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CREDIT OPINION
15 December 2020

Update

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RATINGS

Heathrow Finance plc

Domicile	London, United Kingdom
Long Term Rating	Ba2
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.

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Heathrow Finance plc

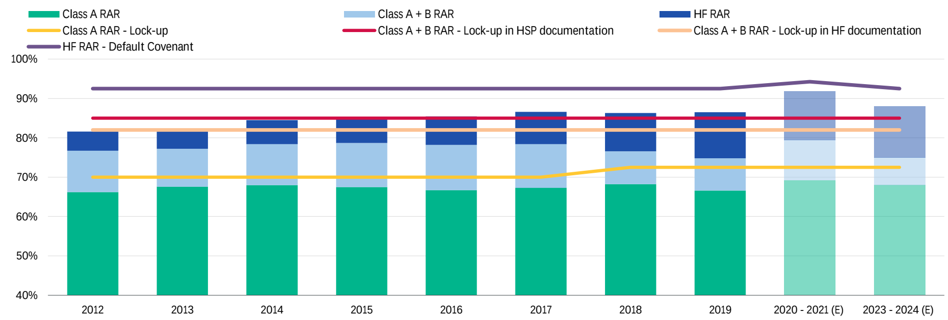
Update following rating downgrade

Summary

The credit profile of Heathrow Finance plc (HF, Corporate Family Rating Ba2 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 LHR; (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 has resulted in severe cuts in passenger traffic, while recovery prospects remain uncertain. Given the reduction in earnings due to the traffic reduction, HF will breach default financial covenants under its debt documentation. However, HF has obtained covenant waivers until December 2021.

Exhibit 1
Traffic declines linked to coronavirus outbreak weigh on leverage
Class A, class B and HF Net Debt/RAB (as per covenant calculation)



Note: This represents Moody's forward view, not the view of the issuer. Projections reflect averages over the period presented. The HF RAR default covenant for 2020-2021 is an average reflecting the covenant waiver.
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
- Uncertain pace of traffic recovery
- Highly leveraged financial profile
- Uncertainties stemming from Brexit

Rating outlook

The outlook assigned to HF's ratings is negative, reflecting the credit risks associated with the substantial decline in traffic linked to the coronavirus outbreak and the significant uncertainties around traffic recovery prospects.

Factors that could lead to an upgrade

In light of the current negative outlook, upward rating pressure on HF's ratings is unlikely in the near future. More generally, positive rating pressure would only develop if, following the lifting of border and travel restrictions, the control of the coronavirus pandemic and a return to more normal traffic performance, the company's financial profile and key credit metrics sustainably strengthen, leading to restoring an appropriate headroom under its Net Debt/RAB covenant and an Adjusted Interest Coverage 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) it were to exhibit a financial profile leading to an AICR level continuously below 1.0x; (2) the group reports a permanently impaired flexibility versus its event of default financial covenants or a risk of extended covenant breaches; (3) the liquidity profile deteriorates significantly; or (4) it appeared likely that the coronavirus outbreak had a more severe or sustained detrimental impact on traffic levels.

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%	6.5%
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.
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

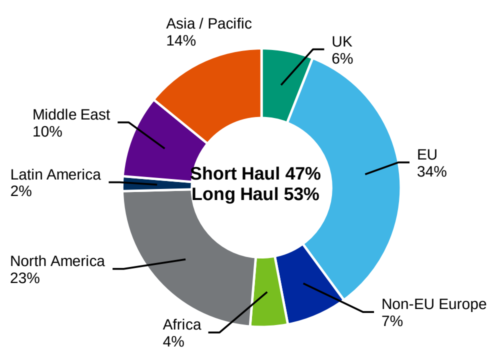
Coronavirus outbreak and uncertainty over traffic recovery prospects weigh on credit profile

The credit profile of HF reflects the consequences of the coronavirus outbreak on traffic levels and a persistently weak operating environment, as evidenced by the weaker than anticipated pace of passenger demand recovery. More specifically, traffic at LHR airport has been severely impacted by the pandemic and the introduction of travel restrictions in 2020. While flight activity resumed for the peak summer season in July and August, passenger volumes remained subdued, affected by the changing quarantine requirements. In light of the recent government decisions to implement lockdown measures and similar actions in a number of European countries, Moody's estimates that the decline in passenger traffic at LHR will be approximately 75% in 2020.

These dynamics will continue to have a significant detrimental impact on cash flows and, whilst the group is implementing measures aimed at supporting its financial profile, Moody's expects key credit metrics to exhibit a relatively prolonged weakness.

While Moody's expects passenger volumes to increase in 2021, the timing and profile of any recovery is highly uncertain because (1) LHR exhibits a material exposure to long haul traffic (more than half of the total), as well as business travel, for which recovery is expected to remain weaker and more uncertain than leisure travel, (2) travel restrictions in some form may continue for some time even if the spread of the virus seems contained in some areas; (3) the availability and benefits of any vaccine or other medical solution have yet to be fully tested; (4) there is evidence of lack of international coordination over travel restrictions and quarantine measures; (5) the deteriorating global economic outlook, as well as the uncertainties linked to Brexit, would likely slow the recovery in traffic and consumer spending, even if travel restrictions are eased; and (6) the coronavirus outbreak is also weakening the credit profile of airlines, which have been drastically cutting capacity. However, Moody's recognises LHR's strong position in the London aviation market, as evidenced by the consolidation of some airlines' operations at LHR in recent months and strong cargo performance, as well as elements of its economic regulation, as mitigating factors.

Exhibit 3
LHR is significantly exposed to recovery prospects of long haul traffic
Traffic breakdown as of YE 2019 by geography



Source: Company, Moody's Investors Service

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.

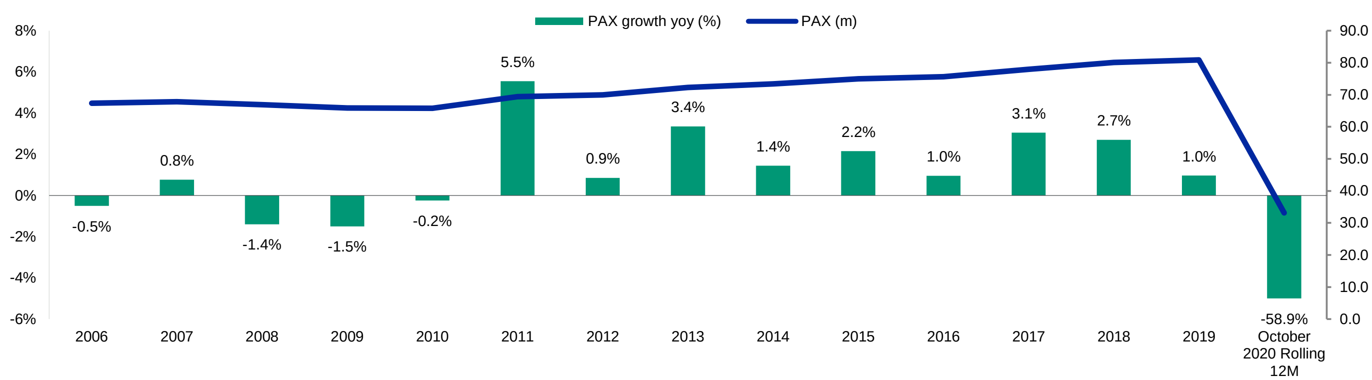
LHR is exposed to some transmodal competition, in particular from rail. Domestic air services compete with rail, and the Eurostar rail service competes very effectively with airlines on the London-Paris, London-Brussels and, to a lesser extent, London-Amsterdam routes. Rail competition with airlines 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.

LHR has historically exhibited a relatively resilient traffic 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 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 of approximately 75% in 2020, with limited visibility in respect of recovery patterns.

Exhibit 4

Heathrow has historically exhibited a relatively resilient traffic profile but coronavirus outbreak significantly affected traffic



Source:Company, Moody's Investors Service

Much of the airport's historical resilience reflected the capacity constraints LHR operated under prior to the coronavirus outbreak, which meant that the airport suffered lower declines than other comparable airports at times of weak economic activity. Under strong economic conditions, however, the airport's ability to accommodate additional traffic is restricted.

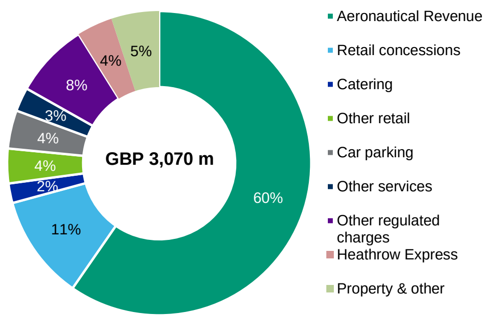
In addition, the airport's traffic performance is also explained by its catchment area's strength. LHR serves London and the South East of England directly, one of Europe's most economically robust areas with GDP per capita well above the European average. The economic base has a good level of diversity 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 (Ba2 negative). Traffic recovery prospects and 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. Overall, British Airways accounted for more than 40% of total traffic at LHR in 2019.

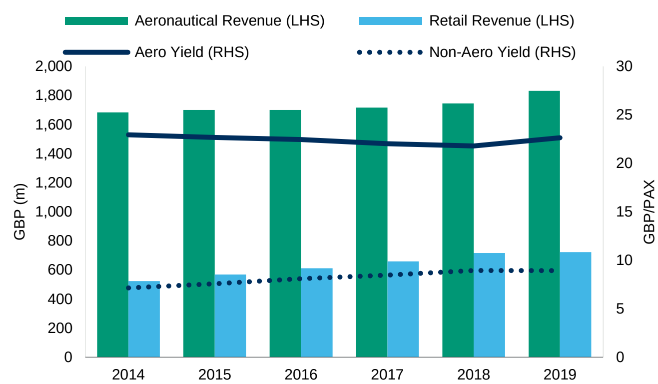
The resilient traffic performance has historically supported LHR's revenue and cash flow generation, both in the aeronautical and commercial segments. However, as these activities are driven by passenger volumes, financial performance will suffer from the severe traffic declines linked to the coronavirus outbreak.

Exhibit 5
2019 revenue split



Source: Company, Moody's Investors Service

Exhibit 6
Aeronautical and retail yields evolution



Source:Company, Moody's Investors Service

Long established framework of economic regulation but key regulatory settings for the next period are yet to be defined

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.

In 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, which LHR had secured by Q1 2018.

In addition to the traffic and operating efficiency outperformance reported in Q6, 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 as of the end of 2018, 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 provided 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 associated with 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 potential decision on runway capacity expansion. Q6 was therefore 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 significant delays in the process linked to LHR's expansion (please see below for additional details), followed by the traffic shock due to the coronavirus outbreak, mean that for the next five-year regulatory period (H7) commencing in January 2022, the CAA plans to focus on a price control for a two-runway airport. The CAA is still developing its thinking about the appropriate regulatory arrangements that should apply in the next period, which are critical in the context of LHR's future aviation charges and the group's projected financial profile. With regard to traffic, in its latest consultation document, the CAA indicated that it is considering to introduce some form of risk sharing mechanism, although further details are not available at this stage. More generally, the CAA is also evaluating WACC levels and traffic assumptions to use for the next regulatory period, as well as the magnitude and timing of recovery of the negative financial impact on LHR stemming from the coronavirus outbreak. Overall, Moody's expects that LHR's aeronautical charges will not exhibit sizeable increases in January 2022 and that any recovery of the financial impact of the pandemic will be phased, in order to support traffic prospects through the management of aeronautical fee levels.

Third runway project is on hold

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 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 trends at the airport have reflected 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 significant relief on capacity constraints in the short term.

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, which considered the appeal admissible. These developments, coupled with the significant impact on traffic linked to the coronavirus outbreak, prompted HF to pause its expansion programme, thus casting significant uncertainties over the future and timing of LHR's expansion. In addition, 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 LHR's expansion plans.

In light of recent developments, the CAA indicated that, for the H7 regulatory period, it will approach LHR as a two-runway airport. If circumstances change and LHR resumes work on expansion, the CAA retains the option to deal with it by adjusting or resetting the price control. More generally, with regard to future investments, the CAA is expected to set an overall envelope (with upper and lower thresholds) for capex required to maintain LHR's assets.

Leveraged financial profile means that default financial covenants will be triggered

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 increased by two percentage points as the company 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 magnitude of the reduction in earnings associated with traffic declines, HF is expected to trigger default financial covenants included in its debt documentation, namely group Net Debt/RAB of 92.5% (both at the December 2020 and December 2021 calculation date) and Interest Cover Ratio of 1.0x (at the December 2020 calculation date). In addition, the group's debt documentation includes covenants at the level of HSP. Given the contraction in cash flows, HSP's Interest Cover Ratio is expected to trigger lock-up levels at the December 2020 calculation date, which means that the company will not be permitted to upstream cash to HF. In the context of the trigger of default financial covenants, HF launched a consent solicitation process and obtained a waiver for the Interest Cover Ratio covenant and to increase the HF Net Debt/RAB threshold to 95% in 2020 and 93.5% in 2021. In addition, as part of the process, HF proposed a prohibition on dividend payments for the duration of the waiver period or, if later, until Net Debt/RAB reaches the level of 87.5% or below. The group does not expect further covenant breaches in 2021.

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.

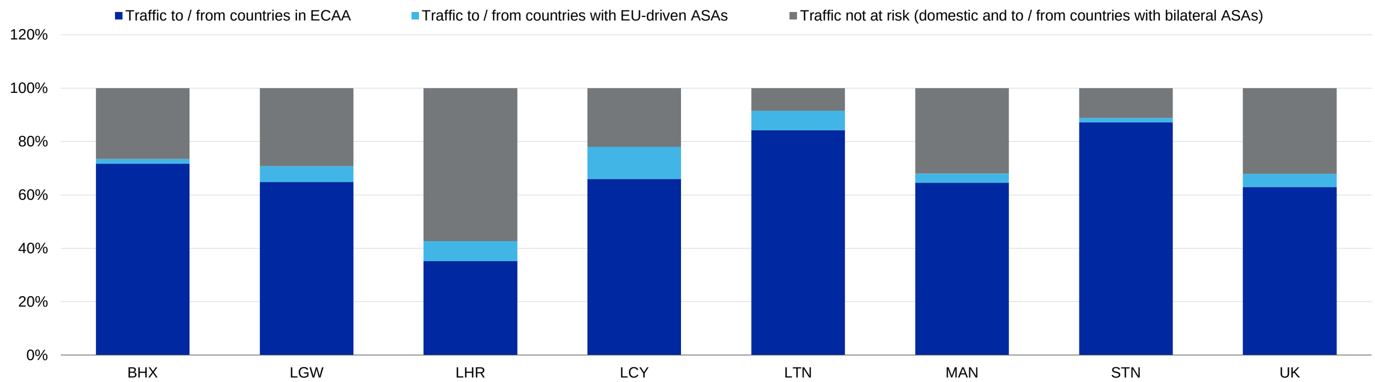
As a result of the UK's decision to leave the EU, the regulatory framework underpinning air travel between the UK and the 35 other signatories of the ECAA and between the UK and other key destinations with which air services are provided by virtue of EU membership will need to be overhauled.

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. Regarding aviation, the UK and EU agreed in principle to put in place a new comprehensive air transport agreement. In this context, more recently, the European Commission announced the intention to put forward contingency measures applicable under a no-aviation deal scenario to ensure the continued provision of air services between the UK and the EU for six months, provided the UK ensures the same.

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 7
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 (2019 data)



BHX — Birmingham, LGW — Gatwick, LHR - Heathrow, LCY — London City, LTN — Luton, MAN - Manchester, STN — Stansted.
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 coronavirus pandemic, the weakened global economic outlook, low oil prices and asset price declines are sustaining 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 one of the sectors most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. The credit profile of HF reflects the impact on the company of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

Structural considerations

HF's Corporate Family Rating (CFR) of Ba2 reflects a Probability of Default Rating of Ba3-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 B1 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.

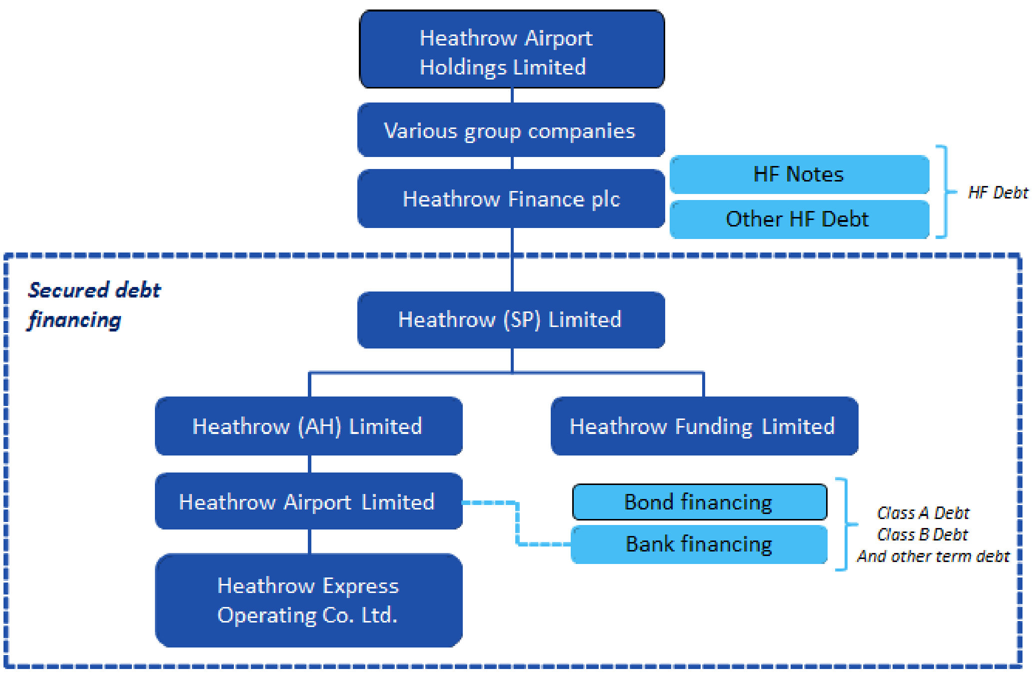
Moody's considers that the HSP SDF isolates the credit profile of LHR from that of the wider Heathrow Airport Holdings Limited (HAH) group. While there is a certain reliance on HAH for operational support, this is considered acceptable within the context of the rating levels. This together with the security 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 8

Heathrow Finance plc group structure

HF debt is structurally subordinated to HSP secured debt financing



Source: Moody's Investors Service

Liquidity analysis

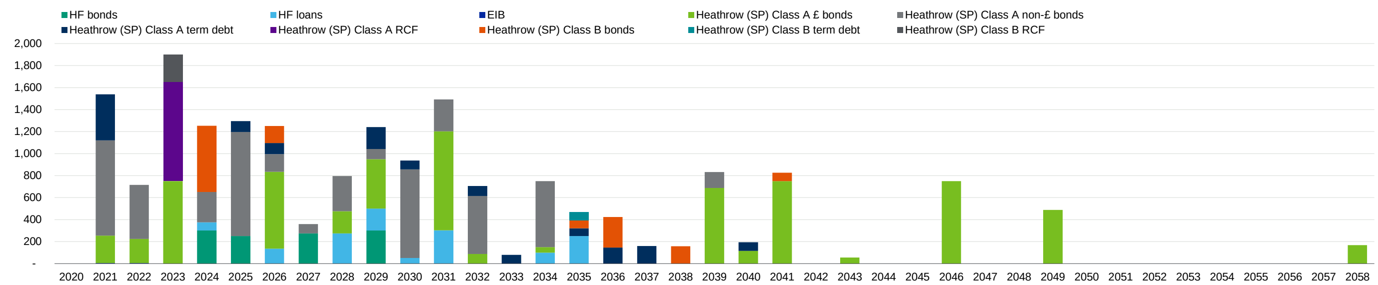
The HF group as a whole exhibits a good liquidity position, allowing for flexibility to cover its expenditure in the context of the significant deterioration in cash flows associated with the significant contraction in traffic. As of the end of Q3 2020, the HF group reported approximately £2.4 billion of cash on balance sheet (of which £397 million at the level of HF). These amounts exclude the £1.4 billion proceeds associated with the recently completed bond issuance at HSP and the planned £750 million capital injection into the group, which will further strengthen its liquidity position. The capital injection will be funded through a new facility at the level of ADIF2 provided by private lenders

More specifically, HF's available liquidity enables the company to support its debt service requirements (currently totalling approximately £100 million per annum) even in the absence of dividends upstreamed from HSP, which would normally represent the company's exclusive source of cash flow. HF's next debt maturity is in 2024. The HF group is also implementing initiatives aimed at further reducing, where possible, its cost base and investment spend, with the objective of supporting its liquidity and financial profile in the short term. The HF group expects to have sufficient liquidity to meet all its obligations into 2022 under the extreme stress test scenario of no revenue, or well into 2023 under its own base case traffic forecast, which envisages a traffic contraction of 72% in 2020, with passenger levels in 2021 expected to remain around 54% below 2019.

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 period to 2025, approximately 35% of HF's consolidated debt (more than £6 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 9

HF Group debt maturity profile (£ million) as of end of October 2020



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 10

Heathrow Finance plc - Rating Factors Grid

Privately Managed Airports and Related Issuers Industry [1][2]	Current FY 12/31/2019		Moody's Forward View 2022 - 2023 As of December 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	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)	2.4x	Ba	1.5x - 2x	B-Ba
b) FFO / Debt	6.5%	Ba	2.5% - 4%	B
c) Moody's Debt Service Coverage Ratio	1.7x	B	1x - 1.5x	Caa-B
d) RCF / Debt	3.7%	B	2.5% - 4%	B
Rating:				
Scorecard-Indicated Outcome Before Notch Adjustment		Ba1		B1-Ba2
Notch Lift		0.0		0.0
a) Scorecard-Indicated Outcome		Ba1		B1-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 31/12/2019; 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. Ratio ranges represent Moody's base case and faster recovery scenarios, for illustrative purposes.
Source: Moody's Financial Metrics

Ratings

Exhibit 11

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

Source: Moody's Investors Service

Appendix

Exhibit 12

Peer comparison table

	Heathrow Finance plc Ba2 Negative			Royal Schiphol Group N.V. A1 Negative			Aeroporti di Roma S.p.A. Baa3 Negative		
(in GBP million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenue	2,884	2,970	3,070	1,278	1,335	1,416	870	912	979
EBITDA	1,784	1,879	1,923	473	462	490	424	454	463
EBITDA margin %	61.9%	63.3%	62.6%	37.0%	34.6%	34.6%	48.7%	49.8%	47.3%
Funds from Operations (FFO)	897	1,023	1,070	420	419	467	327	385	375
Total Debt	14,686	15,122	16,343	1,953	2,339	2,366	1,307	1,315	1,299
(FFO + Interest Expense) / Interest Expense	2.0x	2.3x	2.4x	7.0x	7.2x	7.4x	9.9x	10.6x	10.5x
FFO / Debt	6.1%	6.8%	6.5%	21.8%	18.1%	19.1%	25.3%	29.7%	28.0%
RCF / Debt	3.8%	3.5%	3.7%	15.0%	12.4%	14.9%	8.0%	12.7%	19.4%
Debt Service Coverage Ratio	1.8x	1.9x	1.7x	7.4x	7.0x	8.6x	4.7x	5.7x	5.6x

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 13

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	28	28
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	15,122	16,343

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 14

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™

REPORT NUMBER 1253043

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