



BAA's regulated airports

Investor Report

Issued on 19 December 2011

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 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 30 September 2011 and its historic passenger traffic for the period up to 30 November 2011. It also contains forecast financial information for the whole of 2011 and 2012 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 agreements and bond terms and conditions.

Contents of report

	Page
1. Introduction	4
2. Significant business developments	5
3. Significant regulatory/governmental developments	7
4. Historic financial performance	8
5. 2011 and 2012 traffic forecasts	10
6. 2011 and 2012 financial forecasts	11
7. Acquisitions, disposals, joint ventures and outsourcing	12
8. Significant board/management changes	13
9. Financing matters	14
10. Confirmation	16
Appendices	
1. Quarterly passenger traffic trends (Q1 2008 to Q3 2011)	17
2. Computation of Interest Cover Ratios	18
3. Computation of Regulatory Asset Ratios	20
4. Nominal consolidated net debt of Obligors and BAA Funding Limited at 30 September 2011	21
5. Additional information for BAA (SH) plc creditors	22

1. Introduction

This Investor Report covers a range of financial and operational developments at BAA's Designated Airports for 2010, 2011 and 2012. In particular it provides forecast financial information for 2011 and 2012 including financial ratios (RAR and ICR) for the Designated Airports for those years.

The most recent board approved forecasts (finalised in September 2011) for BAA (SP) Limited for 2011 indicate Adjusted EBITDA⁽¹⁾ will be £1,128 million, slightly above the original 2011 budget figure published in December 2010 and representing 16.7% growth versus 2010 actuals.

The strong financial performance is expected to continue in 2012 as illustrated by the following highlights for the year:

- passenger traffic growth of 0.6% to 88.1 million with Heathrow traffic expected to increase to 70.8 million
- revenue growth of 9.7% versus most recent 2011 forecasts to £2,516 million reflecting primarily increased aeronautical tariffs supported by further growth in retail income per passenger
- Adjusted EBITDA growth of 13.7% to £1,283 million

Heathrow expects to invest £1.2 billion on its capital programme during 2012 mainly due to a further acceleration in activity on construction of the new Terminal 2.

In the years to 31 December 2011 and 2012, all financial ratios are forecast to comply with relevant Trigger Event ratio levels.

	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⁾	67.9%	70.0%
Junior ratios		
At 31 December 2011	75.4%	85.0%
At 31 December 2012	78.9%	85.0%
Interest cover ratio (ICR)⁽⁴⁾		
Senior ratios		
For year to 31 December 2011	2.63x	1.40x
For year to 31 December 2012	2.71x	1.40x
Junior ratios		
For year to 31 December 2011	2.24x	1.20x
For year to 31 December 2012	2.24x	1.20x

2) RAR is Regulatory Asset Ratio which is defined on page 20

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

4) ICR is Interest Cover Ratio which is defined on page 18

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

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 most recent Airport Service Quality survey. 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. Heathrow's improved performance in the last year is illustrated opposite. Its score for Q3 2011 was the third highest it has ever achieved.

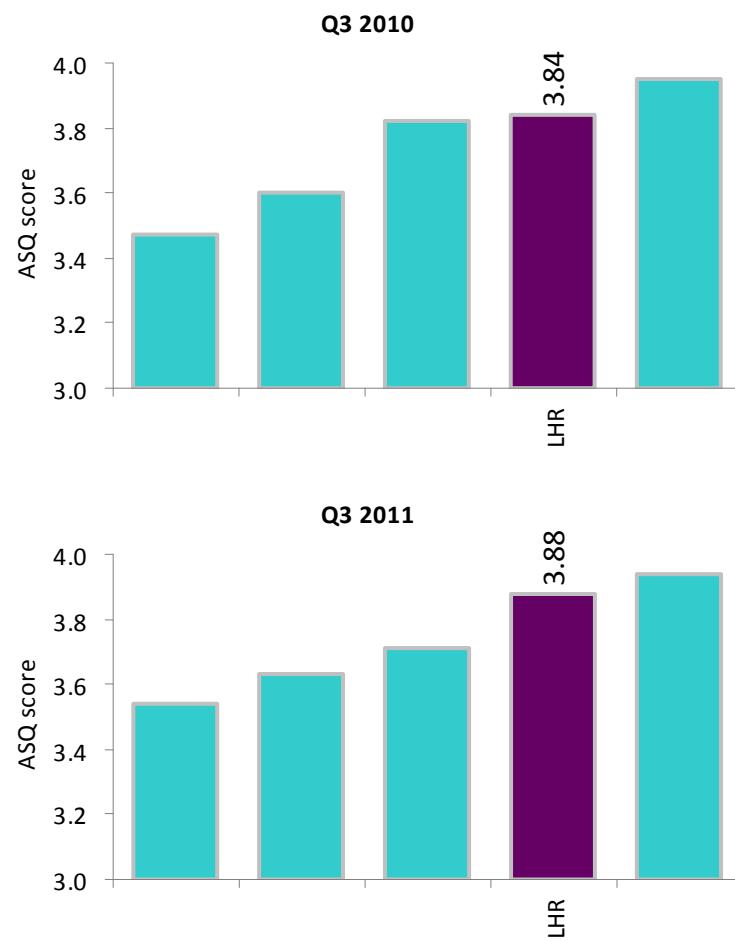
In the nine months ended 30 September 2011, the proportion of aircraft departing within 15 minutes of schedule was 79.6% (2010: 73.6%) at Heathrow and 88.2% (2010: 79.1%) at Stansted. Improved results reflect no recurrence of European air traffic control strikes during 2010 or the severe winter weather in January 2010 as well as the success of various operational measures.

At Heathrow, in the nine months ended 30 September 2011, the proportion of baggage not accompanying passengers on their journeys improved to 15 per 1,000 passengers (2010: 16 per 1,000 passengers). Heathrow has delivered some of its best ever monthly baggage misconnect performances during 2011.

In the first nine months of 2011, passengers passed through central security within periods prescribed under service quality rebate ('SQR') schemes 97.0% (Heathrow) and 97.7% (Stansted) of the time, compared with 95.0% service standards in both cases.

In the six months ended 30 September 2011, Heathrow incurred £3.1 million of payments under its SQR scheme (2010: £3.4 million) and Stansted £0.2 million (2010: £0.1 million).

Overall passenger satisfaction for top 5 European airports



2. Significant business developments – passenger traffic⁽¹⁾

In the eleven months ended 30 November 2011, Heathrow and Stansted's combined traffic increased 3.1% to 80.7 million (2010: 78.3 million), with Heathrow up 4.8% and Stansted down 2.8%. Reported year on year performance was influenced by external factors in 2010 including disruption caused by volcanic ash and industrial action by British Airways cabin crew at Heathrow that resulted in the loss of an estimated 2.2 million passengers. Adjusting for the 2010 disruptions, passenger traffic across the two airports is estimated to have increased 0.3% with Heathrow up 1.8% and Stansted down 4.7%.

Heathrow delivered six consecutive months of record traffic from April to September with July the airport's busiest month in history. However, there has been a softening in traffic since the summer reflecting the more uncertain economic environment.

Heathrow's growth has been particularly strong in markets such as the United States (particularly expansion of services to New York and Boston and new routes such as San Diego), Germany (particularly Frankfurt, Berlin and Munich), Switzerland, France and Brazil (primarily significantly greater frequency). In contrast, Heathrow's domestic traffic has declined, reflecting increasingly scarce capacity at the UK's only hub airport.

Most of Stansted's traffic decline in 2011 has been in the domestic market and, excluding that, its traffic fell 1.3% to 15.5 million (2010: 15.7 million). Further, in recent months Stansted has consistently experienced record load factors, suggesting gradually improving demand dynamics.

Q1 2008 to Q3 2011 quarterly traffic is set out in Appendix 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

Passenger traffic			
	11 months ended 30 November 2010 (m)	2011 (m)	Change ⁽²⁾
<i>By airport</i>			
Heathrow	60.9	63.9	4.8%
Stansted	17.3	16.9	-2.8%
Total⁽²⁾	78.3	80.7	3.1%
<i>By market served</i>			
UK	6.2	5.7	-7.6%
Europe ⁽³⁾	39.9	41.3	3.5%
Long haul	32.2	33.8	4.8%
Total⁽²⁾	78.3	80.7	3.1%

3. Significant regulatory/governmental developments

Modernisation of economic regulation of UK airports

On 23 November 2011, the Government moved to the next stage in its plans to implement reforms to the framework for economic regulation of UK airports with the publication of the draft Civil Aviation Bill for pre-legislative scrutiny which includes consideration by the Transport Select Committee. It is expected that the bill will be introduced into Parliament in early 2012. This will enable the new legislation to be enacted and then utilised as the backdrop to the terms of the next regulatory settlement for both Heathrow and Stansted due to commence on 1 April 2014. The terms of the draft bill are available on the Department for Transport website.

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

In September 2011, BAA issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the Competition Commission's ('CC') decision regarding material changes in circumstances since the CC's report of March 2009 requiring the sale of Stansted Airport. The CAT hearing to consider the judicial review case was held on 5-7 December 2011. The outcome of the judicial review is expected to be known in the first quarter of 2012. Meanwhile, on 7 October 2011, the CC decided to reverse the order of disposals. This means that the disposal of a Scottish airport will precede the proposed disposal of Stansted. As a result, on 19 October 2011 BAA announced the nomination of Edinburgh airport as the Scottish airport to be sold. Final undertakings from BAA to put this into effect have been implemented.

4. Historic financial performance⁽¹⁾ (A)

Turnover

In the nine months ended 30 September 2011, turnover increased 10.2% to £1,703.3 million (2010: £1,545.5 million). This reflects increases of 14.2% in aeronautical income, 10.0% in gross retail income and 1.0% in other income.

There was a 15.7% increase in aeronautical income at Heathrow and a 2.6% increase at Stansted. Heathrow's increase primarily reflects passenger traffic trends as well as the 6.2% and 12.2% headline increase in tariffs applicable from 1 April 2010 and 1 April 2011 respectively. At Stansted, growth in aeronautical income reflects principally the fact that headline tariffs increased by 6.33% from 1 April 2011.

The retail business has continued to perform very well. This is evident from the 6.2% increase in net retail income per passenger (Heathrow: +6.3%; Stansted: +3.2%) in the nine months ended 30 September 2011 to £5.42 (2010: £5.11).

This reflects gross retail income increasing 10.0% to £385.0 million (2010: £350.1 million) and net retail income increasing 10.7% to £361.9 million (2010: £326.9 million). This performance was led by duty and tax-free, airside specialist shops, catering and car parking. Strength in duty and tax-free shopping has been supported through 2011 by the new walk through area in the World Duty Free store in Heathrow Terminal 3 and extension of the store in Heathrow Terminal 5. In airside specialist shops, strong trading in the luxury segment continued despite the more difficult macroeconomic environment. Strength in car parking reflected increased usage, tariff increases and strength in premium services.

Operating costs⁽²⁾

In the nine months ended 30 September 2011, operating costs increased 4.2% to £861.1 million (2010: £826.5 million). The main drivers were higher employment costs and rents and rates. Employment costs were up 8.1% reflecting principally pay rises and increased headcount. The higher employee numbers were particularly due to increased airfield security personnel at Heathrow and more mobile sales assistants that have supported growth at Heathrow Express. The increased employment costs also reflected increased overtime and use of temporary staff to support record traffic levels at Heathrow through the summer. Higher rents and rates costs reflected the five yearly rates revaluation effective from April 2010, an annual rates increase from April 2011 and no recurrence of 2010's rates rebate.

Adjusted EBITDA⁽³⁾

Adjusted EBITDA for the nine months ended 30 September 2011 increased 17.1% to £842.2 million (2010: £719.0 million). The significant increase in Adjusted EBITDA reflects improved underlying traffic, increased aeronautical and retail income per passenger, continued cost control and no recurrence of 2010's volcanic ash and strike disruptions.

1) For more detail, see results for nine months ended 30 September 2011 issued on 26 October 2011

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 nine months ended 30 September 2011, net interest payable was £585.4 million (2010: £519.4 million) excluding fair value losses on financial instruments. Underlying net interest payable was £566.6 million (2010: £482.8 million), excluding £21.5 million (2010: £16.2 million) in capitalised interest and £40.3 million (2010: £52.8 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 £72.9 million (2010: £12.1 million) that reflects principally the impact on the valuation of index-linked swaps of a significant decrease between 31 December 2010 and 30 September 2011 in implied future interest rates and the larger portfolio of index-linked swaps in place in 2011.

Interest paid

Net interest paid in the nine months ended 30 September 2011 was £309.4 million (2010: £279.4 million), consisting of £268.3 million (2010: £211.8 million) paid in relation to external debt and £41.1 million (2010: £67.6 million) under the debenture between BAA (SP) Limited and BAA (SH) plc. The increase in external interest paid is primarily due to the cash impact of the on-going replacement of floating rate bank debt with higher yielding longer term bank and bond finance. The impact of new swaps, swap cancellations, and swaps coming out of their prepayment periods also resulted in higher net payments in 2011.

Net interest paid was lower than underlying net interest payable primarily due to an amortisation charge of £48.0 million (2010: £105.6 million) relating to prepayments of derivative interest and a £179.3 million non-cash charge (2010: £77.3 million) relating to accretion on index-linked instruments.

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

At 30 September 2011, the Group had £7,802.7 million of nominal debt outstanding under various bond issues. There was also £2,329.5 million outstanding under various bank debt facilities and index-linked derivative accretion of £286.1 million. With cash and cash equivalents of £67.3 million, nominal net debt was £10,351.0 million. The average cost of the external gross debt at 30 September 2011 was 4.23% taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion.

Capital expenditure and Regulatory Asset Base (RAB)

Cash flow capital expenditure at Heathrow was £645.1 million in the nine months ended 30 September 2011 and £14.8 million at Stansted. The combined RAB of Heathrow and Stansted was £13,633.4 million at 30 September 2011.

Financial ratios

At 30 September 2011, senior and junior gearing ratios (net debt to RAB) were 68.4% and 75.9% respectively compared with trigger levels of 70.0% and 85.0%.

5. 2011 and 2012 traffic forecasts

The most recent (finalised in September 2011) board approved forecast for traffic across Heathrow and Stansted for the year ending 31 December 2011 is 87.6 million, made up of 69.7 million at Heathrow and 17.9 million at Stansted. Performance since this forecast was produced suggests that overall passenger numbers across the two airports in 2011 will be slightly below the combined figure with fewer passengers at Heathrow and slightly more than expected at Stansted.

Nevertheless it is expected that Heathrow will record its highest ever annual traffic in 2011 following 6 consecutive monthly traffic records between April 2011 and September 2011. The airport is expected to operate close to the maximum permitted 480,000 air transport movements in 2011.

For the year ending 31 December 2012, passenger traffic across the two airports is forecast to increase to 88.1 million with 70.8 million at Heathrow (an increase of 1.6% from the forecast 2011 outturn outlined above) and 17.3 million at Stansted (a decline of 3.1% from the forecast 2011 outturn outlined above). There will be a modest benefit to traffic compared with 2011 from the extra day due to 2012 being a leap year.

At Heathrow, underlying growth is expected to come from a further modest increase in load factors. In addition, larger aircraft are also expected to contribute to growth. For example, Emirates is introducing an additional A380 daily rotation to/from Dubai in January 2012. Singapore Airlines is also expected to increase A380 rotations to Heathrow whilst Malaysian Airlines is expected to become the fourth airline to introduce permanent A380 services.

At Stansted, the forecast decline in traffic principally reflects easyJet's decision to transfer three aircraft to Southend airport from April 2012.

6. 2011 and 2012 financial forecasts

BAA (SP) Limited 2011 and 2012 financial forecasts (finalised in September and November 2011 respectively) are set out opposite (more detail is in Appendices 2 and 3). Highlights include:

- forecast £1,128 million 2011 Adjusted EBITDA with performance up to November 2011 suggesting an outturn close to this figure**
- forecast 2012 Adjusted EBITDA up 13.7% on current 2011 forecast to £1,283 million driven mainly by higher Heathrow aeronautical income**

Forecast growth in Heathrow aeronautical income reflects headline tariffs increasing from 1 April 2011 and 2012 by 12.2% and 12.7% respectively supported by higher passenger traffic (see page 10).

Retail income is expected to grow 6.2% in 2012 with net retail income per passenger increasing 4.9% at Heathrow and 3.1% 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 more passengers and price increases.

2012 operating costs (excluding depreciation and exceptional items) are forecast to increase 5.9% to £1,234 million (2011: £1,165 million) primarily reflecting (a) the impact of inflation and contractual terms on employment, third party contract and rates costs, (b) a full year of Terminal 5C being operational and (c) 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 ground transportation.

Heathrow and Stansted's combined forecast capital expenditure for 2012 is £1.3 billion, including £1.2 billion at Heathrow.

All forecast financial ratios comply with Trigger Event ratios.

Financials	2011	2012	Change ⁽¹⁾
<i>(figures in £m unless otherwise stated)</i>			
Revenue	2,293	2,516	9.7%
Adjusted EBITDA	1,128	1,283	13.7%
Cash flow from operations	1,052	1,224	16.3%
Cash flow for ICR calculation	777	929	19.7%
Capital expenditure	910	1,272	39.8%
Total RAB	13,783	14,718	6.8%
Nominal net debt			
Senior net debt	9,368	9,994	6.7%
Junior debt	1,025	1,625	58.5%
Total nominal net debt	10,393	11,619	11.8%
Interest paid			
Senior interest paid	295	342	16.0%
Junior interest paid	52	72	37.4%
Total interest paid	347	414	19.3%
Ratios ⁽²⁾			
	2011	2012	Trigger level
Senior RAR	68.0%	67.9%	70.0%
Junior RAR	75.4%	78.9%	85.0%
Senior ICR	2.63x	2.71x	1.40x
Junior ICR	2.24x	2.24x	1.20x

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 9 June 2011.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 9 June 2011.

8. Significant board/management changes

In October 2011, Chris Beale was appointed as a director of BAA Limited on completion of the purchase by investment funds managed by Alinda Capital Partners, an independent investment firm with over \$7.4 billion in equity commitments to infrastructure investments, of a 5.88% shareholding in the BAA group from Ferrovial. He is the Managing Partner of Alinda. Prior to founding Alinda in 2005, he led the world's largest infrastructure finance business as global head of project finance at Citigroup. He was also global head of project finance at Morgan Stanley and Credit Suisse First Boston.

In October 2011, Inigo Meiras resigned as a director of BAA Limited.

In June 2011, Nick Cullen, Heathrow's Chief Operating Officer, left BAA and also ceased to be a director of Heathrow Airport Limited and Heathrow Express Operating Company Limited ('HEX').

In June 2011, Terry Morgan was appointed Heathrow's Chief Operating Officer on an interim basis and was appointed a director of Heathrow Airport Limited ('HAL') and HEX. He resigned as a director of HEX in November 2011.

In July 2011, Clare Harbord joined BAA as Corporate Affairs Director and Executive Committee member. She was previously Director of Communications at the Ministry of Justice and was responsible for all external and internal communications. Before that she was Head of Communications for the UK business of German-owned energy company, E.ON.

In August 2011, Normand Boivin joined BAA as Heathrow's Chief Operating Officer and Executive Committee member and was appointed as a director of both HAL and HEX. He subsequently resigned as a director of HEX in November 2011. He was previously Operations Director for Aéroports de Montréal and brings almost 30 years of aviation industry experience. He started his career in 1982 as an air traffic controller for Transports Canada, and has held several positions in the Canadian airport management sector including Vice-President Operations of Montreal's two international airports; Facilities Development Director at Montreal Dorval Airport and General Manager at Quebec City Airport.

There have been the following additional changes to the board of HEX since the previous Investor Report was distributed on 9 June 2011. Richard Robinson resigned as a director in October 2011, John Holland-Kaye and Keith Greenfield were appointed as directors in November 2011 and Mark Murphy resigned as a director in December 2011.

9. Financing matters (1)

Bond issues

Since the previous Investor Report was distributed on 9 June 2011, BAA Funding Limited has completed a US\$1,000 million 10 year Class A issue with a scheduled redemption date of 15 July 2021.

Drawings and repayments under loan facilities

Since the previous Investor Report was distributed on 9 June 2011

- the Refinancing Facility has been fully repaid principally utilising the proceeds from the US\$1,000 million Class A bond issue referred to above
- Heathrow Airport Limited has made scheduled EIB loan repayments of approximately £30 million
- BAA (SH) plc has entered into a £50 million eight year loan which is expected to be drawn shortly with the net proceeds being utilised in repaying part of the capitalised interest on the toggle facility held at ADI Finance 1 Limited

Between 31 March 2011 and 30 September 2011, Heathrow Airport Limited made a net drawdown under the capital expenditure facility of £140 million.

Hedging

Currently, 81% and 63% 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 9 June 2011, £860 million of new forward starting interest rate swaps have been entered into, locking in current low interest rates over the next two regulatory periods (i.e. Q6 and Q7) and £185 million of interest rate swaps were cancelled.

All foreign currency denominated debt instruments are hedged using currency swaps. Since the previous Investor Report was distributed on 9 June 2011, £990 million notional value of index-linked swaps have been executed taking the total notional value of such instruments to £5,254 million.

New shareholder in BAA

In October 2011, Ferrovial completed the sale of a 5.88% shareholding in FGP Topco Limited, the ultimate holding company of the BAA group, to investment funds managed by Alinda Capital Partners, for £280 million, giving an implied equity value to BAA of approximately £4.8 billion. As a result of this sale BAA is now owned by affiliates of or investment funds managed by Ferrovial (49.99%), Caisse de Depot et Placement de Quebec (26.48%), Government of Singapore Investment Corporation (17.65%) and Alinda Capital Partners (5.88%).

9. Financing matters (2)

Historic and future Restricted Payments

Since the previous Investor Report was distributed on 9 June 2011, Restricted Payments totalling £158.7 million have been made, £134.8 million of which was distributed beyond BAA (SH) plc and ultimately used to repay interest that had accrued under the toggle facility at ADI Finance 1 Limited. The £134.8 million had earlier been injected into the Security Group from elsewhere in the BAA group principally in January 2011. The remaining £23.9 million in restricted payments was used to pay interest that had accrued under the debenture between BAA (SP) Limited and BAA (SH) plc between March 2011 and September 2011 which in turn was used in servicing BAA (SH) plc's external debt.

Looking forward into 2012, the BAA group has decided in principle to commence paying dividends to its shareholders for the first time since it was acquired by the Ferrovial-led consortium in 2006. The Security Group expects to make Restricted Payments of over £400 million in 2012, which will be used in part to fund the dividends, which are expected to be set initially at £60 million per quarter. Dividend payments will reflect BAA's ability to continue to access stable financial markets to finance its substantial ongoing capital investment programme at Heathrow and will be made within the framework of the guidance on the capital structure for its London airports previously provided.

Liquidity

The Security Group has a strong liquidity position with a committed revolving capital expenditure and working capital facility of £2,750 million, of which £1,350 million was undrawn at 30 September 2011. 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, until early 2013.

New triennial valuation of BAA defined benefit pension scheme

BAA has recently concluded the triennial valuation of its defined benefit pension scheme and agreed with the scheme's trustees a schedule of cash contributions to be made to the scheme by BAA from January 2012. The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated on an actuarial basis for the scheme trustees.

As part of the triennial valuation process, the BAA group expects to pay £97 million per annum into the scheme from 2012 to 2014, of which £24 million per annum is intended to go towards eliminating the deficit over the next 9 years. This compares with a total of £80 million per annum currently being paid. All but approximately £15 million of the annual amount will be met by the Security Group.

10. Confirmation

19 December 2011

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 2008 to Q3 2011)

	Heathrow (m)	Period on period growth⁽¹⁾	Stansted (m)	Period on period growth⁽¹⁾	Total⁽¹⁾ (m)	Period on period growth⁽¹⁾
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%

(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⁾	31 December 2012 ⁽¹⁾
		£m	£m
Cashflow from Operations ⁽²⁾		1,052	1,224
Add back: one-off, non-recurring, extraordinary or exceptional items		0	0
Cashflow from Operations (before exceptional items)		1,052	1,224
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(276)	(294)
Cash Flow (A)		777	929
Interest and equivalent recurring charges paid on Senior Debt ⁽³⁾⁽⁴⁾			
Interest paid – existing Class A bonds		343	410
Interest paid – existing Class A EIB facilities		4	4
Interest paid – other Class A debt		44	60
Interest received on swaps		(118)	(159)
Commitment fees on liquidity and capex facilities		23	28
Total interest on Senior Debt (B)		295	342
Interest and equivalent recurring charges paid on Junior Debt ⁽³⁾⁽⁴⁾			
Class B debt		52	72
Total interest on Junior Debt (C)		52	72
Total interest (D=B+C)		347	414
Senior ICR (A/B)⁽⁵⁾		1.400x	2.633x
Junior ICR (A/D)⁽⁵⁾		1.200x	2.236x

(1) 2011 and 2012 figures are forecasts. For 2010, actual Senior and Junior Interest Cover Ratios were 2.083x and 1.851x respectively

(2) Reconciliation 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) 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 – Forecast 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	1,295	1,461
Non-aeronautical income - retail	518	550
Non-aeronautical income - non-retail	480	506
Total income	2,293	2,516
Operating expenses ⁽¹⁾	1,165	1,234
Adjusted EBITDA	1,128	1,283
Working capital and cash one-off, non-recurring, extraordinary or exceptional items		
Cash exceptional	0	0
Movement in capital expenditure creditors	0	0
Trade working capital	(41)	(4)
Difference between pension charge and cash contributions	(35)	(55)
Cashflow from operations	1,052	1,224

	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	423	396	13	410	343
Interest paid – existing Class A EIB facilities	4	4	0	4	4
Interest paid – other Class A debt	92	88	(28)	60	44
Interest paid/(received) on swaps ⁽⁵⁾	(80)	(149)	(10)	(159)	(118)
Commitment Fees on Liquidity and Capex Facilities	30	30	(2)	28	23
Interest paid - Class B debt	82	80	(8)	72	52
Total interest	551	449	(35)	414	347

(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) Excludes interest rate swap cancellation and restructuring costs of £96 million in 2011 and £116 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		12,426	13,385
Stansted		1,356	1,333
Total forecast closing RAB (A)		13,783	14,718
Senior Debt			
Existing Class A Bonds		7,393	6,722
Class A EIB facilities		294	255
Other Class A debt		1,334	2,503
RPI swap accretion		359	515
Total Senior Debt (B)		9,379	9,994
Junior Debt			
Class B debt		1,025	1,625
Total Junior Debt (C)		1,025	1,625
Cash and cash equivalents (D)		(11)	(0)
Senior net debt (E=B+D)		9,368	9,994
Senior and junior net debt (F=B+C+D)		10,393	11,619
Senior RAR (E/A)⁽²⁾⁽³⁾	70.0%	68.0%	67.9%
Junior RAR (F/A)⁽²⁾	85.0%	75.4%	78.9%

(1) Figures for 2011 and 2012 are forecasts. At 31 December 2010, actual Senior and Junior Regulatory Asset Ratios were 68.8% and 77.7% respectively

(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked 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

Appendix 4 – Nominal consolidated net debt of Obligors and BAA Funding Limited at 30 September 2011

		Debt outstanding at 30 September 2011		Amount and features of available facilities		
		Amount	(£m)	Local currency	S&P/Fitch Rating	Maturity
		(m)	(£m)			
Bonds		680.2		999.9	A-/A-	2012/14
		396.4		396.4	A-/A-	2013/15
		512.9		749.9	A-/A-	2014/16
		299.9		299.9	A-/A-	2016/18
		433.8		500.0	A-/A-	2016/18
		510.2		750.0	A-/A-	2018/20
		249.8		249.8	A-/A-	2021/23
		621.3		1,000.0	A-/A-	2021/23
		749.6		749.6	A-/A-	2023/25
		700.0		700.0	A-/A-	2026/28
		199.9		199.9	A-/A-	2028/30
		900.0		900.0	A-/A-	2031/33
		398.7		398.7	A-/A-	2039/41
		750.0		750.0	A-/A-	2041/43
Total bonds		7,402.7		7,402.7		
Bank debt	EIB Facility	304.5		304.5	n/a	2011/22
	Capex/Working Capital Facility	1,400.0		2,350.0	n/a	2013
Total bank debt		1,704.5		2,654.5		
Total senior debt		9,107.2		10,057.2		
Junior (Class B)						
Bonds		400.0		400.0	BBB/BBB	2018
Bank debt	Term Loan Facility	625.0		625.0	n/a	2014
	Capex Facility	0.0		400.0	n/a	2013
Total junior debt		1,025.0		1,425.0		
Gross debt		10,132.2		11,482.2		
Cash		(67.3)				
Index-linked derivative accretion		286.1				
Net debt		10,351.0				

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 18)		777	929
Interest			
Paid on Senior Debt (B) (see page 18)		295	342
Paid on Junior Debt (C) (see page 18)		52	72
Paid on any Permitted Financial Indebtedness not subordinated to Senior or Junior Debt (D)		0	0
Paid on Borrowings (E)		27	41
Received by BAA (SH) plc or any of its subsidiaries (F)		0	0
Group Interest Paid (G=B+C+D+E+F)		375	455
Group ICR (A/G)		1.000x	2.073x
Calculation of Group RAR			
Total RAB (see page 20) (H)		13,783	14,718
Net debt			
Senior Net Debt (see page 20) (I)		9,368	9,994
Junior Debt (see page 20) (J)		1,025	1,625
Borrower Net Debt (K)		548	550
Group Net Debt (L=I+J+K)		10,941	12,169
Junior RAR ((I+J)/H)		82.0%	75.4%
Group RAR (L/H)		90.0%	79.4%
			82.7%

(1) ICR or Interest Cover Ratio is defined on page 18

(2) RAR or Regulatory Asset Ratio is defined on page 20