STANDARD & POOR'S

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BAA Funding's Ratings Affirmed After Shareholder's Decision To Sell Gatwick Airport

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LONDON (Standard & Poor's) Sept. 18, 2008—Standard & Poor's Ratings Services said today that it has affirmed its ratings on all classes of notes issued by BAA Funding Ltd. following the announcement on Sept. 17 by BAA Ltd.'s shareholders that they are putting Gatwick Airport up for sale. At the same time, we have affirmed our senior 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).

Today's affirmations reflect the fact that we expect BAA to sell Gatwick Airport for more than 85% of its regulatory asset base (RAB). This means that we do not expect any breach of the total indebtedness covenant 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 covenant 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 Competition Commission (CC) published its views on the matter on Aug. 20, 2008, in its "BAA Airports Market Investigation—Emerging Thinking" Provisional

Findings report. In its report, the CC has indicated that BAA Ltd. should be required to dispose of three of its current U.K. airports, including up to two of its London ones. If its final recommendation, which is expected by February 2009, confirms these views it could still force BAA Funding to divest both Gatwick and Stansted in a restricted timescale, which could be detrimental to the credit quality of the transaction. For more details on our view on the potential regulatory short to medium term developments, please see our new issue report ("New Issue: BAA Funding Ltd." published on RatingsDirect on Aug. 26, 2008).

We will monitor future regulatory, business, and financial developments taking place at BAA Funding in the coming months. Gatwick Airport is one the three BAA London airports securing the BAA Funding securitization's cash flow and structure.

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 potential effect of an airport divestiture on the issuer's or borrower group's rated debt would depend on how any weakened business risk profile for the borrower group would be offset by the potential improvement of its financial profile or other mitigating strategy proposed by the BAA group. Key considerations in this evaluation would include:

— The methods and timing of the divestiture;
— 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, the proceeds from the permitted disposal sale of any of the designated airports 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 Airport 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 recent past, even for long-term infrastructure assets; this could negatively affect Gatwick's market value.

We believe that the effect of airport divestiture would reduce the portfolio diversification provided by Heathrow, Gatwick, and Stansted, with their respective airline mix, traffic types, and capital cycles. In particular, we would not see a divestment of Stansted as material, but a divestiture of Gatwick or of both Gatwick and Stansted would weaken the overall business risk profile of the borrower group to "strong" ('A' rating category). This would principally be a result of the likely increased medium-term competition.

The related report referenced above is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.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) 495-783-4017.

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-
B1	BBB
B4	BBB
Stansted Airport Ltd.	

A2	A-
B1	BBB

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