

Rating Assigned To BAA Funding's Corporate Securitization Class B1 Notes

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OVERVIEW

- We have assigned a 'BBB (sf)' rating to BAA Funding's class B1 notes.
- BAA Funding will use the proceeds to refinance part of its existing bank debt.
- This is a corporate securitization transaction that provides first-ranking security over the securitized assets that include Heathrow and Stansted airports and the Heathrow Express rail link.

LONDON (Standard & Poor's) Sept. 10, 2010--Standard & Poor's Ratings Services today assigned its 'BBB (sf)' credit rating to BAA Funding Ltd.'s class B1 notes. The outlook on the class B notes is stable (see list below).

The fixed annual interest coupon is 6.25% and the legal final maturity is Sept. 10, 2018. The class B notes rank junior to the existing class A notes.

This is the first class B note issuance out of a £50 billion multicurrency program from BAA Funding, a limited-liability company incorporated in Jersey. 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 is one of the first to combine bank debt and capital market issuance.

Under the program, the issuer may issue:

- Total senior debt (class A bonds 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

- Junior debt (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%.

Our view of BAA Funding's business profile remains "excellent", reflecting the supportive regulatory regime and strong competitive position of Heathrow among its European peers and its importance to the U.K.

BAA's performance in the first half of 2010 has been robust despite passenger numbers being down by 4.5% due to the volcanic eruption in Iceland and a strike by cabin crew of British Airways PLC (BB-/Negative/--). Revenues were up 2.2% and EBITDA was flat in the period compared with 2009, as BAA managed to offset the lower passenger numbers with better retail sales and increased tariffs.

The transaction provides first-ranking security over the two designated airports and the Heathrow Express rail link. This issuance is in accordance with BAA's previously stated intention to refinance part of its existing bank debt with capital markets issuance. This serves to lengthen the group's debt maturity profile. Principal and interest for the financing group's obligations will be serviced through various revenue sources but primarily through passenger charges.

RELATED CRITERIA AND RESEARCH

- Transaction Update: BAA Funding Ltd., March 10, 2010
- Industry Report Card: A Protracted Return To Growth For European Airports, Feb. 25, 2010
- Industry Report Card: Somber Outlook Persists For Some European Corporate Securitizations To October 2009, Oct. 14, 2009
- BAA Funding Ltd. Debt Issues Assigned Negative Outlook On Dept. for Transport Consultation Paper; All Ratings Affirmed, March 12, 2009
- 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

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

RATINGS LIST

BAA Funding Ltd.

€2.5 Billion And £3.731 Billion Multicurrency Fixed-Rate Asset-Backed Notes

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Class	Rating	Outlook	Amount (mil. £)
B1	BBB (sf)	Stable	400

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