BAA's regulated airports

Investor Report

Issued on 24 June 2010

BAA

Important notice

This Investor Report 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.

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 is being distributed pursuant to the terms of the Common Terms Agreement (‘CTA’).

Investor Reports relate to the performance of the Security Group which includes Heathrow and Stansted airports. This Investor Report comments on the financial and operational performance of the Security Group for the period up to 31 March 2010. It also contains forecast financial information for the whole of 2010 derived from current management forecasts for the Security Group for that year.

Defined terms used in this document have the same meanings as set out in the Master Definitions Agreement unless otherwise stated.

Contents of report

1. Introduction

This Investor Report covers a range of financial and operational developments at BAA's Designated Airports during 2009 and 2010.

It also provides historic and forecast financial ratios (RAR and ICR) for the Designated Airports for the years ended 31 December 2009 and 2010.

The latest management forecasts for 2010 for the BAA (SP) Limited group have the following highlights:

- revenue of £2,070 million
- Adjusted EBITDA[1] of £946 million

Despite the estimated combined impact of over £40 million from disruption caused by volcanic ash, airline industrial action and winter weather, the latest 2010 Adjusted EBITDA forecast outlined above is only £10 million lower than the forecast included in the December 2009 Investor Report. The underlying outperformance reflects primarily higher forecast passenger traffic (excluding the impact of the disruptions referred to above) and net retail income per passenger and lower operating costs.

These forecasts exclude Gatwick airport which was sold on 3 December 2009.

In the years to 31 December 2009 and 2010, all financial ratios either complied with or are forecast to comply with relevant Trigger Event ratio levels as illustrated in the charts opposite.

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

	Actual/ forecast ratio level	Trigger level
Regulatory asset ratio (RAR)[1][2]		
Senior ratios		
At 31 December 2009[3]	0.675	0.700
At 31 December 2010[3]	0.690	0.700
Junior ratios		
At 31 December 2009	0.731	0.850
At 31 December 2010	0.767	0.850
Interest cover ratio (ICR)[1][4][5]		
Senior ratios		
For year to 31 December 2009	1.620x	1.400x
For year to 31 December 2010	2.104x	1.400x
Junior ratios		
For year to 31 December 2009	1.483x	1.200x
For year to 31 December 2010	1.780x	1.200x

1) Figures for 2009 are actuals and for 2010 are forecasts
2) RAR is Regulatory Asset Ratio which 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 capital expenditure facility
4) ICR is Interest Cover Ratio which is defined on page 19
5) 2009 and 2010 ICRs include swap interest prepayments of £114.2 million and £36.7 million made in December 2009 and January 2010 respectively

2. Significant business developments – service standards

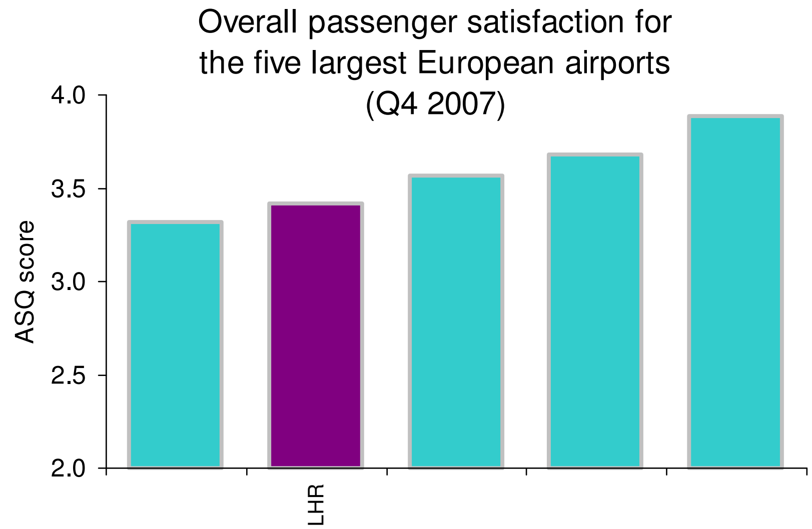
Consistent delivery of high service standards is a strategic priority, being a key enabler to delivering cost efficiencies and strengthening the competitive position of the Obligors' airports.

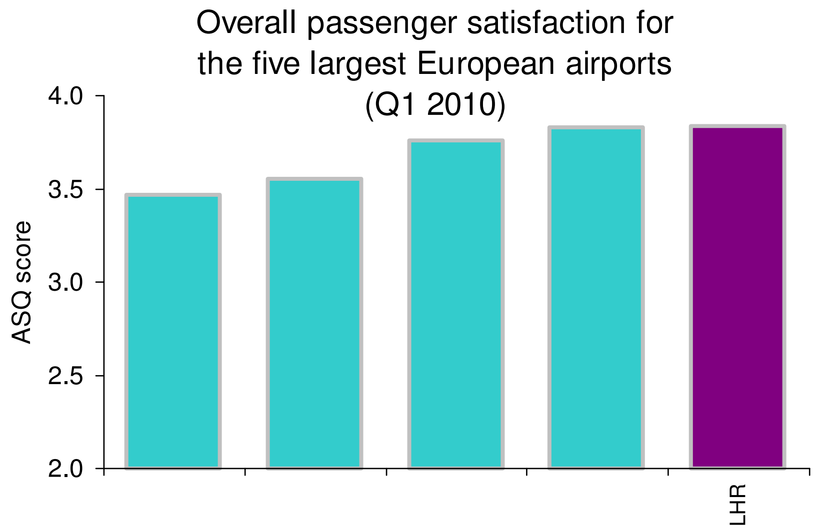
Heathrow ranked top for the first time for overall passenger satisfaction amongst the five major European hub airports, according to the Airports Council International Airport Service Quality survey for the first quarter of 2010. This reflects the strong focus in recent years on improving service standards such as departure punctuality, baggage misconnect rates and security queuing times (although they were affected by external factors in early 2010 as discussed below). It also reflects the benefit of new and refurbished infrastructure such as at Terminals 4 and 5. The improvement in Heathrow's performance in recent years is illustrated in the charts opposite.

In the three months ended 31 March 2010, the proportion of aircraft departing Heathrow within 15 minutes of schedule was 72.4% (2009: 76.6%) and at Stansted was 79.0% (2009: 81.7%). Results were affected by extreme winter weather in January 2010 and similar weather issues at destination airports. British Airways industrial action also had an impact on Heathrow performance in 2010.

At Heathrow, in the first three months of 2010, the proportion of baggage not accompanying passengers on their journeys remained constant relative to the prior year at 21 per 1,000 passengers. Given the effect of winter weather in January 2010, underlying performance continues to improve. In the first three months of 2010, passengers passed through central security within periods prescribed under service quality rebate ('SQR') schemes 97.6% (Heathrow) and 99.7% (Stansted) of the time, exceeding the 95.0% service standard.

In the year ended 31 March 2010 the significant improvement in service standards at Heathrow is evident in SQRs reducing to £3.3 million (2009: £9.4 million). In the first year (to 31 March 2010) of the Stansted scheme, SQRs were £0.6 million.





2. Significant business developments – passenger traffic[1]

	Five months ended 31 May					
	2009 (m)		**2010 (m)**		**Change[2]**	
	Actual	Underlying	**Actual**	**Underlying**	**Actual**	**Underlying**
By airport						
Heathrow	25.5	25.6	**24.3**	**26.2**	**-4.4%**	**+2.3%**
Stansted	7.4	7.4	**6.8**	**7.2**	**-8.3%**	**-3.6%**
Total[2]	**32.8**	**33.0**	**31.1**	**33.3**	**-5.3%**	**+1.0%**
By market served						
UK	2.8	n/a	**2.4**	**n/a**	**-14.6%**	**n/a**
Europe[3]	16.5	n/a	**15.6**	**n/a**	**-5.3%**	**n/a**
Long haul	13.5	n/a	**13.1**	**n/a**	**-3.2%**	**n/a**
Total[2]	**32.8**	**33.0**	**31.1**	**33.3**	**-5.3%**	**+1.0%**

In the five months to 31 May 2010, passenger traffic at Heathrow and Stansted declined 5.3% to 31.1 million (2009: 32.8 million). The decline was due to disruption caused by volcanic ash that closed the airports for almost a week in April 2010, industrial action by British Airways cabin crew that affected Heathrow in both March and May and extreme winter weather in January 2010.

Underlying passenger traffic, after adjusting for these factors and weather disruption in February 2009, is estimated to have increased by 1.0% to 33.3 million (2009: 33.0 million).

The underlying performance reflects particularly the recovery under way at Heathrow since July 2009. There have also been substantial reductions in year on year declines at Stansted and in May 2010 its underlying traffic increased slightly year on year for the first time since late 2007.

By individual airport, Heathrow's reported traffic declined 4.4% in the five months to 31 May 2010 with underlying growth of 2.3% particularly reflecting the performance of emerging market long haul as well as European traffic. Stansted's reported traffic declined 8.3% in the five months to 31 May 2010 with an underlying decline of 3.6%.

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

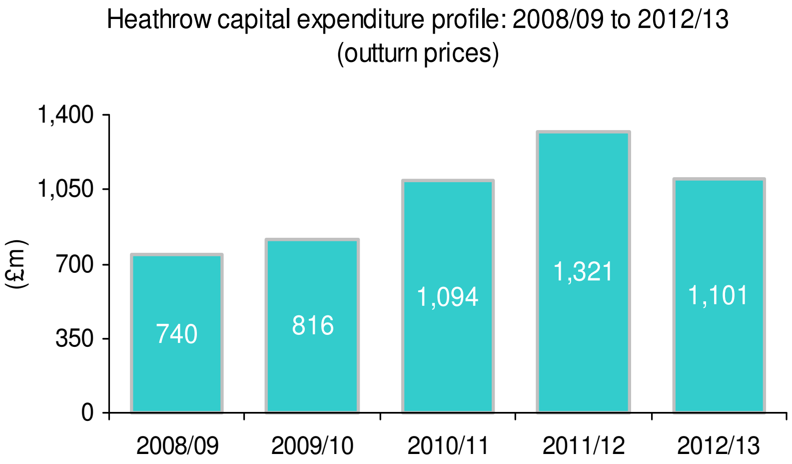
1) Monthly passenger traffic data for all BAA's airports is published at www.baa.com
2) Percentage change and totals calculated using un-rounded passenger numbers
3) Includes both scheduled and charter traffic and includes North African charter traffic

2. Significant business developments – capital investment

Heathrow's current capital investment plan was published in June 2010. It reflects extensive discussion with airlines since publication of the previous plan document in May 2009 about prioritising future spend, finalising scope and reappraising costs of delivery over the five year period to 31 March 2013.

The forecast outturn cost of the plan over the five years is £5.1 billion, consistent with the outturn cost implied in the 2008 Civil Aviation Authority ('CAA') settlement. Lower than forecast inflation in the first two years of the period has enabled scope to be added (£4.7 billion in 2007/08 prices compared to £4.5 billion in the CAA settlement) whilst remaining within forecast outturn cost.

The key investment at Heathrow in the next few years is the construction of a new Terminal 2. The previous terminal closed in late 2009 and work has commenced on its demolition. This work will be completed in 2010 with the footprint required for the new terminal clear by summer 2010.



The new Terminal 2 will be home to the Star Alliance airlines at Heathrow. During 2009 significant design and development work was carried out on the new Terminal 2 campus, clarifying the scope of the multi-storey car park and how it is connected to the terminal and the existing road system as well as the scope of the baggage systems. In addition, overall phasing for the development of the new terminal was defined.

Other major projects in the current regulatory period include completion of Terminal 5C, the second satellite to Terminal 5 that is expected to become operational in early 2011. In addition, as part of the development of an integrated baggage system across Heathrow, the baggage tunnel and associated systems between Terminals 3 and 5 are expected to become operational in 2012.

By February 2010, ten of the 24 capital investment trigger projects during the current regulatory period had been completed. Based on forecast project completion dates for all trigger projects as at February 2010, it is expected that aeronautical income will be adjusted by £42 million (in 2007/08 prices) over the regulatory period (approximately 1% of the CAA's forecast of aeronautical income in this period).

At Stansted, investment over the five year period to 31 March 2014 is forecast to be approximately £100 million which will be spent on modernising the airport's existing infrastructure.

3. Significant regulatory/governmental developments

Revised government policy on future runway development

In response to the new UK government's policy position ruling out new runway development in the South East of England, Heathrow has announced that it will stop work on its planning application for a third runway and Stansted has announced that it will withdraw its current planning applications for a second runway.

Both Heathrow and Stansted are assessing the financial accounting implications of these decisions for both purchased property and capitalised planning application costs. It should be noted that the ultimate accounting treatment will not impact the expectation that all these costs will be included in the airports' regulatory asset bases (other than Stansted planning application costs previously disallowed by the CAA) and future cash flows, consistent with CAA guidance. Further, the accounting treatment will not have a material impact on the Obligors' financial ratios.

Modernisation of economic regulation of UK airports

In May 2010 the new UK government announced that it will introduce an Airport Economic Regulation Bill to reform the framework for airport economic regulation to benefit passengers and drive investment in airport facilities.

BAA is pleased that these reforms are a priority for the new government. This Bill is being brought forward following the Department for Transport's ('DfT') decision announced in December 2009, following extensive consultation with the industry regarding changes to the economic regulation of UK airports. BAA also understands that it is unlikely there will be major changes to the overall approach for the financial elements of the review, including the framework for setting price caps. Ministers are currently reviewing the details of the proposed legislation and the government is expected to bring forward legislation as parliamentary time allows.

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

In March 2009, the Competition Commission ('CC') concluded its investigation on the supply of airport services by BAA in the UK and called for structural remedies including the disposal of Gatwick and Stansted to different owners. Gatwick has since been sold. BAA applied to the Competition Appeal Tribunal ('CAT') to review the CC's findings and in December 2009 the CAT upheld BAA's appeal, on the grounds of apparent bias. In March 2010, the Court of Appeal granted the CC leave to appeal against the CAT's findings in relation to apparent bias and the appeal hearing commenced on 23 June 2010. The result of this appeal is expected to be known later in 2010.

4. Historic financial performance[1] (A)

Turnover

In the three months ended 31 March 2010, turnover increased 5.5% to £456.1 million (2009: £432.2 million). This reflects increases of 2.9% in aeronautical income, 5.6% in gross retail income and 11.4% in other income. The underlying increase in turnover in the period was estimated at 7.6% after adjusting Heathrow aeronautical income in 2009 and income in 2010 from transitional services agreements following the sale of Gatwick (both discussed below).

There were 2.6% and 5.7% increases in aeronautical income at Heathrow and Stansted respectively. The increase at Heathrow reflects increased tariffs applicable from 1 April 2009 whilst at Stansted it reflects higher yields due to lower tariff discounts. Adjusting for the delay in introducing higher tariffs applying at Heathrow from 1 April 2008 that boosted aeronautical income in the three months ended 31 March 2009 by an estimated £12.5 million above underlying levels, aeronautical income increased by 8.7%.

The retail business has made an excellent start to 2010 building on 2009's strong performance. This is evident from the 10.7% increase in underlying[2] net retail income per passenger in the three months ended 31 March 2010 to £5.15 (2009: £4.65). This reflects underlying gross retail income increasing 8.9% to £103.1 million (2009: £94.7 million) and underlying net retail income increasing 10.9% to £95.6 million (2009: £86.2 million). This performance was due to an increased proportion of higher spending origin and destination passengers at Heathrow, benefiting both the in-terminal and car parking elements of retail income. The performance also reflects greater numbers of passengers using Terminal 4, with its recently upgraded retail facilities, following relocation of airlines prior to Terminal 2's recent closure. Growth in passenger spend has been particularly strong in the luxury segment of Heathrow's airside retail outlets.

Operating costs[3]

In the three months ended 31 March 2010, operating costs increased 6.9% to £282.0 million (2009: £263.7 million). This increase was largely due to the expected higher defined benefit pension service charges and central overheads being allocated across a smaller business base following the sale of Gatwick. Excluding these factors, the underlying rate of increase in operating costs was 1.6% in nominal terms.

Adjusted EBITDA[4]

Adjusted EBITDA for the three months ended 31 March 2010 increased 3.3% to £174.1 million (2009: £168.5 million). Based on the underlying turnover and operating costs discussed above, Adjusted EBITDA increased 18.7%.

1) Commentary is in respect of continuing operations only. For further detail on the results for the three months ended 31 March 2010, see press release issued on 29 April 2010
2) Underlying retail income figures exclude £2.9 million at Heathrow (offset in operating costs) in the three months ended 31 March 2009
3) Total operating costs excluding depreciation and exceptional items
4) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

4. Historic financial performance[1] (B)

Interest payable

In the three months ended 31 March 2010, net interest payable (excluding fair value losses on financial instruments) was £181.0 million (2009: £162.2 million). Excluding £4.7 million in capitalised interest (2009: £5.5 million) and £12.5 million in non-cash amortisation of financing fees and bond fair value adjustments (2009: £27.5 million), underlying interest payable was £173.2 million (2009: £140.2 million). Increased underlying interest payable reflects accretion of negative inflation in 2009 and positive inflation in 2010 under index-linked derivatives. Interest payable also included a non-cash net fair value loss on financial instruments of £15.0 million (2009: £165.0 million loss) primarily due to movements in the index-linked swap curve.

Interest paid

Net interest paid in the three months ended 31 March 2010 was £103.0 million (2009: £142.6 million), consisting of £85.1 million (2009: £79.2 million) in relation to external debt and £17.9 million (2009: £63.4 million) under the debenture between BAA (SP) Limited and BAA (SH) Limited. The lower interest paid on the debenture in 2010 reflects a shorter interest period and significantly lower interest rate than applied for the prior year period.

Net interest paid was lower than net interest payable primarily due to a £35.8 million amortisation charge in net interest payable relating to prepayments of derivative interest implemented prior to 2010 and a £34.4 million positive accruals variance primarily due to accretion on index-linked derivatives discussed under interest payable above.

Net debt

The net debt analysis below excludes the £1,565.8 million debenture between BAA (SP) Limited and BAA (SH) Limited.

At 31 March 2010, the Group had £5,436.8 million of nominal debt outstanding under various bond issues. There was also £3,166.5 million outstanding under various bank debt facilities and index-linked derivative accretion of £55.9 million. With cash and cash equivalents of £47.0 million, nominal net debt was £8,612.2 million. The average cost of the external debt at 31 March was 5.07% after all hedging including the real cost of index-linked hedges.

Regulatory asset base (RAB)

The combined RAB of the two airports was £12,021.5 million at 31 March 2010, comprising £10,728.5 million and £1,293.0 million for Heathrow and Stansted respectively (finalised figures taken from regulatory accounts).

Financial ratios

At 31 March 2010, senior and junior gearing ratios (net debt to RAB) were 0.662x and 0.716x respectively compared with trigger levels of 0.70x and 0.85x.

1) Commentary is in respect of continuing operations only. For further detail on the results for the three months ended 31 March 2010, see press release issued on 29 April 2010

5. 2010 forecasts (A)

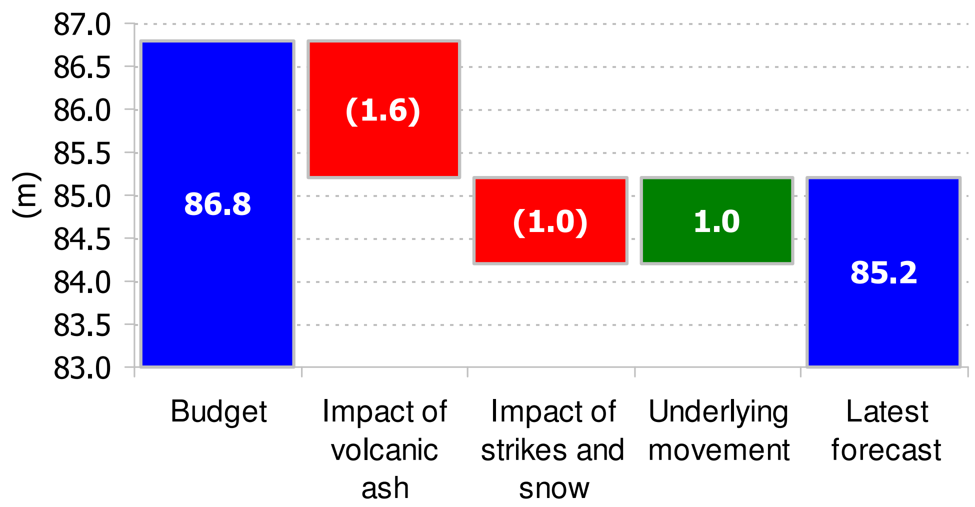
Traffic forecasts

In the Investor Report distributed on 18 December 2009 it was forecast that passenger traffic at Heathrow and Stansted would be 86.8 million in 2010, representing an increase of approximately 1% on the 2009 outturn.

The latest forecast for 2010 indicates passenger traffic of 85.2 million. This reflects the loss of an estimated 1.6 million passengers due to volcanic ash related disruption and an estimated loss of 1.0 million passengers due primarily to the effects of airline industrial action, including an allowance for the impact on traffic from any action after May 2010. These factors are partially offset by underlying growth in traffic of 1.0 million relative to the forecast included in the Investor Report distributed on 18 December 2009.

Underlying outperformance against the earlier forecast for 2010 has benefited results up to May 2010 by 0.5 million passengers. The balance of the year is expected to see continued good underlying momentum particularly as a result of a strong summer for Heathrow long haul traffic.

Development of 2010 passenger forecast between December 2009 investor report and latest forecast



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5. 2010 forecasts (B)

Financial forecasts

Financial forecasts for the year to 31 December 2010 are based on assumptions largely as at 30 April 2010 and include a 2010 passenger traffic forecast of 85.2 million. In addition they reflect the following key developments:

	Change versus 2009 outturn		Change versus 2010 forecast in December 2009 investor report	
	Heathrow	Stansted	Heathrow	Stansted
Aeronautical income per passenger	+4%	+0%	+0%	+1%
Net retail income per passenger	+9%	-1%	+2%	-2%

Operating costs (excluding depreciation and exceptional items) are forecast at £1,125 million, £6 million lower than the 2010 forecast in the December 2009 Investor Report, whilst forecast capital expenditure is £1.0 billion.

Despite an estimated combined impact of over £40 million from disruption caused by volcanic ash, airline industrial action and winter weather, the latest 2010 Adjusted EBITDA forecast is £946 million, only £10 million lower than the forecast in the December 2009 Investor Report. The underlying outperformance reflects primarily higher forecast passenger traffic (excluding the impact of the disruptions referred to above) and net retail income per passenger and lower operating costs.

Net debt is forecast at £9.84 billion at 31 December 2010 compared with a forecast of £9.10 billion included in the December 2009 Investor Report. The increase primarily reflects an assumption that £750 million will be upstreamed from BAA (SP) Limited to repay part of the £1.566 billion BAA (SH) Limited loan facility maturing in April 2011.

More detail of the forecasts is included in Appendices 2 and 3. The resulting forecast financial ratios for 2010 (together with historic ratios for 2009) are set out below.

	Senior debt ratios		Junior debt ratios	
Financial ratios(1)	Actual/forecast ratio level	Trigger event ratio level	Actual/forecast ratio level	Trigger event ratio level
RAR at 31 December 2009(2)	0.675	0.700	0.731	0.850
RAR at 31 December 2010(2)	0.690	0.700	0.767	0.850
ICR for year to 31 December 2009	1.620x	1.400x	1.483x	1.200x
ICR for year to 31 December 2010	2.104x	1.400x	1.780x	1.200x

1) See Appendices 2 and 3 for the definition of ratios (RAR and ICR) and their calculation
2) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility

6. Acquisitions, disposals, joint ventures and outsourcing

Acquisitions and disposals

Apart from settlement of the commutation payment into the BAA defined benefit pension scheme resulting from the Gatwick disposal (discussed on page 15), there have been no developments related to acquisitions and disposals involving any Obligor since the previous Investor Report was distributed on 18 December 2009.

Joint ventures

There have been no developments related to joint ventures involving any Obligor since the previous Investor Report was distributed on 18 December 2009.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 18 December 2009. However, BAA Airports Limited, which is the shared services provider to the BAA group including in relation to the provision of IT services to the Obligors, continues to consider outsourcing of its IT service delivery with the aim of improving both service delivery and value. A short list of potential suppliers has been drawn up with whom negotiations are ongoing.

7. Significant board/management changes

In March 2010, Santiago Olivares was appointed as a director of BAA Limited. He is the chief executive officer of Ferrovial Servicios as well as the Chairman of Cespa, Vice-chairman of Amey plc and Swissport International and a board member of Tube Lines Holdings. Prior to joining Ferrovial, he worked at McKinsey & Co.

In March 2010, Mike Brown, Heathrow's previous chief operating officer, left BAA to return to London Underground as its managing director. Mike Brown also ceased to be a director of Heathrow Airport Limited and Heathrow Express Operating Company Limited.

In April 2010, Tom Kelly, BAA's director of communications, left BAA to join the Financial Services Authority as its communications director.

In February 2010, Nick Cullen joined BAA as Heathrow's chief operating officer. He has also joined the boards of Heathrow Airport Limited and Heathrow Express Operating Company Limited. He was previously director of business development Northern Europe for CEVA Logistics and has experience in logistics, supply chain and manufacturing at companies such as DHL, Gap, Diageo, Scottish Courage, Heinz and Mars.

Benjamin Harding has resigned as a director of Heathrow Express Operating Company Limited and has been replaced by Mark Murphy.

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 18 December 2009.

8. Financing matters (A)

Equity injection

In January 2010, BAA completed the £500 million equity injection into its London airports originally announced in November 2009. The funds have been used to pay down debt, prepay swap interest and cancel certain interest rate swaps.

Drawings and repayments under financing arrangements

A further prepayment of the Refinancing Facility of £97.7 million was made in June 2010 out of the proceeds of the Gatwick sale. This payment reflects firstly the agreed commutation payment of £107.1 million into the BAA defined benefit pension scheme being less than the £169.0 million retained from the Gatwick sale proceeds for these purposes (of which £143.0 million was held in an escrow account). The remaining £35.8 million of the prepayment reflects the cost of terminating derivatives arising from the Gatwick sale being lower than originally expected.

The repayment schedule under the Refinancing Facility, following the prepayment completed in June 2010 outlined above, is set out in Appendix 4.

Since the previous Investor Report was distributed on 18 December 2009, Heathrow Airport Limited has made scheduled EIB loan repayments of approximately £22 million. It also made a net drawdown under the Capex Facility of £22 million between 30 September 2009 and 31 March 2010. Details of the Obligors' and BAA Funding Limited's total external debt financing at 31 March 2010, before the June 2010 prepayment of the Refinancing Facility referred to above, are set out in Appendix 5.

Restricted Payments

A Restricted Payment of £18 million was made to BAA (SH) Limited on 11 January 2010 to fund interest that had accrued under BAA (SH) Limited's subordinated debt facility. A further Restricted Payment of £38 million is due to be made on 12 July 2010 for the same purposes.

Hedging

85% and 69% respectively of average interest rate risk exposure on the Obligors' and BAA Funding Limited's existing debt is hedged for the regulatory periods ending on 31 March 2013 and 31 March 2018 respectively, consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods. In addition, all foreign currency denominated debt instruments are hedged using currency swaps (total notional value at 31 March 2010 was £1,703 million). Since the previous Investor Report was distributed on 18 December 2009, £440 million notional value of index-linked swaps have been entered into taking the total notional value of such instruments to £2,646 million.

8. Financing matters (B)

Swap interest prepayment

£308.2 million of the £500 million equity injection into the London airports announced in November 2009 was used to prepay future swap interest payments. The prepayments will reduce cash interest payments during 2010, 2011 and 2012.

Liquidity

The Security Group has a strong liquidity position with a committed revolving capital expenditure facility of £2,700 million, of which £2,180 million was undrawn at 31 March 2010, including £400 million in junior facilities. In addition, the Security Group has £50 million in working capital facilities. Neither of these facilities matures until August 2013.

As a result of the application of proceeds from the recent sale of Gatwick and bond issues, there are no significant external debt maturities until 2012. Of the original £1 billion due under the Refinancing Facility in 2011, only £218.8 million remains outstanding.

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

Good progress is being made in implementing the refinancing of the £1.566 billion BAA (SH) Limited loan facility that matures in April 2011.

In recent months, leverage within the Security Group has reduced substantially as a result of continued strong financial performance. As a result, headroom to the Security Group's junior gearing trigger levels has grown to £1.6 billion. Whilst the Security Group currently intends to retain a strong buffer between actual gearing levels and the 85% junior gearing trigger level, this leaves significant scope to optimise leverage between the Security Group and BAA (SH) Limited. The forecasts of net debt for the end of 2010 included in this document include a modelling assumption that £750 million will be upstreamed from the Security Group to BAA (SH) Limited prior to the end of 2010. The actual amount upstreamed may differ.

9. Confirmation

24 June 2010

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

We confirm that each of the Ratios set out on page 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.

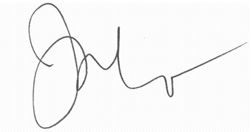
We confirm that all forward-looking financial ratio calculations and projections:

- 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 2007 to Q1 2010)

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

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

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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 2009[1]	Year to 31 December 2010[1]
			£m
Cashflow from Operations[2]		973	891
One-off, non-recurring extraordinary or exceptional items		0	25
Cashflow from Operations (adjusted)		973	916
Less: corporation tax paid		0	(12)
Less: 2 per cent of Total RAB		(235)	(256)
Cash Flow (A)		**738**	**648**
Interest and equivalent recurring charges paid on Senior Debt[3][4]			
Interest paid – refinanced Class A bonds		238	269
Interest paid – existing Class A capex facility		9	17
Interest paid – existing Class A EIB facilities		9	5
Interest paid – other Class A debt		126	96
Interest paid/(received) on swaps[5]		49	(103)
Commitment fees on liquidity and Capex facilities		25	24
Total interest on Senior Debt (B)		**456**	**308**
Interest and equivalent recurring charges paid on Junior Debt[3][4]			
Class B debt		42	56
Total interest on Junior Debt (C)		**42**	**56**
Total interest (D=B+C)		**498**	**364**
Senior ICR (A/B)[6]	**1.400**	**1.620**	**2.104**
Junior ICR (A/D)[6]	**1.200**	**1.483**	**1.780**

(1) 2009 figures are actuals and 2010 figures are forecasts
(2) Reconcilation of cashflow from operations with Adjusted EBITDA is set out on page 20
(3) Reconciliation of interest paid with interest payable is set out on page 20
(4) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) Limited as this is not included in ratios under the Common Terms Agreement
(5) Interest paid/(received) on swaps in 2009 and 2010 includes swap interest prepayments of £114.2 million and £36.7 million respectively
(6) Interest Cover Ratio is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid

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

(See important notice on page 2 of this document)	Year to 31 December 2009[1]	Year to 31 December 2010[1]
		£m
Income		
Aeronautical income	1,320	1,130
Non-aeronautical income - retail[2]	592	466
Non-aeronautical income - non-retail[2]	505	475
Total income	**2,418**	**2,071**
Operating expenses[3]	(1,375)	(1,125)
Adjusted EBITDA	**1,043**	**946**
Working capital	(70)	(55)
Cashflow from operations	**973**	**891**

	Year to 31 December 2010[4][5]				Year to 31 December 2009
	Income statement inc amortisation[6]	Income statement excl amortisation	Variation in accruals	Cash flow[7]	Cash flow[7]
	£m	£m	£m	£m	£m
Interest paid – refinanced Class A bonds	309	270	(1)	269	238
Interest paid – existing Class A capex facility	16	16	1	17	9
Interest paid – existing Class A EIB facilities	5	4	1	5	9
Interest paid – other Class A debt	157	135	(39)	96	126
Interest paid/(received) on swaps[7]	18	(127)	24	(103)	49
Commitment Fees on Liquidity and Capex Facilities	27	27	(3)	24	25
Interest paid - Class B debt	22	19	37	56	42
Total interest	**553**	**344**	**20**	**364**	**498**

(1) Includes Gatwick for 11 months in 2009 but excludes Gatwick in 2010; 2009 figures are actuals and 2010 figures are forecasts
(2) £3.5 million has been re-categorised from non-retail to retail income since the forecast included in the December 2009 investor report but does not affect net retail income
(3) Operating expenses excluding depreciation and exceptional items
(4) Excludes capitalised interest
(5) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) Limited as this is not included in calculation of ratios under the Common Terms Agreement
(6) Includes amortisation of refinancing fees and swap prepayments but excludes accretion on Index Linked Swaps
(7) Includes £114.2 million and £36.7 million swap interest prepayments made in December 2009 and January 2010 within interest paid/(received) on swaps

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

(See important notice on page 2 of this document)	Trigger level	At 31 December 2009[1]	At 31 December 2010[1]
		£m	£m
Closing Regulatory Asset Base (RAB) (net of profiling adjustment)			
Heathrow		10,453	11,479
Stansted		1,278	1,339
Total forecast closing RAB (A)		**11,731**	**12,818**
Senior Debt			
Class A Refinancing Bonds bonds		4,499	4,499
Class A Capital Expenditure Facility		700	1,420
Class A EIB facilities		374	333
Other Class A debt		2,559	2,487
RPI swap accretion		26	127
Total Senior Debt (B)		**8,158**	**8,866**
Junior Debt			
Class B debt		659	996
Total Junior Debt (C)		**659**	**996**
Cash and cash equivalents (D)		**(239)**	**(27)**
Senior net debt (E=B+D)		**7,920**	**8,839**
Senior and junior net debt (F=B+C+D)		**8,579**	**9,835**
Senior RAR (E/A)[2][3]	**0.70**	**0.675**	**0.690**
Junior RAR (F/A)[2]	**0.85**	**0.731**	**0.767**

(1) Figures for 2009 are actuals and for 2010 are forecasts
(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked derivative accretion) to RAB (Regulatory Asset Base)
(3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility

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Appendix 4 – Repayment schedule under Refinancing Facility

	Prior to application of proceeds of Gatwick sale and bond issues			After application of proceeds of Gatwick sale and bond issues		
	Class A (£m)	**Class B (£m)**	**Total (£m)**	**Class A (£m)**	**Class B (£m)**	**Total (£m)**
31 March 2010	800.0	200.0	1,000.0	-	-	-
31 March 2011	750.0	250.0	1,000.0	109.4	109.4	218.8
31 March 2012	750.0	250.0	1,000.0	750.0	250.0	1,000.0
31 March 2013	1,100.0	300.0	1,400.0	666.9	300.0	966.9
Total	**3,400.0**	**1,000.0**	**4,400.0**	**1,526.3**	**659.4**	**2,185.7**

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Appendix 5 – Nominal consolidated net debt of Obligors and BAA Funding Limited at 31 March 2010

		Debt outstanding at 31 March 2010	Amount and features of available facilities			
		Amount	Local currency		S&P/Fitch Rating	Maturity
Senior (Class A)		(£m)	(m)	(£m)		
Bonds		680.2	999.9	680.2	A-/A-	2012/14
		396.4	396.4	396.4	A-/A-	2013/15
		512.9	749.9	512.9	A-/A-	2014/16
		299.9	299.9	299.9	A-/A-	2016/18
		510.2	750.0	510.2	A-/A-	2018/20
		249.8	249.8	249.8	A-/A-	2021/23
		749.6	749.6	749.6	A-/A-	2023/25
		700.0	700.0	700.0	A-/A-	2026/28
		199.9	199.9	199.9	A-/A-	2028/30
		900.0	900.0	900.0	A-/A-	2031/33
		237.9	237.9	237.9	A-/A-	2039/41
Total bonds		**5,436.8**		**5,436.8**		
Bank debt	Refinancing Facility	1,624.0	1,624.0	1,624.0	A-/A-	2011/13
	EIB Facility	363.1	363.1	363.1	A-/A-	2010/22
	Capex Facility	520.0	2,300.0	2,300.0	n/a	2013
	Working Capital Facility	0.0	50.0	50.0	n/a	2013
Total bank debt		**2,507.1**		**4,337.1**		
Total senior debt		**7,943.9**		**9,773.9**		
Junior (Class B)						
Bank debt	Refinancing Facility	659.4	659.4	659.4	BBB/BBB	2011/13
	Capex Facility	0.0	400.0	400.0	n/a	2013
Total junior debt		**659.4**		**1,059.4**		
Gross debt		**8,603.3**		**10,833.3**		
Cash		**(47.0)**				
Index-linked derivative accretion		**55.9**				
Net debt		**8,612.2**				

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