



# BAA (SP) Limited

Results for six months ended 30 June 2010

July 2010



- Good financial performance despite external disruptions
- Continued operational improvements
- Key strategic issues clarified
- Good progress on subordinated debt refinancing

## H1 2010 highlights

### Traffic and retail performance

Total passenger traffic	-4.5%
Heathrow passenger traffic	-3.5%
Heathrow underlying traffic	+2.3%
NRI per passenger	+10.2%

### Key financial highlights

Revenue	+2.2%
Adjusted EBITDA	-0.2%
Underlying Adjusted EBITDA	+18.3%

### Investment and financing

Capital expenditure	£386.9m
Net debt	£8,657.4m
RAB	£12,279.3m

See page 23 for notes and defined terms

# £38 million combined impact of volcanic ash and strikes

- Volcanic ash
  - closed London airports 15-20 April
  - some additional disruption in May
  - estimated 1.6 million passenger loss
- BA cabin crew strikes at Heathrow
  - 34 days disruption up to June
  - estimated 0.6 million passenger loss
- Strong operational response to both situations

Selected airline comments on Heathrow response to volcanic ash disruption

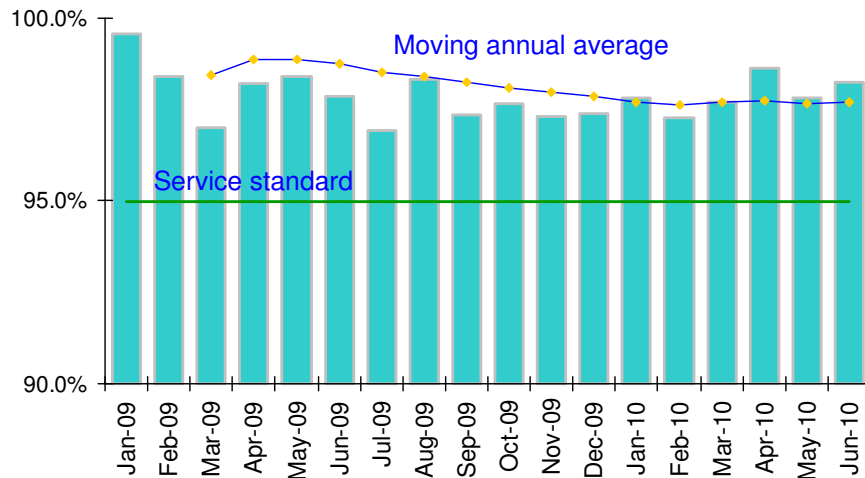
...thanks for the superb support in the terminal with your people supporting all airlines with direct customer communications...  
(Top 5 Heathrow airline)

Your support, consistency of information, hard work and tireless efforts were much appreciated and went a long way to help us plan as best as possible.  
(Top 5 Heathrow airline)

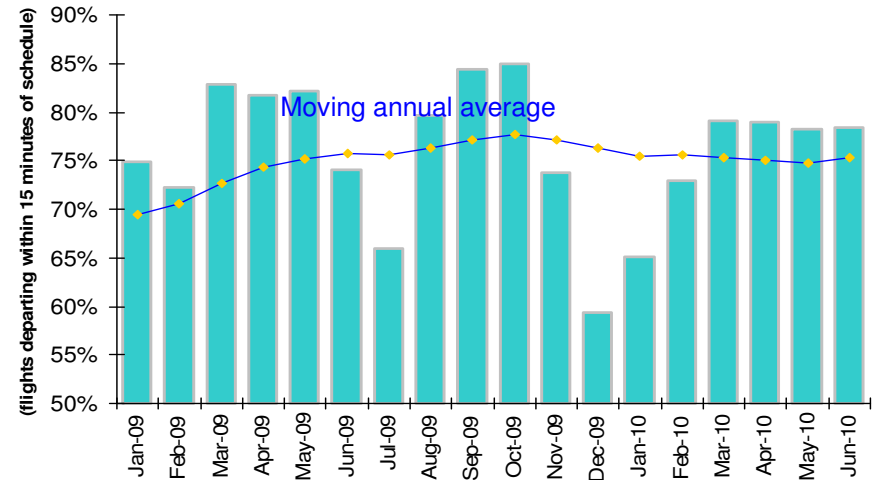
# Resilient service performance given external events

- Stable security queuing
- Departure punctuality affected by winter weather, ash and strikes
- Baggage misconnects continue to improve

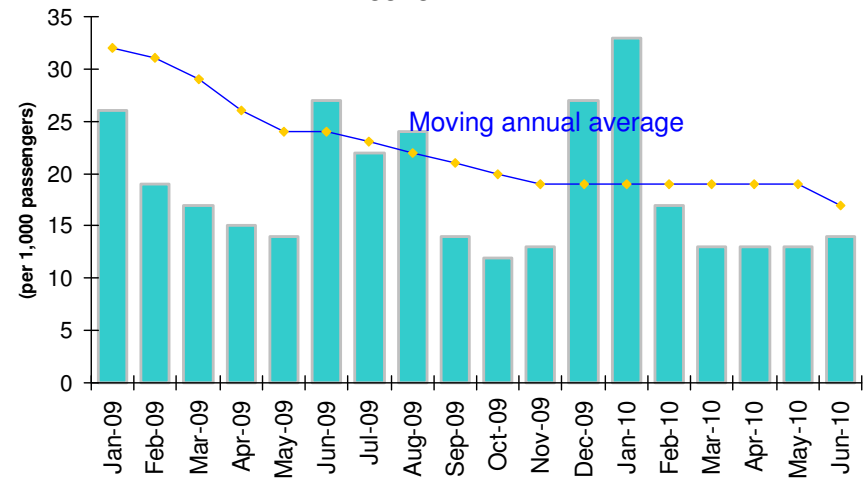
Heathrow security queuing (<5 minutes)



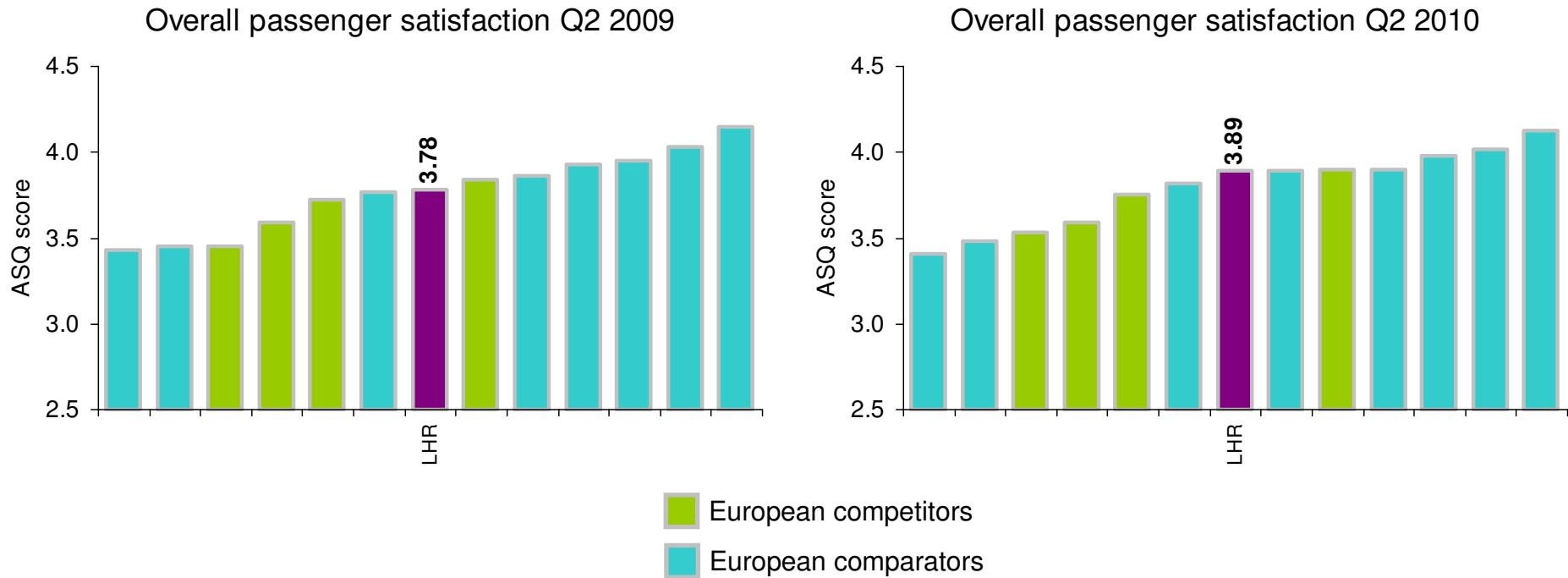
Heathrow departure punctuality



Heathrow baggage misconnect rate



# Heathrow achieves highest ever passenger satisfaction ratings



Source: Airport Service Quality ('ASQ') surveys by Airports Council International

# Heathrow transformation gaining momentum

- Heathrow (£376.3 million spent)
  - updated capital investment plan published
  - refined Terminal 2 scope provides equivalence to Terminal 5
  - construction of new Terminal 2 now underway
  - Terminal 5C on track to open early 2011
  - two runway master plan to be developed ahead of next regulatory review
- Modest investment at Stansted for foreseeable future
  - £10.6 million spent in first half of 2010



New Terminal 2 (artist's impression)



Terminal 5C

# Underlying passenger traffic trends continue to be positive

- Underlying traffic up 0.9%
  - Heathrow: +2.3%
  - Stansted: -3.8%
- Headline performance reflects
  - volcanic ash
  - BA industrial action
- Return of origin and destination traffic at Heathrow
  - 65% versus 62% in 2009
  - benefits retail and rail income

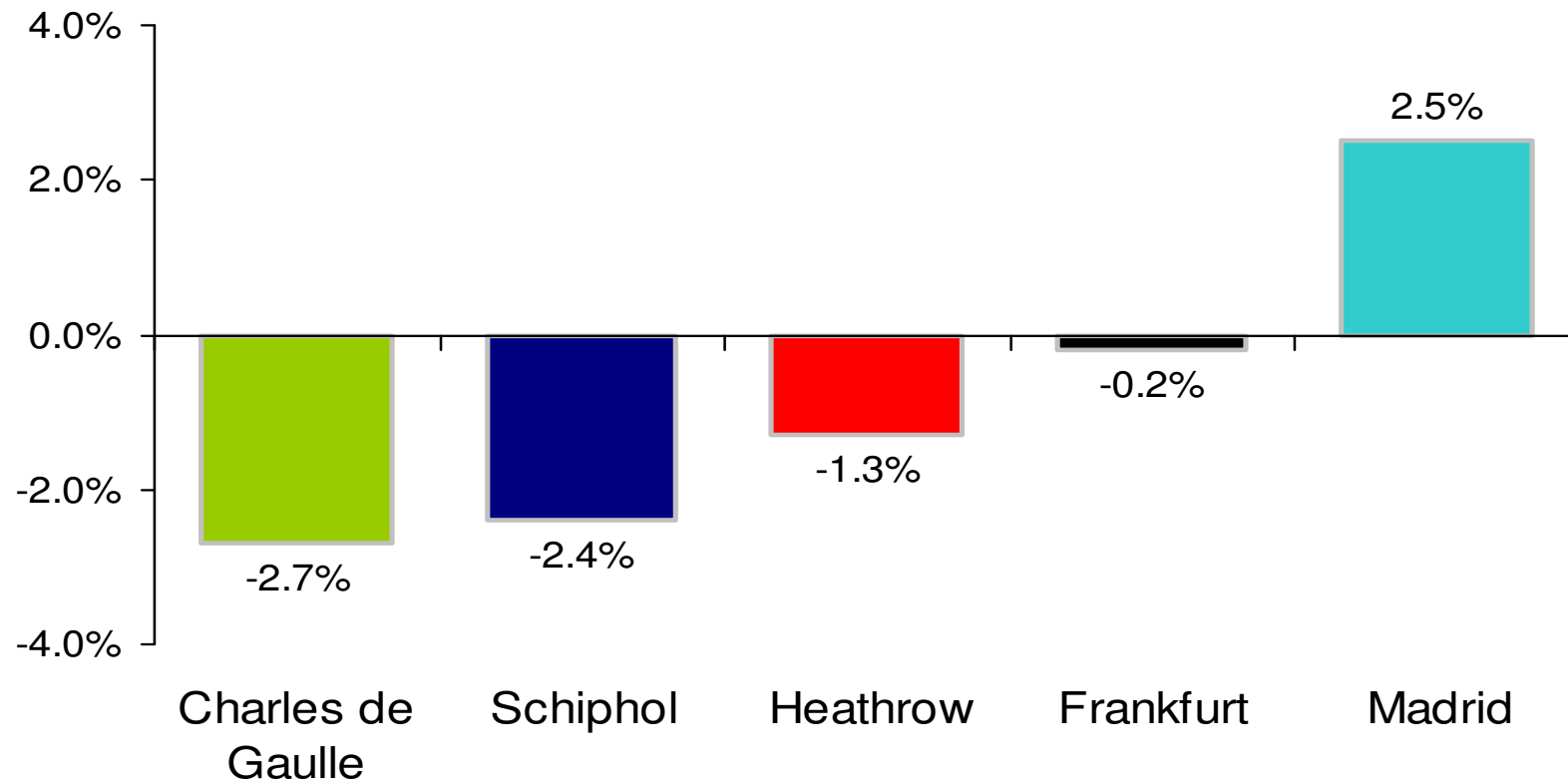
## Passenger traffic (H1 2010 v H1 2009)

	Six months ended 30 June		
	2009 (m)	2010 (m)	Change
<i>By airport</i>			
Heathrow	31.2	<b>30.1</b>	<b>-3.5%</b>
Stansted	9.2	<b>8.5</b>	<b>-7.7%</b>
<b>Total</b>	<b>40.5</b>	<b>38.7</b>	<b>-4.5%</b>
<i>By market served</i>			
UK	3.5	<b>3.0</b>	<b>-13.5%</b>
Europe	20.4	<b>19.5</b>	<b>-4.5%</b>
Long haul	16.6	<b>16.2</b>	<b>-2.6%</b>
<b>Total</b>	<b>40.5</b>	<b>38.7</b>	<b>-4.5%</b>

See page 23 for notes and defined terms

# Heathrow's performance remains resilient

Change in passenger traffic in year ended 30 June 2010





## Key strategic issues clarified

- New runways
  - new UK Government has ruled out new runways in South East England
  - Heathrow and Stansted ceased runway planning applications
  - growth potential at both airports with existing runway infrastructure
- Heathrow expected to benefit from high speed rail
- Airport economic regulation
  - government statements on 21 July on Airport Economic Regulation Bill
    - basis for setting price caps will not change
    - key financial elements consistent with DfT 2009 review
- Competition Commission process
  - await outcome of June 2010 Court of Appeal hearing

## Key priorities

**Making every journey better**

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**Focus on Heathrow**

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**Address policy and regulatory issues**

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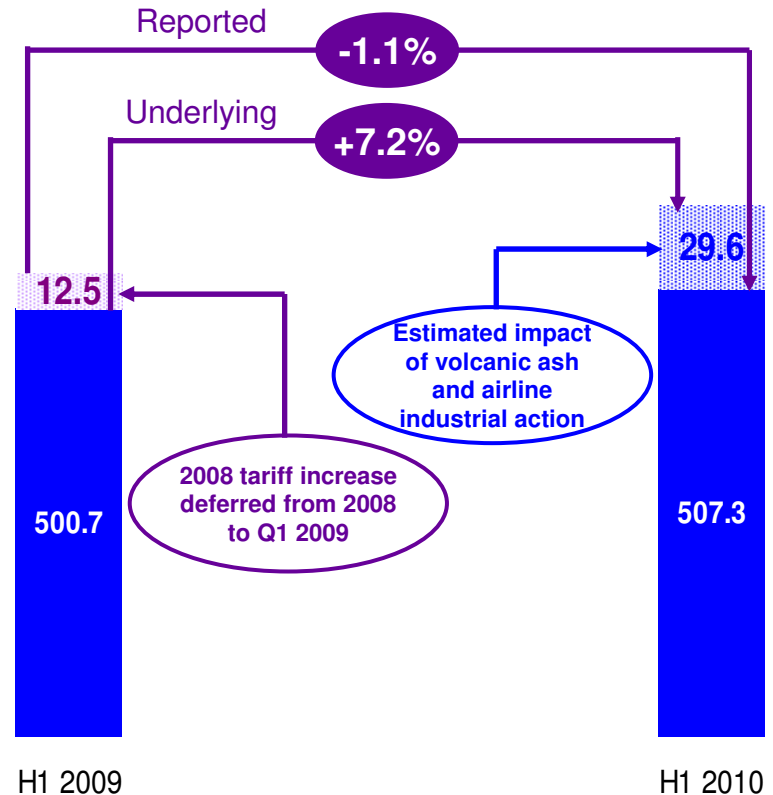
## 2010 financial performance remains robust

(figures in £m)	H1 2009	H1 2010	Change
Turnover	937.2	<b>957.6</b>	+2.2%
Adjusted operating costs	534.7	<b>555.9</b>	+4.0%
Adjusted EBITDA	402.5	<b>401.7</b>	-0.2%
Underlying Adjusted EBITDA	372.5	<b>440.8</b>	+18.3%
Net debt	8,579.0	<b>8,657.4</b>	+0.9%
RAB (Regulatory Asset Base)	11,730.5	<b>12,279.3</b>	+4.7%

See page 23 for notes and defined terms

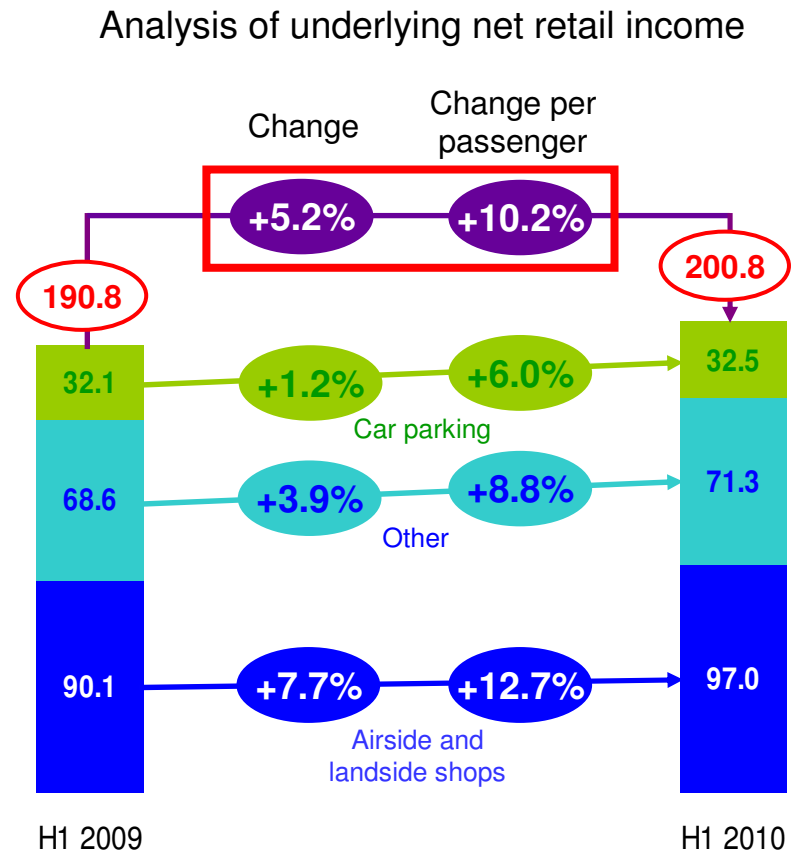
# Development of aeronautical income

- Reported aeronautical income influenced by
  - deferral of part of 2008 Heathrow tariff increase into 2009
  - volcanic ash and airline industrial action in 2010
- Actual aeronautical income of £507.3 million
  - 1.1% decline on 2009
  - 7.2% estimated underlying growth on 2009



# Continued excellent retail performance

- Net retail income per passenger up 10.2% to £5.20
  - Heathrow: +11.3%
  - Stansted: +3.7%
- Airside specialist shops continue to drive growth
- Early signs of recovery in car parking
- Key growth drivers
  - increased Heathrow origin and destination traffic
  - improved passenger experience from relocating airlines to Terminal 4
  - luxury goods demand

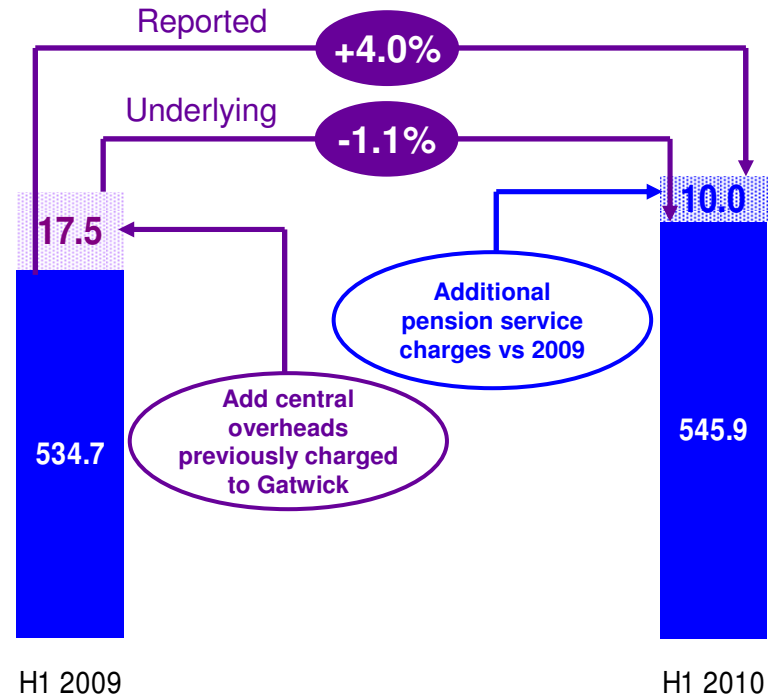


See page 23 for notes and defined terms

# Underlying cost trends improving

- Adjusted operating costs up 4.0%
- Key drivers of headline increase
  - employment – non-cash pension service costs
  - intra-group – central overhead re-allocation from Gatwick
- Underlying adjusted operating costs declined 1.1%
  - driven by lower rent and rates and retail expenditure

Analysis of adjusted operating costs



See page 23 for notes and defined terms

## Lower exceptional items and fair value adjustments

	H1 2009 (total) (£m)	H1 2009 (continuing operations) (£m)	H1 2010 (total) (£m)
Impairment of runway planning application costs	0.0	0.0	104.4
Share of change in BAA defined benefit pension scheme deficit	218.5	167.4	(76.7)
Accelerated depreciation on Heathrow Terminal 1/2	37.9	37.9	18.7
Gain on disposal of Gatwick airport	0.0	0.0	(14.6)
Other exceptional items	(1.2)	0.1	3.6
<b>Total exceptional items</b>	<b>255.2</b>	<b>205.4</b>	<b>35.4</b>

Fair value loss on financial instruments of £76.9m in 2010 compared to £182.7m in 2009

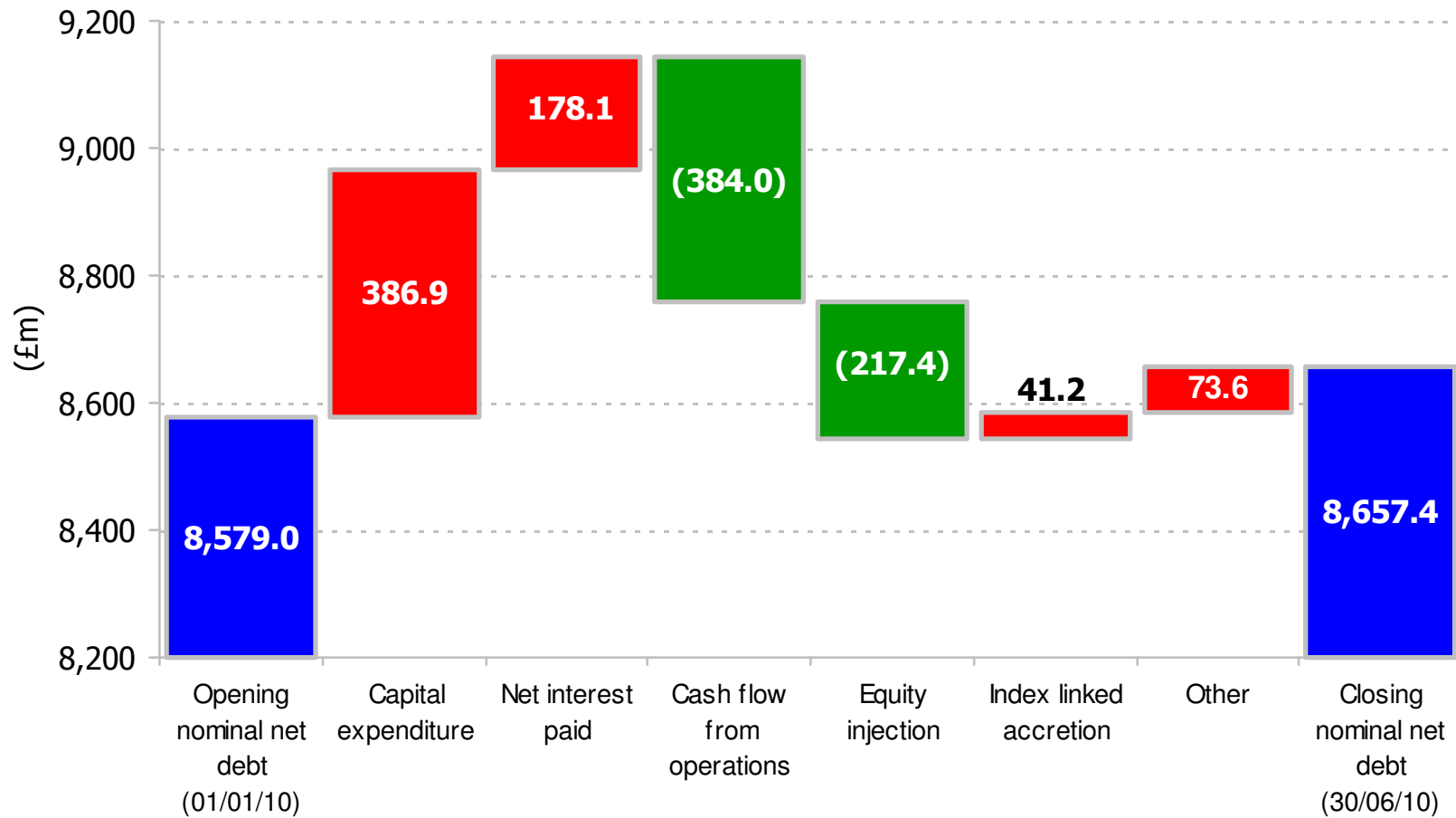
## Interest paid consistent with expectations

	H1 2009	H1 2010		
<i>(figures in £m)</i>	Total	SP debenture	External debt	Total
<b>Net interest payable (profit and loss account)</b>	<b>(507.9)</b>	(37.6)	(369.6)	<b>(407.2)</b>
<b>Fair value loss on financial instruments</b>	182.7	0.0	76.9	76.9
<b>Net interest payable net of fair value loss</b>	(325.2)	(37.6)	(292.7)	(330.3)
<b>Amortisation of financing fees and fair value adjustments</b>	49.0	0.0	26.7	26.7
<b>Interest capitalised</b>	(11.0)	0.0	(10.0)	(10.0)
<b>Underlying net interest payable (profit and loss account)</b>	(287.2)	(37.6)	<b>(276.0)</b>	(313.6)
<b>Other adjustments to reconcile to interest paid</b>				
<b>Derivative interest prepayment amortisation</b>	70.9	0.0	70.6	70.6
<b>Movement in interest accruals/accretion/other</b>	(27.7)	19.7	45.2	64.9
<b>Net interest paid (cash flow statement)</b>	<b>(244.0)</b>	(17.9)	<b>(160.2)</b>	<b>(178.1)</b>



# Cash flow continues to fund substantial part of investment

## Net debt bridge (January 2010 - June 2010)



See page 23 for notes and defined terms

## Headroom against gearing ratios continues to increase

Gearing ratios (RAR)					
<i>(figures in £m unless otherwise stated)</i>	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	Trigger levels
<b>Ratio inputs</b>					
Senior nominal net debt	8,771.0	7,919.6	7,952.8	7,998.0	n/a
Junior nominal net debt	9,771.0	8,579.0	8,612.2	8,657.4	n/a
Regulatory Asset Base	13,155.7	11,730.5	12,021.5	12,279.3	n/a
<b>Ratios</b>					
<b>Senior RAR</b>	<b>0.667x</b>	<b>0.675x</b>	<b>0.662x</b>	<b>0.651x</b>	<b>&gt;0.700x</b>
<b>Junior RAR</b>	<b>0.743x</b>	<b>0.731x</b>	<b>0.716x</b>	<b>0.705x</b>	<b>&gt;0.850x</b>

See page 23 for notes and defined terms

## Good progress on subordinated debt refinancing

- £1.8 billion headroom to junior gearing trigger levels allows optimising of gearing between BAA (SP) and BAA (SH)
- Implement residual refinancing at BAA (SH) from bank and/or institutional markets
- No significant debt maturities until 2012 once refinancing complete

# Conclusion

- Good financial performance
- Continued improvements in operational performance
- Strong retail momentum maintained
- Good progress on subordinated debt refinancing
- 2010 outlook consistent with June investor report guidance

# Appendix

# Nominal net debt at 30 June 2010

		Debt outstanding at 30 June 2010		Amount and features of available facilities			
		Amount		Local currency	S&P/Fitch Rating	Maturity	
		(£m)		(m)	(£m)		
<b>Senior (Class A)</b>							
Bonds		680.2	396.4	999.9	680.2	A-/A-	2012/14
		512.9	299.9	396.4	396.4	A-/A-	2013/15
		510.2	249.8	749.9	512.9	A-/A-	2014/16
		249.8	749.6	299.9	299.9	A-/A-	2016/18
		749.6	700.0	750.0	510.2	A-/A-	2018/20
		700.0	199.9	249.8	249.8	A-/A-	2021/23
		199.9	900.0	749.6	749.6	A-/A-	2023/25
		900.0	241.9	700.0	700.0	A-/A-	2026/28
		241.9		199.9	199.9	A-/A-	2028/30
				900.0	900.0	A-/A-	2031/33
				241.9	241.9	A-/A-	2039/41
<b>Total bonds</b>		<b>5,440.8</b>		<b>5,440.8</b>			
Bank debt		1,526.3	352.3	1,526.3	1,526.3	A-/A-	2011/13
	Refinancing Facility	352.3	775.0	352.3	352.3	n/a	2010/22
	EIB Facility	775.0	0.0	2,300.0	2,300.0	n/a	2013
	Capex Facility	0.0		50.0	50.0	n/a	2013
	Working Capital Facility						
<b>Total bank debt</b>		<b>2,653.6</b>		<b>4,228.6</b>			
<b>Total senior debt</b>		<b>8,094.4</b>		<b>9,669.4</b>			
<b>Junior (Class B)</b>							
Bank debt		659.4	0.0	659.4	659.4	BBB/BBB	2011/13
	Refinancing Facility	0.0		400.0	400.0	n/a	2013
	Capex Facility						
<b>Total junior debt</b>		<b>659.4</b>		<b>1,059.4</b>			
<b>Gross debt</b>		<b>8,753.8</b>		<b>10,728.8</b>			
<b>Cash</b>		<b>(156.7)</b>					
<b>Index-linked derivative accretion</b>		<b>60.3</b>					
<b>Net debt</b>		<b>8,657.4</b>					

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

# Notes and defined terms

- Page 2
  - Percentage changes are relative to six months ended 30 June 2009
  - All figures are for continuing operations only, i.e. excluding Gatwick
  - Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
  - NRI: net retail income; RAB: Regulatory Asset Base
  - Net debt is calculated on a nominal basis excluding intra-BAA group loans and including index-linked accretion
- Page 7
  - Totals and percentage change calculated using un-rounded passenger numbers
  - European traffic includes North African charter traffic
- Page 11
  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
  - Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
  - Underlying Adjusted EBITDA adjusts reported Adjusted EBITDA in 2010 for an estimated £38 million in turnover lost as a result of disruption caused by volcanic ash and airline industrial action, £8.9 million of income under Gatwick transitional services agreements and £10.0 million in additional pension service costs and in 2009 for £12.5 million in aeronautical income due to phasing of tariff increases and £17.5 million of intra-group charges previously applied to Gatwick
  - 2009 net debt and RAB figures are as at 31 December 2009
  - Net debt is calculated on a nominal basis excluding intra-BAA group loans and including index-linked accretion
- Page 13
  - Analysis excludes £2.9 million in non-recurring car parking income at Heathrow in six months ended 30 June 2009
- Page 14
  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
  - Underlying adjusted operating costs in 2009 adds £17.5 million of intra-group charges previously applied to Gatwick and in 2010 deducts £10.0 million in additional pension service costs
- Page 17
  - Other net debt movement primarily reflects £110.6 million of equity injection used in restructuring derivatives offset by £35.9 million used to reduce net debt as only £107.1 million of the original £143.0 million restricted cash was required to make pension related payments arising from Gatwick disposal
- Page 18
  - Gearing ratio is the ratio of nominal net debt (including index-linked accretion) to RAB. Net debt at 31 December 2009 excludes £143.0 million in restricted cash from the Gatwick disposal held in escrow to meet potential pension payments but at 30 June 2010 reflects payments made of £107.1 million and release of residual £35.9 million to reduce net debt
  - Senior gearing ratio could be reduced by utilising the currently undrawn £400 million junior tranche of capital expenditure facility

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