

## **FITCH AFFIRMS BAA FUNDING'S BOND RATINGS; OUTLOOKS REVISED TO NEGATIVE**

Fitch Ratings-Paris/London-02 April 2009: Fitch Ratings has today affirmed the ratings of BAA Funding Limited's multi-currency bonds, and revised the rating Outlooks on the bonds to Negative from Stable as follows:

Class A bonds affirmed at 'A-' (A minus); Outlook revised to Negative from Stable  
Class B (prospective) bonds affirmed at 'BBB'; Outlook revised to Negative from Stable

The change in the Outlooks to Negative from Stable reflects Fitch's belief that the global economic recession may have a deeper and longer impact on the transaction than initially expected.

Traffic at BAA Funding's airports, London's Heathrow, Gatwick, and Stansted airports which form the existing ring-fenced structure of BAA Funding Limited, has been adversely affected by the economic downturn, which has become more pronounced since August 2008 when the ratings were assigned. Passenger numbers (pax) for the period September 2008 to February 2009 through the three London airports have declined year-on-year by 6.7%. Stansted and Gatwick have been mostly adversely affected (-9.7% and -10.7% respectively) by pax reductions and airline bankruptcies. With fewer airline failures, Heathrow has been less-affected and seen a reduction of -3.7%. Airlines have announced capacity reductions to their summer 2009 schedules on the back of the pax declines. Currency considerations may also affect more discretionary travellers this year.

The agency's recently-published Global Economic Outlook forecast that the UK economy would experience a GDP decline of 3.4% in 2009 and a very small growth of 0.2% in 2010. The Outlook predicted similar patterns in the US and Europe's major economies. The length and depth, as well as the global synchronisation, of the downturn may pressure passenger throughput at the London airports beyond that envisaged in the current ratings.

The effects of economic downturn are also impacting the airports' profit profiles. Each year's regulated aeronautical revenue tariff is linked to the previous year's RPI which is likely to be negative in 2009. This would not impact 2009 tariffs but possibly impact 2010 tariffs. The group has some flexibility to adjust its operating costs to such pressures in the revenue line, but this may not be sufficient to maintain targeted profit which is remunerating an expanding asset base, by virtue of modernisation and expansion of facilities. BAA Funding Limited's management intends to persist with Heathrow's capex spend programme as planned, despite the risk of reduced profits. Fitch does not believe that the current downturn in pax is permanent, as passenger volumes have recovered quickly (particularly for such capacity-constrained airports) following prior downturns, but the Negative Outlook reflects uncertainties regarding the depth and longevity of the downturn. If a further decline in pax, without adequate remedial action, was to materially affect profitability, a rating downgrade would be envisaged.

The Negative Outlook also captures uncertainties surrounding various "moving parts" affecting BAA Funding's London airports, not all of which are necessarily adverse at this stage. These include the proposed reform of the economic regulation framework for UK airports as recently proposed by the Department for Transport (DfT). The DfT intends to update airport regulation to a "best practice" standard already applicable to the UK utility sector and has initiated a consultation process on the effects of potentially introducing a special administrative receivership regime as seen in the utility sector and some company financings. Meanwhile, the final report by the Competition Commission on a BAA market investigation has ordered the disposal of Gatwick and Stansted airports by March 2011 at a time of depressed financial markets. Fitch believes that none of the above events are likely to entail positive consequences for BAA Funding's bond ratings, and would mostly be viewed as neutral.

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