



# BAA's London airports

## Holding company debt

Barclays European High Yield and Leveraged Finance Conference

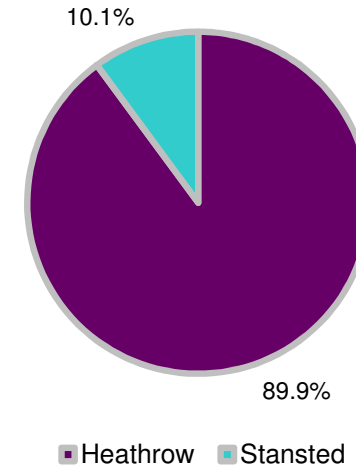
15 September 2011



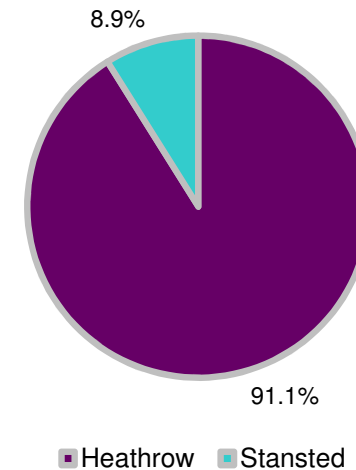
# Introduction to BAA group

- BAA owns six UK airports
  - London airports Heathrow and Stansted
  - Heathrow dominates the group
  - BAA also owns Edinburgh, Glasgow, Aberdeen and Southampton airports
- Acquired in 2006 by consortium
  - Ferrovial: 55.87%
  - CDPQ: 26.48%
  - GIC: 17.65%
- BAA handled nearly 1 million flights and 104 million passengers in 2010
- London airports separately financed primarily in debt capital markets

Split of RAB between Heathrow and Stansted  
(as at 30 June 2011)

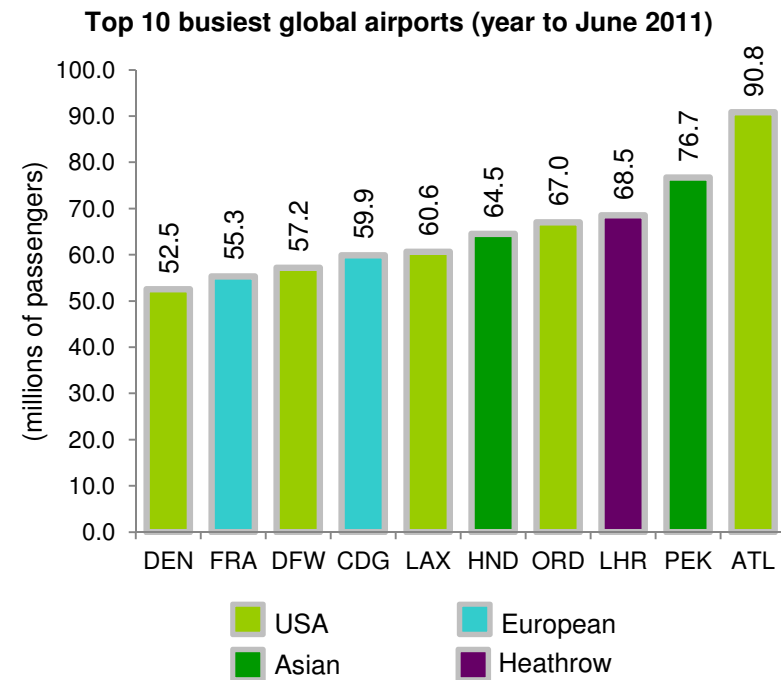


Split of Adjusted EBITDA between Heathrow and Stansted  
(for year ended 30 June 2011)



# Heathrow – critical infrastructure provides strong resilience

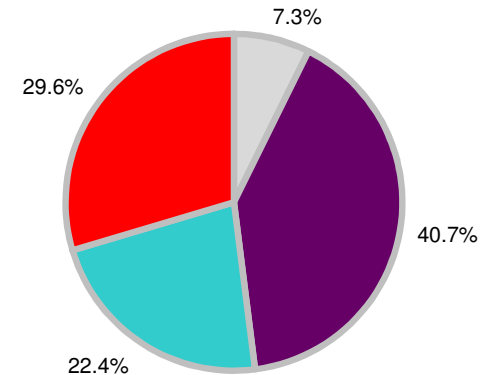
- Europe’s busiest airport and busiest airport globally for international traffic
- Heathrow has 8 of the global top 10 intercontinental long haul routes
- 75% of UK scheduled long haul traffic
- British Airways’ worldwide hub



# Heathrow's resilience and diversity

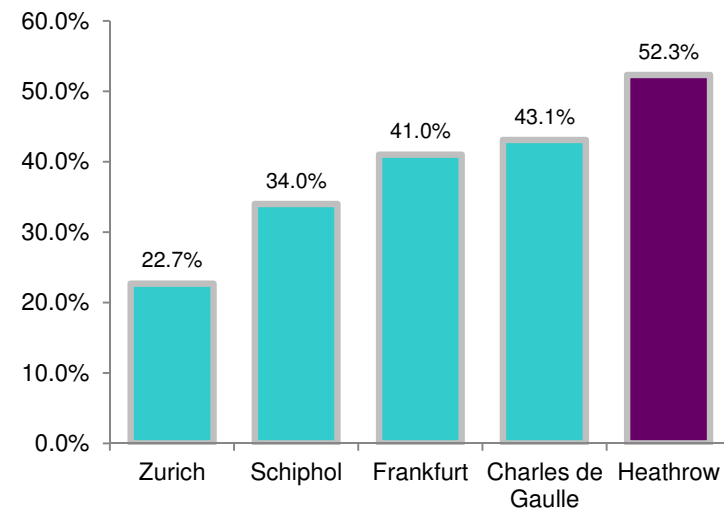
- Key global hub airport benefiting from strength of London catchment area
- Passenger and airline diversity
  - balance of business and leisure traffic
  - >50% non-UK resident passengers
  - **oneworld** accounts for 49% of traffic
    - Frankfurt: 75% Star Alliance
    - Schiphol: 61% Sky Team
    - Aeroports de Paris: 56% Sky Team
- Unique traffic resilience
  - operating close to full capacity
  - strength in high growth long haul
  - countercyclical transfer traffic

Heathrow passenger traffic by origin/destination in year ended 30 June 2011



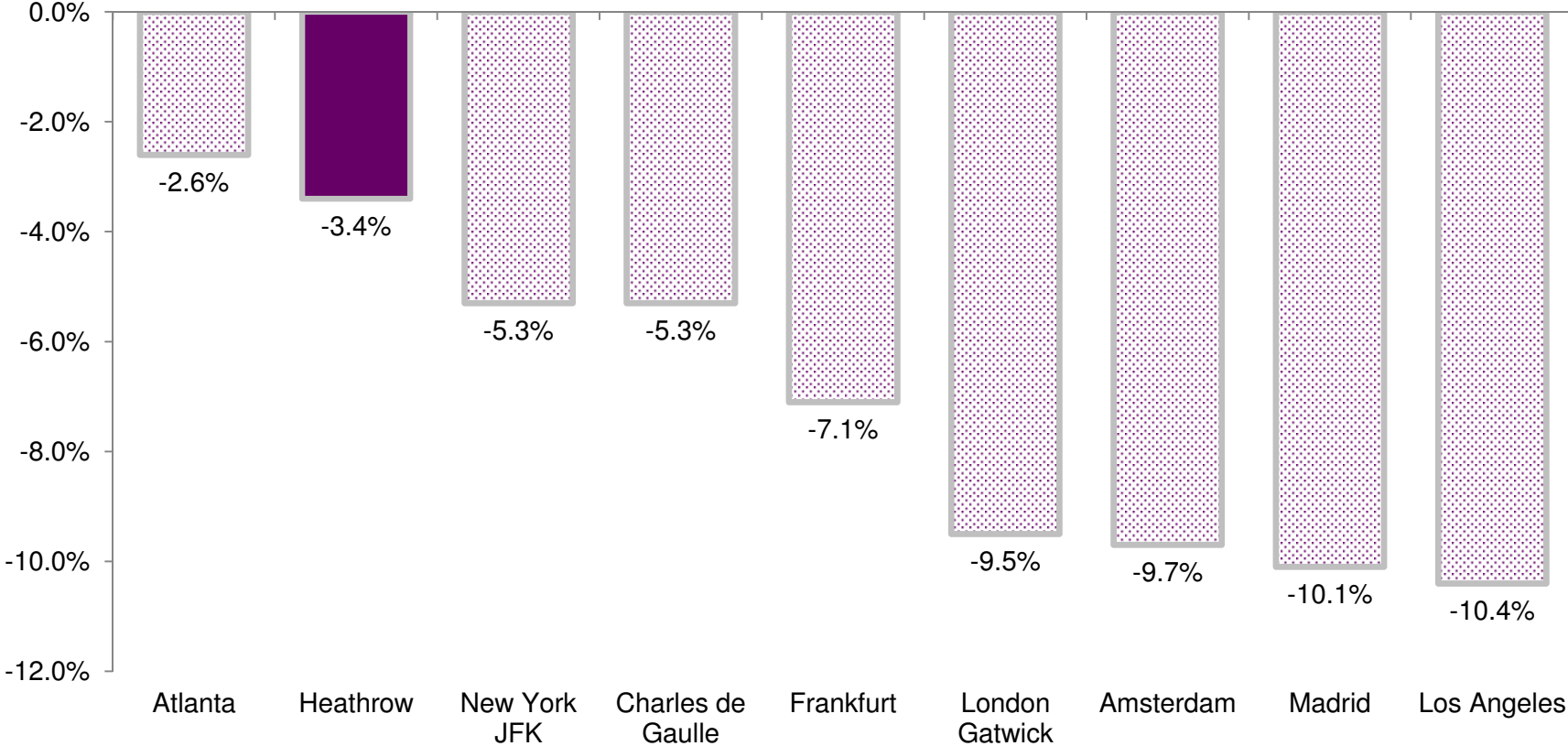
Domestic European North Atlantic Other long haul

Proportion of long haul traffic (2010)



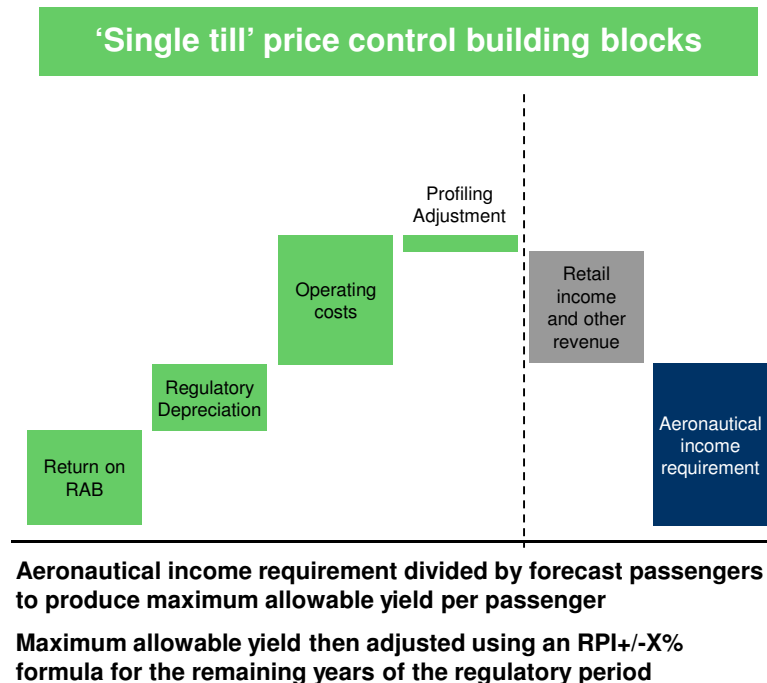
# Heathrow's exceptional traffic resilience in recent downturn

Change in annual passenger traffic in recent downturn between previous peak traffic and subsequent trough traffic



# Stable regulatory framework provides cash flow predictability and mitigates market risk

- Tariffs allow recovery of cost of capital, operating costs and capital investment
  - tariffs increasing at RPI + 7.5% at Heathrow and RPI + 1.63% at Stansted
  - current regulatory periods run to March 2014
- Tariffs reset usually every five years
  - protects against cost and revenue volatility
  - consistent methodology for setting tariffs since 1987
- Independent regulator (Civil Aviation Authority) with role defined by UK law
  - new legislation expected to further strengthen creditor protections
- ‘Single till’ price regulation similar to other UK regulated utilities

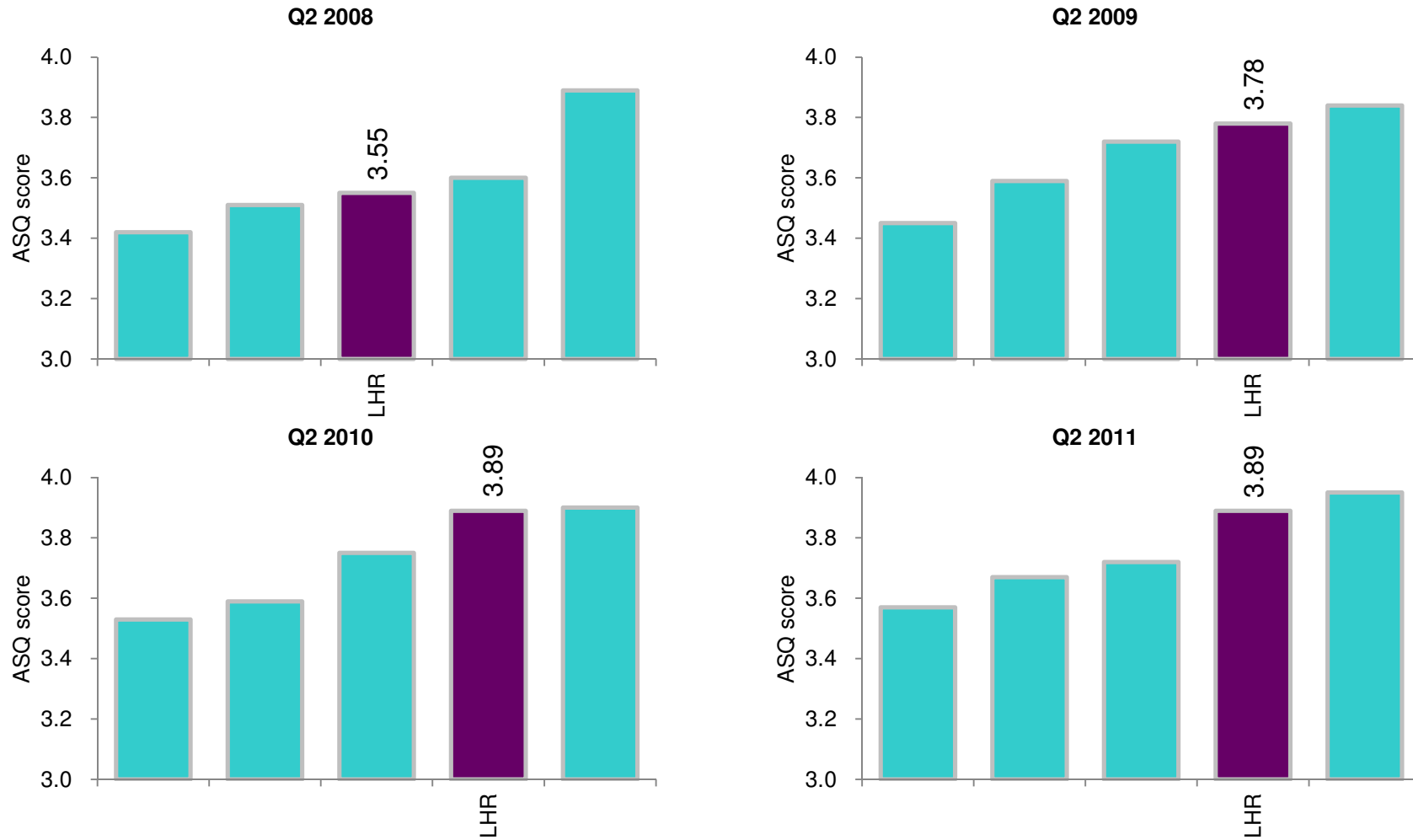


## Resulted in improving financial performance even in downturn

(figures in £m)	2008	2009	Change
Turnover	1,826.5	<b>1,977.6</b>	+8.3%
Adjusted operating costs	1,070.3	<b>1,092.4</b>	+2.1%
Adjusted EBITDA	756.2	<b>885.2</b>	+17.1%
Consolidated net debt (BAA (SP))	9,426.0	<b>8,579.0</b>	-9.0%
Consolidated net debt (BAA (SH))	10,991.8	<b>10,143.4</b>	-7.7%
RAB (Regulatory Asset Base)	12,470.2	<b>11,730.5</b>	-5.9%

# Focus on service improvements has driven passenger satisfaction towards top of European peer group

Overall passenger satisfaction for top 5 European airports





# Transforming infrastructure to enhance competitive position

- Investing about £1 billion per annum
  - agreed in advance with airlines and regulator
- Main current investment is new Terminal 2
  - £2.2 billion total cost
  - opening in early 2014
  - single base for Star Alliance airlines
- Significant spend on baggage systems
- By 2014
  - 70% of passengers using new terminals and 30% using refurbished terminals
  - airline alliances operating from ‘mini-hubs’
  - newest major European airport infrastructure



Terminal 5 – 2011



Terminal 2 site – July 2011

## Competition Commission process

- In July 2011, Competition Commission ('CC') confirmed requirement for Stansted sale as no material change in circumstances since 2009
- BAA considering seeking judicial review of the CC's decision and in parallel is undertaking preparatory work on potential sale
- Request for judicial review must be made by 19 September 2011
- Any possible future sale of Stansted unlikely to have a material impact on credit
  - only around 10% of Adjusted EBITDA and RAB

# Traffic on track to meet 2011 forecast

- Monthly Heathrow records since April with July busiest month in history
- 2011 reported performance partly reflects reversal of 2010 disruptions
- August year to date underlying performance
  - total: +0.9%
  - Heathrow: +2.5%
  - Stansted: -4.6%
- Rolling 12 month traffic performance
  - 87.0 million (Heathrow: 68.7 million; Stansted: 18.3 million)
  - reflects 0.6 million passengers lost due to December 2010 snow
  - compares with 86.9 million 2011 forecast

<b>Passenger traffic</b>			
	8 months ended 31 August		
	2010 (m)	2011 (m)	Change
<i>By airport</i>			
Heathrow	43.4	46.3	6.8%
Stansted	12.6	12.4	-1.8%
<b>Total</b>	<b>56.0</b>	<b>58.7</b>	<b>4.8%</b>
<i>By market served</i>			
UK	4.3	4.1	-4.1%
Europe	28.6	30.0	4.9%
Long haul	23.1	24.6	6.5%
<b>Total</b>	<b>56.0</b>	<b>58.7</b>	<b>4.8%</b>

# Turnover and cost structure

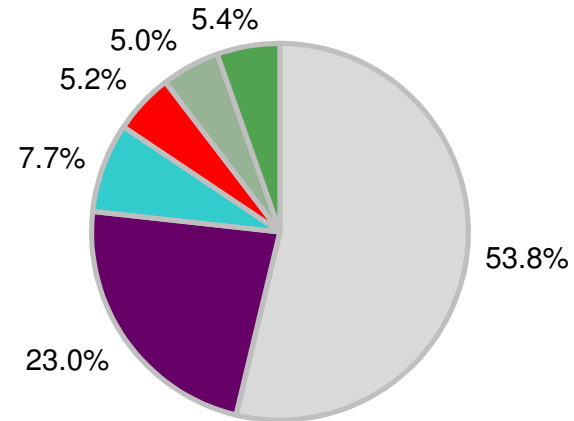
- Turnover

- aeronautical income charged to airlines
  - tariff profile increasing by inflation + 7.5%
- retail income primarily from concessions
- operational facilities and utilities charged to airlines and other airport users
- rail income from Heathrow Express

- Operating costs

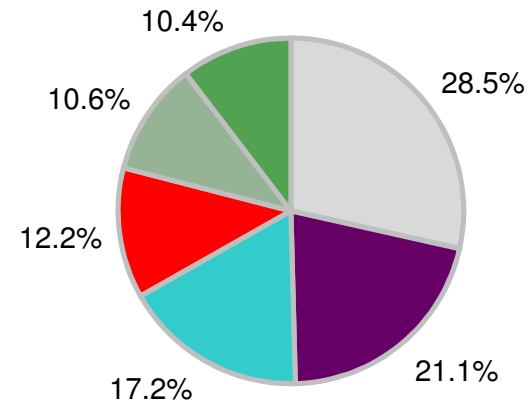
- stable cost structure
  - up only 3.5% between 2008 and 2010
- costs of increased security imposed by government can be passed onto airlines

BAA London airports' total revenue – 2010



■ Aeronautical ■ Retail ■ Facilities/utilities ■ Property rental ■ Rail ■ Other

BAA London airports' total adjusted operating costs – 2010



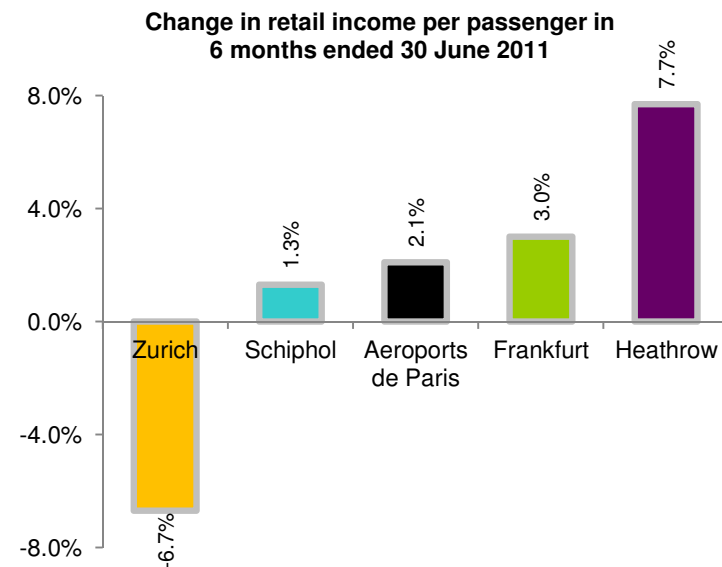
■ Employment costs ■ General expenses ■ Intra-group/other costs  
 ■ Maintenance costs ■ Rents and rates ■ Utility costs

## Strong financial performance in first half of 2011

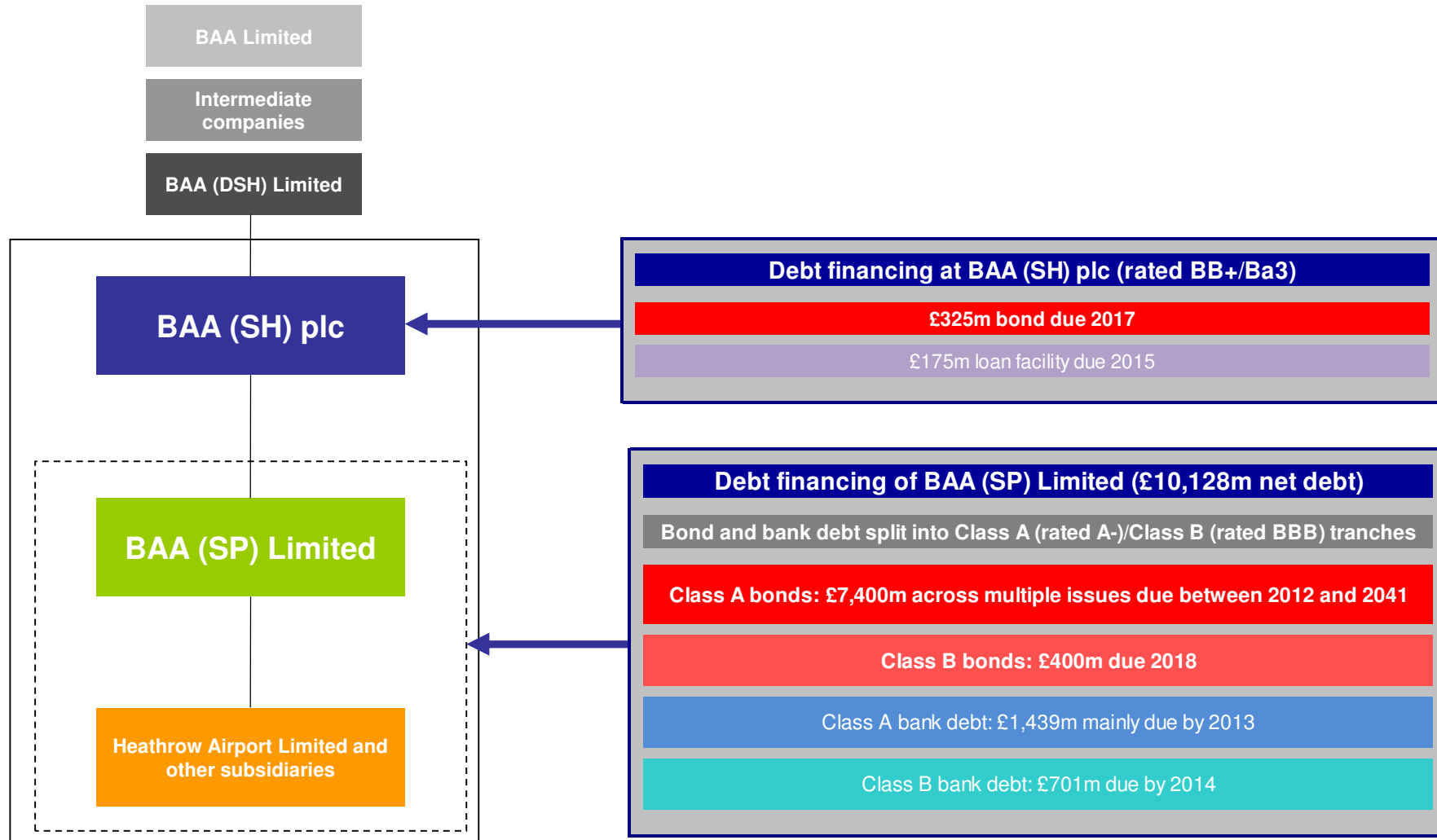
(figures in £m)	H1 2010	<b>H1 2011</b>	Change
Turnover	957.6	<b>1,073.9</b>	+12.1%
Adjusted operating costs	555.9	<b>563.4</b>	+1.3%
Adjusted EBITDA	401.7	<b>510.5</b>	+27.1%
Consolidated net debt (BAA (SP))	9,921.2	<b>10,128.2</b>	+2.1%
Consolidated net debt (BAA (SH))	10,401.1	<b>10,628.0</b>	+2.2%
RAB (Regulatory Asset Base)	12,776.0	<b>13,373.8</b>	+4.7%

## 2011 performance drivers

- 12.2% increase in Heathrow tariff from 1 April 2011 – further 12.7% increase from 1 April 2012
- Tariffs combined with growth in traffic drove 15.9% growth in aeronautical income in H1 2011
- Growth in net retail income per passenger continues to outperform European airports
  - +7.6% in H1 2011 across two airports
  - +7.7% at Heathrow



# London airports' debt financing structure



Summarised corporate structure

Debt figures are as at 30 June 2011

## Recent financing developments

- Around £4.5 billion in new financings implemented since 2009
- Refinancing of debt at BAA (SH) plc completed in 2010
  - £175 million loan and £325 million bond replaced £1.6 billion loan
- Debut US\$ bond issue completed in June 2011
  - now able to issue in £, € and \$
- Completed transition to capital markets platform with bank refinancing facility fully repaid in September 2011
- Sufficient liquidity to meet all maturities until 2013



## Significant headroom maintained against financial ratios

<b>Gearing ratios (RAR)</b>					
	<b>Trigger/covenant levels</b>	<b>31 Dec 2009 (actual)</b>	<b>31 Dec 2010 (actual)</b>	<b>30 June 2011 (actual)</b>	<b>31 Dec 2011 (forecast)</b>
<b>BAA (SP) Senior RAR</b>	<b>70.0%</b>	<b>67.5%</b>	<b>68.8%</b>	<b>67.5%</b>	<b>66.6%</b>
<b>BAA (SP) Junior RAR</b>	<b>85.0%</b>	<b>73.1%</b>	<b>77.7%</b>	<b>75.7%</b>	<b>76.1%</b>
<b>BAA (SH) Group RAR</b>	<b>90.0%</b>	<b>86.5%</b>	<b>81.4%</b>	<b>79.5%</b>	<b>79.7%</b>

<b>Interest cover ratios (ICR)</b>				
	<b>Trigger/covenant levels</b>	<b>Year ended 31 December</b>		
		<b>2009 (actual)</b>	<b>2010 (actual)</b>	<b>2011 (forecast)</b>
<b>BAA (SP) Senior ICR</b>	<b>1.40x</b>	<b>1.62x</b>	<b>2.08x</b>	<b>2.73x</b>
<b>BAA (SP) Junior ICR</b>	<b>1.20x</b>	<b>1.48x</b>	<b>1.85x</b>	<b>2.36x</b>
<b>BAA (SH) Group ICR</b>	<b>1.00x</b>	<b>1.15x</b>	<b>1.55x</b>	<b>2.18x</b>

# Expected evolution of capital structure and financial ratios

- Expected evolution of gearing ratios
  - Class A (BAA (SP)): close to 70% trigger level
  - Class B (BAA (SP)): meaningful buffer to 85% trigger level
  - BAA (SH): meaningful buffer to 90% covenant level
  - buffer likely to be around 5% of RAB
- Significant reduction in net debt/EBITDA multiples consistent with similar/slightly higher gearing
  - 2010: Class A: 9.1x; Class B: 10.3x; BAA (SH): 10.8x
  - 2011: Class A: 8.3x; Class B: 9.4x; BAA (SH): 9.9x
  - headline tariff increases of RPI + 7.5% to 2014 including 12.7% in April 2012
  - next regulatory settlement should adjust for current lower than forecast traffic

## A closer look at the BAA (SH) financing

- Debt service (both interest and principal) funded through distributions from BAA (SP)
- BAA (SP) prevented from agreeing tighter distribution restrictions
- £400 million liquidity buffer for BAA (SH) creditors
  - distribution lock-up at BAA (SH) when BAA (SP) gearing exceeds 82% compared to lock-up at BAA (SP) when gearing exceeds 85%
- Over £1 billion current headroom to BAA (SP) gearing lock-up
- BAA (SH)'s previous £1.6 billion debt comfortably serviced through worst downturn since dawn of civil aviation industry
- Pledge over BAA (SP) shares
- Issuer acts solely as holding company for Heathrow and Stansted
- Cross-acceleration with BAA (SP) debt
- Benefit of extensive suite of BAA (SP) covenants

# Investment highlights

- Stability and resilience of critical UK transport infrastructure
- Continued improvement in operational performance
- BAA (SH) debt serviced consistently through recent downturn
- Resilient and growing cashflow post debt service underpinned by regulatory tariff profile
- Opportunity to invest in a resilient infrastructure business that owns nationally strategic airport assets

Any questions?

# Notes, sources and defined terms (1)

- Page 2
  - RAB: Regulatory Asset Base
- Page 3
  - Sources: relevant airport websites other than Haneda; data for Haneda from Airports Council International
  - Annual traffic data for Haneda is for year ended 28 February 2011
  - Number of top 10 intercontinental routes involving Heathrow sourced from OAG based available seats on non stop flights over 2,800 nautical miles for week commencing 20 June 2011
  - Proportion of UK scheduled long haul traffic derived from CAA data for year ended 31 December 2010
- Page 4
  - Proportion of passenger traffic from largest 5 airlines data is for 2010 and at Heathrow is based on data from BAA, for Frankfurt is taken from page 75 of its 'Air Traffic Statistics 2010' document, for Schiphol is taken from page 23 of its 'Traffic Review 2010' document and for Aéroports de Paris is taken from page 32 of its '2010 Registration Document'
  - Proportion of long haul traffic data taken or derived from data on relevant airport websites. Data for Charles de Gaulle is for 2009
- Page 5
  - Figures derived from traffic statistics taken from relevant airport websites
  - For European airports decline is in respect of the period up to the disruption from volcanic ash in April 2010 by which time these airports had started growing traffic again
- Page 7
  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items
  - Consolidated net debt is calculated on a nominal basis excluding intra-BAA group loans and including inflation-linked accretion
  - Profit and loss account figures exclude Gatwick whilst net debt and RAB include Gatwick in 2008 but exclude Gatwick in 2009
- Page 8
  - Source: Quarterly Airport Service Quality ('ASQ') surveys by Airports Council International. Peer group is Heathrow and next four largest European airports by passenger traffic volumes
- Page 11
  - Totals and percentage change calculated using un-rounded passenger numbers
  - European traffic includes North African charter traffic
- Page 12
  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
- Page 13
  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items
  - Consolidated net debt is calculated on a nominal basis excluding intra-BAA group loans and including inflation-linked accretion
  - Percentage changes are relative to same period of 2010 except for net debt and RAB which are relative to 31 December 2010

# Notes, sources and defined terms (2)

- Page 14
  - Retail income includes income from in-terminal retail activities (including catering, bureaux de change, car rental and advertising) and car parking. Sources: BAA, derived from other airports' press releases
- Page 17
  - Gearing ratio or RAR is the ratio of nominal net debt (including index-linked accretion) to RAB. Net debt at 31 December 2009 excludes £143 million restricted cash from the Gatwick disposal held to meet potential pension payments
  - Interest cover ratio or ICR is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid
  - Forecast ICRs for the year ended 31 December 2011 taken from investor report issued on 9 June 2011

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