

Heathrow

HEATHROW (SP) LIMITED

INVESTOR UPDATE

JULY 2023



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PRESENTING TEAM



Javier Echave, Chief Financial Officer

Javier joined Heathrow in 2008 and has served as Chief Financial Officer since 2016. He is accountable for leading the group financially by enabling a sustainable growth strategy and transforming Heathrow's approach to innovation, risk and investment. He leads the investment of Heathrow's £35bn masterplan driving long-term sustainable value generation to consumers, the community, and shareholders. He was closely involved in establishing the current capital structure and positioning Heathrow as a strong credit in the financial markets, including more than £10bn of fundraising since he became CFO. Recently, Javier has successfully led Heathrow's financial response to the COVID-19 global pandemic which created an unprecedented 97% decline in revenue, by securing business continuity and accelerating Heathrow's recovery, while enabling new technology and ways of working to transform productivity and foster growth. Javier is a member of Heathrow Airport Holdings Board of Directors, Chair of Heathrow's Investment Committee and Company's Shareholder Representative at NATS Holding Limited. Outside Heathrow, Javier co-chairs the European CFO Leadership Network of Accounting for Sustainability Project ('A4S') led by HRH King Charles III. He also chairs the Wellbeing Leadership Team of Business In the Community, the UK largest and longest established business-led membership organisation dedicated to responsible business. He is an executive mentor, member of The 100 Group and teaches on strategy and change management at the MBA programme of UNIR Business School (Spain). Prior to joining Heathrow, Javier led across different roles within Ferrovial, a Spanish-based global operator of sustainable infrastructure.



Sally Ding, Director of Business Planning & Treasury

Sally Ding joined the business in November 2006. She played a leading role in shaping and delivering Heathrow's capital structure and financing strategy. She is responsible for the entire Treasury, Corporate Finance and Insurance businesses. She has recently taken over responsibility for the Business Planning function, which will drive the multi-year integrated strategic business plan for Heathrow. Before joining Heathrow, Sally worked in investment banking and in the transport and energy industry across Australia and China.



Matt Gorman, Director of Carbon Strategy

Since 2020, Matt has been Carbon Strategy Director for Heathrow, leading the team that developed the airport's new carbon strategy, shortlisted as "Net Zero Plan of the Year" by Business Green in 2022. He is sponsor for the company's £300m investment programme to deliver its carbon goals and is currently serving for the second time as Chair of Sustainable Aviation, the coalition of UK airlines, airports and aircraft/engine manufacturers. In 2020, Sustainable Aviation was the first national aviation sector in the world to commit to net zero by 2050. Prior to this role, he was Sustainability Director at Heathrow from 2008 to 2020, leading the team that developed "Heathrow 2.0" the airport's plan for sustainable growth, which led to the airport winning the prestigious Edie "Sustainable Business of the Year" award in 2019. He played an instrumental role in developing Heathrow's new approach to airport expansion, which put local communities and the environment at the heart of plans for a new runway, plans which were backed by the independent Airports Commission in 2015 and an overwhelming majority in Parliament in 2018. He has represented Heathrow on the Prince of Wales's Corporate Leaders Group on Climate Change, on the Sustainable Markets Initiative's Aviation Taskforce and on the World Economic Forum's Clean Skies for Tomorrow initiative. He was awarded an MBE in the in 2021 for services to the decarbonisation of aviation.



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CREDIT FUNDAMENTALS



Heathrow

FOUNDATIONS OF HEATHROW CREDIT

1

Strength and resilience of the asset

2

Cash flow predictability from stable regulatory framework

3

Strong set of creditor protections

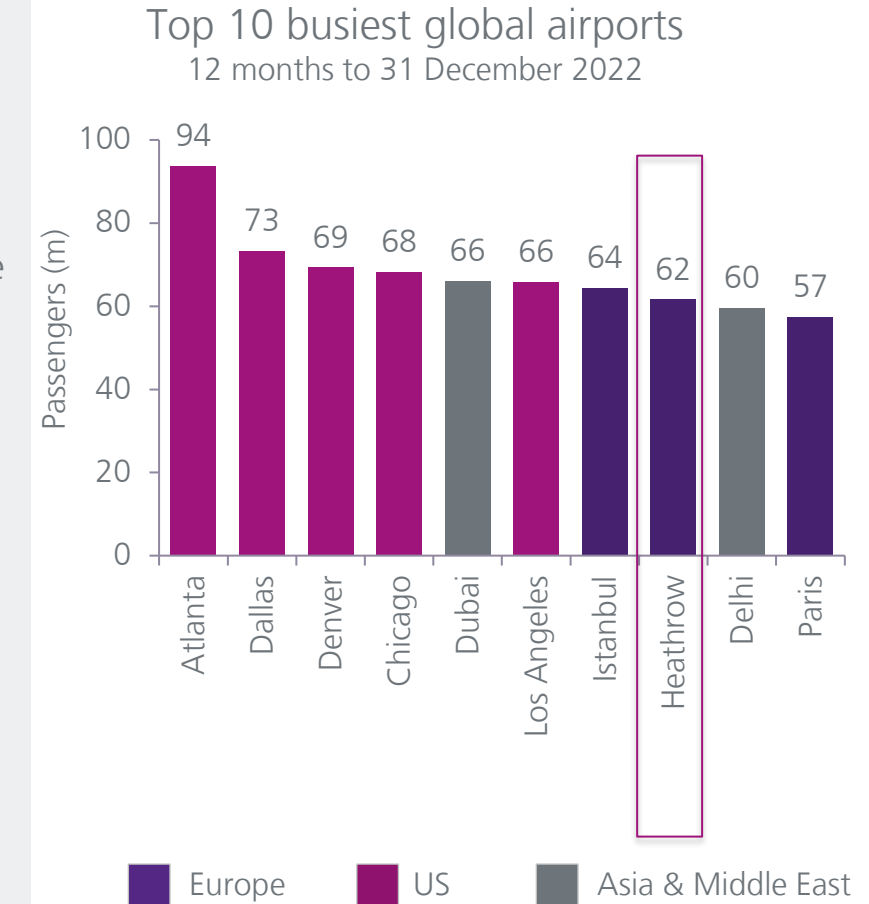
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Sustainable growth



HEATHROW'S STRENGTH AND RESILIENCE DRIVEN BY INDUSTRY POSITION AND TRAFFIC PROFILE

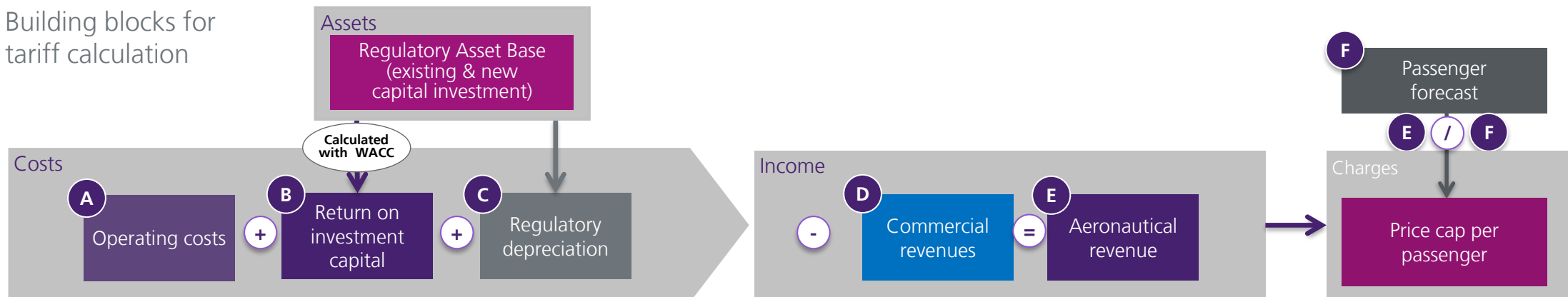
- Heathrow enjoys a strong industry position
 - The UK's only hub airport connecting Britain to the rest of the world
 - Busiest airport by passenger numbers in Europe and among the top 10 airports worldwide
 - Typically serve c.70% of UK long haul scheduled seats, which are highly profitable for airlines
 - 1 of only 3 airports globally with >75 long-haul routes
 - Largest port by value in the UK – strategically important for the UK economy
- Catchment area and hub characteristics provide demand resilience
 - Countercyclical transfer traffic; Airlines consolidation across 2020 and 2021
 - Heathrow was operating at close to permitted capacity for many years pre-pandemic
 - London's profile as a major global city



CASH FLOW PREDICTABILITY FROM A STABLE REGULATORY FRAMEWORK

- Heathrow is regulated by UK Civil Aviation Authority ('CAA'), with a role defined by English law
- Re-set of tariff every five to seven years provides strong visibility of cost recovery
 - tariff set using the 'building block' principle, allowing recovery of capital investment, operating costs and cost of capital
 - license includes the possibility to reopen settlement under exceptional circumstances
- The H7 price-setting mechanism provides income predictability and cash flow visibility
- Managed inflation exposure, supporting growth in RAB and revenue whilst hedging downside risks
- £19.6 billion Regulatory Asset Base ('RAB') as at 31 March 2023 includes virtually all assets in the business
- 'RAB-based' price regulation similar to other UK-regulated utilities
- Challenging the CAA's Final Decision: Seeking a Competition and Markets Authority ('CMA') review for key aspects of the final settlement

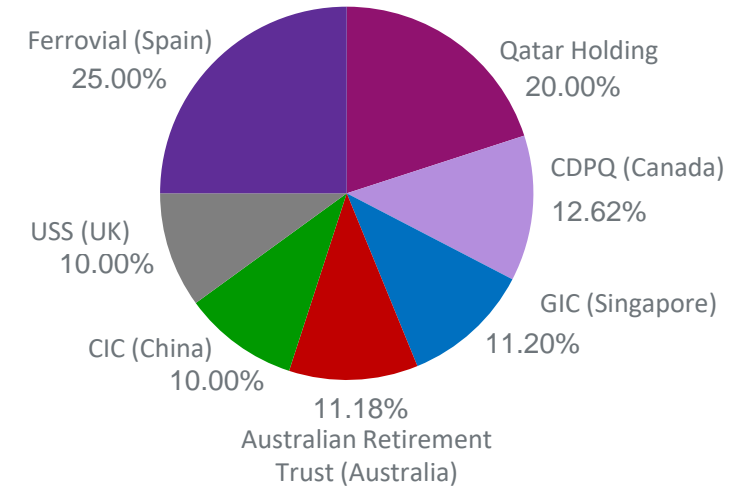
Building blocks for tariff calculation



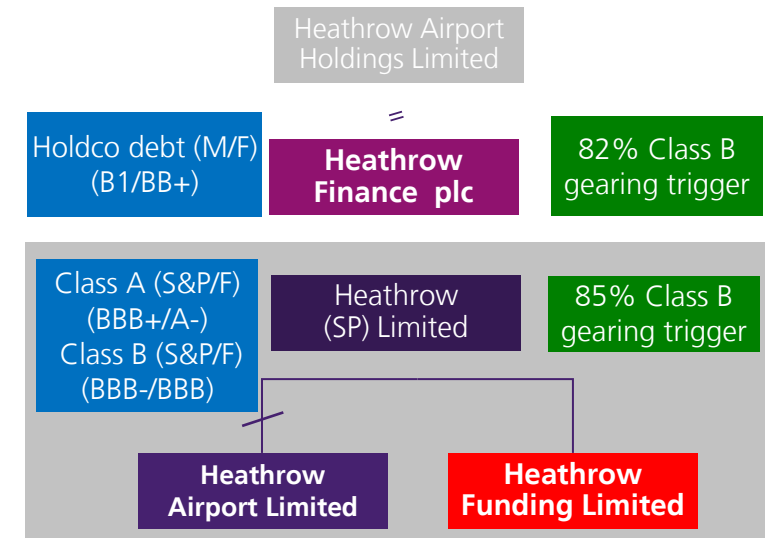
OVERVIEW OF HEATHROW FINANCING

- Largest wholly-privately financed airport globally, owned by seven international investors
- Established debt financing platform with issuance in 7 currencies
- Debt issued predominantly in senior (Class A), junior (Class B) and Heathrow Finance formats
- Common terms agreement governs all Class A and Class B debt
- All debt across capital structure benefits from covenants, limitations on distributions and security over assets
- Net debt at 31 March 2023:
 - Class A: £12,530 million
 - Class B: £2,151 million
 - Heathrow Finance: £1,200 million
 - Total Heathrow Finance Group: £15,881 million
 - RAB: £19,591 billion

Heathrow ownership



Summary Heathrow's financing structure



HEATHROW PROVIDES A STRONG SUITE OF CREDITOR PROTECTIONS

- Class A creditors have first ranking security
 - mortgage over Heathrow Airport freehold land, runways, terminals and other fixed assets
 - share pledge over Group companies and charge over receivables
- Bonds and loans rank pari-passu within each level of capital structure
- Operational and financial covenants and distribution lock-ups provide creditor protections
- Information covenants, including semi-annual investor report with financial forecasts most recently published 30 June 2023
- Substantial public disclosures in addition to documented information covenants
- Restrictions on business activities, acquisitions and disposals

Summary operational/financial covenants and lock-ups across debt capital structure

Regulatory Asset Ratio (Net Debt/RAB)

Class A trigger	72.5%
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Class B trigger	82.0%/85.0%
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Heathrow Finance covenant	92.5%
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Interest Cover Ratios (ICR)

Class A trigger	1.40x
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Class B trigger	1.20x
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Heathrow Finance covenant	1.00x
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Other protections at Heathrow (SP)

Minimum liquidity	>12 months
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Minimum Class A credit rating	BBB+
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Currency risk on non-£ debt	100% swap to £
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Debt maturities:

- in any two year period	<30% RAB
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- in any Five Year Period	<50% RAB
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Minimum interest rate hedging:

- current regulatory period	>75% debt
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- next regulatory period	>50% debt
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Maximum index-linked swap accretion	<8% senior net debt
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SUSTAINABLE GROWTH IS AT THE CENTRE OF OUR PLANS

Ambitious series of goals to decarbonise flight and continue to improve the area around the airport for those who live and work in it

Heathrow 2.0
Connecting People and Planet.

Net zero aviation

- Net zero in the air
- Net zero on the ground

Great place to live and work

- Clean air at and around the airport
- Quieter nights, quieter flights
- Nature positive airport
- Zero waste airport
- Thriving sustainable supply chain
- Better quality of life in Heathrow's neighbouring communities
- Inclusive employer of choice for local diverse talent

Foundations: Responsible business

- Ethical and responsible business
- Safe and secure airport

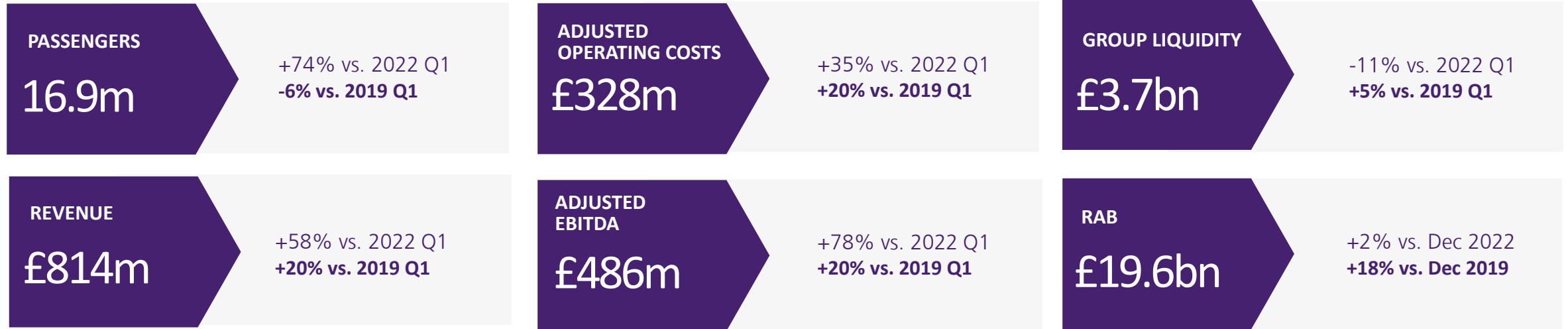
Heathrow



PERFORMANCE UPDATE AND STRATEGIC DEVELOPMENTS



OPERATIONAL AND FINANCIAL PERFORMANCE – Q1 2023

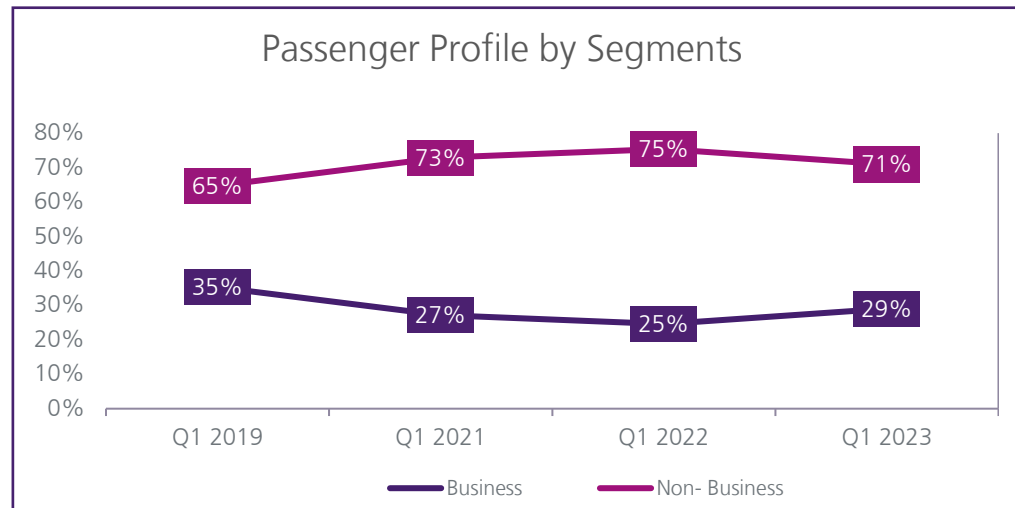


Operational and financial highlights

- Europe's busiest airport
- Improved service metrics
- 2023 focus on building experience and operational resilience
- Smooth Easter and well-placed for Summer
- Strong EBITDA performance
- Strong balance sheet

STRONG START TO THE YEAR ACROSS ALL REGIONS AND PASSENGER SEGMENTS

	Jan - May 2019	Jan - May 2022	Jan - May 2023	2023 vs. 2022 (%)
Passengers (m)	31.5	20.1	30.0	49.6
Long-haul traffic growth %	3.7	605.4	60.1	N/A
Short-haul traffic growth %	6.0	583.5	38.6	N/A
Passengers ATM	193,376	132,295	179,307	35.5
Cargo ATM	1,165	5,437	1,563	(71.2)
Load factors (%)	75.9	70.5	75.8	7.5
Seats per ATM	220.7	215.4	220.7	2.5
Cargo tonnage ('000)	675	576	531	(7.8)



EUROPE'S BUSIEST AIRPORT

Heathrow

16.9m passengers
+7.2m vs. Q1 2022
+75% vs. Q1 2022
-6% vs. Q1 2019

Cargo 0.3m tonnes
-9% vs Q1 2022
-22% vs Q1 2019

Charles de Gaulle

14.3m passengers
+4.7m vs. Q1 2022
+49.7% vs Q1 2022
-13.1% vs Q1 2019

Schiphol

12.3m passengers
+3.4m vs. Q1 2022
+38% vs Q1 2022
-21% vs Q1 2019

Cargo 0.3m tonnes
-9% vs Q1 2022
-13% vs Q1 2019

Madrid

13.4m passengers
+4.3m vs. Q1 2022
+47.2% vs Q1 2022
-0.1% vs Q1 2019

Cargo 0.2 tonnes
+7.5% vs Q1 2022
+14.9% vs Q1 2019

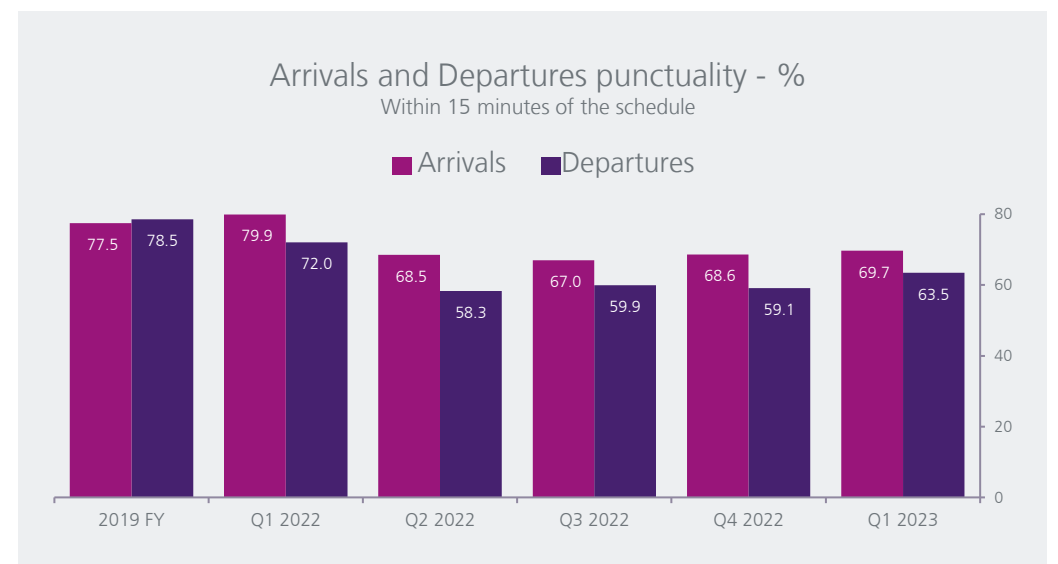
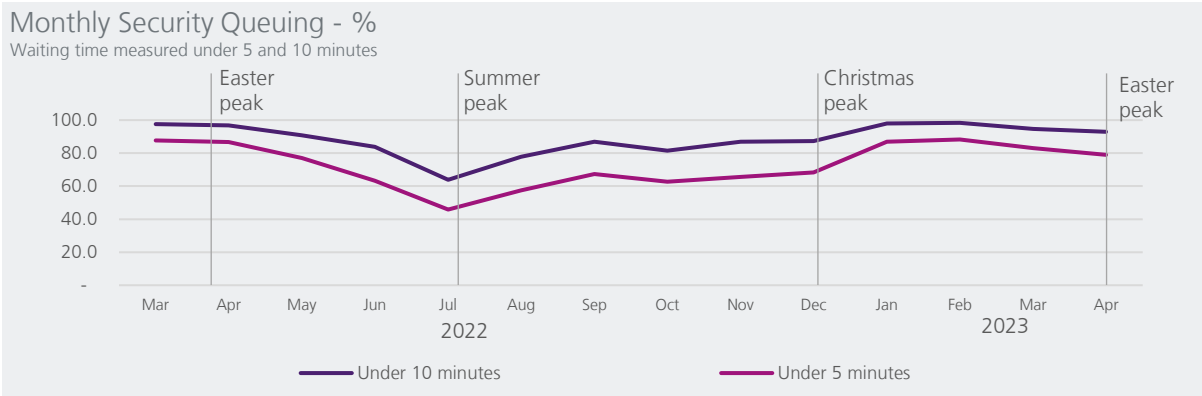
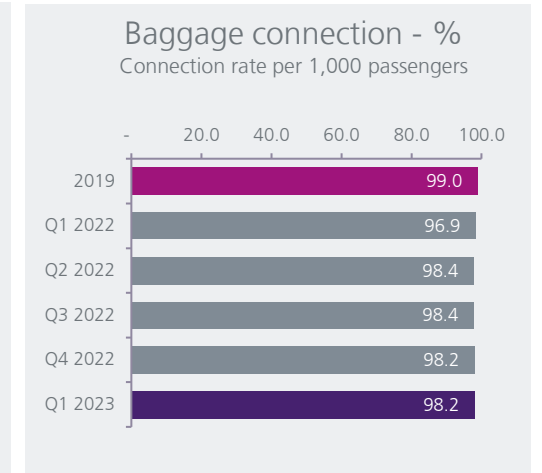
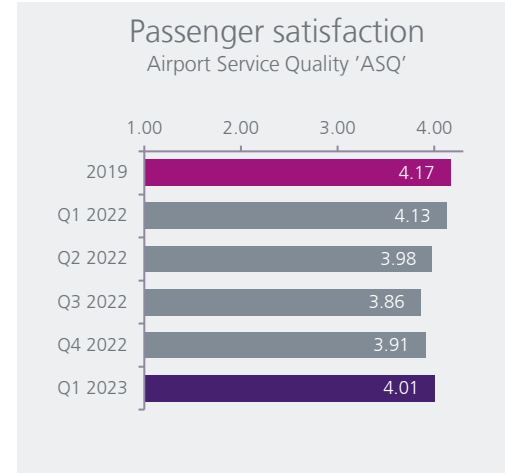
Frankfurt

11.4m passengers
+4.1m vs. Q1 2022
+56% vs Q1 2022
-23% vs Q1 2019

Cargo 0.5m tonnes
-12% vs Q1 2022
-13% vs Q1 2019



OPERATIONS PERFORMING WELL, 2023 FOCUS ON BUILDING EXPERIENCE AND OPERATIONAL RESILIENCE



THE CAA'S FINAL DECISION HAS BEEN APPEALED TO THE CMA

CAA's Final Decision

Average price cap of £23.06 (2020 CPI)

Passenger forecast of 375.5m

Capex of £3.6bn (2020 CPI)

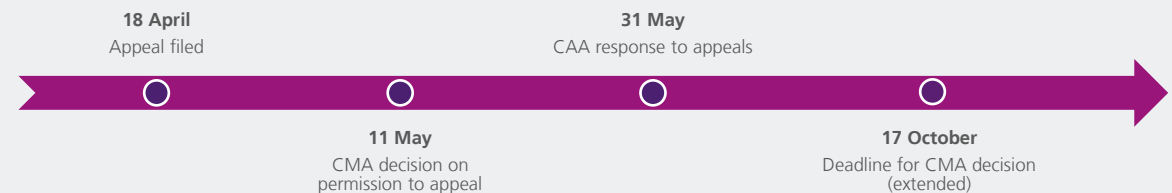
Pre-tax WACC of 4.04%

RAB adjustment of £300m

CMA Appeal Process

On 18 April, we filed an appeal of the CAA's decision to the CMA, formally requesting the CMA to review the following parts of the CAA's decision:

- The decision on WACC
- The decision to only apply a £300m RAB adjustment;
- The decision to apply an additional K-factor to claw back over recovery against the passenger yield in 2020 and 2021; and
- The CAA's new capital incentive framework which will be more costly and complex.



OUTLOOK

- Forecasting 2023 traffic in the range of 70 – 78 million, with the midpoint at 74 million passengers (+20.1% vs FY22).
- Adjusted EBITDA is forecast to be £1,965m (+16.7% vs FY22).

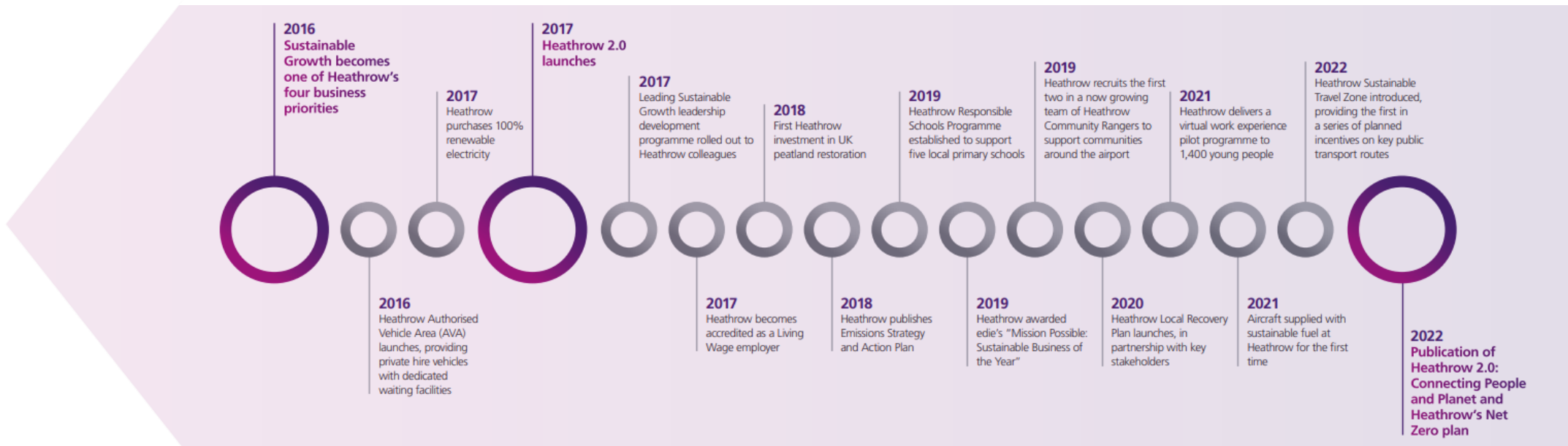
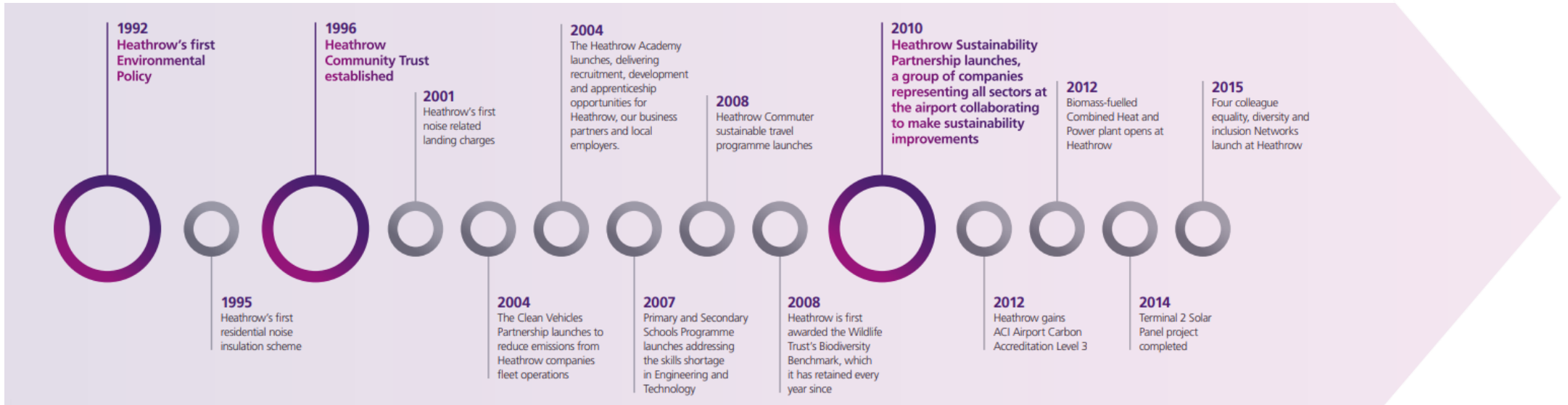


SUSTAINABILITY STRATEGY



Heathrow

OUR SUSTAINABILITY JOURNEY



HEATHROW 2.0: CONNECTING PEOPLE AND PLANET

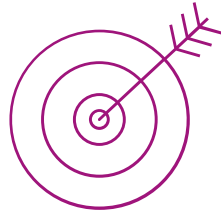
An ambitious sustainability plan - to help, inspire and enable a positive future for the aviation sector, the communities around Heathrow and the people who work at the airport - structured around two pillars and supported by our responsible business foundations



NET ZERO AVIATION HIGHLIGHTS

NET ZERO BY 2050

Net zero 2050 goal for whole global aviation sector agreed at ICAO General Assembly.



SBTI VALIDATION

First airport to achieve science-based validation from SBTi for its 2030 carbon reduction goals using the updated 1.5 degree standard.



CUT CARBON

Trial with American Airlines of a new plug-in electric cooling solution to save airlines running engines on stand and cut carbon.



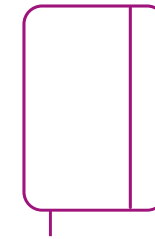
SAF INCENTIVE

At least 0.5% of fuel delivered to airlines at Heathrow during 2022 was sustainable aviation fuel. This will increase to 1.5% for 2023.



ADVOCATING UK SAF PRODUCTION

Heathrow's CEO is a member of the Jet Zero Council, working in partnership with the Government on the policies to scale SAF.

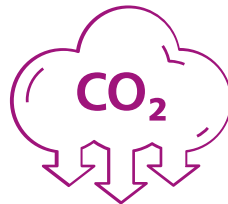


SUSTAINABLE AVIATION FUEL

SAF pocket guide launched at COP27 with Sustainable Markets Initiative – explainer for how to buy SAF and create corporate demand.

£200M CARBON INVESTMENT

At least £200m of investment in decarbonisation for our current five-year business plan backed by the CAA.



£500,000

£500,000 investment in carbon removal through UK woodland creation and peatland restoration by the end of the winter planting season.



ZERO EMISSIONS AIRCRAFT

Heathrow published findings from project NAPKIN, showing that hydrogen-fuelled services could dominate domestic air travel by 2040.



A GREAT PLACE TO LIVE AND WORK HIGHLIGHTS

SUSTAINABLE TRAVEL ZONE

New Sustainable Travel Zone introduced to bring together the ways Team Heathrow can travel to work more sustainably, including enhancements to 14 local bus and coach routes.

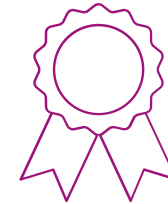
GLOBAL NOISE TASK FORCE

Secured support to establish a Global Noise Task Force via Airports Council International (ACI).



BIODIVERSITY BENCHMARK

Successfully retained the Wildlife Trust's Biodiversity Benchmark award for the 14th year.



IMPROVED WASTE INFRASTRUCTURE

Improvements to waste infrastructure across the airport, with consistent colour-coding to provide clarity for Heathrow colleagues and passengers.

SETTING STANDARDS

Launched a Procurement Balanced Scorecard to Tier 1 Suppliers, setting standards for Heathrow's strategic aims across carbon, social value and community.



LIVING WAGE EXTENSION

Extension of the London Living Wage to all directly employed colleagues and those working in Heathrow's direct supply chain, benefitting at least 1,300 people.



BUSINESS SUMMIT

Heathrow Business Summit attended by over 300 people including 100 Heathrow tier 1 suppliers and more than 100 local SMEs.



1m



Launched a new Giving Back Programme to benefit one million local residents by 2030.

INCREASED DIVERSITY



Improvements in gender (+2.38 to 39.48%) and ethnicity (+1.18 to 18.28%) representation at senior levels of the business.

3,000

Delivered over 3,000 experience-of-work days to local young people across a range of programmes.

2,500

Over 2,500 career opportunities at Heathrow and other airport business, brokered by the Heathrow Employment and Skills Academy.

SUSTAINABILITY-LINKED BOND FRAMEWORK



HEATHROW SUSTAINABILITY-LINKED BOND FRAMEWORK

Rationale

- Heathrow proposes to **take a further step in its commitment to sustainability** by incorporating it in its funding strategy
- Selected KPIs are **relevant, core and material** to our business, and we have set ambitious Sustainability Performance Targets (“SPTs”) that support our overall strategy and will help us meet our sustainability objectives over the next years
- This Framework is allowing the issuance of **sustainability-linked financing note instruments**, which may include public bonds, private placements “PPs”, US private placements “USPPs” and any other sustainability-linked bond instruments.

Alignment with the ICMA SLB Principles



- The Framework is aligned with the **five core components of the 2023 ICMA Sustainability-Linked Bond Principles** (“SLBPs”):










- Second Party Opinion provided by DNV-Gl

ICMA Climate Transition Finance Handbook

- Heathrow will follow, on a best effort basis, the disclosure guidelines found in the Climate Transition Finance Handbook, 2023 version, as published by ICMA
- As such, Heathrow will be transparent with regards to its climate transition strategy and governance, its business model environmental materiality, its climate transition strategy and targets to be ‘science-based’, and implementation transparency



OVERVIEW OF THE KEY PERFORMANCE INDICATORS & THEIR SUSTAINABILITY PERFORMANCE TARGETS

	KPI 1	KPI 2
	Reduction of 'in the air' carbon emissions	Reduction of 'on the ground' carbon emissions*
Definition	Absolute 'in the air' carbon emissions (Scope 3) expressed in tCO ₂ e	Absolute 'on the ground' carbon emissions (Scopes 1, 2 and 3) expressed in tCO ₂ e
Sustainability Performance Targets	2026 SPT 1.1: A 10% cut in carbon emissions 'in the air' by 31/12/2026, compared to a 2019 baseline	SPT 2.1: A 26% cut in carbon emissions 'on the ground' by 31/12/2026, compared to a 2019 baseline
	2030 SPT 1.2: A 15% cut in carbon emissions 'in the air' by 31/12/2030, compared to a 2019 baseline	SPT 2.2: A 46.2% cut in carbon emissions 'on the ground' by 31/12/2030, compared to a 2019 baseline
Baseline	19,993,153 tCO ₂ e in 2019	1,047,588 tCO ₂ e in 2019
 SCIENCE BASED TARGETS	This commitment is supported by an SBTi customer engagement target for landing and take-off cycle emissions. This means we will work with our airline customers towards 67% of them having set science-based targets by 2027	In March 2023, we secured accreditation from the SBTi that our 2030 carbon reduction targets are in line with a 1.5-degree pathway . We commit to reduce absolute scope 1, 2 and scope 3 GHG emissions from upstream transportation and distribution, waste generated in operations, business travel, employee commuting and downstream leased assets by 46.2% by 2030 from a 2019 base year In addition, the KPI is supported by a supplier engagement target , whereby 67% of our suppliers by emissions will have science-based targets by 2027
Supported SDGs	 	 
Methodology	<ul style="list-style-type: none"> Our methodology for carbon reporting is informed by: <ul style="list-style-type: none"> the Greenhouse Gas Protocol (GHGP) and  Airport Carbon Accreditation (ACA) standards  Our carbon energy disclosure is in line with the reporting requirements of the Streamlined Energy and Carbon Reporting (SECR) 	

(*) Even if optional for SBTi, the 2019 baseline and SPTs for KPI #2 include surface access for passengers confirming Heathrow's ambitiousness with targets above and beyond the SBTi guidelines.

FOCUS ON KPI 1 & ASSOCIATED SPTs: REDUCTION OF 'IN THE AIR' CARBON EMISSIONS



'In the air' emissions are entirely part of GHGP scope 3 emissions and **represent alone approximately 95% of Heathrow's total emissions**. Even though such emissions are not in our direct control, we are committed to being part of the solution and as such, the proposed KPI #1 and the reduction target fall in that scope

Definition

- Absolute 'in the air' carbon emissions (Scope 3) expressed in **tonnes of CO2 equivalent**
- This indicator covers **absolute Scope 3 emissions coming from aircraft** (GHGP category 11 - use of sold products) and includes:
 - Landing & take-off (LTO) cycle (3,000ft)
 - Cruise (departing flights)

SPTs

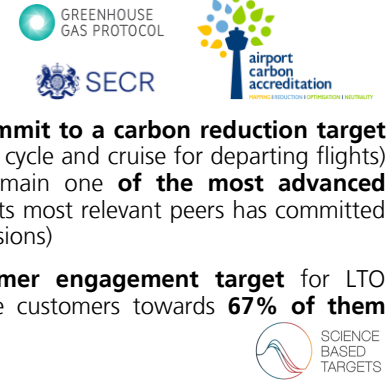
- **Baseline** : 19,993,153 tCO2e in 2019
- **SPT 1.1**: A 10% cut in carbon emissions 'in the air' by 31/12/2026, compared to a 2019 baseline
- **SPT 1.2**: A 15% cut in carbon emissions 'in the air' by 31/12/2030, compared to a 2019 baseline

Factors that support achieving the target

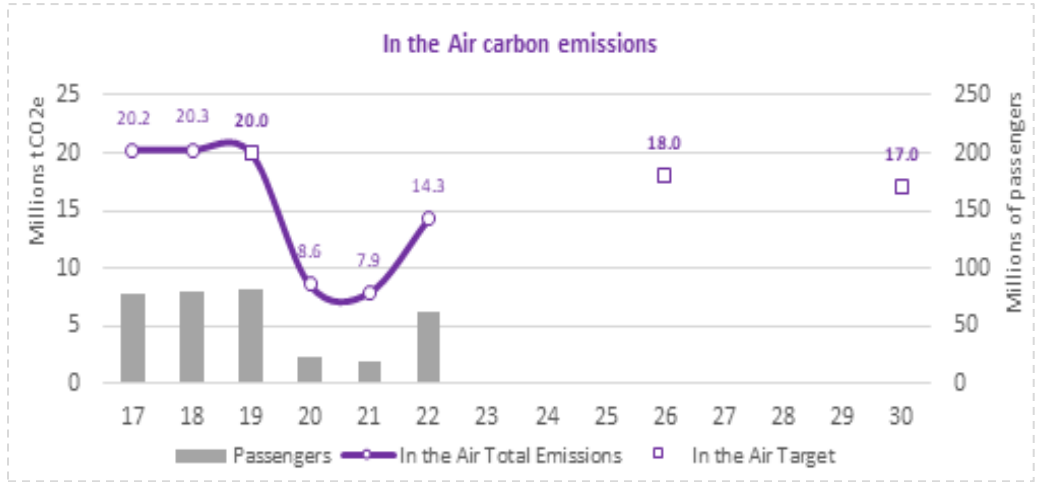
- At least **£200 million 'Carbon Programme'**
- **Airspace modernisation and operational efficiency**: use less fossil fuel by operating more efficiently and by modernising airspace contributing up to 1% of the 2030 goal
- **New conventional aircraft**: use less fuel by improving conventional aircraft and engines contributing up to 8% of the 2030 goal
- **Change the fuel**: SAF used by today's planes contributing up to 7% of the 2030 goal. Promoting uptake of SAF by our airline customers through our SAF incentive scheme and calling on government to put policy in place to make SAF available and affordable in the UK
- **Change the plane** to new zero emission planes, likely hydrogen-fuelled, which would contribute to cutting carbon from the 2030s

Relevant methodology & benchmark reference

- Greenhouse Gas Protocol (GHGP)
- Airport Carbon Accreditation (ACA) standards
- Streamlined Energy and Carbon Reporting (SECR)
- Heathrow was the first airport among its peers to **commit to a carbon reduction target that includes aircraft emissions** (including both LTO cycle and cruise for departing flights) with an **intermediary milestone in 2030**. We remain one of the **most advanced airports in this field** (only one other airport among its most relevant peers has committed to a carbon reduction target that includes aircraft emissions)
- This commitment is supported by an **SBTi customer engagement target** for LTO emissions. This means we will work with our airline customers towards **67% of them having set science-based targets by 2027**



Track record



FOCUS ON KPI 2 & ASSOCIATED SPTs: REDUCTION OF 'ON THE GROUND' CARBON EMISSIONS

Emissions 'on the ground' account for approximately 5% of our total emissions and are part of GHGP scope 1, 2 and 3 emissions. Even though all emissions are not in our direct control, we are committed to being part of the solution and as such, the proposed KPI #2 and the reduction target fall in that scope.

Definition

Absolute 'on the ground' carbon emissions (Scope 1, 2 and 3) expressed in tonnes of CO2 equivalent. This indicator covers absolute carbon emissions coming from:

- **Surface access** (passengers and colleagues): Scope 3 (GHGP categories 9 - Downstream transportation and distribution and 7 – employee commuting)
- **Supply chain:** Scope 3 (GHGP category 2 - capital goods)
- **Airport vehicles:** Scope 1 & 3 (GHGP category 4 – Upstream Transportation and Distribution)
- **Buildings & infrastructure:** Scope 1, 2 & 3 (GHGP category 13 - Downstream leased assets)

SPTs

- **Baseline:** 1,047,588 tCO2e in 2019
- **SPT 2.1:** A 26% cut in carbon emissions 'on the ground' by 31/12/2026, compared to a 2019 baseline
- **SPT 2.2:** A 46.2% cut in carbon emissions 'on the ground' by 31/12/2030, compared to a 2019 baseline

Factors that support achieving the target

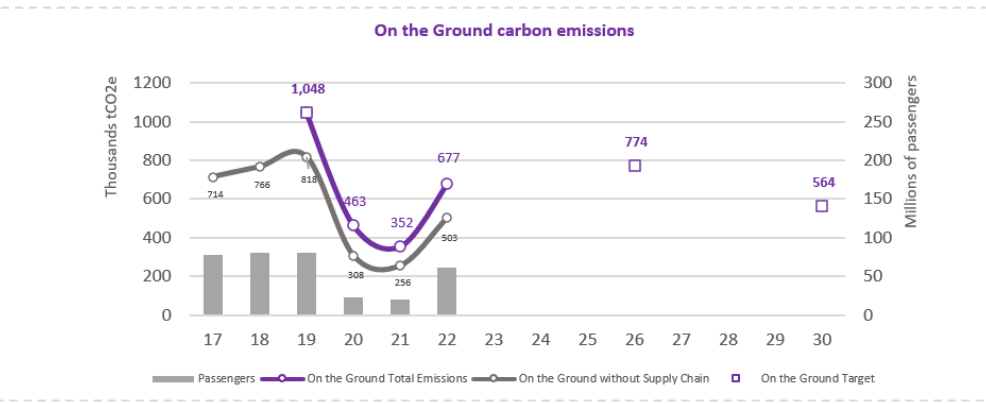
- **Net zero surface access:** enable net zero surface access for passengers and colleagues cutting carbon by 49% by 2030
- **Supply chain:** leverage our procurement role to deliver a net zero supply chain, cutting carbon by 35% by 2030
- **Airport vehicles:** shift airport vehicles to zero carbon cutting carbon by 87% by 2030
- **Building and infrastructure:** get our buildings and infrastructure to zero cutting carbon by 39% by 2030

Relevant methodology & benchmark reference

- Greenhouse Gas Protocol (GHGP)
- Airport Carbon Accreditation (ACA) standards
- Streamlined Energy and Carbon Reporting (SECR)

- Heathrow's 'on the ground' target covers both **direct emissions** (scope 1 and 2) and **indirect emissions** (scope 3) such as surface access and supply chain. **This positions Heathrow among the most ambitious European airports committed to reducing all absolute 'on the ground' emissions.**
- In March 2023 we secured accreditation from the SBTi that our Heathrow 2.0 carbon reduction targets are in line with a 1.5-degree pathway. Heathrow commits to **reduce absolute scope 1, 2 and scope 3 GHG emissions** from upstream transportation and distribution, waste generated in operations, business travel, employee commuting, and downstream leased assets **by 46.2% by 2030 from a 2019 base year.** In addition, we commit to a **supplier engagement target**, whereby **67% of our suppliers by emissions will have science-based targets by 2027**

Track record



SECOND PARTY OPINION PROVIDED BY DNV

Heathrow has commissioned DNV to review and provide an eligibility assessment of the Framework, confirming **its alignment with the five core components of the ICMA Sustainability Linked Bond Principles ("SLBPs") 2023**, thereby providing *"an investment opportunity with transparent sustainability credentials"*

1. Selection of Key Performance Indicators (KPIs)

- DNV can confirm that KPI 1 and KPI 2 as outlined in the Framework are material to Heathrow's overarching business and sustainability strategy. **These KPIs address 100% of Heathrow's Scope 1, 2 and 3 carbon emissions**, and are considered **core and material** within the ICMA Illustrative KPIs Registry and Heathrow's own materiality assessment. DNV further notes that, at the time of writing, Heathrow is the
- only major hub airport in Europe having had its near-term 2030 goals validated by the Science Based Targets initiative (SBTi) in line with a 1.5 degree pathway. The rationale and process for the KPI selection, as well as its definition, measurability and verifiability, are also clearly defined and are deemed to be **robust, reliable**, and in accordance with the SLBPs.

2. Calibration of Sustainability Performance Targets (SPTs)

- DNV can confirm that the SPTs set for KPI 1 – Reduction of 'in the air' carbon emissions and KPI 2 – Reduction of 'on the ground' carbon emissions are:
- **Ambitious, realistic and meaningful** to Heathrow's business, and that they are consistent with the Company's overall sustainability strategy highlighted in Heathrow 2.0: Connecting People and Planet and Heathrow's Net Zero Plan; and
 - Represent a **material improvement of the respective absolute emissions trajectories** beyond the "Business as Usual" scenario, are considered leading compared to a peer group benchmark; and are referenced to science-based pathways as part of Heathrow's near-term absolute emission reduction commitments for KPI 2 and its customer engagement targets for KPI 1.

DNV can confirm that the calibration of the SPTs are in line with the requirements of the SLBPs.

3. Bond Characteristics

DNV can confirm that for any instrument issued under this Framework, Heathrow has committed to include a sustainability-linked mechanism by which the financial characteristics of the instrument may be impacted in case of the non-achievement of the predefined SPTs at the relevant target observation date. DNV can confirm that Heathrow's commitment to specifying the bond characteristics is **in line with the requirements of the SLBPs.**

4. Reporting

Heathrow has committed to reporting on the performance of the two KPIs annually in its Sustainability Report, and/or its Annual Report and Accounts and/or a standalone document. Such reporting will be available on Heathrow's corporate website and will be subject to external verification. **DNV can confirm Heathrow's commitment to reporting is in line with the requirements of the SLBPs**

5. Verification

DNV can confirm Heathrow's commitment to verification as outlined in the Framework, is **in line with the requirements of the SLBPs.** Heathrow has committed to reporting on the KPIs' performance against the SPTs and **engaging an external verifier to provide at least limited assurance** regarding the performance of the KPIs on an annual basis, and for the duration of the SPTs at least. Heathrow has also conducted a **pre-issuance external review** by way of this assessment with DNV



WHEN TRUST MATTERS



HEATHROW AIRPORT
SUSTAINABILITY-LINKED BOND
FRAMEWORK ASSESSMENT



Document title: Second Party Opinion on Heathrow Airport Sustainability-Linked Bond Framework

Prepared by: DNV Business Assurance Services UK Limited

Location: London, U.K.

Date: 29 June 2023

This assessment is valid as long as the evidence provided to DNV remains materially unchanged and remains applicable in the context of the Financing Framework being assessed.

DNV is a trading name of DNV Business Assurance Services UK Limited, a wholly owned subsidiary of DNV Business Assurance Group. Registered Office: 4th Floor, Vinea Building, 20 Spinkfield St, London EC2A 3EQ, www.dnv.com

INDICATIVE TRANSACTION TERMS

Summary of the Indicative Terms & Conditions	
Issuer	Heathrow Funding Limited
Obligors	Heathrow Airport Limited, Heathrow (AH) Limited, Heathrow (SP) Limited and Heathrow Express Operating Company Limited
Expected Issue Ratings	BBB+ (S&P) / A- (Fitch)
Format	RegS, Registered, Senior Secured, Class A, Sustainability-Linked Bonds
Currency & Size	EUR Benchmark
Tenor	10 Year
Coupon	Fixed rate, interest is payable annually in arrears
Step Up Event	SPT 1.2: A 15% cut in carbon emissions 'in the air' by 31/12/2030, compared to a 2019 baseline ("In the Air Carbon KPI Step Up Event") SPT 2.2: A 46.2% cut in carbon emissions 'on the ground' by 31/12/2030, compared to a 2019 baseline ("On the Ground Carbon KPI Step Up Event")
Step Up Margin	(i) 0.25% per annum in respect of an In the Air Carbon KPI Step Up Event; and (ii) 0.25% per annum in respect of an On the Ground Carbon KPI Step Up Event
Step Up Date	[12] July 2031
Documentation	Under the Issuer's £50bn Multicurrency Programme dated 30 June 2023
Governing Law	English
Listing	Official List of the London Stock Exchange
Denominations	€100k + €1k
Use Of Proceeds	General Corporate Purposes
Optional Redemption	3m par call, MWC at B + [●]bps
Active Bookrunners	Barclays, BNP Paribas, Lloyds, NatWest Markets and RBC Capital Markets
SLB Structuring Bank	Société Générale

APPENDICES CONTENT



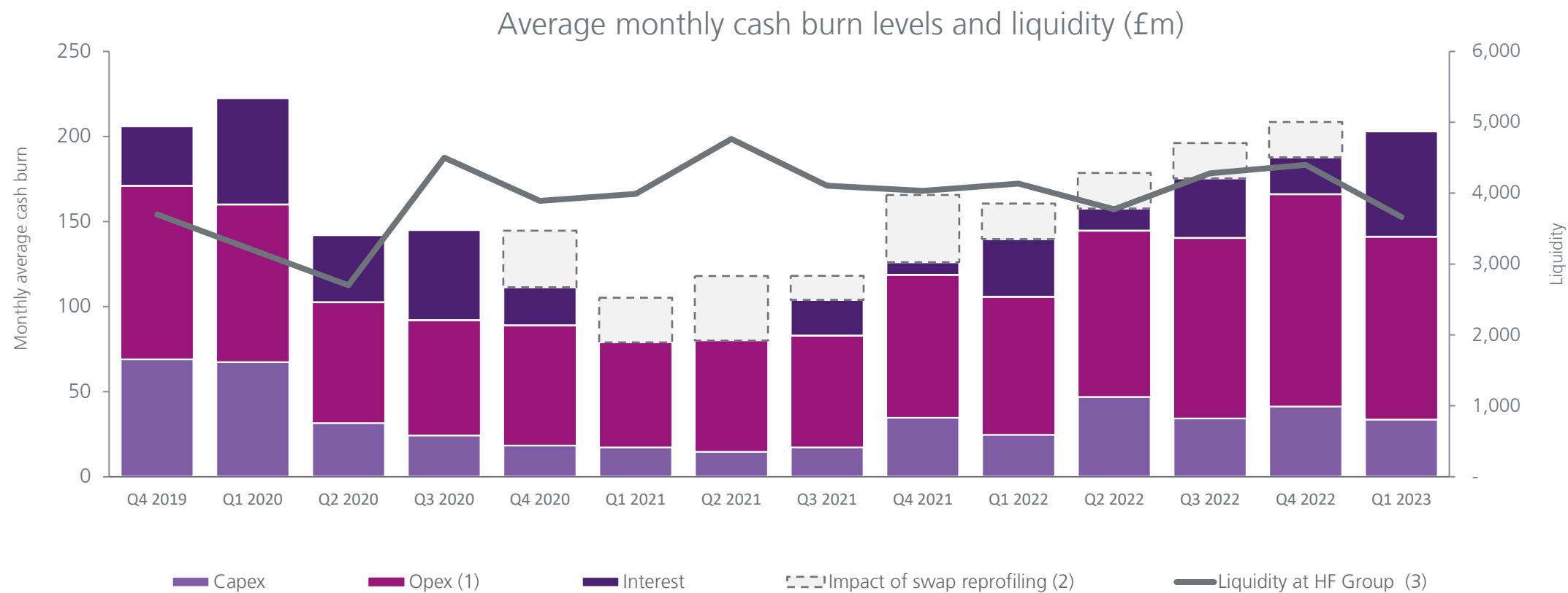
HEATHROW EXPANSION

We remain committed to a long-term sustainable expansion

- Currently reviewing our plans for delivering expansion
- ANPS is in full effect post legal challenge
- Expanding capacity to meet growing demand
- Decarbonising aviation a central part of the Government's green growth agenda
- We must demonstrate that expansion is compatible with the UK's net zero plan, as required by the ANPS



CASH BURN IS STABILISING

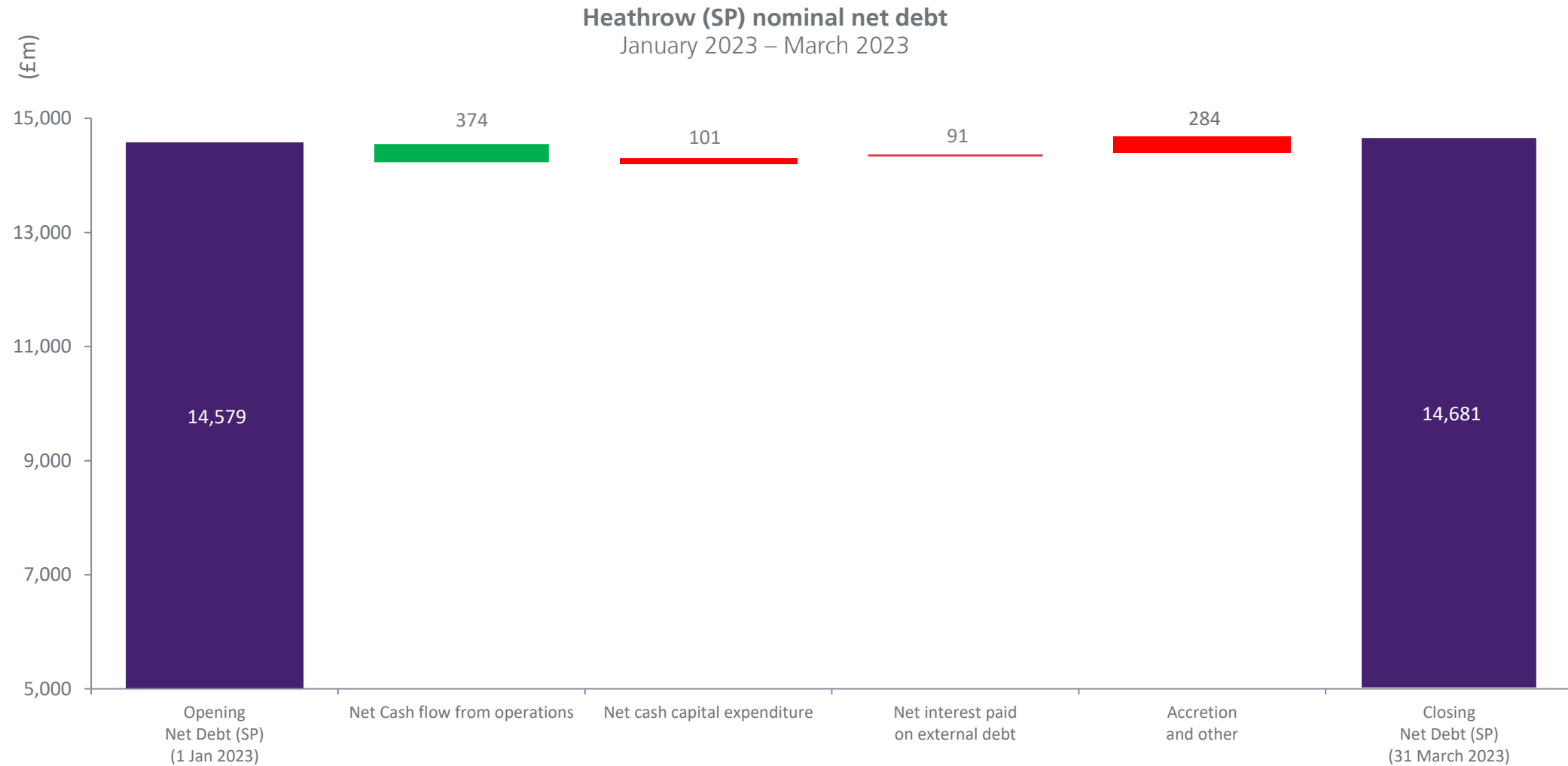


(1) Opex excludes impact of 2020 opex prepayments of c.£280m

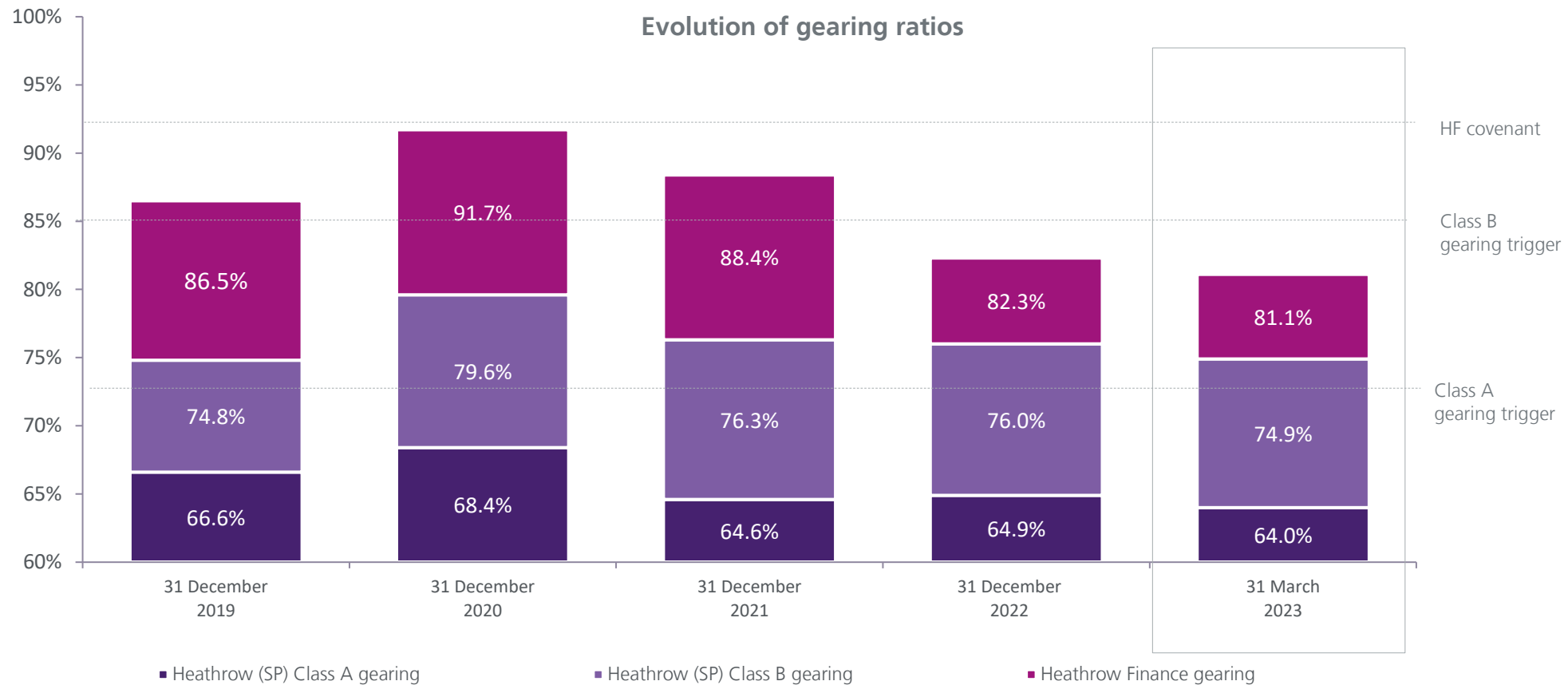
(2) Our swap portfolio repricing resulted in c.£100m of interest prepayment in Q4 2020 with interest savings arising from Q1 2021 to Q4 2022.

(3) Liquidity position including cash and undrawn facilities

NET DEBT REMAINS STABLE



GROUP GEARING RATIOS CONTINUE TO BE BELOW PRE-PANDEMIC LEVELS



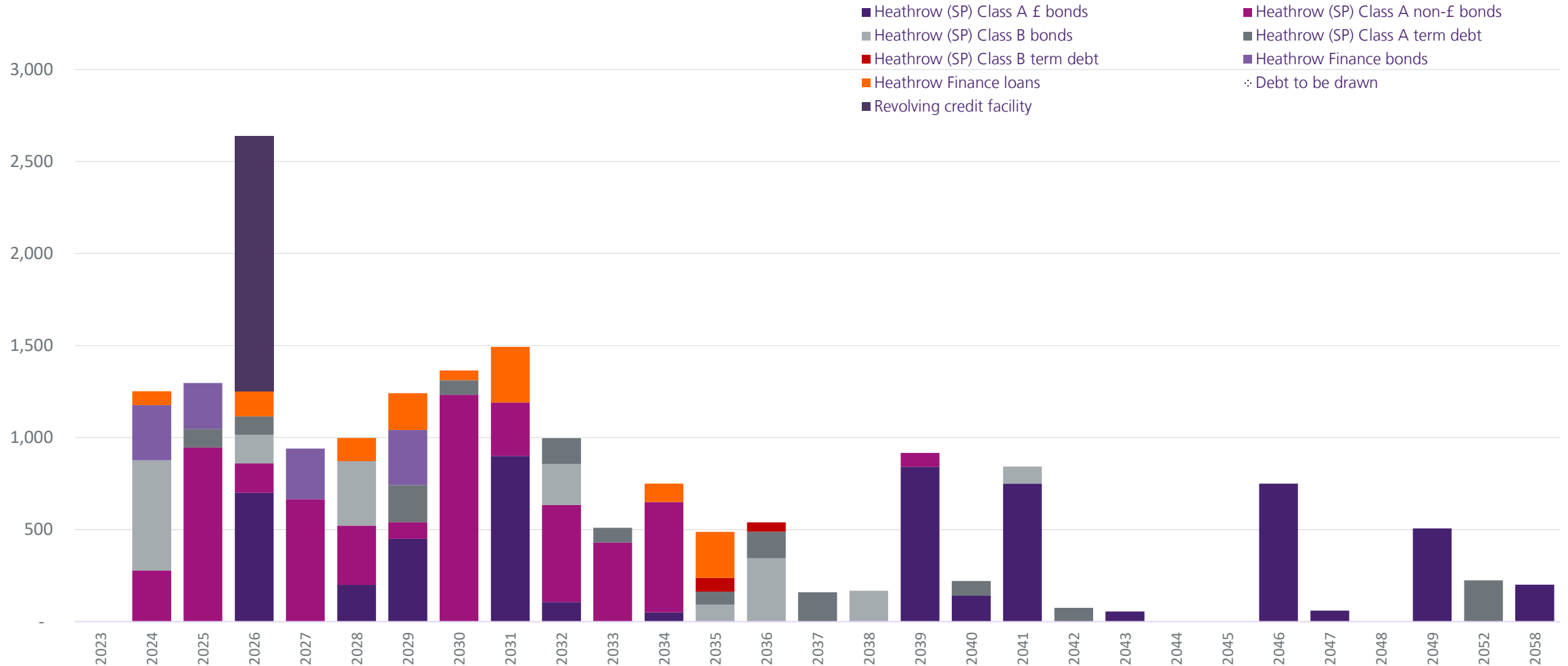
HEATHROW NOMINAL NET DEBT AT 31 MARCH 2023

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
€750m 1.50%	681	681	2025
CHF210m 0.45%	161	161	2026
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
C\$650m 2.7%	374	374	2027
C\$400m 3.4%	226	226	2028
£200m 7.075%	200	200	2028
A\$175m 4.150%	96	96	2028
CHF165m 1.800%	136	136	2029
£450m 2.75%	450	450	2029
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C\$400m 3.872%	238	238	2030
€500m 1.125%	427	427	2030
C\$500m 3.661%	291	291	2031
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	107	107	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
C\$300m 3.7%	363	363	2033
€650 1.875%	559	559	2034
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	72	72	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	771	771	2039
¥10,000m 0.8%	71	71	2039
£100m RPI +1.238%	141	141	2040
£750m 5.875%	750	750	2041
A\$125m 3.500%	68	68	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£60m 4.702%	60	60	2047
£75m RPI +1.372%	107	107	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	201	201	2058
Total senior bonds	11,331	11,331	
Term debt	1,455	1,455	Various
Index-linked derivative accretion	783	783	Various
Revolving / WC facilities	0	1,019	2026
Operating lease liability	49	49	Various
Total other senior debt	2,287	3,306	
Total senior debt	13,618	14,637	
Heathrow (SP) Limited cash	(1,088)		
Senior net debt	12,530		

Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£350m 2.625%	350	350	2028
£182m 0.101%	223	223	2032
£75m RPI + 0.347%	93	93	2035
£75m RPI + 0.337%	93	93	2036
£180m RPI +1.061%	251	251	2036
£51m RPI + 0.419%	63	63	2038
£105m 3.460%	105	105	2038
£75m RPI + 0.362%	93	93	2041
Total junior bonds	2,026	2,026	
Term debt	125	125	Various
Junior revolving credit facilities	0	367	2026
Total junior debt	2,151	2,518	
Heathrow (SP) Limited group net debt	14,681		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£300m 4.75%	300	300	2024
£250m 5.75%	250	250	2025
£275m 3.875%	275	275	2027
£300m 4.125%	300	300	2029
Total bonds	1,125	1,125	
£75m	75	75	2024
£135m	135	135	2026
£125m	125	125	2028
£150m	200	200	2029
£52m	53	53	2030
£301m	301	301	2031
£52m	100	100	2034
£300m	250	250	2035
Total loans	1,239	1,239	
Total Heathrow Finance plc debt	2,364	2,364	
Heathrow Finance plc cash	(1,164)		
Heathrow Finance plc net debt	1,200		
Heathrow Finance plc group	Amount	Available	
	(£m)	(£m)	
Heathrow (SP) Limited senior debt	13,618	14,637	
Heathrow (SP) Limited junior debt	2,151	2,518	
Heathrow Finance plc debt	2,364	2,364	
Heathrow Finance plc group debt	18,133	19,519	
Heathrow Finance plc group cash	(2,252)		
Heathrow Finance plc group net debt	15,881		

DEBT MATURITY PROFILE AT 31 MARCH 2023



NOTES, SOURCES AND DEFINED TERMS

Page 6

Source of airport rankings: ACI 2022 Report

Page 8

Heathrow Airport Limited has a wholly-owned subsidiary, Heathrow Express Operating Company Limited that sits within the ring-fenced financing structure

Page 9

Regulatory asset ratio (RAR) is nominal net debt (including index-linked accretion) to RAB (regulatory asset base). Interest cover ratio (ICR) is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid

RAR is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is now 92.5 as the Heathrow Finance 2019

Notes have been repaid

Maximum index-linked swap accretion covenant at 8% of senior net debt

Page 12

Adjusted EBITDA: is profit before interest, taxation, depreciation, amortization and fair value adjustments on investment properties and exceptional items.

Page 13

Operating costs exclude depreciation, amortisation and fair value adjustments on investment properties and exceptional items.

Page 14

Opening and closing nominal net debt includes index-linked accretion.

Cash capital expenditure for the period.

Other comprises index-linked accretion, external tax payments and fees paid in relation to financing transactions.

Page 15

Gearing ratio: external nominal net debt (including index-linked accretion and additional lease liabilities) to RAB (regulatory asset base).

Page 18

Cargo ATM(s) means an Air Traffic Movements the primary purpose of which is the carriage of goods including but not limited to freight, unaccompanied baggage and mail

Page 19

Passenger and cargo numbers as at 31 March 2023 sourced from companies websites

Page 20

Airport Service Quality 'ASQ' – quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 1 up to 5.

Departure punctuality – percentage of flights departing within 15 minutes of schedule.

Security queuing - % of security waiting time measured under 5 minutes, based on 15-minute time period measured.

Page 38-39

Net debt is calculated on a nominal basis excluding intra-group loans and including index-linked accretion and includes non-sterling debt at exchange rate of hedges entered into at inception of relevant financing.

Maturity is defined as the Scheduled Redemption Date for Class A bonds.

Heathrow

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