

Duncan Garrood, Divisional Managing Director, BAA plc
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Good afternoon everyone, my name is Duncan Garrood, Divisional Managing Director at BAA. At BAA, I am accountable for the performance of Gatwick, Stansted, Southampton and Naples airports as well as our Australian airport interests. Before joining BAA less than two years ago, I worked for Unilever, the consumer goods company, most recently in Asia.

Today, I want to focus on just one of the airport's that I have responsibility for – Gatwick. However, let me begin with a brief update on BAA's overall performance.

At Heathrow, the construction of Terminal 5 continues apace and the project is now nearly two-thirds complete and remains ahead of schedule, it is due to open on 30 March 2008, and in line with its budget of £4.2 billion.

Just two weeks ago the main terminal building was "topped out" by Alistair Darling the Secretary of State for Transport. With construction near complete, our focus is now on fitting out and operational readiness. A key focus of operational readiness at T5 is the baggage system, and we are working with Van der Lande as our key supplier for both hardware and software. Already, fully two and a half years before the Terminal opens, we have installed most of the hardware and are testing the software to give us as much time as possible to get the system right.

Elsewhere at Heathrow we are well advanced in preparation for the arrival of the A380. Test flights are scheduled for next spring and passenger services for next autumn. All in all, we are investing well over £300 million to accommodate the Airbus super jumbo, initially at Terminal 3, but ultimately at all five Heathrow terminals.

Passenger traffic at our airports has been good despite a negative impact from both the London bombs in July and the BA-Gate Gourmet dispute in August. Our estimate is that these two events led to 500,000 fewer passengers in August. However, the real story is how demand has returned quickly despite these external shocks. Flying has become a regular part of life for large sections of society with journeys by plane becoming as routine as journeys by car or train. Consequently, such shocks appear to be having less and less of a lasting impact.

At Stansted, we continue to push for expansion. Firstly, expansion of the existing runway and facilities which are currently handling about 22 million passengers per annum (mppa) and we believe we can stretch the capacity to around 35 mppa. Secondly, we have plans to construct a new runway, terminal

and surface access connections that, ultimately, will take the airport to over 70 mppa. We are aiming to deliver the first phase of this development by 2013 and before the end of the year we will announce our intended location for Stansted's second runway.

And finally, on this rapid tour of the business, we are continuing to look for new opportunities to expand internationally in airport management and airport retailing. We are currently in a tender process for Budapest airport, competing with Copenhagen, Fraport, Hochtief and MacQuarie. On the current timetable we should know the result of the tender process before the end of the year.

As I said earlier, I want to focus on Gatwick airport. Why Gatwick? Well, for two main reasons. Firstly, because I believe that it has an exciting future that I would like to share. Secondly, because Gatwick is sometimes overshadowed by both Heathrow, because of its size, and also Stansted, because of the debate around its expansion. My aim is to redress the balance and help you appreciate the value of Gatwick to BAA's portfolio.

Let me give you a few facts about Gatwick. It is Britain's second busiest airport with 32 million passengers, operates from just one runway and has two terminals (North and South) linked by a dedicated transit system. To put this in perspective, Schipol currently has around 42 million passengers from 5 runways.

Gatwick has a great catchment area, situated 25 miles from London and in the heart of the UK's most prosperous region, with a direct motorway (M23) and rail link offering a dedicated airport rail service - the first in the world – direct into London, with a 30 minute journey time.

We have a great range of airlines, over 100 of them serving over 200 destinations. To put this in perspective, Heathrow has 90 airlines and 186 destinations. The key to Gatwick is its diversity. It is a major base for charter airlines, which although in apparent structural decline are still responsible for a sizeable amount of traffic. In the low-cost sector, Gatwick is a major base for Easyjet. In the last few years, Easyjet has grown rapidly at Gatwick and is now the second largest airline at Gatwick, BA remains the largest despite some switch of services to Heathrow. Gatwick is also home to many of the full service, scheduled airlines ranging from Virgin to Emirates to Continental. Gatwick is strong in all airline sectors, uniquely among BAA's UK airports. In the last year this diversity has helped us win new routes to the Middle East, Canada, the Caribbean and Asia with new airlines including Etihad Airways, Afriqiyah Airlines and Qatar Airways.

This diversity has also helped deliver robust traffic growth over time. Passengers numbers grew from 15 mppa in 1985 to 32 mppa in 2005. An increase of 17 mppa in just 20 years despite the obvious competition from both Heathrow and Stansted.

This terrific growth reflects the fundamental strengths of Gatwick – a great catchment area, diversified airlines offering a range of destinations and services, great facilities for passengers and airlines, yet very competitive prices for airlines.

This slide gives an indication of just how low Gatwick's charges are in comparison to other major international airports. Indeed, I would argue that the charges are too low given demand and the very high yield that airlines can earn flying from Gatwick. However, as a regulated business our prices are capped by our regulators.

Despite, such low charges Gatwick does deliver a strong financial performance. In the year to the end of March 2005 Gatwick contributed over £100m in operating profit and, in my view, with considerable potential for improvement.

The success of Gatwick over the years is even more impressive when you consider that it has been achieved with just one runway.

Gatwick is the busiest one runway airport in the world and you only have to view the operation of the airfield to appreciate what a phenomenon Gatwick is.

The precise choreography that is the Gatwick operation has resulted in extraordinary runway productivity of nearly 250,000 Air Traffic Movements each year. This productivity is part driven by necessity. A legal agreement with the local community means that there is no prospect of a second runway prior to 2019.

In its 2003 White Paper on Air Transport, the UK Government called for two new runways in the South East of England. The first runway would be at Stansted, as I have already mentioned and the second at Heathrow, provided that certain environmental conditions, primarily around air quality, could be met. If these environmental conditions could not be met at Heathrow then the Government would favour a second runway at Gatwick. So there is a prospect of an additional runway at Gatwick, but it is a distant one. This means that our focus is on maximising the productivity of our existing assets - both the runway and terminal space.

To this end, the one runway constraint has some benefits, not least because it has led us to focus on using innovation to boost the productivity of our assets rather than simply building new facilities. Let me give you some examples.

At Gatwick we squeeze out 50 slots an hour from the runway. We have achieved this by perfecting RETS and RATS, Rapid Exit Taxiways and Rapid Access Taxiways which allow this level of runway productivity.

More recently, in May of this year, we opened Pier 6 in the North Terminal. This clearly was a new facility, but delivered in a way that exemplifies innovation. Pier 6 involved us constructing and installing a bridge over a live taxiway to connect a new pier to the Terminal and to provide pier service to previously remote aircraft stands. This delivered value on number of levels.

Firstly, passengers love the bridge, it is a major enhancement to the experience especially when you see a jumbo jet taxi underneath your feet.

Secondly, it has allowed us to increase terminal capacity and improve service levels by connecting an isolated part of the airport to the North Terminal and bringing pier service to previously remote stands.

Finally, there is the design and construction. We assembled the 197 metre air-bridge in a remote part of the airport and then moved it into position overnight using advanced construction and lifting technology to minimise the cost of the project and downtime for the taxiway.

On the retail side, we have also been improving the customer experience. Earlier in the year we redeveloped the North Terminal's catering facilities to cater for the changing tastes of the travelling public. Our innate understanding of passengers retail habits and desires is based on both experience and extensive market research. This understanding of our customers encouraged us to introduce up-market catering outlets such as Yo Sushi! and Eat which match the aspirations of passengers and have also allowed us to improve overall catering revenues. At Gatwick our retailing expertise combined with the passenger mix has allowed us to deliver the highest retail revenues per passenger in the Group as well as high retailer satisfaction.

Key to our retailing performance is what happens to passengers when they are landside and going through security screening. A good, quick experience delivers relaxed passengers with a greater propensity to spend money in the shops. Naturally, we are firmly focused on delivering the right experience. In 2003-4 we recruited an extra 1,500 security guards across the Group to improve

security screening at our airports. Our target is a maximum of 10 minutes to get passengers through security and to do much better at non-peak times.

We are also improving the check-in experience and I want to quickly focus on this. In airports such as Gatwick, which have space constraints, we are looking to get the landside-airside balance right. Landside is necessary for check-in but is pretty unproductive, unprofitable space compared to airside. At the same time check-in is stressful for passengers. Common self-service check-in, where the airport provides the kiosk and IT connections to multiple airlines is a neat solution liked by both airlines and passengers. The added benefit, of course, is that quicker check-in equals more free time for airside shopping.

Overall, we believe we are delivering real improvements for passengers and airlines which in turn make me very confident about Gatwick's financial performance. And its not just me saying this, the Civil Aviation Authority which monitors service standards at Gatwick says we are improving as do our own customer surveys.

Our focus on innovation and ability to maximise the productivity of the runway and terminals mean that we have forecast passenger traffic of 41 million by 2015.

A one runway airport of 41 mppa will only be possible if we continue to deliver better service to passengers and airlines and improved productivity. However, I am very confident that we have the right people and skills to deliver that innovation and productivity and to keep on improving and growing the great, award-winning airport that is Gatwick.

Thank you.