



BAA's regulated airports

Investor Report

Issued on 18 December 2009



Important notice

This Investor Report is being distributed by BAA Airports Limited (as 'Security Group Agent') on behalf of Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (AH) Limited and BAA (SP) Limited (together the 'Obligors') pursuant to the Common Terms Agreement.

This Investor Report contains forward looking statements that reflect the current judgment of the management of the Obligors regarding conditions that it expects to exist in the future. Forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management's assumptions rely on its operational analysis and expectations for the operating performance of each of the Obligor's assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

Basis of preparation

This Investor Report is being distributed pursuant to the terms of the Common Terms Agreement ('CTA').

Investor Reports relate to the performance of the Security Group which includes the Designated Airports (Heathrow, Gatwick and Stansted; Gatwick ceased to be part of the Security Group on 3 December 2009). This Investor Report comments on the financial and operational performance of the Security Group for the period up to 30 September 2009. It also contains forecast financial information for 2010 derived from current management forecasts for the Security Group for that year.

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

Contents of report

	Page
1. Introduction	4
2. Significant business developments	5
3. Significant regulatory/governmental developments	8
4. Historical financial performance	9
5. Forecast financial performance and ratios	11
6. Acquisitions, disposals, joint ventures and outsourcing	12
7. Significant board/management changes	13
8. Financing matters	14
9. Confirmation	16
Appendices	
1. Quarterly passenger traffic trends (Q1 2007 to Q3 2009)	17
2. Computation of forecast Interest Cover Ratios	18
3. Computation of forecast Regulatory Asset Ratios	20
4. Repayment schedule under the Refinancing Facility	21
5. Nominal consolidated net debt of Obligors and BAA Funding Limited at 30 September 2009	22

1. Introduction

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

It also provides historic and forecast financial ratios (RAR and ICR) to monitor the financial performance of the Designated Airports in relation to the years ended 31 December 2008, 2009 and 2010.

The ratios for 2010 are based on current management forecasts for the BAA (SP) Limited group which have the following highlights:

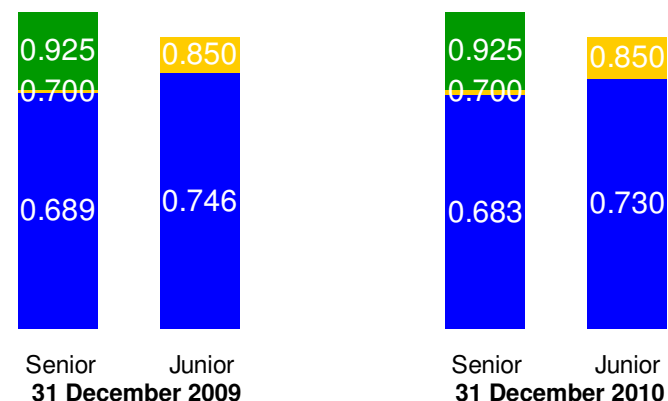
- revenue of £2,087 million
- Adjusted EBITDA⁽¹⁾ of £956 million

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

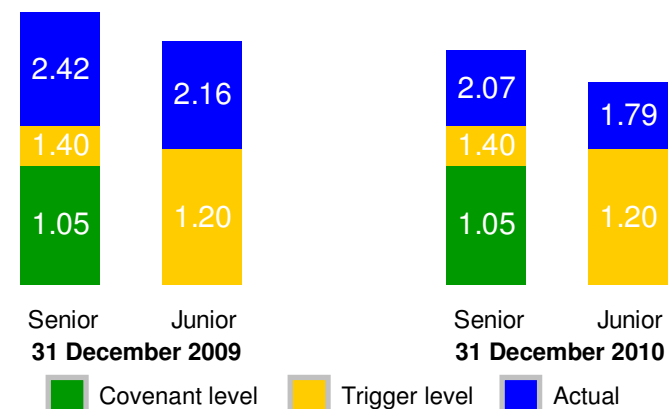
In the years to 31 December 2009 and 2010, all financial ratios are forecast to comply with relevant Trigger Event ratio levels as illustrated in the charts opposite (see also note 4 in respect of 2009 ratios).

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

Forecast RAR at 31 December 2009 and 2010⁽¹⁾⁽²⁾



Forecast ICR at 31 December 2009 and 2010⁽³⁾⁽⁴⁾



- 1) RAR is Regulatory Asset Ratio which is defined on page 20
- 2) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility
- 3) ICR is Interest Cover Ratio which is defined on page 18
- 4) ICR above for 2009 are pro forma before a one-off swap interest prepayment of £125 million to be made in December 2009; taking this into account, actual Senior and Junior ICR in 2009 are 1.75x and 1.61x

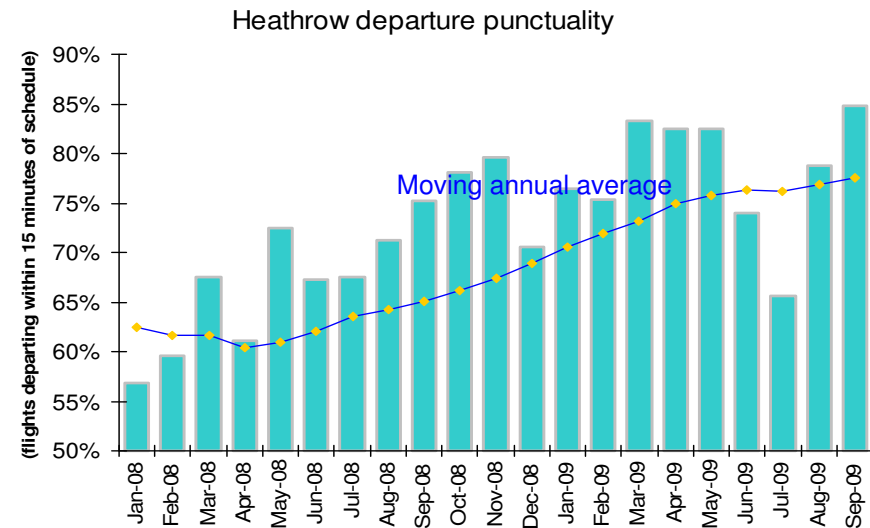
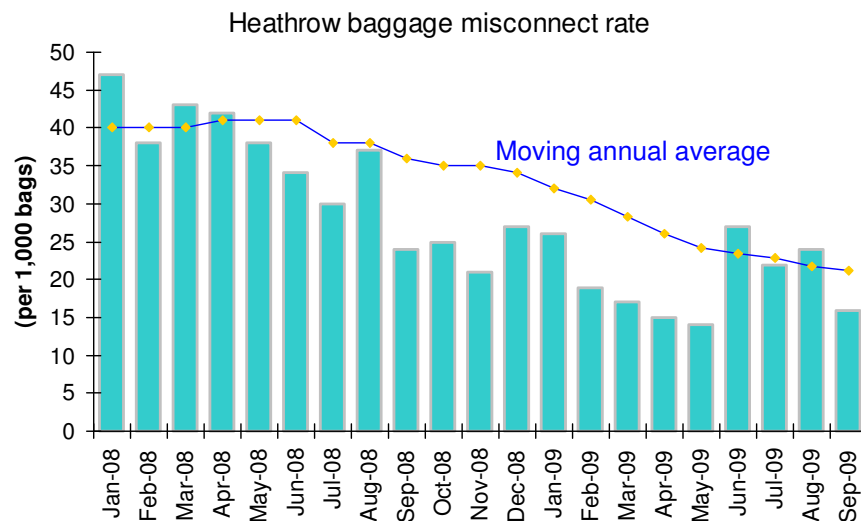
2. Significant business developments – service standards

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

Substantial progress continues to be made in improving service standards. The most recent quarterly Airport Service Quality survey produced by Airports Council International in respect of the third quarter of 2009 shows Heathrow maintaining its record of improving its overall passenger satisfaction score in every survey since Q3 2007. Heathrow also further consolidated its position in terms of overall passenger satisfaction score as the second ranked amongst the five largest airports in Europe.

Demonstrating the overall operational improvements at Heathrow, the proportion of aircraft departing within 15 minutes of schedule averaged 78% in the nine months ended 30 September 2009 (2008: 67%). In addition, the baggage misconnect rate at Heathrow in the nine months ended 30 September 2009 has declined to 20 per 1,000 (2008: 37). Finally, in the same period, the proportion of passengers at Heathrow passing through security in less than five minutes was 98.2% (2008: 94.7%) compared to the 95.0% service standard.

In the nine months ended 30 September 2009, £6.7 million in service quality rebates were incurred across the three airports comprising £3.5 million, £2.8 million and £0.4 million at Heathrow, Gatwick and Stansted respectively.



2. Significant business developments – passenger traffic⁽¹⁾

	11 months ended 30			3 months ended 30			2 months ended 30		
	November			September			November		
	2009	2008	Change ⁽²⁾	2009	2008	Change ⁽²⁾	2009	2008	Change ⁽²⁾
	(m)	(m)		(m)	(m)		(m)	(m)	
<i>By airport</i>									
Heathrow	60.6	61.7	-1.7%	18.6	18.6	+0.3%	10.7	10.6	+1.1%
Gatwick	30.2	32.1	-5.7%	10.6	10.9	-3.4%	4.9	4.8	+2.9%
Stansted	18.6	20.9	-11.2%	6.3	6.8	-8.3%	3.1	3.3	-7.1%
<i>By market served</i>									
UK	10.0	10.8	-7.4%	3.0	3.2	-5.2%	1.8	1.9	-3.7%
Europe ⁽³⁾	61.0	64.1	-4.8%	20.7	21.3	-2.9%	10.1	10.0	+0.7%
Long haul	38.4	39.8	-3.4%	11.8	11.9	-0.7%	6.8	6.7	+0.3%
Total⁽²⁾	109.4	114.7	-4.6%	35.5	36.4	-2.4%	18.7	18.7	+0.1%

In the eleven months to 30 November 2009, passenger traffic at BAA's three London airports declined 4.6% to 109.4 million. The rate of decline has moderated substantially as 2009 has progressed from 10.0% in the first quarter, 5.1% in the second and 2.4% in the third with modest growth resuming, at 0.1%, in the two months to 30 November 2009. Performance relative to 2008 in the early part of the year reflected primarily the difficult macroeconomic environment. More recently, performance has benefited from a strong performance at Heathrow since July, substantial reductions in year on year declines at Gatwick since April and easier comparatives particularly since September.

Heathrow has been most resilient with traffic declining 1.7% in the eleven months to 30 November 2009. Its resilience reflects particularly growth in emerging market long haul routes and increased transfer passengers. At Gatwick, rates of decline have moderated significantly since April 2009, the first anniversary of the EU-US Open Skies Agreement being introduced in April 2008 when certain airlines transferred some US services to Heathrow. Stansted saw a decline of 11.2% in the eleven months to 30 November 2009.

Quarterly passenger traffic trends from Q1 2007 to Q3 2009 are set out in Appendix 1.

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

2. Significant business developments – capital investment⁽¹⁾

In the nine months ended 30 September 2009, there was £749.2 million of capital expenditure with £596.1 million at Heathrow, £102.9 million at Gatwick and £50.2 million at Stansted. Major projects at Heathrow included construction of a tunnel between Terminals 3 and 5 for an integrated baggage system and continued construction of Terminal 5C, the second satellite for Terminal 5, and Terminal 2B, the satellite for the new Terminal 2.

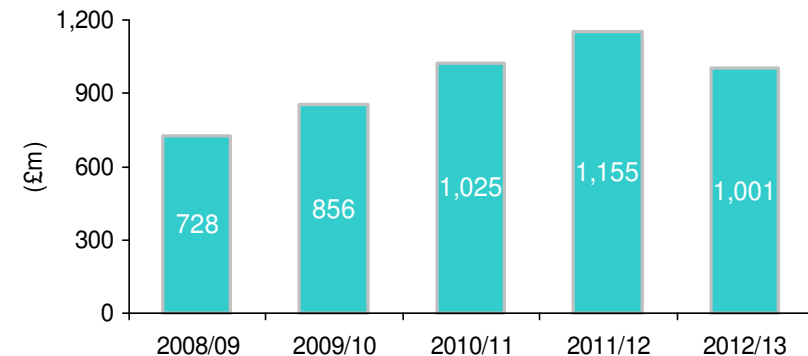
An updated capital investment plan for Heathrow for the five year period to 31 March 2013 was published in the 20 November 2009 base prospectus. This amounts to £4.8 billion (in 2008/09 prices) over the five year period, consistent on an inflation-adjusted basis with the £4.5 billion (in 2007/08 prices) contained in the Civil Aviation Authority ('CAA') settlement for this period.

The overall programme spend remains in line with that published in May 2009 but with deferral of over £250 million of spend from the current regulatory year primarily into the year ending 31 March 2012. There are also changes to the balance of spend in the main project groupings evident from comparing the spend profiles in the May 2009 capital investment plan document with that in the 20 November 2009 base prospectus.

The main investment at Heathrow over the next few years is the construction of the new Terminal 2 that is expected to become operational from early 2014. In addition, significant sums are being invested in developing what will be the largest integrated baggage handling system in the world.

Capital investment at Stansted over the five years to 31 March 2014 is forecast at £135 million (in 2009/10 prices), comprising £92 million on existing facilities (primarily upgrading the baggage system and construction of additional aircraft stands) and £43 million on activities related to the potential development of a second runway.

Heathrow capital expenditure profile: 2008/09 to 2012/13
(2008/09 prices)



3. Significant regulatory/governmental developments

Department for Transport ('DfT') review of economic regulation for UK airports

On 10 December 2009, the DfT announced the conclusions of its review of the economic regulation of airports following a consultation process conducted earlier in the year. This followed an earlier announcement on 13 October 2009 by the Secretary of State that removed key uncertainties for BAA and its creditors and underlined the need for the regulator to ensure airport operators have the necessary resources to operate and invest in their airports. The measures announced include:

- a new duty on the CAA to ensure that airports can finance their licenced activities
- licence conditions to introduce financial ring-fencing
- an exemption from financial ring-fencing provisions, including those affecting creditor security, where these would cut across BAA's existing financing arrangements
- a requirement that airport operators maintain a minimum creditworthiness

The Government is also consulting on proposals to require airport operators to maintain a continuity of service plan and to allow the CAA to switch on ring fencing provisions if there has been a material change in circumstances and where a cost benefit analysis confirmed that the benefits outweigh the costs, for example because an operator had moved from a secured to an unsecured financing structure. These consultations are due to conclude on 4 February 2010.

The Government will not proceed with proposals to introduce a special administration regime that had been proposed in its original consultation document.

Implementation of the final proposals will require changes in law which will be subject to parliamentary time being available.

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

In March 2009, the Competition Commission ('CC') concluded its investigation on the supply of airport services by BAA in the UK. Its final report called for structural remedies including disposal of Gatwick and Stansted to different owners. Gatwick has since been sold. On 18 May 2009, BAA applied to the Competition Appeal Tribunal to review the CC's decisions. The Competition Appeal Tribunal hearing took place in October 2009 with the outcome of the appeal expected to be known in early 2010.

4. Historic financial performance⁽¹⁾ (A)

Turnover⁽²⁾

In the nine months ended 30 September 2009, turnover increased 7.6% to £1,846.0 million (2008: £1,716.2 million). This reflects increases of 13.2% in aeronautical income, 1.7% in gross retail income and 1.0% in other income. On a like-for-like basis turnover increased 3.1% to £1,790.2 million.

There were 20.0% and 6.6% increases in aeronautical income at Heathrow and Gatwick respectively, primarily reflecting increases in tariffs applying for the five year regulatory period commencing on 1 April 2008 and the phasing of the introduction of the new tariffs over the first year of the new regulatory period. The change in aeronautical income at Stansted reflected the decline in passenger traffic with tariffs remaining flat.

The retail business has maintained its recent strong momentum. For the nine months ended 30 September 2009, net retail income (i.e. net of car park management charges) ('NRI') per passenger increased 6.1% to £4.64 (2008: £4.37) due to a very strong performance by Heathrow as well as airside and landside shops across all three airports. This performance was based on gross retail income of £457.4 million (2008: £449.8 million) whilst net retail income was £421.1 million (2008: £419.9 million). The retail performance reflects high quality retail facilities, particularly at Terminal 5, as well as a higher proportion of intra-terminal transfer passengers, resulting in these passengers having longer departure lounge dwell times. It also reflects the improved value of the offer resulting from the depreciation of sterling.

Operating costs⁽²⁾⁽³⁾

In the nine months ended 30 September 2009, operating costs increased 1.4% to £1,041.4 million (2008: £1,027.2 million). However, on a like-for-like basis, operating costs declined 3.3% to £993.4 million. Like-for-like costs adjust reported operating costs primarily for (a) £24.0 million relating to the provision of various services to airlines that they paid for directly up to 31 March 2008 and (b) £21.1 million in incremental costs associated with operating Terminal 5 that were treated as exceptional items in the comparable period of 2008. The like-for-like cost performance reflects the substantial progress made in reducing operating costs by focusing on improved operating standards, greater efficiency and reducing overheads.

Adjusted EBITDA⁽²⁾⁽⁴⁾

Adjusted EBITDA for the nine months ended 30 September 2009 increased 16.8% to £804.6 million (2008: £689.0 million).

- 1) For further detail on the results for the nine months ended 30 September 2009, see press release issued on 28 October 2009
- 2) Although it was not acquired by the Group until 7 August 2008, profit and loss account figures for 2008 assume consolidation of Heathrow Express Operating Company Limited to make them comparable with the 2009 figures
- 3) Total operating costs excluding depreciation and exceptional items
- 4) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

4. Historic financial performance⁽¹⁾ (B)

Interest payable⁽²⁾

In the nine months ended 30 September 2009, there was £529.0 million of net interest payable (2008: £400.6 million) excluding exceptional interest payable (in 2008 only) and fair value losses on financial instruments. Excluding £17.8 million in capitalised interest (2008: £88.2 million) and £65.7 million in non-cash amortisation of financing fees and bond fair value adjustments (2008: £11.5 million), underlying interest payable was stable year on year at £481.1 million (2008: £477.3 million). Exceptional costs included within interest payable in 2008 were £142.6 million related to facility and arrangement fees incurred in relation to the refinancing completed in August 2008. Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £136.1 million (2008: £242.5 million) primarily driven by movements in the index-linked swap curve.

Interest paid

Net interest paid on external debt in the nine months ended 30 September 2009 was £277.4 million. In addition, £109.2 million was paid under the debenture between BAA (SP) Limited and BAA (SH) Limited.

Net debt

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

At 30 September 2009, the Group had £4,498.9 million of nominal debt outstanding under various bond issues. There was also £5,283.0 million outstanding under various bank debt facilities. With cash and cash equivalents of £27.2 million and index-linked derivative accretion of £16.3 million, nominal net debt was £9,771.0 million. The average cost of the external debt at 30 September was 5.67% after all hedging including the real cost of index-linked hedges.

Regulatory asset base (RAB)

The combined RAB of the three airports was £13,155.7 million at 30 September 2009, comprising £10,231.9 million, £1,650.6 million and £1,273.2 million for Heathrow, Gatwick and Stansted respectively.

Financial ratios

At 30 September 2009, senior and junior gearing ratios (net debt to RAB) were 0.667x and 0.743x respectively compared with trigger levels of 0.70x and 0.85x. At 31 December 2008, the senior and junior gearing ratios were 0.676x and 0.756x respectively. The Obligors are not required to report on historic senior and junior interest cover ratios in respect of periods prior to the year to 31 December 2009.

- 1) For further detail on the results for the nine months ended 30 September 2009, see press release issued on 28 October 2009
- 2) Although it was not acquired by the Group until 7 August 2008, profit and loss account figures for 2008 assume consolidation of Heathrow Express Operating Company Limited to make them comparable with the 2009 figures

5. Forecast financial performance and ratios

2009 and 2010 forecasts

Management forecasts for the year to 31 December 2010 reflect the following key operational assumptions:

- passenger traffic of 86.8 million (2009 latest estimate⁽¹⁾: 85.4 million; 117.6 million including Gatwick)
- aeronautical income per passenger: +4% at Heathrow and -1% at Stansted; net retail income per passenger: +8%
- operating costs (excluding depreciation and exceptional items) up 3% but down 1% once adjusted for central costs being allocated across a smaller business base following the Gatwick sale and increased rates of pension accruals
- £1.0 billion capital expenditure

Resulting financial forecasts for 2010 show annual revenue of £2,087 million and Adjusted EBITDA of £956 million. Latest 2009 estimates⁽¹⁾ show annual revenue of £2,399 million (£1,962 million excluding Gatwick) and Adjusted EBITDA of £1,026 million (£863 million excluding Gatwick). Net debt is forecast to increase from £8.63 billion at 31 December 2009 to £9.10 billion at 31 December 2010 with operating cash flow more than offset by capital expenditure and interest paid. More detail of the forecasts is included in Appendices 2 and 3. The resulting forecast financial ratios for 2009 and 2010 are set out below.

Forecast ratios ⁽²⁾	Senior debt ratio Trigger Event Ratio		Junior debt ratio Trigger Event Ratio	
	Forecast	Level	Forecast	Level
RAR at 31 December 2009 ⁽³⁾	0.689	0.700	0.746	0.850
RAR at 31 December 2010 ⁽³⁾	0.683	0.700	0.730	0.850
ICR for year to 31 December 2009	1.75x	1.40x	1.61x	1.20x
ICR for year to 31 December 2009 ⁽⁴⁾	2.42x	1.40x	2.16x	1.20x
ICR for year to 31 December 2010	2.07x	1.40x	1.79x	1.20x

- 1) 2009 latest financial estimates include actual results for eight months to August 2009 plus most recent forecasts for the rest of the year with Gatwick included until end of November. 2009 latest forecast passenger numbers include actual results for eight months to August 2009 plus most recent forecasts for the rest of the year with Gatwick included for full year
- 2) See Appendices 2 and 3 for details of calculations of forecast ratios
- 3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility
- 4) Pro forma forecast ICR excluding £125 million swap interest repayment to be made in December 2009 which is comparable with forecasts of 2.54x and 2.28x in investor report distributed on 26 June 2009

6. Acquisitions, disposals, joint ventures and outsourcing

Acquisitions and disposals

BAA completed the sale of Gatwick airport to an entity controlled by Global Infrastructure Partners on 3 December 2009. Net disposal proceeds⁽¹⁾ of £1,192 million have been utilised in repaying debt. The largest element of the difference between the gross and net proceeds from the sale relate to a payment into the BAA defined benefit pension scheme of up to £169 million. The precise amount of this payment will not be finally determined for a number of months. There is the possibility of further value being generated in due course from the sale once the payment into the pension scheme is agreed as well as from the deferred consideration of up to £55 million.

Joint ventures

There have been no developments related to joint ventures involving any Obligor since the previous investor report was distributed on 26 June 2009.

Outsourcing

There have been no significant outsourcing contracts entered into related to any Obligor since the previous investor report was distributed on 26 June 2009. However, BAA Airports Limited, which is the shared services provider to the BAA group including in relation to the provision of IT services to the Obligors, is considering outsourcing of its IT service delivery with the aim of improving both service delivery and value. It is currently in the process of obtaining expressions of interest from potential suppliers and, if the outsourcing proceeds, expects to select a supplier and complete the outsourcing arrangements in 2010.

1) After an estimate of transaction costs, directly related restructuring costs and payments into defined benefit pension scheme

7. Significant board/management changes

In July 2009, Luis Sanchez Salmeron resigned as a director of BAA Limited and from his role of deputy chief executive of BAA Limited.

In September 2009, Wilfried E. Kaffenberger was appointed a non-executive director of BAA Limited. He is a director of NWS Holdings, a director of Ashmore Energy International and a part-time adviser to GIC Special Investments. He is also an independent financial adviser. At the same time Eng Seng Ang, a representative of GIC, resigned from the board of BAA Limited.

In October 2009, Ernesto López Mozo joined the board of BAA Limited on joining Ferrovial as its chief financial officer. He joined Ferrovial from Telefonica, having previously held positions at JP Morgan and Santander.

In November 2009, Ghislain Gauthier resigned as a director of BAA Limited. In December 2009, José María Pérez Tremps resigned as a director of BAA Limited.

In September 2009, Emma Gilthorpe joined BAA as Director of Regulation from BT plc where she was group director of industry policy and regulation. Prior to joining BT, Emma held a number of senior regulatory and public policy roles in Cable and Wireless and is a non-executive director of London First and St George's NHS Trust in Tooting.

In September 2009, it was announced that Mike Brown, Heathrow's chief operating officer, will be leaving BAA in March 2010 and returning to London Underground as its managing director, where he was chief operating officer prior to joining BAA in September 2008.

In September 2009, Stewart Wingate, managing director of Stansted Airport, left BAA. He has been replaced by David Johnston, previously procurement director with Larry Beard appointed interim head of procurement and supply chain pending recruitment of a permanent replacement for David Johnston.

In addition to the changes outlined above, since the previous investor report was distributed on 26 June 2009 there have been a number of changes to the membership of the boards of Obligors. These have involved the appointment of executives already working for BAA and resignation of directors who have either left BAA (and are disclosed above) or continue to work for BAA. The current membership of the boards of Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited and BAA Funding Limited is set out in the Base Prospectus issued on 20 November 2009.

Other than as outlined above, there have been no board or relevant management changes related to the Obligors or BAA Limited since the previous investor report was distributed on 26 June 2009.

8. Financing matters (A)

Bond issues

On 3 December 2009, BAA Funding Limited issued £700 million of bonds with a scheduled redemption date of 3 December 2026 and a fixed annual interest coupon of 6.75%. On 9 December 2009, BAA Funding Limited issued £235 million of index-linked bonds with a scheduled redemption date of 9 December 2039 and a fixed real annual interest coupon of 3.334%. Combined net proceeds from these issues were approximately £925 million.

Equity injection

On 13 November 2009, BAA announced a £500 million equity injection into its London airports. £260 million was injected into Heathrow Airport Limited in November 2009 with the remaining £240 million expected to be injected by early 2010. These funds are expected to be used to pay down debt, prepay swap interest and cancel certain interest rate swaps.

Drawings and repayments under financing arrangements

Net proceeds from the sale of Gatwick airport together with the proceeds of the two bond issues referred to above have been applied in prepaying amounts due under the Refinancing Facility in accordance with its terms. The March 2010 maturity of £1,000 million has been prepaid in full. In addition, approximately £781 million of the £1,000 million maturity in March 2011 and £335 million of the £1,400 million maturity in March 2013 have been prepaid. Any additional proceeds from the Gatwick sale and the equity injection will be utilised in restructuring BAA's swap portfolio and possibly further debt reduction.

The repayment schedule under the Refinancing Facility before and after application of the Gatwick sale and bond issue proceeds outlined above is set out in Appendix 4.

In addition, since the distribution of the previous Investor Report on 26 June 2009, Heathrow Airport Limited has made scheduled EIB loan repayments of £22 million. It has also made a net drawdown under the Capex Facility of £195 million between 31 March 2009 and 30 September 2009. Details of the Obligors' and BAA Funding Limited's total external debt financing at 30 September 2009, before the effects of the Gatwick sale and bond issues outlined above, are set out in Appendix 5.

Restricted Payments

A Restricted Payment of £21 million was made to BAA (SH) Limited on 10 July 2009 to fund interest that had accrued under BAA (SH) Limited's subordinated debt facility. A further Restricted Payment of £20 million was made to BAA (SH) Limited on 12 October 2009 for the same purposes with £18 million also due to be paid on 11 January 2010.

8. Financing matters (B)

Swap interest prepayment

£170 million of the £500 million equity injection into the London airports announced in November 2009 will be used to prepay future swap interest payments. The prepayment will reduce cash interest payments during 2010, 2011 and 2012.

Interest prepayments fall within the definition of interest paid used in calculating the interest cover ratio ('ICR'). As it was not anticipated earlier in 2009, forecast ICR for the year to 31 December 2009 included in this document has been prepared on an actual basis as well as on a pro forma basis (excluding the £125 million prepayment to be made in December 2009) to provide comparability with ratios previously disclosed. Senior and junior ICRs for the year to 31 December 2009 are forecast to be 1.75x and 1.61x respectively whilst the equivalent pro forma figures are forecast at 2.42x and 2.16x respectively.

Hedging

After taking account of the impact of the recent Gatwick disposal and bond issues, 92% and 66% respectively of average interest rate risk exposure on the Obligors' and BAA Funding Limited's existing debt is hedged for the regulatory periods ending on 31 March 2013 and 31 March 2018 respectively, consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods. In addition, all foreign currency denominated debt instruments are hedged using currency swaps. At 30 September 2009, the total notional value of such instruments was £1,703 million.

Liquidity

The Security Group has a strong liquidity position with a committed revolving capital expenditure facility of £2,700 million, of which £2,202 million was undrawn at 30 September 2009, including £400 million in junior facilities. In addition, the Security Group has £50 million in working capital facilities. Neither of these facilities matures until August 2013.

As a result of the application of proceeds from the recent sale of Gatwick and bond issues, there are no significant debt maturities prior to 31 March 2011. The £218.8 million remaining due under the Refinancing Facility on that date could be repaid if necessary from the amount available to draw under the capital expenditure facility (over £650 million at 30 September 2009) as a result of capital expenditure incurred since August 2008 that has been financed from cashflow.

Ratings

On 9 November 2009 and 23 November 2009 respectively, Standard & Poor's and Fitch Ratings confirmed the existing Security Group senior and junior credit ratings of A- and BBB and changed the outlook from negative to stable.

9. Confirmation

18 December 2009

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

We confirm that each of the Ratios set out on page 11 has been calculated in respect of the Relevant Period(s) or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

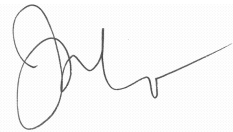
We confirm that all forward-looking financial ratio calculations and projections:

- have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
- are consistent and updated by reference to the most recently available financial information required to be produced by the Obligors under Schedule 2 (Covenants) of the Common Terms Agreement; and
- are consistent with the Applicable Accounting Principles (insofar as such Applicable Accounting Principles reasonably apply to such calculations and projections).

We also confirm that

- no Default or Trigger Event has occurred and is continuing;
- the Group is in compliance with the Hedging Policy; and
- this Investor Report is accurate in all material respects.

Yours faithfully



Jose Leo
Chief Financial Officer
For and on behalf of BAA Airports Limited as Security Group Agent

Appendix 1 – Quarterly passenger traffic trends (Q1 2007 to Q3 2009)

	Heathrow (m)	Period on period growth ⁽¹⁾	Gatwick (m)	Period on period growth ⁽¹⁾	Stansted (m)	Period on period growth ⁽¹⁾	Total (m)	Period on period growth ⁽¹⁾
Q1 2007	15.3	-0.2%	7.0	4.4%	5.0	3.3%	27.3	1.6%
Q2 2007	17.3	-2.0%	9.1	1.0%	6.3	-2.2%	32.7	-1.2%
Q3 2007	18.8	2.2%	11.3	3.2%	7.2	4.0%	37.3	2.8%
Q4 2007	16.4	3.2%	7.8	4.6%	5.3	-4.0%	29.5	2.2%
Q1 2008	15.4	0.6%	7.4	5.7%	4.8	-4.3%	27.6	1.0%
Q2 2008	17.1	-1.3%	9.0	-0.8%	6.0	-4.9%	32.1	-1.8%
Q3 2008	18.6	-1.2%	10.9	-3.2%	6.8	-4.9%	36.4	-2.5%
Q4 2008	15.9	-3.6%	6.8	-12.3%	4.7	-10.4%	27.4	-7.1%
Q1 2009	14.4	-6.4%	6.3	-14.6%	4.1	-14.6%	24.8	-10.0%
Q2 2009	16.2	-4.9%	8.5	-5.9%	5.1	-14.2%	29.8	-6.9%
Q3 2009	18.6	0.3%	10.6	-3.4%	6.3	-8.3%	35.5	-2.4%

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

Appendix 2 – Computation of forecast Interest Cover Ratios⁽¹⁾ (‘ICR’) – calculation of ratios

(See important notice on page 2 of this document)	Trigger level	Year to 31 December 2009 ⁽²⁾	Year to 31 December 2010
			£m
Cashflow from Operations ⁽³⁾		1,013	929
One-off, non-recurring extraordinary or exceptional items		0	(25)
Cashflow from Operations (adjusted)		1,013	904
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(231)	(250)
Cash Flow (A)		782	655
Interest and equivalent recurring charges paid on Senior Debt ⁽⁴⁾⁽⁵⁾			
Interest paid – refinanced Class A bonds		235	269
Interest paid – existing Class A capex facility		10	24
Interest paid – existing Class A EIB facilities		10	6
Interest paid – other Class A debt		117	115
Interest paid/(received) on swaps		51	(119)
Commitment fees on liquidity and Capex facilities		26	21
Total interest on Senior Debt (B)		448	316
Interest and equivalent recurring charges paid on Junior Debt ⁽⁴⁾⁽⁵⁾			
Class B debt		39	50
Total interest on Junior Debt (C)		39	50
Total interest (D=B+C)		486	366
Senior ICR (A/B)	1.40	1.75	2.07
Junior ICR (A/D)	1.20	1.61	1.79

(1) Interest Cover Ratio is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid

(2) Interest paid/(received) on swaps in 2009 includes £125 million swap interest prepayment to be made in December 2009

(3) Reconciliation of cashflow from operations with Adjusted EBITDA is set out on page 19

(4) Reconciliation of interest paid with interest payable is set out on page 19

(5) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) Limited as this is not included in ratios under the Common Terms Agreement

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

(See important notice on page 2 of this document)

	Year to 31 December 2009 ⁽¹⁾	Year to 31 December 2010 ⁽¹⁾
		£m
Income		
Aeronautical income		1,146
Non-aeronautical income - retail		464
Non-aeronautical income - non-retail		477
Total income		2,087
Operating expenses ⁽²⁾		(1,131)
Adjusted EBITDA	1,026	956
Working capital	(13)	(27)
Cashflow from operations	1,013	929

	Year to 31 December 2010 ⁽³⁾⁽⁴⁾			Year to 31 December 2009	
	Income statement inc amortisation ⁽⁵⁾	Income statement excl amortisation	Variation in accruals	Cash flow	Cash flow ⁽⁵⁾
	£m	£m	£m	£m	£m
Interest paid – refinanced Class A bonds	308	269	0	269	235
Interest paid – existing Class A capex facility	24	24	0	24	10
Interest paid – existing Class A EIB facilities	7	6	0	6	10
Interest paid – other Class A debt	129	135	(20)	115	117
Interest paid/(received) on swaps ⁽⁶⁾	(21)	(163)	44	(119)	51
Commitment Fees on Liquidity and Capex Facilities	25	25	(4)	21	26
Interest paid - Class B debt	45	42	8	50	39
Total interest	517	338	28	366	486

(1) Includes Gatwick for 11 months in 2009 but excludes Gatwick in 2010

(2) Operating expenses excluding depreciation and exceptional items

(3) Excludes capitalised interest

(4) Excludes interest on debenture between BAA (SP) Limited and BAA (SH) Limited as this is not included in calculation of ratios under the Common Terms Agreement

(5) Includes £125 million swap interest prepayment to be made in December 2009 within interest paid/(received) on swaps

(6) Includes amortisation of refinancing fees and swap prepayments

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

(See important notice on page 2 of this document)	Trigger level	At 31 December 2009	At 31 December 2010
		£m	£m
Forecast closing Regulatory Asset Base (RAB) (net of profiling adjustment)			
Heathrow		10,307	11,177
Stansted		1,264	1,298
Total forecast closing RAB (A)		11,572	12,475
Senior Debt			
Refinanced Class A bonds		4,499	4,499
Class A Capital Expenditure Facility		920	1,190
Class A EIB facilities		374	333
Other Class A debt		2,559	2,490
RPI swap accretion		26	78
Total Senior Debt (B)		8,378	8,590
Junior Debt			
Class B debt		659	583
Total Junior Debt (C)		659	583
Cash and cash equivalents (D)		(404)	(70)
Senior net debt (E=B+D)		7,974	8,520
Senior and junior net debt (F=B+C+D)		8,633	9,103
Senior RAR (E/A)⁽²⁾	0.70	0.689	0.683
Junior RAR (F/A)	0.85	0.746	0.730

(1) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked derivative accretion) to RAB (Regulatory Asset Base)

(2) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under capital expenditure facility

Appendix 4 – Repayment schedule under Refinancing Facility

	Prior to application of proceeds of Gatwick sale and bond issues			After application of proceeds of Gatwick sale and bond issues		
	Class A (£m)	Class B (£m)	Total (£m)	Class A (£m)	Class B (£m)	Total (£m)
31 March 2010	800.0	200.0	1,000.0	-	-	-
31 March 2011	750.0	250.0	1,000.0	109.4	109.4	218.8
31 March 2012	750.0	250.0	1,000.0	750.0	250.0	1,000.0
31 March 2013	1,100.0	300.0	1,400.0	764.6	300.0	1,064.6
Total	3,400.0	1,000.0	4,400.0	1,624.0	659.4	2,283.4

Appendix 5 – Nominal consolidated net debt of Obligors and BAA Funding Limited at 30 September 2009

		Debt outstanding at 30 September 2009		Amount and features of available facilities			
		Amount		Local currency	S&P/Fitch Rating	Maturity	
		(£m)		(m)	(£m)		
Senior (Class A)							
Bonds		680.2		999.9	680.2	A-/A-	2012/14
		396.4		396.4	396.4	A-/A-	2013/15
		512.9		749.9	512.9	A-/A-	2014/16
		299.9		299.9	299.9	A-/A-	2016/18
		510.2		750.0	510.2	A-/A-	2018/20
		249.8		249.8	249.8	A-/A-	2021/23
		749.6		749.6	749.6	A-/A-	2023/25
		199.9		199.9	199.9	A-/A-	2028/30
		900.0		900.0	900.0	A-/A-	2031/33
Total bonds		4,498.9		4,498.9			
Bank debt	Refinancing Facility	3,400.0		3,400.0	3,400.0	A-/A-	2010/13
	EIB Facility	385.0		385.0	385.0	A-/A-	2010/22
	Capex Facility	498.0		2,300.0	2,300.0	n/a	2013
	Working Capital Facility	0.0		50.0	50.0	n/a	2013
Total bank debt		4,283.0		6,135.0			
Total senior debt		8,781.9		10,633.9			
Junior (Class B)							
Bank debt	Refinancing Facility	1,000.0		1,000.0	1,000.0	BBB/BBB	2010/13
	Capex Facility	0.0		400.0	400.0	n/a	2013
Total junior debt		1,000.0		1,400.0			
Index-linked derivative accretion		16.3					
Gross debt		9,798.2		12,033.9			
Cash		(27.2)					
Net debt		9,771.0					

1) Data reflects nominal value of debt and excludes intra-BAA group loans