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CREDIT OPINION
12 April 2019

Update

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RATINGS

Heathrow Finance plc

Domicile	United Kingdom
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Heathrow Finance plc

Annual update

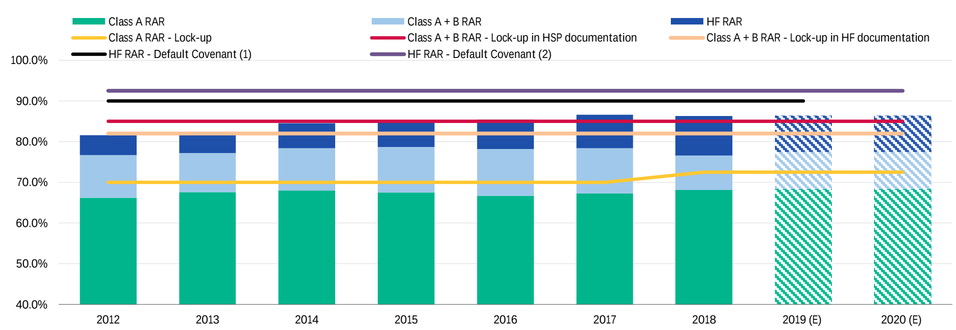
Summary

The credit profile of Heathrow Finance plc (HF, Corporate Family Rating Ba1 stable) reflects (1) its ownership of Heathrow, which is one of the world's most important hub airports and the largest European airport, (2) its long established framework of economic regulation, (3) the resilient traffic characteristics of Heathrow, (4) the capacity constraints the airport faces, (5) the current sustained period of lower capital expenditure levels, (6) an expectation that the HF group will maintain high leverage with Net Debt/RAB in the high 80s percent, and (7) the features of the Heathrow SP (HSP) secured debt financing structure which puts certain constraints around management activity, together with the protective features of the HF Debt which effectively limit HF's activities to its investment in HSP.

Exhibit 1

HF exhibits a relatively leveraged profile, with the Net Debt/RAB covenant expected to remain in the high 80s percent

Class A, class B and HF Net Debt/RAB (as per covenant calculation)



Note: The 2019 and 2020 estimates represent Moody's forward view, not the view of the issuer; (1) related to a bond due September 2019, which was repaid early in March 2019; (2) related to HF's remaining debt.
Source: Company, Moody's Investors Service

Credit strengths

- Ownership of Heathrow, one of the world's most important hubs and the largest European airport
- Long established framework of economic regulation
- Resilient traffic characteristics of Heathrow
- Lower capital expenditure until the end of the decade
- Secured debt financing structure at HSP constrains management activity while the HF debt exhibits protective features

Credit challenges

- Constrained runway capacity limits traffic growth
- Progress towards construction of third runway implies significant capital expenditure over the medium term
- High leverage, with Net Debt/RAB in the high 80s percent
- Uncertainties stemming from Brexit

Rating outlook

The rating outlook is stable. This reflects Moody's expectation that, barring significant shocks, Heathrow will see low single digit growth overall in passenger volumes, that the HF group will continue to manage its debt raising programme in a way that minimises refinancing risk and that HF continues to maintain adequate headroom against its leverage covenant.

Factors that could lead to an upgrade

Upward rating pressure could develop if the HF group were to exhibit a financial profile that evidenced materially lower leverage than currently expected. This could be suggested by a Net Debt/RAB ratio likely to be permanently below 80% and an Adjusted Interest Cover Ratio of permanently more than 1.2 times.

Factors that could lead to a downgrade

Downward rating pressure could develop if the HF group were to exhibit a financial profile that evidenced materially higher leverage than currently expected. This could be suggested by materially reduced headroom under its Net Debt/RAB covenant or an Adjusted Interest Cover Ratio that is consistently less than 1.0 times. In addition, a deterioration of the HF's group liquidity profile could put negative pressure on the ratings.

Key indicators

Exhibit 2
Heathrow Finance plc

	2014	2015	2016	2017	2018
(FFO + Cash Interest Expense) / (Cash Interest Expense)	2.0x	2.3x	2.3x	2.0x	2.3x
FFO / Debt	6.0%	6.5%	6.8%	6.1%	6.8%
Moody's Debt Service Coverage Ratio	1.9x	1.8x	1.9x	1.8x	1.9x
RCF / Debt	2.8%	5.0%	2.3%	3.8%	3.5%
Net Debt / RAB [1]	84.5%	84.9%	85.4%	86.6%	86.3%
Adjusted Interest Coverage Ratio	1.2x	1.3x	1.3x	1.1x	1.3x

Note: Ratios based on 'Adjusted' financial incorporating Moody's Global Standard Adjustments for Non-Financial Corporations with the exception of [1] calculated as per financing documentation.
Source: Moody's Financial Metrics

Profile

The only asset of Heathrow Finance plc (HF) is its shares in Heathrow (SP) Limited (HSP). HSP is a holding company which owns the company that owns London Heathrow Airport (LHR). HF is indirectly owned by Heathrow Airport Holdings Limited (HAH). HAH is ultimately owned 25% by Ferrovial S.A. (a Spanish infrastructure & construction company), 20% by Qatar Holding LLC (a sovereign wealth fund), 12.62% by Caisse de depot et placement du Quebec (a pension fund), 11.2% by the Government of Singapore Investment Corporation (a sovereign wealth fund), 11.18% by Alinda Capital Partners (an infrastructure fund), 10% by China Investment Corporation (a sovereign wealth fund) and 10% by the University Superannuation Scheme (a pension scheme).

Detailed credit considerations

Ownership of Heathrow, one of the world's most important hub airports and the largest European airport

The HF group owns London Heathrow airport (LHR) in perpetuity, with all key aviation infrastructure controlled by its management. The company owning LHR is a general limited liability company that has no particular legal restrictions in relation to its business activities. However, LHR is subject to regulatory oversight, which places some constraints on operations and capital expenditure.

As reported by the Civil Aviation Authority, with 80.1 million passengers in 2018, LHR accounts for approximately 46% of the London air travel market (counting Luton airport as serving London). It should be noted that this somewhat understates LHR's position because of its role as the UK (and Europe's) largest hub airport. Indeed, LHR is also the UK's major gateway airport and the largest European airport by number of passengers. LHR accounted for 27% of total UK passenger volumes and handled approximately 72% of all of the UK's scheduled long haul traffic in 2018. LHR's large route network underpins this position, with over 80 airlines operating at LHR, 204 destinations served in 85 countries and five of the top 10 intercontinental routes by number of seats offered touching LHR. LHR therefore serves a geographical area much wider than London.

Exhibit 3

Heathrow is the largest European airport

Top 5 European airports by PAX

Source: Companies, Moody's Investors Service

LHR is exposed to some transmodal competition, in particular from rail. Domestic air services compete with rail, and the Eurostar rail service competes very effectively with airlines on the London-Paris, London-Brussels and, to a lesser extent, London-Amsterdam routes. Rail competition with airlines may increase in the future as other high speed rail destinations are added to serve London in addition to the Eurostar's route network and (in the longer term) there is potential for limited competition from domestic high speed rail services.

Long established framework of economic regulation

LHR is subject to a framework of economic regulation that is considered appropriate and transparent. It is a form of price cap regulation that has proven to permit fair recovery of costs and generates a reasonable return on invested capital.

On 1 April 2014, a new regulatory settlement came into effect covering the period to 31 December 2018, the sixth quinquennium (or Q6) since economic regulation was first applied at LHR. The Q6 regulatory period has however been extended, as further discussed below. Although Q6 was the first time that the regulatory decision stemmed from the Civil Aviation Act 2012, the parliamentary act that replaced the Airports Act 1986, the regulator, the Civil Aviation Authority (CAA), largely opted for a continuity of approach.

Under the Act, LHR has been subject to a Market Assessment Test that determined that it is a Dominant Airport, i.e. an airport with an element of monopoly power in its service area. As a consequence LHR has been issued a Licence and is subject to economic regulation. LHR's regulated revenues are defined as yearly passenger price caps derived from dividing by annual passenger forecasts the sum of (1) the remuneration of an agreed regulatory asset base (RAB) at a predetermined weighted average cost of capital (WACC); (2) allowances for the recovery of asset depreciation and operating costs, with some efficiency targets incorporated; and (3) the netting-off of non-aeronautical revenues.

Although LHR retains passenger volume risk within each regulatory period, the passenger volume assumptions used by the CAA to calculate aeronautical charges are rebased at every regulatory period. The assumed traffic growth over Q6 was modest to reflect the view that assumed passenger volumes should have built-in contingencies to accommodate one-off negative shocks. The absence of major shocks in Q6 has therefore supported the c. 8% outperformance of the forecast included in the regulatory settlement recorded since the beginning of the regulatory period.

The regulatory settlement also incorporated efficiency targets in the form of expected cost reductions and increased commercial revenues. Although the overall efficiencies required by the CAA were challenging and assumed that by the end of Q6 LHR would operate on a materially lower cost base, LHR had secured by Q1 2018 all the operating efficiencies required during Q6.

In addition to the traffic and operating efficiency outperformance, LHR has benefited from financing costs that have remained at historically low levels since the regulatory settlement came into effect. As a result of these combined outperformances LHR's return on its RAB has so far exceeded the target return included in the regulatory settlement.

In light of the achieved outperformance, and the extension of the Q6 period further discussed below, LHR has agreed a commercial deal with airlines whereby the airport will pay a fixed rebate cumulatively amounting to £260 million (split into two equal payments; the rebate for 2020 would be paid in equal installments in 2021-24, while the rebate for 2020 would be paid in equal installments in 2022-24). The commercial deal also provides for additional upward or downward adjustments to the rebate amount should traffic performance be higher or lower than pre-agreed thresholds. The CAA consultation period regarding this agreement is currently ongoing but we expect it to be approved.

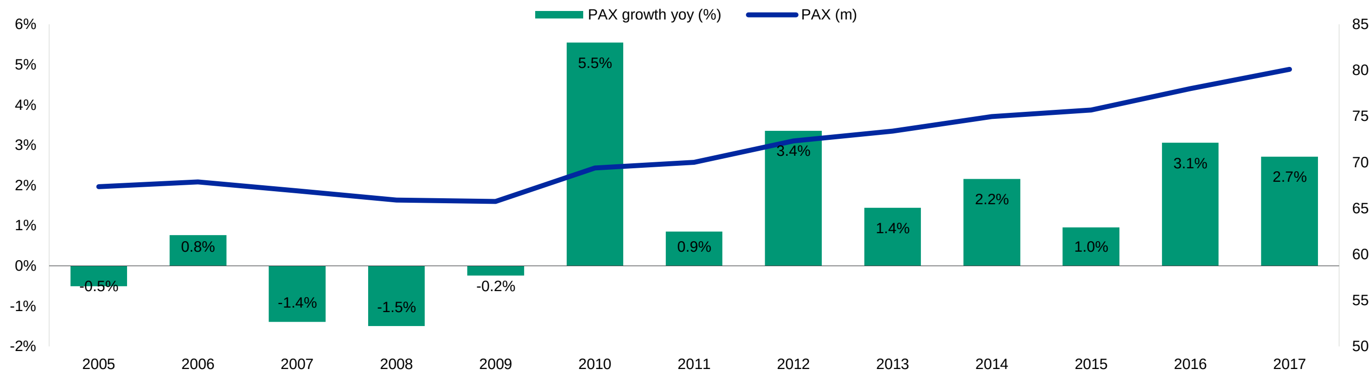
Given the delay in the UK government's decision over additional runway capacity, the CAA has decided to extend the current price control period to give an opportunity to reflect in the new settlement any decision on runway capacity expansion. Q6 has therefore been extended by three years to the end of 2021 (this extension is referred to as iH7), with a consultation now ongoing in respect of the arrangements for the 2020-21 period. iH7, and the consequent extension to the end of 2021, would be on the same terms as the rest of Q6, i.e. a price path of RPI-1.5%.

The CAA is still developing its thinking about the appropriate regulatory arrangements that should apply in the next regulatory period (H7) in the context of a major expansionary investment taking place. LHR is expected to submit its initial business plan for H7 in late 2019, with CAA publishing its initial proposals for H7 regulation in the second half of 2020.

Resilient traffic characteristics support credit profile

LHR traffic has grown at reasonably constant growth rates over the past 10 years. The standard deviation of the long term average annual passenger growth rate for LHR is 2% which evidences low volatility compared to most rated airports in Europe.

Exhibit 4
Heathrow has historically exhibited a relatively resilient traffic profile



Source: Company, Moody's Investors Service

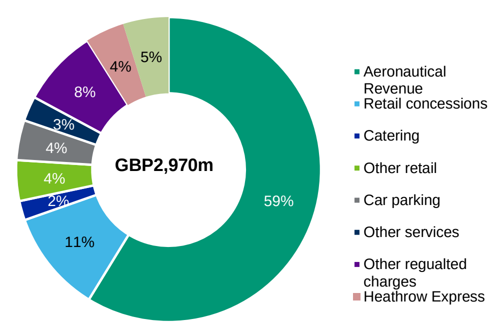
Much of the airport's resilience is underpinned by the capacity constraints LHR operates under. The pent-up demand it faces means that traffic at the airport tends to suffer lower declines than other comparable airports when economic activity weakens. Under strong economic conditions, however, the airport's ability to accommodate additional traffic is restricted.

In addition, the airport's traffic performance is also explained by its catchment area's strength. LHR serves London and the South east of England directly, one of Europe's most economically robust areas with GDP per capita well above the European average. The economic base has a good level of diversity which is underpinned by London's status as one of the leading world cities from an economic, political and cultural perspective.

Moody's estimates that around 30% of LHR's traffic is transfer traffic, with the majority of this traffic captured by British Airways (Baa3 stable). The resilience of this traffic depends on British Airways's strategy and financial health and on LHR's ability to offer an attractive and competitive environment to transfer passengers. LHR's management has focused on improving passenger experience, with passenger satisfaction improving notably since the opening of Terminal 5.

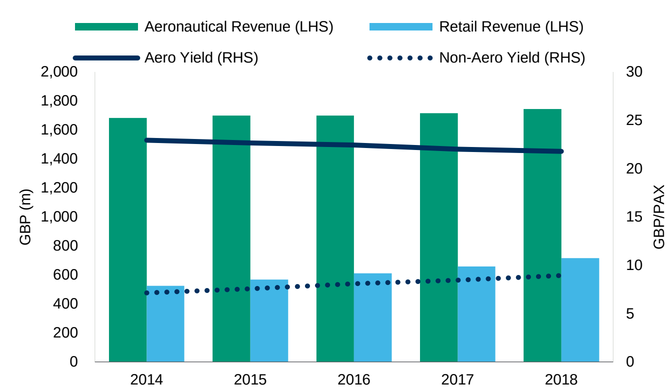
The resilient traffic performance has historically supported LHR's revenue and cash flow generation, both in the aeronautical and commercial segments.

Exhibit 5
2018 revenue split



Source: Company, Moody's Investors Service

Exhibit 6
Aeronautical and retail yields evolution



Source: Company, Moody's Investors Service

Constrained runway capacity but progress towards construction of third runway continues

LHR is operating at more than 98% of its runway capacity, given the limit imposed on the number of air traffic movements per annum and the existence of a night time curfew. In addition, a restriction on the use of runways so that they can currently only be used in 'segregated alternate mode' is also in place to provide some noise respite to those living under the fly-paths of the airport. While passenger growth at the airport can continue in the short to medium term thanks to the operation of bigger aircraft, increases in the number of seats on existing aircraft through seat densification programmes or higher load factors, these restrictions will impact growth levels in the future.

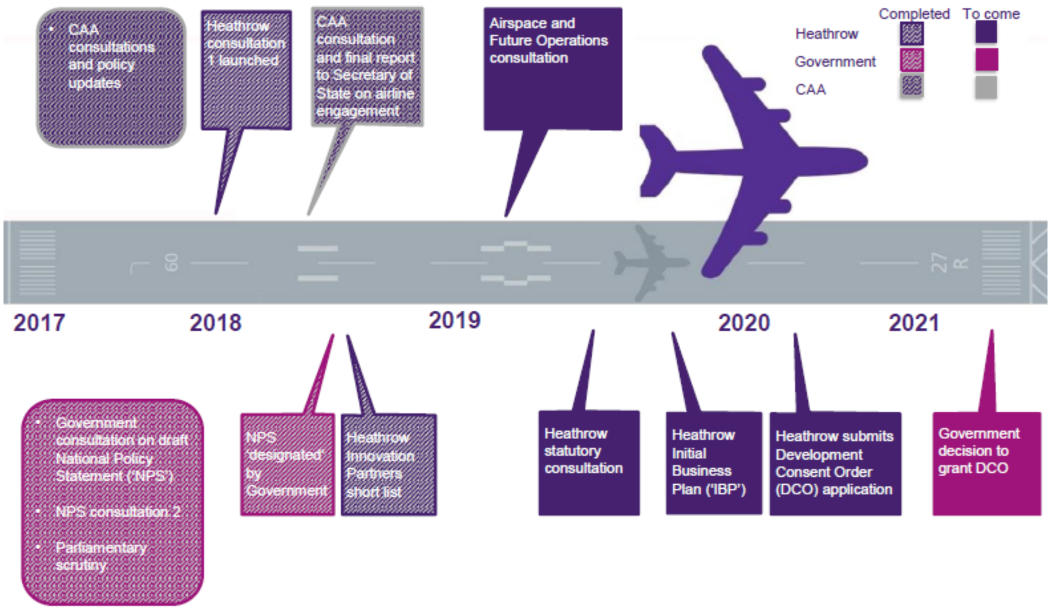
LHR has recently launched a consultation which, amongst other, proposes a modification of the use of runways to an 'independent parallel approach'. If the proposal is accepted, as part of the approval of the Development and Consent Order (DCO) linked to the third runway, as further discussed below, it would potentially allow for the operation of 25,000 extra flights from the end 2021, thus lifting some of the capacity constraints at the airport. However, over the long term, the absence of additional runway capacity would have an impact on LHR's future ability to accommodate new destinations without compromising existing frequencies, thereby raising questions over its long-term attractiveness as a hub airport. The absence of new runway capacity should not, however, affect LHR's status as the main airport serving London, minimising the risk of traffic volume losses even if transfer traffic declines.

The Airports Commission, an independent commission established in September 2012 to consider how the UK can "maintain its status as an international hub for aviation and immediate actions to improve the use of existing runway capacity in the next 5 years", made a clear and unanimous recommendation to the UK government in July 2015 in favour of expansion at LHR. On 25 October 2016, the UK Government announced its decision to support the expansion of Heathrow Airport. In February 2017 the Government published a draft Airports National Policy Statement (NPS) outlining the case for the new runway, holding consultations on the document. On 25 June 2018, the UK Parliament voted on the expansion of Heathrow airport, passing the motion with 415 votes in favour, and 119 against.

The proposed expansion of Heathrow Airport, which currently has an estimated cost of approximately £14 billion, is expected to deliver up to an additional 260,000 flights per annum at the airport, taking the total to up to 740,000 flights per annum, which could result in annual passenger numbers increasing to over 130 million over time, compared to 80 million in 2018. The project would also boost the UK's connections to and enable increased trade with the rest of the world.

In the context of the approval process linked to the third runway, LHR plans to hold further public consultations in 2019 and submit a DCO application in mid-2020. The Planning Inspectorate, an executive agency of the UK government in charge of providing recommendations and advice on a range of land use planning-related issues, will review the merits of the scheme and submit a recommendation to the Secretary of State for Transport, which has the authority to grant the planning sign-off. We do not expect the final sign-off, which must be obtained before the expansion can take place, until 2021 at the earliest.

Exhibit 7
Start of construction of third runway is not expected before the end of 2021



Source: Company

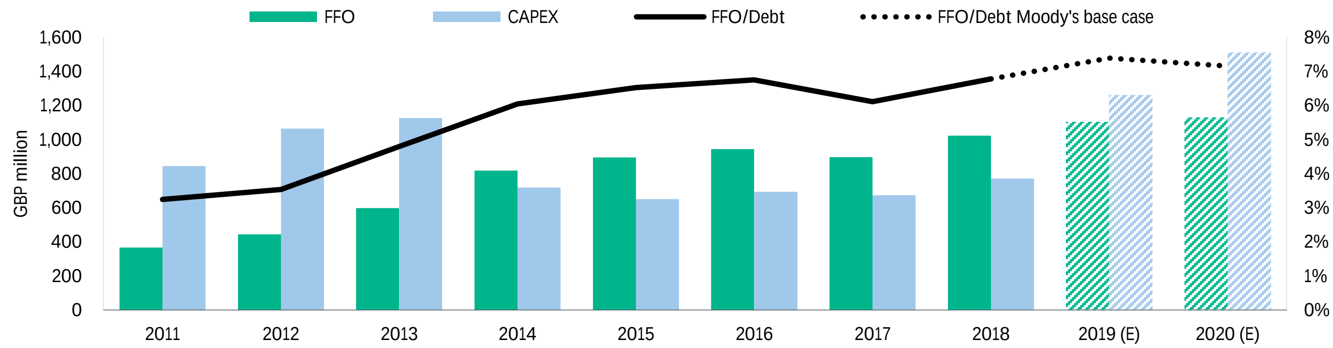
It is still too early to determine the precise credit implications for HF of the runway construction project, as important elements in the final risk allocation, such as the total quantum and phasing of expenditure, any conditions attached to the planning consents or regulatory decisions with respect to the timing and the pace of increases in airport charges, are still unknown at this stage.

A pause in major capital expenditure until the end of the decade

The opening of the new Terminal 2 in June 2014 marked the start of a pause in LHR's master plan. After seeing investments of more than £1 billion per year for the past decade, the regulatory settlement for the period covering April 2014-31 December 2018 incorporated a 33% reduction in the average allowed annual capital expenditure at LHR.

Although LHR management has undertaken investment programmes such as a £350 million investment on new hold baggage screening equipment across the airport and £1 billion in several asset replacement projects, the scale and complexity of the capital expenditure has been noticeably lower than in the recent past. The extension of the Q6 regulatory period to the end of 2021, will further prolong this period of relatively low investment levels, although the company will likely undertake some third runway-related investments ahead of receiving planning permission subject to receiving greater clarity around the regulatory treatment of this expenditure in case the scheme does not receive planning consent.

Exhibit 8
LHR's capital expenditure levels should remain at relatively low levels until the end of the decade



Note: The 2019 and 2020 estimates represent Moody's forward view, not the view of the issuer.
Source: Company, Moody's Investors Service

We expect investment levels to increase in the next regulatory period, even if the third runway project does not receive planning approval, as management focus would then likely turn to completing the "toast rack" terminal configuration.

Uncertainties stemming from Brexit

The UK's ongoing process of exiting the European Union (Brexit) introduces downside risks for UK airports. LHR has been able to withstand the deceleration of the UK economy and the weakness of sterling that followed the UK's referendum on EU membership. This is primarily due to the fact that LHR has a balanced inbound-outbound traffic profile with c. 60% of passengers that use LHR residing abroad and the fact that LHR serves London, a major touristic destination. The weakness of the pound, coupled with an improved global economic outlook has boosted the number of overseas visits to the UK. In addition, LHR's non-aeronautical revenues have also benefitted from sterling's depreciation, as goods sold at airside shops became cheaper to overseas passengers. This impact is, however, expected to be temporary as the prices in sterling of these goods will likely increase and counterbalance the impact of the depreciation.

UK airports are also exposed to additional regulatory downside risks. Under the UK government's preferred strategy for exiting the EU, the UK will also leave the EU's aviation single market, the so-called European Common Aviation Area (ECAA). By leaving the ECAA, the UK will need to negotiate new agreements with the members of the ECAA covering among other things air traffic rights and aviation safety arrangements. In addition, the ECAA agreement also allows for the negotiation of comprehensive air services agreements with third countries as a single trading bloc. As a result, the regulatory framework underpinning air travel between the UK and the 35 other signatories of the ECAA and between the UK and other key destinations will need to be overhauled.

In November 2018, the European Council endorsed the terms of the Withdrawal Agreement that sets the terms of the UK's orderly exit from the EU, including provisions for a transition period, running until the end of 2020, with a possible extension. The agreement contains a provision by which the EU will request from third countries that they continue to treat the UK as a EU member state during the transition period in relation to a number of international treaties, such as air services agreements. At the same time, the European Council also endorsed the terms of a non-binding Political Declaration on the framework for post-Brexit relations between the UK and the EU after the transition period. Regarding the aviation sector, the UK and the EU agreed to put in place a new comprehensive air transport agreement that will specify the level of market access granted to UK and EU airlines in each other's market, and will also cover arrangements for investment, aviation security, aviation safety and air traffic management.

However, given the continued uncertainty surrounding the ratification of the Withdrawal Agreement, the EU Commission presented in December 2018 a package of 14 measures aimed at mitigating the most significant damage that would be caused by a no-deal scenario, including two legislative measures that seek to avoid full interruption of air traffic between the EU and the UK in the event of no-deal: (i) a proposed Regulation to ensure the temporary (for 12 months) provision of certain air services between the UK and the EU and (ii) a proposed Regulation to extend temporarily (for 9 months) the validity of certain aviation safety licences. It should be noted, however, that these measures are temporary and would only ensure basic connectivity, thus not fully replicating the UK's membership of the single aviation market. These proposals are also subject to the UK conferring equivalent rights to EU air carriers, as well as the UK ensuring conditions of fair competition. More recently, the UK government confirmed that it would match the EU's offer, paving the way to continued air travel operation between the UK and the EU-27.

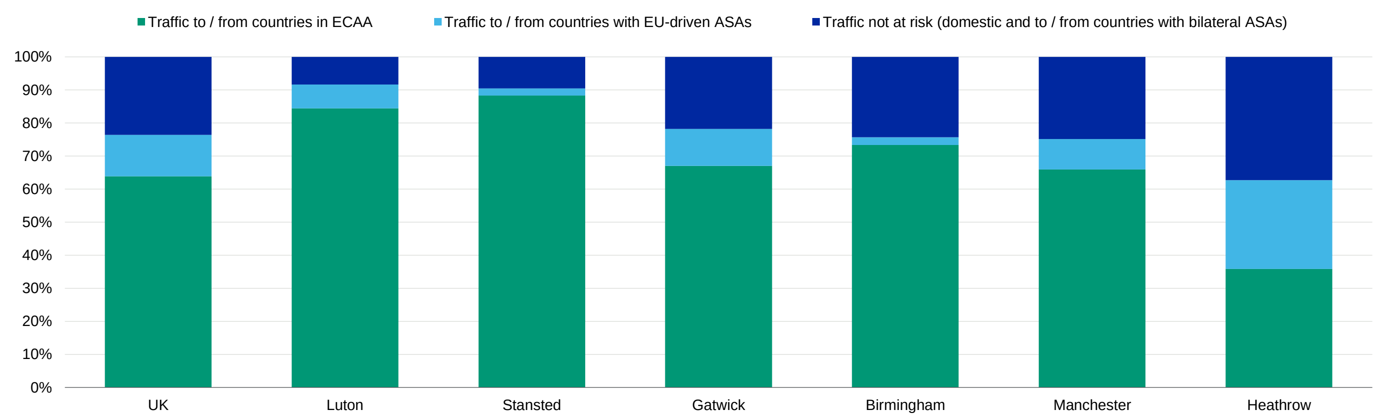
The UK government has also sought to sign new agreements with some of the countries with which aviation relationships were maintained through the UK's membership of the EU. To date, agreements have been announced with Albania, Canada, Georgia, Iceland, Israel, Kosovo, Montenegro, Morocco, Switzerland and the US, although the full details of these agreement are not known.

The recent developments are credit positive for UK airports and LHR, as they reduce the risk of a withdrawal without any replacement arrangements and the consequent possibility that flights between the UK and EU destinations would be severely disrupted. However, some residual uncertainties remain, as the agreements with the EU and the countries with which aviation relationships are maintained by virtue of the EU membership would need to be formally ratified and implemented post Brexit day, which could potentially lead to some delays. Although these contingency plans indicate a willingness to avoid a total interruption of air passenger traffic between the UK and the EU, a no-deal scenario would still have the capacity to disrupt operations at UK airports and impact traffic volumes. In this context, we note that LHR has incorporated a £100 million EBITDA contingency in its 2019 forecast to ensure a continuation of its airport operations under all Brexit circumstances.

Exhibit 9

Heathrow exhibits the most diversified profile compared to other UK airports but its exposure to EU/EU ASAs traffic remains material

Traffic breakdown EU/EU ASAs for UK airports (2017 data)



Source: Moody's Investors Service, Civil Aviation Authority

Passenger traffic volumes would also likely be impacted by the expected deterioration of macroeconomic conditions that will follow, in particular, a no-deal Brexit. Demand for air travel in London could also be negatively affected to the extent that Brexit damages the UK's economic growth potential, if the financial and insurance services sector, which contribute more than 16% of London's Gross Value Added, is negatively impacted or if significant population shifts occur

LHR's regulatory framework should also offer a mitigant to this risk, as well as to a negative impact on traffic demand post Brexit, as the passenger volume forecasts used by the CAA to calculate aeronautical charges are reset at regular intervals, providing an opportunity to take into account an enduring negative impact on passenger demand.

High leverage and significant debt maturities

Overall debt levels remain very high relative to the regulated asset base. As of 31 December 2018, HF's reported leverage stood at 86.3% of LHR's RAB. Over the last four years leverage has increased by 2 percentage points as the company has migrated some of its subordinated debt sitting above HF in the Heathrow airport corporate structure to the HF group in a bid to simplify its capital structure from four to three classes of debt. HF has sought to maintain headroom of five percentage points against the covenant included in its Notes (Net Debt to RAB covenant of 92.5 percent).

The company has established a bond issuance platform that has been used repeatedly to diversify its sources of financing, issuing bonds in seven different currencies and extending the average maturity of its debt. However, over the course of the next 5 years, almost 28% of HF's consolidated debt (around £3.8 billion), will become due. Although the company has been very successful at managing its liquidity horizon, this high level of maturities and the company's high leverage limit its ability to withstand unexpected external shocks. The ability to continue to secure funding well in advance of upcoming debt maturities will be a key factor in HF's credit profile.

Structural considerations

HF's Corporate Family Rating (CFR) of Ba1 reflects a Probability of Default Rating of Ba2-PD and a 65% Expected Family Recovery Rate. The CFR is an opinion of the HF group's ability to honour its financial obligations and is assigned to HF as if it had a single class of debt and a single consolidated legal structure. The Ba3/LGD-5 rating of the HF Notes reflects the structural subordination of the HF Notes in the HF group structure versus the debt at Heathrow (SP) Limited (HSP).

HSP is financed via debt provided through a ring-fenced secured debt financing structure (the HSP SDF). The HSP SDF provides for the issuance of two tranches of debt, called Class A Debt and Class B Debt. Class B Debt is subordinated to Class A Debt. The terms of the HSP SDF limit the amount of Class A Debt and Class B Debt that can be issued by HSP through a requirement to maintain certain Net Debt to RAB ratios and interest cover ratios.

Following the early repayment of its £263 million Notes due September 2019, HF is currently financed by (1) £250 million 5.75% Senior Secured Notes due Mar 2025, (2) £275 million 3.875% Senior Secured Notes due Mar 2027 and (3) £300 million 4.75% Senior Secured Notes due March 2024 (together the HF Notes), as well as several loan facilities with a total outstanding amount of £490 million and maturity dates ranging from 2020 to 2034 (together with the HF Notes the HF Debt).

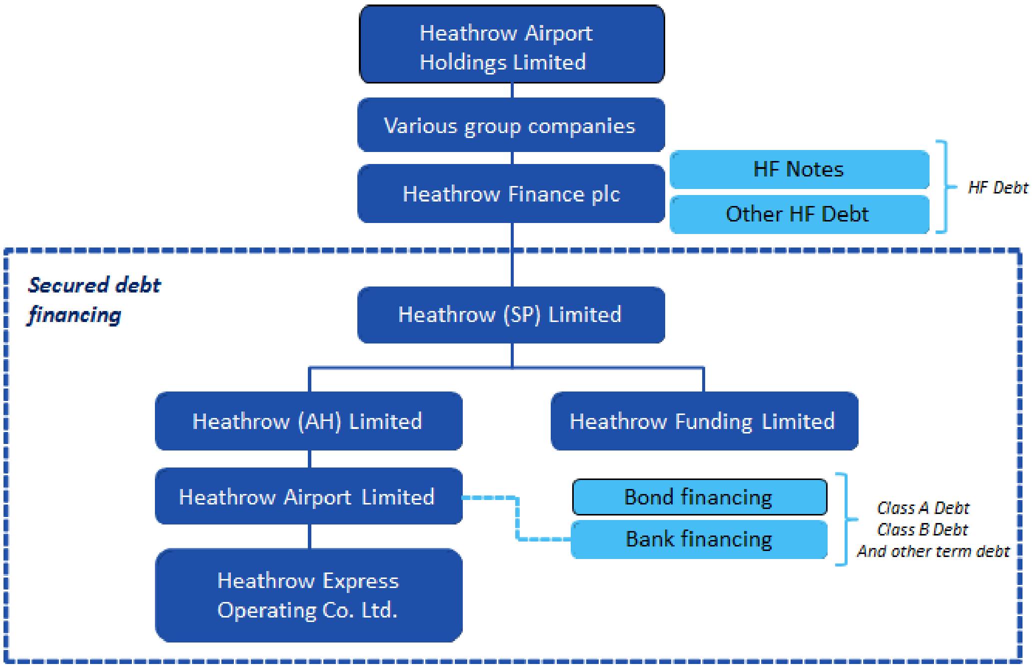
The HF Debt is structurally subordinated to the Class A and Class B Debt and HSP can only provide cash to service debt at HF if it complies with the financial terms of the HSP SDF.

The HF Notes and the other HF Debt rank pari passu and are subject to the terms of an Intercreditor Agreement which regulates their rights with regard to each other and any future holder of HF Debt, and provides for the sharing of the security granted to the HF Debt holders. HF Debt holders benefit from a pledge of all of the shares in HSP (HF's only material asset) and a pledge of shares in HF.

Moody's considers that the HSP SDF isolates the credit profile of LHR from that of the wider Heathrow Airport Holdings Limited (HAH) group. While there is a certain reliance on HAH for operational support, this is considered acceptable within the context of the rating levels. This together with the security granted to the HF Debt holders should isolate HF from the risks of failure of the wider HAH group, and enables Moody's to ignore any debt in the wider HAH group when assessing the rating of HF. There are also certain restrictions on the raising of further debt by HF.

The terms of the HSP SDF also contain other constraints such as a requirement to comply with a hedging policy, liquidity dedicated to meeting interest payments on HSP SDF debt, and additional reporting requirements. While such protections only benefit HSP debt holders directly, and they could in theory be waived by HSP financiers, they do provide some element of protection to HF creditors by helping to protect the financial profile of HSP.

Exhibit 10
Heathrow Finance plc group structure
HF Debt is structurally subordinated to debt issued by HSP's secured debt financing



Source: Moody's Investors Service

Liquidity analysis

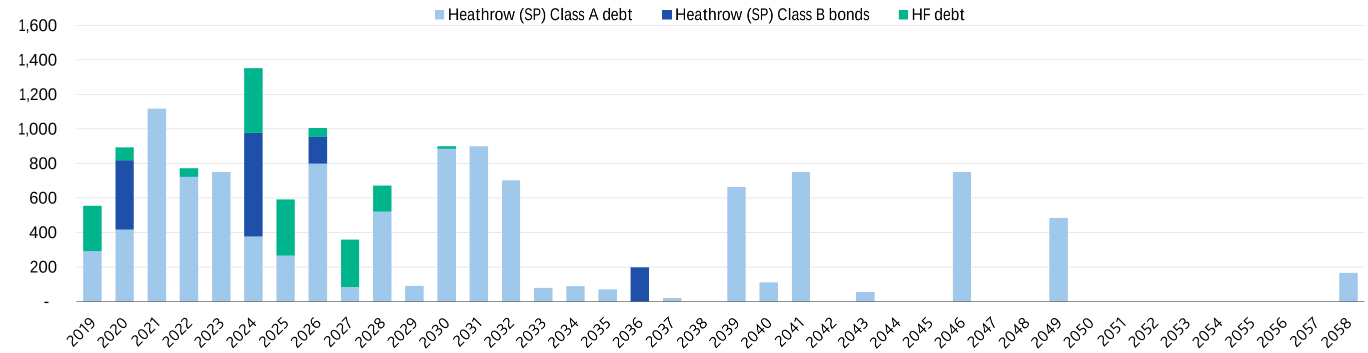
HF's next loan maturity will be £75 million in 2020, while the next bond maturity (£300 million) will be in 2024. In the meantime, interest payments will need to be met from cash received from HSP, as there are no other sources of cash available and no specific liquidity is kept at HF. HSP will not be permitted to upstream cash to HF if it fails to meet certain tests, generally performance related, but also related to the maintenance of adequate liquidity at HSP.

The liquidity of the HF group as a whole is considered good for approximately the next 24 months. Operating cash flow after tax is significant and positive in each quarter, with a peak over the summer months of each year. As at 31 December 2018, HF group had £1,150 million of undrawn revolving credit and working capital facilities at HSP maturing in November 2021 and £595 million in standby liquidity facilities, also at HSP. In addition, the HF group had £595 million in cash and cash equivalents and £120 million in term deposits.

HSP has very successfully improved its debt maturity profile over the past couple of years, extending the liquidity horizon and increasing the average maturity of its debt.

Exhibit 11

HF Group debt maturity profile (£ million) as of end of 2018



Note: The repayment of the £263 million Notes at HF initially due in September 2019 was finalised in March 2019.
Source: Company. Moody's Investors Service

Rating methodology and scorecard factors

HF's Corporate Family Rating reflects our assessment of the company's business profile and financial performance in line with our Privately Managed Airports and Related Issuers Rating Methodology, published in September 2017.

Exhibit 12

Heathrow Finance plc - Rating Factors Grid

Privately Managed Airports and Related Issuers Industry Grid [1][2]	Current FY 31/12/2018		Moody's 12-18 Month Forward View As of April 2019 [3]	
Factor 1: Concession and Regulatory Frameworks (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Ability to Increase Tariffs		A		A
b) Nature of Ownership / Control		Aaa		Aaa
Factor 2: Market Position (15%)				
a) Size of Service Area		Aa		Aa
b) Economic Strength & Diversity of Service Area		Aaa		Aaa
c) Competition for Travel		Baa		Baa
Factor 3: Service Offering (15%)				
a) Passenger Mix		Baa		Baa
b) Stability of traffic performance		Aa		Aa
c) Carrier Base		Aa		Aa
Factor 4: Capacity and Capital (5%)				
a) Ability to accommodate expected traffic growth		Baa		Baa
Factor 5: Financial Policy (10%)				
a) Financial Policy		Ba		Ba
Factor 6: Leverage and Coverage (40%)				
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	2.3x	Ba	2.0x - 2.5x	Ba
b) FFO / Debt	6.8%	Ba	6.5% - 7.5%	Ba
c) Moody's Debt Service Coverage Ratio	1.9x	B	1.5x - 2.0x	B
d) RCF / Debt	3.5%	B	2% - 4%	B
Rating:				
Indicated Rating from Grid Factors 1-6		Ba1		Ba1
Rating Lift		**0**		**0**
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned		Ba1		Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31/12/2018; Source: Moody's Financial Metrics™. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 13
Peer comparison table

	Heathrow Finance plc Ba1 Stable			Royal Schiphol Group N.V. A1 Stable			Aeroporti di Roma S.p.A. Baa2 Negative		
(in GBP millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-15	FYE Dec-16	FYE Dec-17
Revenue	2,807	2,884	2,970	1,166	1,278	1,335	673	945	876
EBITDA	1,697	1,784	1,879	474	473	462	244	380	424
EBITDA Margin %	60.5%	61.9%	63.3%	40.6%	37.0%	34.6%	36.2%	40.2%	48.4%
Funds from Operations	944	897	1,023	389	420	440	241	333	327
Total Debt	13,971	14,686	15,094	1,764	1,950	2,335	696	873	1,305
FFO Interest Coverage	2.3x	2.0x	2.3x	6.8x	7.0x	7.5x	8.6x	11.2x	9.9x
FFO / Debt	6.8%	6.1%	6.8%	23.0%	21.8%	19.0%	35.0%	39.8%	25.3%
Moody's DSCR	1.9x	1.8x	1.9x	7.2x	7.4x	7.3x	6.3x	7.1x	4.7x
RCF / Debt	2.3%	3.8%	3.5%	13.9%	15.0%	13.3%	21.5%	20.0%	8.0%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 14
Heathrow Finance plc adjusted debt breakdown

(in GBP Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Debt	**12,669**	**13,023**	**14,218**	**14,390**	**14,735**
Pensions	223	22	108	153	0
Operating Leases	300	306	192	324	324
Non-Standard Adjustments	344	372	(547)	(181)	35
Moody's-Adjusted Debt	**13,536**	**13,723**	**13,971**	**14,686**	**15,094**

All figures are calculated using Moody's estimates and adjustments. Non-standard adjustments include adjustments that use additional information to that disclosed in financial statements
Source: Moody's Financial Metrics™

Exhibit 15
Heathrow Finance plc adjusted FFO breakdown

(in GBP Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported FFO	**1,498**	**1,578**	**1,601**	**1,671**	**1,739**
Pensions	0	27	34	24	22
Operating Leases	31	31	20	33	33
Alignment FFO	(185)	(145)	(133)	(236)	(189)
Capitalized interest	(89)	0	0	(46)	(50)
Non-Standard Adjustments	(436)	(597)	(578)	(549)	(532)
Moody's-Adjusted FFO	**819**	**894**	**944**	**897**	**1,023**

All figures are calculated using Moody's estimates and adjustments. Non-standard adjustments include adjustments that use additional information to that disclosed in financial statements
Source: Moody's Financial Metrics™

Ratings

Exhibit 16

Category	Moody's Rating
HEATHROW FINANCE PLC	
Outlook	Stable
Corporate Family Rating	Ba1
Senior Secured -Dom Curr	Ba3/LGD5

Source: Moody's Investors Service

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