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# **BAA FUNDING LIMITED**

*(incorporated with limited liability in Jersey with registered number 99529)*

## **Multicurrency programme for the issuance of Bonds**

This prospectus supplement (the *Supplement*) is supplemental to and must be read in conjunction with the base prospectus dated 18 March 2011 (the *Prospectus*), and constitutes a supplementary prospectus for the purposes of Directive 2003/71/EC (the *Prospectus Directive*) and relevant implementing measures in the United Kingdom and is prepared in connection with the £50,000,000,000 multicurrency programme for the issuance of Bonds (the *Programme*) established by BAA Funding Limited (the *Issuer*) as described in the Prospectus. Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement has been approved by the United Kingdom Financial Services Authority (the *FSA*), which is the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom, as a prospectus supplement issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom.

The purpose of this Supplement is to provide updates on recent regulatory and other developments in respect of the Borrowers, in particular, to disclose the findings of the Heathrow Winter Resilience Enquiry, the Competition Commission investigation into BAA ownership of UK airports as announced on 30 March 2011 and the Civil Aviation Authority decision on the extension of Heathrow's regulatory period.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus, and any other supplements to the Prospectus issued by the Issuer.

For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of this Supplement may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee.

To the extent that there is any inconsistency between any statement in, or incorporated by reference in, this Supplement and any other statement in, or incorporated by reference in, the Prospectus, the statements in, or incorporated by reference in, this Supplement will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

### **Co-Arrangers**

**Citi**

**The Royal Bank of Scotland**

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Vizcaya Argentaria, S.A.**

**BNP PARIBAS**

**Caja Madrid**

**Crédit Agricole CIB**

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**HSBC**

**RBC Capital Markets**

**Santander Global Banking &  
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Supplement dated 3 May 2011

## **RESPONSIBILITY STATEMENT**

Each of the Issuer and the Obligors accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and the Obligors (each having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

No other person has been authorised to give any information or to make representations contained in this Supplement and no other person accepts any responsibility or liability in respect of information contained or incorporated by reference in this Supplement.

## **DEVELOPMENTS SINCE THE PROSPECTUS**

### ***Report of the Heathrow Winter Resilience Enquiry***

The Report of the Heathrow Winter Resilience Enquiry, published on 24 March 2011, recommends that Heathrow adopts an improved resilience target that the airport should never close as a result of circumstances under its control, except for immediate safety or other emergency threats and makes 14 recommendations in support of this target.

The panel was commissioned in December 2010 to establish the lessons to be learned from the severe weather at Heathrow in 2010 and in particular in the week before Christmas. The panel was chaired by Professor David Begg, a non-executive director of BAA and Chairman of the Business Infrastructure Commission, and included senior executives with strong aviation experience from around the world. The panel was advised by Dr David Quarmby CBE, who recently completed a review for Government on the resilience of England's transport system in winter.

The panel noted that BAA had demonstrated its ability to respond well to earlier weather events, including those in February 2009 and January and November 2010. However, the weather during December was unusual. It was the coldest December for 100 years. The level of snowfall on 18 December was also unusual and the rate of snowfall was rare.

The panel noted the following to be the most important factors which together led to the disruption:

- The potential impact of the weather forecast was not fully anticipated which led to a low state of preparedness ahead of the snow and insufficient stock of critical supplies for an event of such scale;
- The rate at which aircraft stands were cleared was slower than required;
- The response to the snow on 18 December was initially not effective. There were failures in communication and coordination within BAA, and between BAA and airlines, which led to ineffective engagement between different parties, resulting in ineffective situational awareness and a delay in response and escalation;
- Confused and contradictory messages caused incorrect signals to go to airlines, to passengers, and from airlines to passengers;
- Crisis management teams proved effective in managing the crisis once invoked but should have been mobilised earlier.

The panel also noted that there was an apparent lack of compliance, by some airlines, with European regulation relating to obligations towards passengers; that the existing snow plan had been agreed by the airline community; there were different and conflicting messages about the state of the airport and of flights; and initially there was slow reaction to terminal congestion by BAA.

In response BAA has announced that it is proposing a £50 million Heathrow resilience investment plan, which it will recommend to airlines and the Civil Aviation Authority. It is anticipated that, as with all capital investment, these sums will be included in the RAB as long as they are reasonable, effectively consulted upon and are efficiently expended.

Heathrow plans will allow it to implement all the recommendations of the report. The proposed improvements will include:

- Revised airport snow plans, including new equipment (Heathrow now has 166 individual pieces of snow - clearing equipment compared to 47 in December), increased staff resources (269 people are now available and trained to support snow clearing operations, compared to 117 in December 2010) and training;
- Crisis management processes;
- Systems for command and control and communication between the airport community (including airlines) and passengers, including a single airport command and control centre for crisis management at Heathrow; and
- Passenger care and support, in addition to that provided by airlines under EU legislation, including the establishment of more substantial local long-term storage facilities for critical supplies.

BAA anticipates that additional operating expenditure will be required for each year of the remainder of Q5 although it does not expect these amounts to be significant. BAA will have to bear this cost in line with the current regulatory model. However, BAA expects that this additional operating expenditure will be allowed for in the next regulatory period as long as it can be verified as reasonably and efficiently incurred.

#### ***The Competition Commission investigation into BAA's ownership of UK Airports***

The Competition Commission (the "CC") has been considering whether there have been any material changes in circumstances that might lead it to amending the scope of the remedies requiring that BAA divest Stansted Airport (as well as either Edinburgh or Glasgow airport) contained in its final decision in March 2009.

On 30 March 2011 the Competition Commission published its provisional decision and concluded that there has not been any material change in circumstances that would require it to amend its original remedies package. The CC therefore confirmed its original requirements for BAA to sell Stansted Airport (as well as either Edinburgh or Glasgow airport) and that there is no reason to change the original timescale with the Stansted sale followed by the sale of one of the Scottish airports.

The CC has invited responses before publishing its final decision in May or June. BAA will be submitting its comments to the CC in early May. BAA believes that there have been a material changes in circumstances since the CC report was published in March 2009.

Parties who are aggrieved by a decision of the CC in relation to a market investigation, including a decision in relation to a material change in circumstances, have the right to appeal to the Competition Appeal Tribunal (the "CAT") for a judicial review of that decision within two months following formal notification of the final decision by the CC to them. A decision of the CAT can be appealed to the Court of Appeal on any point of law.

#### ***The Civil Aviation Authority's decision on the extension of Heathrow's regulatory period***

On 31 March 2011 the CAA announced its formal decision to extend Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the bill to enact changes to the framework to the economic regulation of airports will not be introduced into Parliament before the 2012 session and the CAA's desire that the new framework is in place prior to determining the terms for the next regulatory period. BAA supports the CAA's decision.

The key elements of the CAA's decision include:

- a maximum allowable yield increase in 2013/14 based on RPI + 7.5 per cent. (a continuation of the current price control formula);
- an agreed cap on the capital expenditure programme at Heathrow for 2013/14 of £735 million;
- all existing Q5 capital expenditure triggers will continue, but are subject to on-going negotiation;

- the service quality regime will be rolled forward into the year of extension (without amendment to the current bonus and rebate scheme);
- the security cost pass through (S-factor) will be extended by a further year and the K-factor will also be rolled forward; and
- the conditions applying to non-passenger flights (cargo) are extended by a further year.

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