BAA's regulated airports

Investor Report

Issued on 16 December 2010

BAA

Important notice

This Investor Report (other than Appendix 5) is being distributed by BAA Airports Limited (as 'Security Group Agent') on behalf of Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (AH) Limited and BAA (SP) Limited (together the 'Obligors') pursuant to the Common Terms Agreement. Appendix 5 is being distributed by BAA (SH) plc pursuant to the terms of its facilities agreement and its bond issue due 2017.

This Investor Report contains forward looking statements that reflect the current judgment of the management of the Obligors regarding conditions that it expects to exist in the future. Forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management's assumptions rely on its operational analysis and expectations for the operating performance of each of the Obligor's assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

Basis of preparation

This Investor Report (other than Appendix 5) is being distributed pursuant to the terms of the Common Terms Agreement ('CTA'). Appendix 5 is being distributed by BAA (SH) plc pursuant to the terms of its facilities agreement and its bond issue due 2017.

Investor Reports relate to the performance of the Security Group which includes Heathrow and Stansted airports. This Investor Report comments on the historic financial performance of the Security Group for the period up to 30 September 2010 and its historic passenger traffic for the period up to 30 November 2010. It also contains forecast financial information for the whole of 2010 and 2011 derived from current management forecasts for the Security Group for those years.

Defined terms used in this document (other than in Appendix 5) have the same meanings as set out in the Master Definitions Agreement unless otherwise stated. Defined terms in Appendix 5 have the same meanings as set out either in the Master Definitions Agreement or in BAA (SH) plc's facilities agreement and bond terms and conditions.

Contents of report

1. Introduction

This Investor Report covers a range of financial and operational developments at BAA's Designated Airports for 2009, 2010 and 2011. In particular it provides latest management forecasts for 2010 and 2011 including financial ratios (RAR and ICR) for the Designated Airports for those years.

BAA (SP) Limited's recent financial performance has continued the robust trends reported at the time of its 2010 third quarter results. As a result, it is now expected that Adjusted EBITDA(1) for the year ending 31 December 2010 will exceed the £972 million figure contained in its most recent formal forecast which itself is above the original budget Adjusted EBITDA(1) for the year of £956 million.

The recent strong performance is expected to continue in 2011 as illustrated by the following highlights for the year:

- passenger traffic growth of 3.7% to 88.0 million driven by a continuation of the recent strong performance at Heathrow
- revenue growth of 10.7% to £2,297 million reflecting primarily increased passenger numbers and aeronautical tariffs supported by further growth in retail income per passenger
- Adjusted EBITDA(1) growth of 15.2% to £1,120 million

Heathrow expects to invest £1.2 billion on its capital programme due to accelerating activity on construction of the new Terminal 2.

In the years to 31 December 2010 and 2011, all financial ratios are forecast to comply with relevant Trigger Event ratio levels.

	Forecast ratio level	Trigger level
Regulatory asset ratio (RAR)(1)		
Senior ratios		
At 31 December 2010(2)	**69.1%**	**70.0%**
At 31 December 2011(2)	**66.7%**	**70.0%**
Junior ratios		
At 31 December 2010	**78.0%**	**85.0%**
At 31 December 2011	**76.3%**	**85.0%**
Interest cover ratio (ICR)(3)		
Senior ratios		
For year to 31 December 2010(4)	**2.088x**	**1.400x**
For year to 31 December 2011	**2.964x**	**1.400x**
Junior ratios		
For year to 31 December 2010(4)	**1.841x**	**1.200x**
For year to 31 December 2011	**2.334x**	**1.200x**

1) RAR is Regulatory Asset Ratio which is defined on page 20
2) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility
3) ICR is Interest Cover Ratio which is defined on page 18
4) 2010 ICRs include swap interest prepayments of £36.7 million made in January 2010

1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

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2. Significant business developments – service standards

Consistent delivery of high service standards is a strategic priority, being a key enabler to delivering cost efficiencies and strengthening the competitive position of the Obligors' airports.

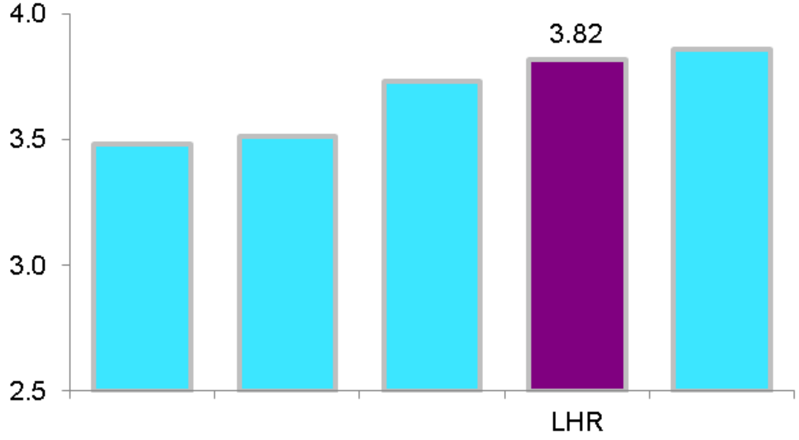
Heathrow has maintained its position towards the top of the five major European hub airports for overall passenger satisfaction, according to the most recent Airports Council International Airport Service Quality surveys. This reflects the strong focus in recent years on improving service standards such as departure punctuality, baggage misconnect rates and security queuing times (although some of these measures have been affected by external factors in 2010 as discussed below). It also reflects the benefit of new and refurbished infrastructure such as at Terminals 4 and 5. The improvement in Heathrow's performance in the last year is illustrated in the charts opposite.

In the nine months ended 30 September 2010, the proportion of aircraft departing Heathrow within 15 minutes of schedule was 73.6% (2009: 77.5%) and at Stansted was 79.1% (2009: 82.3%). Results were affected by prolonged severe winter weather and airline industrial action in the first half of the year together with extensive European air traffic control strikes and high altitude weather conditions through the peak summer months.

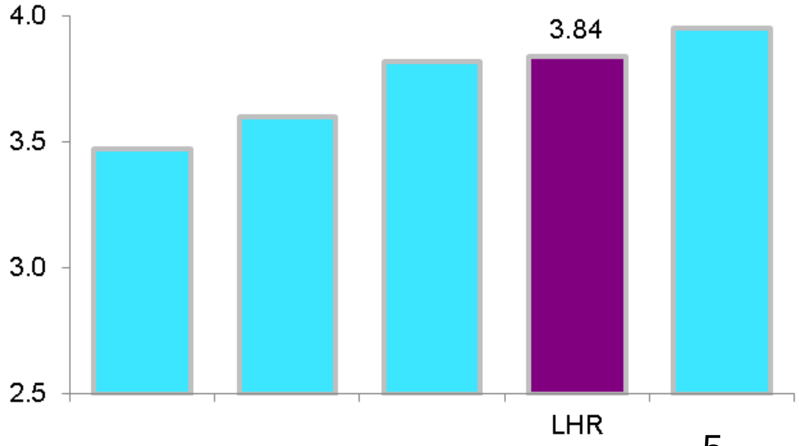
At Heathrow, in the first nine months of 2010, the proportion of baggage not accompanying passengers on their journeys improved to 16 per 1,000 passengers (2009: 20 per 1,000 passengers). In the first nine months of 2010, passengers passed through central security within periods prescribed under service quality rebate ('SQR') schemes 97.9% (Heathrow) and 98.3% (Stansted) of the time, compared with 95.0% service standards in both cases.

In the six months ended 30 September 2010, Heathrow incurred £3.4 million in SQR payments (2009: £3.1 million) and Stansted incurred £0.1 million (2009: £0.4 million).

Overall passenger satisfaction for the five largest European airports (Q3 2009)



Overall passenger satisfaction for the five largest European airports (Q3 2010)



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2. Significant business developments – passenger traffic[1]

In the eleven months ended 30 November 2010, the combined underlying passenger traffic at Heathrow and Stansted is estimated to have increased 1.6% to 80.5 million (2009: 79.2 million), with Heathrow up 3.6% and Stansted showing a decline of 4.7%. Actual performance was impacted in the first half of the year by disruption caused by volcanic ash (that closed or disrupted the airports for around a week) and industrial action affecting British Airways' Heathrow operations (for a total of 34 days). As a result, in the eleven months ended 30 November 2010, actual passenger traffic across the two airports declined 1.1%, with Heathrow up 0.6% and Stansted down 6.7%.

Heathrow's underlying performance reflects strengthening traffic through the year with underlying growth improving from 2.3% in the first six months to 3.1% in the first nine months and 3.6% in the eleven months to 30 November 2010. July and August were the two busiest months in history at Heathrow and each of the months from July to November has seen record traffic for that particular month. The improving performance reflects primarily the return of origin and destination traffic and strong business and European traffic.

At Stansted, underlying traffic declines had been reducing until the second quarter of 2010 since when it has been impacted by airline capacity reductions and weakness in the UK outbound leisure market.

Quarterly passenger traffic trends from Q1 2007 to Q3 2010 are set out in Appendix 1.

Passenger traffic

Eleven months ended 30 November	2009 (m)	**2010 (m)**	**Change[2]**
By airport			
Heathrow	60.6	**60.9**	**+0.6%**
Stansted	18.6	**17.3**	**-6.7%**
Total[2]	**79.2**	**78.3**	**-1.1%**
By market served			
UK	6.6	**6.2**	**-6.8%**
Europe[3]	40.3	**39.9**	**-1.0%**
Long haul	32.3	**32.2**	**-0.1%**
Total[2]	**79.2**	**78.3**	**-1.1%**

1) Monthly passenger traffic data for all BAA's airports is published at www.baa.com
2) Percentage change and totals calculated using un-rounded passenger numbers
3) Includes both scheduled and charter traffic and includes North African charter traffic

3. Significant regulatory/governmental developments

Modernisation of economic regulation of UK airports

In July 2010, the new UK government announced that it will introduce an Airport Economic Regulation Bill to reform the economic regulation of airports to promote both the interests of passengers and investment in the UK's airports.

The measures will provide important reassurance for the Obligors' debt investors and include a primary duty for the Civil Aviation Authority ('CAA') to promote the interests of passengers and a supplementary duty to ensure that licencees can finance their activities. The measures will also include a minimum credit worthiness requirement for licensed airports, ring fencing provisions with initial derogations from certain provisions where the costs of introduction would exceed their benefits, a requirement on the CAA to apply agreed tests when considering the removal of derogations and an appeals process that is aligned with the wider licence modification process and a requirement for airports to put in place continuity of service plans.

The Government also confirmed it will not bring in a special administration regime and that it will not be making changes to the basis on which the current price caps at Heathrow and Stansted are set.

Competition Commission inquiry into the supply of UK airport services by BAA

In March 2009, the Competition Commission ('CC') published its final decision in relation to its investigation into the supply of UK airport services by BAA and called for structural remedies including the disposal of Gatwick and Stansted to different owners. Gatwick has since been sold. BAA applied to the Competition Appeal Tribunal ('CAT') to review the CC's findings and in December 2009 the CAT upheld BAA's appeal, on the ground of apparent bias of one of the CC's panel members. In March 2010, the Court of Appeal ('CoA') granted the CC leave to appeal against the CAT's findings and on 13 October 2010 the CoA overturned the CAT's decision in favour of the CC, upholding two of the five grounds argued by the CC. BAA has sought permission to appeal the CoA's decision to the Supreme Court and the result of this application is expected to be known shortly. In parallel, on 18 November 2010 the CC invited submissions (that had to be made by 15 December 2010) as to whether there had been material changes in circumstances since it made its decision in March 2009.

Revised government policy on future runway development

In response to the new UK government's policy position ruling out new runway development in the South East of England, Heathrow and Stansted have stopped work on planning applications for new runways. These decisions resulted in an impairment charge of £104.4 million being made in the first half of 2010 in respect of runway planning application costs which did not affect the treatment of these costs for the purposes of the airports' regulatory asset bases (which will generate future cash flows). In the 2010 full year results it is expected that an impairment charge of £30-35 million will be made in the value of properties purchased by the airports in relation to potential future runway development although, as was the case with the impairment of the planning application costs, this will not affect the inclusion of these costs in the airports' regulatory asset bases. The majority of the additional impairment charge will relate to properties purchased around Stansted airport.

4. Historic financial performance[1] (A)

Turnover

In the nine months ended 30 September 2010, turnover increased 4.4% to £1,545.5 million (2009: £1,480.1 million). This reflects increases of 1.7% in aeronautical income, 6.0% in gross retail income and 9.7% in other income. The underlying increase in turnover in the period was estimated at 7.0% after adjusting Heathrow aeronautical income in 2009 and income in 2010 from transitional services agreements following the sale of Gatwick (both discussed below).

There was a 2.5% increase in aeronautical income at Heathrow and a 4.3% reduction at Stansted. Heathrow's increase reflects increased tariffs applicable from both 1 April 2009 and 2010 which were partially offset by the combined effects of disruption caused by volcanic ash and airline industrial action during the first half of the year. At Stansted, the decline primarily reflects reduced passenger numbers, including as a result of the volcanic ash. The volcanic ash is estimated to have affected aeronautical income by £29.6 million.

The retail business continued to deliver its recent excellent performance. This is evident from the 10.1% increase in underlying[2] net retail income per passenger in the nine months ended 30 September 2010 to £5.11 (2009: £4.64).

This reflects underlying gross retail income increasing 6.9% to £350.1 million (2009: £327.5 million) and underlying net retail income increasing 7.9% to £326.9 million (2009: £303.1 million). This performance reflects an increased proportion of higher spending origin and destination passengers at Heathrow. The performance also reflects the greater numbers of passengers utilising Terminal 4, with its recently upgraded retail facilities, following relocation of airlines prior to Terminal 2's recent closure. Growth in passenger spend has been particularly strong in the luxury segment of Heathrow's airside retail outlets.

Operating costs[3]

In the nine months ended 30 September 2010, operating costs increased 1.2% to £826.5 million (2009: £817.1 million). This increase reflects reductions in maintenance costs and rents and rates being more than offset by the expected higher defined benefit pension service charges and central overheads being allocated across a smaller business base following the sale of Gatwick. Excluding these cost increases, underlying operating costs declined 3.3%.

Adjusted EBITDA[4]

Adjusted EBITDA for the nine months ended 30 September 2010 increased 8.4% to £719.0 million (2009: £663.0 million). Based on the underlying turnover and operating costs discussed above, Adjusted EBITDA is estimated to have increased 20.9% to £754.5 million (2009: £624.1 million).

1) Commentary is for continuing operations only. For more detail, see results for nine months ended 30 September 2010 issued on 27 October 2010
2) Underlying retail income figures exclude £2.9 million at Heathrow (offset in operating costs) in the nine months ended 30 September 2009
3) Total operating costs excluding depreciation and exceptional items
4) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

4. Historic financial performance[1] (B)

Interest payable

In the nine months ended 30 September 2010, net interest payable (excluding fair value losses on financial instruments) was £519.4 million (2009: £503.5 million). Excluding £16.2 million in capitalised interest (2009: £17.8 million) and £52.8 million in non-cash amortisation of financing fees and bond fair value adjustments (2009: £65.7 million), underlying interest payable was £482.8 million (2009: £455.6 million). Increased underlying interest payable reflects accretion of negative inflation in 2009 and positive inflation in 2010 under index-linked derivatives. Interest payable also included a non-cash net fair value loss on financial instruments of £12.1 million (2009: £161.6 million loss).

Interest paid

Net interest paid in the nine months ended 30 September 2010 was £279.4 million (2009: £386.6 million), consisting of £211.8 million (2009: £277.4 million) in relation to external debt and £67.6 million (2009: £109.2 million) under the debenture between BAA (SP) Limited and BAA (SH) plc. The higher interest paid on the debenture in 2009 primarily reflects interest paid in January 2009 in respect of a longer than usual interest period that had started in August 2008 when interest rates were significantly higher than they have been since.

Net interest paid was lower than net interest payable primarily due to an amortisation charge of £105.6 million in net interest payable relating to prepayments of derivative interest implemented in earlier periods and a £97.8 million positive accruals variance primarily due to accretion on index-linked derivatives discussed under interest payable above.

Net debt (excluding debenture between BAA (SP) Limited and BAA (SH) plc)

At 30 September 2010, the Group had £5,844.6 million of nominal debt outstanding under various bond issues. There was also £3,860.3 million outstanding under various bank debt facilities and index-linked derivative accretion of £92.6 million. With cash and cash equivalents of £57.4 million, nominal net debt was £9,740.1 million. The average cost of the external debt at 30 September 2010 was 4.94% after all hedging, including the real rate cost of index-linked hedges.

Capital expenditure and regulatory asset base (RAB)

Cash flow capital expenditure at Heathrow was £589.7 million in the nine months ended 30 September 2010 and £19.9 million at Stansted. The combined RAB of Heathrow and Stansted was £12,463.3 million at 30 September 2010, comprising £11,147.6 million and £1,315.7 million for Heathrow and Stansted respectively.

Financial ratios

At 30 September 2010, senior and junior gearing ratios (net debt to RAB) were 65.5% and 78.2% respectively compared with trigger levels of 70.0% and 85.0%. On a pro forma basis, taking into account the transactions following a Euro denominated bond issue completed in October 2010, senior and junior gearing ratios were 69.1% and 78.2%.

1) Commentary is for continuing operations only. For more detail, see results for nine months ended 30 September 2010 issued on 27 October 2010

5. 2010 and 2011 traffic forecasts

The most recent management forecast for traffic across Heathrow and Stansted for the year ending 31 December 2010 is 84.8 million (84.9 million including transit passengers (see below)), made up of 66.3 million at Heathrow and 18.5 million at Stansted. Recent actual performance suggests that the 2010 outturn will be slightly higher than this.

From the start of the year ending 31 December 2011 Heathrow's reported passenger traffic will include transit passengers as aeronautical charges will be paid in respect of such passengers under the new tariff structure applying from 1 April 2011. This will have a minor impact on traffic figures given that in the year ending 31 December 2010 Heathrow is expected to handle only 0.1 million transit passengers. This change will not apply at Stansted where the number of transit passengers is minimal. Prior year comparative Heathrow traffic will be restated during 2011 to provide a consistent basis for assessing performance.

In the year ending 31 December 2011, passenger traffic at the two airports measured on this new basis is forecast to grow to 88.0 million. This is expected to reflect growth of 6.2% in traffic at Heathrow to 70.4 million passengers, an all time record for the airport and the first time traffic will have exceeded 70 million in a year. Stansted traffic is forecast to decline by 5.1% to 17.6 million passengers.

Part of the growth at Heathrow is expected to reflect the reversal of the impact of disruption caused by volcanic ash and airline industrial action in 2010. Underlying growth at Heathrow in 2011, assuming that passengers that were disrupted in 2010 by the volcanic ash and airline industrial action did not subsequently complete their journeys, is estimated at 3.3%. Its underlying traffic is expected to grow due primarily to additional capacity being re-introduced following the recent economic downturn and increased use of larger aircraft such as the A380. The forecast reduction at Stansted reflects expected continued capacity reductions by Ryanair due to redeployment of aircraft to other higher yielding European markets.

5. 2010 and 2011 financial forecasts

BAA (SP) Limited 2010 and 2011 consolidated forecasts (finalised in September and December 2010 respectively) are set out opposite (more detail is in Appendices 2 and 3). Highlights include:

- **2010 Adjusted EBITDA of £972 million with recent actual performance suggesting this figure is likely to be exceeded**
- **forecast 2011 Adjusted EBITDA up 15.2% on current 2010 forecast to £1,120 million driven by higher Heathrow aeronautical income**
- **strengthened financial ratios with lower gearing and increased interest cover ratios**

The forecast growth in Heathrow aeronautical income reflects increased tariffs from 1 April 2011 supported by higher passenger traffic (as discussed on page 10).

Retail income is forecast to grow 5.7% in 2011 with net retail income per passenger up 2.0%. This is despite the fact that no additional structural benefits that have recently benefited retail income (such as an increased proportion of intra-terminal transfer passengers) are expected in 2011 and that retail space in Terminal 3 is to be closed for refurbishment during the year.

2011 operating costs (excluding depreciation and exceptional items) are forecast at £1,177 million (2010: £1,104 million) primarily reflecting (a) the one-off cost of various IT, operational and commercial initiatives that are expected to deliver benefits beyond 2011, (b) the impact of inflation and contractual terms on employment, third party contract and rates costs and (c) new infrastructure such as Terminal 5C becoming operational.

The combined RAB of Heathrow and Stansted is forecast to increase in line with the £1.2 billion of forecast capital expenditure with increasing cash flow funding more than half of this spend.

All forecast financial ratios comply with Trigger Event ratios.

Financials	2010	2011	Change[1]
(figures in £m unless otherwise stated)			
Revenue	2,076	2,297	10.7%
Adjusted EBITDA	972	1,120	15.2%
Cash flow from operations	931	1,092	17.3%
Cash flow for ICR calculation	676	815	20.5%
Capital expenditure	781	1,200	53.7%
Total RAB	12,714	13,869	9.1%
Nominal net debt			
Senior net debt	8,785	9,251	5.3%
Junior debt	1,126	1,325	17.7%
Total nominal net debt	9,911	10,576	6.7%
Interest paid			
Senior interest paid	324	275	-15.1%
Junior interest paid	43	74	70.5%
Total interest paid	367	349	-5.0%

Ratios[2]	2010	2011	Trigger level
Senior RAR	69.1%	66.7%	70.0%
Junior RAR	78.0%	76.3%	85.0%
Senior ICR	2.088x	2.964x	1.400x
Junior ICR	1.841x	2.334x	1.200x

1) Percentage changes calculated using un-rounded figures
2) See Appendices 2 and 3 for the definition of ratios (RAR and ICR) and their calculations

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6. Acquisitions, disposals, joint ventures and outsourcing

Acquisitions, disposals and joint ventures

There have been no developments related to acquisitions, disposals and joint ventures involving any Obligor since the previous Investor Report was distributed on 24 June 2010.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 24 June 2010. However, as reported in the two previous Investor Reports, the BAA group has been considering outsourcing its IT service delivery with the aim of improving both service delivery and value. In August 2010, two suppliers were selected with whom to take forward negotiations. A decision on the outcome of the outsourcing review is expected to occur shortly.

7. Significant board/management changes

In November 2010, Rachel Lomax was appointed as a non-executive director of BAA Limited. She has 40 years' experience in policy making at the heart of the British economy. Rachel served as Deputy Governor of the Bank of England from 2003 until 2008. Before joining the Bank, she was Permanent Secretary of three government departments, including the Department of Work and Pensions and the Welsh Office as well as the Department for Transport. Her earlier career was spent at the Treasury, the Cabinet Office and the World Bank. Rachel is also a non-executive director of HSBC.

In November 2010, David Begg was appointed as a non-executive director of BAA Limited. He has extensive expertise in the transport sector and is currently a non-executive board member of FirstGroup; Chairman of the Northern Way Transport Compact; Chairman of the British Chamber of Commerce Infrastructure Commission; Chief Executive of Portobello Partnership; a member of the High Speed Rail 2 External Challenge Group; adviser to the Greater Manchester Transport Executive; Publisher and contributor at Transport Times magazine; and Visiting Professor in Sustainable Transport at Plymouth University. He was previously Chairman of the Commission for Integrated Transport, an independent advisory body to the Government; and Chairman of Tube Lines, the company responsible for maintenance and upgrade work on three London Underground lines.

In November 2010, Stephen Peat left BAA, resigning as a member of BAA's executive committee and as a director of Stansted Airport Limited.

In November 2010, Mike Forster left BAA, resigning as a member of BAA's executive committee.

In November 2010, Fidel Lopez was appointed as a director of Stansted Airport Limited and from 1 January 2011 he will become a member of BAA's executive committee. Fidel is currently Corporate Development Director at Ferrovial Servicios, the services arm of Ferrovial. In this role, Fidel has direct experience of airport operations through his role on the board of Swissport. He has also gained experience in the UK market through his roles on the executive committee of Amey and the board of Tube Lines. Prior to joining Ferrovial, Fidel worked in regulated industries in Spain, Italy and Portugal.

In November 2010, David Johnston, previously managing director of Stansted Airport, left BAA and ceased to be a director of Stansted Airport Limited. Nick Barton, Stansted's commercial and development director, has been appointed interim managing director of Stansted while a formal process to appoint a new managing director is undertaken.

Other than as outlined above, there have been no board or relevant management changes related to the Obligors or BAA Limited since the previous Investor Report was distributed on 24 June 2010.

8. Financing matters (A)

Bond issues

Since the previous Investor Report was distributed on 24 June 2010, BAA Funding Limited has completed two bond issues. These were a £400 million eight year Class B issue with a scheduled redemption date of 10 September 2018 and a €500 million six year Class A issue with a scheduled redemption date of 12 October 2016.

Drawings and repayments under loan facilities

Prepayments of the Refinancing Facility totalling £887.4 million have been made since the previous Investor Report was distributed on 24 June 2010. As a result, outstandings under the Refinancing Facility are currently £1,298.3 million. These prepayments primarily reflect use of the proceeds from the £400 million Class B and €500 million Class A bond issues referred to above. These have been supplemented by use of available cash, drawings on the Security Group's revolving capital expenditure facility and receipt of a small amount of further Gatwick disposal proceeds reflecting the final net debt/working capital position at closing of the disposal.

The repayment schedule for the remaining amount of the Refinancing Facility is £529.7 million due on 31 March 2012 (all Class A) and £768.6 million due on 31 March 2013 (£665.6 million Class A and £103.0 million Class B).

Heathrow Airport Limited has made a net drawdown under the capital expenditure facility of £625 million between 31 March 2010 and 30 September 2010 primarily reflecting drawing of £375 million that formed part of the £1 billion Restricted Payment made by BAA (SP) Limited to BAA (SH) plc discussed on page 15. The remainder of this Restricted Payment was made using the proceeds of drawing a new £625 million four year Class B loan facility entered into by Heathrow Airport Limited in August 2010. In addition, since the previous Investor Report was distributed on 24 June 2010, Heathrow Airport Limited has made scheduled EIB loan repayments of approximately £20 million. Details of the Obligors' and BAA Funding Limited's total external debt financing at 30 September 2010, before £448.4 million of the Refinancing Facility prepayments referred to above, are set out in Appendix 4.

Refinancing of £1.566 billion BAA (SH) plc loan facility

The refinancing of the £1.566 billion BAA (SH) plc loan facility has been completed since the previous Investor Report was distributed on 24 June 2010. The refinancing was completed in three steps:

- use of £1 billion of Restricted Payments received from BAA (SP) Limited which was facilitated by drawing a new £625 million Class B loan facility and £375 million under the Security Group's revolving capital expenditure facility
- £100 million injected into BAA (SH) plc utilising proceeds from BAA's sale of its interest in the APP joint venture
- £500 million of new debt financing raised at BAA (SH) plc through a new £175 million five year loan facility and a £325 million bond issue due 2017

8. Financing matters (B)

Restricted Payments

Since the previous Investor Report was distributed on 24 June 2010, Restricted Payments totalling £1,050 million have been made to BAA (SH) plc to fund principal repayments and interest payments due under BAA (SH) plc's previous subordinated debt facility. £1,000 million of this amount was paid in September 2010 to enable BAA (SH) plc to repay the same amount of principal under its subordinated debt facility. The remainder of the Restricted Payments were made to fund interest due under this facility. Further Restricted Payments totalling approximately £10 million are expected to be made in February 2011 to meet interest payments under BAA (SH) plc's new £175 million five year loan facility and £325 million bond issue due 2017.

Hedging

80% and 65% respectively of average interest rate risk exposure on the Obligors' and BAA Funding Limited's existing debt is hedged for the regulatory periods ending on 31 March 2013 and 31 March 2018 respectively, consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods. In addition, all foreign currency denominated debt instruments are hedged using currency swaps (total notional value is £2,137 million following the Euro denominated bond completed in October 2010). Since the previous Investor Report was distributed on 24 June 2010, £1,468 million notional value of index-linked swaps have been executed taking the total notional value of such instruments to £4,114 million.

Liquidity

The Security Group has a strong liquidity position with a committed revolving capital expenditure facility of £2,700 million, of which £1,555 million was undrawn at 30 September 2010, including £400 million in junior facilities. In addition, the Security Group has £50 million in working capital facilities. Neither of these facilities matures until August 2013.

In addition, the Security Group has no significant external debt maturities until 2012.

9. Confirmation

16 December 2010

To the Borrower Security Trustee, the Bond Trustee, each Rating Agency, the Paying Agents and each other Issuer Secured Creditor

We confirm that each of the Ratios set out on page 11 has been calculated in respect of the Relevant Period(s) or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

We confirm that all forward-looking financial ratio calculations and projections:

- have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
- are consistent and updated by reference to the most recently available financial information required to be produced by the Obligors under Schedule 2 (Covenants) of the Common Terms Agreement; and
- are consistent with the Applicable Accounting Principles (insofar as such Applicable Accounting Principles reasonably apply to such calculations and projections).

We also confirm that:

- no Default or Trigger Event has occurred and is continuing;
- the Group is in compliance with the Hedging Policy; and
- this Investor Report is accurate in all material respects.

Yours faithfully

Jose Leo
Chief Financial Officer
For and on behalf of BAA Airports Limited as Security Group Agent

Appendix 1 – Quarterly passenger traffic trends (Q1 2007 to Q3 2010)

	Heathrow (m)	Period on period growth[1]	Stansted (m)	Period on period growth[1]	Total[1] (m)	Period on period growth[1]
Q1 2007	15.3	-0.2%	5.0	3.3%	20.3	0.6%
Q2 2007	17.3	-2.0%	6.3	-2.2%	23.6	-2.1%
Q3 2007	18.8	2.2%	7.2	4.0%	26.0	2.7%
Q4 2007	16.4	3.2%	5.3	-4.0%	21.7	1.3%
Q1 2008	15.4	0.6%	4.8	-4.3%	20.2	-0.6%
Q2 2008	17.1	-1.3%	6.0	-4.9%	23.0	-2.2%
Q3 2008	18.6	-1.2%	6.8	-4.9%	25.4	-2.2%
Q4 2008	15.9	-3.6%	4.7	-10.4%	20.6	-5.2%
Q1 2009	14.4	-6.4%	4.1	-14.6%	18.5	-8.3%
Q2 2009	16.8	-1.5%	5.1	-14.2%	21.9	-4.8%
Q3 2009	18.6	0.3%	6.3	-8.3%	24.9	-2.0%
Q4 2009	16.0	1.1%	4.5	-5.7%	20.5	-0.5%
Q1 2010	14.6	1.6%	3.9	-4.7%	18.6	0.2%
Q2 2010	15.5	-7.9%	4.6	-10.1%	20.1	-8.4%
Q3 2010	19.5	4.4%	5.9	-6.0%	25.4	1.8%

(1) Total passenger numbers and period on period changes calculated using un-rounded passenger numbers

Appendix 2 – Computation of Interest Cover Ratios[1] ('ICR') – calculation of ratios

(See important notice on page 2 of this document)	Trigger level	Year to 31 December 2010[1]	Year to 31 December 2011[1]
		£m	£m
Cashflow from Operations[2]		907	1,092
Add back: one-off, non-recurring extraordinary or exceptional items		23	0
Cashflow from Operations (before exceptional items)		931	1,092
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(254)	(277)
Cash Flow (A)		**676**	**815**
Interest and equivalent recurring charges paid on Senior Debt[3][4]			
Interest paid – existing Class A bonds		343	339
Interest paid – existing Class A capex facility		14	26
Interest paid – existing Class A EIB facilities		4	4
Interest paid – other Class A debt		32	20
Interest received on swaps[5]		(93)	(137)
Commitment fees on liquidity and Capex facilities		24	23
Total interest on Senior Debt (B)		**324**	**275**
Interest and equivalent recurring charges paid on Junior Debt[3][4]			
Class B debt		43	74
Total interest on Junior Debt (C)		**43**	**74**
Total interest (D=B+C)		**367**	**349**
Senior ICR (A/B)[6]	**1.400x**	**2.088x**	**2.964x**
Junior ICR (A/D)[6]	**1.200x**	**1.841x**	**2.334x**

(1) 2010 and 2011 figures are forecasts. For 2009, actual Senior and Junior Interest Cover Ratios were 1.620x and 1.483x respectively
(2) Reconcilation of cashflow from operations with Adjusted EBITDA is set out on page 19
(3) Reconciliation of interest paid with interest payable is set out on page 19
(4) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) plc as this is not included in ratios under the Common Terms Agreement
(5) Net interest received on swaps in 2010 and 2011 includes swap interest prepayments of £36.7 million and £nil respectively
(6) Interest Cover Ratio is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid

Appendix 2 – Computation of Interest Cover Ratios – reconciling income statement to cash flow

(See important notice on page 2 of this document)	Year to 31 December 2010	Year to 31 December 2011
	£m	£m
Income		
Aeronautical income	1,126	1,313
Non-aeronautical income - retail	473	500
Non-aeronautical income - non-retail	477	484
Total income	**2,076**	**2,297**
Operating expenses[1]	(1,104)	(1,177)
Adjusted EBITDA	**972**	**1,120**
Working capital and cash one-off non-recurring extraordinary or exceptional items	(65)	(28)
Cashflow from operations	**907**	**1,092**

	Year to 31 December 2011[2][3]				Year to 31 December 2010
	Income statement inc amortisation[4]	Income statement excl amortisation	Variation in accruals	Cash flow[5]	Cash flow[5]
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds	359	359	(20)	339	343
Interest paid – existing Class A capex facility	44	26	0	26	14
Interest paid – existing Class A EIB facilities	5	5	(1)	4	4
Interest paid – other Class A debt	77	74	(53)	20	32
Interest received on swaps[5]	(65)	(141)	4	(137)	(93)
Commitment Fees on Liquidity and Capex Facilities	26	26	(4)	23	24
Interest paid - Class B debt	81	76	(2)	74	43
Total interest	**528**	**424**	**(75)**	**349**	**367**

(1) Operating expenses excluding depreciation and exceptional items

(2) Excludes capitalised interest

(3) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) plc as this is not included in calculation of ratios under the Common Terms Agreement

(4) Includes amortisation of refinancing fees and swap prepayments but excludes accretion on Index Linked Swaps

(5) Includes £36.7 million and £nil swap interest prepayments within net interest received on swaps in 2010 and 2011 respectively

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Appendix 3 – Computation of Regulatory Asset Ratios[1] ('RAR')

(See important notice on page 2 of this document)	Trigger level	At 31 December 2010[1]	At 31 December 2011[1]
		£m	£m
Closing Regulatory Asset Base (RAB) (net of profiling adjustment)			
Heathrow		11,395	12,539
Stansted		1,319	1,330
Total forecast closing RAB (A)		**12,714**	**13,869**
Senior Debt			
Existing Class A Bonds		5,882	5,890
Class A EIB facilities		333	294
Other Class A debt		2,542	2,855
RPI swap accretion		135	275
Total Senior Debt (B)		**8,891**	**9,314**
Junior Debt			
Class B debt		1,126	1,325
Total Junior Debt (C)		**1,126**	**1,325**
Cash and cash equivalents (D)		**(106)**	**(63)**
Senior net debt (E=B+D)		**8,785**	**9,251**
Senior and junior net debt (F=B+C+D)		**9,911**	**10,576**
Senior RAR (E/A)[2][3]	**70.0%**	**69.1%**	**66.7%**
Junior RAR (F/A)[2]	**85.0%**	**78.0%**	**76.3%**

(1) Figures for 2010 and 2011 are forecasts. At 31 December 2009, actual Senior and Junior Regulatory Asset Ratios were 67.5% and 73.1% respectively

(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked derivative accretion) to RAB (Regulatory Asset Base)

(3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility

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Appendix 4 – Nominal consolidated net debt of Obligors and BAA Funding Limited at 30 September 2010

		Debt outstanding at 30 September 2010	Amount and features of available facilities			
		Amount	Local currency		S&P/Fitch Rating	Maturity
Senior (Class A)		(£m)	(m)	(£m)		
Bonds		680.2	999.9	680.2	A-/A-	2012/14
		396.4	396.4	396.4	A-/A-	2013/15
		512.9	749.9	512.9	A-/A-	2014/16
		299.9	299.9	299.9	A-/A-	2016/18
		510.2	750.0	510.2	A-/A-	2018/20
		249.8	249.8	249.8	A-/A-	2021/23
		749.6	749.6	749.6	A-/A-	2023/25
		700.0	700.0	700.0	A-/A-	2026/28
		199.9	199.9	199.9	A-/A-	2028/30
		900.0	900.0	900.0	A-/A-	2031/33
		245.7	245.7	245.7	A-/A-	2039/41
Total bonds		**5,444.6**		**5,444.6**		
Bank debt	Refinancing Facility	1,196.7	1,196.7	1,196.7	A-/A-	2012/13
	EIB Facility	343.6	343.6	343.6	n/a	2010/22
	Capex Facility	1,145.0	2,300.0	2,300.0	n/a	2013
	Working Capital Facility	0.0	50.0	50.0	n/a	2013
Total bank debt		**2,685.3**		**3,890.3**		
Total senior debt		**8,129.9**		**9,334.9**		
Junior (Class B)						
Bonds		400.0	400.0	400.0	BBB/BBB	2018
Bank debt	Refinancing Facility	550.0	550.0	550.0	BBB/BBB	2012/13
	Term Loan Facility	625.0	625.0	625.0	n/a	2014
	Capex Facility	0.0	400.0	400.0	n/a	2013
Total junior debt		**1,575.0**		**1,975.0**		
Gross debt		**9,704.9**		**11,309.9**		
Cash		**(57.4)**				
Index-linked derivative accretion		**92.6**				
Net debt		**9,740.1**				

Net debt is calculated on a nominal basis excluding intra-BAA group loans and including index-linked accretion

Appendix 5 – Additional information for BAA (SH) plc creditors

(See important notice on page 2 of this document)	Covenant/ trigger level	As at or for year to 31 December 2010	As at or for year to 31 December 2011
		£m	£m
Calculation of Group ICR			
Cash Flow (A) (see page 18)		**676**	**815**
Interest			
Paid on Senior Debt (B) (see page 18)		324	275
Paid on Junior Debt (C) (see page 18)		43	74
Paid on any Permitted Financial Indebtedness not subordinated to Senior or Junior Debt (D)		0	0
Paid on Borrowings (E)		72	27
Received by BAA (SH) plc or any of its subsidiaries (F)		0	0
Group Interest Paid (G=B+C+D+E+F)		**440**	**376**
Group ICR (A/G)	**1.000x**	**1.538x**	**2.167x**
Calculation of Group RAR			
Total RAB (see page 20) (H)		12,714	13,869
Net debt			
Senior Net Debt (see page 20) (I)		8,785	9,251
Junior Debt (see page 20) (J)		1,126	1,325
Borrower Net Debt (K)		500	500
Group Net Debt (L=I+J+K)		**10,411**	**11,076**
Junior RAR ((I+J)/H)	**82.0%**	**78.0%**	**76.3%**
Group RAR (L/H)	**90.0%**	**81.9%**	**79.9%**

(1) ICR or Interest Cover Ratio is defined on page 18
(2) RAR or Regulatory Asset Ratio is defined on page 20
(3) Interest paid on Borrowings in 2010 relates to interest paid on BAA (SH) plc's £1.566 billion debt facility up to completion of its refinancing in November 2010

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