Fitch Ratings
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FITCH AFFIRMS BAA FUNDING'S BONDS ON GATWICK AIRPORT SALE

Fitch Ratings-London/Paris-22 October 2009: Fitch Ratings has today affirmed BAA Funding Limited's (BAA) class A and B bonds, issued under its GBP50bn multi-currency debt issuance programme, at 'A-' and 'BBB' respectively. The Outlooks on the bonds are Negative. The rating action reflects two key developments which Fitch considers as favourable to BAA's credit position, but which are not material enough to change the rating outlook.

Foremost, BAA announced an agreement yesterday, with an entity controlled by Global Infrastructure Partners, to sell London's Gatwick Airport for GBP1.51bn. The sale is subject to, among other things, EU regulatory approval and is due to be completed in December.

Fitch believes this is a positive development for BAA, as the gross proceeds - which are close to Gatwick's regulated asset base value as of 31 March 2009 of GBP1.575bn - will be used to partly repay outstanding amounts under the refinancing facility (bank debt). Fitch estimates that the transaction costs, including payments to BAA's pension fund and prepayment of derivatives, could be in the magnitude of GBP300m. This would result in the disposal of Gatwick being leverage-neutral to BAA Funding's capital structure, the financial covenants of which would thus not be detrimentally affected.

The sale of Gatwick Airport would also give BAA additional headroom to comfortably meet two upcoming refinancing maturities of GBP1bn in March 2010 (which is now expected to be met from the net disposal proceeds) and GBP1bn in March 2011 (which could be met from cash, operational cashflow and use of the undrawn portion of a capex facility which matures in 2013, or future bond issuance).

The second key development concerns the Department for Transport's (DfT) 13 October 2009 announcement that the envisaged reform of aviation regulation will not include the introduction of a special administrative receivership and will not cut across existing ring-fencing mechanism contained in BAA's existing funding structure. In Fitch's view, the DfT's announcement enables BAA to proceed with plans to access the bond markets, as previous potential regulatory changes to BAA Funding's security package were not well received by existing investors. Fitch had expected that the outcome of the reform would not materially affect BAA Funding's financial position and thus the rating of its bonds.

Fitch reiterates that the key challenges for BAA remain the economic downturn and its impact on passenger numbers (pax), which will likely have a detrimental effect on the interest coverage ratios of BAA Funding for the next three years.

Although Fitch views the current downturn in pax as temporary, as passenger volumes have tended to recover quickly following prior downturns, the Negative Outlook reflects uncertainties regarding the depth and duration of the economic downturn. The agency does not currently expect swine flu to have a long-term material effect on BAA's airports.

Fitch will continue to monitor BAA's traffic and other revenue drivers. BAA's bond ratings could be downgraded if traffic continues to decline significantly and weakens financial performance to the extent that the Fitch-calculated post-maintenance interest cover ratio (PMICR) remains below 1.5x-1.6x for class A and 1.2x-1.3x for class B without remedial action. The Outlook could be revised to Stable if traffic stages a robust recovery in the coming six months, or if BAA's shareholders take remedial actions to offset the drop in coverage levels.

The decline in pax through London's three main airports, Heathrow, Gatwick and Stansted, has shown signs of moderating of late and BAA's financial performance during the past 12 months has been supported by better-than-expected commercial revenue per passenger. However, this improvement does not yet provide evidence of a sustainable recovery that will restore financial ratios to a level that is commensurate with the existing rating levels.

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