MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's assigns definitive Ba3 rating to BAA (SH) plc GBP325m Senior Secured Notes; Stable Outlook**

Global Credit Research - 05 Nov 2010

GBP325m of debt affected

London, 05 November 2010 -- Moody's Investors Service has today assigned a definitive Ba3 rating to the GBP325m 7.125% Senior Secured Notes due 2017 (the "BAA SH Notes") to be issued by BAA (SH) plc ("BAA SH"). In addition Moody's has assigned a definitive Ba1 Corporate Family Rating, and a definitive Ba2 Probability of Default Rating to BAA SH. The 35% Family-wide Loss Given Default assumption applying to BAA SH, and the LGD-5 (85%) Loss given default assessment assigned to the BAA SH Notes are affirmed. The rating outlook is stable.

The above definitive ratings confirm the prospective ratings assigned on 27 October 2010.

RATINGS RATIONALE

The Ba1 Corporate Family Rating of BAA SH reflects a Probability of Default Rating of Ba2 and a 35% Family-wide Loss Given Default assumption. The Corporate Family Rating is an opinion of the BAA SH group's ability to honour its financial obligations and is assigned to BAA SH as if it had a single class of debt and a single consolidated legal structure. The Ba3 / LGD5(85%) rating of the BAA SH Notes reflects the structural subordination of the BAA SH Notes in the BAA SH group structure.

The only asset of BAA SH is its shares in BAA (SP) Limited ("BAA SP"), whch in turn owns London Heathrow Airport (LHR"), and London Stansted Airport ("STN") . The BAA SP group is financed via debt provided through a ring-fenced secured debt financing structure. BAA SP can only service debt at BAA SH if it complies with the financial terms of the BAA ring-fenced secured debt financing structure. BAA SH debt in turn benefits from a security interest in its ownership of BAA SP.

BAA SH's Ba1 Corporate Family Rating reflects (i) BAA SP's ownership of LHR, which is one of the world's most important hub airports and the largest European airport, (ii) the relatively resilient traffic characteristics of LHR which together with the STN traffic profile affords some portfolio benefits, (iii) the long established framework of economic regulation that pertains to LHR which will evidence some changes but which is not expected to be fundamentally altered, (iv) the significant capital expenditure programme at LHR, (v) the debt levels carried by the BAA SH group together with the features of the BAA ring-fenced secured debt financing structure which puts certain constraints around management activity, and (vi) the protective features of the BAA SH Notes which effectively limits BAA SH's activities to its investment in BAA SP.

The rating outlook is stable. This reflects Moody's expectation that BAA's London airports will see a modest recovery in business volumes, and that the capital expenditure programme will continue to be managed effectively to accommodate the ramp up in work at LHR over the coming few years, both of which should ensure a financial profile in line with the current rating category. The outlook further assumes that BAA SP will continue to manage its debt raising programme in a way that minimises refinancing risk and allows it to comfortably meet new funding requirements. Although there is headroom under the BAA SH debt documentation to increase indebtedness at the BAA SH level, this is not expected to materialise over the time horizon of the rating.

The Corporate Family Rating and rating of the BAA SH Notes could move up if the BAA SH group were to exhibit a financial profile that evidenced materially lower leverage than currently expected. This could be suggested by a Net Debt to RAB ratio likely to be permanently below 80% and an Adjusted Interest Cover Ratio of permanently more than 1.2 times.

The Corporate Family Rating and rating of the BAA SH Notes could move down if the BAA SH group were to exhibit a financial profile that evidenced materially higher leverage than currently expected. This could be suggested by a Net Debt to RAB ratio consistently in the high 80s and an Adjusted Interest Cover Ratio of less than 1.0 times.

A sale of Stansted Airport, if required, would not likely cause a downwards move in the rating.

The principal methodology used in this rating was Operational Airports outside of the United States published in May 2008.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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