

Ratings Affirmed In U.K. Corporate Securitization BAA Funding Following Good Performance To Date

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OVERVIEW

- We have analyzed BAA Funding's transaction performance and business risk profile.
- Following our review, we have affirmed all of the 'A- (sf)' ratings on the class A notes, and the 'BBB (sf)' rating on the class B notes issued under BAA Funding's £50 billion program.
- This is a corporate securitization transaction that provides first-ranking security over the securitized assets, which include Heathrow and Stansted airports and the Heathrow Express rail link.

LONDON (Standard & Poor's) June 14, 2011--Standard & Poor's Ratings Services today affirmed its credit ratings on all classes of notes under BAA Funding Ltd.'s £50 billion multicurrency program (see list below). The outlook remains stable.

The BAA Funding program is designed to consolidate debt for BAA's core portfolio under a single program of debt issuance.

We have taken our rating actions in light of BAA's 2010 performance, which was in line with our expectations. This included adjusted revenue growing by 4.9% to £2.1 billion, and Standard & Poor's-adjusted EBITDA growing to about £1 billion. The BAA group also improved its Standard & Poor's-adjusted EBITDA margin to 48.0% from 45.3%.

In our view, BAA Funding's business risk profile remains "excellent",

reflecting the robust performance, a supportive regulatory regime, its strong competitive position, and its importance to the U.K. economy.

The business risk profile is supported by the fact that, in our view, BAA has shown robust traffic performance through the recent tough economic conditions and operational disturbances last year, including airport closures due to volcanic ash and British Airways strikes.

The Civil Aviation Authority (CAA) announced in early 2011 that it will extend the current regulatory period by one year. In our view, the conditions of extending the current regulatory period to March 2014 are supportive for BAA, including the allowed increase in passenger tariffs remaining at the Retail Price Index (RPI) plus 7.5%, and the maximum capital expenditure amount of £735 million.

The extension of the regulatory period followed a delay in the parliamentary process of approving new, more license-based regulation. This new regulation will give the CAA more flexibility in its regulatory decisions under a more passenger-focused framework. We currently expect the new license-based regulation to continue to support BAA's existing business risk profile, although we will monitor the situation as more information comes clear. Negative regulatory decisions could include, for example, tough efficiency or capital expenditure targets.

In March 2011, following an unsuccessful appeal by BAA, the U.K. Competition Commission (CC) provisionally confirmed its decision to force BAA to sell Stansted Airport on competition grounds. The matter is currently subject to a final consultation by the CC. As indicated in our transaction update for BAA Funding dated March 10, 2010, we do not expect the sale of Stansted Airport to negatively affect BAA Funding's business risk profile. We will, however, continue to monitor developments, especially on how the sale could affect the group's competitive position and its treatment by regulators.

OUTLOOK

The stable outlook reflects our view that BAA will perform robustly over the next two years in terms of passenger numbers, regulatory performance, and profitability. Based on our knowledge today, we believe that the license-based regulation is unlikely to negatively affect the business risk profile.

We could take negative rating action if the company faced an operational shock that led to a significant reduction in passenger volumes, or if it faced material regulatory penalties due to a failure to meet regulatory targets. We could also revise the business risk score, which could lead to negative rating action, if the new license-based regime were less supportive, or if the sale of Stansted Airport leads to a significant increase in competition for premium passengers, or leads the CAA to take a harsher view on BAA.

At this stage, we believe there is limited scope for higher ratings on BAA Funding's notes, as the financial covenants set in the bond program allow BAA

Funding to operate at high leverage.

The program is designed to consolidate debt for BAA's core portfolio under a single program of debt issuance. Further issuance of debt, including bank debt and rated notes, is permitted. This transaction was one of the first to combine bank debt and capital market issuance.

Under the program, BAA Funding may issue:

- Total senior debt (class A notes plus any senior debt issued by the borrower group, ranking pari passu with the class A notes), up to a debt-to-regulatory asset base (RAB) of 70.0% before April 1, 2018, and 72.5% thereafter; and
- Total debt (Senior debt and class B notes plus any junior debt issued by the borrower group, ranking pari passu with the class B notes), up to an aggregate debt-to-RAB of 85%.

RELATED CRITERIA AND RESEARCH

- Industry Report Card: Profitability Among European Airport Operators Improves In 2011, But Not All Are Benefiting From Rising Demand, May 19, 2011
- Rating Assigned To BAA Funding's Corporate Securitization Class B1 Notes, Sept. 10, 2010
- Transaction Update: BAA Funding Ltd., March 10, 2010
- BAA Funding Ltd. Debt Issues Assigned Negative Outlook On Dept. for Transport Consultation Paper; All Ratings Affirmed, March 12, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Methodology For Rating And Surveilling European Corporate Securitizations, Jan. 23, 2008
- Overview Of Legal And Analytical Challenges In Rating U.K. Corporate Securitizations, Jan. 18, 2007

RATINGS LIST

Class	Rating
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BAA Funding Ltd.

€3 Billion, £5.011 Billion Multicurrency Fixed-Rate Asset-Backed Notes

Ratings Affirmed

A-1	A- (sf)/Stable
A-2	A- (sf)/Stable
A-3	A- (sf)/Stable
A-4	A- (sf)/Stable
A-5	A- (sf)/Stable
A-6	A- (sf)/Stable
A-7	A- (sf)/Stable
A-8	A- (sf)/Stable
A-9	A- (sf)/Stable

Ratings Affirmed In U.K. Corporate Securitization BAA Funding Following Good Performance To Date

A-10	A- (sf)/Stable
A-11	A- (sf)/Stable
A-12	A- (sf)/Stable
A-13	A- (sf)/Stable
B1	BBB (sf)/Stable

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