News release

18 November 2008

BAA Limited

BAA Limited[1] (BAA) announces results for 9 months to 30 September 2008

Separate information is presented in this announcement relating to both BAA Limited and the three London airports of Heathrow, Gatwick and Stansted (the 'Regulated Airports').

Highlights

Financial

- Financial performance in line with expectations
  - BAA Limited[2]:
    - Revenue up 15% to £1,925 million (2007: £1,678 million)
    - Adjusted EBITDA[3] up 1% to £822 million (2007: £811 million)
    - Capital investment totalled £887 million
  - Regulated Airports:
    - Revenue up 16% to £1,721.3 million (2007: £1,484.5 million), benefiting from higher aeronautical charges phased in from 1 April 2008
    - Adjusted EBITDA broadly flat at £689.0 million (2007: £693.0 million)
    - Capital investment was £767 million, 86% of the total group expenditure

Operational

- Terminal 5 at Heathrow is working well
- Group passenger traffic declined 1.4% to 117.9 million (2007: 119.5 million) with resilience at Regulated Airports, particularly in long haul traffic
- Retail activity in BAA's airports remained robust
- Permanent refinancing structure completed in August 2008, providing platform for long-term financing needs of the business
- Planned disposal of Gatwick announced
- Reduced Stansted capital plan agreed with airlines
- Significantly reduced refinancing requirement expected which will result in no further funding being needed until well into 2010

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[1] BAA Limited was previously Airport Development and Investment Limited
[2] Figures are in respect of continuing operations only
[3] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items

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Colin Matthews, Chief Executive of BAA, said: “BAA has delivered a resilient performance with results in line with forecasts. With trading conditions expected to remain challenging in the coming months, we are maintaining our sharp focus on operational improvement and a substantial programme of capital investment, which will lead to better passenger service standards and lower costs.”

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There will be a conference call tomorrow for bondholders to discuss the results for the 9 months to 30 September 2008. The call will be hosted by Jose Leo, BAA’s Chief Financial Officer, and will commence at 1.30 p.m. (UK time). Dial-in details for the call are: Conference ID: 73694304; UK freephone: 0800 694 0257; UK local call: 0844 493 3800; standard international: +44 (0)1452 555566.

Operating review

Transforming our airports

BAA's strategy is to provide a better service to passengers and airlines and expand its airport capacity. In the last year, we have created a strong platform to make further progress in delivering this strategy by completing a major refinancing of the whole BAA group and significantly strengthening our management team.

In 2008, the most significant development towards our long term goals has been the opening of Terminal 5 at Heathrow. Despite the well-publicised difficulties around the opening of the facilities, Terminal 5 is now providing airlines and passengers with a world-class service with passenger satisfaction scores consistently higher than those of Heathrow's European counterparts.

BAA is committed to extending this transformation across the rest of Heathrow and its other airports over the next few years through a combination of substantial investments in modern airport facilities and improved service standards. Over the five year period to 31 March 2013, it expects to invest a further £4.3 billion (at 2007/08 prices) at Heathrow, with the most significant investment relating to construction of the Heathrow Eastern Campus.

This investment programme will strengthen Heathrow's position as a leading global hub airport and on completion in 2013 will result in:

- The de-commissioning and demolition of Terminal 2, Heathrow's oldest terminal
- A new Heathrow East terminal that will replace Terminal 2
- The joint location of members of the major global airline alliances, providing a unique platform for BAA's airline customers to maximise the profitability and efficiency of operating at Heathrow

BAA is committed to transforming other airports in its portfolio. For example, the long term plans for Stansted include building an additional runway and terminal as well as more immediate significant enhancements to the existing facilities at the airport. We have invested £50 million at Stansted in the first nine months of 2008 to provide extended capacity and retail layout. Our plans for Stansted have recently been supported by the approval from the Department for Transport to increase passenger traffic levels at the airport from 25 million to 35 million per annum.

In Scotland, BAA has recently completed a major phase of a £31 million extension of Glasgow airport which offers state of the art security, more space to relax and bigger and better shops. The overall project is due to be completed by spring 2009.

Service quality

Service quality is a key strategic priority for BAA - it underpins the experience of passengers and airlines. Major initiatives have included preparation for the strengthened service quality schemes applying at Heathrow and Gatwick from 1 April 2008 and improving service quality at Terminal 5 following the initial difficulties seen immediately after its opening in March 2008.

In relation to the strengthened service quality schemes applying at Heathrow and Gatwick, BAA has continued to increase security personnel as security queuing time for passengers is a key service quality performance indicator. Security queuing times have improved significantly in the last year with the proportion of passengers passing through security within 5 minutes reaching 99% in Heathrow in the six months to 30 September 2008 compared with the service standard of 95% applying under the service quality scheme. In addition, there has been a step change in spend in other targeted service quality areas such as maintenance and cleaning.

At Terminal 5, service quality improved rapidly following its opening and by the second calendar quarter of 2008 it was rated by passengers as performing better than any other airport in Europe in the independent Airport Service Quality survey produced by Airports Council International.

The strengthened service quality schemes applying at Heathrow and Gatwick from 1 April 2008 include:

- New elements such as security queuing for transfer passengers and airline employees
- Higher standards for many existing elements of the service quality schemes
- Increased penalties for not reaching standards
- Bonuses for elements where out-performance is achieved consistently across an airport

In the six months since introduction of the new service quality schemes up to 30 September 2008, BAA made rebates to airlines of £7.3 million. However, the CAA acknowledges that service standards are generally improving which is also reflected by the level of rebates declining as the six month period progressed. In the 3 months to 30 June 2008, rebates amounted to £4.8 million but declined 48% to £2.5 million in the 3 months to 30 September 2008. BAA is determined to continue improving its performance under the service quality schemes.

Passenger traffic trends

BAA Limited:

- In the nine months to 30 September 2008, passenger traffic at all 8 of BAA's airports (UK airports and Naples) declined 1.4% to 117.9 million (2007: 119.5 million).
- In the same period, at BAA's seven UK airports, passenger traffic declined 1.4% to 113.4 million (2007: 115.0 million).

Regulated Airports:

- In the same period, BAA's three London airports handled 96.0 million passengers which was a 1.3% decline on 2007 passenger traffic (2007: 97.3 million).

Heathrow delivered a resilient performance with total passengers handled declining just 0.7% on the prior year to 51.1 million (2007: 51.4 million). By market served, the domestic and European charter markets saw the most significant softening in passenger numbers. Importantly, the number of long haul passengers remained resilient, rising 4.2% to 26.5 million (2007: 25.5 million), with North Atlantic routes seeing a strong 8.5% rise, driven by the introduction of the Open Skies agreement earlier in 2008.

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Traffic levels have softened in recent months as the global economic outlook has deteriorated. However, experience suggests that traffic will return to levels at or above recent figures, reflecting the major economic and demographic drivers of growth in the aviation industry. Over the last 40 years there have been four periods when annual rolling passenger traffic figures have declined. Negative growth has lasted no more than 12 months with renewed growth normally well established within 12 months of the trough in performance.

Other developments

Retail activity has remained robust at BAA's airports with total net retail income at the Regulated Airports increasing by 1.3% compared to the prior year, with activity remaining robust in the most recent quarter despite the growing global economic uncertainty. Net retail income per passenger for the three Regulated Airports has grown by 3.1% compared to the prior year and this is driven by strong in-terminal performance specifically at Gatwick and Stansted. The South Terminal Departure Lounge reconfiguration project at Gatwick has helped improve security flow and the layout of the retail area.

Competition Commission inquiry into BAA's ownership of UK airports

On 20 August 2008, the Competition Commission ('CC') issued its Provisional Findings and Notice of Possible Remedies ('Provisional Findings') in relation to its ongoing investigation of BAA's ownership of UK airports.

In response to the CC's Provisional Findings, BAA has argued that the CC's findings contain errors of law, fact and reasoning and errors relating to assessment and treatment of evidence.

BAA has argued that the scope for competition is limited in the short and long term particularly due to the lack of spare capacity, particularly in relation to the area served by the Regulated Airports. BAA has also stated that it does not consider there is a case for divestment of any London airports. However, BAA has initiated a sale process for Gatwick which is discussed in more detail below.

The next steps in the investigation include:

- Early December 2008: CC publishes its final proposals on Provisional Remedies for consultation
- January 2009: final deadline to make submissions and respond on CC's final proposals
- February 2009: final report by the CC

BAA will then have two months in which to lodge a legal appeal.

Gatwick disposal

On 17 September 2008, BAA announced plans to sell Gatwick airport. The sale process is progressing according to plan and BAA has appointed advisers to assist in the process. A detailed information memorandum relating to the sale is expected to be circulated to relevant parties by early December 2008. The sale process is expected to be completed in the first half of 2009. The regulatory asset base of Gatwick airport at 31 March 2008 was £1,560 million. It is forecast to be approximately £1.7 billion at 31 March 2009.

Aeronautical charges at Heathrow and Gatwick for five years to 31 March 2013 ('fifth quinquennium' or 'Q5')

On 11 March 2008, the CAA published its price control review for both Heathrow and Gatwick for the five year period from 1 April 2008 to 31 March 2013. Its decision means that for every pound invested in its airports, BAA can make a return (in real pre-tax terms) of 6.2% per annum at Heathrow and 6.5% per annum at Gatwick.

The CAA has set the maximum growth in aeronautical charges per passenger for Heathrow at RPI+23.5% for the year to 31 March 2009 and RPI+7.5% per annum for the remainder of Q5. For Gatwick the corresponding figures are RPI+21.0% and RPI+2.0% per annum. The resulting impact on maximum aeronautical charges per passenger (in 2007/08 prices) is as follows:-

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Heathrow	£10.36	£12.80	£13.72	£14.76	£15.84	£16.99

Gatwick	£5.61	£6.79	£6.92	£7.06	£7.20	£7.34

The significant one-off increase in the aeronautical charges between 2007/08 and 2008/09 reflects a rebasing of the tariffs to reflect changes in the way a number of existing airport services are charged to airlines. Charges that NATS previously made directly to airlines for the provision of aerodrome air navigation services are now charged to BAA and then recovered through the aeronautical charges. The amounts brought into the new tariffs for these services is £0.73 per passenger at Heathrow and £0.43 at Gatwick.

The re-basing of tariffs also includes changes in the way baggage infrastructure and fuel levy charges are to be made to airlines compared to historic practice with an opening yield adjustment of £0.35 per passenger at Heathrow and £0.27 at Gatwick.

At Heathrow, the one-off increase together with the materially higher allowable increase in aeronautical charges above RPI than at Gatwick during Q5 reflects the cost of operating the new Terminal 5 and the scale of capital investment anticipated at Heathrow during the period. The capital investment programme at Heathrow during Q5 amounts to approximately £4.3 billion, in 2007/08 prices, with the largest investment relating to the construction of the proposed new Heathrow Eastern Campus.

The higher charges for the first year of Q5, i.e. the current year to 31 March 2009, are being phased in during the first year such that by 31 March 2009, the full amounts will have been recovered.

Other regulatory matters

In addition to the Competition Commission's enquiry into BAA's ownership of UK airports and the CAA's price determination for Heathrow and Gatwick in Q5, both of which are discussed above, there have been a number of other recent regulatory developments that may have a significant impact on BAA's future operations.

Competition Commission recommendation on Stansted charges

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On 23 October 2008, the Competition Commission issued to the CAA its report and recommendation on charges to apply at Stansted Airport for the five year period from 1 April 2009. The Competition Commission has recommended that BAA can earn a return (in real pre-tax terms) of 7.1% per annum over the five year period. It has also recommended an increase in the maximum allowable aeronautical charge from £6.06 per passenger for the year to 31 March 2009 to £6.26 per passenger for the following year, with subsequent increases subject to an RPI+1.75% per annum formula.

The Competition Commission's recommendations are based on a capital plan of approximately £130 million, in 2007/08 prices, on Stansted's facilities over the 5 year to 31 March 2014 that has been agreed with Stansted's airline community.

Further, while the Competition Commission agreed with BAA on the need for Stansted Generation 2 ('SG2'), that involves the construction of a new terminal and runway, it has suggested a later opening date than currently planned. It has suggested that in the event that circumstances change, such as planning approval being received during the five year period to 31 March 2014, it would be open to BAA to seek approval from the CAA to re-set the tariffs for the remainder of the quinquennium.

BAA expects to continue to advance its case related to Stansted tariffs with the CAA, that is expected to make a final decision in March 2009 regarding pricing for Stansted's next quinquennium.

In addition, the CC concluded that BAA's conduct with regard to tariffs during the current year to 31 March 2009 had not operated against the public interest, following a claim to that effect by Ryanair.

Approval for increased traffic at Stansted

On 9 October 2008, BAA's planning application to increase the number of air transport movements ('ATMs') permitted at Stansted was approved by the Secretaries of State for Transport and Communities and Local Government. The new limit has been increased by 8.4% to 264,000 ATMs per year from 243,500. BAA expects that this approval will allow passenger throughput to grow from around 25 million passengers per year to around 35 million passengers per year if all available ATMs are utilised by airlines operating at Stansted.

Subsequent events

Investment in Crossrail

On 4 November 2008, BAA announced it will be providing £230 million towards the cost of the London Crossrail project. In return, Crossrail will guarantee a fast train service linking Heathrow with central London, the City, Canary Wharf and the east of London four times per hour for the majority of the day. The contribution will be paid in two instalments, linked to progress on construction of the Stockley Works, which will deliver greater capacity and reliability for rail services into Heathrow. The contribution will be paid following approval of the CAA, BAA's economic regulator, as part of its next scheduled review of BAA.

October 2008 traffic statistics

On 14 November 2008, BAA published traffic statistics for October 2008 that showed its seven UK airports handled a total of 12.4 million passengers during the month, a drop of 6.0% compared with October 2007. This was similar to the 5.0% decline seen in September 2008. BAA's three London airports performed in line with the total BAA position with Heathrow demonstrating resilience with a 3.7% decline relative to October 2007.

Third runway at Heathrow

BAA remains convinced of the need for additional airport capacity in the south east of England to absorb anticipated long term growth in demand for air travel. It has previously detailed the strong case for this to be addressed partly through the construction of a third runway and sixth terminal at Heathrow. The UK Government is expected to make a further statement of policy before the end of 2008 with regard to greater use of Heathrow, including a third runway and sixth terminal.

Financial review – Regulated Airports

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Summary

The financial performance of the Regulated Airports for the nine months to 30 September 2008 shows revenues increasing by 16% or £236.8 million to £1,721.3 million (2007: £1,484.5 million) whilst Adjusted Operating Profit[4] reduced by 23% or £109.7 million to £367.4 million (2007: £477.1 million). Adjusted EBITDA[5] was marginally down at £689.0 million (2007: £693.0 million).

The different trend in Adjusted Operating Profit and Adjusted EBITDA compared to revenue is primarily due to the mechanism that controls how the Regulated Airports are remunerated for capital and operating expenditure over the quinquennium with on the one hand the airports incurring

- depreciation and other operating costs in respect of the new Terminal 5 at Heathrow; and
- increased security costs

and on the other hand recovering these costs through increased aeronautical charges that have applied from 1 April 2008 but which will only more fully compensate for the additional costs as Q5 progresses.

Revenue

Total revenue of the Regulated Airports in the nine months to 30 September 2008 increased 16% to £1,721.3 million (2007: £1,484.5 million). This increase reflects a 1.3% reduction in terminal passengers offset by a rise in aeronautical income per passenger due to the introduction of the new tariffs at the beginning of the current quinquennium that commenced in April and a 4.4% increase in gross retail income per passenger compared to the nine months to 30 September 2007.

Aeronautical income

Income from aeronautical charges at the Regulated Airports in the nine months to 30 September 2008 increased 27% to £894.8 million (2007: £707.2 million). Growth was driven

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[4] Adjusted operating profit is earnings before interest, tax and exceptional items
[5] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items

at Heathrow and Gatwick by the tariff increases applied for the five year period that commenced on 1 April 2008. Stansted growth of 18.2% (£17.5 million) is driven by the inclusion of NATS in 2008 which contributed an additional £16 million of income through the aeronautical charges and the fact that certain discounts on its aeronautical charges ceased from 1 April 2007.

Retail income

Net retail income (retail income net of cost of sales) at the Regulated Airports in the nine months to 30 September 2008 increased 1% to £420.0 million (2007: £414.7 million). In terms of individual airports, growth was strongest at Gatwick which recorded a 6.2% increase in net retail income whilst, by retail activity, tax and duty free, airside specialist shops and catering saw robust year on year performances. Heathrow net retail income was flat year on year, although in-terminal performance has been strong with an increase of 3% which was offset by a decline in car park income due to a mode shift towards public transport and a decline in domestic passenger traffic.

Other revenue

Other revenue at the Regulated Airports in the nine months to 30 September 2008 increased 9% to £376.7 million (2007: £346.3 million). This increase was driven by an increase of 24% in other income reflecting in particular the introduction of income relating to services provided for passengers with restricted mobility ('PRM') (£8 million) which was previously directly sourced by the airlines in addition to income for operational facilities such as check-in and baggage facilities (£13.8 million). In addition, both property rentals and rail income from Heathrow Express increased by 7% from the same period in the prior year.

Operating costs

Underlying operating costs, i.e. excluding exceptional costs, at the Regulated Airports in the nine months to 30 September 2008 increased 34% to £1,353.9 million (2007: £1,008.7 million).

The growth in underlying operating costs was impacted particularly by Heathrow where operating costs increased by 43% to £946.4 million (2007: £659.6 million) due principally to inclusion of Terminal 5 operations in 2008 in addition to running the other four terminals. Significant proportions of the increases in underlying operating costs from the prior year occurred in depreciation, employment costs, maintenance costs and general expenses attributable to the opening of the new terminal. Terminal 5 operating costs added approximately an additional £95.5 million during the first nine months of 2008.

The overall growth in depreciation (excluding accelerated depreciation included in exceptional costs) at the Regulated Airports in the nine months to 30 September 2008 was 48% to £321.6 million (2007: £217.2 million) driven particularly by Terminal 5 which was £87.7 million for as of 30 September 2008.

In addition, there was an 18% increase in employment costs to £316.2 million (2007: £267.2 million) concentrated primarily at Heathrow, which in addition to the opening of Terminal 5 (£21.0 million) was related to the costs of increased numbers of security personnel that were required to achieve the security service levels set out by the CAA. In order to fulfil the service quality agenda for Heathrow and Gatwick in other service areas, a further increase in general expenses to £223.0 million (2007: £112.9 million) was required reflecting rises in cleaning, rates, utilities and maintenance. Also included within general expenses is the expenditure for NATS (£42.1 million) and PRM (£7.8 million) which were sourced directly by the airlines in the prior year but which the airports are now responsible. These are reimbursed through the tariff for NATS and other income for PRM.

In addition to underlying operating costs, the Regulated Airports incurred £213.0 million (2007: £66.7 million) of exceptional costs in the nine months to 30 September 2008. The increase in exceptional costs was driven principally by financing fees of £128.6 million associated with the debt refinancing completed in August 2008. In addition, there was an increase in accelerated depreciation charges that reflect the shortening of asset lives for Terminals 1 and 2 at Heathrow that is expected to arise as a result of the new Heathrow Eastern Campus project.

Adjusted EBITDA and Adjusted Operating Profit

Adjusted EBITDA for the nine months to 30 September 2008 was £689.0 million (2007: £693.0 million).

The key drivers in Adjusted EBITDA remaining at similar levels to the prior year whilst revenues increased by 16% were:-

- Significant additional employment and other costs associated with operating Terminal 5. Terminal 5 has added approximately an additional £95.5 million of operating costs.
- Increased general and maintenance expenses to achieve higher service standards
- Increased employment costs driven by an increase in security personnel to reflect and achieve enhanced service standards and security requirements. Additional security contributing £41.4 million for the Regulated Airports with £21.0 million associated with Terminal 5.
- Increased aeronautical charges to reflect the higher cost structure, including those highlighted above, only applying from 1 April 2008
- Part of the increased revenues being a pass through at nil margin of aerodrome air navigation services previously charged directly to airlines by NATS
- The increased aeronautical charges applying at Heathrow and Gatwick from 1 April 2008 which were implemented in phases as agreed with the airline community, however full recovery of the entitled revenue will be achieved by 31 March 2009. This was put in place to help ease the impact of the tariff increase for the airlines where tickets would have been sold in advance.

In addition to the factors affecting Adjusted EBITDA, the reduction in Adjusted Operating Profit reflected significantly higher depreciation associated with bringing Terminal 5 into operation at Heathrow.

Capital expenditure

In the nine months ended 30 September 2008, capital expenditure at the Regulated Airports was £815.6 million with £645.4 million incurred at Heathrow, £87.1 million at Gatwick and £83.1 million at Stansted.

The major projects at Heathrow includes the building of a tunnel between the main Terminal 5 building and its new satellite terminal (‘T5C’) for a connected baggage system, continued work on T5C, purchase of an old control tower, which was the last part of land within the Central Terminal Area that was not owned by BAA and is key for future transformation plans. There were various other projects in the rest of the Heathrow campus, such as the Terminal 1 check-in refurbishment to enable move of United Airlines from Terminal 3 and creation of a common departure lounge in Terminal 1 for bmi and Aer Lingus.

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At Gatwick major developments have included starting the upgrade of the train system that operates between the North Terminal and South Terminal.

At Stansted there was £49.9 million of expenditure completed on the existing infrastructure including the extension of the arrivals area to provide a better layout for capacity and retail. In addition, there was £33.2 million of expenditure for the SG2 project.

Net debt

At 30 September 2008, the Security Group had £4.5 billion of debt outstanding under various bond issues with an average cost to the Security Group of 6.37% per annum, after hedges. In addition, there was approximately £4.9 billion outstanding under various senior and junior bank debt facilities. With cash and cash equivalents of £26.5 million at 30 September 2008, net debt of the Security Group at this date was approximately £9.4 billion and the average annual cost of this debt was 6.75%, after hedges.

Performance against forecast

In BAA's prospectus dated 14 July 2008, it was forecast that the Regulated Airports would generate an Adjusted EBITDA of £1,015 million in the 12 months to 31 March 2009. That forecast was partly based on assumed levels of passenger traffic in the period. Within that forecast were estimates for each quarter which enables a comparison of actual performance of the Regulated Airports against the forecast to be provided for the six months to 30 September 2008. In this period passenger numbers were 2.4% below forecast at 68.4 million (forecast: 70.1 million) and Adjusted EBITDA was 3% above forecast at £559 million (forecast: £543 million).

Financial outlook for 12 month period to 31 March 2009

In BAA's supplemental prospectus dated 1 October 2008, it was indicated that, primarily due to a reduction in the forecast passenger numbers set out in the prospectus dated 14 July 2008, forecast Adjusted EBITDA for the Regulated Airports ('Combined Adjusted EBITDA') for the 12 months to 31 March 2009 would be no more than 5% below the earlier forecast for Combined Adjusted EBITDA for the period.

BAA continues to expect the Regulated Airports to deliver a Combined Adjusted EBITDA for the 12 months to 31 March 2009 that is no more than 5% below the earlier forecast of £1,015 million.

Financing update

Following the refinancing of the Regulated Airports completed in August 2008, the intention is to refinance a significant proportion of the current bank facilities in the bond markets.

BAA is aware of the dislocation of the corporate bond markets that has become more acute in recent weeks. It is also continually evaluating its financing needs in the light of developments in its own funding requirements.

In particular, the net proceeds of the expected disposal of Gatwick are expected to be sufficient to meet the first repayment under the Refinancing Facility of £1.0 billion due in March 2010 as well as meeting significant amounts of later repayments. In addition, the revised capital plans for Stansted recommended to the CAA by the Competition Commission in conjunction with no further capital investment at Gatwick following its disposal, will reduce significantly the funding requirement of the Regulated Airports over the next few years.

As a result, the capital markets' refinancing requirements have been reduced. Further, whilst BAA is keen to re-establish an issuing programme in the bond markets as soon as market conditions permit, there is potentially no need to raise any additional debt finance, whether from the bank or bond market, until well into 2010.

Financial review – BAA Limited

Revenue

BAA's total revenue in the nine months to 30 September 2008 for continuing operations increased 15% to £1,925 million (2007: £1,678 million).

Income from aeronautical charges in the nine months to 30 September 2008 increased 23% to £1,011 million (2007: £820 million), driven by the increases experienced at Heathrow, Gatwick and Stansted described under ‘Financial review – Regulated Airports’. Aeronautical income for the remaining BAA airports increased 3% over the same period in 2007 driven by 17% growth at Southampton and 2% growth at Edinburgh.

BAA’s total net retail income in the nine months to 30 September 2008 increased 2% to £501 million (2007: £493 million). There was a 1% increase for net retail income outside the Regulated Airports with positive growth for in-terminal and car park revenue at all non-regulated airports.

Other income increased 11% to £381 million (2007: £344 million) for continuing operations. This was driven by the increase at the Regulated Airports as previously described. For the remainder of the businesses this is mainly due to additional income from the inclusion of PRM income as described for the Regulated Airports (£1.6 million).

Operating costs

Underlying operating costs, i.e. excluding exceptional costs, for the continuing operations of the BAA Group in the nine months to 30 September 2008 increased 30% to £1,586 million (2007: £1,217 million).

The increase was driven primarily by the Regulated Airports (£346.5 million) as previously explained. For the remaining businesses, excluding disposals there was an increase in depreciation of £14 million leaving underlying operating costs up 9% at £106 million (2007: £97 million). This was partially due to an additional £1.2 million of expenditure relating to PRM which was previously sourced directly by the airlines in 2007 as previously described for the Regulated Airports. It also reflected increased utility costs and IT maintenance expenditure.

Adjusted EBITDA

Adjusted EBITDA for continuing operation in the nine months ended 30 September 2008 increased 1% to £822 million (2007: £811 million).

The key drivers in Adjusted EBITDA declining whilst revenues remained flat were:-

- £5.4 million reduction in Adjusted EBITDA for the Regulated Airports as outlined above

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- Underlying performance for remaining businesses increased year on year by £16 million despite a 2% decline in passenger traffic with Adjusted EBITDA increases at Edinburgh (4%), Aberdeen (3%) and Naples (8%).

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Appendix 1 – Financial information for the Regulated Airports

Combined Profit and Loss Data for the 9 Months Ended 30 September 2007 and 2008

	12 months ended 31 December 2007[3]	9 months ended 30 September 2007[4]	9 months ended 30 September 2008[5]
		(unaudited)	(unaudited)
	(£ millions)	(£ millions)	(£ millions)
Income	**1,976.3**	**1,484.5**	**1,721.3**
Operating costs – ordinary	(1,356.3)	(1,008.7)	(1,353.9)
Operating costs – exceptional[1]	(180.0)	(66.7)	(213.0)
Operating profit	**440.0**	**409.1**	**154.4**
Net interest payable[2]	**(220.0)**	**(168.1)**	**(378.9)**
Profit / (loss) on ordinary activities before taxation	**220.0**	**241.0**	**(224.5)**
Tax on (profit) / loss on ordinary activities	156.6	182.5	78.9
Profit / (loss) on ordinary activities after taxation	**376.6**	**423.5**	**(145.6)**

(1) The increase in exceptional costs is mainly as a result of the fees relating to the back stop facility of £128.6m and £16.2m of accelerated depreciation charges of Heathrow's Terminal 1 and Terminal 2 due to the expected impact of the Heathrow East terminal complex project, which will shorten the lives of these assets.

(2) The increase in net interest payable for the nine months ended 30 September 2008 compared with the same period in 2007 is largely due the refinancing where finance costs incurred include interest payable on the Borrowers Loan Agreement, £101m; interest on refinancing debt, £38.1m; amortisation of refinancing fees, £10.6m and commitment fees, £4.7m. The reduction in capitalised interest associated with Terminal 5 has also had an impact in increasing net interest payable.

(3) For a breakdown of each Airport Operator, see Note 2 in the "*Notes to the Income Statement Data*" below.

(4) For a breakdown of each Airport Operator, see Note 3 in the "*Notes to the Income Statement Data*" below.

(5) For a breakdown of each Airport Operator, see Note 4 in the "*Notes to the Income Statement Data*" below.

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Combined Balance Sheet Data as of 30 September 2008

	As of 30 September 2008[(1)] *(unaudited)* (£ millions)
Fixed Assets	
Tangible assets	12,811.9
Current Assets	
Stocks	8.3
Debtors: due within one year	718.5
due after more than one year	825.9
Cash at bank and in hand	26.5
Total current assets	1,579.2
Creditors: due within one year	(746.0)
Net current assets	833.2
Total assets less current liabilities	**13,645.1**
Creditors: amounts falling due after more than one year	(9,242.8)
Provisions for liabilities and charges	(624.6)
Net Assets	**3,777.7**

(1) For a breakdown of each Airport Operator, see Note 7 in the "*Notes to the Income Statement Data*" below.

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BAA

1. Basis of preparation

The financial information in Appendix 1 has been prepared to show the results and financial position of the owners of each of Heathrow, Gatwick and Stansted airports, namely Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited respectively (together the 'Operating Companies'), on a combined basis for the nine months ended 30 September 2007 and 2008. These results and financial position have been prepared for illustrative purposes only. Therefore, they do not represent the actual results or financial position of the Operating Companies had the books of account been maintained, and statutory accounts prepared, for these companies on a combined basis for the nine months ended 30 September 2007 and 2008.

The unaudited combined financial information does not include the historical results of the Security Parent, Asset Holdco or the Issuer and does not represent the actual results or financial position of the Security Group if it had been operating as a group for the nine months ended 30 September 2007 and 2008. The combined information therefore does not take account of any acquisition accounting by the Security Parent on transfer of the Operating Companies to the Security Group. Management does not believe that these adjustments would materially affect EBITDA in the consolidated accounts of the Security Parent had such accounts been prepared.

The interest charges and borrowings included in the unaudited combined financial information reflect the position as at 30 September 2007 and 2008 and for the nine months ended 30 September 2007 and 2008.

The unaudited combined profit and loss information for the nine months ended 30 September 2007 and 2008 has been derived from the unaudited interim statements of the Operating Companies, subject to an adjustment to eliminate inter-company trading between HAL and Heathrow Express Limited (HEX Opco).

The combined balance sheet data is an aggregation of the unaudited balance sheet information for each of the Operating Companies as of 30 September 2007 and 2008, also subject to an adjustment to eliminate intra-group management fees between HAL and HEX Opco.

The unaudited combined profit and loss information and the combined balance sheet data have been compiled under UK GAAP, consistent with the accounting policies of the Operating Companies.

2. Combined Profit and Loss Data for the year ended 31 December 2007

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
				(unaudited)	
	(£ millions)				
Income	**1,324.8**	**409.7**	**241.8**	**—**	**1,976.3**
Operating costs – ordinary	(892.7)	(312.2)	(156.1)	4.7	(1,356.3)
Operating costs – exceptional	(154.2)	(16.7)	(9.1)	—	(180.0)
Operating profit	**277.9**	**80.8**	**76.6**	**4.7**	**440.0**
Net Interest (payable) / receivable	**(185.6)**	**(25.3)**	**(11.6)**	**2.5**	**(220.0)**
Profit on ordinary activities before taxation	**92.3**	**55.5**	**65.0**	**7.2**	**220.0**
Tax on profit on ordinary activities	81.8	53.5	23.5	(2.2)	156.6

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
Profit on ordinary activities after taxation	**174.1**	**109.0**	**88.5**	**5.0**	**376.6**

3. **Combined Profit and Loss Data for the 9 months ended 30 September 2007**

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	(unaudited)				
	(£ millions)				
Income	**985.0**	**315.9**	**183.6**	**-**	**1,484.5**
Operating costs – ordinary	(662.9)	(232.4)	(116.7)	3.3	(1,008.7)
Operating costs – exceptional	(65.3)	(1.1)	(0.3)	-	(66.7)
Operating profit	**256.8**	**82.4**	**66.6**	**3.3**	**409.1**
Net Interest (payable) / receivable	**(141.4)**	**(19.4)**	**(9.1)**	**1.8**	**(168.1)**
Profit / (loss) on ordinary activities before taxation	**115.4**	**63.0**	**57.5**	**5.1**	**241.0**
Tax on (profit) / loss on ordinary activities	102.4	60.7	20.8	(1.4)	182.5
Profit / (loss) on ordinary activities after taxation	**217.8**	**123.7**	**78.3**	**3.7**	**423.5**

4. Combined Profit and Loss Data for the 9 months ended 30 September 2008

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	(unaudited)				
	(£ millions)				
Income	**1,158.1**	**363.4**	**199.8**	**-**	**1,721.3**
Operating costs – ordinary	(950.4)	(274.2)	(133.3)	4.0	(1,353.9)
Operating costs – exceptional	(176.8)	(21.7)	(14.5)	-	(213.0)
Operating profit	**30.9**	**67.5**	**52.0**	**4.0**	**154.4**
Net Interest (payable) / receivable	**(347.1)**	**(21.6)**	**(11.3)**	**1.1**	**(378.9)**
(Loss) / profit on ordinary activities before taxation	**(316.2)**	**45.9**	**40.7**	**5.1**	**(224.5)**
Tax on loss / (profit) on ordinary activities	105.6	(14.5)	(10.8)	(1.4)	78.9
(Loss) / profit on ordinary activities after taxation	**(210.6)**	**31.4**	**29.9**	**3.7**	**(145.6)**

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5. **Analysis of Other Financial Operating Data**

Combined Profit and Loss Data for the 9 months ended 30 September 2007

	HAL	**GAL**	**STAL**	**Adjustment for HEX Opco**	**Total**
	--	-----------	**(unaudited)**	-----------	--
	--	-----------	**(£ millions)**	-----------	--
Aeronautical income	473.2	138.0	96.0	-	707.2
Retail...	239.1	121.6	70.3	-	431.0
Operational facilities and utilities ...	86.1	27.3	9.7	-	123.1
Property rental	61.0	20.6	5.6	-	87.2
Rail..	58.5	-	-	-	58.5
Other income[(1)]	67.1	8.4	2.0	-	77.5
Total income................................	**985.0**	**315.9**	**183.6**	**-**	**1,484.5**
Employment costs	155.9	71.4	39.9	-	267.2
Depreciation..................................	154.5	41.2	21.5	-	217.2
Maintenance expenditure	57.1	18.3	7.8	-	83.2
Utility costs....................................	33.7	13.0	6.5	-	53.2
Rent and rates	48.5	17.2	7.6	-	73.3
General expenses..........................	66.5	33.5	12.9	-	112.9
Retail expenditure..........................	8.3	6.6	1.4	-	16.3
Other intra-group charges[(2)]...........	138.1	31.1	18.8	(3.3)	184.7
(Profit) / loss on disposals of tangible fixed assets	0.3	0.1	0.3	-	0.7
Operating costs – ordinary.............	662.9	232.4	116.7	(3.3)	1,008.7
Operating costs – exceptional	65.3	1.1	0.3		66.7
Total operating costs	**728.2**	**233.5**	**117.0**	**(3.3)**	**1,075.4**
Total operating profit..................	**256.8**	**82.4**	**66.6**	**3.3**	**409.1**

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Combined Profit and Loss Data for the 9 months ended 30 September 2008

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	(unaudited)				
	(£ millions)				
Aeronautical income	603.1	178.2	113.5	-	894.8
Retail	246.4	134.4	69.0	-	449.8
Operational facilities and utilities	96.9	18.4	9.3	-	124.6
Property rental	67.5	20.1	5.4	-	93.0
Rail	62.8	-	-	-	62.8
Other income[(1)]	81.4	12.3	2.6	-	96.3
Total income	**1,158.1**	**363.4**	**199.8**	**-**	**1,721.3**
Employment costs	200.1	76.4	39.7	-	316.2
Depreciation	250.7	46.9	24.0	-	321.6
Maintenance expenditure	83.6	19.3	7.2	-	110.1
Utility costs	38.4	13.8	7.6	-	59.8
Rent and rates	68.2	17.9	8.7	-	94.8
General expenses	144.6	54.9	23.5	-	223.0
Retail expenditure	15.7	12.3	1.9	-	29.9
Other intra-group charges[(2)]	148.5	32.7	20.7	(4.0)	197.9
(Profit) / loss on disposals of tangible fixed assets	0.6	-	-	-	0.6
Operating costs – ordinary	950.4	274.2	133.3	(4.0)	1,353.9
Operating costs – exceptional	176.8	21.7	14.5	-	213.0
Total operating costs	**1,127.2**	**295.9**	**147.8**	**(4.0)**	**1,566.9**
Total operating profit	**30.9**	**67.5**	**52.0**	**4.0**	**154.4**

(1) Includes income received from BAA, mostly related to IT lease costs, which HAL charged to BAA and BAA,

in turn, re-charges to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group).

(2) Includes intra-group charges from BAA for the use of common IT infrastructure and software which is owned by HAL on behalf of the BAA Group and re-charged to its businesses (including HAL, GAL and STAL, as well as other subsidiaries not within the Security Group). In the case of HAL, it also includes intra-group charges related to all operating expenses incurred by, and the management fee charged by, HEX Opco in running Heathrow Express.

6. Combined EBITDA and Adjusted EBITDA

	12 months ended 31 December 2007	9 months ended 30 September 2007	9 months ended 30 September 2008
		(unaudited)	
		(£ millions)	
Profit / (loss) on ordinary activities after taxation	**376.6**	**423.5**	**(145.6)**
Depreciation	289.2	217.2	321.6
Accelerated depreciation[1]	66.3	46.1	62.3
Net interest payable	220.0	168.1	378.9
Tax on (profit) / loss on ordinary activities	(156.6)	(182.5)	(78.9)
Combined EBITDA	**795.5**	**672.4**	**538.3**
Other operating costs – exceptional[2]	113.7	20.6	150.7
Combined Adjusted EBITDA	**909.2**	**693.0**	**689.0**

(1) Accelerated depreciation is recorded in HAL's statutory accounts under "Operating costs—exceptional". Accelerated depreciation relates to additional depreciation charges taken in relation to Heathrow's Terminal 1 and Terminal 2 due to the expected impact of the Heathrow East terminal complex project, which will shorten the lives of these assets.

(2) Does not include the additional accelerated depreciation charges for Terminal 1 and Terminal 2 that are included above in the table under "Accelerated depreciation".

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7. **Combined Balance Sheet Data as of 30 September 2008**

	HAL	GAL	STAL	Adjustment for HEX Opco	Total
	(unaudited)				
	(£ millions)				
Fixed assets					
Tangible assets	9,746.1	1,612.4	1,453.4	-	12,811.9
Current assets					
Stocks	2.7	3.9	1.7	-	8.3
Debtors: due within one year	532.0	111.4	75.1	-	718.5
due after more than one year	45.8	485.0	295.1	-	825.9
Cash at bank and in hand	-	19.9	6.6	-	26.5
Total current assets	**580.5**	**620.2**	**378.5**	**-**	**1,579.2**
Creditors : due within one year	(570.2)	(114.9)	(58.0)	(2.9)	(746.0)
Net current assets	10.3	505.3	320.5	(2.9)	833.2
Total assets less current liabilities	**9,756.4**	**2,117.7**	**1,773.9**	**(2.9)**	**13,645.1**
Creditors: amounts falling due after more than one year	(7,599.7)	(1,036.5)	(606.6)	-	(9,242.8)
Provisions for liabilities and charges	(519.9)	(58.9)	(45.8)	-	(624.6)
Net Assets	**1,636.8**	**1,022.3**	**1,121.5**	**(2.9)**	**3,777.7**

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BAA

Appendix 2 – Financial information for BAA Limited (formerly Airport Development and Investment Limited)

Condensed consolidated income statement for the nine months ended 30 September 2008

	9 months ended30 September 2008			9 months ended30 September 2007		
	Before certain re-measurements[1]	Certain re-measurements[1]	Total	Before certain re-measurements[1]	Certain re-measurements[1]	Total
(unaudited)	£m	£m	£m	£m	£m	£m
Continuing operations						
Revenue	**1,925**	**-**	**1,925**	1,678	-	1,678
Operating costs	**(1,586)**	**-**	**(1,586)**	(1,217)	-	(1,217)
Other operating income						
Fair value (losses)/ gains on investment properties	**-**	**(253)**	**(253)**	-	45	45
Fair value gains/ (losses) on derivative financial instruments	**-**	**13**	**13**	-	(17)	(17)
Operating profit/ (loss)	**339**	**(240)**	**99**	461	28	489
Analysed as:						
Operating profit/ (loss) before exceptional items	**424**	**(240)**	**184**	530	28	558
Exceptional Items	**(85)**	**-**	**(85)**	(69)	-	(69)

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	339	**(240)**	**99**	461	28	489
Share of (loss)/ profit of associates (net of interest and tax)	**(1)**	**-**	**(1)**	1	-	1
Financing						
Finance income	**16**	**-**	**16**	21	-	21
Finance costs	**(763)**	**-**	**(763)**	(763)	-	(763)
Fair value (losses)/ gains on derivative financial instruments	**-**	**(351)**	**(351)**	-	38	38
(Loss)/ profit before tax	**(409)**	**(591)**	**(1,000)**	(280)	66	(214)
Taxation credit/(charge)	**98**	**191**	**289**	158	24	182
Profit/ (loss) for the period from continuing operations	**(311)**	**(400)**	**(711)**	(122)	90	(32)
Net profit/ (loss) from discontinued operations	**242**	**(70)**	**172**	141	20	161
Consolidated profit/ (loss) for the period	**(69)**	**(470)**	**(539)**	19	110	129
Attributable to:						
Equity holders of the parent	**(70)**	**(470)**	**(540)**	20	110	130
Minority interest	**1**	**-**	**1**	(1)	-	(1)

1 Certain re-measurements (including those of associates and joint ventures) consist of fair value gains and losses on investment property revaluations and disposals and the gains and losses arising on the re-measurement and disposal of derivative financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship, together with the related tax impact of these items.

BAA Limited, Heathrow Point West, 234 Bath Road, Hayes, Middlesex UB3 5AP

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Condensed consolidated balance sheet as at 30 September 2008

	30 September 2008	31 December 2007
	£m	£m
	(unaudited)	(audited)
Assets		
Non-current assets		
Property, plant and equipment	**10,817**	11,632
Investment properties	**2,532**	3,139
Intangible assets	**4,165**	4,696
Investment in associates	**7**	8
Available-for-sale investments	**23**	47
Derivative financial instruments	**485**	103
Retirement benefit surplus	**355**	122
Trade and other receivables	**60**	74
	18,444	19,821
Current assets		
Inventories	**5**	9
Trade and other receivables	**468**	307
Derivative financial instruments	**48**	20
Cash and cash equivalents	**213**	140
	734	476

BAA Limited, Heathrow Point West, 234 Bath Road, Hayes, Middlesex UB3 5AP

Assets classified as held-for-sale	**2,736**	843
Total assets	**21,914**	21,140
Liabilities		
Non-current liabilities		
Borrowings	**(16,298)**	(16,869)
Derivative financial instruments	**(9)**	(92)
Deferred income tax liabilities	**(1,516)**	(1,973)
Provisions	**(99)**	(105)
Trade and other payables	**(17)**	(16)
	(17,939)	(19,055)
Current liabilities		
Borrowings	**(840)**	(762)
Derivative financial instruments	**(422)**	(44)
Provisions	**(79)**	(95)
Current income tax liabilities	**(77)**	(71)
Trade and other payables	**(695)**	(633)
	(2,113)	(266)
Liabilities associated with assets classified as held-for-sale	**(1,603)**	(266)
Total liabilities	**(21,655)**	(20,926)
Net assets	**259**	214

Equity

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Capital and reserves		
Ordinary shares	**40**	-
Share premium	**364**	4
Fair value and other reserves	**(79)**	(96)
Retained earnings	**(81)**	293
Total shareholders' equity	**244**	201
Minority interest in equity	**15**	13
Total equity	**259**	214

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Condensed consolidated cash flow statement for the nine months ended 30 September 2008

	9 months ended 30 September 2008
(unaudited)	**£m**
Operating activities	
Cash generated from continuing operations	**735**
Dividends received	**-**
Income taxes paid	**(2)**
Cash generated from discontinued operations	**(1)**
Net cash from operating activities	**732**
Investing activities	
Purchase of:	
Property, plant and equipment	**(874)**
Intangible assets	**(13)**
Investment property	**-**
Loan to parent entity	**-**
Proceeds from available-for-sale investments	**24**
Proceeds from sale of:	

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Investment in subsidiaries	-
Property, plant and equipment	-
Intangible assets	-
Investment property	-
Other investments	-
Investing activities of discontinued operations	**672**
Net cash used in investing activities	**(191)**
Financing activities	
Interest paid	**(1,421)**
Interest received	**15**
Proceeds from borrowings	**6,916**
Repayment of borrowings	**(6,268)**
Proceeds from issue of share capital	**400**
Financing activities of discontinued operations	**(30)**
Net provided/(used in) by financing activities	**(388)**
Net increase/(decrease) in cash and cash equivalents	**153**
Cash and cash equivalents at beginning of period	**150**
Cash and cash equivalents at end of period (*)	**303**

* For the purpose of the cash flow statement, cash and cash equivalents with an original maturity of three months or less and held for the purpose of meeting short-term cash commitments comprise:

- cash at bank and cash in hand
- short-term deposits
- money market funds
- cash balances held by operations classified as held-for-sale

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