

Rating Assigned To BAA Funding's Corporate Securitization Class A12 Notes

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OVERVIEW

- We have assigned a 'A- (sf)' rating to BAA Funding's class A12 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 including Heathrow and Stansted airports and the Heathrow Express rail link.

LONDON (Standard & Poor's) Oct. 12, 2010--Standard & Poor's Ratings Services today assigned its 'A- (sf)' credit rating to BAA Funding Ltd.'s class A12 €500 million note issuance under its £50 billion multicurrency program. The outlook on the class A12 notes is stable (see list below).

The fixed annual interest coupon is 4.125% and the legal final maturity is Oct. 12, 2018. Additionally, in accordance with the hedging policy, BAA Funding entered into a cross-currency swap, effectively exchanging fixed-rate euro exposure to that of floating-rate sterling.

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) ratio 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) together will all senior debt, up to an aggregate debt-to-RAB ratio of 85%.

The issuer will use the proceeds from the issuance to prepay part of the existing bank refinancing facility. As such, we do not expect overall leverage to change; however, it is our understanding that the class A leverage will increase as the proceeds from issuance will be used primarily to repay tranche B of the refinancing facility. In our view, as this issuance serves to lengthen the maturity profile, this will favorably affect refinance risk in the short term.

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, in our view, 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 (Heathrow and Stansted) 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

- Rating Assigned To BAA Funding's Corporate Securitization Class B1 Notes, Sept. 10, 2010
- Transaction Update: BAA Funding Ltd., March 10, 2010
- Industry Report Card: A Protracted Return To Growth For European Airports, Feb. 25, 2010
- 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

RATINGS LIST

Rating Assigned To BAA Funding's Corporate Securitization Class A12 Notes

BAA Funding Ltd.

€3 Billion, £4.131 Billion Multicurrency Fixed-Rate Asset-Backed Notes

Class	Rating	Outlook	Amount (mil. €)
A12	A- (sf)	Stable	500

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