GRUPO FERROVIAL, S.A., en cumplimiento de lo establecido en el artículo 82 de la Ley del Mercado de Valores, pone en conocimiento de la Comisión Nacional del Mercado de Valores la siguiente:

INFORMACION RELEVANTE

Airport Development and Investment Limited ("ADI") es la sociedad constituida por los miembros del Consorcio formado por Ferrovial Infraestructuras, S.A., 100% filial de Grupo Ferrovial, S.A., junto con Caisse de dépôt et placement du Québec y una sociedad de inversión dirigida por GIC Special Investments Pte Ltd para la realización de las ofertas de adquisición de la totalidad del capital emitido y que pueda ser emitido de BAA Plc ("BAA") y de todos los bonos convertibles en acciones de BAA (las "Ofertas").

ADI ha emitido hoy a través del Regulatory Information System de la Bolsa de Londres, un informe en el que da respuesta al documento de defensa emitido por BAA el 25 de mayo de 2006 y cuestiona la valoración de BAA que el citado documento de defensa sostiene. El informe de ADI se adjunta como Anexo a esta comunicación en su versión original en inglés.

Madrid, 30 de mayo de 2006

José María Pérez Tremps
Consejero-Secretario de GRUPO FERROVIAL, S.A.

FOR IMMEDIATE RELEASE 30 May 2006

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, IN OR INTO CANADA

AIRPORT DEVELOPMENT AND INVESTMENT LIMITED (“ADI”)

THE CHOICE FOR BAA SHAREHOLDERS

900 PENCE PER BAA SHARE IN CASH NOW

VS.

UNCERTAIN PROSPECTS AND SHARE PRICE

In its defence document of 25 May 2006 (the “BAA Document”), BAA aspires to persuade shareholders that it is worth 940 pence per BAA share or more. ADI believes that this is not credible, as BAA’s valuation is based on a number of highly questionable assumptions. As set out below, there are many good reasons why BAA Shares traded around 637 pence per share in the month prior to ADI’s interest becoming public* and recent evidence suggests the BAA share price would be likely to fall significantly from its current level if ADI’s offer is unsuccessful.

1) BAA has consistently failed to deliver

- ***Underperformed key benchmarks:***
  - BAA has underperformed the FTSE Utilities, FTSE 100 and FTSE All Share indices, on a Total Shareholder Return basis, over the last 1, 3 and 10 years.
  - A shareholder who invested £100 in the FTSE Utilities index 10 years before the recent speculation about the possibility of an offer began for BAA would have had a holding worth £381 on 6 February 2006. A £100 investment in the FTSE 100 or FTSE All Share index over the same period would have grown to £210 or £217 respectively. In comparison, a shareholder who invested £100 in BAA over the same period would have had a holding worth only £184.

- ***Failed to convert RAB growth into comparable growth in shareholder value:***

    - Between 1999/00 and 2004/05, in a period of 64 per cent. growth in its average RAB, BAA has only created 12 per cent. in additional regulatory operating profits and only generated 28 per cent. in shareholder returns over this five year period.

- ***Failed to generate profits and returns up to the levels allowed by the regulator:***

    - BAA has significantly underperformed Civil Aviation Authority ("CAA") forecasts in both 2003/04 and 2004/05, thereby failing to generate the profits and returns that BAA was allowed.

    - Underperformance has occurred at Heathrow, Gatwick and Stansted in this period.

- ***Failed to reduce costs:***

    - BAA claims in the BAA Document that its "Delivering Excellence" programme is on track to realise annual benefits of £45m from 2008/09.

    - However, BAA has made no overall progress in reducing costs as a proportion of revenue over the last five years. Why believe that BAA will reduce them now?

    - Given its timing, even if the programme is successful, the benefits may be clawed back by the regulator in the next review rather than benefiting BAA shareholders.

- ***Failed to deliver its own UK passenger growth forecasts:***

    - BAA's business is subject to significant traffic risk.

    - BAA undershot its own and the CAA's forecasts for passenger levels in 2003/04, 2004/05 and 2005/06 for the three London airports as a whole.

    - Furthermore, BAA also revised down passenger growth forecasts on two occasions in 2005/06 in the UK.

- ***Failed to grow real retail revenue:***

    - BAA claims to lead the world in airport retailing, yet in real terms net retail income per passenger at its UK airports has declined over the last two years.

- ***Failed to deliver a value-enhancing balance sheet:***

    - BAA has announced in the BAA Document a proposed £750 million return of capital (69 pence per share) and an increased dividend, action that seems to have been taken only in response to ADI's offer.

    - Average year end gearing levels at BAA of 52 per cent. over the last six years have been significantly below current gearing levels at comparable UK utility companies.

    - BAA's proposed return of capital and increased dividends are too little, too late.

2) Under BAA's approach, future value is limited and uncertain

- ***The three London airports are heavily regulated and there is no hard evidence that today's regulatory burden will get any lighter:***

    - 80 per cent. of BAA's business is heavily regulated.

    - There is no hard evidence that the regulatory regime is likely to be loosened.

- ***The OFT's statement is just one example of future uncertainty:***

    - The OFT has recently announced that it is considering a review of the structure of the UK airports market.

- ***Airlines will not accept excessive investment and certainly will resist paying for it:***

    - Airlines have been vigorous in their opposition to the excessive cost of new projects.

    - Stansted is a perfect example of why growth in RAB may not be as large, may take longer and may not benefit shareholder value in the way BAA has suggested.

    - The CAA is likely to heavily scrutinise all BAA's investment plans.

- ***Changes in the amount and delays to the timing of BAA's forecast RAB growth are almost inevitable:***

    - The UK planning system is complex and delays are inevitable.

    - Heathrow Terminal 5 will have taken 15 years to deliver.

    - The timing of other projects is also uncertain – for example, the second runway at Stansted has already been delayed from 2012 to 2015/16.

- ***BAA is exposed to significant construction risk on major projects:***

    - The Chairman of BAA acknowledged this with respect to Heathrow Terminal 5 on an investor conference call on 26 May 2006 when he said "the risks going into it were very, very real and very, very large".

- ***BAA is exposed to significant traffic risk due to external shocks:***

    - The CAA has noted that BAA faces more volume risk than UK water companies.

    - One-off events have consistently impacted BAA's business – September 11 attacks, Iraq war, SARS, July 7 bombings, industrial action and the Buncefield oil depot fire.

3) Shareholders should not believe BAA will create value from diversification:

- Regulated UK utilities have a poor record of diversifying.

- BAA's diversification attempts have resulted in the past in value destruction – for example, it bought World Duty Free Americas for £423 million, but sold it four years later for only £107 million.

- And now, with the acquisition of Budapest airport, BAA is again diversifying away from its core UK airports business.

4) BAA's questionable approach to valuation:

- In trying to persuade shareholders of its value, BAA has used a series of highly questionable assumptions, for example:

Budapest airport

- In the BAA Document, BAA justified the acquisition of Budapest airport at a purchase valuation of £1.35 billion by using an 8.0% p.a. (post-tax nominal) discount rate, a remarkably low rate in view of a threat at the time of re-nationalisation.

- BAA now claims that Budapest airport is worth £300 million (or 28p per share) more than it paid for it because it believes that a 7.25% p.a. (post-tax nominal) discount rate should apply – a reduction of 0.75% p.a.

- The discount rate that BAA is now using for valuing Budapest airport is similar to that used by the regulator in setting allowed returns for Heathrow, Gatwick and Stansted.

- In addition, the reduction in the discount rate to 7.25% p.a. has been made at a time of increasing volatility in emerging markets.

- BAA's revised valuation for Budapest airport of £1.65 billion represents a multiple of 35.5x 2005 EBITDA, some 2.3x the average multiple of comparable airport transactions – and BAA is also claiming that a control premium on top may be appropriate.

Valuation of regulated London airports

- BAA has focussed on RAB growth as a key determinant of future value and yet it has historically failed to translate its RAB growth into comparable growth in profits and shareholder returns.

- Furthermore, on top of this failure, in the BAA Document BAA uses a comparison with regulated water companies to justify its aspirational value, despite:

    - the regulator acknowledging that BAA is a riskier business than water businesses; and

    - the average take-out price (i.e. including a control premium) for recent regulated water companies being approximately 0.98x RAB.

- Applying this average take-out multiple, rather than the RAB multiple used by BAA in the BAA Document, would reduce BAA's valuation by 166 pence per share.

Dilutive effect of BAA's Convertible Bonds and share options

- In the BAA Document, BAA's aspirational value of 940 pence per share does not reflect the dilutive effect of its Convertible Bonds or share options.

- BAA acknowledges that the impact of the Convertible Bonds would be to reduce value by 28 pence per ordinary share. In addition, however, the Convertible Bonds would enjoy enhanced conversion rights in the event of a change of control of BAA. This has not been reflected in BAA's calculations.

- Furthermore, on a comparable basis, the impact of the exercise of BAA share options would be to reduce value by 12 pence per ordinary share.

5) In contrast, ADI's offer of 900 pence per share represents full and fair value:

- The average takeover premia for cash offers in the UK has been just under 34 per cent. for the last three years.

- ADI's offer represents a premium of 41 per cent. to BAA's one month average share price pre bid speculation.

ADI's cash offer of 900 pence per BAA share represents full value. There are many good reasons why BAA's average share price for the month prior to bid speculation was 637 pence per share. Recent evidence suggests that BAA's share price would be likely to fall significantly from its current level if ADI's offer is unsuccessful.

Attention is drawn to the press release dated today and issued by ADI setting out the terms of its increased offers for BAA.

**Based on the one month average BAA share price prior to 6 February 2006, being the day before speculation began about the possibility of an offer for BAA.*

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The Loan Notes that may be issued pursuant to the Loan Note Alternative will not be transferable and will not be listed on any stock exchange and, unless otherwise determined by the Offeror, have not been, and will not be, registered under the US Securities Act or under the securities laws of any jurisdiction of the United States nor have the relevant clearances been, nor will they be, nor have any steps been taken, nor will any steps be taken, to enable the Loan Notes to be offered in compliance with applicable securities laws of Australia, Canada or Japan (or any province or territory thereof, if applicable) or any other jurisdiction if to do so would constitute a violation of the relevant laws in such jurisdiction. Accordingly, unless otherwise determined by the Offeror and the relevant clearances are obtained or steps are taken, the Loan Notes may not be offered, sold, resold or delivered, directly or indirectly, in, into or from the United States (or to US Persons, as defined in Rule 902 of Regulation S under the US Securities Act), Australia, Canada or Japan (or to any residents thereof) or any other jurisdiction (or to residents in that jurisdiction) if to do so would constitute a violation of the relevant laws in such jurisdiction. Neither the US Securities and Exchange Commission (“the SEC”) nor any US state securities commission has approved or disapproved of the Loan Notes, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence.

An offer for BAA Shares and offers for BAA Convertible Bonds would be for the securities of a corporation organised under the laws of England and would be subject to the procedure and disclosure requirements of England, which are different from those of the United States. The financial information included in the Original and Revised Offer Documentation has not been, and will not be, prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”) and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP. Also, the settlement procedure with respect to the offers will be consistent with UK practice, which differs from US domestic tender offer procedures in certain material respects, particularly with regard to date of payment.

It may be difficult for US holders of BAA securities to enforce their rights and any claim arising out of the US federal securities laws, since the Offeror and the

Consortium (and their respective members) and BAA are located outside of the United States, and some or all of their officers and directors may be resident outside of the United States. US holders of BAA securities may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the US securities laws. Further, it may be difficult to compel a foreign company and its affiliates to subject themselves to a US court's judgment.

To the extent permitted by applicable law, in accordance with normal UK practice and pursuant to exemptive relief granted by the Staff of the Division of Market Regulation of the SEC from Rule 14e-5 of the US Exchange Act, the Offeror and its members or their respective nominees, or brokers (acting as agents) may from time to time make certain purchases of, or arrangements to purchase, BAA securities other than pursuant to any such offer, such as in open market or privately negotiated purchases outside the United States during the period in which the offer remains open for acceptance. In accordance with the requirements of Rule 14e-5 and exemptive relief granted by the SEC, such purchases, or arrangements to purchase, must comply with English law, the City Code and the Listing Rules. In addition, in accordance with Rule 14e-5(b) of the US Exchange Act, Citigroup Global Markets Limited and HSBC Bank plc will continue to act as exempt market makers in BAA securities on the London Stock Exchange. HSBC Financial Products (France) SNC has been granted ad hoc Exempt Principal Trader status in relation to BAA. Any information about such purchases will be disclosed as required in the UK and will be available from the Regulatory News Service on the London Stock Exchange website, www.londonstockexchange.com. This information will also be publicly disclosed in the United States to the extent that such information is made public in the United Kingdom.

This announcement may contain various "forward-looking statements" within the meaning of section 27A of the US Securities Act and section 21E of the US Exchange Act relating to the Increased Offers, the Offeror, the Consortium or the BAA Group that are subject to risks and uncertainties, including those pertaining to the anticipated benefits to be realised from the proposed acquisition of BAA. Information in this announcement relating to the BAA Group has been compiled from public sources. The statements can be identified by the use of forward-looking terminology, such as "believe", "expects", "prospect", "estimated", "should", "may" or the negative thereof, or other variations thereof, or comparable terminology indicating the Offeror's and/or the Consortium's expectations or beliefs concerning future events. The Offeror cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Other factors could also cause actual results to differ materially from expected results included in the statements. These factors include changes in regulatory environment, foreign political, economic and currency risks associated with the integration of recently acquired companies.

Definitions

Convertible Bonds	Means the issued and outstanding 2.94 per cent. convertible bonds due 2008 and the 2.625 per cent. convertible bonds due 2009, in each case issued by BAA
RAB	Means the regulatory asset base, being the asset base of the London airports defined and valued by the CAA for the purposes of setting airport charges under section 40 of the Airports Act 1986

Sources and Bases
BAA share price prior to ADI approach:

The statement that BAA shares traded consistently around 637 pence per share prior to ADI's offer becoming public is substantiated by averaging daily closing BAA share prices between 7 January 2006 and 6 February 2006, sourced from Datastream. The average BAA share price over this one month period was 637 pence.

As set out below, there are many good reasons to suggest that that BAA's share price is likely to fall if ADI's offer is unsuccessful. This is supported by recent evidence, when BAA's share price fell 6% on the 25 May 2006, the day that the OFT announced that it was considering an investigation of the UK airports market. BAA's share prices of 834p on 24 May 2006 and 787.5p on 25 May 2006 are sourced from Datastream. The percentage fall of 5.6% over this period is calculated by dividing 787.5 by 834.0, multiplying by 100 and subtracting 1.

1) BAA has consistently failed to deliver

- ***Underperformed key benchmarks***

The statement that BAA has underperformed the FTSE Utilities, FTSE 100 and FTSE All Share indices, on a Total Shareholder Return ("TSR") basis, over the last 1, 3 and 10 years is substantiated by the following.
The ten year total shareholder return percentages for the FTSE Utilities, FTSE 100, FTSE All Share indices and BAA are calculated using the Datastream return index ("RI") over the period from 7 February 1996 to 6 February 2006, being the last business day prior to speculation about a possible offer for BAA.

Total shareholder return is the theoretical growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of an equity at the closing price applicable on the ex-dividend date. FTSE Utilities' total shareholder return of 281 per cent. is calculated as 3585.0, being FTSE Utilities' RI on 6 February 2006 divided by 940.5, being FTSE Utilities' RI on the 7 February 1996, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). FTSE 100's total shareholder return of 110 per cent. is calculated as 3,137.3, being FTSE 100's RI on 6 February 2006 divided by 1,492.7, being FTSE 100's RI on the 7 February 1996, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). FTSE All Share's total shareholder return of 117 per cent. is calculated as 3,308.9, being FTSE All Share's RI on 6 February 2006 divided by 1,526.1, being FTSE All Share's RI on the 7 February 1996, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). BAA's total shareholder return of 84 per cent. is calculated as 963.3, being BAA's RI on 6 February 2006 divided by 523.4, being BAA's RI on the 7 February 1996, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage).

Hence, as stated, a shareholder who invested £100 in the FTSE Utilities on 6 February 1996 would have had a holding worth £381 on 6 February 2006. This is calculated by multiplying £100 by 2.81, the percentage increase over the period, and then adding the initial £100 investment. Similarly, a shareholder who invested £100 in the FTSE 100 over the same period would have a holding worth £210. This is calculated by multiplying £100 by 1.10, the percentage increase over the period, and then adding the initial £100 investment. Likewise a shareholder who invested £100 in both the FTSE All Share and BAA on 6 February 1996 would have holdings worth £217 and £184 respectively on 6 February 2006.

The three year total shareholder return percentages for the FTSE Utilities, FTSE 100, FTSE All Share indices and BAA are calculated using the Datastream return index ("RI") over the period from 7 February 2003 to 6 February 2006, being the last business day prior to speculation about a possible offer for BAA. FTSE Utilities' total shareholder return of 106 per cent. is calculated as 3,585.0, being FTSE Utilities' RI on 6 February 2006 divided by 1,742.8, being FTSE Utilities' RI on the 7 February 2003, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). FTSE 100's total shareholder return of 78 per cent. is calculated as 3,137.3, being FTSE 100's RI on 6 February 2006 divided by 1,761.4, being FTSE 100's RI on the 7 February 2003, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). FTSE All Share's total shareholder return of 87 per cent. is calculated as 3,308.9, being FTSE All Share's RI on 6 February 2006 divided by 1,767.5, being FTSE All Share's RI on the 7 February 2003, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). BAA's total shareholder return of 63 per cent. is calculated as 963.3, being BAA's RI on 6 February 2006 divided by 592.1, being BAA's RI on the 7 February 2003, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage).

The year total shareholder return percentages for the FTSE Utilities, FTSE 100, FTSE All Share indices and BAA are calculated using the Datastream return index ("RI") over the period from 7 February 2005 to 6 February 2006, being the last business day prior to speculation about a possible offer for BAA. FTSE Utilities' total shareholder return of 31 per cent. is calculated as 3,585.0, being FTSE Utilities' RI on 6 February 2006 divided by 2,745.1, being FTSE Utilities' RI on the 7 February 2002, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). FTSE 100's total shareholder return of 20 per cent. is calculated as 3,137.3, being FTSE 100's RI on 6 February 2006 divided by 2,615.7, being FTSE 100's RI on the 7 February 2005, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). FTSE All Share's total shareholder return of 21 per cent. is calculated as 3,308.9, being FTSE All Share's RI on 6 February 2006 divided by 2,727.2, being FTSE All Share's RI on the 7 February 2005, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage). BAA's total shareholder return of 8 per cent. is calculated as 963.3, being BAA's RI on 6 February 2006 divided by 892.2, being BAA's RI on the 7 February 2005, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage).

- ***Failed to convert RAB growth into comparable growth in shareholder value***

The growth in average RAB, average regulatory operating profit and average TSR between the financial years ended March 2000 and March 2005 are 63.9 per cent., 11.7 per cent. and 28.1 per cent. respectively. The March 2005 financial year has been selected as the end year due to the fact that BAA's regulatory accounts for the financial year ended 31 March 2006 are not publicly available. For the financial year ended March 2000, the average RAB (£4,922.9m), defined as summation of opening and closing RAB, divided by 2, and regulatory operating profit (£463.8m) figures have been sourced from page 307 Table 10.3 "BAA plc: a report on the economic regulation of the London airports companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd)" by the Competition Commission dated November 2001.

For the financial year ended 31 March 2005, the average RAB (£8,070.7m) and regulatory operating profit (£518.2m) figures have been sourced from BAA's regulatory accounts for the financial year for Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited. The figures used are the summation of:

(i) For Heathrow Airport Limited, £5,866.5m for average RAB (summation of opening RAB of £5,405.5m and closing RAB of £6,327.5m, then divided by 2) and £393.2m for regulatory operating profit;
(ii) For Gatwick Airport Limited, £1,336.3m for average RAB (summation of opening RAB of £1,308.5m and closing RAB of £1,364.1m, then divided by 2) and £83.2m for regulatory operating profit; and
(iii) For Stansted Airport Limited, £867.9m for average RAB (summation of opening RAB of £873.7m and closing RAB of £862.0m, then divided by 2) and £41.8m for regulatory operating profit.
The growth in average RAB between financial years ended March 2000 and March 2005 of 63.9 per cent. is derived from the division of £8,070.7m by £4,922.9m, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage).
The growth in regulatory operating profit between financial years ended March 2000 and March 2005 of 11.7 per cent. is derived from the division of £518.2m by £463.8m, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage).
The average RI values for the financial years ended March 2000 (634.1) and March 2005 (812.1) have been calculated as a summation of the daily closing RI values (excluding Saturdays and Sundays), sourced from Datastream for each financial year, divided by the number of observations in each financial year. The growth in average RI value of 28.1 per cent. is derived from the division of 812.1 by 634.1, subtracting 1 and multiplying by 100 (in order to express solely the increase as a percentage).

- ***Failed to generate profits and returns up to the levels allowed by the regulator***

BAA has significantly underperformed the forecast return on the regulatory asset base (RAB) in the current quinquennium. The outperformance/underperformance of the return on the RAB (or equivalent) in each financial year is calculated as the difference between actual returns and projected returns. The actual/projected (as appropriate) return on RAB (or equivalent) is defined as the actual/projected regulatory operating profit (as defined by the regulator, the Civil Aviation Authority (CAA)) divided by the actual/projected average RAB and multiplied by 100 (in order to express solely the return as a percentage) for each financial year.
The figures for BAA’s actual and CAA’s projected return on RAB figures for the financial years ended March 2004 and March 2005 are sourced from BAA’s regulatory accounts for Heathrow Airport Limited (HAL), Gatwick Airport Limited (GAL) and Stansted Airport Limited (SAL) for each of the financial years.
For the financial year ended March 2004, BAA’s actual return on weighted average basic RAB of 6.6 per cent. is derived from the summation of actual regulatory operating profits of £358.0m, £71.7m and £34.7m divided by the

summation of actual weighted average basic RAB of £4,848.7m, £1,262.0m and £868.6m for HAL, GAL and SAL respectively, and multiplying by 100 (in order to express solely the return as a percentage).

For the financial year ended March 2004, the CAA's projected return on weighted average basic RAB of 7.5 per cent. is derived from the summation of projected regulatory operating profits of £381.1m, £78.0m and £54.7m divided by the summation of projected weighted average basic RAB of £4,705.8m, £1,239.8m and £876.0m for HAL, GAL and SAL respectively, and multiplying by 100 (in order to express solely the return as a percentage).

The underperformance for the financial year ended March 2004 of 0.9 per cent. is the difference between BAA's actual return on weighted average basic RAB of 6.6 per cent. and the CAA's projected return on weighted average basic RAB of 7.5 per cent.

For the financial year ended March 2005, BAA's actual return on weighted average basic RAB of 6.4 per cent. is derived from the summation of actual regulatory operating profits of £393.2m, £83.4m and £41.8m divided by the summation of actual weighted average basic RAB of £5,857.9m, £1,335.8m and £868.0m for HAL, GAL and SAL respectively, and multiplying by 100 (in order to express solely the return as a percentage).

For the financial year ended March 2005, CAA's projected return on weighted average basic RAB of 7.3 per cent. is derived from the summation of projected regulatory operating profits of £409.1m, £94.2m and £67.0m divided by the summation of projected weighted average basic RAB of £5,552.0m, £1,295.9m and £924.1m for HAL, GAL and SAL respectively, and multiplying by 100 (in order to express solely the return as a percentage).

The underperformance for financial year ended March 2005 of 0.9 per cent. is the difference between BAA's actual return on weighted average basic RAB of 6.4 per cent. and CAA's projected return on weighted average basic RAB of 7.3 per cent. Any differences between numbers calculated from reports and RAB percentages in report are due to rounding.

BAA has significantly underperformed CAA forecasts in both 2003/04 and 2004/05, thereby failing to generate profits and returns that BAA was allowed. This underperformance has occurred at all 3 London airports over this period and is substantiated by the following:

The net differences between CAA forecasted returns on weighted average basic RAB and actual returns on weighted average basic RAB for Heathrow, Gatwick and Stansted airports for 2004 and 2005.

The CAA forecasted a return on weighted average basic RAB for Heathrow of 8.1 per cent. for the year ended 31 March 2004. Actual return on weighted average basic RAB for Heathrow for the year ended 31 March 2004 was 7.4 per cent. The difference of -0.7 per cent. between the forecasted and actual figure is calculated by subtracting 8.1 per cent. from 7.4 per cent.

The CAA forecasted a return on weighted average basic RAB for Heathrow of 7.4 per cent. for the year ended 31 March 2005. Actual return on weighted average basic RAB for Heathrow for the year ended 31 March 2005 was 6.7 per cent. The difference of -0.7 per cent. between the forecasted and actual figure is calculated by subtracting 7.4 per cent. from 6.7 per cent.

These figures are extracted from the Heathrow Airport Limited Regulatory Accounts Performance Reports for the year ended 31 March 2004 and the year ended 31 March 2005.

The CAA forecasted a return on weighted average basic RAB for Gatwick of 6.3 per cent. for the year ended 31 March 2004. Actual return on weighted average basic RAB for Gatwick for the year ended 31 March 2004 was 5.7 per cent. The difference of -0.6 per cent. between the forecasted and actual figure is calculated by subtracting 6.3 per cent. from 5.7 per cent.

The CAA forecasted a return on weighted average basic RAB for Gatwick of 7.3 per cent. for the year ended 31 March 2005. Actual return on weighted average basic RAB for Gatwick for the year ended 31 March 2005 was 6.2 per cent. The difference of -1.1 per cent. between the forecasted and actual figure is calculated by subtracting 7.3 per cent. from 6.2 per cent.
These figures are extracted from the Gatwick Airport Limited Regulatory Accounts Performance Reports for the year ended 31 March 2004 and the year ended 31 March 2005.

The CAA forecasted a return on weighted average basic RAB for Stansted of 6.2 per cent. for the year ended 31 March 2004. Actual return on weighted average basic RAB for Stansted for the year ended 31 March 2004 was 4.0 per cent. The difference of -2.2 per cent. between the forecasted and actual figure is calculated by subtracting 6.2 per cent. from 4.0 per cent.

The CAA forecasted a return on weighted average basic RAB for Stansted of 7.3 per cent. for the year ended 31 March 2005. Actual return on weighted average basic RAB for Stansted for the year ended 31 March 2005 was 4.8 per cent. The difference of -2.5 per cent. between the forecasted and actual figure is calculated by subtracting 7.3 per cent. from 4.8 per cent.

These figures are extracted from the Stansted Airport Limited Regulatory Accounts Performance Reports for the year ended 31 March 2004 and the year ended 31 March 2005.

- ***Failed to reduce costs***

The statement BAA has made no overall progress in reducing costs as a proportion of revenue over the last five years is based upon the fact that BAA's operating costs (excluding depreciation and amortisation) as a percentage of Group revenue have not fallen overall over the financial years ended March 2002 to March 2006.

Group revenue for the year ended 31 March 2002 was £1,987 million. Operating costs, excluding depreciation and amortisation, from continuing operations totalled £1,068 million. This is calculated by subtracting depreciation of £247 million, and amortisation of £2 million, from total continuing operations costs of £1,317 million. By dividing £1,068m by £1,987m, and multiplying by 100, we calculate that costs excluding depreciation and amortisation from continuing operations are equal to 53.7 per cent. of revenue for year ended March 2002. The figures used are sourced from pages 41 and 50 of BAA's Annual Report 2001/02.

Group revenue for the year ended 31 March 2006 was £2,275 million. Operating costs, excluding depreciation and amortisation, from continuing operations totalled £1,223 million. This is calculated by subtracting depreciation and amortisation of £299 million, from total continuing operations costs (excluding capitalised costs) of £1,522 million. By dividing £1,223m by £2,275m, and multiplying by 100, we calculate that costs excluding depreciation and amortization from continuing operations are equal to 53.8 per cent. of revenue. The figures used are sourced from pages 19 and 25 of BAA's Preliminary results 2005/06.

Consequently, this demonstrates that BAA has made no real progress in reducing costs as a percentage of revenue over the 2001/02 – 2005/06 financial years.

- ***Failed to deliver its own UK passenger growth forecasts***

BAA failed to meet the CAA's passengers forecasts for the regulated London airports as a whole for the years ended 31 March 2004, 31 March 2005 and 31 March 2006.

Terminal passenger levels for the three regulated London airports for the years ended 31 March 2004, 31 March 2005 and 31 March 2006 were 1.8 per cent., 1.0 per cent. and 3.0 per cent. below CAA forecasts.

2004 total terminal passengers of 113.7 million for the three London airports is calculated by summing Heathrow terminal passengers of 64.3 million, Gatwick terminal passengers of 30.1 million, and Stansted terminal passengers of 19.4 million. These figures are sourced from the Heathrow Airport Limited regulatory accounts for the year ended 31 March 2004, the Gatwick Airport Limited regulatory accounts for the year ended 31 March 2004, and the Stansted Airport Limited regulatory accounts for the year ended 31 March 2004.

Similarly, the CAA forecasted 2004 total terminal passengers of 115.8 million for the three London airports. This is calculated by summing forecasted Heathrow terminal passengers of 67.1 million, forecasted Gatwick terminal passengers of 31.2 million, and forecasted Stansted terminal passengers of 17.5 million. These figures are also sourced from the regulatory accounts as detailed above.
By dividing actual total terminal passengers of 113.7 million by the CAA forecasted total terminal passengers of 115.8 million, subtracting 1 and multiplying by 100, we calculate that actual total terminal passengers in 2004 was 1.8 per cent. lower than the CAA forecasted.
2005 total terminal passengers of 120.8 million for the three London airports is calculated by summing Heathrow terminal passengers of 67.7 million, Gatwick terminal passengers of 32.0 million, and Stansted terminal passengers of 21.2 million. These figures are sourced from the Heathrow Airport Limited regulatory accounts for the year ended 31 March 2005, the Gatwick Airport Limited regulatory accounts for the year ended 31 March 2005, and the Stansted Airport Limited regulatory accounts for the year ended 31 March 2005.
Similarly, the CAA forecasted 2005 total terminal passengers of 122.1 million passengers for the three London airports. This is calculated by summing forecasted Heathrow terminal passengers of 69.0 million, forecasted Gatwick terminal passengers of 33.8 million, and forecasted Stansted terminal passengers of 19.3 million. These figures are also sourced from the regulatory accounts as detailed above.
By dividing actual total terminal passengers of 120.8 million by the CAA forecasted total terminal passengers of 122.1 million, subtracting 1 and multiplying by 100, we calculate that actual total terminal passengers in 2005 was 1.0 per cent. lower than the CAA forecasted.
2006 total terminal passengers of 122.4 million for the three London airports is calculated by summing Heathrow terminal passengers of 67.4 million, Gatwick terminal passengers of 32.8 million, and Stansted terminal passengers of 22.2 million. These figures are sourced from page 38 of the BAA Annual Report 2005/06.
Similarly, the CAA forecasted 2006 total terminal passengers of 126.2 million passengers for the three London airports. This is calculated by summing forecasted Heathrow terminal passengers of 69.9 million, forecasted Gatwick terminal passengers of 36.0 million, and forecasted Stansted terminal passengers of 20.3 million. These figures are sourced from "BAA plc: a report on the economic regulation of the London airports companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd)" by the Competition Commission dated November 2001 (page 307 Table 10.3).
By dividing actual total terminal passengers of 122.4 million by the CAA forecasted total terminal passengers of 126.2 million, subtracting 1 and

multiplying by 100, we calculate that actual total terminal passengers in 2006 was 3.0 per cent. lower than the CAA forecasted.

BAA failed to meet its own passenger forecasts for the regulated London airports for the financial years ended March 2004, March 2005 and March 2006.

The forecast number of passengers for the regulated London airports for the financial year ended March 2004 was 114.3m, sourced from Page 35 of the annual report for the financial year ended March 2003. The actual number of passengers for the regulated London airports for the financial year ended March 2004 was 113.8m, being the summation of 64.3m passengers at Heathrow, 30.1m passengers at Gatwick and 19.4m passengers at Stansted - these figures are sourced from Page 3 of the annual report for the financial year ended March 2004. Actual number of passengers was -0.4 per cent. below forecast, derived from the actual passengers of 113.8m divided by the forecast number of passengers of 114.3m, less one and multiplied by 100 (to express solely the underperformance as a percentage).

The forecast number of passengers for the regulated London airports for the financial year ended March 2005 was 121.5m, sourced from Page 37 of the annual report for the financial year ended March 2004. The actual number of passengers for the regulated London airports for the financial year ended March 2005 was 120.9m, sourced from BAA's press release dated 28 April 2005. Actual number of passengers was -0.5 per cent. below forecast, derived from the actual passengers of 120.9m divided by the forecast number of passengers of 121.5m, less one and multiplied by 100 (to express solely the underperformance as a percentage).

The forecast number of passengers for the regulated London airports for the financial year ended March 2006 was 125.1m, sourced from BAA's press release dated 28 April 2005. The actual number of passengers for the regulated London airports for the financial year ended March 2006 was 122.4m, being the summation of 67.4m passengers at Heathrow, 32.8m passengers at Gatwick and 22.2m passengers at Stansted - these figures are sourced from Page 38 of the annual report for the financial year ended March 2006. Actual number of passengers was -2.2 per cent. below forecast, derived from the actual passengers of 122.4m divided by the forecast number of passengers of 125.1m, less one and multiplied by 100 (to express solely the underperformance as a percentage).

The statements that BAA has revised down passenger growth forecasts on two occasions in 2005/06 in the UK and that BAA also undershot the CAA forecasts for UK passenger levels in 2003/04 and 2004/05 are substantiated by the following:

BAA’s Half-year Trading Update, dated 20 September 2005, forecasted passenger growth of 3.0 per cent. for the year ended March 2006:

"In the five months to the end of August, BAA's seven UK airports handled a total of 66 million passengers, up 2.6% on the prior year. Traffic growth of around 3% is forecast for the full year."

BAA maintained its 3 per cent. UK traffic growth forecast for the full year to March 2006 in its Interim Results 2005/06, published 1 November 2005:

Mike Clasper, Chief Executive Officer of BAA commented:

"Our clear strategic focus, supported by skilful innovation, has once again demonstrated its value in today's results. We have turned a traffic increase of 2.5% into an underlying 6.4% increase in revenue and a 9.6% rise in operating profit. We have delivered this performance despite a slowing UK economy and the impact of this summer's London bombings and the Gate Gourmet dispute. These results demonstrate the strength of our business, our assets and our management."

"We remain confident of delivering a good retail performance, maintaining tight control of costs and, as announced on September 2005, we anticipate around 3% traffic growth for our UK airports this year."

BAA forecasted UK passenger growth of 2.5 per cent. for the financial year to the end of March 2006 in its December traffic figures press release dated 11 January 2006:

"For the financial year to date, traffic at BAA's seven UK airports is running 2.4 per cent. higher than in the same period of the previous year. BAA now expects the total for the full financial year to the end of March to be around 2.5 per cent., rather than the approximately 3 per cent. estimated at the time of the company's interim results on November 1."

BAA forecasted passenger growth of just over 2.0 per cent. for the financial year to the end of March 2006 in its Full-Year Trading Update released 28 March 2006:

"*In the eleven months to 28 February, BAA's nine airports handled a total of 145.1 million passengers, up 3.1% on the prior year, including 133.2 million for the seven UK airports. Allowing for the later Easter holiday this year, the current trend indicates growth for the UK airports of just over 2% for the full year."*

BAA reported passenger traffic growth of 2.0 per cent. for the year ended March 2006 in its preliminary results published 16 May 2006:

"UK airports' passenger traffic up 2.0% to 144.6 million (2004/05: 141.7 million) and Naples broadly flat at 4.6 million passengers for the year. Budapest Airport passenger grew 9% to 1.6 million for the first three months of ownership."

- ***Failed to grow real retail revenue***

The statement that BAA claims to lead the world in airport retailing is extracted from BAA's 2004/05 Annual Report:

"*Understanding the demands of passengers, retailers, brands and space at our different airports is vital to our success. This knowledge, combined with our 'value' proposition and strong entrepreneurial drive, has allowed BAA to lead the world in airport retailing, as our results once again demonstrate*."

The following calculations illustrate that in real terms, net retail revenue per passenger has declined over the last two years:
Net retail income per passenger in real terms has declined 2.6 per cent. at BAA's London airports between financial years ended March 2004 and March 2006. Net retail revenue per passenger for the financial year ended March 2006 has been adjusted for the effects of inflation to achieve comparability in real terms. These figures are sourced from page 8 of the BAA Document. To express net retail income per passenger for the year ended 31 March 2006 in average prices for the year ended 31 March 2004, the nominal net retail income per passenger of £4.31 is multiplied by the average Retail Price Index (RPI) of 182.5 in the year ended 31 March 2004 and divided by the average RPI of 193.1 for the year ended 31 March 2006 year, which gives a real net retail income per passenger of £4.07. The RPI data is sourced from the Office for National Statistics.
The percentage fall of 2.6 per cent. in real retail income from March 2004 to March 2006 is calculated by dividing real actual net retail income per passenger in 2006 by real actual net retail income per passenger in 2004, subtracting 1 and multiplying by 100.

- ***Failed to deliver a value-enhancing balance sheet***

The statement that BAA has announced a proposed £750m return of capital and an increased dividend is extracted from page 3 of the BAA Document:
"We are proposing to raise the dividend per share for the coming financial year (2006/07) by 40%, with a further increase of 7% in the following year. Subject to the outcome of the current CAA review (for the period 2008–13), the Board also intends to pursue a progressive dividend policy beyond 2008, showing growth in real terms. Conditional upon shareholder approval and the Ferrovial Consortium's or any other offer lapsing, we will also return £750 million of capital to shareholders through a tender offer."

The statement that the return of capital is equivalent to 69 pence per share is calculated dividing £750m, being the return of capital extracted from page 3 of the BAA Document by 1,081m, being the number of shares outstanding. This is extracted from page 36 of the BAA Document.

The statement that the average historic year end gearing levels at BAA of 52 per cent. over the last six years is sourced from page 17 of BAA's Document and is calculated by summing the gearing ratios from 2001 to 2006 and dividing by six.

The statement that BAA's gearing has been significantly below current gearing levels at comparable UK utility companies is based upon the following calculations:

- Pennon Group's net debt to net assets of 171 per cent. is calculated by dividing £1,198.8m, being the net debt at 30 September 2005 by £701.6m, being the net assets at 30 September 2005, and multiplying by 100. Pennon Group's net debt was extracted from page 20 of the Interim results for the half year ended 30 September 2005, with Pennon Group's net assets extracted from page 14 of the Interim results for the half year ended 30 September 2005.

- United Utilities net debt to net assets of 168 per cent. is calculated by dividing £4,106.0m, being the net debt at 30 September 2005 by £2,441.0m, being the net assets at 30 September 2005, and multiplying by 100. United Utilities net debt was extracted from page 6 of Interim results for the six months ended 30 September 2005, with United Utilities net assets extracted from page 13 of Interim results for the six months ended 30 September 2005.

- Severn Trent's net debt to net assets of 166 per cent. is calculated by dividing £3,017.0m, being the net debt at 30 September 2005 by £1,821.7m, being the net assets at 30 September 2005, and multiplying by 100. Severn Trent's net debt was extracted from page 8 of the Interim results for the six months to 30 September 2005, with Severn Trent's net assets extracted from page 12 of the Interim results for the six months to 30 September 2005.

- Kelda's net debt to net assets of 134 per cent. is calculated by dividing £1,954.0m, being the net debt at 31 March 2006 by £1,457.0m, being the net assets at 31 March 2006, and multiplying by 100. Kelda's net debt and net assets are both extracted from Kelda's preliminary results for the year ended 31 March 2006.

- Scottish and Southern Energy net debt to net assets of 105 per cent. is calculated by dividing £1,989.5m, being the net debt at 30 September 2005 by £1,888.9m, being the net assets at 30 September 2005, and multiplying by 100. Scottish and Southern Energy's net debt was extracted from page 10 of the Interim results for the six months to 30 September 2005, with Scottish and Southern Energy's net assets extracted from page 16 of the Interim results for the six months to 30

September 2005.

2) Under BAA's approach, future value is limited and uncertain

- ***The three London airports are heavily regulated and there is no hard evidence that today's regulatory burden will get any lighter***

The statement that 80 per cent. of BAA's business is regulated is extracted from page 4 of the BAA Document:

"BAA's three London airports, Heathrow, Gatwick and Stansted, represent around 80% of our profits."

The statement that there is no hard evidence that the regulatory regime is likely to loosen is based upon statements by the CAA, sourced from the 'Airports Review – policy update', published 15 May 2006:

"Accordingly, at this early stage, when these and other factors have still to be reviewed and considered, there can be no certainty that the CAA will maintain allowed returns at the existing level of 7.75% per annum. All parties need to be conscious of the possibility that, even where the CAA allows for different returns at different airports, the resulting overall cost of capital allowance could be lower in Q5 than in Q4."

"In summary, while the airports price control review is still in its early stages, there is scope for the CAA to introduce new (and/or strengthen existing) regulatory conditions in order to protect users from higher prices than would otherwise obtain or from unjustified deferral of capital expenditure."

- ***The OFT's statement is just one example of future uncertainty***

On 25 May 2006, the OFT announced that it is considering a review of the structure of the UK airports market:

"Competition in air transport is an extremely important part of the UK economy, with a significant impact on UK consumers and business alike. For these and other reasons, we have decided to look more closely at how the airport markets work with the aim of establishing whether the current market structure delivers best value for air travellers."

- ***Airlines will not accept excessive investment and certainly will resist paying for it***

The statement that airlines have been vigorous in their opposition to the excessive cost of the second runway at Stansted is based upon statements made by Ryanair and easyJet.
Ryanair released several press releases in response to the proposed runway at Stansted, with the following statements sourced from the Ryanair website, www.ryanair.com.

News release, 18 May 2005

"Only 24 hours after reporting a profit jump of 19% to £637m, BAA has dropped a bombshell on the UK airline industry by announcing a further raid on its customers – charges at Stansted Airport will increase by almost 300% and passengers at Heathrow and Gatwick will be expected to chip-in up to £1 per passenger to pay for it."

David O'Brien Ryanair's director of Operations said:

"The proposals by the BAA airport monopoly to blow £4bn on a second runway which even they confirm should cost only £200m is just the latest example of the gold-plating rip-off of consumers practiced by the BAA airport monopoly. Ordinary passengers should not be forced to pay higher air fares just to finance another BAA Taj Mahal. Ryanair will continue to fight – with easyJet – for lower cost airports and lower fares."

Ed Winter, easyJet's Chief Operating Officer and Chairman of the Stansted Airport Consultative Committee, said:

"BAA has today announced the Great Consumer Rip-Off and it should send a shiver down the spine of every airline passenger in the UK. It is planning to build a folly on the grandest scale that is unnecessary and unwanted. Before sensible low airport charges attracted the likes of easyJet to Stansted, it was little more than a white elephant in an Essex field with a single runway; BAA seems determined to make it a white elephant in an Essex field with two runways."

News release, 9 December 2005

"The unveiling of this gold plated folly by BAA, with no supporting business plan, is testament to the failure of the current regulatory regime to restrain this out of control monopoly. The production of the plan alone has already cost over £50m, and will cost £110m – the price of a complete runway anywhere else, without a

single sod being turned. BAA have confirmed to users that the announced £2.7bn figure excludes hidden costs, bringing the total bill to around £4.0bn."

The statement that Airlines and the CAA are likely to heavily scrutinise all investment plans, is substantiated by comments regarding Stansted in the CAA's Airports Review, dated 15 May 2006:

"At Stansted, the CAA has started its own scrutiny of the airport's capital investment plans, focusing to date on projects associated with making the best use of the current runway. In the coming months, the CAA will scrutinise the efficiency of BAA's plans for the second runway, when issued, following its own consultation earlier this year on a range of options. The CAA will also take account of BAA's and airlines' views on traffic forecasts and prospective operating and capital efficiency in reaching an initial view later this year on price control proposals for Stansted."

- ***Changes in the amount and delays to the timing of RAB growth are almost inevitable***

The statement that Heathrow Terminal 5 will have taken 15 years to deliver is substantiated by the following.
BAA applied for planning approval on Wednesday 17 February 1993 as confirmed by the articles below:

Investors Chronicle, 19 February 1993

"Airports operator BAA made a formal planning application on Wednesday for its pounds 900m fifth passenger terminal at London's Heathrow airport. BAA's proposed development is likely to encounter stiff opposition from a number of parties on environmental and noise pollution grounds. A public inquiry, likely to last at least a year, should begin late in 1994, which means that a government decision is unlikely before 1997."

Flight International, 24 February 1993

"BAA applied for planning approval for the proposed fifth terminal at London Heathrow Airport on 17 February. The UK Government will call a public inquiry into Terminal 5, which is likely to cost almost £1bn and cater for 30m passengers a year. A Government decision to proceed is likely in 1997."

The Dow Jones news service confirmed the public enquiry ended on Wednesday 17 March 1999:

"A public inquiry into whether Heathrow Airport needs a fifth terminal ended Wednesday, but a final decision is still more than two years away. The investigation into the issue has been the U.K's longest public inquiry. It lasted four years, with hearings calling witnesses at total cost of GBP80 million, of which GBP50 million was spent by the BAA PLC, the owner operator of Heathrow Airport".

BAA announced in their results for the year ended 31 March 2006 that Terminal 5 is due to open on 30 March 2008:

"BAA invested £1,517 million in 2005/06 to build capacity and improve facilities at its airports and related businesses. £977 million of this investment was spent on Heathrow Terminal 5 which remains on budget and on schedule to open 30 March 2008. The first phase (being the main terminal building and Satellite 1) is now nearly 80% complete."

The statement that the second runway at Stansted has already been delayed from 2012 to 2015/16 is substantiated by Mike Clasper's statement from BAA's Annual Report 2004/05:
"We've always said 2012 was a very challenging deadline and, to be honest, we're not going to meet it. A number of things in the last 18 months have gone more slowly than we'd hoped: the emergence of a regional planning framework; and Government agency progress with the road and rail plans to support an enlarged Stansted are two areas that spring to mind. These things have cost us at least a year and there are many hurdles ahead."

This is further supported by the BAA press release, dated 18 May 2005:

"The second runway and phase 1 of the associated infrastructure at Stansted (Generation 2) is available from 2015/16. This reflects our views of the most likely timing of completion of phase 1 of this development, although we are still targeting and working towards an earliest possible opening date of late 2013."

- ***BAA is exposed to significant construction risk on major projects***

This statement made by the Chairman of BAA acknowledging the risk associated with Heathrow Terminal 5 is sourced from a transcript produced by Thompson Financial of a BAA investor conference call on 26 May 2006:
"*So far as the dividend is concerned, again the time is important because, if you go back a few years, and I remember being on the Board considering these things, we were very, very focused on the development of Terminal Five. And although as we stand here today that project is 80% complete, it's on time and*

on budget, the fact that we can now view that with hindsight doesn't mean to say that the risks going into it were very, very real and very, very large, as we observed them. And we had no idea, even though it was obviously our intention and we delivered on it, we had no idea that things would work out as well as they had done."

- ***BAA is exposed to significant traffic risk due to external shocks***

The CAA has noted that BAA faces more volume risk than UK water companies in its Decision Document, dated February 2003:

"However, in the view of the CAA great care should be taken when making these types of comparisons. For example, the regulated UK water companies currently face little volume risk compared with BAA and hence such a comparison is not appropriate. Also, comparisons with other airports which do not face investment projects on a scale such as Terminal 5 or do not face a regulatory environment such as BAA are unlikely to be appropriate. Moreover, in the case of BAA market data is available, i.e. data is available on its equity beta and debt premium. Therefore the need for and value of comparators is significantly reduced: the designated BAA airports representing the major part of BAA's value."

3) Shareholders should not believe BAA will create value from diversification

The statement regarding the acquisition of Duty Free International, renamed Duty Free Americas, for £423m in August 1997 is confirmed in BAA's results for the six months ended 30 September 1997:

"The acquisition of Duty Free International in August 1997 at a cost of £423m and increased capital expenditure of £289m (£226m) affected gearing, which increased to 46% (33%). These factors were the principal cause of the increase in net debt of £486m (£50m)."

WDF Americas sold its export division for £23 million in June 2001, as outlined in the Regulatory News Service announcement dated 26 June 2001:

"BAA plc subsidiary World Duty Free Americas today announced the completion of the sale of its Export Division to Motta International. Assets totaling circa £23m ($US 33m) were sold for a small premium."

The subsidiary, WDF Americas, was sold for £84 million in October 2001, as outlined in the Regulatory News Service announcement dated 11 October 2001:

“BAA plc, the international airport group, today announced the sale of its World Duty Free Americas subsidiary to Duty Free Acquisition Corp., a Florida corporation. The total consideration was $US121m (£84m), of which $US115m (£80m) represents the World Duty Free Americas 7% Bond due 2004, which remains with the transferring business. BAA will continue to own World Duty Free Europe, the specialist duty-free retailer at the company’s UK airports.”

4) BAA’s questionable approach to valuation

- ***Budapest airport***

In the BAA Document, BAA disclosed that it applied a discount rate of 8% (post-tax nominal) to value Budapest airport:

“When BAA acquired Budapest Airport in December 2005, we recognised that we were taking on board significant risks, particularly in the early days. With a general election imminent, the main opposition party was doing well in the polls and threatening to renationalise the airport. There were also threats of strike action. The 8% discount rate (post-tax nominal) we used to support the purchase valuation of £1.35 billion reflected these and other risks.”

BAA now claim in the BAA Document that Budapest airport has now increased in value by £300m because of a lower discount rate:

“This progress makes us more confident in the value of Budapest Airport. Indeed the Board now believes that a discount rate of 7.25% should be applied given the changed risk profile of the business. On our acquisition assumptions, reducing the discount rate by 0.75% in this way would increase the purchase valuation of Budapest by approximately £300 million. This is another piece of value upside in the BAA story.”

The statement that the discount rate used for valuing Budapest airport is now similar to that used by the regulator in setting allowed returns for Heathrow, Gatwick and Stansted is sourced from the CAA’s Decision report, dated February 2003.

“The CAA is satisfied that these decisions are best calculated to meet the CAA’s statutory objectives under the Act. Following Competition Commission advice the price caps reflect full allowance for assets in the course of construction, a cost of capital of 7.75% pre-tax real at each airport, and revenue advancement at Heathrow to permit a smooth price profile.”

BAA refers to a nominal pre-tax allowed rate of return, which is equivalent to its allowed cost of capital and discount rate for valuation purposes, of "around 10 per cent." on page 6 in its circular to shareholders dated 3 May 2006.

Based on the formulas set out in the CAA's position paper on the cost of capital dated June 2001 for pre-tax and post-tax cost of capital, BAA's nominal post tax cost of capital of around 7 per cent. can be derived by multiplying BAA's nominal pre-tax cost of capital of around 10 per cent. by 70 per cent., being 1 minus the UK corporate tax rate of 30 per cent.

BAA's nominal post-tax cost of capital of around 7.0 per cent. is therefore similar to the new discount rate of 7.25 per cent. that BAA has used for its increased valuation of Budapest airport on page 15 of the BAA Document.

The statement that under BAA's revised valuation for Budapest airport, the multiple 35.5x EBITDA is some 2.3x the average multiple of recent, comparable airport transactions is based on the average of the following multiples, the calculations for which are set out below:

Rome I/Leonardo Consortium:

The firm value to EBITDA multiple of 17.2x paid by the Leonardo Consortium for the ADR Group was calculated by dividing €2,733m, being the firm value of the ADR group by €158.5m, being the EBITDA of the ADR group for the last 12 months.

The firm value of €2,733m is calculated by adding ADR group's equity value of €2,592m, net debt of €76m and minority interests of €64m.

Equity value of €2,592m is calculated by dividing 2,570,000m being the equity value in Italian Lira by 1,936.2, being the exchange rate for Italian Lira into Euros. This is then divided by 0.512, representing the 51.2% of the total equity value that the Leonardo consortium acquired. The equity value in Italian Lira is extracted from a Reuters news article on 15 June 2000, *"Il Punto- Gemina batte Shipol e Benetton per Adr"*. The exchange rate for Italian Lira into Euros is extracted from Datastream. The percentage of the total equity value that the Leonardo Consortium acquired is extracted from a news article by Reuters from 15 June 2000, *"Leonardo Group wins Rome Airport Bid"*.

Net debt of €76m is calculated by dividing 146,806m, being the net financial position at 31 December 2000 in Italian Lira by 1,936.2, being the exchange rate for Lira into Euros. ADR Group's net financial position was extracted from page 220 of ADR Group's Consolidated Report on operation and Consolidated Financial Statements as of 31 December 2000.

Minority Interests of €64m are calculated by dividing 124,486m, being the minority interests at 31 December 2000 in Italian Lira by 1,936.2, being the exchange rate for Lira into Euros. ADR Group's minority interests are extracted from page 249 of ADR Group's Consolidated Report on Operations and Consolidated Financial Statements as of 31 December 2000.

The EBITDA of €158.4 is calculated for the last 12 months by adding 211,055, being the operating income in Italian Lira for the year ended 31 December 2000 to 57,393, being the amortisation of intangible fixed assets in Italian Lira for the year ended 31 December 2000 and then adding 38,302, being the depreciation of tangible fixed assets for the year ended 31 December 2000. This is then divided by 1,936.2, being the exchange rate for Lira into Euros. ADR Group's operating income, amortisation and depreciation for the year ended 31 December 2000 are all extracted from page 251 of ADR Group's Consolidated Report on Operations and Consolidated Financial Statements as of 31 December 2000.

Bristol/Ferrovial–Macquarie:
The firm value to EBITDA multiple of 18.3x paid by Ferrovial–Macquarie for Bristol International Airport Limited was calculated by dividing £234m, being the firm value of Bristol International Airport limited by £12.8m, being the EBITDA for Bristol International Airport Limited for the last 12 months.

The firm value of £234m is extracted from a news article by the Yorkshire Post on 21 December 2000, *"FirstGroup agrees airport sale"*.

EBITDA of £12.8m is calculated for the last 12 months by multiplying £11.4m, being the EBITDA for the year ended 31 March 2000, by 3 and then dividing by 12. This is added to £13.2m, being the EBITDA for the year ended 31 March 2001 multiplied by 9, and then divided by 12.

EBITDA for the year ended 31 March 2000 is calculated by adding £1.6m, being the depreciation and other amounts written off for the year ended 31 March 2000 to £9.9m, being the operating profit for the year ended 31 March 2000. Depreciation for the year ended 31 March 2000 is extracted from page 6 of Bristol International Airport Limited's Financial Statements for 31 March 2001, with the operating profit for the year ended 31 March 2000 also extracted from page 6.

EBITDA for the year ended 31 March 2001 is calculated by adding £2.7m, being the depreciation and other amounts written off for the year ended 31 March 2001 to £10.5m, being the operating profit for the year ended 31 March 2001. Depreciation for the year ended 31 March 2001 is extracted from page 6 of Bristol International Airport Limited's Financial Statements for 31 March 2001, with the operating profit for the year ended 31 March 2001 also extracted from page 6.

Sydney/Southern Cross Consortium:
The firm value to EBITDA multiple of 17.7x paid by the Southern Cross Consortium for Sydney Airports Corporation Limited was calculated by dividing AUD 5,588m, being the firm value of Sydney Airports Corporation Limited by AUD 316.3m, being the EBITDA for Sydney Airports Corporation Limited for the last 12 months.

The firm value of AUD 5,588m is extracted from the Sydney Airports Corporation Limited / Southern Cross Group deal summary produced by Merger Market (http://www.mergermarket.com).

The EBITDA for the last 12 months of AUD 316.3m is extracted from page 3 of Sydney Airports Corporation Limited's 2002 Annual Report.

Rome / Macquarie Airports Consortium:
The firm value to EBITDA multiple of 14.7x paid by the Macquarie Airports Group for Aeroport Di Roma ("ADR") was calculated by dividing the firm value of €2,725m by €186m, being EBITDA for the last 12 months.

The firm value of €2,725m is calculated by adding the ADR’s equity value of €1,074m, net debt of €1,692m, minority interests of €48.1m and then subtracting equity investments of €89.6m.

Equity value of €1,074m is calculated by dividing €480m by 0.447, representing the 44.7% of the total equity value that the consortium acquired. The equity value for Aeroport Di Roma and percentage of the total equity value that the Macquarie airports group acquired are extracted from page 3 of a news article by The Australian Stock Exchange Company on the 15 July 2002: *“Macquarie Airports to acquire 28% of Rome’s Aeroport Di Roma for $542M”*.

Net debt of €1,692m is calculated by subtracting €17.1, being the cash and cash equivalents at 31 December 2001 from €1,637.7m, being the payables due to banks at 31 December 2001 and adding €71.0m, being payables due to other financial institutions. ADR group’s cash and cash equivalents are extracted from page 273 of ADR’s Annual Report 2002, with ADR group’s payables due to banks and payables due to other financial institutions extracted from page 253 ADR’s Annual Report 2002.

Minority interests of €48.1m, being the minority interests at 31 December 2001 are extracted from page 253 of ADR Group’s Annual Report 2002.

Equity Investments €89.6m, being the equity investments at 31 December 2001 are extracted from page 252 of ADR Group’s Annual Report 2002.

The EBITDA for the last 12 months of €186m calculated by adding €96.5m, being the amortisation and depreciation charge for the year ended 31 December 2001 to €89.6m, being the operating income for the 12 months to 31 December 2001. ADR group’s amortisation and depreciation charge is extracted from page 244 of ADR Group’s Annual Report 2002, with ADR group’s operating income extracted from page 223 ADR Group’s Annual Report 2002.

Belfast City/Ferrovial:
The firm value to EBITDA multiple of 17.8x paid by Ferrovial for Belfast City Airport Limited was calculated by dividing the Firm Value of £43m by the EBITDA £2.4m.

Firm value of £43m is extracted from a news article by the Financial times on 24 May 2003, *“Ferrovial lands £43m Belfast airport deal”*

EBITDA of £2.4m is calculated by adding £1.3m, being the depreciation charge for the year ended 31 January 2002 to £1.1m, being the operating profit for the year ended 31 January 2002. The depreciation charge for the year ended 31 January 2002 and the operating profit for the year 31 January 2002 are both extracted from page 7 of the Belfast City Airport Limited Report and Financial Statements at 31 January 2003. These financials were used as they are believed to represent a normalised level of operating profit, with a loss having been recorded for the year ended 31 January 2003.

Brussels/Macquarie:
The firm value to EBITDA multiple of 12.3x paid by the Macquarie Consortium for Brussels International Airport Company was calculated by dividing €1,635m,

being the firm value of Brussels International Airport Company by €133m, being Brussels International Airport Company's EBITDA for the last 12 months.

Firm value of €1,635m is extracted from page 1 of a news release by Macquarie on the 9 November 2004, *"Map Consortium successful in bid for Brussels Airport"*.

EBITDA for the last 12 months of €133m is extracted from page 1 of a news release by Macquarie on the 9 November 2004, *"Map Consortium successful in bid for Brussels Airport"*.

TBI/Abertis:
Firm value to EBITDA multiple of 14.6x paid by Abertis for TBI was calculated by dividing the firm value of £711m by £48.8m, being EBITDA for the last 12 months.

Firm value of £711m is extracted from page 15 of a press release by Abertis on 14 November 2004 relating to the acquisition of TBI.

The EBITDA for the last 12 months of £48.8m is adjusted for sale of airport services and extracted from a press release published by Abertis on 14 November 2004 relating to the acquisition of TBI.

Copenhagen/Macquarie:
The firm value to EBITDA multiple of 10.2x paid by Macquarie for Copenhagen Airports was extracted from page 5 of a document published by Macquarie Airports on 24 October 2005, *"Recommended Tender Offer – Copenhagen Airports"*.

Consequently, the average of the firm value to EBITDA multiples based on precedent transactions above is 15.3x.

- ***BAA / Budapest***

The firm value to EBITDA multiple of 35.5x, based upon BAA's revised valuation for Budapest, is calculated by dividing BAA's estimate of firm value of £1,650m by £46.5m, being EBITDA for the last 12 months.

The firm value of £1,650m is calculated by adding £300m, being the increase in the purchase valuation of Budapest, to £1,350m, being the purchase valuation at the time of the acquisition. The purchase price at the time of the acquisition and the increase in the purchase valuation of Budapest are extracted from the BAA Document.

In the year ended 31 December 2005, Budapest airport expected to generate earnings before interest, tax, depreciation and amortisation of €68m. The EBITDA of £46.5m is calculated by dividing €68m, being the expected EBITDA for the year ended 31 December 2005 for Budapest Airport by 1.4624, being the average exchange rate for Euros into GBP for calendar year 2005. The EBITDA for the year ended 31 December 2005 for Budapest is extracted from page 2 of the news release on 18 December 2005 by BAA, "BAA agrees acquisition of Budapest Airport". The average exchange rate for Euros into GBP is extracted from Datastream and is calculated by taking the average of the respective exchange rates from 1 January 2005 through to 31 December 2005.

The statement that the EBITDA multiple derived from the revised valuation of Budapest is 2.3x the average multiple of comparable airport transactions is calculated by dividing 35.5x, being the firm value to EBITDA multiple based upon BAA's revised valuation for Budapest, by 15.3x, being the average of the precedent transactions.

- ***Valuation of regulated London airports***

The statement that BAA has failed historically to translate RAB growth into comparable growth in profits and shareholder returns has been sourced earlier in this document. Similarly, the regulator's acknowledgment that BAA is a riskier investment than UK water companies as outlined earlier. The statements that BAA is exposed to significant construction risk on major projects and traffic is subject to external shocks are set out in the sources and bases.

The statement that acquisitions of regulated UK water companies have been valued at an average multiple of approximately 0.98x RAB is supported by the implied average of the following transactions:

- The acquisition of Southern Water Services by First Aqua Ltd in March 2002 at 0.98x RAB
- The acquisition of Wessex Water by YTL Utilities Ltd in March 2002 at 1.05x RAB
- The acquisition of Northumbrian Water by Aquavit PLC in May 2003 at 0.92x RAB.

These transactions were chosen as they are recent, large and involved UK Water and Sewerage companies. They have been sourced from an analyst note published by Cazenove, dated 13 February 2006.

Applying this average take-out multiple of 0.98x rather than the RAB multiple used by BAA in the BAA Document, would reduce BAA's valuation by 166p per BAA share. This is substantiated by the following calculations:

The value of BAA's regulated asset base using the average take-out price is calculated by multiplying £9,963m, being the value of BAA's RAB as calculated from the BAA Document by 0.98x, being the average multiple calculated earlier, to value BAA's regulated asset base at £9,763. The value per share derived from BAA's RAB of 903p is therefore calculated by dividing £9,763, being BAA's regulated asset base by 1,081m, being the number of shares outstanding.

The total value reduction of 166p is therefore calculated by subtracting 903p, being the take-out value of the regulated London airports, from 1069p, being BAA's valuation set out in the BAA Document.

- ***Dilutive effect of Convertible Bonds and share options***

The impact of the exercise of BAA share options at 940 pence per share would be to dilute the value by 12 pence per share. This is calculated by multiplying the number of options over shares of 27.9m (as sourced from page 90 of the 2005/06 annual report) by 940 pence to give £262m and dividing the result by the cash cancellation cost of the options of £136m (as calculated from the 2005/06 annual report). This gives rise to a net cost of £126m which when divided by the number of shares in issue gives a value of 12 pence per share.

5) In contrast, ADI's offer of 900 pence per share represents full and fair value

The data to substantiate the statement that the average takeover premium for cash offers in the UK has been just under 34 per cent. for the last three years is sourced from M&A Monitor (http://www.m-a-monitor.co.uk/intro.htm) by specifying the following search criterion:

- Target – UK
- Deal Status – Completed & Pended
- Announced between 23 May 2001 and 22 May 2006
- Equity Value greater than £100 million
- All Public transactions
- Consideration – Cash
- Multiples – Bid premia

The 3 year average of 33.7 per cent. is calculated by averaging the pre-bid speculation premia of those transactions announced between 23 May 2003 and 22 May 2006.

M&A Monitor specify that "the pre-bid speculation date is normally a date which the bidder and/or target have specifically highlighted as relevant for bid premia calculation purposes precisely because such date represented the last date prior to which the target company's share price might have been affected by bid speculation (e.g. the pre-bid speculation date often corresponds to the business day prior to an announcement by the target company that it was involved in takeover discussions). If there were no such bid speculation identified by the parties, the pre-bid speculation date will normally correspond to the last business day before the official announcement of the offer terms. It should be noted that M&A Monitor does not independently infer the existence of bid speculation from trends in a target company's share price and that it is (typically) only where there has been a prior announcement about a possible transaction and/or where the parties themselves have highlighted a specific date for bid premia calculation purposes, that the pre-bid speculation date might differ from the last business day prior to the announcement of the transaction."

The offer price of 900 pence per share represents a 41% premium to the average BAA closing share price for the month prior to 6 February 2006, being the day before speculation began. The daily BAA closing share prices between 7 February 2005 and 6 February 2006 are sourced from Datastream and averaged to yield an average monthly share price of 637 pence. Hence the premium of 41% is calculated by the division of 900p by 637p.