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BAA Funding Debt Ratings Affirmed On Request To Sell Gatwick And Stansted Airports

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PARIS (Standard & Poor's) Dec. 18, 2008--Standard & Poor's Ratings Services said today that it has affirmed its debt ratings on all classes of notes issued by BAA Funding Ltd. following the announcement on Dec. 17 by the Competition Commission (CC) that, subject to final consultation, it will require BAA to sell both Gatwick and Stansted airports. At the same time, we have affirmed our secured ratings on the tranche A and tranche B refinancing facility lent to Heathrow Airport Ltd., Gatwick Airport Ltd., and Stansted Airport Ltd. (see list below).

The affirmations reflect the fact that we expect BAA to sell Gatwick and Stansted airports for more than 85% of their regulatory asset base (RAB). This means that we do not expect any breach of the total indebtedness trigger level set at the senior debt level (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-RAB ratio (RAR) of 70.0% before April 1, 2018, and 72.5% thereafter. We also do not expect any breach of the total indebtedness trigger level set at the junior debt level (class B notes, of which none was issued at closing, plus any junior debt issued by the borrower group ranking pari passu with the class B notes) up to aggregate RAR of 85%.

The CC published its provisional decisions as part of its ongoing "BAA Airports Market Investigation" on Dec. 17, 2008. In its report, the CC has indicated that BAA Ltd., subject to final consultation, will be required to

dispose of three of its U.K. airports, including two of its London ones (Gatwick and Stansted).

We believe that the divestiture will reduce the portfolio diversification provided by Heathrow, Gatwick, and Stansted, with their respective airline mix, traffic types, and capital cycles, as well as lead to increased competition in the medium term, although we would expect Heathrow to retain its hub position. In addition, Heathrow has the most considerable capital program among the three BAA London airports. A divestiture of Gatwick or of both Gatwick and Stansted will weaken the overall business risk profile of the borrower group to "strong" ('A' rating category) from "excellent" ('AA' rating category). We also note the significant reduction in traffic in November 2008, which is a key contributor to the future evolution of the group's business risk. Although previous traffic performance has been robust, with short-lived and limited traffic contractions over the past decades, the current economic downturn means that there is uncertainty over the depth of traffic decreases and the period of recovery. Positively, Heathrow has so far been the most resilient of the three London regulated airports, with 1.3% traffic reduction in the first 11 months of 2008 compared with the same period of 2007, versus 2% and 5.5% at Gatwick and Stansted, respectively.

We will monitor future regulatory, business, and financial developments taking place at BAA Funding in the coming months. Gatwick Airport and Stansted Airport are two of the three BAA London airports securing the BAA Funding securitization's cash flow and structure. Already, on Sept. 18, BAA Ltd.'s shareholders announced that they were putting Gatwick Airport up for sale.

The credit ratings on the class A bonds and the tranche A and B refinancing facility are based on the assumption that all three airports are included in the transaction at financial closing. The effect of an airport divestiture on the issuer's or borrower group's rated debt will depend on how any weakened business risk profile for the borrower group is offset by improvements in its financial profile or any other mitigating strategy proposed by the BAA group. Key considerations in this evaluation would include:

- The methods and timing of the divestitures;
- The amount and application of the sale proceeds;
- The revised capital expenditure plans for the remaining securitized assets, regulatory developments, or management actions designed to mitigate this weakening; and
- The level of borrower group debt following this divestiture.

Structurally, 100% of the net proceeds from the permitted disposal sale of any of the designated airports (either Gatwick or Stansted if ordered by the CC) will first be applied to repay the refinancing facility. No payments are permitted to shareholders until the refinancing facility has been repaid down to £1.3 billion (from an outstanding amount at financial close of £4.4 billion).

From a financial point of view, the risk would be that the proceeds from any airport's sale would result in the senior and junior RAR exceeding the above-mentioned levels. We believe there will be strong interest for Gatwick and Stansted airports and that BAA could generate sufficient proceeds to continue complying with these ratios. However, we also recognize that access to acquisition debt may not be as easy as in the past, even for long-term

infrastructure assets; finally, a divestment of both Gatwick and Stansted in a restricted timescale could negatively affect the assets' combined market value and be detrimental to the credit quality of the transaction.

The CC also intends to make recommendations to the British government on a more effective, and ultimately more flexible, system of airport regulation and on aspects of government airport policy. No clarity is expected soon regarding the final framework for the U.K.'s regulated airports following the Department for Transport's (DfT) announcement earlier this year that it will revise airport regulation. It is likely, however, that changes will take place after the current five-year regulatory period, and that the already-taken price cap decisions at Heathrow for 2009-2013 will remain untouched. For more details on our view of potential short- to medium-term regulatory developments, please see "New Issue: BAA Funding Ltd." published on RatingsDirect on Aug. 26, 2008.

RATINGS LIST

BAA Funding Ltd.

Up To £50 Billion Multi-Currency Program For The Issuance Of Asset-Backed Notes

Ratings Affirmed

| Class | Rating |
|-------|--------|
| A-1 | A- |
| A-2 | A- |
| A-3 | A- |
| A-4 | A- |
| A-5 | A- |
| A-6 | A- |
| A-7 | A- |
| A-8 | A- |
| A-9 | A- |

The Borrower Group-Refinancing Facility

Ratings Affirmed

| Tranche | Rating |
|-----------------------|--------|
| Heathrow Airport Ltd. | |
| A1 | A- |
| A2 | A- |
| A3 | A- |
| A4 | A- |
| B2 | BBB |
| B3 | BBB |

Gatwick Airport Ltd.

| | |
|----|----|
| A1 | A- |
|----|----|

BAA Funding Debt Ratings Affirmed On Request To Sell Gatwick And Stansted Airports

| | |
|----|-----|
| B1 | BBB |
| B4 | BBB |

Stansted Airport Ltd.

| | |
|----|-----|
| A2 | A- |
| B1 | BBB |

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