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CREDIT OPINION
4 May 2023

Update

RATINGS

Heathrow Finance plc

Domicile	London, United Kingdom
Long Term Rating	Ba2
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

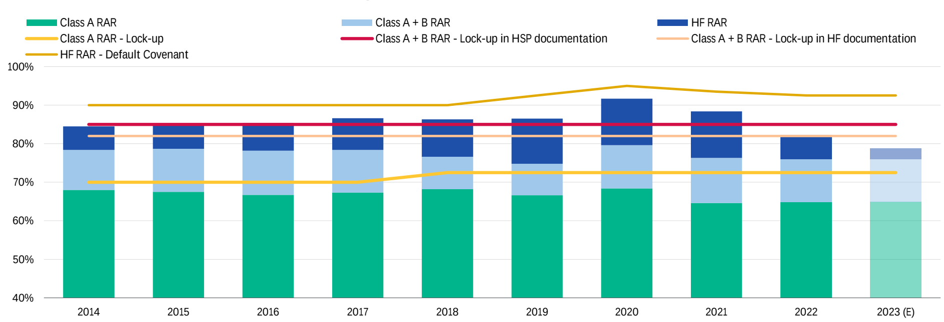
Update following rating affirmation and change in outlook to stable

Summary

Heathrow Finance plc (HF)'s credit quality takes account of (1) its ownership of London Heathrow airport, which is one of the world's most important hub airports and the largest UK airport; (2) its long established framework of economic regulation; (3) strong demand for the airport's services reflected in fairly resilient traffic characteristics excluding the period of the pandemic and travel restrictions; (4) its highly-leveraged financial profile; (5) the features of the 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; and (6) the group's strong liquidity.

Following the severe reduction in passenger volumes during 2020-21, traffic at Heathrow airport picked up last year reaching 61.6 million passengers. This represented 76% of pre-pandemic levels. Positive traffic trends have continued since, with the airport handling 16.9 million passengers in the first quarter of this year. This corresponds to some 94.3% of volumes reported in a similar period of 2019. While traffic is subject to a degree of seasonality during the year, we currently assume that passenger volumes will reach in excess of 90% of pre-pandemic levels this year. There are some risks to this traffic recovery, given macroeconomic and cost of living pressures, but growing passenger volumes will be supportive of the group's operating cash flow despite a reduction in the level of airport charges over the 2024-26 period.

Exhibit 1
Traffic declines have weighed on the group's leverage
Class A, class B and HF Net Debt/RAB (as per covenant calculation)



[1] RAR — Regulatory Asset Ratio.
[2] The estimates represent Moody's view; not the view of the issuer.
Source: Company, Moody's Investors Service

Credit strengths

» Ownership of London Heathrow, one of the world's most important hubs and largest European airports

» Resilient traffic characteristics excluding the period of the pandemic and travel restrictions

» Long established framework of economic regulation

» Good liquidity profile, management commitment to balance risks across the capital structure and protective features of debt financing

Credit challenges

» Lower airport charges will put pressure on earnings and there is uncertainty around the outcome of the CMA appeals

» Macroeconomic and cost of living pressures present risks to the pace of traffic recovery

» Increased cost pressures including because of high inflation and rising interest rates

» High financial leverage

Rating outlook

The stable outlook reflects our expectation that the Heathrow Finance group will be able to exhibit credit metrics with good headroom against its covenants as the continued recovery in traffic will support operating cash flow despite a reduction in the level of airport charges over the 2024-26 period

Factors that could lead to an upgrade

Positive rating pressure would develop if the group's financial profile and key credit metrics were to sustainably strengthen, such that it maintained an appropriate headroom under its covenants and an adjusted interest cover ratio (AICR) consistently higher than 1.0x, while continuing to maintain a good liquidity profile.

Factors that could lead to a downgrade

Downward pressure on HF's ratings could develop if (1) the group maintained a materially reduced headroom under its event of default financial covenants; (2) the HSP group's ability to upstream cash were significantly reduced, without adequate mitigating factors at the holding company; or (3) there were concerns about the group's or the company's liquidity.

Key indicators

Exhibit 2

Heathrow Finance plc

Key indicators

	2017	2018	2019	2020	2021	2022 (E)	2023-26 avg
(FFO + Interest Expense) / Interest Expense	2.0x	2.3x	2.4x	0.5x	0.6x	1.3x	1.9x - 2.1x
FFO / Debt	6.1%	6.8%	6.5%	-1.6%	-1.6%	2.1%	4.6% - 5.0%
Debt Service Coverage Ratio	1.8x	1.9x	1.7x	0.3x	0.4x	1.6x	1.4x - 1.8x
RCF / Debt	3.8%	3.5%	3.7%	-2.1%	-1.6%	1.6%	1.4x - 1.8x
Net Debt / RAB	86.6%	86.3%	86.5%	91.7%	88.4%	82.3%	84-86%
Adjusted ICR	1.1x	1.3x	1.3x	-0.8x	-0.7x	0.5x	0.7x - 0.8x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] The estimates represent Moody's view; not the view of the issuer.
Source: Moody's Financial Metrics, Moody's Investors Service

Profile

The only asset of Heathrow Finance plc (HF) is its shares in Heathrow SP (HSP), a holding company which in turn owns the company that owns London Heathrow airport, Europe's busiest airport in terms of total passengers before the pandemic. The airport serves different types of passengers, including leisure and business travelers, as well as those traveling to visit friends and relatives.

HF is indirectly owned by Heathrow Airport Holdings Limited (HAH). HAH is ultimately owned 25% by Ferrovial S.A., 20% by Qatar Holding LLC, 12.62% by Caisse de depot et placement du Quebec, 11.2% by the Government of Singapore Investment Corporation, 11.18% by Astatine Investment 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

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

In 2019, Heathrow handled 80.9 million passengers (PAX). This represented around 45% of the London air travel market. However, LHR serves a geographical area much wider than London and the South East of England as the biggest UK airport and major European hub airport. In terms of the service area, London is 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.

Heathrow airport is exposed to some transmodal competition. 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 and (in the longer term) there is potential for some competition from domestic high speed rail services.

Traffic recovery has gained pace, with positive trends expected to continue

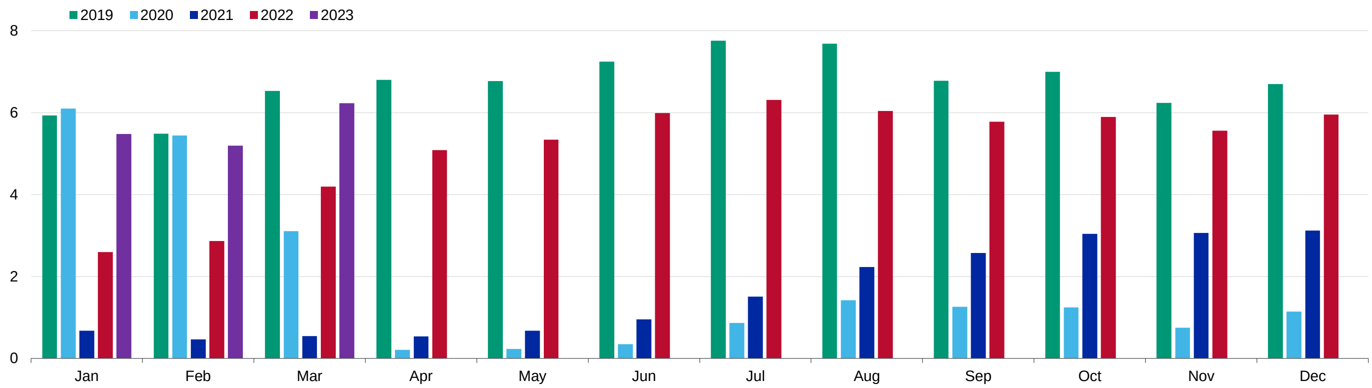
Similarly to other European airports, Heathrow was severely impacted by the COVID-19 pandemic and the associated travel restrictions. Passenger volumes reached 22.1 million in 2020 (73% below 2019 level) and 19.3 million in 2021 (76% below 2019 level). LHR's traffic performance in 2021 was weaker than that of many European airports, given changing UK travel rules and its exposure to the long-haul segment. Brexit was a further factor negatively affecting air travel between the UK and EU countries.

Traffic picked up last year as travel restrictions eased. The airport handled 61.6 million passengers, which represents 76% of 2019 levels. This performance was achieved despite some operational challenges that the airport and the aviation industry more generally faced against the sharp increase in passenger volumes. To alleviate the pressure, in July 2022, Heathrow introduced a cap of 100,000 daily departing passengers. The cap, which was extended until 29 October, reflected – in the company's view — the maximum number of departing passengers that airlines, ground handlers and the airport could collectively serve with an acceptable level of service. As a comparison, LHR handled in excess of 125,000 departing passengers in the peak summer months before the pandemic.

Traffic has continued to pick up this year. In the first quarter, Heathrow airport handled some 16.9 million passengers, which corresponds to 94.3% of pre-pandemic levels. In March alone, this ratio stood at over 95%. Increase in traffic has been driven by strong leisure demand but also pent-up demand for business travel. Heathrow reported significant growth in traffic across all the geographies, although recovery in traffic to Asia-Pacific is still lagging compared with the short-haul European and transatlantic destinations.

Heathrow airport's traffic performance in the first quarter of this year was stronger than that of Paris Charles de Gaulle (87% of Q1 2019 traffic), Schiphol (owned by Royal Schiphol Group N.V., A2 stable, 79%) and Frankfurt (77%) but weaker than that of Madrid (owned by Aena, S.M.E, S.A., A3 stable, close to 100%).

Exhibit 3
Recovery ins LHR's traffic has been fairly strong
Monthly traffic, in million PAX



Source: Heathrow, Moody's Investors Service

In its Q1 results presentation, Heathrow provided its updated view on traffic for this year. The company published a range of 70-78 million passengers, which implies a recovery rate of 87-96% on the pre-pandemic levels. This is a major upward revision on Heathrow's previous traffic assumption.

Under our central case, we assume that passenger volumes will reach in excess of 90% of pre-pandemic levels this year. This assumption reflects the airport's traffic mix – business travel (25% of total in 2019) and the long haul segment (non-European routes accounted for 53% of the total in 2019). The airport's exposure to British Airways Plc (Ba2 stable), which accounted for more than 40% of total traffic in 2019 and majority of the airport's transfer traffic, will also be a factor.

There are risks to traffic recovery, given macroeconomic and cost of living pressures. In addition, strikes and shortage of staff across the wider aviation industry will be a factor. Heathrow has already experienced some pressure from the strikes this year. The airport had to put contingencies in place to limit the disruption to the operations from the unionised security staff strike during the Easter period. There are further eight days of strikes planned for May. While disruption to the airport's operations has been so far limited, traffic in the peak summer month is typically over 25% higher than in the first quarter of the year. The industry's level of preparedness and ability to manage unplanned staff actions will be thus an important factor for traffic recovery this year.

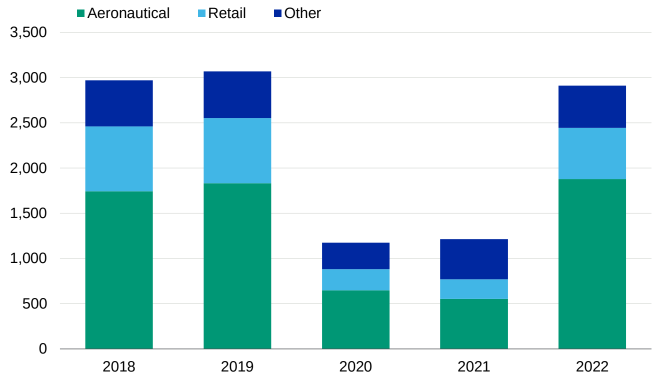
Traffic recovery and higher aeronautical charges supported 2022 financial performance

In 2022, Heathrow airport's revenue amounted to £2.9 billion, which is 95% of 2019 levels. Aeronautical revenue was up 3% from the pre-pandemic levels driven by the increase in aero charge set by the interim tariff and recovery in passenger numbers and aircraft cargo movements. Retail revenue was 22% below the pre-pandemic levels but has been recovering in line with passenger growth. Other income was more resilient including because of the recovery of revenue under-recovered in prior periods through the Airport Cost Recovery Charge introduced in February 2021. The share of aeronautical revenue stood at around 65%.

Heathrow's aeronautical yields are the highest among our rated European airports, with airport charges significantly exceeding those at other rated UK airports, including in the London system area. In 2022, aeronautical yields increased by 6.8% and were well above 2019 levels. However, this largely reflects lower passenger volumes.

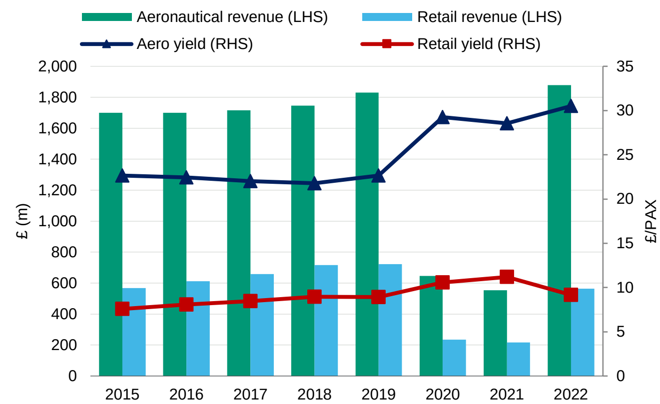
Non-aeronautical yields have risen since the start of the pandemic because of lower passenger volumes and revenue mix, including the recovery of past ORC charges. In 2022, average retail yields decreased by 18.2% as passenger volumes were up.

Exhibit 4
Heathrow's revenue was close to pre-pandemic levels in 2022
Total revenue breakdown, in £ million



Other includes other regulated revenue.
Source: Company's accounts, Moody's Investors Service

Exhibit 5
Evolution of yields largely driven by passenger volumes
Revenue in £ million, yields in £/PAX

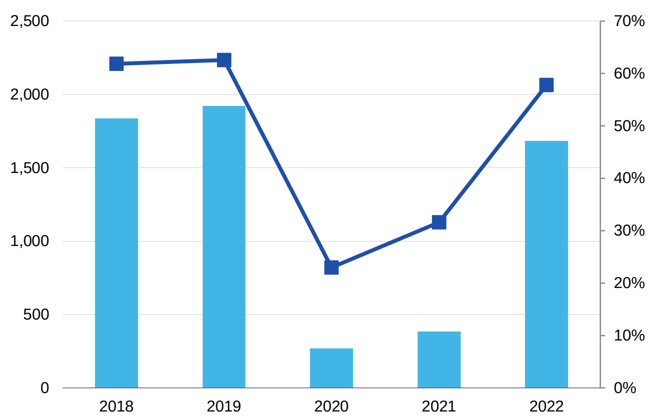


Other revenue and yields not included above.
Source: Company's accounts, Moody's Investors Service

Operating costs have been also up, given recruitment of additional staff and training, higher operation and maintenance expenditure as well as pressure stemming from an increase in inflation and energy costs. Nevertheless, the rise in opex has been more than offset by the growth in revenue driving EBITDA up. In 2022, the group's EBITDA of close to £1.7 billion was some 12% lower than reported in 2019.

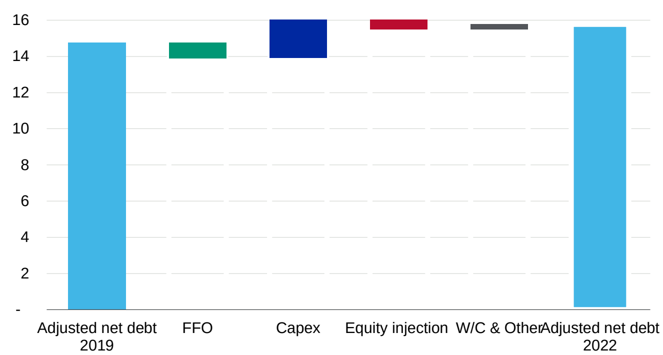
While EBITDA remained positive throughout the pandemic, the group's net debt increased. This is despite management actions to cut investments and costs, including finance costs through implementation of a number of derivative contracts, and an equity injection of £731 million. The group's net nominal debt increased by £1.4 billion to £15.8 billion over the period 2020-22.

Exhibit 6
Heathrow's adjusted EBITDA was up in 2022
EBITDA in £ million, EBITDA margin in %



Source: Company's reports, Moody's Investors Service

Exhibit 7
The Heathrow Finance group's net debt has increased since 2019
Evolution of net debt, in £ billion



Source: Company's reports, Moody's Investors Service

Final decision on H7 provides for a reduction in charges over the 2024-26 period

Heathrow airport is subject to economic regulation by the CAA. It is a form of price cap regulation, whereby regulated revenues are defined as annual passenger price caps derived from dividing 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

The H7 regulatory period was due to start on 1 January 2022. However, the process was delayed by the pandemic and the uncertainty associated with Heathrow's traffic recovery. (See CAA consultation on initial proposals for H7 price control recognises uncertainty around traffic recovery, October 2021). Pending final regulatory determination, interim price caps were put in place for 2022 and 2023.

The Final Decision was published in March 2023, providing for a reduction in the level of allowable aeronautical charges to £21.03 (2020 prices) per passenger in 2024 and until 2026. While these charges will be adjusted by the consumer price index (CPI), they present a material decrease in aeronautical tariffs from the current level of £31.57 per passenger.

Exhibit 8

Final Decision assumes flat charges for remainder of H7

in £ per PAX

	2022	2023	2024	2025	2026	Average
Profiled yield per PAX (£ 2020, CPI-real)	26.96	26.06	21.03	21.03	21.03	23.22
Profiled yield per PAX (£ nominal)	30.19	31.32	25.43	25.24	25.28	27.49
CPI inflation forecast	9.1%	7.4%	0.6%	-0.8%	0.2%	3.3%

Note: HAL's price cap for 2023 was set in January 2023. The maximum revenue per passenger specified in the hold cap decision was £31.57. The figure £31.32 shown above reflects the underlying revenue requirement for 2023 excluding the impact of capital triggers and the payment of the 2021 service quality bonus.
Source: CAA's Final Decision, Moody's Investors Service

Among other things, the CAA lowered the (real) vanilla weighted average cost of capital (WACC) to 3.18% from 3.26% assumed in the Final Proposals and 4.65% in Q6. The key drivers of the reduction in the cost of capital were (1) the rise in the cost of debt, and (2) the fall in the cost of equity mainly because of the increase in the risk free rate.

The CAA assumed that traffic will remain slightly below pre-pandemic levels until 2025. However, the regulator has also introduced a traffic risk sharing (TRS) mechanism, which will provide protection to HAL if volumes are lower than those assumed by the regulator, and benefits to customers through lower charges if such volumes are higher. The TRS mechanism assumes that the amount of risk to be shared for that year will be calculated as 50% of any difference up to 10% of forecast allowed revenues and 105% of any difference above 10% of forecast allowed revenue. We consider that the traffic risk sharing mechanism provides some protection in the event of lower traffic or any future traffic shocks, such as those seen during the pandemic. However, the adjustment will be subject to a two-year delay and will be spread over ten years, which materially limits any cash flow benefits over the short term.

The regulator decided not to make any further adjustment to the RAB in addition to the £300 million that was approved during the pandemic.

The H7 final decision has been appealed to the CMA

Heathrow, as well as three airlines – British Airways, Virgin Atlantic and Delta Air Lines, Inc. (Baa3 stable) – individually appealed the CAA's Final Decision to the Competition and Markets Authority (CMA).

HAL appealed on five grounds: (1) the Covid-related RAB adjustment as the company believes that the RAB adjustment should have been calibrated in proportion to the shortfall in revenue in 2020 and 2021; (2) the cost of equity (asset beta); (3) the cost of debt (embedded debt); (4) the introduction of an additional K factor; and (5) the capex incentives framework.

Each of the airlines appealed on three grounds: (1) PAX traffic forecast, which they consider to have been set too low; (2) RAB adjustment as the airlines believe that the upward adjustment to RAB should have been reviewed, reversed or reduced; and (3) the level of WACC.

The CMA has until 16 May to decide whether to grant permission for an appeal. Should permissions to appeal be granted, the statutory deadline for final determination is 22 August, but could be extended to 17 October 2023.

While this presents uncertainty, we currently assume that the Heathrow Finance group will be able to navigate a range of plausible downside scenarios and specifically note that the airlines' notice of appeal includes materially higher traffic assumptions, which are uncertain.

Cashflow-based metrics will strengthen but remain weak over the remainder of H7 period

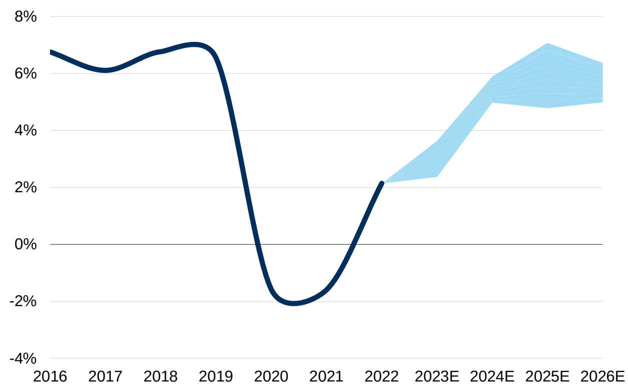
The Heathrow Finance group's financial profile will depend on the level of aeronautical charges and traffic, but also the company's ability to grow commercial revenue and deliver cost efficiencies. Inflation and interest rates will be a further factor. While charges are increased by the CPI, the regulated asset base and the group's index-linked debt and derivative portfolio are linked to the retail price index (RPI), which has been historically higher.

We estimate that the group's cashflow-based metrics will continue to strengthen but will remain below the pre-pandemic levels until 2026. However, the actual ratios will also depend on management's decision regarding shareholder distributions and target gearing. Before the pandemic, the group's leverage was managed with reference to around 86-87% on a net debt/RAB basis.

Exhibit 9

FFO/debt to recover but may stay below the pre-pandemic levels over the medium term

Historical and projected FFO/Debt

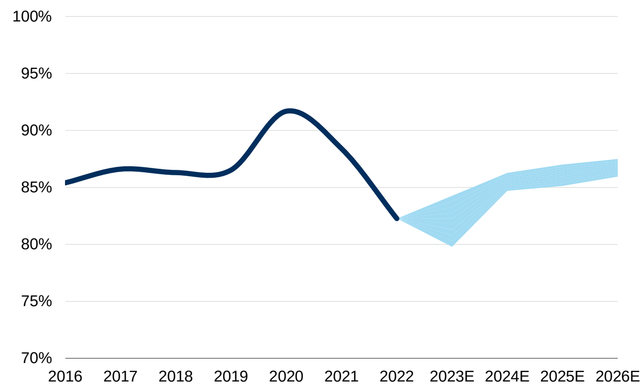


The estimates reflect the potential range of outcomes for the consolidated group.
Source: Moody's estimates

Exhibit 10

In our forecasts we assume that gearing will increase over time

Historical and projected group net debt/RAB



The estimates reflect the potential range of outcomes for the consolidated group.
Source: Moody's estimates

More generally, HF's financial profile and liquidity will depend on the management's financial policies, including for the HSP group, on whose cash flow the company is reliant for its debt service. In this regard, we expect management to follow prudent financial policies and manage capital structure across the wider Heathrow airport group without materially altering the balance of risks to individual companies.

Debt structure is subject to covenants

HF's debt documentation includes two financial covenants — Group Interest Cover Ratio (ICR) of 1.0x and Group RAR, calculated as net debt/RAB, of 92.5% as events of default. In addition, the group's debt documentation includes covenants at the level of HSP.

Exhibit 11

HF's debt is subject to two covenants as events of default

	Trigger event	Event of default
Group RAR	-	92.5%
Junior RAR	82.0%	-
Group ICR	-	1.0x

RAR — Regulatory Asset Ratio.
Source: Company, Moody's Investors Service

Exhibit 12

HSP's debt is subject to a number of covenants

	Trigger event	Event of default
Senior RAR	72.5%	92.5%
Junior RAR	85.0%	-
Senior Interest Cover Ratio	1.4x	-
Junior Interest Cover Ratio	1.2x	-
Average Senior ICR	-	1.05x

RAR — Regulatory Asset Ratio.
Source: Company, Moody's Investors Service

During the pandemic, HF received a covenant waiver with respect to its Group ICR ratio twice. In addition, the company's gearing covenant was temporarily relaxed.

As of end-December 2022, the Heathrow Finance group's gearing amounted to 82.3%, which was well below the event of default level. We expect the group to be able to manage its capital structure and cash flows so that the HSP group and the Heathrow Finance group comply with their respective covenants.

Third runway project is on hold

Before the pandemic, LHR operated at almost full 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 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.

The third runway project went through various consultations and approval processes. The expansion plan was passed through a vote in the UK Parliament in June 2018, but was subsequently challenged in courts. In February 2020, the Court of Appeal ruled against the plan to build the runway (see Court ruling raises uncertainties over future of third runway project, with mixed implications on credit profile, February 2020). Heathrow appealed this court ruling with the Supreme Court, which reinstated the policy support for expansion in the National Policy Statement.

Given the significant reduction in traffic during the pandemic, Heathrow paused its expansion programme although a third runway remains part of its long-term strategic plan. The H7 regulatory period assumes that Heathrow will operate as a two-runway airport.

Liquidity

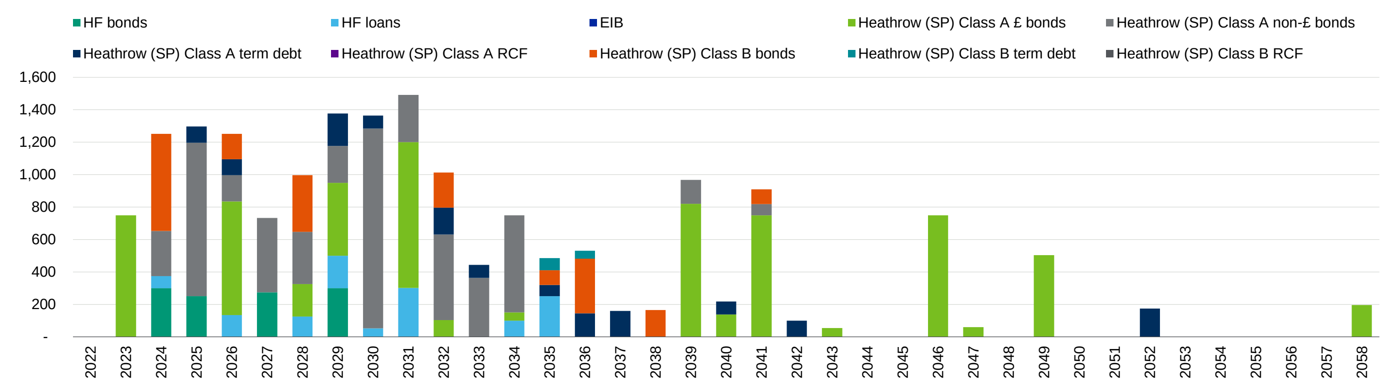
As of end-December 2022, the HF group's liquidity was excellent, supported by a cash balance of almost £3 billion, of which £1.2 billion at the level of HF. The group also had fully available committed bank lines, including a revolving credit facility (RCF) of £1.4 billion due in November 2026.

HF has excellent liquidity to service its debt in the near term given the current strong cash balance levels, with annual cost at around £110 million. However, given that cash could be transferred across the capital structure, the HSP group's ability to upstream cash flows will be key to HF's liquidity over the medium term. The company's next debt maturity is in March 2024, when its £300 million bond comes due.

The Heathrow group has no further debt maturities in 2023. The group's debt repayments will increase to over £1.2 billion in 2024.

Exhibit 13

HF group refinancing needs will increase
as of end-December 2022, in £ million



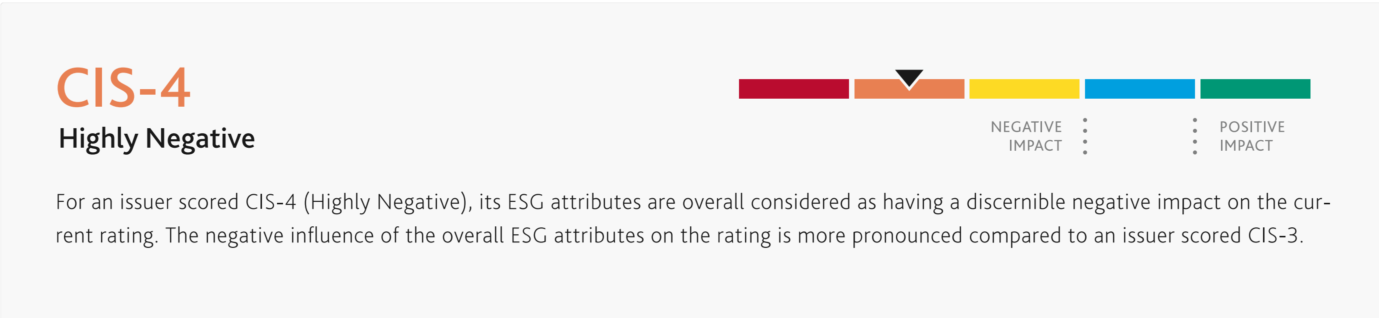
Source: Company, Moody's Investors Service

We note that as of end-December 2022, the group also had £5.7 billion notional of index-linked swaps with a net negative fair value of approximately £1.1 billion. These swaps are subject to periodic accretion paydowns. While such paydowns will be modest in the next two years, we estimate that they would increase substantially in 2025, given current inflation expectations. This will increase the group's refinancing needs and we expect the Heathrow Finance group to manage its funding needs well in advance.

ESG considerations

Heathrow Finance plc's ESG Credit Impact Score is Highly Negative CIS-4

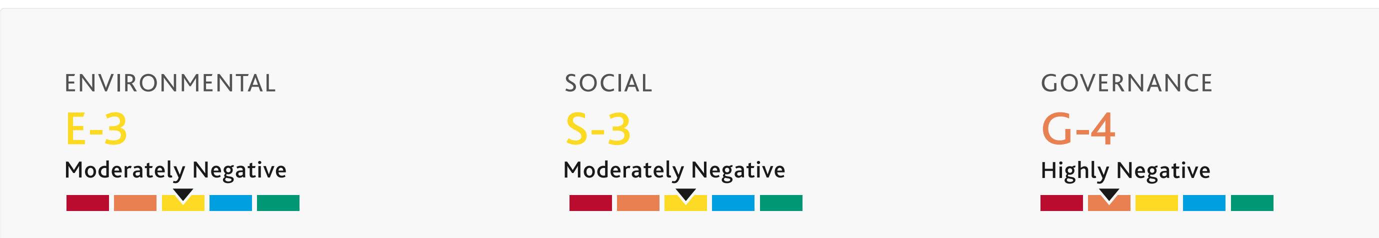
Exhibit 14
ESG Credit Impact Score



Source: Moody's Investors Service

Heathrow Finance's ESG Credit Impact Score is highly negative (**CIS-4**) indicating that its ESG attributes have a discernible negative impact on its rating. Its score reflects moderate environmental and social risks, as well as highly negative governance risks related to the group's high financial leverage and the holding company's reliance on dividends being upstreamed from its operating subsidiary, with distributions subject to contractual restrictions.

Exhibit 15
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Heathrow Finance's credit exposure to environmental considerations is moderately negative (**E-3**) because of carbon transition. Evolving decarbonisation policies around the globe and regulations may increase operating costs for airlines and result in higher airfares that reduce the demand for air travel. Further, the desire by some to reduce carbon emissions may lead to reduced travel, in particular corporations seeking to reduce their carbon footprints. At the company level, Heathrow airport achieved carbon neutrality in 2020 and is committed to achieving zero-carbon infrastructure by the mid-2030s. Furthermore, given the airport's location close to the highly urbanized area, the company has a moderate exposure to noise pollution that is reflected in a cap on flights. Heathrow Finance has neutral-to-low exposure to physical climate, water management and natural capital risks.

Social

Heathrow Finance has moderately negative (**S-3**) exposure to social risks related to demographic and societal policies moving to reduce carbon emissions. There is a risk that such policies and/or trend may lead to lower travel volumes or higher costs. While the lack of viable alternatives for a long-distance travel is a mitigating factor, Heathrow Finance is exposed to global trends. The company is exposed also to human capital risk, which reflects the occurrence of and potential for industrial disputes and strike actions. These risks are balanced by neutral to low risks to customer relations, health and safety and responsible production.

Governance

Heathrow Finance's highly negative governance risk (**G-4**) reflects its high financial leverage at the holding company level and reliance on dividends upstreamed from its operating subsidiary, with distributions subject to contractual restrictions.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Structural considerations

The B1 rating of the HF Notes reflects the structural subordination of the notes in the Heathrow Finance group structure versus the debt at Heathrow (SP) Limited (HSP).

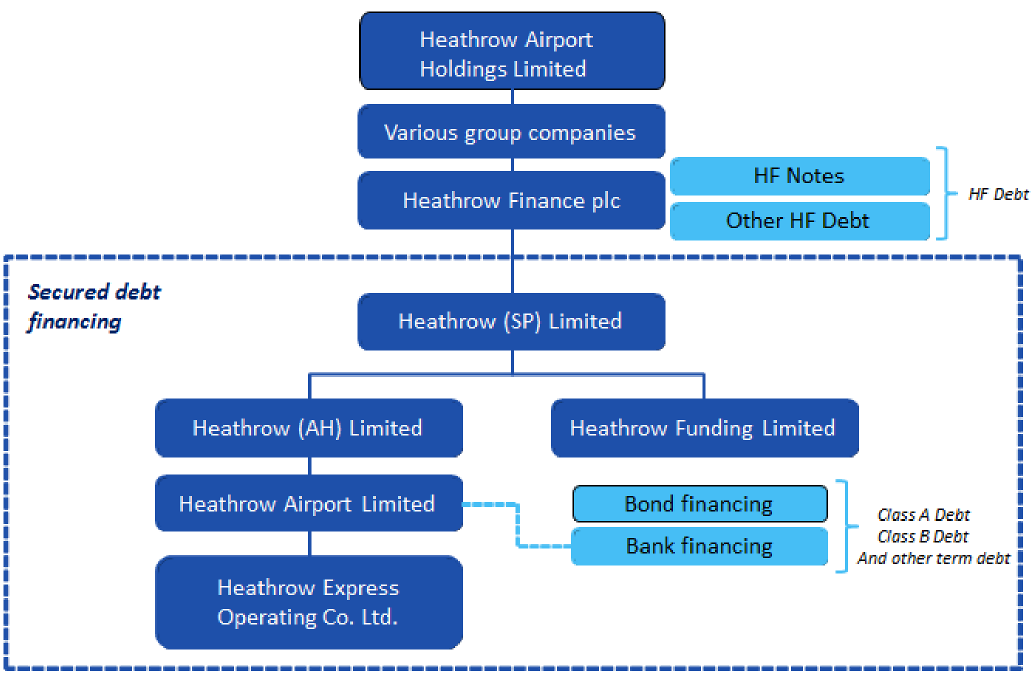
HSP is financed via debt provided through a ring-fenced secured debt financing structure (the HSP SDF). The HSP SDF provides for the issuance of two tranches of debt, called Class A Debt and Class B Debt. Class B Debt is subordinated to Class A Debt. The terms of the HSP SDF limit the amount of Class 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.

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.

Exhibit 16

Heathrow Finance plc group structure

HF debt is structurally subordinated to HSP secured debt financing



Source: Moody's Investors Service

The HSP SDF isolates the credit profile of the group from that of Heathrow Airport Holdings Limited (HAH). While there is some reliance on HAH for operational support, this is considered acceptable in the context of the rating level. 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, and additional reporting requirements. While such protections only benefit HSP debt holders directly, they provide some element of protection to HF creditors by helping to protect the financial profile of HSP.

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 17

Heathrow Finance plc — Rating Factors Grid

Privately Managed Airports and Related Issuers Industry [1][2]	Current FY 12/31/2021		Moody's Forward View 23-26 As of April 2023 [3]	
Factor 1: Concession and Regulatory Frameworks (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Ability to Increase Tariffs	A	A	A	A
b) Nature of Ownership / Control	Aaa	Aaa	Aaa	Aaa
Factor 2: Market Position (15%)				
a) Size of Service Area	Aa	Aa	Aa	Aa
b) Economic Strength & Diversity of Service Area	Aaa	Aaa	Aaa	Aaa
c) Competition for Travel	Baa	Baa	Baa	Baa
Factor 3: Service Offering (15%)				
a) Passenger Mix	Baa	Baa	Baa	Baa
b) Stability of traffic performance	Baa	Baa	Baa	Baa
c) Carrier Base	Aa	Aa	Aa	Aa
Factor 4: Capacity and Capital (5%)				
a) Ability to accommodate expected traffic growth	Baa	Baa	Baa	Baa
Factor 5: Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Factor 6: Leverage and Coverage (40%)				
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	0.6x	Caa	1.9x - 2.5x	Ba
b) FFO / Debt	-1.6%	Caa	4.6% - 5.6%	B
c) Moody's Debt Service Coverage Ratio	0.4x	Caa	1.3x - 1.9x	B
d) RCF / Debt	-1.6%	Caa	2.2% - 3.2%	B
Rating:				
Scorecard-Indicated Outcome Before Notch Adjustment		B2		Ba2
Notch Lift	0.0	0.0	0	0.0
a) Scorecard-Indicated Outcome		B2		Ba2
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 31/12/2021. Credit metrics are based on a gross debt and do not positively factor in a significant amount of cash held on balance sheet.
[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

Ratings

Exhibit 18

Category	Moody's Rating
HEATHROW FINANCE PLC	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Secured -Dom Curr	B1/LGD5

Source: Moody's Investors Service

Appendix

Exhibit 19
Peer comparison table

	Heathrow Finance plc Ba2 Stable			Royal Schiphol Group N.V. A2 Stable			Aeroporti di Roma S.p.A. Baa2 Negative		
(in GBP million)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21
Revenue	3,070	1,175	1,214	1,416	612	702	979	331	545
EBITDA	1,923	234	421	601	(110)	296	456	(23)	41
EBITDA margin %	62.6%	19.9%	34.7%	42.5%	-18.0%	42.2%	46.6%	-6.8%	7.5%
Funds from Operations (FFO)	1,070	(308)	(297)	467	(164)	(9)	375	(15)	110
Total Debt	16,343	19,544	18,606	2,366	4,388	4,586	1,299	2,150	1,928
(FFO + Interest Expense) / Interest Expense	2.4x	0.5x	0.6x	7.4x	-1.0x	0.9x	10.5x	0.7x	3.5x
FFO / Debt	6.5%	-1.6%	-1.6%	19.1%	-3.8%	-0.2%	28.0%	-0.7%	5.6%
RCF / Debt	3.7%	-2.1%	-1.6%	14.9%	-3.8%	-0.2%	19.4%	-0.7%	5.6%
Debt Service Coverage Ratio	1.7x	0.3x	0.4x	8.6x	-0.8x	0.7x	5.6x	0.3x	1.6x

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 20
Heathrow Finance plc adjusted debt breakdown

(in GBP million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21
As Reported Total Debt	**14,390**	**14,735**	**16,424**	**19,992**	**18,577**
Pensions	153	28	28	30	29
Leases	324	324	0	0	0
Non-Standard Adjustments	(181)	35	(109)	(478)	0
Moody's Adjusted Total Debt	**14,686**	**15,122**	**16,343**	**19,544**	**18,606**

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 21
Heathrow Finance plc adjusted FFO breakdown

(in GBP million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21
As Reported Funds from Operations (FFO)	**1,671**	**1,739**	**1,777**	**158**	**393**
Pensions	24	22	26	20	0
Leases	33	33	0	0	0
Capitalized Interest	(46)	(50)	(44)	0	0
Alignment FFO	(236)	(189)	(128)	28	(607)
Unusual Items - Cash Flow	0	0	0	125	11
Cash Flow Presentation	0	0	0	(609)	(205)
Non-Standard Adjustments	(549)	(532)	(561)	(30)	111
Moody's Adjusted Funds from Operations (FFO)	**897**	**1,023**	**1,070**	**(308)**	**(297)**

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™

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