



# Heathrow and Stansted BAA's London airports group

Investor update

September 2011

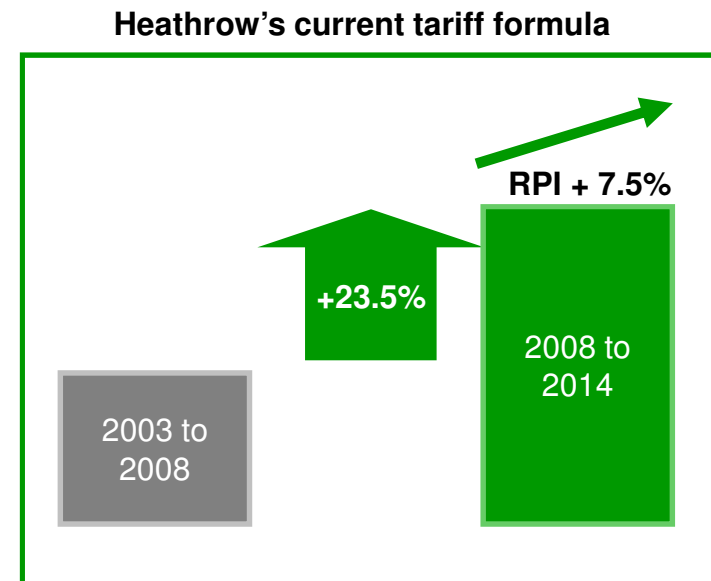
**BAA** 

# Introduction

- In 2011, BAA has completed transition to a capital markets funding platform
  - ✓ £0.9 billion Sterling issuance
  - ✓ US\$1 billion debut issuance
  - ✓ Bank refinancing facility fully repaid
- Now able to issue in 3 major currencies of £, € and \$
- Sufficient liquidity to meet all maturities until 2013
- Considering further issuance to refinance outstandings under capital expenditure facility
- € issuance natural next step given recent £ and \$ transactions

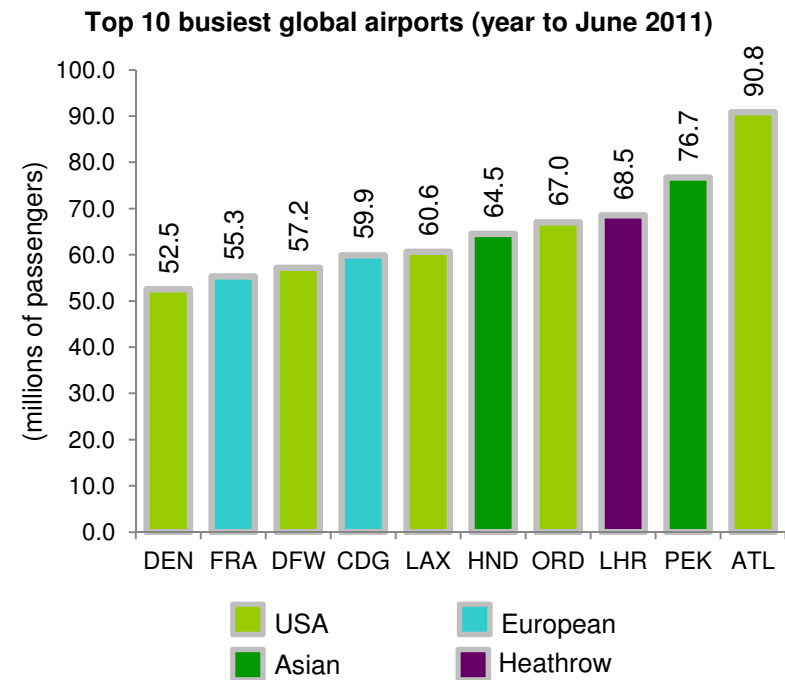
# Credit strength of BAA's London airports based on Heathrow and regulatory regime

- Heathrow accounts for over 90% of Adjusted EBITDA and 90% of Regulatory Asset Base
- Significant stability versus overall airports sector due to its operational and customer characteristics
- Regulation provides cash flow predictability with maximum 5 year market risk



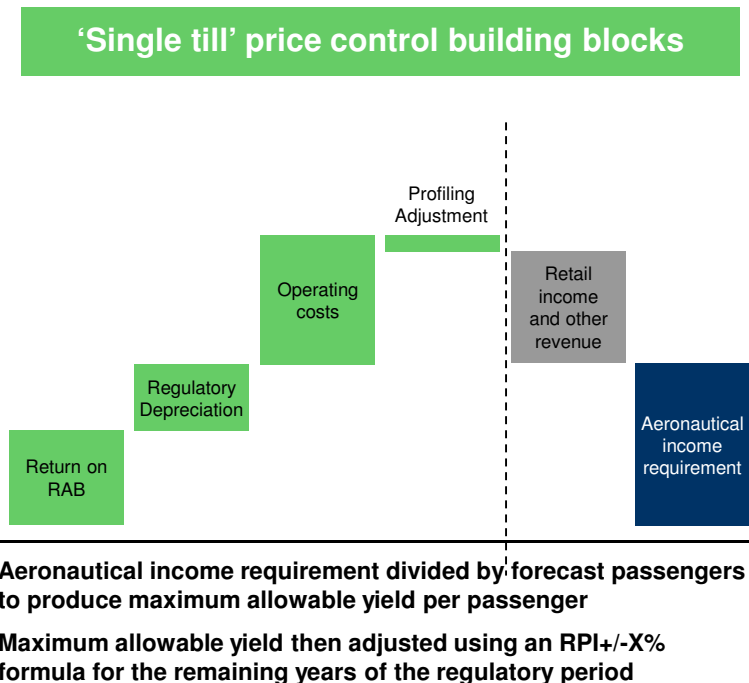
# Heathrow – critical infrastructure provides strong resilience

- 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
- Unique traffic resilience
  - operating close to full capacity
  - strength in high growth long haul
  - countercyclical transfer 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



## Recent significant business developments

- Traffic performance consistent with meeting 2011 forecast
- Strong financial performance in first half of 2011
- Passenger satisfaction continues to improve in line with enhancements to service standards
- Good progress in Heathrow's investment programme
- Continued Competition Commission requirement for Stansted sale

# 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)
  - includes 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>

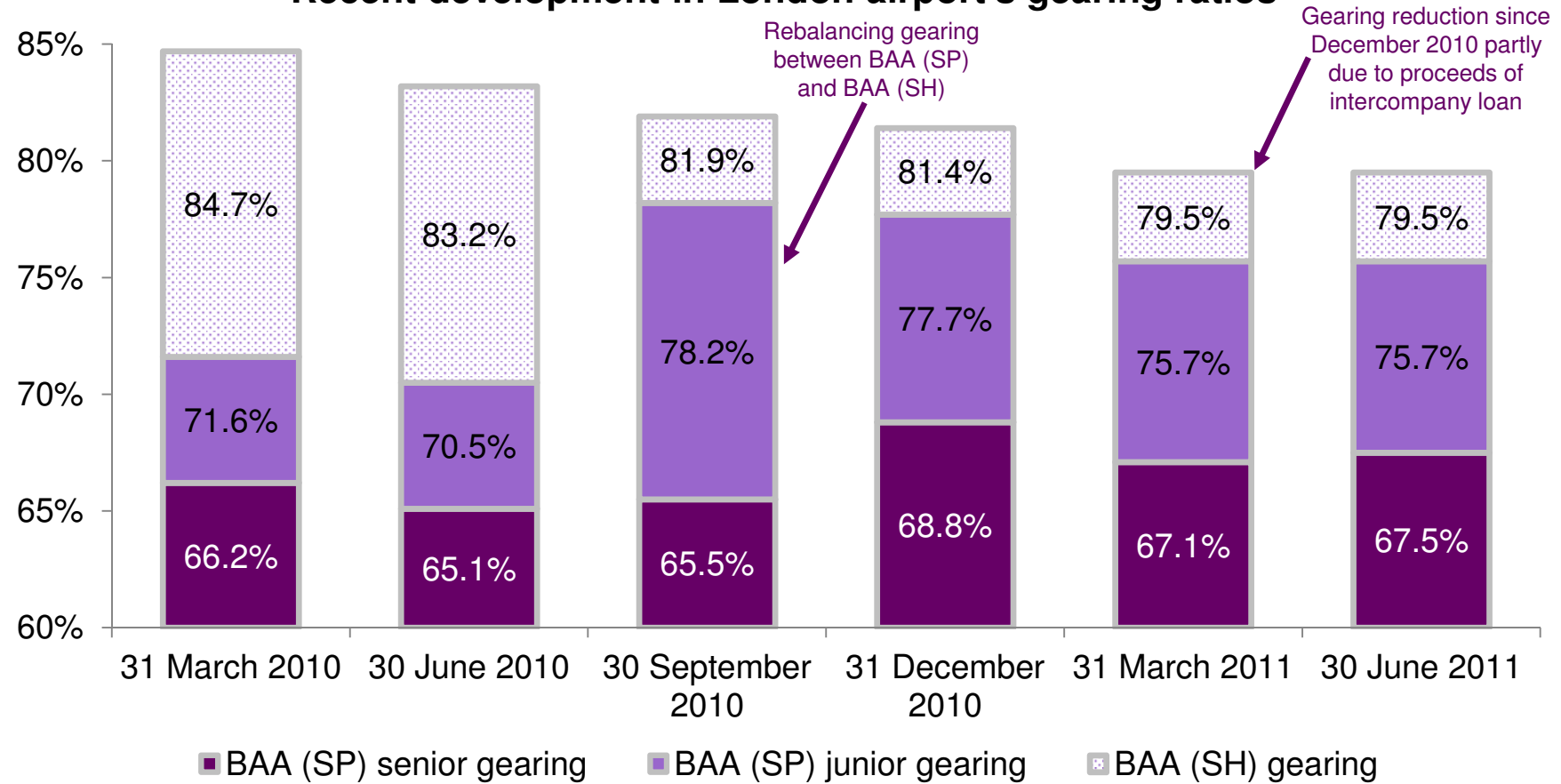
## Strong financial performance in first half of 2011

(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	9,921.2	<b>10,128.2</b>	+2.1%
RAB (Regulatory Asset Base)	12,776.0	<b>13,373.8</b>	+4.7%



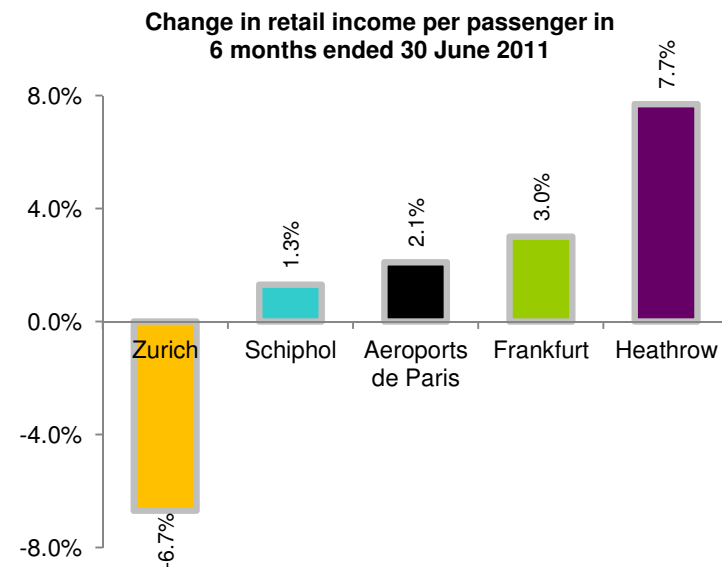
# Gearing evolution

## Recent development in London airport's gearing ratios



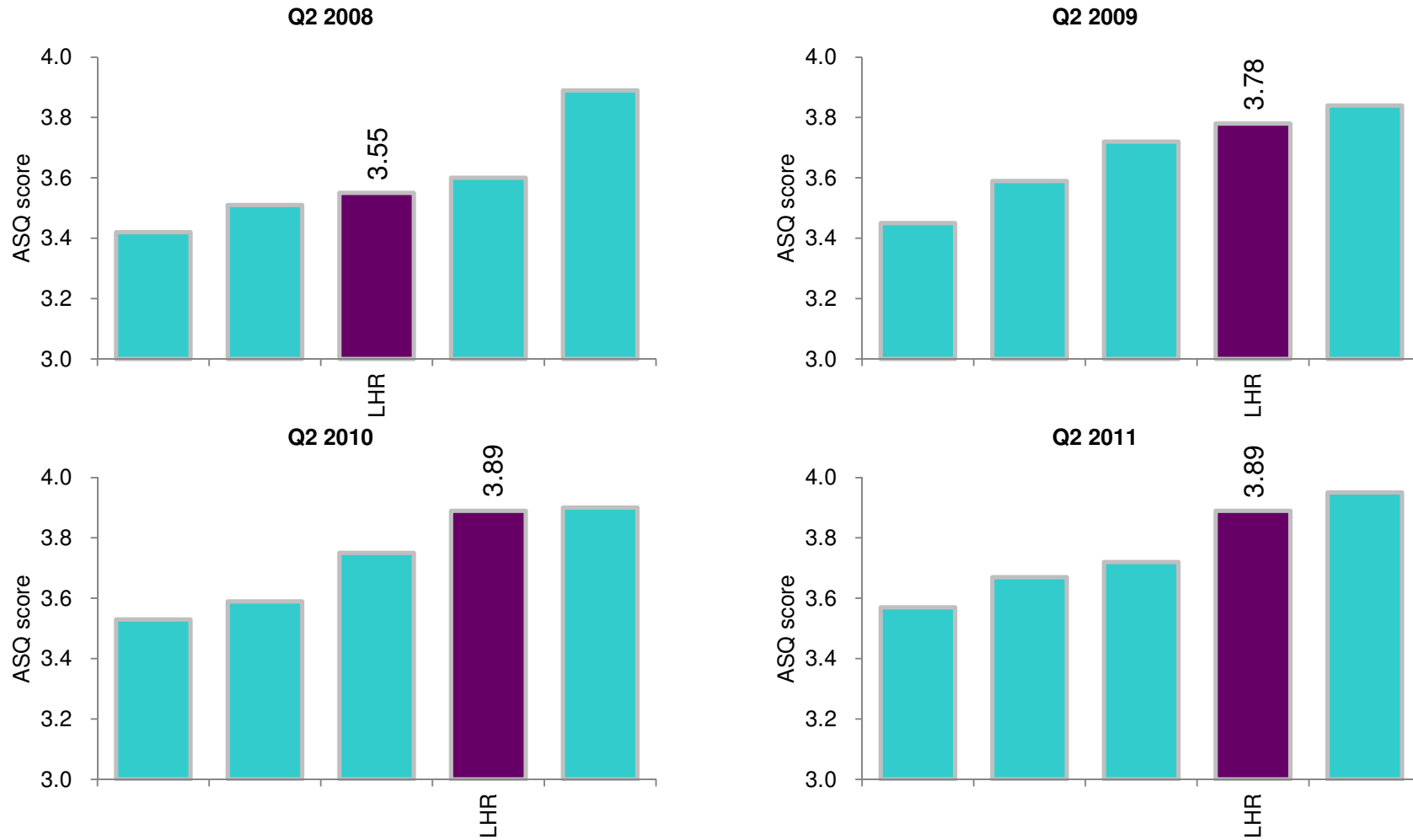
## 2011 performance drivers

- 12.2% increase in Heathrow tariff from 1 April 2011 – further significant increase expected 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



# 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
- Terminal 5C opened in June 2011
- 80% of main Terminal 2 building's steelwork complete
  - weather proof by early 2012
- World's biggest integrated baggage system
  - major works to commence on new Terminal 3 baggage system
- Over £400 million invested at Heathrow in first half of 2011



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

## Conclusion

- Strong financial performance in first half of 2011 with traffic on track to meet full year forecast
- Continued improvements in service standards supported by development of new infrastructure
- Completed transition to a capital markets platform with bank refinancing facility fully repaid
- Successful recent £ and US\$ financings raised £1.5 billion
  - now able to issue in 3 major currencies of £, € and \$
  - sufficient liquidity to meet all maturities until 2013
- Issuance focus now on € market

# Notes, sources and defined terms

- Page 2
  - Source: Bloomberg / BAA
- Page 4
  - Sources: relevant airport websites other than Haneda; data for Haneda from Airports Council International
  - Annual traffic data 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
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  - Totals and percentage change calculated using un-rounded passenger numbers
  - European traffic includes North African charter traffic
- Page 8
  - 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
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  - Gearing is the ratio of external nominal net debt (including index-linked accretion) to the RAB (regulatory asset base)
  - The intercompany loan injected £134.8 million into BAA (SP) Limited from elsewhere in the BAA group with £110.0 million coming from Naples airport disposal proceeds and £24.8 million from excess cash at BAA (SH) plc from its refinancing completed in 2010. This inter-company loan was repaid in August 2011
- Page 10
  - 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 11
  - 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

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