

## HEATHROW INVESTOR & INSURER PRESENTATION 2021

### SUPPLEMENTARY QUESTIONS & ANSWERS

The following questions were raised during Heathrow's Investor & Insurer presentation on 19<sup>th</sup> January 2021 with responses gathered from subject matter experts around the business. Questions and answers have been grouped into the following categories for ease of reference:

#### **AIRLINES & CUSTOMERS**

#### **EXPANSION**

#### **FINANCIALS & FORECASTS**

#### **GOVERNMENT & STAKEHOLDERS**

#### **TREASURY**

#### **REGULATION & H7**

#### **REPUTATION**

#### **RETAIL**

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**AIRLINES & CUSTOMERS**

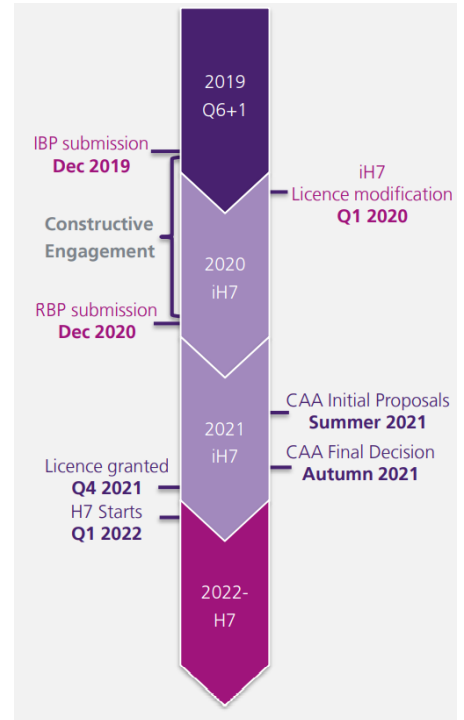
**Q. How discussions with major airlines are progressing in terms of Heathrow’s proposal to increase its landing fees.**

A. Airport charges are ultimately set by the regulator (the CAA) following consultation with Heathrow and its airline partners.

In early 2020, we requested that the CAA makes a policy statement setting out that it will amend Heathrow’s Regulated Asset Base to allow Heathrow to recover excess losses over an extended period of time and avoid any significant increase in tariff during the next regulatory period, H7, starting in 2022.

The mechanism we proposed would avoid the need for material changes to the risk premium, which would translate to higher consumer prices. The CAA published a follow up consultation in February 2021 and signalled that a final decision would be made in March 2021.

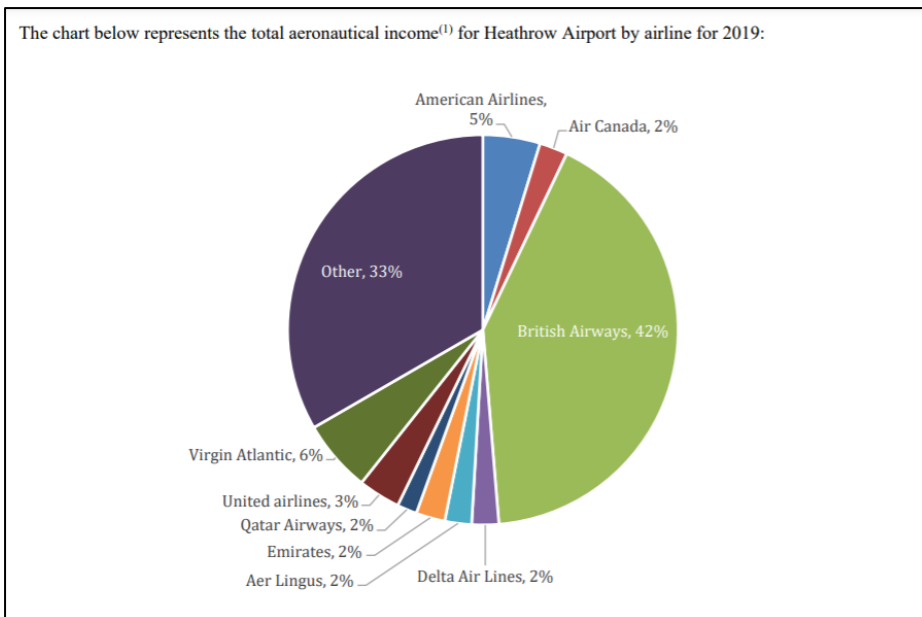
More broadly, with regards to the next five-year regulatory period (H7), we expect a decision from the CAA on the level of fees later in 2021.



**Q. Why do you provide guidance to the market and secondly have you any key customer dependencies and are you comfortable with this?**

A. Guidance is provided to the market to fulfil obligations set out in Heathrow’s debt financing documentation. Our Common Term Agreements set out the information and time horizon to be covered within our bi-annual investor reports.

Heathrow is the worldwide hub of British Airways which represented circa 42% of our aeronautical revenue in 2019. We benefit from a good airline diversification nevertheless per chart below.



## EXPANSION

### *Q. Heathrow expansion: What is the third runway plan?*

A. In October 2020, we progressed our appeal to the Supreme Court in relation to the Court of Appeal's decision to suspend the Airports National Policy Statement (ANPS). In December 2020, the Supreme Court unanimously ruled the ANPS as lawful and legal Government policy. Their verdict confirmed the Government had taken into account the Paris Climate Change Agreement as part of the policy, and that this would be considered as part of the robust planning processes in the UK.

Heathrow has already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology. This is the right result for the country, which will allow Global Britain to become a reality. As passenger numbers recover, our immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, government, airline customers and regulators on our next steps.

## FINANCIALS & FORECASTS

### - Financial Forecasting

### *Q. How does your CFO estimate for 2021 get to GBP717m, with an EBITDA of GBP493m and maybe around GBP0.7bn of interests due? Could you please clarify what the other moving parts are there? Maybe tax reimbursement and working capital?*

Cash flow from operations (CFO) excludes interest and does include a positive working capital movement of £250m. A reconciliation of EBITDA to CFO is included on Page 20 of the December 2020 Investor Report.

<i>(See important notice on page 2 of this document)</i>	Year to 31 December 2020 (£m)	Year to 31 December 2021 (£m)
<b>Income</b>		
Aeronautical income	633	756
Non-aeronautical income - retail	231	217
Non-aeronautical income – non-retail	285	462
<b>Total income</b>	<b>1,149</b>	<b>1,435</b>
<b>Operating costs<sup>(2)</sup></b>	<b>(895)</b>	<b>(942)</b>
<b>Adjusted EBITDA</b>	<b>254</b>	<b>493</b>
<b>Working capital and cash one-off non-recurring extraordinary or exceptional items</b>		
Trade working capital	(236)	249
Pension	(20)	(25)
<b>Adjusted cashflow from operations</b>	<b>(2)</b>	<b>717</b>

### *Q. Looking at your Dec 2020 investor report, your overall revenue per passenger is slightly increasing vs 2019 levels. What makes you confident that you could get that level of yield on your aviation and commercial activities?*

A. Our revenue per passenger is distorted by the lower passenger numbers in 2020. In addition some elements of aeronautical revenue, such as cargo revenue, are charged on a per movement basis and therefore lead to an increase on a per passenger measurement.

## **- RAB**

***Q. What is the potential scale of impact of the RAB adjustment to average passenger charges? do you believe this will impact Heathrow's competitive position?***

A. Our Revised Business Plan includes a RAB adjustment amounting to £2.7bn (2018 prices). Our proposal is to recover this amount over an extended period of time and more specifically, delay the recovery of regulatory depreciation until H8, starting in 2027. This ensures no significant increase in airport charges during H7, to protect airlines' recovery and also smooths the impact over subsequent years.

***Q. What is plan B if CAA says no to your RAB adjustment? Is there any alternative being discussed with the regulator, presently?***

A. If the CAA eventually refused to adjust the RAB, it would lead to an increase in the risk premium attached to Heathrow and therefore an increase in consumer prices. It would make it harder for the Government to secure private infrastructure investment as part of its COVID-19 recovery plan. The Government's COVID-19 recovery plans depend on private investment in infrastructure which means a fair return on investment.

The CAA has already acknowledged the exceptional circumstances created by the pandemic of which the settlement was never intended to resolve these, which is why the regulator has the ability to adjust it. In its February 2021 consultation, the CAA recognised that a no intervention scenario is not contemplated.

## **- Traffic/ Passenger Forecasts**

***Q. Could you please tell us how your 2021 traffic expectation (37.1m PAX) splits, by quarters?***

A. The detailed quarterly split is not publicly available yet. The assumptions underpinning the 2021 traffic forecast are as follows:

- Outlook for the remainder of the winter sees no further recovery;
- Assume testing starts to have a significant impact on stimulating demand from the end of Q1 2021;
- Assumption on vaccines aligned with statements made by the World Health Organisation: vaccine roll-out allows herd immunity to be reached in key markets from the end of 2021

***Q. Can you provide more detail on your main hypothesis regarding your passenger forecast - which destination will open first - and when, in this view?***

A. As part of the forecasting process the level of local restrictions and therefore the phasing of passenger numbers in each of the four scenarios is considered across the 40 leading markets covered.

## **- VAT**

***Q. Could you please talk through the impacts of the VAT refund removal?***

A. The removal of VAT refunds will make the UK the only country in Europe not to offer tax-free shopping for international visitors and hands yet another competitive advantage to EU rivals.

Ahead of the end of the transition period, the Government announced the VAT and excise duty treatment of goods purchased by individuals for personal use and carried in their luggage to or from Great Britain. The following rules were applied from 1 January 2021:

- Duty-free sales of excise goods (alcohol and tobacco) will be extended to EU-bound passengers.
- Personal allowances will be introduced for passengers entering GB from the EU, with alcohol allowances significantly increased. Tobacco allowances will be maintained at current levels.
- Airside tax-free sales of all non-excise goods (such as clothing and electronics) will not be extended to EU passengers, and will actually be withdrawn from all passengers.
- VAT Retail Export Scheme will not be extended to EU residents, and will actually be withdrawn from all passengers.

The extension of duty-free sales of excise goods was welcomed, however, the abolition of airside tax-free sales of all non-excise goods and the complete removal of the VAT Retail Export Scheme were a significant blows to the aviation and travel retail sectors.

Retailers can still offer tax-free prices on non-excise goods but only if they ship the purchased item(s) directly to a foreign address.

Heathrow, World Duty Free, and Global Blue, have launched a Judicial Review on the Government's decision, and the hearing for this is set for the end of February.

## GOVERNMENT & STAKEHOLDERS

***Q. The government has mentioned that there will be a support scheme for airports opening this month. Could you provide any colour on what this would entail? (if there is anything beyond GBP 8m relief for business rates).***

A. The only support currently available is the announced Airport support scheme amounting to up to £8m relief on business rates and the Coronavirus Job Retention Scheme.

The relief provided on business rates is inadequate. Heathrow paid £116 million on business rates in 2020 (£117 million in 2019).

***Q. Considering the recent government lockdowns and closure of air corridors, are you expecting any financial assistance from the government?***

A. Governmental support has been slow to materialise.

After a full year of the pandemic, we are yet to see the UK Government confirming a comprehensive financial support package for the aviation sector including a full waiver of business rates, an extension of the furlough scheme currently due to end in April 2021 as well as a clear roadmap out of current travel restrictions and quarantine.

We continue to call on the Government to take a lead in establishing a common international standard that will enable safe travel and trade to resume. That will in turn enable the aviation sector to play its critical part in delivering the Prime Minister's Global Britain, levelling up and net-zero ambitions.

## TREASURY

***Q. What would be the remedy against the small leeway left on your finance covenants?***

A. As per the December 2020 Investor Report we are not currently forecasting a breach of financial covenants in 2021 under our traffic forecast.

We continue to monitor traffic very closely and to consider additional options available to the business should the recovery take longer or not materialise as expected. Our first line of defense would be in reducing our costs further including operating costs or interests.

## REGULATION & H7

***Q. Even if the CAA agrees to an increase in H7 tariffs, can Heathrow raise its fees when there is so much (post-covid) capacity at rival London airports and European/Middle Eastern hubs?***

A. The allowed tariff in H7 is a function of the planned capital expenditure, regulatory depreciation, passenger forecast and the allowed return on investment over the period. We have structured the request for a RAB adjustment to allow for the capital expenditure required to maintain and improve the experience of passengers across H7 whilst smoothing the impact on passenger charges as the industry recovers. We have done everything we can to keep the passenger charge as low as possible while remaining financeable – including deferring £3bn of regulatory depreciation recovery. As the UK's only hub airport and previously the busiest in Europe we believe that the right regulatory settlement will allow the Airport to Heathrow to recover its position as one of the busiest airports in the world.

## REPUTATION

***Q. On the 18/01/2021 there were reports of passengers waiting 90 minutes at the immigration desks for 'triple check' of passports, tests and quarantine forms with no social distancing being reported - if this is true has it been investigated and remedied? How are you dealing with negative press?***

A. The issue reported by the media is due to Border Force resourcing issues. It is compounded by the fact that Border Force are undertaking 100% checks on every arriving passenger to ensure they have completed their passenger locator form and have the right negative COVID test, increasing the transaction time per passenger.

From a Heathrow perspective, there is very clear signage everywhere throughout the immigration halls (on the floors, on the queue mazes etc) reminding people to keep their distance. We also have dedicated COVID marshals at the airport who are there to enforce mask wearing and remind people to keep their distance – these marshals have been deployed to immigration halls in recent weeks.

## RETAIL

***Q. What is the position with rent deferrals from retail outlets in the airport. 2). Have any carriers moved away from using Heathrow as a hub?***

A.

In FY20 we saw 80% of incumbent airlines returning to Heathrow, consolidations of London operations and new entrants benefitting from slot hand-backs. As a result, we saw a near nine-fold increase in our cargo movements and our London market share increasing. While these trends may be temporary, they help mitigate to some extent the dramatic reduction in cashflows we experienced during the year.

On the retail side we have generally maximised our revenue and only provided targeted rent support in some cases.