BAA's regulated airports

Investor Report

Issued on 26 June 2012

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 BAA (SH) plc's facilities agreements 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 agreements 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 31 March 2012 and its historic passenger traffic for the period up to 31 May 2012. It also contains forecast financial information for the whole of 2012 derived from current management forecasts for the Security Group for the year.

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 agreements 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 during 2011 and 2012. In particular it provides historic operational and financial information for 2011 and forecast information for 2012 including financial ratios (RAR and ICR) for the Designated Airports for those years.

The most recent board approved forecasts (finalised in May 2012) for BAA (SP) Limited for 2012 indicate Adjusted EBITDA(1) will be £1,268 million, slightly below the original 2012 budget figure published in December 2011 and representing 12.1% growth versus 2011 actuals.

The performance reflects the following highlights:

- passenger traffic growth of 0.7% to 88.0 million with Heathrow traffic expected to increase to a record 70.9 million
- revenue growth of 9.8% versus 2011 actuals to £2,501 million reflecting primarily increased aeronautical tariffs supported by further growth in retail income per passenger

The 1.2% reduction in 2012 forecast Adjusted EBITDA from the £1,283 million budget figure is principally due to yield dilution from the aircraft parking element of the aeronautical charges which will be recovered in the year commencing 1 April 2014.

Heathrow expects to invest £1.3 billion on its capital programme during 2012 mainly due to continued activities on construction of the new Terminal 2.

In the year to 31 December 2012, all financial ratios are forecast to comply with relevant Trigger Event ratio levels.

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

	Actual / forecast ratio level	Trigger level
Regulatory asset ratio (RAR)(2)		
Senior ratios		
At 31 December 2011(3)	**68.0%**	**70.0%**
At 31 December 2012(3)	**66.6%**	**70.0%**
Junior ratios		
At 31 December 2011	**75.4%**	**85.0%**
At 31 December 2012	**77.5%**	**85.0%**
Interest cover ratio (ICR)(4)		
Senior ratios		
For year to 31 December 2011	**2.76x**	**1.40x**
For year to 31 December 2012	**2.78x**	**1.40x**
Junior ratios		
For year to 31 December 2011	**2.34x**	**1.20x**
For year to 31 December 2012	**2.44x**	**1.20x**

2) The Regulatory Asset Ratio is defined on page 21
3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under revolving credit facility
4) The Interest Cover Ratio is defined on page 19

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 airports.

Heathrow has maintained its position towards the top of the five major European hub airports for overall passenger satisfaction, according to Airports Council International's Airport Service Quality survey, achieving its highest score ever of 3.92 in the first quarter of 2012. This reflects the strong focus in recent years on improving service standards such as departure punctuality, baggage misconnect rates and security queuing times. It also reflects the benefit of new and refurbished infrastructure.

Further significant endorsement of the transformational change in passengers' experience of the Group's airports was received when Heathrow Terminal 5 was named the world's best airport terminal and Stansted the world's best airport for low cost airlines in the 2012 SKYTRAX World Airport Awards.

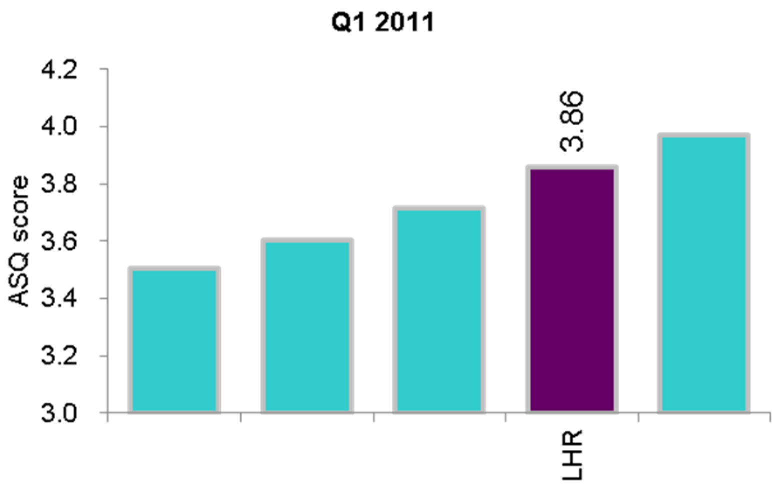
In the three months ended 31 March 2012, the proportion of aircraft departing within 15 minutes of schedule was 81% (2011: 82%) at Heathrow and 89% (2011: 89%) at Stansted.

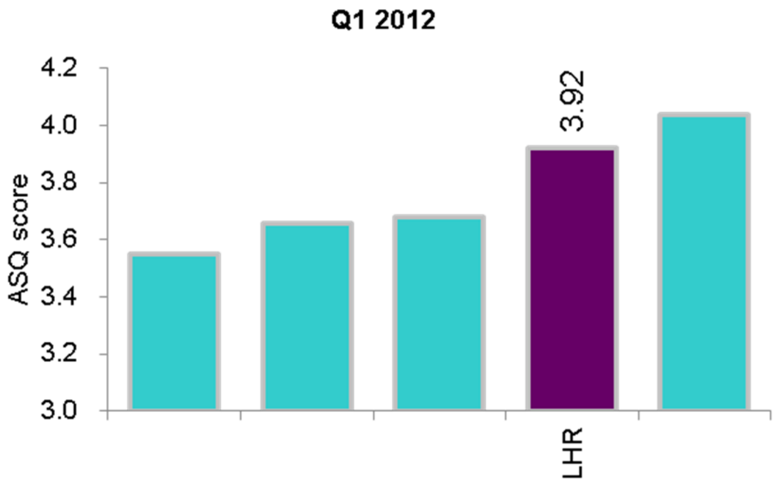
At Heathrow, in the three months ended 31 March 2012, the proportion of baggage not accompanying passengers on their journeys improved to 14 per 1,000 passengers (2011: 15 per 1,000 passengers).

In the first three months of 2012, passengers passed through central security within periods prescribed under service quality rebate ('SQR') schemes 96.3% (Heathrow) and 99.0% (Stansted) of the time, compared with 95.0% service standards in both cases.

In the year ended 31 March 2012, there were £3.4 million of charges related to Heathrow's SQR scheme (2011: £0.7 million) and £0.2 million (2011: £0.3 million) at Stansted. The increase in Heathrow's charges principally reflects a credit in the prior year together with previously disclosed Terminal 5 security queuing rebates.

Overall passenger satisfaction for 5 largest European airports





2. Significant business developments – passenger traffic[1]

In the five months ended 31 May 2012, Heathrow and Stansted's combined traffic increased 0.9% to 33.9 million (2011: 33.6 million), with Heathrow up 2.3% and Stansted down 4.8%. Adjusting for the leap year in 2012, combined traffic is estimated to have been up 0.3%, with Heathrow up 1.7% and Stansted down 5.3%. Heathrow's 27.3 million passengers is a record for the first five months of the year, surpassing the previous record for this period of 26.9 million set in 2006.

Since March 2012, Heathrow's annual rolling traffic has for the first time exceeded 70 million, having passed 60 million in 1998.

In 2012 to date, Heathrow's traffic has been characterised by higher than expected load factors offset by slightly lower than forecast numbers of flights. It is also notable that the average number of seats per aircraft has increased around 1% from 2011, in line with expectations for the year to date.

Heathrow's growth has been driven by North Atlantic traffic owing to the continued success of American Airlines' and British Airways' joint transatlantic services launched in March 2011 and new routes introduced by Delta Air Lines. Heathrow's European traffic also grew robustly. In contrast, its domestic traffic has declined, reflecting particularly the cessation of bmi's Glasgow service in March 2011.

The decline at Stansted was greatest in domestic and long haul markets with the cessation of several routes including Prestwick, Newcastle and Kuala Lumpur. The core European scheduled market performed better, down just 2.4%. Stansted has continued to experience record load factors, suggesting no material deterioration in demand dynamics.

Q1 2008 to Q1 2012 quarterly traffic is set out in Appendix 1.

Passenger traffic

	5 months ended 31 May		
	2011 (m)	2012 (m)	Change[2]
By airport			
Heathrow	26.7	27.3	2.3%
Stansted	6.9	6.5	-4.8%
Total[2]	**33.6**	**33.9**	**0.9%**
By market served			
UK	2.5	2.4	-3.1%
Europe[3]	16.9	17.0	0.6%
Long haul	14.2	14.5	1.9%
Total[2]	**33.6**	**33.9**	**0.9%**

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

2. Significant business developments – capital investment

Heathrow's current capital investment plan shows forecast outturn cost over the six years to 31 March 2014 of £5.6 billion. Over the four years to 31 March 2012, Heathrow has invested approximately £3.3 billion (in outturn cost) in its capital programme with an additional £2.3 billion forecast to be invested in the two years to 31 March 2014.

The new Terminal 2 building was made weather-tight in February 2012. Fit out of terminal systems, including outbound baggage systems, escalators and travelators, is also underway. Work has also started on fitting out the terminal's interior including ceilings, walls and floors. In parallel with the construction of the main terminal building, work continues on building the second phase of Terminal 2's satellite building (Terminal 2B). The excavation of the extensive basement and tunnel structures to house the tracked transit train and baggage systems was completed in March 2012. The whole second phase of the satellite building is expected to be weather-tight in late 2012. There has also been significant progress on Terminal 2's multi-storey car park. The first span of the ramps which will take the road up to the car park has been installed and the pre-cast columns to support the car park are currently being delivered and installed.

Commissioning of the underground automated baggage transfer system between Terminals 3 and 5 is now substantially complete. Operational trials have recently been completed and the live operation is now ramping up.

The major steps in Heathrow's investment programme through to 2014 currently include:

- completing the construction of phase one of the new Terminal 2 during 2013, enabling it to become operational in 2014;
- re-locating the Star Alliance airlines from Terminals 1 and 3 to the new Terminal 2;
- developing baggage systems and improved connectivity within and between the airport's terminals;
- redeveloping Terminals 3 and 4 to improve the passenger experience; and
- work to improve Heathrow's winter resilience.

By April 2012, 17 of the 26 capital investment trigger projects during the current regulatory period were complete. Based on forecast completion dates for these projects as at April 2012, a £90 million (in 2007/08 prices) adjustment to aeronautical income is forecast over the extended regulatory period to 31 March 2014.

At Stansted, investment on modernising the airport's existing infrastructure over the five year period to 31 March 2014 is forecast to be approximately £90 million. The key projects for 2013 and 2014 are related to the replacement of the old heating and cooling systems for the terminal and the satellites.

3. Significant regulatory/governmental developments

Modernisation of economic regulation of UK airports

Legislation to introduce changes to the framework for the economic regulation of UK airports has been introduced to Parliament. The Civil Aviation Bill is being brought forward following the UK Government's decision announced in December 2009 which followed extensive consultation with the industry regarding changes to the economic regulation of UK airports. The legislation may be subject to change prior to its implementation.

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

In February 2012, the Competition Appeal Tribunal ('CAT') found in favour of the Competition Commission's decision to require BAA to sell Stansted Airport. BAA believes that the judgment is flawed. In May 2012, BAA was given permission by the Court of Appeal to appeal the CAT's judgment. The Court of Appeal hearing is expected to take place on 23 July 2012.

Q6 CAA consultation

The next regulatory period for Heathrow and Stansted will begin in April 2014 and work has commenced on setting the regulatory settlement with the CAA. As part of this process, in May 2012 the CAA launched a consultation setting out proposed options for the regulatory arrangements for Heathrow and Stansted during the next regulatory period. The consultation closes in July 2012 while Heathrow will publish its initial business plan at the end of July. Formal consultation by the CAA on the review of price regulation is expected in early 2013 once the current constructive engagement process between Heathrow and its airline community, relating to various key aspects of Heathrow's development in the next regulatory period, is completed and the CAA has completed its own research and analysis. It is currently expected that the CAA's final proposals will be published later in 2013 and the CAA's decision on licence conditions will be published in January 2014.

4. Historic financial performance[1] (A)

Turnover

In the three months ended 31 March 2012, turnover increased 11.5% to £537.0 million (2011: £481.5 million). This reflects increases of 16.8% in aeronautical income, 7.9% in gross retail income and 3.7% in other income.

There was a 18.0% increase in aeronautical income at Heathrow and a 5.4% increase at Stansted. Heathrow's increase primarily reflects passenger traffic trends as well as the 12.2% headline increase in tariffs applicable from 1 April 2011. At Stansted, growth in aeronautical income reflects principally the fact that headline tariffs increased by 6.33% from 1 April 2011 together with reduced tariff discounts for certain airlines.

The retail business has continued to perform well. This is evident from the 6.0% increase in net retail income per passenger (Heathrow: +5.6%; Stansted: +4.9%) in the three months ended 31 March 2012 to £5.84 (2011: £5.51).

This reflects gross retail income increasing 7.9% to £119.5 million (2011: £110.7 million) and net retail income increasing 8.6% to £111.8 million (2011: £102.9 million). This performance was led by duty and tax-free, airside specialist shops, bureaux de change and car parking. Strength in duty and tax-free and airside specialist shops was driven by factors including an increased proportion of higher spending non-EU passengers, the major refurbishment of Terminal 3's airside specialist shops and the new walk through area in the World Duty Free store in Terminal 3. In airside specialist shops, trading was particularly buoyant in the luxury and fashion segments. A strong performance in bureaux de change was due to a combination of increased passenger traffic and improvements in contract terms with business partners. Strength in car parking reflected tariff increases and the success of initiatives to increase usage and yield.

Operating costs[2]

In the three months ended 31 March 2012, operating costs increased 9.0% to £305.8 million (2011: £280.6 million). The phasing of year on year cost increases in 2012 is expected to be weighted to the first half of the year. The main drivers were higher employment costs, maintenance expenditure, rents and rates and general expenses. Employment costs were up 12.4% reflecting principally budgeted pay rises and an increase in the defined benefit pension scheme service charge which will be higher than originally forecast through 2012. The increase in maintenance expenditure was partly due to the impact of the adverse winter weather in early February 2012 together with the costs of the Olympics terminal which are being expensed. Increases in rents and rates were driven primarily by the annual inflation linked increase in property rates as well as additional rateable property (such as Terminal 5C that opened in June 2011). The growth in general expenses was across a range of cost categories including air traffic control, ground transport and cleaning.

Adjusted EBITDA[3]

Adjusted EBITDA for the three months ended 31 March 2012 increased 15.1% to £231.2 million (2011: £200.9 million). The significant increase reflects improved traffic, higher aeronautical and retail income per passenger and continued cost control.

1) For more detail, see results for three months ended 31 March 2012 issued on 25 April 2012
2) Total operating costs excluding depreciation and exceptional items
3) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

4. Historic financial performance[1] (B)

Interest payable

In the three months ended 31 March 2012, net interest payable was £183.1 million (2011: £191.7 million) excluding fair value losses on financial instruments. Underlying net interest payable was £187.1 million (2011: £186.4 million), after adjusting for £13.8 million (2011: £7.1 million) in capitalised interest and £9.8 million (2011: £12.4 million) in non-cash amortisation of financing fees and bond fair value adjustments. Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £21.7 million (2011: £115.4 million).

Interest paid

Net interest paid in the three months ended 31 March 2012 was £88.7 million (2011: £93.5 million), consisting of £68.5 million (2011: £76.3 million) paid in relation to external debt and £20.2 million (2011: £17.2 million) under the debenture between BAA (SP) Limited and BAA (SH) plc. The decrease in external interest paid largely reflects timing differences and the benefit of additional index-linked swaps entered into since January 2011.

Net interest paid was lower than underlying net interest payable primarily due to an amortisation charge of £14.0 million (2011: £19.8 million) in net interest payable relating to prepayments of derivative interest; a £53.0 million (2011: £63.3 million) non-cash charge relating to inflation accretion on index-linked instruments; the non-cash amortisation of financing fees and bond fair value adjustments; and movement in interest accruals; partially offset by capitalised interest.

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

The Security Group's nominal debt at 31 March 2012 comprised £9,133.6 million outstanding under various bond issues. There was also £1,322.0 million outstanding under various loan facilities and index-linked derivative accretion of £399.9 million. With cash at bank and term deposits of £33.8 million, nominal net debt was £10,821.7 million. The average cost of the Security Group's external gross debt at 31 March 2012 was 4.63% taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion and 6.67% including index-linked accretion.

Capital expenditure and Regulatory Asset Base (RAB)

Cash flow capital expenditure at Heathrow was £267.1 million in the three months ended 31 March 2012 and £4.9 million at Stansted. The combined RAB of Heathrow and Stansted was £14,064.9 million at 31 March 2012.

Financial ratios

At 31 March 2012, senior and junior gearing ratios (net debt to RAB) were 62.5% and 76.9% respectively compared with trigger levels of 70.0% and 85.0%. On a pro forma basis, assuming the repayment in April 2012 of £400 million of the Security Group's Class B facility made by drawing on the Class A capital expenditure facility had happened on 31 March 2012, the senior gearing ratio would have been 65.4%.

1) For more detail, see results for three months ended 31 March 2012 issued on 25 April 2012

5. 2012 traffic forecasts

The most recent board approved forecast for passenger traffic across Heathrow and Stansted for the year ending 31 December 2012 is 88.0 million, made up of a record 70.9 million at Heathrow together with 17.1 million at Stansted. This reflects growth of 2.2% in traffic at Heathrow but a decline of 5.2% at Stansted versus 2011.

The latest 2012 traffic forecast for Heathrow is very similar to original expectations for the year of 70.8 million passengers with Heathrow's performance in the five months to May consistent with expectations. The robust outlook for the rest of 2012 comes despite the more challenging macro-economic background than prior to the start of the year when the original forecasts were completed. Resilience in the rest of 2012 is expected to be supported by Olympics related traffic between July and September.

The growth at Heathrow expected in 2012 comes despite the severe constraint on additional numbers of flights and reflects a combination of larger aircraft size and higher load factors. Larger aircraft reflect, for example, Emirates introducing an additional daily A380 rotation to/from Dubai since early 2012 with other airlines expected to either increase or introduce A380 services in the balance of the year. There is also greater deployment of A320 aircraft in place of smaller A319s on certain short haul routes.

At Stansted, the forecast decline in traffic principally reflects easyJet's decision to transfer three aircraft to Southend airport from April 2012 and the cessation of Air Asia X's Kuala Lumpur service partially offset by continued high load factors.

6. 2011 actual and 2012 forecast financial information

BAA (SP) Limited 2011 actual and 2012 forecast financial information is set out opposite (more detail is in Appendices 2 and 3). Highlights include:

- **forecast 2012 Adjusted EBITDA up 12.0% to £1,268 million driven mainly by higher Heathrow aeronautical income**
- **strengthened interest cover ratios**

Forecast growth in Heathrow aeronautical income reflects headline tariffs increasing by 12.7% from 1 April 2012 supported by higher passenger traffic (see page 11).

Retail income is expected to grow 5.4% in 2012 with net retail income per passenger increasing 4.7% at Heathrow and 3.7% at Stansted. Growth is expected to be driven by duty and tax-free and airside specialist shops, including benefits from the recent refurbishment of Terminal 3's retail facilities. Car parking income should also increase due to passenger growth and price increases.

2012 operating costs (excluding depreciation and exceptional items) are forecast to increase 7.4% to £1,233 million (2011: £1,148 million) primarily reflecting (a) the impact of inflation on contractual terms of employment, third party contract and rates costs, (b) an increase in the defined benefit pension scheme service charge, (c) a full year of Terminal 5C being operational and (d) the Olympics. Incremental costs of the Olympics are expected to be over £20 million, relating principally to additional baggage services, staff and volunteer programme costs and the temporary 'Games Terminal'.

Heathrow and Stansted's combined forecast capital expenditure for 2012 is £1.3 billion, including £22 million at Stansted.

All forecast financial ratios comply with Trigger Event ratios.

Financials	2011	2012	Change[1]
(figures in £m unless otherwise stated)			
Revenue	**2,280**	**2,501**	**9.8%**
Adjusted EBITDA	**1,132**	**1,268**	**12.0%**
Cash flow from operations	**1,090**	**1,241**	**13.9%**
Cash flow for ICR calculation	**813**	**942**	**15.9%**
Capital expenditure	**865**	**1,312**	**51.7%**
Total RAB	**13,850**	**14,928**	**7.8%**
Nominal net debt			
Senior net debt	**9,418**	**9,949**	**5.7%**
Junior debt	**1,025**	**1,625**	**58.5%**
Total nominal net debt	**10,443**	**11,574**	**10.9%**
Interest paid			
Senior interest paid	**295**	**339**	**14.9%**
Junior interest paid	**52**	**47**	**-10.6%**
Total interest paid	**347**	**386**	**11.1%**

Ratios[2]	2011	2012	Trigger level
Senior RAR	**68.0%**	**66.6%**	**70.0%**
Junior RAR	**75.4%**	**77.5%**	**85.0%**
Senior ICR	**2.759x**	**2.783x**	**1.400x**
Junior ICR	**2.341x**	**2.444x**	**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

7. Acquisitions, disposals, joint ventures and outsourcing

Acquisitions, disposals and joint ventures

There have been no acquisitions, disposals or joint ventures involving any Obligor since the previous Investor Report was distributed on 19 December 2011.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 19 December 2011.

8. Significant board/management changes

In August 2012, Philip Langsdale, Chief Information Officer, will leave BAA.

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 19 December 2011.

9. Financing matters (A)

Bond issues

Since the previous Investor Report was distributed on 19 December 2011, BAA Funding Limited has completed eleven capital markets transactions raising over £3 billion across a range of currencies, ratings levels and formats. They included £1 billion in Class B issuance through two transactions – a £600 million twelve year bond and a £400 million eight year bond.

In addition, the following Class A transactions have been completed:

- debut CHF400 million five year and C$400 million seven year bonds placed with largely new investor bases in Switzerland and Canada respectively
- a €700 million five year bond
- a £95 million (£120 million proceeds) tap of the existing 2039 index-linked bond
- two €50 million twenty year private placements
- a £180 million ten year index-linked private placement
- a £300 million three year bond
- a US$500 million three year bond

In addition, in February 2012 a €1,000 million bond was repaid.

Loan facilities

Since the previous Investor Report was distributed on 19 December 2011, the refinancing of the £2.7 billion capital expenditure, £50 million working capital and £525 million liquidity facilities has been successfully completed.

New five year £1.9 billion revolving credit, £100 million working capital and £750 million liquidity facilities (maturing in June 2017) have been entered into with an enlarged group of major international banks. The £427.1 million drawn portion of the previous capital expenditure facility is expected to be fully repaid shortly utilising the proceeds of the US$ and C$ bonds referred to above.

Further, since the previous Investor Report was distributed on 19 December 2011:

- £400 million of the Class B term loan facility has been prepaid
- scheduled EIB loan repayments of approximately £20 million have been made
- BAA (SH) plc has increased its eight year loan facility from £50 million to £77.5 million

In addition, between 30 September 2011 and 31 March 2012, the Security Group made a net repayment under its previous capital expenditure facility of approximately £988 million.

9. Financing matters (B)

Liquidity

The Security Group has just completed the refinancing of its revolving credit and liquidity facilities. They comprise a £2 billion revolving credit facility (split £1.5 billion Class A general purposes facility; £400 million Class B general purposes facility; and £100 million Class A working capital facility); and £750 million in standby liquidity facilities.

The new revolving credit facilities have a 5 year term, maturing in June 2017, and replace similar facilities that were due to mature in August 2013. As a result, the Security Group expects the headroom under its facilities to be sufficient, when combined with its cash resources and expected operating cash flows, to meet all its liquidity requirements, including refinancing maturing bond and bank debt and funding Heathrow's substantial capital investment programme, until at least the end of 2014.

Historic and future Restricted Payments

Since the previous Investor Report was distributed on 19 December 2011, there have been £415.2 million of restricted payments made out of the Security Group. This reflected £20.2 million of interest payments on the debenture between BAA (SP) and BAA (SH) plc ('BAA (SH)') and £395.0 million of dividend payments, of which £201.0 million was lent back to the Security Group.

The net amount distributed out of the Security Group was utilised to meet £20.2 million of interest payments on BAA (SH)'s external debt financing and to make £194.0 million of distributions beyond BAA (SH) that was utilised in repaying accrued interest on the credit facility held at ADI Finance 1 Limited and, as previously disclosed, making the first quarterly dividend payment (of £60.0 million) to BAA's ultimate shareholders since it was acquired by the Ferrovial-led consortium in 2006.

Looking at the remainder of 2012, there are expected to be further restricted payments made in order to fund quarterly dividend payments to BAA's ultimate shareholders and to service debt at both BAA (SH) and ADI Finance 1 Limited.

Hedging

Currently, 92% and 72% of interest rate risk exposure on the Obligors' and BAA Funding Limited's existing debt is hedged for the regulatory periods ending on 31 March 2014 and 31 March 2019 respectively, consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods. Since the previous investor report was distributed on 19 December 2011, £86 million of interest rate swaps were converted into forward starting interest rate swaps.

10. Confirmation

26 June 2012

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 12 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.

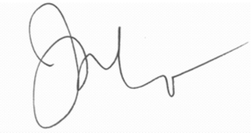
We confirm that all forward-looking financial ratio calculations and projections:

- 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 2008 to Q1 2012)

	Heathrow	Period on period growth(1)	Stansted	Period on period growth(1)	Total(1)	Period on period growth(1)
	(m)		(m)		(m)	
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%
Q4 2010	16.1	0.7%	4.2	-6.8%	20.3	-0.9%
Q1 2011	15.0	2.5%	3.7	-6.6%	18.7	0.6%
Q2 2011	17.9	15.3%	4.9	6.0%	22.7	13.2%
Q3 2011	19.8	1.5%	5.6	-5.5%	25.3	-0.1%
Q4 2011	16.8	3.8%	3.9	-5.2%	20.7	1.9%
Q1 2012	15.7	4.4%	3.5	-5.3%	19.1	2.5%

(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 2011[1]	Year to 31 December 2012[1]
		£m	£m
Cashflow from Operations[2]		1,132	1,241
Add back: Cash one-off, non-recurring, extraordinary or exceptional items [3]		(43)	0
Cashflow from Operations (before exceptional items)		1,090	1,241
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(277)	(299)
Cash Flow (A)		**813**	**942**
Interest and equivalent recurring charges paid on Senior Debt[4][5]			
Interest paid – existing Class A bonds		365	450
Interest paid – existing Class A EIB facilities		0	4
Interest paid – other Class A debt		14	24
Interest paid/(received) on swaps[6]		(104)	(160)
Commitment fees on liquidity and Capex facilities		20	20
Total interest on Senior Debt (B)		**295**	**339**
Interest and equivalent recurring charges paid on Junior Debt[4][5]			
Class B debt		52	47
Total interest on Junior Debt (C)		**52**	**47**
Total interest (D=B+C)		**347**	**386**
Senior ICR (A/B)[7]	**1.40x**	**2.76x**	**2.78x**
Junior ICR (A/D)[7]	**1.20x**	**2.34x**	**2.44x**

(1) 2011 figures are actuals while 2012 figures are forecasts
(2) Reconcilation of cashflow from operations with Adjusted EBITDA is set out on page 20
(3) Cash one-off, non-recurring, extraordinary or exceptional items in the year to 31 December 2011 comprised a £47.2 million improvement in working capital following the implementation of a new BAA group cash management process partially offset by an outflow of £4.7 million due to re-organisation costs
(4) Reconciliation of interest paid with interest payable is set out on page 20
(5) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) plc as this is not included in ratios under the Common Terms Agreement
(6) Interest paid/(received) on swaps in 2012 includes swap interest prepayments of £38.3 million
(7) 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 2011	Year to 31 December 2012
		£m
Income		
Aeronautical income	1,276	1,440
Non-aeronautical income - retail	519	546
Non-aeronautical income - non-retail	485	515
Total income	**2,280**	**2,501**
Operating expenses(1)	1,148	1,236
Adjusted EBITDA	**1,132**	**1,268**
Working capital and similar items		
Net movements in working capital	36	13
Difference between pension charge and cash contributions	(36)	(40)
Cashflow from operations	**1,132**	**1,241**

	Year to 31 December 2012(2)(3)				Year to 31 December 2011
	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	476.9	446.7	3.7	450.4	322.0
Interest paid – Class A EIB facilities	4.2	3.9	0.1	4.0	4.0
Interest paid – other Class A debt	34.2	30.5	(6.2)	24.3	45.0
Interest paid/(received) on swaps(5)	(70.2)	(144.7)	(14.9)	(159.7)	(96.0)
Commitment fees on liquidity & revolving credit facilities	19.7	19.7	(0.2)	19.5	20.0
Interest paid - Class B debt	104.8	97.3	(50.3)	47.0	52.6
Total interest	**569.7**	**453.5**	**(67.9)**	**385.6**	**347.2**

(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 instruments
(5) Excludes interest rate swap cancellations of £114 million in 2011 and £69 million in 2012

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

(See important notice on page 2 of this document)	Trigger level	At 31 December 2011[1]	At 31 December 2012[1]
		£m	£m
Closing Regulatory Asset Base (RAB) (net of profiling adjustment)			
Heathrow		12,490	13,588
Stansted		1,360	1,340
Total forecast closing RAB (A)		**13,850**	**14,928**
Senior Debt			
Class A Existing Bonds bonds[2]		7,408	7,952
Class A EIB facilities		294	255
Other Class A debt		1,395	1,226
RPI swap accretion		349	523
Total Senior Debt (B)		**9,445**	**9,956**
Junior Debt			
Class B debt		1,025	1,625
Total Junior Debt (C)		**1,025**	**1,625**
Cash and cash equivalents (D)		**(28)**	**(7)**
Senior net debt (E=B+D)		**9,418**	**9,949**
Senior and junior net debt (F=B+C+D)		**10,443**	**11,574**
Senior RAR (E/A)[3][4]	**70.0%**	**68.0%**	**66.6%**
Junior RAR (F/A)[3]	**85.0%**	**75.4%**	**77.5%**

(1) 2011 figures are actuals while 2012 figures are forecasts
(2) Only includes bond issues completed prior to May 2012
(3) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked accretion) to RAB (Regulatory Asset Base)
(4) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under revolving credit facility

Appendix 4 – Nominal consolidated net debt of Obligors and BAA Funding Limited at 31 March 2012

		Amount	Amount and features of available facilities			
			Local currency		S&P/Fitch rating	Maturity
Senior (Class A)		(£m)	(m)	(£m)		
Bonds		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
		433.8	500.0	433.8	A-/A-	2016/18
		583.8	700.0	583.8	A-/A-	2017/19
		272.3	400.0	272.3	A-/A-	2017/19
		510.2	750.0	510.2	A-/A-	2018/20
		249.8	249.8	249.8	A-/A-	2021/23
		621.3	1,000.0	621.3	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
		41.6	50.0	41.6	A-/A-	2032/34
		512.1	512.1	512.1	A-/A-	2039/41
		750.0	750.0	750.0	A-/A-	2041/43
Total bonds		**7,733.6**		**7,733.6**		
Bank debt	EIB Facility	284.9	284.9	284.9	n/a	2012/22
	Capex/Working Capital Facility	412.1	2,350.0	2,350.0	n/a	2013
Total bank debt		**697.0**		**2,634.9**		
Total senior debt		**8,430.6**		**10,368.5**		
Junior (Class B)						
Bonds		400.0	400.0	400.0	BBB/BBB	2018
		400.0	400.0	400.0	BBB/BBB	2020
		600.0	600.0	600.0	BBB/BBB	2024
Bank debt	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		**2,025.0**		**2,425.0**		
Gross debt		**10,455.6**		**12,793.5**		
Cash		**(33.8)**				
Index-linked derivative accretion		**399.9**				
Net debt		**10,821.7**				

Net debt is calculated on a nominal basis excluding intra-BAA group loans and including index-linked accretion and includes non-Sterling debt at exchange rate of hedges entered into at inception of relevant financing

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 2011	As at or for year to 31 December 2012
		£m	£m
Calculation of Group ICR			
Cash Flow (A) (see page 19)		**813**	**942**
Interest			
Paid on Senior Debt (B) (see page 19)		295	339
Paid on Junior Debt (C) (see page 19)		52	47
Paid on any Permitted Financial Indebtedness not subordinated to Senior or Junior Debt (D)		0	0
Paid on Borrowings (E)		28	37
Received by BAA (SH) plc or any of its subsidiaries (F)		0	0
Group Interest Paid (G=B+C+D+E+F)		**375**	**423**
Group ICR (A/G)	**1.00x**	**2.17x**	**2.23x**
Calculation of Group RAR			
Total RAB (see page 21) (H)		13,850	14,928
Net debt			
Senior Net Debt (see page 21) (I)		9,418	9,949
Junior Debt (see page 21) (J)		1,025	1,625
Borrower Net Debt (K)		549	578
Group Net Debt (L=I+J+K)		**10,992**	**12,151**
Junior RAR ((I+J)/H)	**82.0%**	**75.4%**	**77.5%**
Group RAR (L/H)	**90.0%**	**79.4%**	**81.4%**

(1) ICR or Interest Cover Ratio is defined on page 19
(2) RAR or Regulatory Asset Ratio is defined on page 21