S&P Global Ratings

Second Party Opinion

Gatwick Airport Ltd. Sustainability-Linked Financing Framework

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Primary Analyst

Luis Solís
Madrid
+34 676 957 45
luis.solis
@spglobal.com

Secondary Analysts

Enrico Maria de Angelis
Milan
+ 39-347-628-4011
enrico.de.angelis
@spglobal.com

Luisina Berberian
Madrid
+34 91 788 7200
luisina.berberian
@spglobal.com

Editor's note: This SPO report is based on S&P Global Ratings' "Analytical Approach: Second Party Opinions And Transaction Evaluations" dated Dec. 7, 2022, which was partly superseded by S&P Global Ratings' "Analytical Approach: Second Party Opinions: Use of Proceeds," dated Jul. 27, 2023, following the launch of our integrated use-of-proceeds SPOs.

Gatwick Airport Ltd. (GAL) owns and operates the U.K.'s second largest airport. It provides short and long-haul point-to-point services to various destinations for business or leisure passengers in the U.K. and internationally. The company was founded in 1930 and is based in Crawley, U.K. GAL has two shareholders: Vinci Airports (50.01%) and Global Infrastructure Partners (49.99%).

In our view, GAL's Sustainability-Linked Financing Framework, published on Oct. 7, 2024, is aligned with:

- ✓ Sustainability-Linked Bond Principles (SLBP), ICMA, 2024
- ✓ Sustainability-Linked Loan Principles (SLLP), LMA/LSTA/APLMA, 2023

Issuer's Sustainability Objectives

GAL published its 10-year sustainability strategy, the Second Decade of Change, in 2021. The strategy focuses on three pillars: people and community, net zero, and local environment. Within its net zero pillar, GAL aims to achieve net zero direct airport emissions and implement emissions-reduction measures for its aircraft and surface access carbon footprint. In 2023, it achieved the Airport Carbon Accreditation (ACA) Level 4+ (Transition), showing its progress on reducing carbon emissions through the ACA's seven certification levels, Level 1 being the lowest.

GAL has developed its framework to support its climate goals by adopting two KPIs that address both its direct operational emissions and landing and takeoff emissions, the latter being part of GAL's scope 3 emissions. Under this framework, GAL commits to always using both KPIs together in a sustainability-linked bond and/or loan issuance.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2023 performance
Absolute scopes 1 and 2 greenhouse gas emissions (tCO_2e)	Scopes 1 & 2 greenhouse gas emissions below 1,500 tons of carbon dioxide equivalent (tCO_2e) by 2030	Not applicable	9,201 tCO_2e
Absolute landing and take-off (LTO) greenhouse gas emissions ($kgCO_2e$) per passenger	Absolute LTO greenhouse gas emissions per passenger lower than 9.0 kilograms (kg) of CO_2e per passenger by 2032	Not applicable	11.8 $kgCO_2e$/ per passenger

Second Party Opinion Summary

Selection of key performance indicators (KPIs)

Alignment ✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the SLBP and SLLP.

KPI 1	Absolute scopes 1 and 2 greenhouse gas emissions (tCO_2e)	Not aligned	**Aligned**	Strong	Advanced
KPI 2	Absolute LTO greenhouse gas emissions ($kgCO_2e$) per passenger	Not aligned	**Aligned**	Strong	Advanced

Calibration of sustainability performance targets (SPTs)

Alignment ✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the SLBP and SLLP.

SPT 1	Scopes 1 and 2 greenhouse gas emissions below 1,500 tCO_2e by 2030	Not aligned	Aligned	**Strong**	Advanced
SPT 2	Absolute LTO greenhouse gas emissions per passenger lower than 9.0 $kgCO_2e$ by 2032	Not aligned	Aligned	**Strong**	Advanced

Instrument characteristics

Alignment ✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the SLBP and SLLP.

GAL discloses that instruments under the framework will be subject to various potential changes (such as, but not limited to a coupon step-up or increased redemption fee) in the financial characteristics. The company explains in its framework how the potential changes to financial instruments' characteristics could be triggered: if GAL has not achieved the SPT on the target observation date; if verification of the SPTs has not been provided and made public by the time of the notification date; or if GAL fails to provide satisfactory notice as of the notification date related to achieving the SPT.

Reporting

Alignment ✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the SLBP and SLLP.

Score	Not aligned	Aligned	**Strong**	Advanced

GAL commits to publishing an annual report on the performance of the KPIs against the respective SPTs, and on any date or period relevant for assessing whether a trigger event has occurred. It will also provide an external verification assurance on the performance of the KPIs, SPTs, and baseline. We view as a strength that GAL commits to disclosing examples of the positive sustainability impacts of the performance improvement; the factors that could affect KPI performance and any potential recalculation of KPIs or SPTs when relevant.

Post-issuance review

Alignment	✓	GAL's Sustainability-Linked Financing Framework is aligned with this component of the SLBP and SLLP.

GAL commits to having its performance against each SPT externally verified by an independent party annually.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our opinion on the KPIs' relevance as aligned, strong, or advanced. We consider how relevant each KPI is for sustainability by exploring the clarity and characteristics of the defined KPI, its significance for the issuer's sustainability disclosures, and how material it is to the issuer's industry and strategy.

✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles, ICMA, 2024, and the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

KPI 1	Absolute scopes 1 and 2 greenhouse gas emissions	Not aligned	**Aligned**	Strong	Advanced

We believe this KPI is aligned with the Principles because its scope, objective, and calculation are clearly articulated in the framework. The KPI scopes 1 and 2 direct emissions derived from operational emissions and fuel and energy use tackles risks from the climate transition, which is one of the most relevant sustainability issues faced by this hard-to-abate sector and is integrated into the company's sustainability strategy.

Although the KPI addresses a relevant issue, by covering direct scopes 1 and 2 emissions, mostly from natural gas, refrigerant gas, and electricity purchased, it represents less than 1 % of GAL's total reported emissions in 2023, constraining our opinion to aligned. However, we view as positive that the framework also includes a KPI addressing landing and take-off emissions, part of the scope 3 emissions, and that GAL commits to systematically including both KPI 1 and KPI 2 in any future sustainability-linked bond or loan issued under this framework.

GAL calculates its scope 1 and 2 emissions based on GHG Protocol Corporate Accounting and Reporting Standards and the ISO 14064-3 standard. This is common for the industry and allows for external benchmarking. Additionally, we see the expression of the KPI in terms of absolute reduction (versus intensity), including residual emissions, as a strength because it makes it easier to assess the effectiveness of emissions-reduction strategies.

We view as positive that the framework has disclosed historical market-based data related to the KPI's performance since 2019 (and since 2010 via annual reporting) and up to 2023 in the framework, which are externally verified. Under a market-based approach, GAL reports zero scope 2 emissions from electricity purchased, since it buys 100% guaranteed renewable energy. We note that the selection of the KPI is part of GAL's net-zero strategy, and the use of the market-based approach enables the achievement of this goal and allows for decarbonization ahead of the U.K. grid. We recognize that this approach is common in the industry. However, we also believe a market-based reporting approach might not necessarily indicate improvements in emissions because it allows companies to report emissions based on contracts with energy suppliers for procured renewable energy. This practice can be problematic because it often relies on the use of renewable energy certificates, which may not always reflect actual environmental benefits if the renewable energy claimed is not directly sourced or consumed by the reporting entity (see "Purchased Energy Emissions In Second Party Opinions And ESG Evaluations," published March 23, 2023, on RatingsDirect). However, we note that GAL intends to source 50% of the airport's network electricity and 50% of network heating from U.K. renewable sources via onsite generation and direct purchase agreements by 2030. We view the location-based method of calculating emissions as more useful than the market-based approach because it closely tracks emissions reductions at the company.

KPI 2	LTO greenhouse emissions (kgCO_2e per passenger)	Not aligned	**Aligned**	Strong	Advanced

We believe this KPI is aligned with the Principles because its scope, objective, and calculation are clearly articulated in the framework. This KPI, which focuses on indirect emissions derived from aircraft, tackles climate transition risks, which represent one of the most relevant sustainability issues faced by the hard-to-abate airport sector and is integrated into the company's sustainability strategy. Furthermore, we note that ICMA's registry considers GAL's selected KPI as "core" to the airport sector.

Although this KPI targets a relevant issue, by addressing aircraft LTO emissions, we acknowledge that these are minimal contributors to overall emissions compared to aircraft CCD (climb, cruise, and descent) emissions. GAL is one of the few airports in the industry that already reports CCD emissions and has set up a KPI related to indirect aircraft emissions, although only focused on the LTO part. Yet, we believe best market practices imply promoting sustainable aviation fuel (SAF) for aircraft, incorporating CCD emissions as well as LTO within the selected KPIs, while recognizing that factors resulting in CCD emissions are not directly under its influence. Therefore, this KPI, while covering the airport's indirect LTO emissions, represents only about 12% of GAL's total emissions in 2023 (or 61% of total emissions excluding aircraft CCD emissions), which caps our assessment at aligned.

GAL calculates its scope 3 emissions based on GHG Protocol Corporate Accounting and Reporting Standards and the ISO 14064-3 standard. This is common for the industry and therefore allows for external benchmarking, although the incorporation of LTO greenhouse gas emissions is exceptional. The historical data disclosed in the framework related to the KPI's performance starts from 2019 and has been externally verified, which we see as positive.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our opinion on the SPT's ambition as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles, ICMA, 2024, and the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

SPT 1	Scopes 1 and 2 greenhouse gas emissions below 1,500 tCO_2e	Not aligned	Aligned	**Strong**	Advanced

We consider the ambition, clarity, and characteristics of this SPT to be strongly aligned with the Principles. We believe the 2030 target is ambitious, since it requires greater effort in terms of absolute emissions reduction rates than GAL has been able to achieve in the past. More specifically, GAL aims to reduce its scope 1 and 2 absolute emissions, expressed in tCO_2e, by an overall 88% and an annual 8% by 2030 from 2019 levels. Compared to historical performance, which shows an overall reduction of 25% and an annual rate of 6%, this SPT requires higher overall and annual emission reduction from 2019 to 2023. In addition, GAL has compared its 2030 target to that of several peers. We believe the 2030 target is better than average when compared to peers' performance. Furthermore, we view as positive that the target is in the form of an absolute cap on emissions. This implies that, in case of further airport expansion, any increase in capacity or operations will still need to adhere to the fixed emissions limit.

GAL details its strategy to achieve these targets. By 2030, it plans to eliminate natural gas use for heating and hot water, targeting a major source of scope 1 emissions. The company also aims to transition its vehicle fleet of over 400 units to electric power, replacing diesel with HVO (hydrotreated vegetable oil) as an interim solution. In addition, GAL is working to minimize fugitive emissions of F-gases (fluorinated gases) by rapidly detecting and repairing leaks and switching to F-gases with lower global warming potential.

We note that GAL has been purchasing renewable energy guarantees of origin that make its market-based scope 2 emissions zero. Yet, GAL aims to source 50% of airport network electricity and 50% of heating from U.K. renewable sources via onsite generation and direct purchase agreements by 2030. Furthermore, GAL currently expects to generate about 20 gigawatt hours (GWh) to 25 GWh of electricity per year on site by 2030, with the remainder of the 50% of airport network electricity (50 GWh-70 GWh) through power purchase agreements. The company's target is part of its net-zero strategy and, based on the information provided, aligns with the U.K. government's strategy for the aviation sector to reach net zero by 2050.

Furthermore, we note that GAL commits to providing annual targets for loan transactions, in the terms and conditions, at issuance. We flag that yearly adjustments to the applicable pricing grid include exceptions, in line with the Principles, in instances where a strong rationale is provided as to why an annual frequency is not appropriate; and exceptions to the annual frequency of SPTs can be agreed between borrowers and lenders. In particular, for this SPT, GAL informs us that it does not expect to apply this exception. We note that GAL has already disclosed in the framework the indicative trajectory for its scope 1 and 2 emissions up to 2030.

Positively, the company discloses some of the external factors that can affect the achievement of targets. Risks include dependence on external stakeholders like energy suppliers, whose failure to meet commitments could hinder progress, as could fluctuations in the price and availability of energy. Technological limitations also pose a risk, since some emissions-reduction technologies are still evolving and may not yet be fully effective. Additionally, achieving this target involves significant upfront costs, though GAL is partly addressing this with a £250 million capital investment plan. Operational challenges, such as minimizing disruptions during asset upgrades, are manageable, given GAL's proven track record of handling capital projects with minimal impact on services.

We note that GAL is applying for planning consent through a Development Consent Order to bring its standby runway into routine use. If approved, this will mean a materially different traffic projection compared with that for its main runway alone. However, we view as positive that the framework states that recalculation events will not result from any increases in air traffic volumes, whether seasonal, structural, or incidental. We consider this to be relevant because, if air traffic volumes increase, the target would be more difficult to achieve.

Baseline

2019	**2030**
Not applicable	1,500 tCO_2e

SPT 2	Absolute LTO greenhouse gas emissions per passenger lower than 9.0 $kgCO_2e$ by 2032	Not aligned	Aligned	**Strong**	Advanced

We consider the ambition, clarity, and characteristics of this SPT to be strongly aligned with the Principles. GAL aims to reduce its LTO emissions, expressed in $kgCO_2e$ per passenger, by an overall 25% and by an annual 1.92% by 2032 from 2019 levels. Compared to historical performance, which shows an overall reduction of 1.67% and an annual drop of 0.42%, the SPT requires a more ambitious overall and annual emissions reduction.

In addition, GAL has compared its 2030 target to that of several peers. We acknowledge that very few airports globally have set targets directly or indirectly related to reducing aircraft emissions. While this is relevant regarding the emissions an airport can manage, and we recognize that GAL operates in a hard-to-abate sector, we believe that setting quantitative emission reduction targets for scope 3 emissions, including all aircraft-related emissions such as CCD, would represent best practice.

To achieve the reduction in LTO and other scope 3 greenhouse gas emissions categories, GAL has detailed several measures to be implemented. These include encouraging airlines to use reduced-engine taxiing and continuous climb/descent techniques to cut emissions during take-off and landing. GAL is also focusing on reducing the use of auxiliary power unit (APUs) by monitoring and collaborating with airlines. Additionally, GAL engages with airlines to promote fuel-efficient aircraft, optimize flight routes, and adopt sustainable aviation practices. This is also relevant in the context of the U.K., since the U.K. government's Jet Zero strategy aims for SAF to make up 10% of the aviation fuel mix for flights within and departing from the U.K. by 2030 and 50% by 2050. We view as positive that, in line with the U.K.'s Jet-Zero strategy, GAL is considering initiatives dedicated to introducing a SAF incentive for airlines. These include evolving the carbon charge in the conditions of use tariff; measures to support increased SAF supply, including understanding production in South and Southeast England; and a program of engagement to increase passenger awareness and willingness to pay for SAF. GAL also plans to track and support aircraft modernization to ensure a fleet of more efficient aircraft that will also help address it main climate exposure.

Furthermore, we note that GAL commits to providing annual targets for loan transactions in the terms and conditions of loans at issuance. We flag that the yearly adjustments to the applicable pricing grid include exceptions in instances where a strong rationale is provided as to why an annual frequency is not appropriate; and exceptions to the annual frequency of SPTs can be agreed between borrowers and lenders. We understand GAL does not intend to use this exception, but the framework incorporates this flexibility for LTO emissions, considering the uncertainty regarding the timely development of technologies needed to reduce them. While recognizing that the Principles allow for this exception when there is a strong rationale, we note that the expected trajectory is not disclosed.

Positively, the company discloses some of the external factors that can affect achievement of the target. Key challenges include limited control over scope 3 LTO emissions, which are influenced by third parties such as airlines, suppliers, and passengers. Data availability is another issue, since tracking LTO emissions requires extensive data collection and adjustments to evolving greenhouse gas reporting methodologies. GAL must also navigate potential regulatory and policy changes, which could introduce stricter requirements or reporting obligations affecting scope 3 LTO emissions.

Baseline	
2019	**2032**
Not applicable	<9.0 $kgCO_2e$ per passenger

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles, ICMA, 2024, and the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

GAL discloses under its sustainability-linked framework that instruments under the framework will be subject to various potential changes in the financial characteristics triggered by a failure to achieve the stated SPTs on the observation date.

Such variations and the ultimate characteristics will be specified in the relevant transaction documentation of the instruments to be issued under this framework. These variations could include, but are not limited to, a coupon step-up, or increased redemption fee, as specified under the relevant transaction documents. These potential changes to financial instrument characteristics could be triggered by these types of events:

- If GAL has not achieved the SPT on the target observation date;
- If GAL cannot calculate any one or more of the SPTs;
- If reporting and verification of the SPTs has not been provided and made public by the time of the notification date; or

- if GAL fails to provide satisfactory notice as of the notification date related to achieving the SPT; in the event that the SLB allows two or more observations and adjustments, these step-ups would be cumulative.

For loans, these implications could include yearly adjustments to the applicable pricing grid. The applicable pricing could be increased, decreased, or remain unchanged. The pricing adjustment may be triggered if any of the abovementioned three types of events occur. In these cases, and when a loan allows two or more observations and adjustments, these pricing adjustments would not be cumulative.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles, ICMA, 2024, and the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

Disclosure score	Not aligned	Aligned	**Strong**	Advanced

We assess GAL's overall reporting commitments as strong. In addition to its commitment to publish annually on the performance of the KPIs against the respective SPTs. GAL will also report on any date/period that is relevant for assessing whether a trigger event has occurred. In addition, it will provide an external verification assurance on the performance of the KPIs, SPTs, and baseline.

We view as a strength that GAL commits to disclosing examples of the positive sustainability impacts of the performance improvement, the drivers that could affect KPI performance, and any potential recalculation of the KPI or SPT when relevant.

A recalculation might reflect changes in GAL's perimeter (such as due to mergers or acquisitions); amendments to any applicable laws, regulations, rules, guidelines, and policies; or changes in the methodology used to calculate any KPI, such as a change in greenhouse gas accounting methodology.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

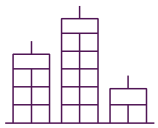
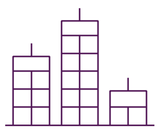
✓ GAL's Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles, ICMA, 2024, and the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

GAL commits to obtain, each year, an independent post-issuance verification of the KPI performance from a qualified external verifier, in line with the Principles. The company will publish this on its website annually until the reporting date relevant for assessing the achievement of the SPT(s) used by the sustainability-linked finance instruments.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

GAL's Sustainability-Linked Financing Framework intends to contribute to the following SDGs:

KPI	SDGs	
Absolute scopes 1 and 2 greenhouse gas emissions (tCO_2e)	 **11. Sustainable cities and communities §**	 **13. Climate action §**
Absolute LTO greenhouse gas emissions ($kgCO_2e$) per passenger	 **11. Sustainable cities and communities §**	 **13. Climate action §**

§The KPI is likely to contribute to the SDGs. t--tons. kg--Kilograms. CO_2e--Carbon dioxide equivalent.