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CREDIT OPINION
27 April 2020

Update

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RATINGS

Heathrow Finance plc

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

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.

Contacts

Raffaella Altamura +44.20.7772.8613
VP-Sr Credit Officer
raffaella.altamura@moodys.com

Joanna Fic +44.20.7772.5571
Senior Vice President
joanna.fic@moodys.com

Andrew Blease +33.1.5330.3372
Associate Managing Director
andrew.blease@moodys.com

Jonathan Dolbear +44.20.7772.1099
Associate Analyst
jonathan.dolbear@moodys.com

Heathrow Finance plc

Update following change in rating outlook to negative

Summary

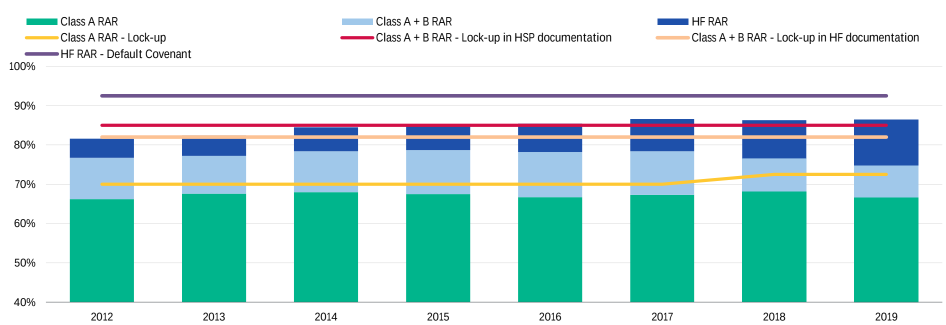
The credit profile of Heathrow Finance plc (HF, Corporate Family Rating Ba1 negative) benefits from (1) its ownership of London Heathrow (LHR), which is one of the world's most important hub airports and the largest European airport; (2) its long established framework of economic regulation; (3) the historically resilient traffic profile of Heathrow; (4) 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; and (5) the group's good liquidity profile.

HF's credit quality is, however, constrained by its leveraged profile and the exposure to downside risks linked to the coronavirus outbreak, which will lead to a period of severe cuts in passenger traffic, given the current restrictions on travel, while recovery prospects remain uncertain at this stage. Given the reduction in earnings expected as a consequence of the traffic reduction, headroom under the financial covenants levels included in the debt documentation will reduce.

Exhibit 1

HF exhibits a relatively leveraged profile

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



Source: Company, Moody's Investors Service

Credit strengths

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

» Long established framework of economic regulation

» Historically resilient traffic characteristics

» Good liquidity profile and debt financing structure exhibiting protective features

Credit challenges

» Significant traffic declines due to coronavirus outbreak and uncertain recovery prospects

» Construction of third runway implies significant capital expenditure over the medium term but project is subject to delays

» High leverage, with Net Debt/RAB in the high 80s percent

» Uncertainties stemming from Brexit

Rating outlook

The negative outlook assigned to HF's ratings reflects the company's rising credit and liquidity risks due to the sharp decline in traffic as a result of the implementation of travel restrictions linked to the coronavirus outbreak and the uncertainties around traffic rebound prospects. The negative rating outlook also reflects Moody's expectation that the contraction in cash flow generation resulting from the declining passenger levels will result in reduced headroom vs. the financial covenants included in the debt documentation and a deterioration of key credit metrics in 2020, below the levels considered commensurate with current ratings, particularly in respect of Moody's Adjusted Interest Cover Ratio (AICR).

Factors that could lead to an upgrade

Given the current negative outlook, upward rating pressure is unlikely in the near future. The outlook could be stabilised if, following the lifting of border and travel restrictions and a return to normal traffic performance, the company's financial profile and key credit metrics sustainably return to levels commensurate with the current rating, while continuing to maintain a good liquidity profile.

Factors that could lead to a downgrade

Downward rating pressure could develop if (1) HF were to exhibit a materially reduced headroom under its Net Debt/RAB covenant of 92.5% or an AICR consistently lower than 1.0x; (2) the group's liquidity profile deteriorates or there was evidence of a sustained significant reduction in cash flows upstreamed to HF from HSP; (3) there was an increased risk of covenant breaches; or (4) it appeared likely that the coronavirus outbreak had a sustained detrimental impact on traffic, either because of travel restrictions or airline failures.

Key indicators

Heathrow Finance plc

	2015	2016	2017	2018	2019
(FFO + Cash Interest Expense) / (Cash Interest Expense)	2.3x	2.3x	2.0x	2.3x	2.4x
FFO / Debt	6.5%	6.8%	6.1%	6.8%	6.6%
Moody's Debt Service Coverage Ratio	1.8x	1.9x	1.8x	1.9x	1.7x
RCF / Debt	5.0%	2.3%	3.8%	3.5%	3.7%
Net Debt / RAB [1]	84.9%	85.4%	86.6%	86.3%	86.5%
Adjusted Interest Coverage Ratio	1.3x	1.3x	1.1x	1.3x	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. The 2019 AICR has been calculated by carrying over the 2018 adjustment for regulatory depreciation
Source: Moody's Financial Metrics

Profile

The only asset of HF is its shares in HSP, a holding company which in turns owns the company that owns LHR, Europe's busiest airport in terms of total passengers. 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

Coronavirus outbreak and uncertainty over traffic recovery prospects weigh on credit profile

The credit profile of HF reflects the expectation that the coronavirus pandemic will lead to a period of severe cuts in passenger traffic but that there will be a gradual recovery in passenger volumes starting by the third quarter 2020.

However, unlike previous negative shocks such as the SARS epidemic in 2003, the prospects for traffic rebound is more uncertain because (1) travel restrictions in some form may continue for some time even if the spread of the virus seems contained; (2) the deteriorating global economic outlook would likely slow the recovery in traffic and consumer spending, even if travel restrictions are eased; and (3) the coronavirus outbreak is also weakening the credit profile of airlines, which have been drastically cutting capacity. As events continue to unfold, there is a higher than usual degree of uncertainty around the length of travel restrictions and drop in travel demand. Hence, it is difficult to predict the overall traffic volumes for 2020.

Nevertheless, Moody's currently assumes that the decline in passenger traffic at LHR will be at least 30% in the financial year ending December 2020, driven by dramatic declines in the first half of the year and a recovery in the second half, albeit phased over the period. There are, however, high risks of more challenging downside scenarios. HF's credit profile reflects the rising credit and liquidity risks due to the sharp decline in traffic as a result of the implementation of travel restrictions and the uncertainties around traffic rebound prospects. HF's credit quality also reflects Moody's expectation that the contraction in cash flow generation resulting from the declining passenger levels will result in a deterioration of key credit metrics in 2020, below the levels considered commensurate with current ratings.

Notwithstanding the significantly reduced cash flow over at least the next few weeks, HF, through its ownership of LHR, remains a key infrastructure provider with a potential for a strong recovery once the coronavirus outbreak and its effects have been contained.

Leveraged financial profile and reduced headroom vs. covenants

Overall, debt levels for the group remain very high relative to the regulated asset base. As of 31 December 2019, HF's reported leverage stood at 86.5% of LHR's RAB. Over the last five years leverage has increased by two 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%).

Given the currently assumed magnitude of the reduction in earnings, Moody's expects a reduction in the headroom against financial covenants included in HF's debt documentation (i.e. group Net Debt/RAB of 92.5% and Interest Cover Ratio of 1.0x). In addition, the group's debt documentation includes covenants at the level of HSP, which would not be permitted to upstream cash to HF if it fails to meet certain tests, generally linked to financial metrics, but also related to the maintenance of adequate liquidity at HSP. Nevertheless, on the assumption of a traffic rebound, Moody's currently expects the group as a whole to maintain sufficient headroom against its financial covenants.

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

The HF group owns 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 80.9 million passengers in 2019, 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 2019. 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.

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 some competition from domestic high speed rail services.

Long established framework of economic regulation but some key decisions on regulatory settings for the next period remain pending

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 therefore supported the c. 8% outperformance (as of the end of 2018) of the forecast included in the regulatory settlement.

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 in Q6 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 agreed a commercial deal with airlines whereby the airport would pay a fixed rebate cumulatively amounting to £260 million (up to £50 million accrued in 2019, with the remainder accrued in 2020 and 2021, with payment of the fixed rebate spread over four years from accrual). The commercial deal provides for additional upward or downward adjustments to the rebate amount should traffic performance be higher or lower than pre-agreed thresholds. As such, in light of the significant traffic declines expected in the context of the coronavirus outbreak, Moody's does not expect any accrual related to payments to the airlines in 2020.

Given the delays in the process linked to LHR's additional runway capacity, the CAA extended 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). The iH7 extension to the end of 2021, is on the same terms as the rest of Q6, i.e. a price path of RPI-1.5% (excluding the impact of the airlines commercial deal discussed above).

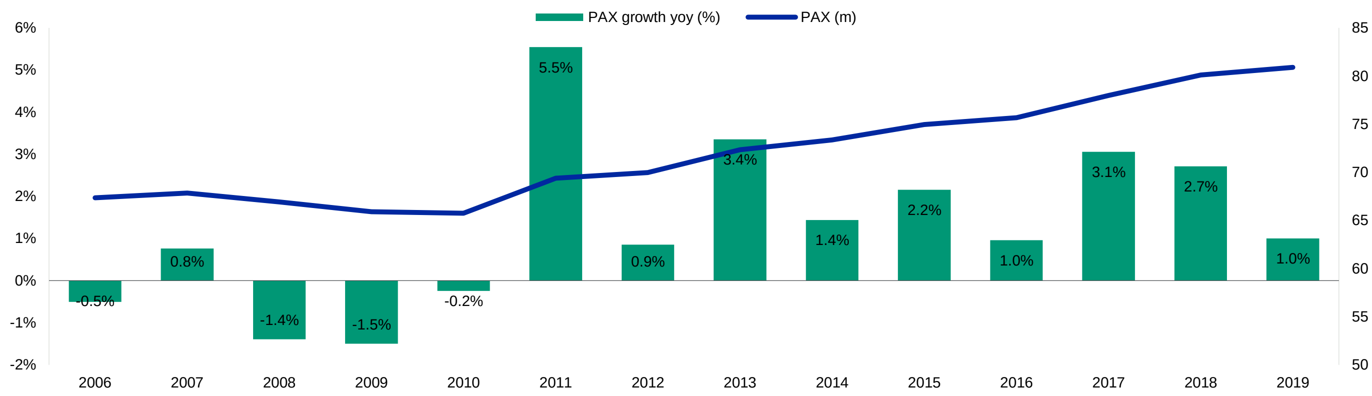
The CAA is still developing its thinking about the appropriate regulatory arrangements that should apply in the next regulatory period (H7) in the context of the planned major expansionary investments, which are however subject to significant delays, as further discussed below.

Resilient traffic characteristics support credit profile but coronavirus outbreak will significantly impact traffic

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 less than 2% which evidences low volatility compared to most rated airports in Europe. The effect of the coronavirus outbreak, however, is expected to result in traffic declines in excess of 30% in 2020.

Exhibit 3

Heathrow has historically exhibited a relatively resilient traffic profile



Source:Company, Moody's Investors Service

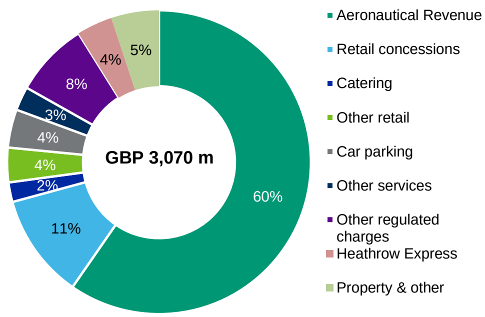
Much of the airport's historical resilience is underpinned by the capacity constraints LHR operates under. The pent-up demand it faces means that traffic at the airport tends to suffer lower declines than other comparable airports when economic activity weakens. Under strong economic conditions, however,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

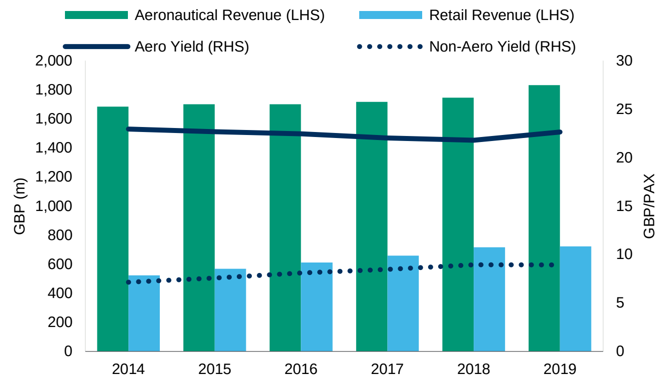
The resilient traffic performance has historically supported LHR's revenue and cash flow generation, both in the aeronautical and commercial segments.

Exhibit 4
2019 revenue split



Source: Company, Moody's Investors Service

Exhibit 5
Aeronautical and retail yields evolution



Source:Company, Moody's Investors Service

Constrained runway capacity but third runway project subject to further delays

Under normal circumstances, LHR operates at approximately 99% 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. Nevertheless, in light of the significant traffic declines linked to the coronavirus outbreak, as well as the uncertain recovery prospects, we expect a relief on capacity constraints in the short term.

LHR has finalised 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, 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.

However the approval process linked to the third runway experienced a significant setback in February 2020, when the Court of Appeal ruled against the plan to build the runway due to the fact that the UK government did not take into account, in its NPS and the associated decision to support LHR's expansion, its commitments to climate change objectives included in the Paris Agreement. Heathrow appealed the court ruling with the Supreme Court and a decision on whether such appeal is admissible is expected in the next few weeks. These developments cast significant uncertainties over the future and timing of LHR's expansion, as the UK government would also need to re-assess, amend or withdraw the NPS, leading to further delays in the project or, at the extreme, a full reconsideration or withdrawal of Heathrow's expansion plans.

The proposed expansion of Heathrow Airport, which currently has an estimated cost of approximately £14 billion (in 2014 prices), is expected to deliver at least an additional 260,000 flights per annum at the airport, taking the total to at least 740,000 flights per annum, which could result in annual passenger numbers increasing to over 130 million over time, boosting the UK's connections to and enable increased trade with the rest of the world. Prior to the Court of Appeal's decision, which adds further delays to the expansion project, LHR's third runway was not expected to be operational before 2028-29.

Notwithstanding Heathrow's pending appeal with the Supreme Court, in order to proceed with the proposed expansion, LHR would need to submit a DCO application. 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. The timing of any sign-off is highly uncertain at this stage.

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, as well as any potential shareholders support, are still unknown at this stage.

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 strategy for exiting the EU, the UK will also leave the EU's aviation single market, the so-called European Common Aviation Area (ECAA). The ECAA agreement also allows for the negotiation of comprehensive air services agreements (ASAs) with third countries as a single trading bloc. For example, all ECAA signatories benefit from the EU-US Open Skies agreement which came into force in 2008.

As a result of the UK's decision to leave the EU, 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 with which air services are provided by virtue of EU membership will need to be overhauled.

Following the UK's departure from the EU in January 2020, the UK and the EU concluded a Withdrawal Agreement, which 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. Regarding aviation, the UK and EU agreed to put in place a new comprehensive air transport agreement.

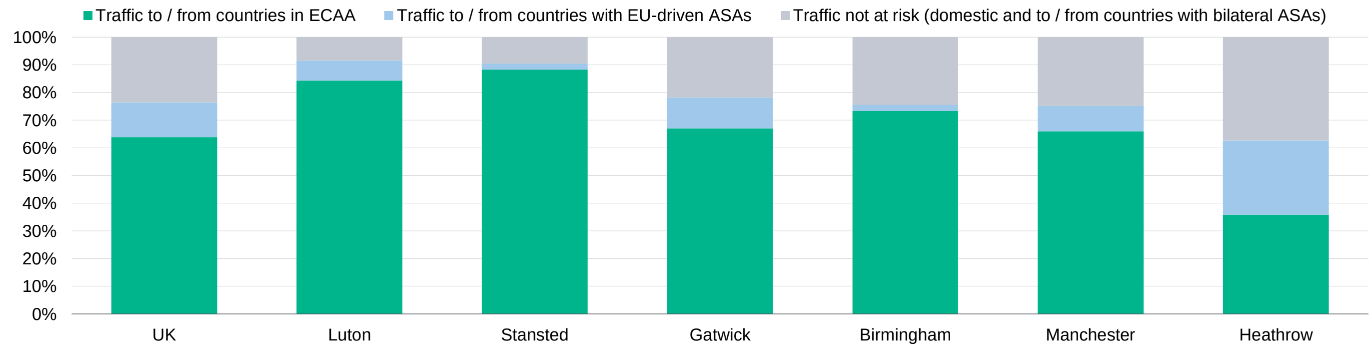
In parallel, the UK government has also sought to sign new agreements with some of the countries with which aviation relationships are maintained through the UK's membership of the EU. To date, agreements have been announced with many of the countries with which the UK has access agreements by virtue of its EU membership, including Canada and the US.

The above developments are positive, 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 in the short term. However, some residual uncertainties remain in respect of any new aviation agreement with the EU after the conclusion of the transition period. In general, a no-deal scenario would still have the capacity to disrupt operations at UK airports and reduce traffic volumes.

Exhibit 6

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 (2018 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 would 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.

ESG considerations

The rapid and widening spread of the coronavirus (COVID-19) outbreak, the deteriorating global economic outlook, falling oil prices and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airport sector is among the most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand and sentiment.

Moody´s regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. In addition to the immediate reduction in passenger volumes as a result of the coronavirus epidemic, airports may need to implement new health and safety standards and regulation can result in business practices related to this matter changing over time, leading to some compliance expenses and potential non-compliance costs in the form of fines.

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.

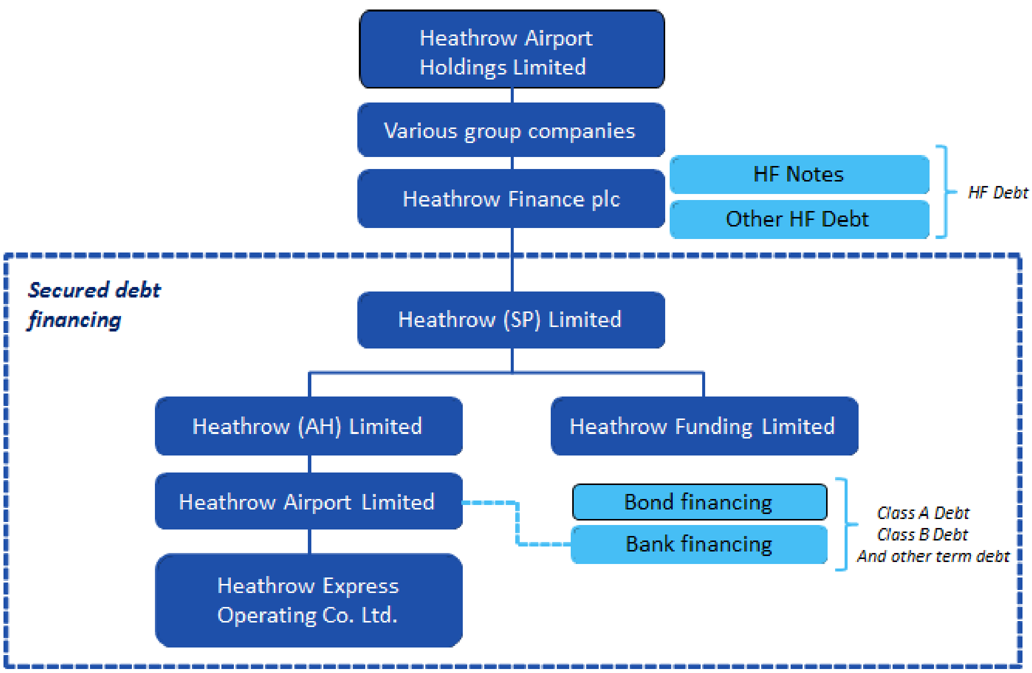
The HF Debt is structurally subordinated to the Class A and Class B Debt and HSP can only provide cash to service debt at HF if it complies with the financial terms of the HSP SDF.

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 7
Heathrow Finance plc group structure
HF Debt is structurally subordinated to debt issued by HSP's secured debt financing



Source: Moody's Investors Service

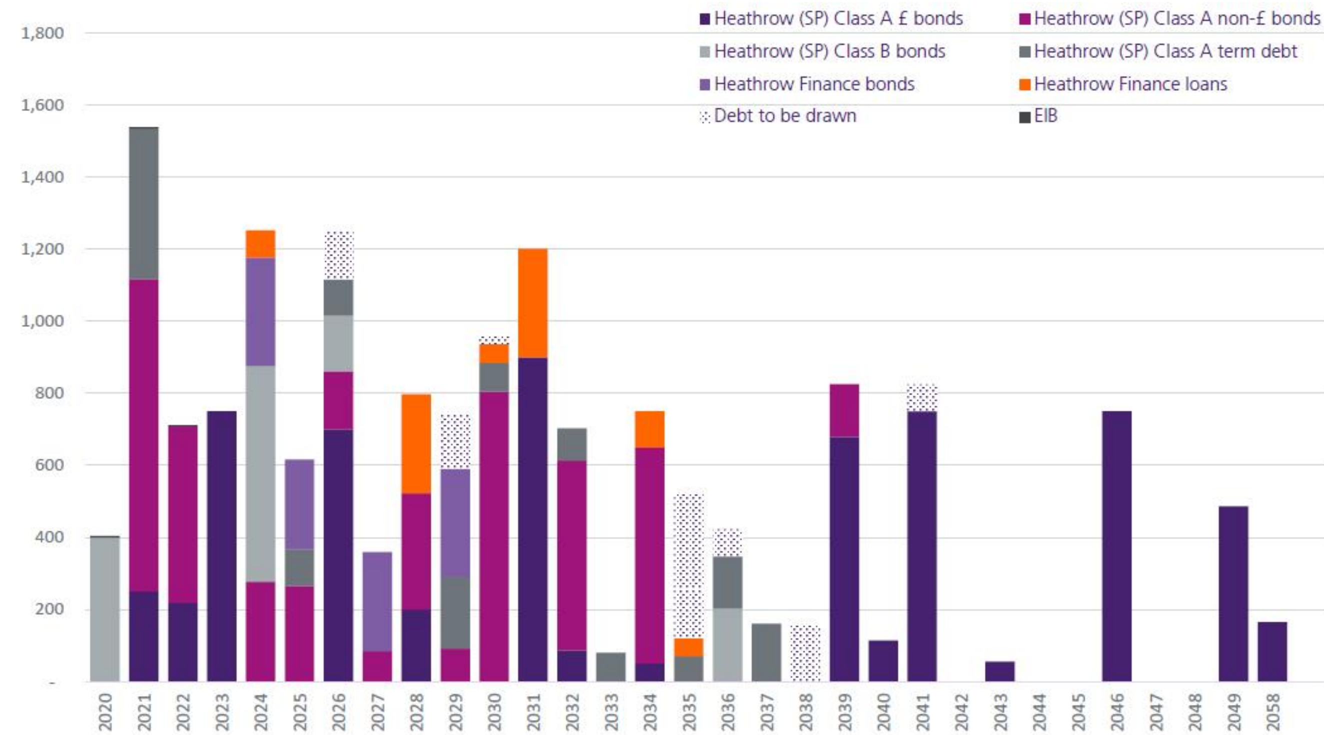
Liquidity analysis

The HF group as a whole exhibits a good liquidity position, allowing for flexibility to cover its expenditure in the context of the significant deterioration in cash flows associated with the expected contraction in traffic levels due to the coronavirus outbreak.

Moody's understands that, as of the end of March 2020, the HF group had approximately £2.8 billion of cash on balance sheet (of which £245 million at the level of HF). Within the group, HSP also maintains liquidity arising from delayed drawdowns under previously issued bonds (£155 million). Whilst HF's only source of cash flow remains dividends upstreamed from HSP, HF currently has availability under undrawn committed loans (£273 million), which provide additional flexibility to support its debt service requirements (approximately £100 million for 2020). HF's next debt maturity is in 2024 (£300 million). In addition, the HF group is assessing initiatives aimed at reducing, where possible, its cost base and optimising its investment spend, with the objective of further supporting its liquidity profile in the short term.

The group has established a bond issuance platform that has been used repeatedly to diversify its sources of financing, issuing bonds in eight different currencies and extending the average maturity of its debt. However, over the next five years, almost 30% of HF's consolidated debt (more than £3.5 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. As such, securing funding well in advance of upcoming debt maturities will continue to be a key factor in HF's credit profile.

Exhibit 8
HF Group debt maturity profile (£ million) as of end of 2019



Source: Company

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 9

Heathrow Finance plc - Rating Factors Grid

Privately Managed Airports and Related Issuers Industry Grid [1][2]	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of April 2020 [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	Aa	Aa	Aa	Aa
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)	2.4x	Ba	1.3x-2.0x	Caa-Ba
b) FFO / Debt	6.6%	Ba	1.5%-5.0%	Caa-B
c) Moody's Debt Service Coverage Ratio	1.7x	B	0.9x - 1.5x	Caa-B
d) RCF / Debt	3.7%	B	1.5% - 3.0%	Caa-B
Rating:				
Scorecard-Indicated Outcome Factors 1-6		Ba1		B2-Ba2
Rating Lift		**0.0**		**0.0**
a) Scorecard-Indicated Outcome		Ba1		B2-Ba2
b) Actual Rating Assigned				Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31/12/2019; 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 10

Peer comparison table

(in GBP million)	Heathrow Finance plc Ba1 Negative FYE Dec-17	FYE Dec-18	FYE Dec-19	Royal Schiphol Group N.V. A1 Negative FYE Dec-17	FYE Dec-18	FYE Dec-19	Aeroporti di Roma S.p.A. Baa3 Negative FYE Dec-16	FYE Dec-17	FYE Dec-18
Revenue	2,884	2,970	3,070	1,278	1,335	1,416	942	870	912
EBITDA	1,784	1,879	1,923	473	462	490	379	424	454
EBITDA margin %	61.9%	63.3%	62.6%	37.0%	34.6%	34.6%	40.2%	48.7%	49.8%
Funds from Operations (FFO)	897	1,023	1,070	420	419	467	332	327	385
Total Debt	14,686	15,094	16,315	1,953	2,339	2,366	874	1,307	1,315
(FFO + Interest Expense) / Interest Expense	2.0x	2.3x	2.4x	7.0x	7.2x	7.4x	11.2x	9.9x	10.6x
FFO / Debt	6.1%	6.8%	6.6%	21.8%	18.1%	19.1%	39.8%	25.3%	29.7%
RCF / Debt	3.8%	3.5%	3.7%	15.0%	12.4%	14.9%	20.0%	8.0%	12.7%
Debt Service Coverage Ratio	1.8x	1.9x	1.7x	7.4x	7.0x	8.6x	7.1x	4.7x	5.7x

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 11

Heathrow Finance plc adjusted debt breakdown

(in GBP million)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Total Debt	13,023	14,218	14,390	14,735	16,424
Pensions	22	108	153	0	0
Leases	306	192	324	324	0
Non-Standard Public Adjustments	372	(547)	(181)	35	(109)
Moody's Adjusted Total Debt	13,723	13,971	14,686	15,094	16,315

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 12

Heathrow Finance plc adjusted FFO breakdown

(in GBP million)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Funds from Operations (FFO)	1,578	1,601	1,671	1,739	1,777
Pensions	27	34	24	22	26
Leases	31	20	33	33	0
Capitalized Interest	0	0	(46)	(50)	(44)
Alignment FFO	(145)	(133)	(236)	(189)	(145)
Non-Standard Public Adjustments	(597)	(578)	(549)	(532)	(544)
Moody's Adjusted Funds from Operations (FFO)	894	944	897	1,023	1,070

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 13

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

Source: Moody's Investors Service

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