

Confidential



Heathrow

Funding Heathrow Expansion – Financeability Analysis of CAA Regulatory Models

20 January 2026

CONFIDENTIAL

 **Santander**
Corporate & Investment Banking

FRESHFIELDS

- 1 Scope**
- 2 Finance Evaluation Framework**
- 3 Modelling**
- 4 Finance Assessment**
- 5 Conclusion**
- 6 Disclaimer**



1

Scope

Overview

- Following publication of the CAA's 'Working Paper on Regulatory Models' (the **Working Paper**⁽¹⁾), Heathrow engaged Santander and Freshfields to assess the CAA's long-list of regulatory models from the perspective of their impact on financeability of capacity expansion at Heathrow, by further developing 'Limb C: Finance' of the CAA's evaluation framework and analysing the long-list of regulatory models against this framework.
- While recognising that the regulatory models are not mutually exclusive and it may be that a combination of models is appropriate, this report considers each model in turn, using qualitative and quantitative evidence where possible.

Scope and Assumptions

- This report does not comment on any other aspects of the CAA's evaluation framework and is limited to our financeability analysis of the regulatory models.
- This report assumes that:
 - delivery of expansion will cost approximately £33bn and modernising Heathrow will cost approximately £15bn, totalling approximately £49bn⁽²⁾ on which modelling has been based (including environmental mitigations) and which needs to be financed privately by debt and equity investors; and
 - the assumptions set out in slides 9 to 23 in relation to each regulatory model are applicable and form the basis of each outcome stated. We have made these assumptions in order to meaningfully assess the impact of the models on financeability of expansion and should not be interpreted as expressing any view on whether such assumptions will be true in practice.

- 1 Scope
- 2 Finance Evaluation Framework
- 3 Modelling
- 4 Finance Assessment
- 5 Conclusion
- 6 Disclaimer



2

Financeability Evaluation Framework

Methodology explained

Using our knowledge and experience of the infrastructure finance market we have further developed the 'Limb C: Finance' criteria set out in the Working Paper as follows:

1

Supports the considerable level of debt finance needed from debt investors to deliver expansion at an efficient cost

- To do so, the model should support HAL's business risk profile being investment grade for current and future borrowing entities and minimise risk of any credit rating downgrade. A negative ratings impact will increase the cost of debt
- Note:** Across infrastructure sectors, market evidence consistently shows construction risk to carry a pricing premium, with a material reduction in cost of debt (c.100–150bps) once assets are operational to reflect the removal of schedule and cost overrun risks. Assets which have a material brownfield element alongside greenfield development have a lower premium

2

Supports the considerable level of equity investment needed from private capital to deliver expansion at an efficient cost

- To do so, the model should support competitive and predictable returns on equity commensurate with the risks faced by investors
- Note:** For UK airport brownfield assets, equity return expectations are typically referenced in the high single-digit to low double-digit range, broadly aligned with Heathrow's current regulated returns and assuming no material construction risk. Where a construction or greenfield component is introduced, investors would generally require higher returns due to the risk impact of construction on existing operations and governance. In such cases, required returns would be expected to increase towards the mid-teens and above for more complex, longer-term or standalone greenfield projects, independent of an established operating asset

3

Ensures ongoing provision of airport operation services with no higher financing costs than necessary for the business

- To do so, the model should support HAL's ordinary course debt financing of the existing business and minimise impact to HAL's existing creditors (including consents required from existing creditors to implement the model)

4

Allows for the allocation of different types of risk between parties appropriately and on a quantifiable basis

- To do so, the model should enable clear allocation of risk and responsibility with core decision making being controlled by the party bearing the relevant risk

Application

Therefore, we have assessed each regulatory model against the above sub-criteria in this report and scored the models on a 'pass' or 'fail' basis. Models pass where our assessment against the above criteria indicates that model is positive or neutral to overall financeability of expansion and fail where it is negative.

In the case of models 1a, 1b and 2 which vary the current regulatory model, and models 4 to 8 which are interventions to facilitate competition in the delivery of infrastructure, our analysis is supported by modelling evidence as explained in section 3

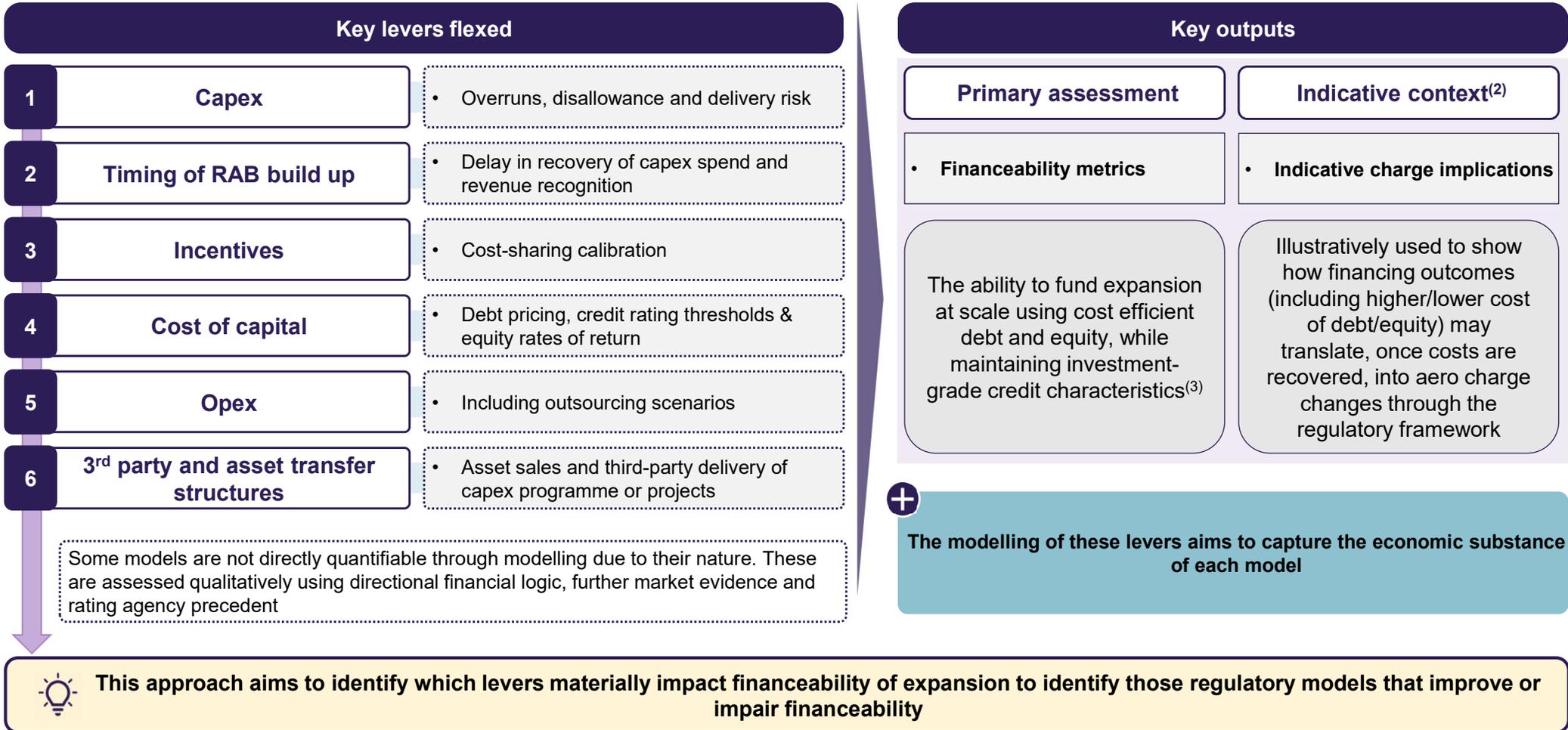
- 1 Scope
- 2 Finance Evaluation Framework
- 3 Modelling**
- 4 Finance Assessment
- 5 Conclusion
- 6 Disclaimer



3

Modelling approach - quantifying key levers to assess financeability

Stress-testing key financial levers⁽¹⁾ within HAL’s current regulatory framework relevant to financeability. Modelling was performed by reference to investment grade rating thresholds prevailing as at the date of this report for Fitch and S&P, with the Base Case aligned to metrics consistent with an “A-” rating level in respect of HAL’s Class A debt



(1) Conducted based on indicative modelling and modelled "base case" assumptions in financial models prepared and provided by HAL on 23 July 2025 (the **Base Case**). Our analysis is limited to sensitivities provided for illustrative purposes and does not consider any changes made to HAL’s modelling and assumptions after the date of this report

(2) Used only to sense-check durability of financing outcomes between H8-H11, not as a pricing assessment or recommendation of any kind; unless otherwise noted, the change to average airport charge per passenger across H8-H11 against HAL’s Base Case average airport charge has been considered

(3) The assessment of rating was conducted with reference to the following rating agency methodologies and criteria: a) S&P: Transportation Infrastructure (Sector specific corporate methodology); b) Moody’s: Privately Managed airports criteria; c) Fitch: Transportation infrastructure Rating criteria 16 May 2022; d) Fitch: Infrastructure & Project Finance criteria May 17, 2023. This assessment is preliminary and does not represent a formal rating agency opinion

- 1 Scope
- 2 Finance Evaluation Framework
- 3 Modelling
- 4 Finance Assessment**
- 5 Conclusion
- 6 Disclaimer



4

Financial Assessment of the CAA Long-List Models (1/15)

1a Changes to the current capex governance framework

Assumptions

- Incremental strengthening of existing governance framework, information requirements, cost scrutiny and assessment mechanisms
- Variation of current regulatory framework focusing on capex governance, with no alteration of Heathrow's ownership, regulatory perimeter or funding structure
- We have assumed the changes will not hinder or delay delivery of the capex programme nor impact HAL's existing RAB framework and will enable effective early-stage capex scrutiny

Interaction with financeability – Capex discipline & long-term regulatory certainty

- Improved governance could reduce the risk of capex overruns and increase certainty of recovery of capex by being added to HAL's RAB and recovered through airport charges
- Expansion continues to be financed under the existing RAB framework

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Positive: Supports financeability without changing the underlying RAB-based funding by improving the efficiency of the capex programme's delivery, reducing cost overrun risk and increasing certainty of capex being added to RAB/recovered via charges, marginally improving credit quality</p> <p>Any benefit arises through improved delivery efficiency rather than changes to the funding model, and therefore supports financeability indirectly</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Neutral: No asset transfers, revenue carve-outs, or changes to security or covenants are required</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Positive: Aligns with rating agency preference for stability, predictability of cash flows and execution confidence, with no deterioration in rating headroom</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Neutral: Risks remain with HAL but are potentially mitigated through governance rather than reallocated contractually</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Positive: Equity returns remain governed by the existing regulatory framework, while improved governance may reduce downside risk without capping upside, enhancing predictability for shareholders despite large and complex capex requirements</p>	<p>+</p>  <p>Financial Modelling</p>	<ul style="list-style-type: none"> • Modelling highlights the importance of capex cost control due to the sensitivity of airport charges to changes in total capex • Of all sensitivities, capex has the most significant impact on charges <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>+10% Capex⁽¹⁾ = Customer Charges +£2.00</p> </div>



Outcome

An improved capex governance framework would support efficient delivery of the capex programme by reducing the risk of overruns and increasing certainty of recovery of capex by accruing to HAL's RAB, which in turn supports financeability by limiting downside volatility in cashflows while leaving the underlying RAB-based funding structure and risk allocation unchanged. Modelling highlights capex is the dominant driver of charges



Financial Assessment of the CAA Long-List Models (2/15)

1b

Separating HAL's system planning function from its operational function

Assumptions

- A more significant intervention in capex governance through the structural separation between system planning and asset delivery/operations, involving a new entity responsible for planning and coordination, with the intention of ensuring investment decisions are not unduly influenced by HAL's commercial interests
- Variation of current regulatory framework (no alteration of Heathrow's ownership, regulatory perimeter or funding structure)
- We have assumed a NESO-style separation for this assessment, with planning and delivery functions structurally separated into an entity independent from HAL's ringfenced group

Interaction with financeability – Capex discipline & long-term regulatory certainty

- Expansion continues to be financed under the existing RAB framework. Although the intention is to make capex governance and accountability clearer, in practice it increases complexity, coordination risk and potentially delivery costs by planning & delivery decisions being taken in isolation from each other rather than by one decision-maker

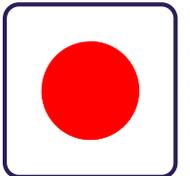
Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: More complexity may hinder capex delivery and increase execution risk – with resulting delays to the capex programme and delayed recognition of allowable capex when incurred to the RAB. This, along with HAL's loss of control over planning decisions, is likely to undermine lender confidence in HAL's credit</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: The loss of important decision-making within HAL undermines the existing risk profile for lenders, and based on the NESO precedent, could require a carve out of assets and reduction to HAL's RAB which would be likely to trigger consent requirements under HAL's existing financing arrangements</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: The loss of important decision-making within HAL from the separation may introduce delays to delivery or uncertainty and delay to the recognition of capex to the HAL's RAB. These risks could impact cashflow and be perceived as a weakening HAL's unique positioning by ratings agencies</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Negative: Although construction risk remains with HAL, this model could increase interface and delivery risk given the responsibility for delivery outcomes is shared across multiple parties (separate planning and delivery/operations)</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative: While independence aims to improve governance, HAL's diluted control and misaligned interests with the planning body could compromise returns to shareholders and reduce investor appetite or require higher rates of returns</p>	<p>+</p>  <p>Financial Modelling</p>	<p>Capex dominates charges. While governance is intended to improve, the set-up may increase delay and schedule risk and create uncertainty or potential delay to capex/RAB recognition. A delay in RAB recognition of a small portion of annual capex can erode HAL cashflow buffer</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>RAB recognition delay of 14%⁽¹⁾</p> <p>=</p> <p>Excess cashflow is fully eroded</p> </div>

Outcome



This model increases capex governance complexity and weakens HAL's control over the nature and timing of the capex programme, introducing execution and interface risk which could cause delays in the delivery of expansion or create delay/uncertainty for RAB recognition of capex. This undermines lender and investor confidence in HAL's credit profile and could drive the cost of capital upwards, having a negative impact on overall financeability of expansion



Financial Assessment of the CAA Long-List Models (3/15)

2 Targeted adjustments to the existing incentive regime

Assumptions

- Incentives regime would calibrate risk-sharing depending on project risk and vary HAL's exposure to cost overruns depending on forecast uncertainty and materiality of different construction work scopes
- Variation of current regulatory framework (no alteration of Heathrow's ownership, regulatory perimeter or funding structure)
- We have assumed appropriately calibrated risk-sharing/incentives proportionate to the scope and size of projects and potential cost overruns which improves capex management. We have also assumed a credible cap on HAL's maximum exposure (so extreme exogenous shocks are explicitly backstopped rather than fully absorbed by HAL). Without these controls, asymmetric or large cost overrun exposure for HAL would impact its cashflows, credit metrics and financing capacity

Interaction with financeability – Incentives & cost sharing (controllable risk)

- Expansion continues to be financed under the existing RAB framework, with a defined share of cost overruns absorbed by HAL as unrecoverable cash losses to incentivise efficient capex delivery and mitigate cost overruns
- Capping HAL's maximum exposure to cost overruns helps ensure cost efficient access to capital

Considerations

<p>1 </p> <p>Access to debt required at efficient cost</p>	<p>Positive: Mitigates construction risk and near term cashflow risk (which lenders otherwise view unfavourably, particularly during peak capex periods) with a cap on maximum exposure to sustain efficient cost of debt</p>	<p>4 </p> <p>Compatible with financing of existing business</p>	<p>Positive: Mitigates the impact of cost overruns on cashflows and HAL's ongoing business-as-usual financing</p>		
<p>2 </p> <p>Ratings perspective</p>	<p>Positive: Mitigates the impact of cost overruns on cashflows and existing credit headroom, preserving investment grade rating metrics</p>	<p>5 </p> <p>Appropriate allocation of different risks</p>	<p>Positive: Based on our assumptions this model helps appropriate risk allocation provided it does not place more risk on HAL from exogenous shocks – exact details will be a focus for private capital</p>		
<p>3 </p> <p>Access to equity investment required at efficient cost</p>	<p>Positive: Controls downside risk for investors. Where such risks are not clearly capped or backstopped within the regulatory framework, this would be reflected in higher required returns on equity</p>	<p>+ </p> <p>Financial Modelling</p>	<p>Modelling highlights that incentive regimes can reduce the charge impact of moderate overruns, but under extreme outcomes impact can become significant, eroding cash flow buffer and reducing financeability</p> <table border="1" data-bbox="1713 1013 2139 1189"> <tr> <td data-bbox="1713 1013 1915 1189"> <p>+50% Capex⁽¹⁾</p> <p>Customer Charges +£3.41 or Funds From Ops/Nebt Debt eroded by 1.17%⁽²⁾</p> </td> <td data-bbox="1915 1013 2139 1189"> <p>+10% Capex⁽¹⁾</p> <p>Customer Charges +£0.68 or Funds From Ops/Nebt Debt eroded by 0.42%⁽²⁾</p> </td> </tr> </table>	<p>+50% Capex⁽¹⁾</p> <p>Customer Charges +£3.41 or Funds From Ops/Nebt Debt eroded by 1.17%⁽²⁾</p>	<p>+10% Capex⁽¹⁾</p> <p>Customer Charges +£0.68 or Funds From Ops/Nebt Debt eroded by 0.42%⁽²⁾</p>
<p>+50% Capex⁽¹⁾</p> <p>Customer Charges +£3.41 or Funds From Ops/Nebt Debt eroded by 1.17%⁽²⁾</p>	<p>+10% Capex⁽¹⁾</p> <p>Customer Charges +£0.68 or Funds From Ops/Nebt Debt eroded by 0.42%⁽²⁾</p>				

<p></p> <p>Outcome</p>	<p>This model can improve capex efficiency and limit the extent to which moderate cost overruns are passed through to customers, mitigating construction and cashflow risks relating to expansion and improving financeability (provided asymmetric/increased risk is not shifted on to shareholders)</p>	
---	---	---

(1) Capex cost overrun % is applied across H9 period in HAL Base Case at an arbitrary 50/50% cost sharing scenario to highlight indicative movements in theory only and must not be construed as a recommendation or practical suggestion of any kind
 (2) Funds From Ops/Nebt Debt (FFO/ND) eroded is the minimum FFO/ ND % across H8-H11 against HAL's Base Case

Financial Assessment of the CAA Long-List Models (4/15)

3 Longer-term regulatory framework for expansion

Assumptions

- Extension of regulatory certainty through longer-term commitments/regulatory period lengths for cost recovery, allowed returns, and treatment of expansion capex
- A reopener mechanism will be established to adjust/correct assumptions made periodically - given the long-term nature of expansion and unknown risks
- Variation of current regulatory framework (no alteration of Heathrow's ownership, regulatory perimeter or funding structure)
- Long-term regulatory commitments are certain (e.g. providing for longer price control periods or multi-period commitments), with clearly defined re-openers and a proportionate approach to extreme cost overruns

Interaction with financeability – Capex discipline & long-term regulatory certainty
 Expansion continues to be financed under the existing RAB framework with enhanced and longer-term certainty and predictability over recovery timing and returns, reducing regulatory risk during construction & improving cashflow visibility

Considerations

<p>1  Access to debt required at efficient cost</p>	<p>Positive: Long-term commitments (e.g. longer price control periods or multi-period commitments) materially reduce regulatory risk premium and refinancing risk, and enable longer term debt to be raised at a lower cost</p>	<p>4  Compatible with financing of existing business</p>	<p>Neutral: No asset transfers, revenue carve-outs, or changes to security or covenants are required</p>
<p>2  Ratings perspective</p>	<p>Positive: Greater regulatory certainty reduces execution and regulatory risk which rating agencies will view positively.⁽¹⁾ however, they will continue to focus on cashflow and ratios for their assessments</p>	<p>5  Appropriate allocation of different risks</p>	<p>Neutral: Risks remain with HAL, with improved certainty if framework includes clear “re-openers”⁽²⁾</p>
<p>3  Access to equity investment required at efficient cost</p>	<p>Positive: Provides increased certainty across long term horizon pre and post construction. More predictable, long-dated returns align well with infrastructure equity requirements & attract competitive equity investment</p>	<p>+  Financial Modelling</p>	<p>Not possible to model the impact on financeability of long-term regulatory stability on expansion</p>


Outcome

Increased long-term regulatory certainty over returns and cost recovery can enhance financeability by reducing regulatory risk and the associated risk premium on long-dated debt and equity, supporting lower all-in cost of capital for expansion and better access to funding



(1) Rating agencies view regulatory stability & predictable construction-phase returns as credit-positive
 (2) Re-openers are predefined regulatory mechanisms that allow cost allowances or returns to be revisited for certain variables e.g. where material, exogenous events occur outside management control (affecting traffic, operating costs, etc.)

Financial Assessment of the CAA Long-List Models (5/15)

4a

CAA oversight/mandate of procurement: Enhanced scrutiny of HAL's approach to procurement

Assumptions

- HAL retains decision-making powers for its procurement with CAA oversight of competitive tendering processes, although we assume HAL would run an efficient procurement process in any case
- Involves CAA's review of HAL's procurement & monitoring of major tenders, as an intervention aimed at facilitating competition in the delivery of infrastructure under HAL's ownership
- This model improves transparency and accountability but does not materially alter contractor risk transfer or capex exposure nor cause delays or operational issues

Interaction with financeability – Construction delivery via third parties (CAA & competition)

- Expansion continues to be financed under the existing RAB-based framework (with contractor payments recovered by HAL through allowed revenues)
- The model aims to reduce inefficiency and capex overruns without changing the underlying funding structure or risk allocation
- We assume contractual payments would be recoverable by HAL through its allowed revenues to protect covenant ratios

Considerations

1



Access to debt required at efficient cost

Neutral: Enhanced regulatory scrutiny of procurement provides no direct benefit to cost of debt given there is no change to HAL's credit profile (its own procurement strategy should also drive efficient, value-for-money outcomes)

2



Ratings perspective

Neutral: Rating agencies are unlikely to materially change their credit assessment, or assign any uplift, solely based on procurement form. They will continue to focus on cashflow and ratios. Agencies would likely assess execution risk based on overall delivery capability and outcomes, rather than the presence of regulatory procurement oversight

3



Access to equity investment required at efficient cost

Neutral: Equity returns remain driven by the existing regulatory framework. Stricter procurement discipline could only reduce downside execution risk marginally (although any difference in impact to HAL's own approach is unclear)

4



Compatible with financing of existing business

Neutral: No asset transfers, revenue carve-outs, or changes to security or covenants are required (contracts should comply with HAL's existing capex and outsourcing covenants).

5



Appropriate allocation of different risks

Neutral: Delivery risk remains with HAL. Stricter procurement regime may only improve transparency/accountability around contractor performance and delivery

+



Financial Modelling

Not possible to model the impact on financeability of increased regulatory scrutiny on behaviour and delivery outcomes



Outcome

Enhanced regulatory oversight of procurement is neutral to financeability because any benefits are limited to procurement format which does not impact cost of capital, improve recoveries of costs through allowed revenue / cashflows or mitigate HAL's risk exposure. If the model were to materially constrain or override HAL's decision-making for procurement, this model would negatively affect financeability and risk higher financing costs for the same reasons as model 1b



Financial Assessment of the CAA Long-List Models (6/15)

4b

CAA oversight/mandate of procurement: Mandated design and build contracts

Assumptions

- CAA to require HAL to procure certain assets through design and build contracts in competitive tenders with CAA oversight over the scope & execution of outsourced activities. HAL retains ownership, financing and operational responsibility for asset throughout and decision-making powers for such procurement (including contractor selection and terms of delivery) – although we assume HAL would run an efficient procurement process in any case
- Model acts as an intervention to facilitate competition in the delivery of infrastructure under HAL's ownership
- The model only alters HAL's procurement process & would not materially reallocate delivery risk or reduce HAL's ultimate exposure to delays/cost overruns, nor cause delays or operational issues

Interaction with financeability – Construction delivery via third parties (CAA & competition)

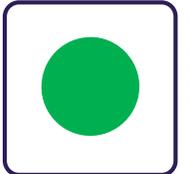
- Unlike model 4a, this model involves CAA-mandated procurement decisions, creating the potential for HAL's design and delivery decisions to change in response to a CAA direction outside of HAL's control
- Expansion continues to be financed under the existing RAB-based framework (with contractor payments recovered by HAL through allowed revenues)
- Alters the delivery risk profile to a degree, as some construction risk will be contractually allocated to third parties under mandated contracts, aiming to reduce cost overrun & delivery risks for HAL in certain project scopes

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Neutral: Mandated contractor-level risk sharing does not improve cost of debt given there is no change to HAL's credit profile (its own procurement strategy should also drive efficient, value-for-money outcomes)</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Neutral: No asset transfers, revenue carve-outs, or changes to security or covenants are required (mandated D&B contracts should comply with HAL's existing capex and outsourcing covenants). We assume the contractual payments would be recoverable by HAL through its allowed revenues to protect covenant ratios</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Neutral: Rating agencies are unlikely to materially change their credit assessment, or assign any uplift, solely based on procurement form. They will continue to focus on cashflow and ratios. Agencies would likely assess execution risk based on overall delivery capability and outcomes, rather than the presence of regulatory procurement oversight by mandating D&B contracts</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Neutral: Delivery risk overall remains with HAL. Stricter procurement regime may only improve transparency/accountability around contractor performance and delivery but could undermine HAL's decision-making</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Neutral: Equity returns remain driven by the existing regulatory framework. Mandated D&B procurement could only reduce downside execution risk marginally for the relevant projects (although any difference in impact to HAL's own approach is unclear, while mandates could undermine HAL's decision-making)</p>	<p>+</p>  <p>Financial Modelling</p>	<p>Not possible to model the impact on financeability of increased regulatory scrutiny on behaviour and delivery outcomes</p>


Outcome

Mandated procurement of certain D&B contracts by the CAA would be neutral to financeability because any benefits are limited to procurement outcomes which would not impact cost of capital, improve recoveries of costs through allowed revenues/cashflows or mitigate HAL's risk exposure. If the model were to materially constrain or override HAL's decision-making for procurement, this model would negatively affect financeability and risk higher financing costs for the same reasons as model 1b



Financial Assessment of the CAA Long-List Models (7/15)

5a

Contract for delivery and operation: Operation (management contract)

Assumptions

- Heathrow retains ownership & responsibility for the design, build & financing of assets but appoints a third party to operate specific airport facilities under a management/concession-style contract, remunerated via availability payments or performance-linked fees which HAL pays & recovers through charges. We have also assumed that such third party's performance would not cause operational issues & HAL retains control rights over key decisions
- Intervention aims to facilitate competition in the delivery of infrastructure under HAL's ownership from an operational perspective
- Contracts would apply only to operation of assets post-construction and HAL would continue to build and own all assets and be solely responsible for the capex programme

Interaction with financeability – Operational efficiency

- Expansion continues to be financed under the existing RAB-based framework
- Some operational risk is outsourced to a third party. The intention is for competitive tendering and specialist operators to improve efficiency and service quality without changing the underlying funding model
- We assume the contractual payments would be recoverable by HAL through its allowed revenues to protect covenant ratios

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Neutral: Heathrow retains ownership, revenue risk and funding responsibility. There is no material change in the cost or quantum of debt given operational efficiencies are likely to have a limited impact on charges</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Neutral: Management contracts should not involve asset transfers, revenue carve-outs, or changes to security or covenants, but the contractual terms must comply with HAL's outsourcing covenants</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Neutral: Although fixed contractual payments could reduce headroom during stress periods, unlikely to be material</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Neutral: Operational execution risk post-construction can be outsourced to a degree, but for core, integrated assets HAL remains the ultimate operational backstop and construction, demand and regulatory risk remain with HAL</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Neutral: Equity returns remain driven by the existing regulatory framework. Third party operators do not materially improve the equity proposition for investors given operational efficacy has limited impact on equity returns relative to capex deviations</p>	<p>+</p>  <p>Financial Modelling</p>	<p>While outsourcing can improve operational efficiency, modelling shows opex does not materially improve financeability or impact charges, as these continue to be driven predominantly by capex discipline</p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>-15% Opex⁽¹⁾ = Customer Charges -£0.26</p> </div>

Outcome



Using this model would have no impact on cost of debt or equity returns and limited impact on airport charges since any potential benefits are limited to operational efficiencies post-construction. Given this lack of impact, the model is neutral to financeability for expansion



(1) 15% contractor cost saving assumed to equate to c.10% net opex saving for Heathrow after contractor margin is accounted for, where opex change % is applied to only a proportion of opex (20%) across 2030 – 2054 for Heathrow (as it is unlikely that the full opex cost will be outsourced)

Financial Assessment of the CAA Long-List Models (8/15)

5b

Contract for delivery and operation: Design, Build and Operate (DPC style)

Assumptions

- A competitively procured third party designs, builds, finances & operates the asset for a set term & charges HAL under a contract, with HAL retaining control rights over key decisions. At the end of the term, the asset transfers to HAL. We have assumed that such third party's performance during the contract period would not cause operational issues
- Intervention aims to facilitate competition in the delivery of infrastructure under HAL's ownership
- We have considered this model's application to a core asset e.g. a terminal and assumed that the level of complexity and integration with HAL would attract equity IRRs for investors in the mid- to high teens during construction and require step-in rights for HAL in an extreme downside scenario

Interaction with financeability – Construction delivery via third parties

- Intends to leverage private capital and expertise to reduce Heathrow's direct exposure to construction risk/cost overruns
- In practice, asset is funded by third-party debt/equity (not based on HAL's RAB) in exchange for availability payments to the third party & an end of concession payment, all of which HAL recovers through airport charges

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: A third party's cost of debt to fund core assets would be higher than HAL's RAB-based funding because:</p> <ul style="list-style-type: none"> • Market evidence shows greenfield assets price debt at a premium (c.100-150bps) compared to operational assets, reflecting schedule and cost overrun risk, and • Significant committed upfront debt/equity funding would be needed to raise investment grade rated debt at scale, incurring funding costs for the third party earlier <p>This premium would increase the all-in cost of capital relative to HAL and be compensated through the third party's contractual remuneration paid by HAL, increasing charge pressure</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: We assume the contractual payments would be recoverable by HAL through its allowed revenues to protect covenant ratios. However, core assets to be built in the existing airport perimeter (e.g. new terminal on existing site) could require disposals or leases of assets to the third party, which (depending on their terms) may require creditor consents, affect the existing security and undermine HAL's ongoing business-as-usual financing</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: A DPC partner of a core, operationally-important asset with excessive leverage risks destabilising HAL's business-as-usual performance as HAL will need to backstop the construction & operation. Agencies may treat payments as debt-like & counterparty leverage as on HAL's balance sheet -which, if material, may detrimentally impact HAL's credit profile. As DPC costs are likely to be broadly fixed, these could reduce headroom during stress periods</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Negative: Expected contractual risk-sharing of cost overruns between HAL and any third party makes it unlikely that lenders/investors will consider this to involve a meaningful transfer of construction risk. Overall delay and delivery risk for expansion remains with HAL while its control over the asset is diminished (until any step-in rights are exercised)</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative:</p> <ul style="list-style-type: none"> • For Heathrow shareholders, impact depends on whether increased costs can be recovered through charges and returns are preserved. However, ultimate step-in rights will be necessary for core assets • Third-party equity is only attractive at higher IRRs⁽¹⁾, increasing the all-in cost of capital compared to HAL and which would be compensated through the third party's contractual remuneration paid by HAL, increasing charge pressure 	<p>+</p>  <p>Financial Modelling</p>	<ul style="list-style-type: none"> • The financial impact on airport charges of delivering an asset through this model depends on the third party's IRR targets (as higher IRR targets factor into fees / availability payments paid by HAL). Typically, investors in greenfield assets target higher IRRs in the mid- to high teens⁽¹⁾ • Modelling of a DPC-style fee⁽²⁾ using this range of IRRs to deliver ~£3bn of capex costs for discrete assets⁽³⁾ resulted in airport charges ranging between £0.12 per pax lower to £0.21 per pax higher. At the higher range, a 20-30% capex saving is required to offset the charge increase

<p>Outcome</p>	<p>Using this model to deliver core expansion assets like terminals⁽³⁾ with c. 10+ years construction risk would negatively impact financeability by increasing the all-in cost of capital for expansion and placing upward pressure on airport charges (unless unrealistic capex savings are assumed), without a meaningful transfer of risk from HAL to a third party</p> <p>DPC-style arrangements concerning discrete, non-core and less capital-intensive assets may be appropriate where a third-party bids at competitive rates (if, among other things, it can attract debt and equity funding on competitive terms relative to HAL)⁽⁴⁾</p>	 
-----------------------	---	---

(1) Market evidence indicates that operational UK airport assets typically attract high single-digit to low double-digit equity returns, while assets with material construction or greenfield risk require higher returns, often in the mid-teens or above, particularly for more complex and longer-term construction horizons (c. 10+ years)

(2) The fee is the cumulative revenue earned by the counterparty over the contract term, calculated based on their bid price, the assumed term of the concession and IRR requirements

(3) Modelling assessment reflects an indicative scale for terminal components for proportional analysis. In the Base Case, T5X (including T5XW, T5XN, all aprons and landside areas) is forecast to cost £12bn and be delivered by phased construction over a long horizon with multiple project scopes, rendering it unsuitable for modelling

(4) Refer to our report "Funding An Expanded Heathrow" dated 31 July 2025 for further analysis on this point

Financial Assessment of the CAA Long-List Models (9/15)

6 Third party builds assets, then transfers ownership to HAL

Assumptions

- HAL takes ownership of and operates the asset once construction is completed by a third party, with the asset entering HAL's RAB upon transfer
- Intervention aims to facilitate competition in the delivery of infrastructure for expansion under third party ownership
- We have considered this model's application to a core asset e.g. a terminal and assumed that the level of complexity and integration with HAL would attract equity IRRs for investors in the mid- to high teens during construction, require step-in rights for HAL in an extreme downside scenario and involve HAL purchasing the asset relatively soon after completion

Interaction with financeability – Construction delivery via third parties (CAA & competition)

- The purchase price paid by HAL for the asset would need to offer better value-for-money compared to HAL's own costs to construct that asset and be recovered by HAL through airport charges. Price to be determined either (i) before construction, allowing for a fixed price or risk-sharing, or (ii) after construction, where the CAA or another authority would determine the transfer price
- The model does not change the ultimate funding requirement for construction but alters the timing and risk profile of such funding for HAL

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: A third party's cost of debt to fund core assets would be higher than HAL's RAB-based funding because:</p> <ul style="list-style-type: none"> • Market evidence shows greenfield assets price debt at a premium (c.100-150bps) compared to operational assets, reflecting schedule and cost overrun risk, and • Significant committed upfront debt/equity funding would be needed to raise investment grade rated debt at scale, incurring funding costs for the third party earlier <p>This premium would be factored into the purchase price paid by HAL post-construction and increase the all-in cost of capital compared to HAL, increasing charge pressure</p>	<p>4</p>  <p>Compatible with financing of existing business</p> <p>Negative: The timing of the asset transfer and HAL's debt capacity to pay the sizeable purchase price are uncertain & could lead to pressure on covenant ratios at the point of transfer. Core assets to be built in the existing airport perimeter (e.g. new terminal on existing site) under third party ownership would require transfers of assets to the third party, which (depending on their terms) may require creditor consents, affect the existing security & undermine HAL's ongoing business-as-usual financing</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: Rating agencies will see model as complex and adding interim funding risk, as HAL may need to fund a sizeable purchase price upfront or in a short period, before having certainty on the asset's valuation or timing/amount of recovery and accrual to the RAB. This could put short-term pressure on HAL's liquidity and covenants at the point of transfer</p>	<p>5</p>  <p>Appropriate allocation of different risks</p> <p>Negative: Some construction risk is reallocated to new capital but ultimate delay & delivery risk for core expansion assets remains with Heathrow while HAL control over construction diminishes (until step-in). Introduces increased funding risk for HAL given a substantial contractual end payment will be due at time of transfer</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative:</p> <ul style="list-style-type: none"> • For Heathrow shareholders, impact depends on whether price can be recovered through charges and returns are preserved. However, ultimate step-in rights will be necessary for core assets & uncertainty of timing/price determination detrimental to shareholders • Third-party equity is only attractive at higher IRRs⁽¹⁾, increasing the all-in cost of capital during construction compared to HAL & reflected in the valuation/purchase price payable by HAL to the third party, increasing charge pressure 	<p>+</p>  <p>Financial Modelling</p> <p>The financial impact on airport charges of delivering an asset through this model depends on the third party's IRR targets (as higher IRR targets factor into asset valuation / purchase price paid by HAL). Achieving a mid-to-high teens IRR⁽¹⁾ would require HAL to repurchase c. ~£16bn of assets via payments over a 5-year period and result in a 25-40% premium, translating to a £3.45 increase to peak charges.^(2,3) A c.30% capex saving is required to offset this charge increase</p>

<p>Outcome</p> 	<p>Using this model to deliver a core expansion asset like a terminal would negatively impact financeability by increasing the all-in cost of capital during construction for expansion and placing upward pressure on airport charges (unless unrealistic capex savings are assumed), plus increase schedule and liquidity risk for HAL prior to or at the point of the asset transfer</p>	
---	--	---

Financial Assessment of the CAA Long-List Models (10/15)

7a

Third party continues to own and operate assets: Upstream supplier model

Assumptions

- A competitively procured third party designs, builds, finances & operates the asset & charges HAL under a contract (but unlike model 5b, the third party owns the asset & no end of concession payment is required to transfer the asset to HAL)
- Intervention aims to facilitate competition in the delivery of infrastructure for expansion under third party ownership
- We have considered this model's application to a core asset (e.g. a terminal) and assumed that the level of complexity and integration with HAL would attract equity IRRs for investors in the mid- to high teens during construction and require step-in rights for HAL in an extreme downside scenario

Interaction with financeability – Construction delivery via third parties (CAA & competition)

- Intends to move construction capex off HAL's balance sheet and leverage private capital and expertise of third party to finance the construction and operation of assets
- In practice, the asset's construction & operations is funded by third-party debt & equity (not based on HAL's RAB) in exchange for permanent availability payments to the third party which HAL recovers through airport charges

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: A third party's cost of debt to fund core assets would be higher than HAL's RAB-based funding because:</p> <ul style="list-style-type: none"> • Market evidence shows greenfield assets price debt at a premium (c.100-150bps) compared to operational assets, reflecting schedule and cost overrun risk; and • Significant committed upfront debt/equity funding would be needed to raise investment grade rated debt at scale, incurring funding costs for the third party earlier <p>This premium would increase the all-in cost of capital relative to HAL and be compensated through the third party's contractual remuneration paid by HAL, increasing charge pressure</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: We assume the contractual payments would be recoverable by HAL through its allowed revenues to protect covenant ratios. However, contracts concerning core assets to be built in the existing airport perimeter (e.g. new terminal on existing site) under third party ownership would require transfers of assets to the third party, which (depending on their terms) may require creditor consents, affect the existing security and undermine HAL's ongoing business-as-usual financing</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: A supplier of a core, operationally-important asset with excessive leverage risks destabilising HAL's business-as-usual performance as HAL will need to backstop the construction & operation. Agencies may treat payments as debt-like & supplier leverage as on HAL's balance sheet which, if material, may detrimentally impact HAL's credit profile. As supplier costs are likely to be broadly fixed, these could reduce headroom during stress periods</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Negative: Expected contractual risk-sharing of cost overruns between HAL and any third party makes it unlikely that lenders/investors will consider this to involve a meaningful transfer of construction risk. Overall delay and delivery risk for expansion remains with HAL while its control over the asset is diminished (until any step-in rights are exercised). HAL also retains demand risk (as underlying cashflows to compensate third party supplier remain with HAL)</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative:</p> <ul style="list-style-type: none"> • For Heathrow shareholders, impact depends on whether increased costs can be recovered through charges and returns are preserved. However, ultimate step-in rights will be necessary for core assets • Third-party equity is only attractive at higher IRRs⁽¹⁾, increasing the all-in cost of capital compared to HAL and which would be compensated through the third party's contractual remuneration paid by HAL, increasing charge pressure 	<p>+</p>  <p>Financial Modelling</p>	<ul style="list-style-type: none"> • The financial impact on airport charges of delivering an asset through this model depends on the third party's IRR targets (as higher IRR targets factor into fees / availability payments paid by HAL). Typically, investors in greenfield assets target IRRs in the mid- to high teens⁽¹⁾ • Modelling of a DPC-style fee⁽²⁾ using this range of IRRs to deliver ~£3bn of capex costs for discrete assets⁽³⁾ resulted in airport charges ranging between £0.12 per pax lower to £0.21 per pax higher. At the higher range, a 20-30% capex saving is required to offset the charge increase

<p>Outcome</p> 	<p>Third party suppliers of core expansion assets like terminals(3) with c. 10+ years construction risk would negatively impact financeability by increasing the all-in cost of capital for expansion and placing upward pressure on airport charges (unless unrealistic capex savings are assumed), without a meaningful transfer of risk from HAL to a third party</p>	
	<p>As per model 5b, third party suppliers may be able to deliver discrete, non-core and less capital-intensive assets at competitive rates (if, among other things, it can attract debt and equity funding on competitive terms relative to HAL & responsibilities clearly defined between owners)</p>	

(1) Market evidence indicates that operational UK airport assets typically attract high single-digit to low double-digit equity returns, while assets with material construction or greenfield risk require higher returns, often in the mid-teens or above, particularly for more complex and longer-term construction horizons (c. 10+ years)
 (2) The fee is the cumulative revenue earned by the counterparty over the contract term, calculated based on their bid price, the assumed term of the concession and IRR requirements
 (3) Modelling assessment reflects an indicative scale for terminal components for proportional analysis. In the Base Case, T5X (including T5XW, T5XN, all aprons and landside areas) is forecast to cost £12bn and be delivered by phased construction over a long horizon with multiple project scopes, rendering it unsuitable for modelling

Financial Assessment of the CAA Long-List Models (11/15)

7b

Third party continues to own and operate assets: Direct competition for airport operation services

Assumptions

- Third parties build and operate the asset, competing with HAL by providing airport services and recovering the required revenue from users directly
- Strong regulatory oversight required, including regulated wholesale access, cost allocation rules, non-discrimination requirements, and market power assessments
- Intervention aims to facilitate competition in the delivery of infrastructure under third party ownership
- We have considered this model's application to a core operating asset e.g. a terminal, assuming competing services could be provided between terminals, revenues divided & traffic directed efficiently without impairing operations

Interaction with financeability – Direct competition & operations

- Model seeks to improve opex discipline and service quality by allowing third parties to operate and fund assets independently of, and directly compete with, HAL

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: Model would lead to a higher all-in cost of capital & risk of increased charges due to higher cost of debt generally, caused by:</p> <ul style="list-style-type: none"> • Direct competition undermining cashflow stability & weakening the single-till revenue smoothing that supports strong investment grade financing. Lenders would view the introduction of direct competition as a structural increase in business risk, likely leading to higher borrowing costs and downgrade risk for HAL and any third party • The third party needing significant committed upfront debt/equity funding to raise investment grade rated debt at scale, incurring funding costs for the third party earlier 	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: Negative impact on HAL's business risk profile fundamentally worsens HAL's credit for existing creditors and compromises HAL's ongoing business-as-usual financing by increasing refinancing risk for brownfield assets</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: By adding direct competition⁽³⁾, this model increases HAL's business risk profile – revenue predictability and the single till weaken, demand risk increases and HAL's market position underpinning its strong investment grade ratings is undermined. As a result, rating thresholds (measuring funds from operations relative to net debt (FFO/ND)) could increase and require higher charges to avoid a downgrade</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Negative: Construction and operational risk is reallocated to new capital, but loss of HAL control over a key asset for expansion exacerbates risks faced by HAL, particularly delay and delivery risk</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative: Introducing direct competition materially increases revenue & margin volatility and weakens the predictability of returns. Investors would face uncapped downside risk from competitive pressure while their potential upside remains constrained by regulation and market dynamics. As a result, the attraction for private capital investment would reduce and IRRs would increase materially</p>	<p>+</p>  <p>Financial Modelling</p>	<ul style="list-style-type: none"> • Lower ratings would attract higher debt & equity costs, directly impacting HAL through a likely minimum required uplift of 50bps to its WACC, & consequently requiring a £1.51 increase in charges • Applying higher rating thresholds to simulate a weakening of HAL's business risk profile⁽²⁾ could result in a £5.56 charge increase to maintain existing credit ratings <div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>+50bps to WACC⁽¹⁾</p> <p>=</p> <p>Customer Charges + £1.51</p> </div>

Outcome



Using this model to deliver a core expansion asset like a terminal would increase the all-in cost of capital for expansion and place upward pressure on airport charges by weakening HAL's credit profile significantly, negatively impacting financeability



(1) Modelled by increasing WACC premium target between H8-H10 (compared to HAL Base Case)
 (2) Modelled a 2% increase in FFO/Net debt requirement which reflects a stressed metric requirement under a weakened business risk profile, illustrating potential loss of rating headroom and requirement for higher charges to sustain current IG rating. HAL has an existing 8% upgrade threshold (7% for downgrade) for a BBB+ Class A rating as per S&P's Dec 2025 rating report. While HAL may remain operationally competitive, rating agencies place significant weight on revenue predictability and regulatory protection. Introducing direct competition for a core asset could weaken these characteristics and could lead to a reassessment of HAL's business risk profile, independent of HAL's market position and/or operational performance
 (3)

Financial Assessment of the CAA Long-List Models (12/15)

8

Transfer of ownership and operation of an existing asset

Assumptions

- HAL would be required to transfer ownership, operation and maintenance of an existing operational asset to a third party (assuming roles and responsibilities can be appropriately scoped between HAL and a third party)
- Intervention aims to facilitate competition in the delivery of infrastructure under third party ownership from an operational perspective
- We have assumed an immediate sale of a core operating asset e.g. a terminal, assuming competing services could be provided between terminals, revenues divided & traffic directed efficiently without impairing operations
- We have also assumed that, due to integration risk and operational interdependence, such assets would likely attract a higher IRR (mid-teens and above) range than discrete infrastructure. A sale of a car park has been used illustratively given market precedents and valuation tractability, which is not possible for terminal assets at Heathrow

Interaction with financeability – Direct competition & operations

- Aim is to monetise existing assets to generate upfront cash proceeds to contribute towards capex and reduce funding requirements, although would reduce HAL's RAB and future regulated cash flows
- Expansion continues to be financed under the existing RAB-based framework

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: Model would lead to a higher all-in cost of capital & risk of increased charges due to higher cost of debt, generally caused by direct third-party competition undermining cashflow stability & weakening the single-till revenue smoothing that supports HAL's investment grade financing. Lenders would view direct competition as a structural increase in business risk, leading to higher borrowing costs and downgrade risk for HAL and the third party</p>	<p>4</p>  <p>Compatible with financing of existing business</p> <p>Negative: HAL's heightened business risk profile fundamentally worsens HAL's credit for existing creditors and compromises HAL's ongoing business-as-usual financing by increasing refinancing risk for brownfield assets. This is exacerbated by forced asset transfers and revenue carve-outs which, depending on their terms, may require creditor consents and affect the existing security</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: Agencies will view temporary sale proceeds positively but permanent reductions in future cashflow & HAL's RAB negatively as risks to ongoing headroom. By adding direct competition⁽²⁾, this model increases HAL's business risk profile – revenue predictability and the single till weaken, demand risk increases and HAL's market position underpinning its investment grade ratings is undermined. As a result, rating thresholds (measuring funds from operations relative to net debt (FFO/ND)) could increase and could require higher charges to avoid a downgrade</p>	<p>5</p>  <p>Appropriate allocation of different risks</p> <p>Negative: Transfer of existing operations and maintenance to third parties for particular assets, but loss of HAL control over a key asset for expansion exacerbates risks faced by HAL</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative: HAL's existing assets provide stable cashflows which can offset variable construction costs, which would reduce once an existing revenue-generating asset is sold. Mandated sales of material assets will undermine the predictability and stability of Heathrow as a regulated asset, resulting in higher IRRs to account for this uncertainty</p>	<p>+</p>  <p>Financial Modelling</p> <ul style="list-style-type: none"> • As shown for model 7b, the impact on HAL's business risk profile would lead to increased charges • The sale of a discrete, non-core asset⁽¹⁾ would have minimal impact on charges (even at a valuation of 10x EBITDA) while HAL's RAB and stable revenues would reduce, exacerbating greenfield risk/premium <div data-bbox="1960 1018 2139 1192" style="border: 1px solid black; padding: 5px;"> <p>Customer Charges -£0.16 to +£0.24</p> </div>

Outcome



A sale of an existing core operational asset like a terminal would negatively impact financeability of expansion since the introduction of direct competition would significantly undermine HAL's business risk profile. In addition, the loss of stable cashflows would exacerbate the impact of the greenfield construction risk premium to HAL's cost of debt



Financial Assessment of the CAA Long-List Models (13/15)

9a

New framework for setting airport charges: Price benchmarking

Assumptions

- Benchmark charges against comparable airports (using peer airport price levels as the primary reference point rather than HAL's own cost base)
- We have assumed charges set at competitive levels relative to international peers, which could reduce the level of increase to the charge to pay for expansion capex compared with the current regulatory model
- No government support in the form of direct funding or backstop arrangements to address cash shortfalls

Interaction with financeability – Alternative charging framework

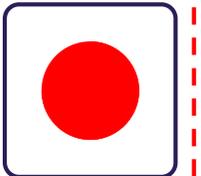
- Sets limits to charges by reference to other international airports with the intention of keeping prices competitive, not directly related to HAL's own efficient costs. As such, HAL may earn returns substantially above or below its cost of capital

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: HAL may not be able to finance expansion without public funding or guarantees if benchmarked returns fall below HAL's cost of capital</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: Conflicts with cost-recovery RAB model on which covenants are based & introduces significant cashflow uncertainty. Materially alters nature of the credit exposure of existing lenders and is likely to weaken headroom under financial covenant tests</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: Risks creating a cap on price and erode headroom as comparator-based charges may not allow recovery of efficient costs or a reasonable return on capital</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Negative: Cost risk is retained by HAL, while revenue risk is driven by external benchmarks over which HAL has no control and which may not be directly related to its efficient costs, meaning returns could be substantially above or below its cost of capital</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative: It is dependent on comparator outcomes rather than HAL's own efficient costs, meaning returns may be substantially above or below HAL's cost of capital, which would deter private equity investment</p>	<p>+</p>  <p>Financial Modelling</p>	<p>A charge reduction in line with peers⁽¹⁾ results in material reduction in debt metrics to below existing investment grade thresholds⁽²⁾, causing increased cost of debt and a significant reduction in investor returns. This would lead to an unfinanceable proposition for large-scale expansion without material government financial support as a backstop</p>


Outcome

This model would negatively impact financeability of expansion as HAL's revenues could fall significantly below its cost of capital, creating uncertainty as to whether HAL can generate sufficient cashflow to service its debt and finance expansion without material government financial support to address shortfalls



(1) Reduced charges profile by 33% following KPMG - 23 May 2025 - Heathrow Aeronautical Revenue Benchmarking Study. Charges profile reduction based on 2023 Heathrow charge vs average of comparators, from KPMG analysis (incl. Theme 1 - rail, volume price only) – 33% difference.
(2) Based on HAL public rating thresholds as at Jan-2026

Financial Assessment of the CAA Long-List Models (14/15)

9b

New framework for setting airport charges: Long-run incremental costs (“LRIC”)

Assumptions

- Maximum charges would be set by reference to the LRIC of providing additional capacity, rather than on the basis of full cost recovery of incurred costs through a RAB
- No government support in the form of direct funding or backstop arrangements to address cash shortfalls

Interaction with financeability – Alternative charging framework

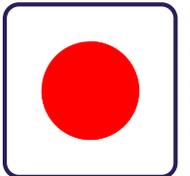
- Intends to support funding by allocating a long-term additional cost to achieve enough cashflow to fund capex, theoretically sending efficient capex spend signals
- However, it creates significant revenue under-recovery risk if forecasts are unreliable and may not provide sufficient certainty on cost recovery to support large-scale private financing

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: Revenues in early years are likely to be insufficient to cover level of debt service necessary during construction. Liquidity pressure during construction would be heightened as the marginal benefit arises from additional capacity rather than at the point when debt is incurred during construction phase</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: Conflicts with cost-recovery RAB model on which covenants are based & introduces significant cashflow uncertainty. Materially alters nature of the credit exposure of existing lenders and is likely to weaken headroom under financial covenant tests</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: Causes material downgrade risk and weakens HAL’s business risk profile absent government support or explicit revenue guarantees</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Negative: Cost risk is retained by HAL and revenue risk is driven by forecast demand and utilisation which could lead to significant under recovery</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative: Significant under-recovery risk arises for investors if demand or utilisation lags expectations, deterring investment for expansion at an efficient cost and leading to potentially higher required rates of return⁽¹⁾</p>	<p>+</p>  <p>Financial Modelling</p>	<p>None. An LRIC approach relies on forward-looking assumptions of demand and utilisation, making any qualitative modelling outcomes of this model unreliable for assessing financeability</p>


Outcome

This model would negatively impact financeability of expansion without material government financial support and conflicts with the HAL’s existing RAB-based business-as-usual financing, making a transition unworkable in practice



(1) While higher nominal returns could theoretically be sought, the scale of under-recovery risk and timing risk under an LRIC framework mean that the required returns would fall outside the acceptable range for regulated infrastructure investors, deterring them from funding expansion

Financial Assessment of the CAA Long-List Models (15/15)

9c

New framework for setting airport charges: “Lighter touch” regulation

Assumptions

- HAL would have total pricing flexibility and greater operational freedom given the CAA would not directly control price-setting and service delivery (based on Gatwick airport as an example). Instead, the CAA would focus on monitoring performance and enforcement of outcomes via voluntary commitments by HAL as the airport operator and rely on market discipline to constrain prices

Interaction with financeability – Alternative charging framework

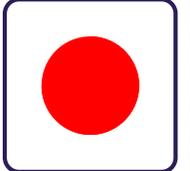
- The model seeks to provide pricing flexibility and reduce regulatory burden with fewer up-front controls on costs, charges and investment, relying on market forces and Heathrow's commercial incentives to constrain pricing and promote efficient investment in the business
- The impact on financeability would depend on Heathrow's ability to sustain stable demand, pricing and cashflows under a less prescriptive regulatory framework, notwithstanding potential lender and investor caution arising from reduced regulatory certainty in the context of large-scale expansion capex

Considerations

<p>1</p>  <p>Access to debt required at efficient cost</p>	<p>Negative: Reduced regulation is likely to weaken lender confidence and lead to lower tolerated gearing compared with HAL's current regulatory framework, increasing the cost of financing for expansion and placing upward pressure on charges</p>	<p>4</p>  <p>Compatible with financing of existing business</p>	<p>Negative: Materially alters nature of the credit exposure of existing lenders, undermining business-as-usual financing</p>
<p>2</p>  <p>Ratings perspective</p>	<p>Negative: Rating agencies may view tariff flexibility positively, but removing regulatory protections with respect to a large expansion programme relative to the existing framework is likely to increase perceived business risk and place downward pressure on ratings compared with the current regulatory framework, absent evidence that cash flows can be sustained</p>	<p>5</p>  <p>Appropriate allocation of different risks</p>	<p>Neutral: No impact compared to current framework</p>
<p>3</p>  <p>Access to equity investment required at efficient cost</p>	<p>Negative: While lighter-touch regulation allows greater flexibility in managing revenues and costs, reduced regulatory predictability could increase perceived risk for equity investors. Any cashflow benefits would need to offset higher required returns similar to unregulated airports (against the current RAB-based framework), placing upward pressure on charges</p>	<p>+</p>  <p>Financial Modelling</p>	<p>None. Any quantitative modelling of this model would require various assumptions on market power, pricing behaviour and regulation, for which there are an insufficient number of comparable market precedents. Any results would be highly assumption-driven and an unreliable basis for assessing financeability</p>

 Outcome

A shift to “lighter-touch” regulation is expected to have a negative impact on financeability in practice. While Heathrow's relative market position may support pricing and cashflow resilience, reduced regulatory certainty is likely to weaken lender and investor confidence, increasing cost of funding and undermining HAL's current ratings and business-as-usual financing⁽¹⁾



(1) This assessment is particularly sensitive to the nature and scale of regulatory change and the resulting market perceptions of such change

- 1 Scope
- 2 Finance Evaluation Framework
- 3 Modelling
- 4 Finance Assessment
- 5 Conclusion**
- 6 Disclaimer



5

Financeability-led conclusions related to the CAA regulatory model options

Key Lever	Applicable model	Assessment
A Capex discipline & long-term regulatory certainty	<ul style="list-style-type: none"> 1a: Capex governance 3: Long-term regulatory framework 	
	<ul style="list-style-type: none"> 1b: Separation of system planning 	
B Incentives & cost sharing (controllable risk)	<ul style="list-style-type: none"> 2: Targeted incentive adjustments 	
C Construction delivery via third parties (CAA & competition)	<ul style="list-style-type: none"> 4a: Enhanced procurement scrutiny 4b: Mandated Design & Build 5b: DPC-style (discrete assets) 7a: Upstream supplier model (discrete assets) 	
	<ul style="list-style-type: none"> 5b: DPC-style (core assets) 6: Build then transfer 7a: Upstream supplier model (core assets) 	
D Operational efficiency	<ul style="list-style-type: none"> 5a: Management contracts 	
E Direct competition & operations	<ul style="list-style-type: none"> 7b: Direct competition 8: Asset transfer 	
F Alternative charging frameworks (structurally incompatible at scale)	<ul style="list-style-type: none"> 9a: Price benchmarking 9b: LRIC 9c: "Lighter touch" regulation 	



Models which improve capex discipline, recovery certainty & mitigate cost overruns with well-calibrated incentives improve financeability for expansion and merit more detailed investigation at the next regulatory consultation to be scrutinised effectively.

Models which concentrate on operational efficiency or procurement only are neutral to financeability for expansion.

Models which create uncertainty and introduce structural business risk, complexity and/or market structure changes are detrimental to financeability for expansion.

- 1 Scope
- 2 Finance Evaluation Framework
- 3 Modelling
- 4 Finance Assessment
- 5 Conclusion
- 6 Disclaimer



6

Thank You

Our purpose is to help people
and business prosper

Our culture is based on believing
that everything we do should be:

Simple Personal Fair

Disclaimer

1. Freshfields LLP (**Freshfields**) and Banco Santander, S.A., London Branch (**Santander**) (**we** or **us**) have prepared this presentation (being the **Report**) for and on the instructions of, and in each case in accordance with our terms of engagement with, Heathrow Airport Limited, which is our client (the **Client**). Any analysis contained in the Report is subject to the scope, terms of reference, assumptions and qualifications which we have each agreed with the Client and does not reflect or include any work undertaken or opinions held by any other professionals of the Client or any other work product that we may have separately provided to the Client.
2. Nothing in this Report shall be interpreted as creating any joint liability between Freshfields and Santander. In the Report, Freshfields will only be responsible for contents in relation to English law matters based on the scope of work as set out in Freshfields' engagement letter dated 19 January 2026 and Santander will only be responsible for contents in relation to debt advisory matters and advice based on the scope of work as set out in Santander's engagement letter dated 16 January 2026. Each of Freshfields and Santander only accepts responsibility for those parts of this Report that fall within their respective scope of, and concern, the appointment and remit(s) listed above and accepts no responsibility for any other parts of the Report or any omission from the Report within the other's remit. Freshfields does not assume any liability or responsibility for accurately transcribing the advice of Santander in this Report. In addition, Freshfields has assumed that the information or advice provided by Santander is true and complete in all respects and Freshfields has undertaken no steps whatsoever to verify such information or advice by Santander.
3. The Report is for discussion with the Client, Heathrow Airport Holdings Limited and its directors only and not for any other individual, firm, company, partnership, joint venture, government, state or agency of a state, association, works council or employee representative body (each a **person**).
4. Only the Client is entitled to rely on the Report and we (and our personnel and [associated firms](#)) accept no responsibility, duty or liability to Heathrow Airport Holdings Limited or its directors or any other person in respect of the contents of the Report (or any discussions relating to it) unless: (i) the Client, Freshfields and Santander have consented to their reliance in such form and on terms that each of Freshfields, Santander and the Client agree to in their sole discretion and in writing in each case; and (ii) there has been valid acceptance of the terms on which they may rely on the Report by the counter-signature of a reliance letter in such form as each of Freshfields and Santander agree.
5. This report is strictly confidential and is addressed only to the Client. It is not to be provided or reproduced in any way by the Client or any other recipient to any other person without the prior written consent of Freshfields and Santander.
6. The Report relates only to the position as at 20 January 2026 based on the information of which we were aware at that time. We will not update this Report unless we specifically agree with the Client to do so.
7. If you have received the Report with the prior written consent of Freshfields and Santander and you are not the Client (and you have not executed a reliance letter with each of Freshfields and Santander), you acknowledge that the Report is provided to you for information purposes only and on a non-reliance basis. It should not be taken out of context or in any way serve as a substitute for other enquiries that you would (or should) otherwise undertake. You further acknowledge that:
 - a) The Report has been prepared for the Client and consequently the analysis contained in it may not address or reflect those matters that may be important to you or a person in your position;
 - b) We make no representation as to the accuracy, reliability or completeness of the Report; and
 - c) Your receipt of the Report does not create a lawyer-client relationship between you and Freshfields nor any kind of legal, fiduciary or other relationship with Freshfields or Santander.