust. He is also a member of the Board of the Olympic Delivery Authority. Previously, he was Chief Executive Officer and Managing Director of British Sky Broadcasting plc, and was President and Chief Executive Officer of Fox Liberty Networks LLC. He also held senior positions at International Management Group and the BSB Sports Channel, having begun his career at Thames Television plc. He has an MBA from Kingston Business School and an Honorary Doctorate from Middlesex University and is a Fellow of the Royal Television Society.

**Mark Clare (3)**\* (a,b)  
**Non-Executive Director**  
**Chairman, Audit and Assurance Committee**

Mark, 48, was appointed a director in November 2001. He is Managing Director, British Gas Residential Energy for Centrica plc. Mark joined British Gas in 1994 as Group Financial Controller and was appointed Finance Director of Centrica plc in 1997. In November 2000, he became responsible for the development of strategy, financial services and e-commerce. He was appointed Managing Director of British Gas in January 2002. Mark is a Fellow of the Chartered Institute of Management Accountants and a director of the Energy Saving Trust Limited and the Energy Retail Association Limited.

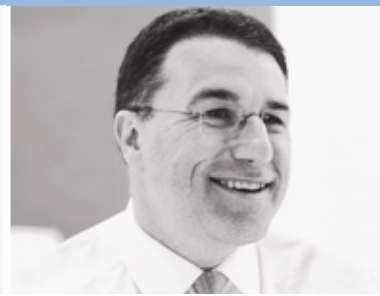
**Mike Clasper CBE (4)** (b,d)  
**Chief Executive Officer**

Mike, 53, was appointed a director in August 2001 and became Chief Executive Officer in June 2003. He is also Chairman of BAA International. In January 2006, Mike was appointed a non-executive director of ITV plc. A Cambridge engineering graduate, Mike worked for British Rail before joining Procter & Gamble in 1978, where he held many senior positions and was President of Global Home Care and new business development prior to joining BAA. He received a CBE

in 1995 for services to the environment and he holds an Honorary Doctorate from Sunderland University. He is a member of the Management Committee of HRH The Prince of Wales's Business and Environment Programme and Chairman of Business in the Community Marketplace Taskforce.

**Margaret Ewing (5)** (e)  
**Chief Financial Officer**

Margaret, 51, joined BAA as Group Finance Director in July 2002, from Trinity Mirror where she was Group Finance Director. Prior to this, Margaret was a partner for 14 years with Deloitte & Touche. She was appointed a non-executive director of Whitbread plc in July 2005 and is Chairman of Whitbread's Audit Committee. She is also a Fellow of both the Institute of Chartered Accountants and the Securities Institute.



### **Dr Chris Fay CBE (6)\*** (a,b,c,d)

**Senior Independent  
Non-Executive Director**

**Chairman, Remuneration Committee  
and Health, Safety, Security and  
Environment Committee**

Chris, 61, was appointed a director in August 1998. He is Chairman of Expro International Group plc and was formerly Chairman and Chief Executive Officer of Shell UK Limited. He is a Fellow of the Royal Academy of Engineering, the Institute of Civil Engineers, the Royal Society of Edinburgh and the Institute of Energy. He is Deputy Chairman of STENA International BV, and a director of STENA Drilling Limited and Anglo American plc. Chris was awarded a CBE in 1999 for services to the oil and gas industry.

### **Stephen Nelson (7)**

**Retail Director**

Stephen, 43, joined BAA as Retail Director in September 2005 and was appointed to the Board on 1 April 2006. Prior to this, he was Marketing Director at J Sainsbury plc and a member of its Operating Board. Stephen has also held a number of roles at Diageo plc, including Managing Director of Guinness Great Britain and President of Diageo (North America) South West.

### **Alice Perkins CB (8)\*** (b,c,e)

**Non-Executive Director**

**Chairman, Ethics Committee**

Alice, 57, joined the Board on 1 March 2006. She has a professional background in human resource and change management developed during a long career in the Civil Service in the Departments of Health and Social Security and the Cabinet Office. Alice was a non-executive director of the Littlewoods Organisation and joined the Board of Taylor Nelson Sofres plc in March 2005. She is a member of Oxford Said Business School's Business Advisory Forum and has been elected as a Companion of the Chartered Management Institute.

### **David Roberts (9)\***

**Non-Executive Director**

David, 43, joined the Board on 1 March 2006. Chief Executive of Barclays International Retail and Commercial Banking, David is also on the boards of Barclays plc and Barclays Bank plc. He joined the Barclays Board in April 2004 and has been a member of the Group Executive Committee since 2001. His previous positions have included Chief Executive of Barclays Business Banking, Barclays Personal Financial Services and Barclays Private Clients and International.

### **Mick Temple (10)**

**Divisional Director**

Mick, 51, was appointed to the Board on 1 March 2006, having been with BAA since 1998 as Heathrow's Operations Development Director and subsequently Managing Director. Prior to this, Mick worked for Esso UK and spent several years overseas with Exxon's international oil and gas production division. He oversees the strategic development of Heathrow and leads BAA's capital projects division. He is also Chairman of Heathrow Express. Mick is a Chartered Engineer and a member of the Institute of Chemical Engineers.

### **Mike Toms (11)**

**Planning and Regulatory Affairs Director**

Mike, 52, was appointed Group Planning and Regulatory Affairs Director in October 2001 and joined the Board in February 2002. He is responsible for airport planning and relations with BAA's regulator. Mike joined BAA in 1979 as a planner. He is a member of the Royal Town Planning Institute and the Royal Institution of Chartered Surveyors and is a Fellow of the Royal Aeronautical Society. Mike is also a non-executive director of Viridian Group plc and was appointed a non-executive director of UK Coal plc in May 2006. He is to retire from BAA in autumn this year.

### **Tony Ward OBE (12)** (d,e)

**Services Director**

Tony, 56, joined BAA in March 1997 as Group Human Resources Director and was appointed to the Board in November 1999. He is responsible for health and safety, security, airside operations, the fire service and information technology, and is Chairman of the Trustees of BAA's Pension Fund. Before joining BAA, he was Group Director of Human Resources at Kingfisher plc and held senior personnel positions within Grand Metropolitan plc. Tony received an OBE in 1998 for services to employee relations and the Commission for Racial Equality. He is a graduate of the University of Leeds and a Fellow of both the Chartered Institute of Personnel Development and the Royal Society of Arts.

## Report of the directors

The directors present their report and the audited financial statements for the year ended 31 March 2006 ('the year').

### Principal activities

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

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks and likely future developments are reported in the Chairman's statement on page 7 and the operating and financial review on pages 8 to 47.

### Results and dividends

The results for the year are summarised on page 37. An interim dividend of 7.25 pence per ordinary share was paid on 18 January 2006. The directors recommend a final dividend of 15.25 pence, which, if approved by shareholders, will be paid on 11 August 2006, making a total for the year of 22.5 pence per share. This is a 6.1% increase on the previous year's dividend of 21.2 pence.

### Employment policies

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

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

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

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

Together, these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. There continues to be a high level of staff participation in the UK Group's Sharesave Scheme and the BAA Share Incentive Plan also encourages further employee investment in the Company.

### Directors

Details of the directors of the Company are given on pages 48 and 49. All the directors shown served throughout the year with the exception of Alice Perkins, David Roberts and Mick Temple, who were appointed with effect from 1 March 2006 and Stephen Nelson, who was appointed with effect from 1 April 2006. In addition, Janis Kong served throughout the year until her retirement on 1 March 2006. Alice Perkins, David Roberts, Mick Temple and Stephen Nelson, being newly appointed directors, will retire and offer themselves for reappointment by shareholders at the Annual General Meeting (AGM) on 14 July 2006. Chairman Marcus Agius, Mike Clasper, Margaret Ewing and Tony Ward will retire by rotation and offer themselves for reappointment at the AGM.

### Directors' interests

The interests of the directors holding office at the end of the year in the ordinary shares of the Company are shown in the report on directors' remuneration on pages 56 to 64. None of the directors had any interests in the shares of any of the Company's subsidiaries at any time during the year. None of the directors had a material interest in any contract of significance with the Company or any of its subsidiary undertakings during the year.

### Directors' indemnity

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

### Substantial shareholdings

As at 15 May 2006, the Company had been notified, under section 198 of the Companies Act 1985, of the following substantial interests in the Company's share capital:

#### Substantial shareholdings (as at May 2006)

Name of company	Number of ordinary shares of £1 each	% of issued share capital
Barclays plc	32,690,437	3.02
Lloyds TSB Group plc	34,077,079	3.15
Legal and General Investment Management Ltd	35,553,347	3.29
Prudential plc	35,842,315	3.31

### Donations

The Group's charitable donations for the year amounted to £1,313,000 (2005: £1,446,000).

BAA's position is that it does not make donations to political organisations. However, it does incur expenditure, which may now be classified as political donations under the Political Parties, Elections and Referendums Act 2000 (the relevant provisions of which are now contained in part XA of the Companies Act 1985). At the AGM in 2002, BAA obtained shareholders' approval under this Act to commit up to a maximum of £80,000 of such expenditure over the following four years. Details of such expenditure incurred by the Company during the year are given below:

Political donations (2005/06)	
Liberal Democrats fringe meeting room hire	£816
Fabian Society reception, Labour Party Conference room hire	£3,500
Members' reception – White Paper 'Two Years On'	£1,121
<b>Total</b>	<b>£5,437</b>

BAA is seeking to renew its authority to incur expenditure of this kind at this year's AGM.

### Payment policy

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

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

The Company had 22 days' purchases outstanding at 31 March 2006, based on the average daily amount invoiced by suppliers during the year ended 31 March 2006. This compared to 15 days as at 31 March 2005.

### Audit information

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's consolidated financial statements for the year to 31 March 2006 and that they have taken all steps that they ought to have taken as directors in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Financial risk management

The Company's financial risk management objectives and policies, including hedging policies, together with details of the Company's exposure to risk, can be found on page 47.

By order of the Board



**Rachel Rowson**  
Company Secretary

15 May 2006

## Directors' responsibilities

United Kingdom Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss and cash flow of the Group for that year.

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

- Select suitable accounting policies and apply them consistently
- Make judgement and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the Group will continue in business within the foreseeable future.

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

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

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 66.

## Corporate governance

BAA is committed to the highest standards of corporate governance and, subject to the exceptions below, has complied throughout the year ended 31 March 2006 ('the year') with the best practice provisions of Section 1 of the Combined Code (the 'Code'). This statement describes how the Code's principles have been applied during the year.

### Board membership

The BAA Board currently comprises a part-time chairman, five independent non-executive directors and six executive directors. Two new non-executive directors and one new executive director were appointed on 1 March 2006, followed by a further executive director appointment on 1 April 2006 (details on pages 48 and 49).

For most of the year, and at the date of signing the accounts, the Company did not comply with the provision of the Code, which requires at least half of the Board, excluding the chairman, to be independent non-executive directors.

The Board believes that it has been significantly strengthened by the skills and experience brought by the new non-executive and executive appointments. It also intends to make a further non-executive appointment in the course of 2006/07 to complement the existing team and facilitate succession planning.

The roles of chairman and chief executive officer are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board. Chris Fay was the Senior Independent Non-Executive Director throughout the year.

### Role of the Board

The role of the Board is to determine BAA's long-term direction, business objectives and strategy; and to ensure that it has adequate resources to meet its objectives and that it maintains an effective risk management system; and to monitor its performance and ensure that it acts ethically and meets its responsibilities to shareholders and other stakeholders. The Board has adopted a formal schedule of matters reserved for its decision. These include the approval of long-term strategy and objectives, capital and operating plans, major investments and disposals, funding and dividend strategy, and half-year and annual financial statements. Responsibility for delivering the Company's objectives and running the business on a day-to-day basis lies with the Executive Committee (details on pages 12 and 13).

The Board has delegated certain of its governance responsibilities to Board committees with clearly defined terms of reference. These include the Nomination, Remuneration and Audit and Assurance committees, composed principally or solely of independent non-executive directors. Details of the membership, role and work of the Nomination and Audit and Assurance committees appear later in this statement. Details of the membership, role and work of the Remuneration Committee, including a full description of BAA's policy and practice on executive directors' remuneration and service contracts, appear on pages 56 to 64.

All non-executive directors are invited to attend Nomination, Remuneration and Audit and Assurance committees' meetings if they so wish, whether or not they are members. Full terms of reference for all these committees can be found on our website.

➔ [www.baa.com](http://www.baa.com)

### Board meetings

The Board holds at least seven regular meetings a year and also a one-and-a-half-day strategy review. Non-executive directors meet formally without their executive colleagues at least twice a year. In 2005/06, the Board held several additional meetings to consider its strategy and response to the offer for the Company by the Ferrovial Consortium and approach by another potential bidder. Details of meeting attendance during the year appear below:

	Board	Audit and Assurance Committee	Remuneration Committee	Nomination Committee	Health, Safety, Security and Environment Committee
Number of meetings held	13	4	7	5	4
Attendance:					
Marcus Agius <sup>1</sup> (Chairman)	13	3	7	5	4
Tony Ball	13	–	7	4	–
Mark Clare <sup>2</sup>	11	4	6	5	–
Mike Clasper <sup>1</sup>	13	4	7	5	4
Margaret Ewing <sup>1</sup>	12	4	–	–	–
Chris Fay	12	4	7	5	4
Janis Kong <sup>3</sup>	8	2	–	–	3
Stephen Nelson <sup>4</sup>	3	–	–	–	–
Alice Perkins <sup>5</sup>	5	–	1	–	–
David Roberts <sup>5</sup>	5	–	–	–	–
Mick Temple <sup>5</sup>	5	–	–	–	1
Mike Toms	13	–	–	–	–
Tony Ward	13	–	–	–	4

– Indicates not a member of that committee.

<sup>1</sup>Marcus Agius and Mike Clasper attended most Audit and Assurance and Remuneration committees' meetings, although they are not members of those committees. Margaret Ewing attended all Audit and Assurance Committee meetings, although she is not a member of that committee.

<sup>2</sup>Mark Clare left the Remuneration Committee on 1 March 2006.

<sup>3</sup>Janis Kong retired from the Board on 1 March 2006. She attended certain Audit and Assurance Committee meetings during the year, although she was not a member of that committee.

<sup>4</sup>Stephen Nelson was appointed to the Board on 1 April 2006, but attended certain Board meetings prior to his appointment.

<sup>5</sup>Alice Perkins, David Roberts and Mick Temple were appointed to the Board on 1 March 2006. All three attended certain Board meetings prior to their appointment.

### Induction and development

Newly appointed directors receive a full induction programme comprising discussions with the Company's financial advisers, brokers and auditors, briefings by top management and visits to BAA airports. The Board keeps under review the information it needs to fulfil its responsibilities and members update their knowledge and develop their understanding of the business through airport visits, in-depth presentations on topical issues and meetings with key stakeholders. Airport visits and presentations also give non-executive directors the opportunity to meet executives below Board level. All directors have access to the advice and services of the company secretary and may, if they wish, take independent professional advice at the Company's expense.

### Board evaluation

During the year, the Board conducted a formal evaluation of its own performance with the focus on areas that had been identified for attention in the previous year. Detailed questions were also asked about the effective operation of the principal Board committees. This exercise, facilitated by an external third party, was based on a written questionnaire, the findings of which were presented to and discussed by the Board. Actions to improve Board effectiveness were agreed and implemented. In addition, informal feedback on individual directors was discussed with them privately by the Chairman. Chris Fay, as Senior Independent Non-Executive Director, discussed with individual directors the Chairman's interaction with the Board.

### Nomination Committee

BAA's Nomination Committee comprised a majority of independent non-executive directors throughout the year.

The current membership is:

Marcus Agius, Committee Chairman  
 Tony Ball, Non-Executive Director  
 Mark Clare, Non-Executive Director  
 Mike Clasper, Chief Executive Officer  
 Chris Fay, Senior Independent Non-Executive Director  
 Alice Perkins, Non-Executive Director

### Summary terms of reference

- To identify and recommend, against an agreed specification of the role and capabilities required, candidates for Board appointments
- To ensure that plans and actions necessary to enable effective succession to Board and senior management positions are in place, taking into account the challenges and opportunities facing the Company and the skills and experience required to meet them
- To take advice from independent consultants on the discharge of the Committee's responsibilities.

### Work of the Committee during 2005/06

The Committee was active throughout the year in considering possible candidates for non-executive appointments. Candidates identified by executive search consultants were reviewed against the skills and experience specification agreed by the Board. Shortlisted candidates were interviewed by the Chairman, Chief Executive Officer, Senior Independent Non-Executive Director and other Committee members as appropriate. Formal recommendations were subsequently made to the Board.

The Committee also reviewed plans for future changes in the structure of the executive membership of the Board and changes in Executive Committee responsibilities. They reviewed and recommended the proposed appointments of Mick Temple and Stephen Nelson as executive directors and endorsed the shape of future Board succession plans. The Committee also received an update on BAA's senior management talent bank and endorsed the actions in place to address identified weaknesses in current succession cover.

### Board appointments

All directors are subject to reappointment by shareholders at the Annual General Meeting (AGM) following their appointment and to reappointment thereafter at least once every three years. In addition, one third of the directors must retire by rotation and seek reappointment at the AGM each year.

Details of executive directors' service contracts and non-executive directors' terms of appointment appear on pages 56 to 64. Any reappointment of non-executive directors beyond two three-year terms is subject to rigorous review. Any non-executive director who has served for more than nine years is subject to annual reappointment by shareholders at the AGM. Non-executive directors' time commitments are agreed with them before appointment and set out in their letters of appointment.

### Accountability and audit

#### Financial reporting

Explanations of the directors' responsibility for preparing the Company's financial statements and of the auditors' responsibilities for reporting on those statements appear on pages 51 and 66.

#### Going concern

After due enquiry, the directors have judged the Group's resources to be adequate to support its continued operation for the foreseeable future and have, therefore, adopted the going-concern basis in preparing the financial statements for the year.

### Audit and Assurance Committee

BAA's Audit and Assurance Committee currently comprises two independent non-executive directors as detailed below:  
 Mark Clare, Committee Chairman  
 Chris Fay, Senior Independent Non-Executive Director

BAA recognises that the Committee's current membership, which was in place throughout the year, does not comply with the Code provision which requires the Committee to comprise at least three independent non-executive directors. To meet this requirement, David Roberts has agreed to join the Committee and will take up the appointment from 1 July 2006. The Committee Chairman, Mark Clare, has substantial relevant experience and expertise.

### Summary terms of reference

#### Financial statements and announcements

- To review, before submission to the Board, the annual and interim results announcements and financial statements and any other formal announcements of material changes in BAA's financial performance.

#### External audit

- To approve the external auditors' remuneration and terms of engagement and to review the scope and operation of the external audit
- To review annually and monitor on a continuous basis the external auditors' independence, resources and expertise and the objectivity and effectiveness of the audit process
- To review and discuss with the external auditors the findings of their review and audit of the financial statements
- To develop and implement policy on the provision of non-audit services by the external auditors.

#### Business assurance

- To review the remit and effectiveness of the business assurance function (previously internal audit), review the findings of Business Assurance reports and monitor the implementation of their recommendations.

#### Risk management

- To review the effectiveness of the Company's internal control and risk management systems.

Committee meetings are held at least four times a year and are normally attended by the Chairman, Chief Financial Officer and Chief Executive Officer. All other Board members may attend meetings and receive Committee papers on request. The external auditors and the Business Assurance Director attend every meeting and have private discussions with Committee members, without the presence of the executive management.

#### Work of the Committee during 2005/06

The Committee reviewed and endorsed, prior to submission to the Board, the Company's half-year and full-year financial statements and results announcements. It considered business assurance reports and risk management updates, agreed external audit strategy and plans and received updates on management response to audit recommendations.

The Committee reviewed in depth the business case for the introduction of BAA's airport-led operating model and supporting change programmes. It also received detailed presentations on specific improvement programmes within design and construction and supply chain, retail income accounting and IT security. The Committee reviewed and endorsed changes in the focus and operation of the business assurance function and contributed to BAA's response to the revised Turnbull guidance consultation. The Committee also reviewed the Company's tax profile and affairs and the update of its delegated authorities and financial approval levels.

### Policy on non-audit services

To help ensure that the external auditors' independence and objectivity are not compromised by the provision of non-audit services, the Committee has agreed to exclude them from providing:

- Management, strategic and IT consultancy
- All other non-audit and non-tax-related services, unless the external auditors:
  - are the only available provider of the expertise/service required
  - are the clear leader in providing the expertise/service
  - are competitively priced.

As auditors, PricewaterhouseCoopers LLP will undertake work that they must or are best placed to handle, including formalities relating to borrowings, shareholder and other circulars, regulatory reports or work on acquisitions and disposals.

### Internal control and risk management

The directors are responsible for maintaining a sound system of internal control and risk management to safeguard shareholders' investment and the Company's assets and for reviewing its effectiveness. BAA's system complies with the revised Turnbull guidance and has been in place throughout the year and up to the date of this Annual Report. Designed to manage rather than eliminate the risk of failure to achieve business objectives, the system provides reasonable but not absolute assurance against material misstatement or loss. It comprises:

- Regular Board meetings with a formal schedule of matters reserved for the Board's decision
- Clearly defined organisational structures and appropriate delegated authorities for the Group's businesses
- Approval of Group business strategies, medium-term business plans, annual budgets and regular short-term forecasts
- Regular monitoring of performance, with remedial action taken as necessary
- Established procedures for planning, approving and monitoring major projects, supported by performance reviews of major capital investments
- Group-wide policies, standards and processes on key business activities including health, safety and security, risk management and financial reporting.

Risk management covers all BAA's commercial and business risks. It has been central to BAA's safety and security processes for many years. A full description, together with a summary of the main risks identified, appears in the operating and financial review on pages 8 to 47.

### Review of system of internal control and risk management

The effectiveness of BAA's system of internal control and risk management is regularly reviewed by the Board through:

- Presentations to the Executive Committee by managing directors of individual businesses and functional heads on risk management strategies and the status of significant risks
- Reports by the Head of Group Risk Management to the Executive Committee, Audit and Assurance Committee and Board on risk management activities and any changes in the Group's overall risk profile
- Presentations and reports by Group businesses to the Health, Safety, Security and Environment Executive and Board committees on the management of health, safety, security and environmental risks
- Reports to the Executive Committee and Audit and Assurance Committee from the business assurance function on its independent audits of risk management processes and controls across the Group.

In addition, the directors have undertaken a specific annual review of the effectiveness of the Group's system of internal control and risk management, covering the period up to the date of this Annual Report.

#### **Health, Safety, Security and Environment Committees**

Safety and security have always been top priorities for BAA and are supported by structured and systematic risk management in this area. The Health, Safety, Security and Environment (HSSE) Executive Committee provides leadership and commitment, reviews and develops policy and monitors business unit performance against objectives. The HSSE Board Committee provides governance, oversees Group performance and receives independent and management assurance on the effectiveness of risk management in these areas.

The HSSE Board Committee meets four times a year. It is chaired by Chris Fay, Senior Independent Non-Executive Director, and also comprises the Company's Chairman and two executive directors. Tony Ward is the director responsible for ensuring that health, safety and security issues are properly addressed by the Board and by the organisation as a whole. Further details of BAA's health and safety activities appear on page 34.

#### **Ethics and corporate responsibility**

BAA has adopted a code of ethics, reviewed annually and communicated to all staff, laying down the values and standards of conduct staff are expected to follow in dealing with the outside world and with each other. The code is underpinned by various supporting policies, including one on whistle-blowing which enables staff to raise, in confidence, concerns about possible malpractice.

The Board has appointed an Ethics Committee, chaired by Alice Perkins, a non-executive director, to review and advise on any ethical considerations arising in the conduct of the Company's affairs. The Committee meets at least once a year to review and update BAA's ethics policy and monitor its implementation.

BAA recognises the importance of supporting the communities around its airports and keeping corporate responsibility principles at the heart of its business. Our corporate responsibility policy and details of activities can be found on our website, which is externally verified by consultants Environmental Resources Management Ltd.

The Board uses the risk management framework referred to above to identify and manage the risks and opportunities for the business arising from ethical, social and environmental issues. More details of our approach to corporate responsibility appear on pages 33 to 35.

#### **Relations with shareholders**

The directors of BAA are always willing, within the limits imposed by the Listing Rules, to talk with institutional shareholders to get a clearer understanding of their views and to explain the Company's objectives, strategy, performance and outlook. The Company has an extensive rolling programme of investor relations events and encourages open and candid two-way communication.

The Board receives quarterly investor relations reports, which include detailed feedback from third parties on all investor meetings, and an annual independent survey of investor opinions. All directors are encouraged to attend results presentations to analysts, shareholders and debt investors.

The Chairman and the Senior Independent Non-Executive Director take opportunities to meet major shareholders to help develop a balanced understanding of their issues and concerns. Major shareholders are also invited to meet new non-executive directors on appointment.

The dedicated investor relations section of BAA's website includes announcements, webcasts of results presentations, share price data, a calendar of events and the latest news.

#### **Annual General Meeting (AGM)**

The Board welcomes the opportunity offered by the AGM to communicate with investors and very much encourages their attendance. Shareholders are invited to put questions and to meet the directors informally beforehand; those unable to attend are invited to submit questions in writing. The Chairman opens the meeting with a formal report on the Company's progress and activities and the chairmen of the main Board committees are available to answer questions on their areas of responsibility. The numbers of proxy votes cast, together with those withheld, are reported to the meeting and subsequently published on our website.

#### **For more information visit:**

- [www.baa.com/corporateresponsibility](http://www.baa.com/corporateresponsibility)
- [www.baa.com/shareholder](http://www.baa.com/shareholder)
- [www.baa.com/investor](http://www.baa.com/investor)
- [www.baa.com/agm](http://www.baa.com/agm)

### Company policy

The Company's objective is to attract, retain and motivate high-quality directors and managers to perform at the highest levels over the short, medium and long term. In fulfilling this objective the Company fully embraces and complies with the principles and provisions of the Combined Code on directors' remuneration as outlined below.

To ensure continuing market competitiveness, executive directors' remuneration is regularly reviewed against market practice among a comparator group of companies and in the wider FTSE 100.

The comparator group comprises 30 companies from the retail, leisure, transport, business services, property and regulated sectors, which reflect different aspects of BAA's business and the fact that it operates in a regulated environment. Most comparator companies are members of the FTSE 100, reflecting BAA's market capitalisation. This comparator group is used as a basis to benchmark remuneration levels for executive directors and other senior executives, as well as to determine BAA's relative performance under its long-term incentive plan. Remuneration benchmarking is also undertaken

against other appropriate organisations, including the wider FTSE 100, on the recommendation of the advisers to the Remuneration Committee.

The comparator group consists of: Arriva, BG Group, Boots Group, British Airways, Bunzl, Carnival, Centrica, Compass Group, DSG International, First Group, GUS, Hays, Hilton Group, Intercontinental Hotels Group, International Power, J Sainsbury, Kingfisher, Marks & Spencer, National Grid, Next, Rentokil Initial, Rexam, Scottish & Newcastle, Scottish & Southern Energy, Scottish Power, Severn Trent, Slough Estates, United Utilities, Whitbread and Wm Morrison. In 2006, Hilton Group sold its hotel division to Hilton Hotels Corporation and was renamed Ladbrokes plc. The new business will focus on gaming rather than hotels and gaming and is therefore no longer considered to be an appropriate comparator company for BAA. From 2006/07 onwards it has therefore been replaced in the comparator group with Kelda Group.

Executive directors are rewarded on the basis of individual responsibility, competence and contribution, and salary increases also take into account pay awards

made elsewhere in the Group. Performance-related elements form a substantial part of the total remuneration package and are designed to align directors' interests with those of shareholders. Performance is measured on the basis of a 'balanced scorecard', which reflects the Company's core objectives.

It is the Committee's policy to ensure that remuneration arrangements continue to be in line with best practice and the interests of BAA shareholders and that BAA executive packages remain broadly at median levels, reflecting a market competitive position when measured against comparator companies.

Overall reward levels depend on the achievement of challenging corporate and individual performance targets, ensuring continued close alignment between executive reward and enhanced shareholder value.

Following a review of the Deferred Annual Bonus Plan (DAB) undertaken by the Committee in 2005, a corporate performance target now needs to be met for matching share awards to be transferred to participants. The performance target is detailed on pages 58 and 59.

## Report on directors' remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations').

These regulations require the auditors to report to the Company's members on the 'audited information' within the directors' remuneration report and, to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has, therefore, been divided into separate sections for audited and unaudited information. It has been prepared by the Remuneration Committee and approved by the Board for submission to shareholders.

### Unaudited information

#### Membership and responsibilities of the Remuneration Committee

As at the date of this report, the Remuneration Committee comprised the following non-executive directors: Chairman Chris Fay, Tony Ball and Alice Perkins (appointed 1 March 2006), all of whom are considered to be independent – see pages 48 and 49 for biographical details. In addition, Mark Clare was a member of the Committee from the beginning of the year until 1 March 2006.

#### Summary terms of reference

The Committee met seven times during 2005/06. Its summary terms of reference are set out below:

- To make recommendations to the Board on the Company's framework and overall policy for executive director and senior management remuneration
- To approve, within the agreed framework and policy, the total remuneration package for each executive director, the Chairman and, as appropriate, other senior executives
- To receive recommendations from the Chairman and/or Chief Executive Officer, as appropriate, on the determination of individual remuneration packages
- To approve the design of, and targets for, executive director and senior management annual bonus and long-term incentives
- To select, appoint and set terms of reference for any remuneration consultants who advise the Committee

- To determine the contractual termination terms for executive directors and approve any severance payments or arrangements
- To review, for recommendation to the Board, the annual report on directors' remuneration prepared in line with statutory and regulatory requirements.

The Committee receives specific remuneration and benchmarking advice from Deloitte & Touche LLP (Deloitte), who were appointed by the Committee and uses statistical information provided by Hay, Towers Perrin and the Monks Partnership. Deloitte also provides the Company with accounting support and advice in relation to tax services and other employee reward matters. The Committee considers that the provision of these additional services by Deloitte does not undermine the objectivity of Deloitte's advice.

Where appropriate, the Committee also took advice on specific issues from the Chief Executive Officer Mike Clasper and Human Resources Director Peter Blausten.

#### Service contracts

All the executive directors have rolling service contracts with 12-month notice periods. Under these contracts, compensation on termination may be negotiated individually, but will not exceed 12 months' remuneration (ie base salary plus a sum representing benefits and any bonus which may be applicable. In determining the amount of bonus, the average sum paid by way of bonus in the preceding three financial years will be taken into consideration).

The conditions relating to pensions on termination of employment are set out in the pension scheme rules and apply equally to all members. These permit pensions to be based on expected normal retirement date in certain circumstances. For executive directors leaving the Company of their own volition, or who are dismissed for good cause, there are no additional long-term obligations incurred, or entered into, by the Company or the Company's pension fund. In line with the Combined Code, there remains an obligation on the director to mitigate any loss.

Janis Kong retired early on 1 March 2006 and details of her pensions benefits are set out on page 61.

Right:  
Dr Chris Fay,  
Chairman  
of the Remuneration  
Committee



### Remuneration packages

The total remuneration package for executive directors is reviewed each year against our policy of maintaining a broadly median position in relation to comparator companies. For 2005/06, it comprised: annual salary; annual Senior Management Incentive Scheme (SMIS); Deferred Annual Bonus Plan (DAB); Performance Share Plan (PSP); pension and life assurance; car and fuel allowances; medical insurance; and certain security costs. Details of directors' emoluments are shown in Table 4 (page 63). The Committee considers that the remuneration paid to executive directors is within the scope of BAA's remuneration policy.

Awards made under the SMIS and PSP, which replaced the Executive Share Option Scheme in 2004, are related to base salary. Awards under the DAB are based on a combination of the level of annual bonus achieved and the amount of bonus the director chooses to defer, with vesting based on actual performance against performance targets (for DAB awards from 2005/06). These elements of reward, therefore, vary from year to year in terms of their value as a proportion of the total remuneration package. For 2006/07, they are targeted to provide approximately 50% of the total earnings for executive directors for on-target performance.

### Salaries

The Remuneration Committee determines, where appropriate, annual increases to executive directors' salaries having regard to their experience, responsibility, individual contribution, market comparatives and pay increases elsewhere in the Group. As detailed in the policy, salaries are benchmarked against a specific comparator group as well as other data sources.

Currently, base salaries for executive directors are within a market competitive range compared to FTSE 100 companies and the comparator group, and base salary will continue to be set within such a range unless there are compelling reasons to do otherwise, such as:

- Recruitment or retention of an individual with industry-specific specialist skills required by the business
- An individual's promotion to a new role
- Individuals carrying an enhanced or reduced scope or responsibility compared to the norm for a given grade.

### Pensions and life assurance

Directors' pensions and life assurance are based on salary only and exclude bonuses and other discretionary benefits. The principal method of securing pensions for directors is through the BAA Pension Scheme, which is a defined benefit scheme. All executive directors are members of the scheme. In addition, provision was made in the accounts for unfunded pension contributions (UURBS) on behalf of Mike Clasper, Margaret Ewing, Mick Temple and Tony Ward in relation to salary above the pension cap as shown in Table 12 (page 64). These arrangements are in line with practice in the FTSE 100. Details of directors' accrued entitlements under the BAA Pension Scheme (including UURBS) are set out in Table 11 (page 64).

BAA has reviewed the impact of the Government's changes to pension legislation, which took effect from April 2006, on its existing pension arrangements for executive directors and other senior executives. As part of its review procedures, the Remuneration Committee considered possible alternative reward mechanisms in lieu of pension provision but decided not to make any change at this time. Pension obligations will therefore continue to be met through the use of the BAA Pension Scheme and, where appropriate, UURBS arrangements.

### Annual Senior Management Incentive Scheme (SMIS)

The executive directors participate in the SMIS, which is designed to link reward to both corporate and individual performance and is based upon the attainment of challenging performance targets that are aligned with the achievement of BAA's business plan and strategic objectives. Bonus payments under the SMIS are at the discretion of the Remuneration Committee. The performance measures forming the balanced scorecard for executive directors, as agreed by the Committee, include earnings per share targets, key business performance indicators and individual performance against objectives. The maximum bonus potential under the SMIS for 2005/06 was set at 75% of salary, the 'on target' bonus potential being one half of the maximum, ie 37.5%. The average bonus earned by executive directors under the SMIS for 2005/06 was 62% of salary (2004/05: 52%).

The maximum annual bonus potential for 2006/07 will be 75%, with the 'on target' bonus potential remaining at half of the maximum bonus, ie 37.5%.

### Longer-term incentives

The Committee has reviewed its longer-term incentives in the two previous years to ensure that these remain appropriate to the Company. The objective is to provide close alignment between the interests of executive directors and shareholders, and this is achieved by the DAB and PSP. Further details on these are provided below. In 2004, the Share Option Plan was replaced with the PSP and last year a performance condition was introduced to the matching share component under the DAB.

The Committee considers that award levels, performance criteria and vesting schedules continue to be appropriate and in line with shareholder value creation.

### Deferred Annual Bonus Plan (DAB)

The DAB is operated on an annual basis whereby, as part of BAA's policy of encouraging long-term share ownership by directors and senior executives and the alignment of directors' and shareholders' interests, eligible participants are encouraged to use some, or all, of their annual bonus earned under the SMIS to purchase BAA shares. The shares purchased by participants must be held in trust for a minimum of three years. For 2005/06, executive directors were eligible to defer up to 100% of their bonus (earned in respect of 2004/05 achievements) to invest in BAA shares and receive, subject to the achievement of additional corporate performance targets over the three-year performance period, a matching award of shares of up to 100% of the gross bonus invested. Details of deferred and matching awards under the DAB held by directors during the year are given in Tables 1 (DAB 2000 Plan) (page 62) and 10 (DAB 2005 Plan) (page 64).

The Committee determined, after consultation with its major shareholders, that the most appropriate performance measure for awards made under the 2005 DAB was growth in normalised earnings before interest, tax, depreciation and amortisation ('normalised EBITDA') above the Retail Price Index (RPI). Normalised EBITDA will be derived from the Company's financial statements, as prepared under International Financial Reporting Standards (IFRS), and is defined as:

'EBITDA excluding:

- Any movements in profit due to changes to reflect market valuations of assets and liabilities (particularly investment property and derivatives) under IFRS, which would not have been recognised as changes in profit under UK GAAP (referred to in the Group's audited consolidated income statement as 'certain re-measurements')
- One-off unusual items or material items of a non-recurring nature that are disclosed in the Group's audited consolidated income statement as 'exceptional items', in accordance with the Company's relevant accounting policy.'

Real growth in normalised EBITDA was selected as being the best measure of BAA's underlying financial performance, given the significant capital investment being made by BAA and the regulatory environment in which it operates. As it measures profit before depreciation, amortisation and interest, normalised EBITDA will exclude distortion related to the depreciation and interest impacts of Heathrow Terminal 5 coming into operation in March 2008 (though not the operating cost implications) and provide a less volatile measure of performance where the key components are more under management control.

As this measure could be impacted by regulatory risk (since a large part of the Company's earnings are driven by regulated tariffs), the Remuneration Committee will set specific targets for each deferral period, and retain discretion to make appropriate adjustments to targets part way through a deferral period for previously unidentified one-off unusual items and other material items of a non-recurring nature (eg to reflect the outcome of a regulatory review).

The Remuneration Committee may also adjust targets during performance periods to take account of acquisitions and disposals with a value greater than 5% of net assets at the time of the transaction that were not reflected in the base business plan applied in determining the relevant performance targets.

The Committee would exercise such discretion only where it believes this to be fair and reasonable and that the impact of not doing so would be material and, in the Committee's opinion, lead to an inequitable result, provided that any such adjustment results in the measure being, in the opinion of the Committee, no less stretching to achieve. Any adjustment would be made after careful consideration of the facts and in consultation with the Audit and Assurance Committee.

The Committee will review the appropriateness of growth in normalised EBITDA as a performance measure on a periodic basis.

During the financial years ended 31 March 2005 and 31 March 2006, BAA entered into two material transactions which:

- Impacted the base year of the performance target for the 2005 award (ie normalised EBITDA for 2004/05)
- Had not been anticipated at the time the performance targets for the 2005 award were set and which affect the calculation of the performance target.

The Committee has, therefore, determined that the performance target for the 2005 award (which will vest on 31 March 2008) should be adjusted as follows to reflect the impact of these transactions:

- In March 2005, BAA entered into a property joint venture with Morley Fund Management, the Airport Property Partnership (APP). BAA injected certain commercial property assets into the joint venture in return for a 50% interest in the joint venture and cash proceeds of £565 million. Consequently, the base year EBITDA for the 2005 DAB award (being 2004/05) has been amended to reflect the APP transaction as if it had occurred at the beginning of the year (financial review, pages 36 to 47)
- Following the acquisition of a 75% (minus one share) interest in Budapest Airport in December 2005 for £1.3 billion, the Remuneration Committee has determined that in respect of the 2005 DAB award, the EBITDA performance of Budapest Airport shall be excluded from the actual and target performance measure.

In respect of the 2006 DAB award, which will vest on 31 March 2009, the normalised EBITDA target will include the EBITDA of Budapest Airport, with the base year (ie 2005/06) normalised EBITDA being amended to reflect the pro forma EBITDA of Budapest Airport for 2005/06, as disclosed in the financial review on pages 36 to 47.

As a result of the above adjustments, the EBITDA measure will appropriately reflect BAA's underlying business performance.

For matching shares awarded in 2006/07 (and related to the 2005/06 SMIS award), 25% of an award will vest for total growth in normalised EBITDA of RPI +6% over the three-year deferral period, and 100% will vest for total growth of RPI +12% over the

period, with vesting on a sliding scale in between. The base for measuring growth for the 2006/07 award will be 2005/06 normalised EBITDA, adjusted to include the pro forma Budapest normalised EBITDA for 2005/06. There will be no retesting of performance and unvested matching shares will lapse at the end of the deferral period.

### Long-term incentive plans

#### Executive Share Option Scheme (ESOS)

The ESOS was replaced in 2004 with the Performance Share Plan (PSP), and no grants have been made under the ESOS since November 2003. Options granted prior to 2004 are valid until their expiry date. The performance condition governing the exercise of options granted between 2000 and 2003 inclusive was growth in earnings per share (EPS) of at least RPI +6% over three years, RPI +8% over four years or RPI +10% over five years – each period being measured from the financial year immediately preceding the date of grant. For executive options granted in the period 1996 to 1999, the performance target was EPS growth of RPI +6% over any preceding three consecutive financial years starting from the financial year immediately preceding the date of grant.

Prior to 2005/06, senior managers working for the Group in the USA benefited from a stock appreciation rights plan, which mirrored the ESOS and included the same performance targets. This stock appreciation rights plan was replaced with a modified form of the PSP adapted for US residents for 2005/06 onwards, which pays out in cash rather than shares.

#### Performance Share Plan (PSP)

At the AGM in 2004, shareholders approved the introduction of the PSP to replace the ESOS. The PSP provides for the award of shares which vest based on corporate performance measured against BAA's comparator group over a three-year period.

The maximum award level under the PSP is 100% of salary (other than in exceptional circumstances, such as on recruitment, where larger one-off awards of up to 150% of salary may be made on an individual basis and after due consideration by the Remuneration Committee). For 2005/06 onwards, awards to the Chief Executive Officer are 100% of salary, with awards of 80% of salary for other executive directors and 80% of salary or less for other participants.

Awards vest after three years, subject to BAA achieving a relative total shareholder return (TSR) target over the preceding three-year performance period measured against BAA's comparator group. The Remuneration Committee considers that relative TSR performance provides the best means of measuring enhanced shareholder value over the medium to long term and that the selected comparator group continues to be appropriate. Awards of 35% will vest for median performance, with 100% vesting if BAA's performance is in the top 20% of the comparator group. Between these points, vesting will take place on a phased basis. No awards will vest for below median performance.

In addition, the vesting of awards at the end of the performance period will be conditional on the Remuneration Committee being satisfied that the underlying performance of the Company justifies it.

Factors taken into account by the Committee may include earnings per share, earnings before interest, tax, depreciation and amortisation, cash flow and profit. The vesting profile is designed to support BAA's strategy of reliable, above-average performance.

There will be no retesting of performance measures and awards will lapse at the end of the performance period if the relative TSR target has not been achieved.

It is intended that new shares will be used to satisfy PSP awards, subject to ABI dilution guidelines.

### External appointments

The Company recognises that non-executive directorships and certain other external roles are beneficial for both Company and individual. Executive directors are therefore encouraged to hold outside appointments. Central to this policy is that directors should normally hold only one non-executive directorship and that all appointments are subject to prior approval by the Remuneration Committee. Details of external appointments held by executive directors are given on pages 48 and 49. Directors are permitted, at the discretion of the Remuneration Committee, to retain any fees received. Details of fees retained during the year by executive directors for external appointments are given below:

#### Fees retained by executive directors for external appointments (2005/06)

Director		
Mike Clasper <sup>1</sup>	ITV plc	£12,500
Margaret Ewing <sup>2</sup>	Whitbread plc	£37,917
Janis Kong <sup>3</sup>	Portmeirion Holdings plc	£17,279
	Royal Bank of Scotland plc	£10,833
	VisitBritain Limited	£357
Mike Toms	The Viridian Group plc	£31,250

<sup>1</sup>Mike Clasper was appointed as a non-executive director to the Board of ITV plc in January 2006.

<sup>2</sup>Margaret Ewing was appointed as a non-executive director to the Board of Whitbread plc in July 2005.

<sup>3</sup>Janis Kong retired from BAA on 1 March 2006. In line with the Remuneration Committee's policy, she was permitted to take another two additional directorships in the last year of service with BAA. She was appointed as a non-executive director of Royal Bank of Scotland plc in January 2006 and to the Board of VisitBritain Limited in February 2006. She was a non-executive director of Portmeirion Holdings plc throughout the year.

### Minimum shareholding requirement

In line with best practice and to give further support to the alignment of directors' and shareholders' interests, executive directors are required to maintain a holding of BAA shares with a value of one times salary and are given a period of five years to build up to this level. Table 7 (page 64) shows the current shareholding of executive directors.

### Non-executive directors

The full Board reviews non-executive directors' remuneration on an annual basis, within the limits set by the Company's Articles of Association, in the context of median market trends gathered from an independent market survey. Fees are related to time commitment and to committee chairmanship and membership. Details of directors' emoluments are shown in Table 4 (page 63). Non-executive directors have the option to convert their fees into shares but do not participate in any share option schemes or other incentive arrangements. No director participates in agreeing his or her own remuneration.

The non-executive directors have formal letters of appointment. These do not contain any provisions on notice periods or compensation on early termination.

The Board's policy is to appoint non-executive directors for an initial term of three years, which may be followed by a further three-year term by mutual agreement. Any further extension will be by exception only and will be subject to rigorous review.

The start dates of the current three-year terms of each of the non-executive directors are given below:

**Current three-year terms** (start dates)

Director	Start date	Term
Marcus Agius (Chairman)*	1 August 2004	Fourth
Tony Ball	1 June 2004	First
Mark Clare	1 November 2004	Second
Chris Fay†	1 August 2004	Third
Alice Perkins	1 March 2006	First
David Roberts	1 March 2006	First

\*To ensure continuity of leadership, Marcus Agius was reappointed Chairman for a further three-year term in August 2004. Having served as a director for more than nine years, he is now subject to annual reappointment by shareholders at the AGM.

†In recognition of his wide-ranging responsibilities and contributions as Senior Independent Non-Executive Director, and as Chairman and member of various Board committees, Chris Fay was reappointed for a third three-year term in August 2004.

**Total shareholder return (TSR)**

The graphs on page 64 show the Company's performance, measured by TSR, compared with that of the FTSE 100 Index. Also included for information is the TSR for the BAA senior executive remuneration comparator group, which is referred to on page 56. The FTSE 100 Index has been selected for this comparison since it is an index of similar-sized companies to BAA, which BAA regards as its peers and from which the comparator group for remuneration purposes is principally drawn.

**Audited information**

**Directors' emoluments**

Salary and fees shown in Table 4 (page 63) include an amount of £198,000 (2004/05: £223,000) paid to third parties in respect of their making available to the Company the services of Marcus Agius, including the cost of administrative and secretarial support. Benefits included the taxable value of the cars, fuel and medical insurance provided and certain security costs.

**Directors' share options**

Details of executive and Sharesave options over BAA shares held by directors are set out in Table 8 (page 64). An analysis of options held by directors as at 31 March 2005 and 31 March 2006 using the codes in Table 6 (page 63) is set out in Table 3 (page 62). The terms and conditions of the above share options were not varied during the year.

All the options granted in the period were in respect of qualifying services. Certain of the directors had been granted options prior to their appointment to the Board. The disclosures in Table 3 (page 62) are of all options held by directors (other than options held under the DAB), whether granted for qualifying services or not. Table 5 (page 63) sets out the total executive options held by directors that were not granted for qualifying services. The performance targets applicable to all the options granted under the ESOS are as outlined on page 59.

The executive options coded A to L inclusive in Table 3 (pages 62 and 63) have met the relevant performance targets.

The mid-market closing price of BAA shares at 1 April 2005 and 31 March 2006 was £5.86 and £8.29 respectively. The share price during the year ranged from £5.755 to £8.43.

Details of executive and sharesave options exercised by directors during the year are shown in Table 2 (page 62).

**Directors' share interests**

The beneficial interests, including family interests, of the directors holding office at the end of the year in BAA ordinary shares are set out in Table 7 (page 64).

On 18 April 2006, Mike Clasper, Margaret Ewing, Mick Temple and Tony Ward acquired a further 15 shares each under the BAA Share Incentive Plan.

**BAA Employee Share Trust (BEST)**

The BEST is a discretionary trust which acquires and holds ordinary shares in the Company for subsequent transfer to employees who exercise share options or receive share awards under the Company's employee share schemes. The executive directors, as potential beneficiaries of the BEST, are deemed to have an interest in the ordinary shares in the Company in which the BEST is interested. The numbers of shares held by the BEST, in which the executive directors were interested, were 5,027,756 at 1 April 2005 and 690,603 at 31 March 2006.

The number of shares held by the BEST, in which the executive directors, as potential beneficiaries, were interested, remained 690,603 as at 15 May 2006.

**Deferred Annual Bonus plan (DAB 2000 and DAB 2005 plans)**

The numbers of shares purchased and held by executive directors under the DAB 2000 and DAB 2005 plans are included in the totals shown in Table 7 (page 64). Details of provisional awards of matching shares made to directors under the DAB 2000 plan are set out in Table 1 (page 62). Details of provisional awards of matching shares made to directors under the DAB 2005 plan are set out in Table 10 (page 64). Table 1 (page 62) also shows details of awards that vested during the year. The number of shares that vest comprises provisional award shares and Dividend Award Supplement (DAS) shares as defined below.

Provisional awards are matching awards of shares made to those directors who use their bonus to purchase shares under the DAB. DAS shares are the number of shares awarded on vesting having a combined market value on the vesting date equal to the value of the dividends that would have been paid on the vested matching award shares between their award and vesting dates. In the case of the DAB 2005 plan, the DAS shares that may be added to the matching award shares on vesting will be calculated on the reinvested dividends payable by reference to dividend record dates falling between the award and release dates.

Provisional awards generally vest on the third anniversary of the date of the award. In the case of awards made to a participant who subsequently leaves BAA in circumstances that permit vesting under the rules of the DAB, the awards vest on the participant's leaving date. No performance conditions currently attach to the vesting of awards under the DAB 2000 plan. Once an award has vested under this plan, participants are granted a nil cost option over the relevant number of shares and may exercise that option at any time over the remainder of the ten-year life of the award. Under the DAB 2005 plan, matching awards are subject to the achievement of a corporate performance condition over the relevant three-year performance period and, to the extent that they vest, will take the form of nil cost shares rather than options.

On the award dates of the options granted under the DAB 2000 plan that vested in whole or part during the year (31 July 2002, 30 July 2003 and 5 August 2004), the mid-market closing prices of BAA shares were £4.995, £4.7875 and £5.70 respectively. On the dates that the above awards vested in whole or in part during the year (31 July 2005 and 1 March 2006), the mid-market closing prices were £6.035 and £8.05 respectively.

On the award date of the contingent shares awarded under the DAB 2005 plan (15 August 2005) the mid-market closing price of BAA shares was £6.06.

With the exception of the awards made to Mick Temple, all the awards made to directors under the DAB 2000 and the DAB 2005 plans were in respect of qualifying services. There have been no variations in the terms and conditions of either plan and DAB 2005 plan during the year.

#### Performance Share Plan (PSP)

Details of the award of shares made to directors under the PSP in June 2005 are set out in Table 9 (page 64). The mid-market closing price used for this share award was £6.0767, being the average of the mid-market closing prices on the three business days preceding the date of the award (20 June 2005). With the exception of the awards made to Janis Kong, these awards will vest in June 2008, subject to BAA achieving a relative TSR measured against the comparator group of 30 companies over the performance period ending in March 2008. The awards made to Janis Kong vested on 1 March 2006 when she left BAA, on which date the mid-market closing price for BAA shares was £8.05. However, the Company TSR performance target achieved as at the previous quarter end, applicable to this leaving date, was zero for both her 2004 and 2005 PSP awards. Therefore, in accordance with the rules of the Plan, no shares were released and the awards lapsed.

All the awards made to directors under the PSP, with the exception of the awards to Mick Temple, were in respect of qualifying services. There have been no variations in the terms and conditions of the PSP during the year.

#### Directors' pensions

All executive directors are members of the BAA Pension Scheme. Table 11 (page 64) shows directors with accrued entitlements under the BAA Pension Scheme.

For each director, the accrued entitlement at 31 March 2006 represents the annual pension that is expected to be payable on eventual retirement, given the length of service and salary of each director at 31 March 2006.

In the context of changes to pensions taxation in 2006, no changes have been made to the remuneration of executive directors or senior executives.

For Mike Clasper, the accrued pension and transfer values at the start and end of the year include benefits from a previous employment. The pension benefits shown in Table 11 (page 64) then reflect the benefits accrued in the year to 31 March 2006.

Janis Kong retired early on 1 March 2006 and elected to take a lump sum of £330,000 in lieu of part of her entitlement. The accrued pension shown at 31 March 2006 is her pension in payment at that date allowing for the lump sum taken. The transfer value at 31 March 2006 and the transfer value of the increase in accrued pension both include the lump sum. If the lump sum is excluded, the year end transfer value reduced to £3,786,000 and the transfer value of the real increase in pension is -£273,000.

In order to ensure she would receive the correct level of pension based on her expected normal retirement date at age 60, the Company incurred the cost of enhancement of £122,000 and the pension fund incurred the cost of non-abatement of £718,000.

All transfer values have been calculated on the basis of actuarial advice in accordance with 'Retirement Benefit Schemes – Transfer Values (GN11)' – published by the Institute of Actuaries and the Faculty of Actuaries. The transfer values of the accrued entitlement represent the value of assets that the pension scheme (or the Company in respect of unfunded pension arrangements) would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits. They do not represent a sum paid or payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

A charge has been made in the accounts for unfunded pension contributions on behalf of the executive directors, as their benefits from the Company pension scheme are restricted by Inland Revenue limits. Table 12 (page 64) gives the service cost of unfunded pension benefits accruing during the year.

The pension entitlements in Table 11 (page 64) take account of these unfunded benefits.

During the year, unfunded pension payments were made to the following former directors from provisions made in earlier years:

#### Unfunded pensions payments (former director)

Sir John Egan	£163,000 (2005: £158,000)
Russell Walls	£75,000 (2005: £73,000)
Sir Mike Hodgkinson	£220,000 (2005: £214,000)

On behalf of the Board



**Dr Chris Fay**

Chairman of the Remuneration Committee

15 May 2006

**Table 1 Matching awards made under the Deferred Annual Bonus Plan 2000** (audited)

Director	Date of award	1 April 05 or on appointment if later* number	Provisional awards number	Dividend award supplement number	Vested number	Exercised number	31 March 2006 or on retirement if earlier** number	Value vested £000	Vesting date	Value exercised £000	Exercise date
Mike Clasper	31.7.02	553	–	42	595	595	–	3.6	31.7.05	3.6	15.8.05
	30.7.03	25,450	–	–	–	–	<b>25,450</b>	–	–	–	–
	5.8.04	29,411	–	–	–	–	<b>29,411</b>	–	–	–	–
<b>Total</b>		<b>55,414</b>	<b>–</b>	<b>42</b>	<b>595</b>	<b>595</b>	<b>54,861</b>	<b>3.6</b>		<b>3.6</b>	
Margaret Ewing	30.7.03	15,898	–	–	–	–	<b>15,898</b>	–	–	–	–
	5.8.04	19,445	–	–	–	–	<b>19,445</b>	–	–	–	–
	<b>Total</b>	<b>35,343</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>35,343</b>	<b>–</b>		<b>–</b>	
Janis Kong**	31.7.02	562	–	42	604	–	<b>604</b>	3.6	31.7.05	–	–
	30.7.03	10,935	–	658	11,593	–	<b>11,593</b>	93.3	1.3.06	–	–
	5.8.04	11,533	–	407	11,940	–	<b>11,940</b>	96.1	1.3.06	–	–
<b>Total</b>	<b>23,030</b>	<b>–</b>	<b>1,107</b>	<b>24,137</b>	<b>–</b>	<b>24,137</b>	<b>193.0</b>		<b>–</b>		
Mick Temple*	30.7.03	6,637	–	–	–	–	<b>6,637</b>	–	–	–	–
	5.8.04	5,479	–	–	–	–	<b>5,479</b>	–	–	–	–
	<b>Total</b>	<b>12,116</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,116</b>	<b>–</b>		<b>–</b>	
Mike Toms	30.7.03	8,827	–	–	–	–	<b>8,827</b>	–	–	–	–
	5.8.04	2,991	–	–	–	–	<b>2,991</b>	–	–	–	–
	<b>Total</b>	<b>11,818</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>11,818</b>	<b>–</b>		<b>–</b>	
Tony Ward	30.7.01	19,991	–	–	19,991	–	<b>19,991</b>	111.9	30.7.04	–	–
	31.7.02	528	–	40	568	–	<b>568</b>	3.4	31.7.05	–	–
	30.7.03	15,881	–	–	–	–	<b>15,881</b>	–	–	–	–
	5.8.04	14,977	–	–	–	–	<b>14,977</b>	–	–	–	–
<b>Total</b>	<b>51,377</b>	<b>–</b>	<b>40</b>	<b>20,559</b>	<b>–</b>	<b>51,417</b>	<b>115.3</b>		<b>–</b>		

\*Mick Temple appointed 1 March 2006.

\*\*Janis Kong retired 1 March 2006.

**Table 2 Directors' executive and sharesave options exercised** (audited)

Director	Code (refer Table 6)	Number of options	Exercise price	Mid-market price on date of exercise	Gains on exercise 2005/06 £	Gains on exercise 2004/05 £
Mike Clasper	S (04-05)	36,764	Nil	£5.66	–	207,900
Margaret Ewing	I / J / N	96,357 / 90,104 / 2,090	£4.90 / £5.24 / £4.52	£6.125 / £6.385 / £8.05	<b>228,584</b>	–
Janis Kong	C / D / E	8,052 / 3,256 / 14,739	£4.545 / £5.10 / £5.73	£6.14 / £6.25 / £6.25	<b>24,252</b>	–
Mike Toms	A / N (04-05)	50,725 / 927	£5.375 / £3.64	£5.555 / £6.21	–	11,513
	C / D / E	6,534 / 16,156 / 15,667	£4.545 / £5.10 / £5.73	£6.23 / £6.23 / £6.23	<b>37,100</b>	–
Tony Ward	N/O (04-05)	927 / 426	£3.64 / £4.45	£6.21 / 6.21	–	3,132
	N	2,090	£4.52	£6.30	<b>3,720</b>	–
	A (04-05)	83,953	£5.375	£5.515	–	11,753
					<b>293,656</b>	234,298

**Table 3 Details of numbers of executive and sharesave options held at 31 March 2005 (or on appointment, if later\*) and at 31 March 2006 (or on retirement, if earlier\*\*), analysed by scheme** (audited)

		A	B	C	D	E	F	G	H
Mike Clasper	2006	–	–	–	–	–	–	204,429	69,958
	2005	–	–	–	–	–	–	204,429	69,958
Margaret Ewing	2006	–	–	–	–	–	–	–	–
	2005	–	–	–	–	–	–	–	–
Janis Kong**	2006	21,383	25,313	–	–	–	13,899	18,692	18,920
	2005	21,383	25,313	8,052	3,256	14,739	13,899	18,692	18,920
Mick Temple*	2006	36,063	19,468	–	–	11,343	10,790	16,993	17,362
	2005	36,063	19,468	–	–	11,343	10,790	16,993	17,362
Mike Toms	2006	14,064	15,444	–	–	–	14,719	18,126	22,259
	2005	14,064	15,444	6,534	16,156	15,667	14,719	18,126	22,259
Tony Ward	2006	31,255	17,518	23,983	–	27,389	25,864	27,868	28,492
	2005	31,255	17,518	23,983	–	27,389	25,864	27,868	28,492
<b>Total</b>	<b>2006</b>	<b>102,765</b>	<b>77,743</b>	<b>23,983</b>	<b>–</b>	<b>38,732</b>	<b>65,272</b>	<b>286,108</b>	<b>156,991</b>
Total	2005	102,765	77,743	38,569	19,412	69,138	65,272	286,108	156,991

Options A to L are executive options and subject to the earnings per share performance criteria discussed above.

Options M to Q are sharesave options exercisable between the following dates:

a) 1 February 2006 and 31 July 2006; b) 1 February 2007 and 31 July 2007; c) 1 February 2008 and 31 July 2008; d) 1 February 2009 and 31 July 2009; e) 1 February 2010 and 31 July 2010

**Table 4** Directors' emoluments year ended 31 March 2006 (audited)

	Salary and fees earned		Annual bonus		Benefits		Total	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
<b>Chairman</b>								
Marcus Agius	198	189	–	–	18	–	216	189
<b>Non-executive directors</b>								
Tony Ball	45	34	–	–	–	–	45	34
Mark Clare	60	51	–	–	–	8	60	59
Chris Fay	101	87	–	–	–	8	101	95
Val Gooding (retired 31 July 2004)	–	16	–	–	–	–	–	16
Colin Green (retired 31 July 2004)	–	14	–	–	–	–	–	14
Alice Perkins (appointed 1 March 2006)	4	–	–	–	–	–	4	–
David Roberts (appointed 1 March 2006)	4	–	–	–	–	–	4	–
Robert Walker (appointed 1 May 2004; retired 31 January 2005)	–	34	–	–	–	–	–	34
<b>Executive directors</b>								
Mike Clasper	641	588	417	309	23	39	1,081	936
Brian Collie (retired 31 March 2005)	–	340	–	181	–	21	–	542
Margaret Ewing	404	382	257	200	20	45	681	627
Janis Kong (retired 1 March 2006)	250	240	145	124	19	31	414	395
Mike Toms	260	240	160	123	24	40	444	403
Mick Temple* (appointed 1 March 2006)	21	–	13	–	1	–	35	–
Tony Ward	312	295	220	155	20	26	552	476
<b>Total emoluments</b>	<b>2,300</b>	<b>2,510</b>	<b>1,212</b>	<b>1,092</b>	<b>125</b>	<b>218</b>	<b>3,637</b>	<b>3,820</b>

\*Pro-rated to show value for period on BAA plc's Board only.

**Table 5** Executive and sharesave options not granted for qualifying services (audited)

Director	Number at 31 March 2006 or on retirement if earlier**	Number at 1 April 2005 or on appointment if later*
Janis Kong**	99,694	125,741
Mick Temple*	183,358	183,358
Mike Toms	62,353	100,710
Tony Ward	48,773	48,773

\*Mick Temple appointed 1 March 2006.

\*\*Janis Kong retired 1 March 2006.

**Table 6** Codes used to describe executive and sharesave options granted (audited)

Code	Date of grant	Period of exercise	Exercise price
<b>BAA 1996 Share Option Scheme</b>			
A	26.6.98	26.6.01 – 25.6.08	£6.655
B	24.6.99	24.6.02 – 23.6.09	£6.41
C	29.11.99	29.11.02 – 28.11.09	£4.545
D	30.6.00	30.6.03 – 29.6.10	£5.10
E	1.11.00	1.11.03 – 31.10.10	£5.73
F	20.6.01	20.6.04 – 19.6.11	£6.325
G	28.11.01	28.11.04 – 27.11.11	£5.87
H	26.6.02	26.6.05 – 25.6.12	£5.975
I	31.7.02	31.7.05 – 30.7.12	£4.90
J	2.12.02	2.12.05 – 1.12.12	£5.24
K	24.6.03	24.6.06 – 23.6.13	£4.95
L	10.11.03	10.11.06 – 9.11.13	£4.76
<b>Sharesave Scheme</b>			
M	28.11.01	1.2.05 – 31.7.05 and 1.2.07 – 31.7.07	£4.45
N	5.12.02	1.2.06 – 31.7.06 and 1.2.08 – 31.7.08	£4.52
O	5.12.03	1.2.07 – 31.7.07	£3.82
P	2.12.04	1.2.10 – 31.7.10	£4.61
Q	2.12.05	1.2.09 – 31.7.09	£4.96

	I	J	K	L	M	N	O	P	Q	Total
	–	53,047	77,247	80,330	3,719b	–	–	–	–	<b>488,730</b>
	–	53,047	77,247	80,330	3,719b	–	–	–	–	488,730
	–	–	49,707	51,691	–	–	–	–	1,885d	<b>103,283</b>
	96,357	90,104	49,707	51,691	–	2,090a	–	–	–	289,949
	–	25,381	28,212	31,433	1,487b	1,453c	–	716e	–	<b>186,889</b>
	–	25,381	28,212	31,433	1,487b	1,453c	–	716e	–	212,936
	–	19,797	23,510	24,448	–	–	–	3,584e	–	<b>183,358</b>
	–	19,797	23,510	24,448	–	–	–	3,584e	–	183,358
	–	25,381	28,212	31,433	–	–	1,448b	–	–	<b>171,086</b>
	–	25,381	28,212	31,433	–	–	1,448b	–	–	209,443
	–	32,488	38,287	39,816	–	–	–	–	1,885d	<b>294,845</b>
	–	32,488	38,287	39,816	–	2,090a	–	–	–	295,050
	–	<b>156,094</b>	<b>245,175</b>	<b>259,151</b>	<b>5,206</b>	<b>1,453</b>	<b>1,448</b>	<b>4,300</b>	<b>3,770</b>	<b>1,428,191</b>
	96,357	246,198	245,175	259,151	5,206	5,633	1,448	4,300	–	1,679,466

**Table 7 Directors' share interests** (audited)

Director	As at 31 March 2006 or on retirement if earlier*	As at 1 April 2005 or on appointment if later**
Marcus Agius	<b>8,747</b>	8,747
Tony Ball	–	–
Mark Clare	<b>2,228</b>	2,153
Mike Clasper	<b>85,797</b>	55,169
Margaret Ewing	<b>43,146</b>	21,345
Chris Fay	<b>3,131</b>	3,073
Janis Kong*	<b>30,862</b>	30,644
Alice Perkins**	–	–
David Roberts**	–	–
Mick Temple**	<b>19,265</b>	19,250
Mike Toms	<b>23,595</b>	19,387
Tony Ward	<b>53,905</b>	36,549

**Table 8 Details of executive and sharesave options held** (audited)

Director	Number at 1 April 2005 or on appointment if later*	Granted in year	Exercised in year	Lapsed in year	Number at 31 March 2006 or on retirement if earlier**
Mike Clasper	488,730	–	–	–	<b>488,730</b>
Margaret Ewing	289,949	1,885	188,551	–	<b>103,283</b>
Janis Kong**	212,936	–	26,047	–	<b>186,889</b>
Mick Temple*	183,358	–	–	–	<b>183,358</b>
Mike Toms	209,443	–	38,357	–	<b>171,086</b>
Tony Ward	295,050	1,885	2,090	–	<b>294,845</b>
<b>Total</b>	<b>1,679,466</b>	<b>3,770</b>	<b>255,045</b>	<b>–</b>	<b>1,428,191</b>

**Table 9 Share awards made under the Performance Share Plan** (audited)

Director	Number at 1 April 2005 or on appointment if later*	Awarded in year	Released in year	Lapsed in year	Number at 31 March 2006 or on retirement if earlier**
Mike Clasper	83,510	106,801	–	–	<b>190,311</b>
Margaret Ewing	55,479	53,779	–	–	<b>109,258</b>
Janis Kong**	34,856	33,175	–	68,031	–
Mick Temple*	54,682	–	–	–	<b>54,682</b>
Mike Toms	34,856	34,689	–	–	<b>69,545</b>
Tony Ward	42,844	41,469	–	–	<b>84,313</b>
<b>Total</b>	<b>306,227</b>	<b>269,913</b>	<b>–</b>	<b>68,031</b>	<b>508,109</b>

**Table 10 Matching share awards made under the Deferred Annual Bonus Plan 2005** (audited)

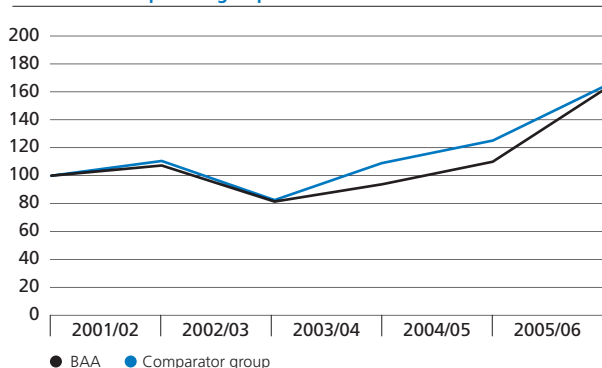
Director	Number at 1 April 2005 or on appointment if later*	Awarded in year	Released in year	Lapsed in year	Number at 31 March 2006
Mike Clasper	–	50,860	–	–	<b>50,860</b>
Margaret Ewing	–	32,968	–	–	<b>32,968</b>
Mick Temple*	2,792	–	–	–	<b>2,792</b>
Mike Toms	–	6,981	–	–	<b>6,981</b>
Tony Ward	–	25,444	–	–	<b>25,444</b>
<b>Total</b>	<b>2,792</b>	<b>116,253</b>	<b>–</b>	<b>–</b>	<b>119,045</b>

**Table 12 Unfunded contributions provided in the year** (audited)

	2006 £000	2005 £000
Mike Clasper	<b>438</b>	432
Margaret Ewing	<b>223</b>	213
Mick Temple	<b>41</b>	37
Tony Ward	<b>166</b>	153
<b>Total</b>	<b>868</b>	835

**Table 11 Accrued entitlements under the BAA Pension Scheme (including UURBS)** (audited)

	Pensionable service at 31 March 2006 years	Accrued entitlement at 31 March 2005 £000 per year	Real increase in accrued pension £000 per year	Inflation £000 per year	Accrued entitlement at 31 March 2006 £000	Transfer value at 31 March 2005 £000	Transfer value of real increase in accrued pension (less directors' contributions) £000	Other changes to transfer value £000	Director's contributions £000	Transfer value at 31 March 2006 £000
Mike Clasper	<b>5</b>	188	36	5	<b>229</b>	2,428	557	600	5	<b>3,590</b>
Margaret Ewing	<b>4</b>	35	14	1	<b>50</b>	406	196	110	5	<b>717</b>
Janis Kong	<b>33</b>	156	-10	4	<b>150</b>	2,368	57	1,677	14	<b>4,116</b>
Mick Temple	<b>8</b>	24	14	1	<b>39</b>	290	206	77	5	<b>578</b>
Mike Toms	<b>25</b>	145	16	4	<b>165</b>	2,002	246	413	16	<b>2,677</b>
Tony Ward	<b>9</b>	114	14	3	<b>131</b>	1,666	228	291	5	<b>2,190</b>

**Total shareholder return comparative performance (pence) (unaudited)**  
**BAA versus comparator group****Total shareholder return comparative performance (pence) (unaudited)**  
**BAA versus FTSE 100**