



# BAA (SP) Limited

Results for year ended 31 December 2010

February 2011



- Strong Heathrow traffic recovery tempered by external events
- Strong financial results
- Enhanced capital structure

## 2010 highlights

### Traffic and retail performance

Total passenger traffic	-1.8%
Heathrow passenger traffic	-0.2%
Heathrow underlying traffic	+3.4%
NRI per passenger	+12.1%

### Key financial highlights

Revenue	+4.9%
Adjusted EBITDA	+9.2%
Underlying Adjusted EBITDA	+20.6%

### Investment and financing

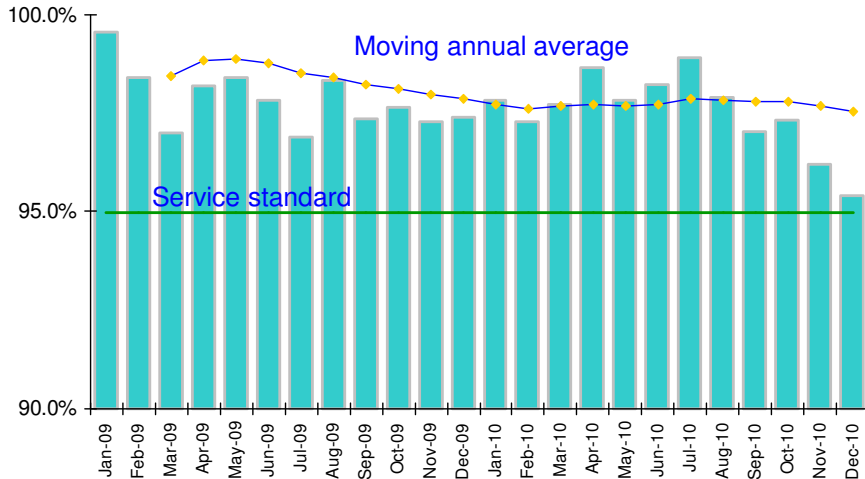
Capital expenditure	£841.1m
Net debt	£9,921.2m
RAB	£12,776.0m

See page 22 for notes and defined terms

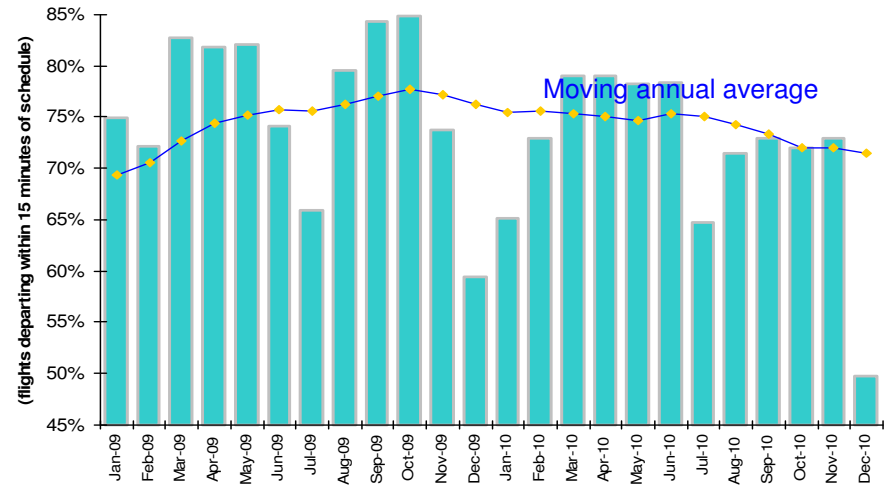
# Service standards impacted by external events

- Consistent security queuing standards
- Departure punctuality affected by weather and strikes
- Baggage misconnects improved

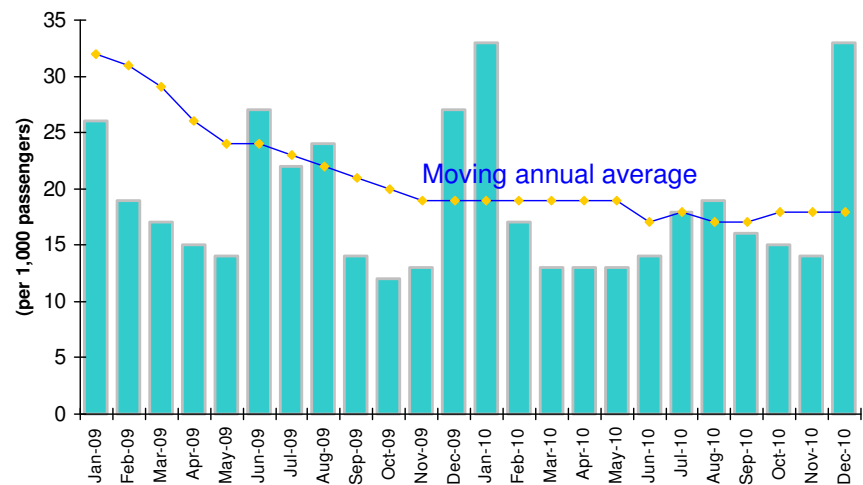
Heathrow security queuing (<5 minutes)



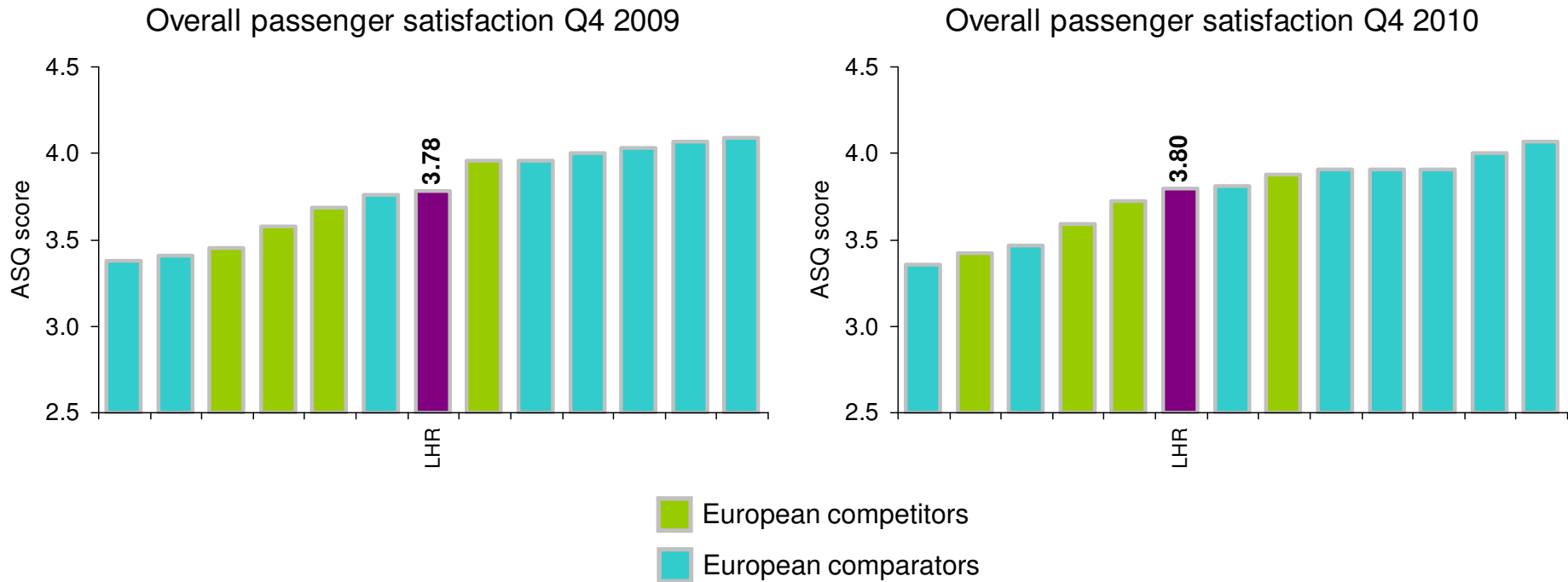
Heathrow departure punctuality



Heathrow baggage misconnect rate



# Heathrow passenger satisfaction continues to improve



Source: Airport Service Quality ('ASQ') surveys by Airports Council International

# Heathrow's new Terminal 2 begins to take shape

- £818.7 million spent at Heathrow
- Spend accelerated towards end of 2010 driven by Terminal 2 activity
  - £180 million spend in 2010
  - detailed scope agreed with Star Alliance
  - significant progress on installing steel superstructure
  - terminal shell completed in 2012
  - basement of phase 2 of Terminal 2B satellite underway
- Terminal 2 investment to intensify in 2011 and 2012



Terminal 2 site – August 2010



Terminal 2 site – January 2011

## Significant progress elsewhere at Heathrow

- Construction of Terminal 5C substantially complete
  - £340 million total Terminal 5C spend
  - operational readiness trials underway
  - 33% more Terminal 5 pier served stands
  - fully operational by summer 2011
- Transfer baggage tunnel between Terminals 3 and 5
  - £80 million spend in 2010
  - baggage transfer system installed
  - project completion in late 2011



Terminal 5C



Terminal 3-5 baggage tunnel

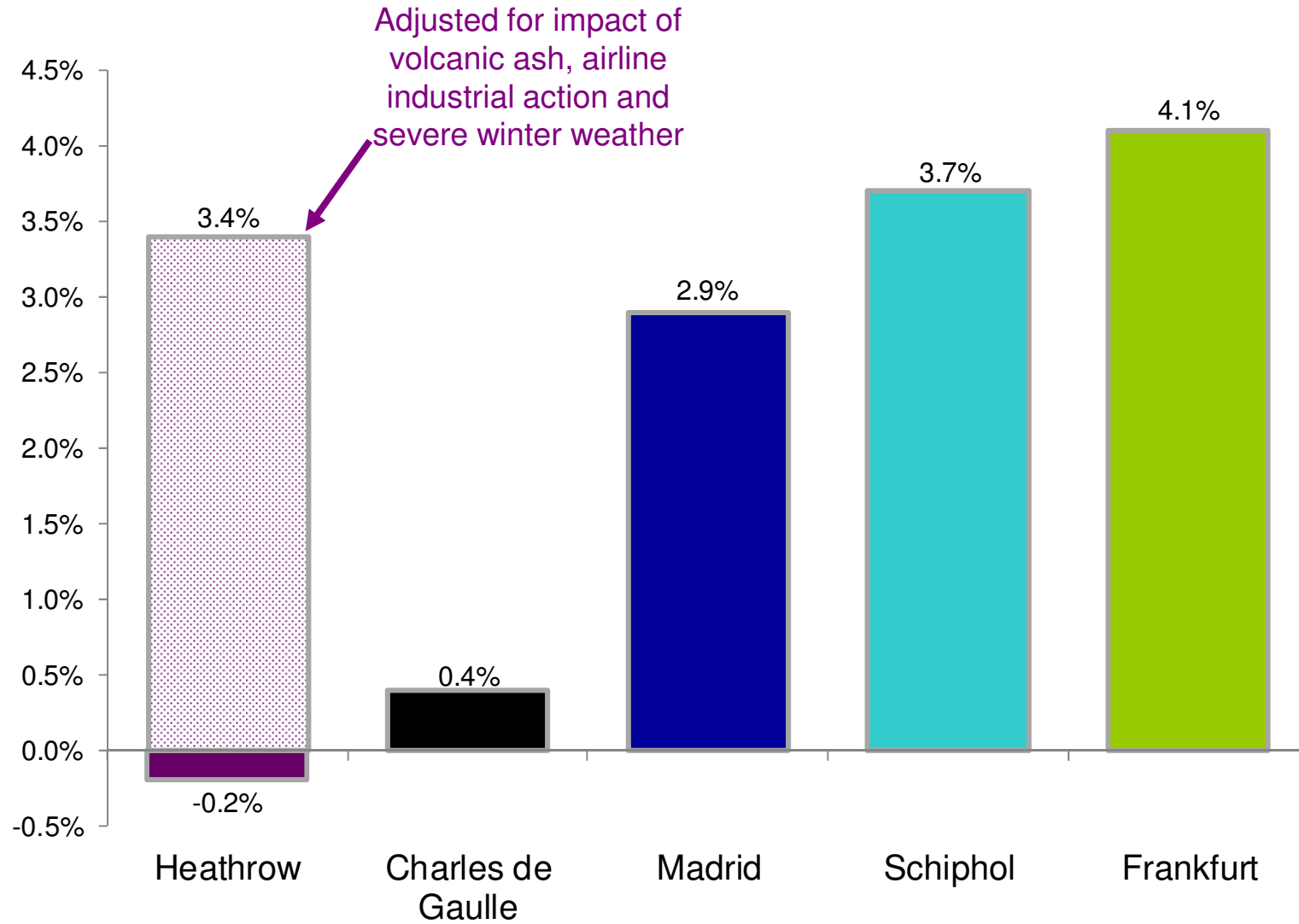
## Strong underlying traffic recovery at Heathrow

- Underlying traffic performance
  - total: +1.5%
  - Heathrow: +3.4%
  - Stansted: -4.8%
- 2010 performance adversely affected by...
  - volcanic ash
  - airline industrial action
  - severe winter weather
- ...and positively affected by
  - return of business travel
  - increasingly strong European traffic
- Return of Heathrow origin and destination traffic
  - benefits retail and rail income

<b>Passenger traffic</b>			
Year ended 31 December			
	2009 (m)	2010 (m)	Change
<i>By airport</i>			
Heathrow	65.9	<b>65.7</b>	<b>-0.2%</b>
Stansted	20.0	<b>18.6</b>	<b>-7.0%</b>
<b>Total</b>	<b>85.9</b>	<b>84.3</b>	<b>-1.8%</b>
<i>By market served</i>			
UK	7.2	<b>6.6</b>	<b>-8.1%</b>
Europe	43.5	<b>42.8</b>	<b>-1.8%</b>
Long haul	35.2	<b>35.0</b>	<b>-0.5%</b>
<b>Total</b>	<b>85.9</b>	<b>84.3</b>	<b>-1.8%</b>

See page 22 for notes and defined terms

# Resilient Heathrow performance despite disruption





Key priorities remain unchanged

**Focus on Heathrow**

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**Making every journey better**

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**Address policy and regulatory issues**

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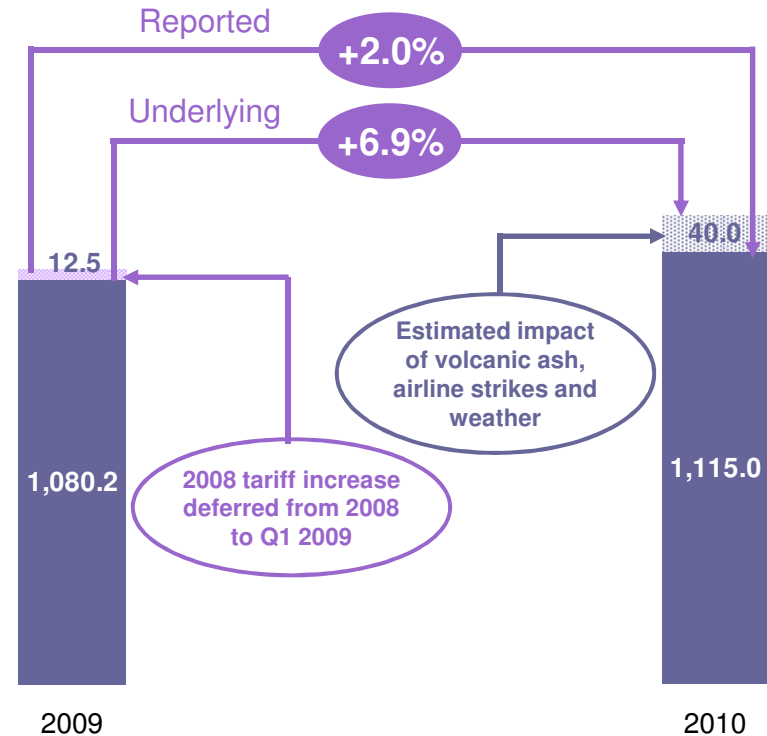
## Strong 2010 financial performance given external challenges

(figures in £m)	2009	2010	Change
Turnover	1,977.6	<b>2,074.3</b>	+4.9%
Adjusted operating costs	1,092.4	<b>1,107.4</b>	+1.4%
Adjusted EBITDA	885.2	<b>966.9</b>	+9.2%
Underlying Adjusted EBITDA	844.9	<b>1,019.2</b>	+20.6%
Consolidated net debt (BAA (SP))	8,579.0	<b>9,921.2</b>	+15.6%
Consolidated net debt (BAA (SH))	10,143.4	<b>10,401.1</b>	+2.5%
RAB (Regulatory Asset Base)	11,730.5	<b>12,776.0</b>	+8.9%

See page 22 for notes and defined terms

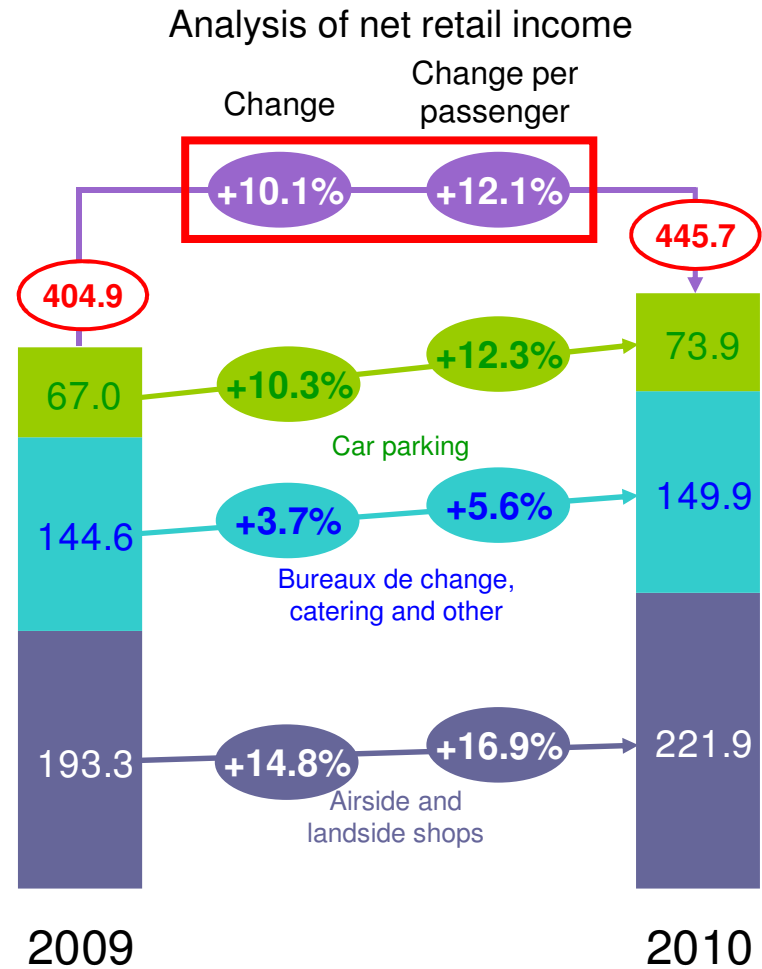
# Development of aeronautical income

- 2010 aeronautical income trends
  - up 2.0%
  - up 6.4% in Q3; 3.0% in Q4
- Volcanic ash, airline strikes and adverse weather impact
  - approximately £40 million lost income
  - 6.9% estimated underlying growth



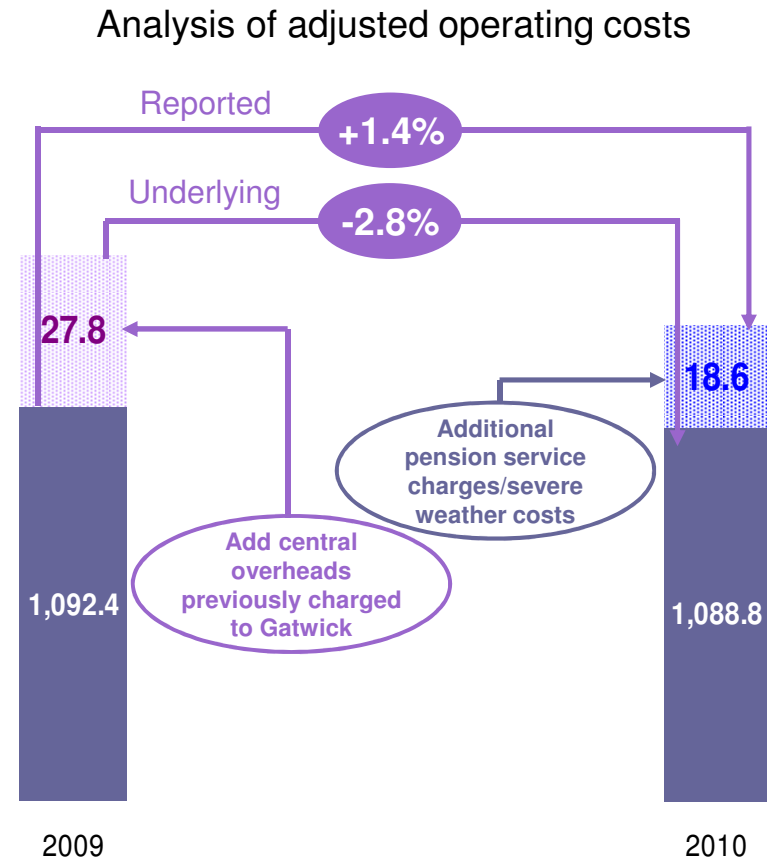
# Exceptionally strong retail performance

- Net retail income per passenger up 12.1% to £5.29
  - Heathrow: +14.4%
  - Stansted: +0.5%
- Strong growth from tax and duty-free and airside specialist shops
- Recovery in car parking
- Key growth drivers
  - increased origin and destination traffic
  - improved passenger experience from relocating airlines to Terminal 4
  - advertising campaigns and managing mix of concessionaires
- Business Traveller and Skytrax global airport retail awards



# Headline cost growth trended down through the year

- Adjusted operating costs up 1.4%
  - declined from 4.0% growth at half year
  - headline cost growth drivers
    - employment costs – non-cash pension service costs
    - intra-group charges – central overhead re-allocation from Gatwick
    - severe winter weather in December
- Underlying adjusted operating costs declined 2.8%
  - driven by lower rents and rates and maintenance expenditure



See page 22 for notes and defined terms

## Lower exceptional items and fair value adjustments

	2009 (total) (£m)	2009 (continuing operations) (£m)	2010 (continuing operations) (£m)
<i>Within operating profit</i>			
Share of change in BAA defined benefit pension scheme deficit	217.8	217.8	(89.9)
Accelerated depreciation on Heathrow Terminal 1/2	54.6	54.6	18.7
Other exceptional items	(1.7)	(0.5)	12.7
<i>Below operating profit</i>			
Loss on disposal of Gatwick airport	277.3	0.0	0.0
Impairment of runway planning application costs	0.0	0.0	104.4
Impairment of properties purchased related to potential future runways	0.0	0.0	44.9
<b>Total exceptional loss</b>	<b>548.0</b>	<b>271.9</b>	<b>90.8</b>

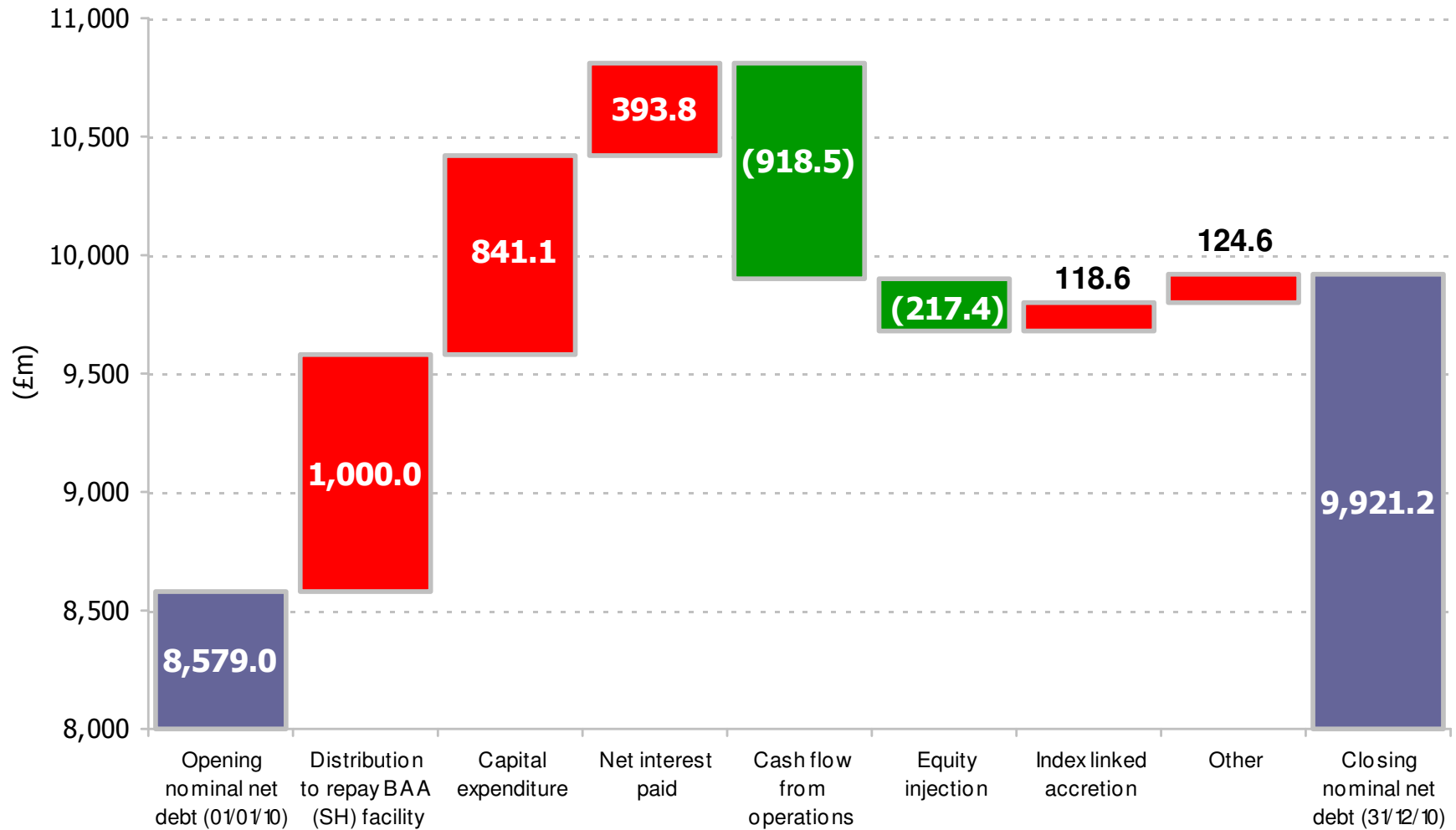
Fair value loss on financial instruments of £35.8m in 2010 compared to £117.4m in 2009

## Interest paid consistent with expectations

	2009		2010	
<i>(figures in £m)</i>	Total	SP debenture	External debt	Total
Net interest payable (profit and loss account)	(800.3)	(59.7)	(672.5)	(732.2)
Adjust for fair value loss on financial instruments	117.4	0.0	35.8	35.8
Net interest payable net of fair value loss	(682.9)	(59.7)	(636.7)	(696.4)
Amortisation of financing fees and fair value adjustments	84.3	0.0	64.5	64.5
Interest capitalised	(23.9)	0.0	(22.7)	(22.7)
Underlying net interest payable	(622.5)	(59.7)	(594.9)	(654.6)
<b>Other adjustments to reconcile to interest paid</b>				
Derivative interest prepayment amortisation	139.6	0.0	140.6	140.6
Movement in interest accruals/accretion/other	(30.0)	(7.9)	128.1	120.2
Net interest paid (cash flow statement)	(512.9)	(67.6)	(326.2)	(393.8)
Prepayment of derivative interest	(114.2)	0.0	(36.7)	(36.7)
Net interest paid (for interest cover ratio purposes)	(627.1)	(67.6)	(362.9)	(430.5)

# Gearing optimised between BAA (SP) and BAA (SH)

## Net debt bridge (January 2010 - December 2010)





# Financial ratios comfortably within required levels

Interest cover ratios (ICR) for year ended 31 December 2010			Gearing ratios (RAR) as at 31 December 2010		
<i>(figures in £m unless otherwise stated)</i>		Trigger or covenant levels	<i>(figures in £m unless otherwise stated)</i>		Trigger or covenant levels
<b>Ratio inputs</b>			<b>Ratio inputs</b>		
Cash flow	671.9	n/a	Senior nominal net debt	8,793.2	n/a
Senior interest paid	322.6	n/a	Junior nominal net debt	9,921.2	n/a
Junior interest paid	362.9	n/a	Group nominal net debt (BAA (SH))	10,401.1	n/a
Group interest paid (BAA (SH))	434.5	n/a	Regulatory asset base	12,776.0	n/a
<b>Ratios</b>			<b>Ratios</b>		
<b>Senior ICR</b>	<b>2.08x</b>	<b>&lt;1.40x</b>	<b>Senior RAR</b>	<b>68.8%</b>	<b>&gt;70.0%</b>
<b>Junior ICR</b>	<b>1.85x</b>	<b>&lt;1.20x</b>	<b>Junior RAR</b>	<b>77.7%</b>	<b>&gt;85.0%</b>
<b>Group ICR (BAA (SH))</b>	<b>1.55x</b>	<b>&lt;1.00x</b>	<b>Group RAR (BAA (SH))</b>	<b>81.4%</b>	<b>&gt;90.0%</b>

See page 22 for notes and defined terms

## Significant progress towards long term funding platform

- Approximately £2 billion in new financings implemented in 2010
  - £625 million Class B loan
  - £400 million Class B bond
  - €500 million Class A bond
  - £175 million subordinated loan
  - £325 million subordinated bond
- BAA named IFR 'Corporate Issuer of the Year' for 2010
- Continue transition to long term funding platform in 2011
  - refinance 2012 maturities in the debt capital markets
  - access markets in range of currencies including US dollars

## Conclusion

- Strong underlying traffic recovery underway at Heathrow
- Impacted by several significant external events in 2010
- Strong financial results
- Strengthened capital structure
- Material increase in profits and investment expected in 2011

# Appendix

# BAA (SP)'s consolidated net debt at 31 December 2010

		Debt outstanding at 31 December 2010		Amount and features of available facilities			
		Amount		Local currency	S&P/Fitch Rating	Maturity	
		(£m)		(m)	(£m)		
<b>Senior (Class A)</b>							
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
		433.8		500.0	433.8	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
		247.2		247.2	247.2	A-/A-	2039/41
<b>Total bonds</b>		<b>5,879.9</b>		<b>5,879.9</b>			
Bank debt	Refinancing Facility	1,195.3		1,195.3	1,195.3	A-/A-	2012/13
	EIB Facility	332.7		332.7	332.7	n/a	2011/22
	Capex Facility	1,300.0		2,300.0	2,300.0	n/a	2013
	Working Capital Facility	0.0		50.0	50.0	n/a	2013
<b>Total bank debt</b>		<b>2,828.0</b>		<b>3,878.0</b>			
<b>Total senior debt</b>		<b>8,707.9</b>		<b>9,757.9</b>			
<b>Junior (Class B)</b>							
Bonds		400.0		400.0	400.0	BBB/BBB	2018
Bank debt	Refinancing Facility	103.0		103.0	103.0	BBB/BBB	2013
	Term Loan Facility	625.0		625.0	625.0	n/a	2014
	Capex Facility	0.0		400.0	400.0	n/a	2013
<b>Total junior debt</b>		<b>1,128.0</b>		<b>1,528.0</b>			
<b>Gross debt</b>		<b>9,835.9</b>		<b>11,285.9</b>			
<b>Cash</b>		<b>(47.1)</b>					
<b>Index-linked derivative accretion</b>		<b>132.4</b>					
<b>Net debt</b>		<b>9,921.2</b>					

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

# Notes and defined terms

- Page 2
  - Percentage changes are relative to 2009
  - All figures are for continuing operations only, i.e. excluding Gatwick
  - Heathrow underlying traffic growth is an estimate based on assumption that passengers impacted by disruptions in 2010 such as volcanic ash and strikes did not complete their journeys later in the year
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items; NRI: net retail income; RAB: Regulatory Asset Base
  - Net debt is consolidated BAA (SP) Limited figure calculated on a nominal basis excluding intra-BAA group loans and including index-linked accretion
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  - Underlying traffic performance figures are estimates based on assumption that passengers impacted by disruptions in 2010 such as volcanic ash and strikes did not complete their journeys later in the year
  - Totals and percentage change calculated using un-rounded passenger numbers
  - European traffic includes North African charter traffic
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  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
  - Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
  - Underlying Adjusted EBITDA adjusts reported Adjusted EBITDA in 2010 for an estimated £38.1 million in turnover lost as a result of disruption caused by volcanic ash and airline industrial action, an estimated £20 million impact from the severe winter weather in December, £16.5 million of income under Gatwick transitional services agreements and £10.8 million in additional pension service costs and in 2009 for £12.5 million in aeronautical income due to phasing of tariff increases and £27.8 million of intra-group charges previously applied to Gatwick
  - Consolidated net debt at BAA (SP) Limited reflects its distribution of £1 billion to BAA (SH) that BAA (SH) utilised in repaying part of its previous debt facility
  - Consolidated net debt at BAA (SP) Limited and BAA (SH) plc is calculated on a nominal basis excluding intra-BAA group loans and including index-linked accretion
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  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
  - Underlying adjusted operating costs in 2009 adds £27.8 million of intra-group charges previously applied to Gatwick and in 2010 deducts £10.8 million in additional pension service costs and the estimated £7.8 million cost associated with the severe winter weather in December
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  - Other net debt movement primarily reflects £110.6 million of equity injection used in restructuring derivatives offset by £35.9 million used to reduce net debt as only £107.1 million of the original £143.0 million restricted cash was required to make pension related payments arising from Gatwick disposal. In addition, net debt increased due to other factors such as Gatwick disposal costs, new debt financing being issued at a discount to its nominal value and fees and expenses associated with financing activities
- Page 17
  - Interest cover ratio is the ratio of net cash flow to interest paid
  - Net cash flow is cash flow from operations less tax paid to HMRC and 2% of Regulatory Asset Base
  - Gearing ratio is the ratio of nominal net debt (including index-linked accretion) to RAB
  - Senior gearing ratio could be reduced by utilising the currently undrawn £400 million junior tranche of capital expenditure facility

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