



# Investor Presentation

15 July 2020

# Disclaimer

## Disclaimer

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Statements, projections and forecasts in this presentation (the "Presentation") are made with reference to the facts and circumstance existing as at the time of this Presentation. Projections and forecasts inherently involve the risk of uncertainty and unknown events and developments but in the current Covid-19 circumstances these uncertainties are unprecedented. The full extent of the economic impact of the outbreak of Covid-19 on the economy, rail travel, the business and operations of HS1 and the train operating companies, retailers, suppliers, contractors and operators is unknown as well as the actions and responses of Government and our regulator. This impact, and events and circumstances in the future, could have a material impact on the forecasts included in this Presentation. Nothing contained in this Presentation should be taken as a promise or representation as to the future.

The Presentation has been prepared on the basis of our reasonable assumptions as at the time of this Presentation and information relating to base case projections provided by our key train operating partner, Eurostar International Limited. Our assumptions are inherently subject to significant uncertainties and contingencies which are impossible to predict and are beyond our control.





# Introduction

Dyan Crowther



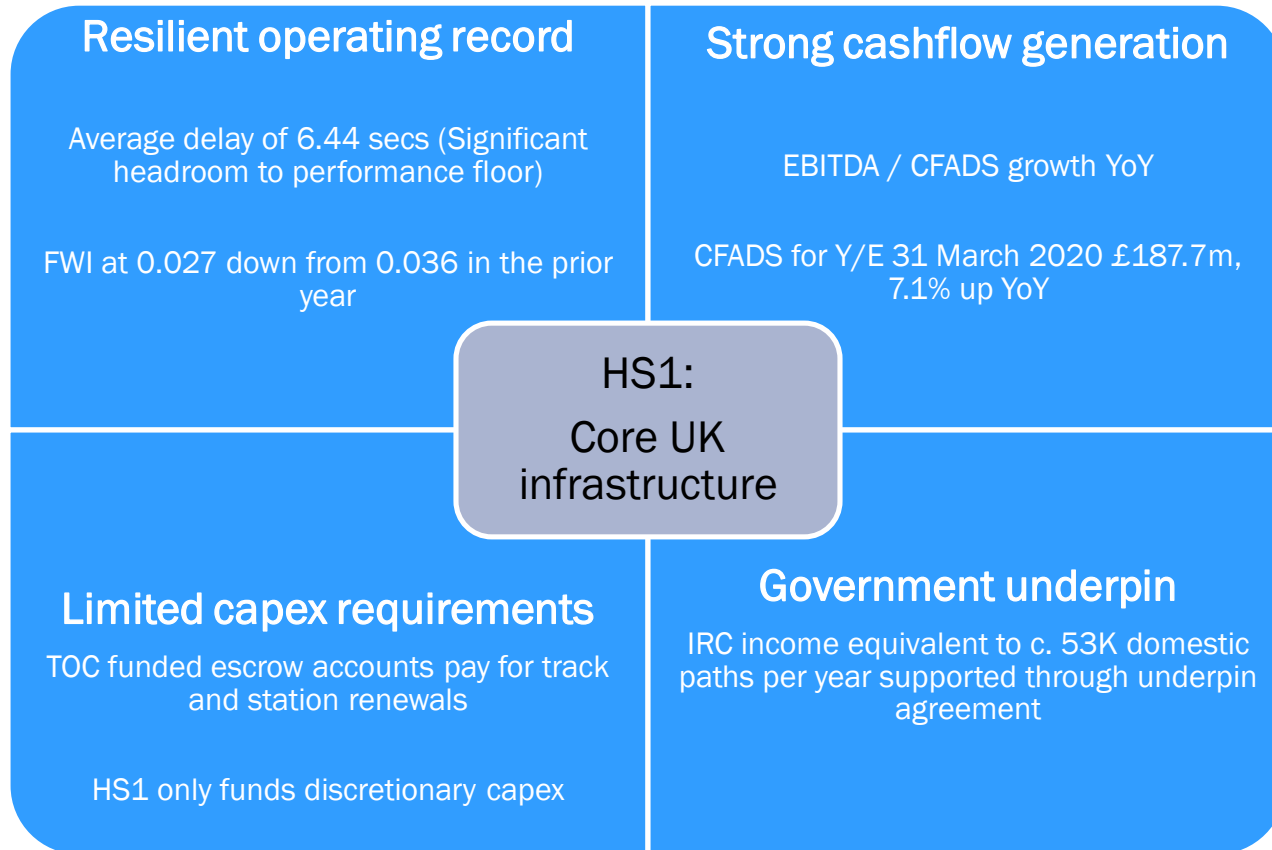
# Agenda and presenting today

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Section	Presenter
Introduction	Dyan Crowther
Business update & COVID 19 response	Dyan Crowther
Impact of timetable submissions on HS1	Mark Farrer
System response	Mark Farrer
Wrap up	Dyan Crowther
Questions	

# HS1 Investment Highlights

Strong underlying operational and financial performance from the asset, within a supportive regulatory and contractual framework



# Influencing future train paths

HS1 has been active in creating potential market opportunities for increased domestic and international services. Strategically we are focused on developing opportunities for long term growth potential.

Lobbying  
campaign for  
domestic rolling  
stock

Supporting  
International  
routes

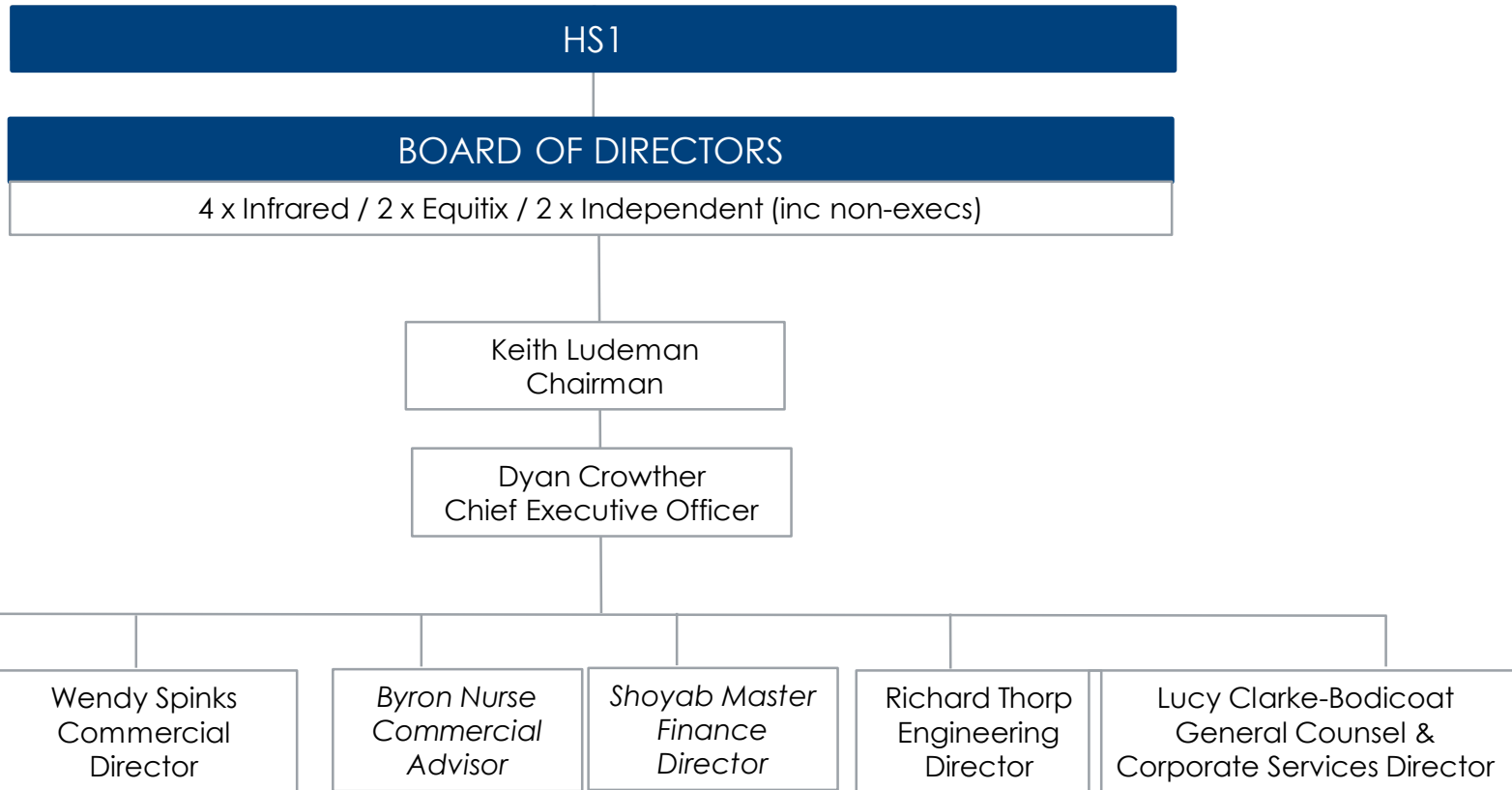


**Rail Delivery Group**



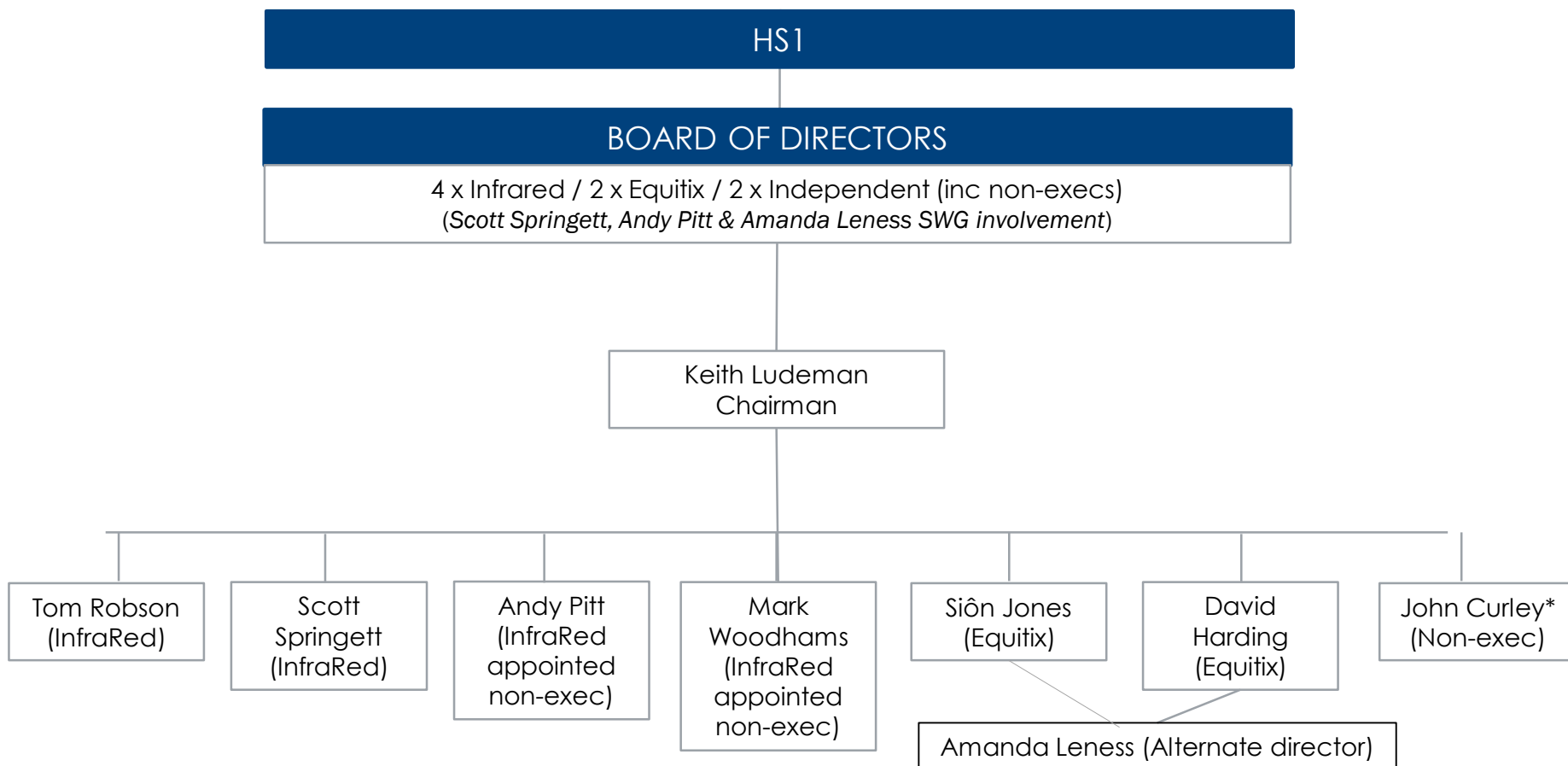
# HS1 Management

Stable executive management team has been strengthened in the last 2 months to provide extra resource to respond to the challenges of COVID 19



# HS1 Board

Increased Board oversight with bi-weekly board calls, regular board briefing papers and twice weekly strategic working group (SWG) meetings to discuss our COVID response and engagement plans





# Responding to the COVID 19 Crisis

HS1 has responded to the immediate challenges, including the health consequences and demand reduction. We have reorganised the business to meet the new demands and are now in the processing of reimagining the future business growth trajectory

Respond

Reorganise

Drive  
volume  
growth

- Secure cash
- Stakeholder communications
- Operational plans and passenger safety
- Employee welfare

- Incremental Resource
- Board oversight
- Influencing DfT
- Support TOCs
- Retail recovery

- System response to COVID challenges
- Protect future growth
- Drive productivity and efficiency in HS1 and supply chain



# Impact of Covid-19 on finances

Mark Farrer



# Key Messages

HS1 has significant protections built into the concession that mitigate many of the COVID 19 financial risks, including those of Nil FWT submissions by EIL. In particular, it has a contractual right to recover costs to operate the railway. A move to spot bids does, however, create a cashflow timing issue

A Nil FWT from EIL does not mean that EIL will not run trains. Instead it will use the spot bid process to book train paths. HS1 will charge for those, but the change will have a working capital timing difference

LSER, HS1's domestic customer, has booked a full timetabled service, and continues to be underpinned by the UK government. EIL does not receive support of this nature from HMG

We believe Eurostar operational plans are to run 14.5k trains in 2021. At this level and with current assumptions, HS1 will neither enter lock up nor be in default at Opco at 31 March 2021.

HS1 is in stakeholder conversations with EIL and DfT, as well as the regulator, to ensure the High Speed Rail system works together to provide a system response to this challenge

We are rapidly evolving our strategic delivery plan to recover - through increased volumes of trains, passengers and retail

# HS1 budget 20/21

The budget used for the compliance certificate showed year on year decline in EBITDA and CFADS, driven by decline in retail sales. It had forecast an FWT submission from Eurostar

	Revenue	-	Operating Costs	=	EBITDA	+	Investing Activities	=	CFADS (vs 19/20 Actuals)
Track	Domestic IRC						Underpin Domestic £123m IRC		£184m (+£1m)
	International IRC	£7m			£61m				
	Operations, Maintenance and Renewals Income	£54m	OMRC	£(78)m	£(1)m				
	Power Charges	£78m	Power Costs	£(24)m	£0m				
Stations	Stations Charges	£24m	Station Costs	£(32)m	£0m			£0m (-£1m)	
Unregulated Activities	Retail & Advertising	£32m	Retail Costs	£(8)m	£4m			£4m (-£16m)	
	Car Parking	£12m	Car Park Costs	£(2)m	£2m			£2m (-£5m)	
Other	Other Income	£4m	Other Costs	£(3)m	£4m			£4m (+£6m)	
<b>Total</b>	<b>£218m</b>		<b>£(147)m</b>		<b>£71m</b>		<b>£123m</b>	<b>£193m (-£17m)</b>	
							Capital - UKPN/Capex/Tax		£(24)m (+£2m)
							Working Capital		£7m (+£4m)
<b>Cash Flow Available for Debt Service (CFADS)</b>									<b>£176m (-£11m)</b>

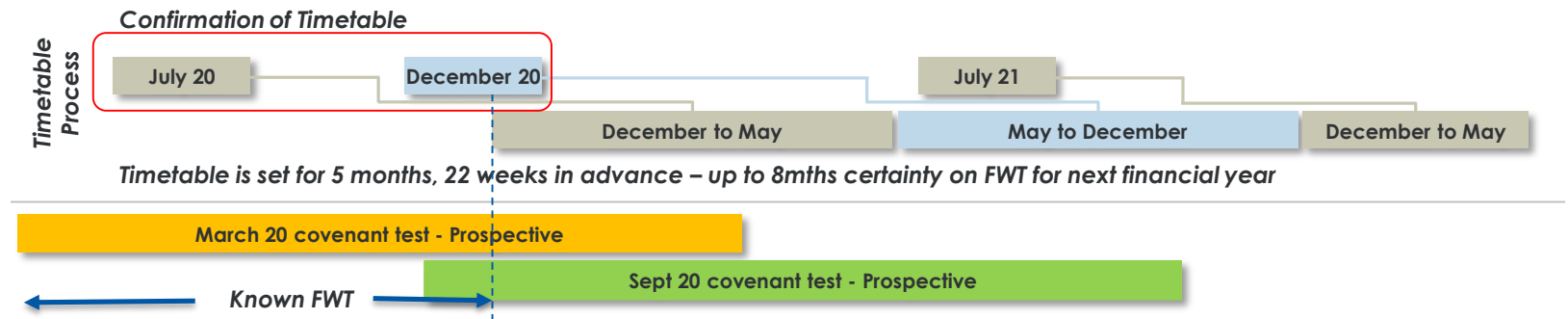
# Managing uncertainty

HS1 has initiated a structured approach to the COVID 19 crisis. The focus is to ensure passengers feel safe and return to travelling to drive train path and retail growth. However, there are several challenges we are actively managing

Challenge	Issue	Approach
Working Capital	Timing of cash receipts and impact on covenants	The next testing will be during the September compliance certificate submission in December and the Annual Investor Presentation
Train Paths	Eurostar Volume uncertainty	Lead a system response to incentivise Eurostar to return to a booked timetable
	Planning assumption is 20% lower than 2019 levels	We will report Eurostar operated train paths on a spot bid basis monthly
OMRC cost management	Recovery of OMRC costs given the lack of base train paths from Eurostar	Engage with the system to agree an updated cost per train to ensure HS1 fully recover costs
Retail recovery	Uncertain recovery	Bespoke operational plan with lessees

# Interaction of covenants and Timetable

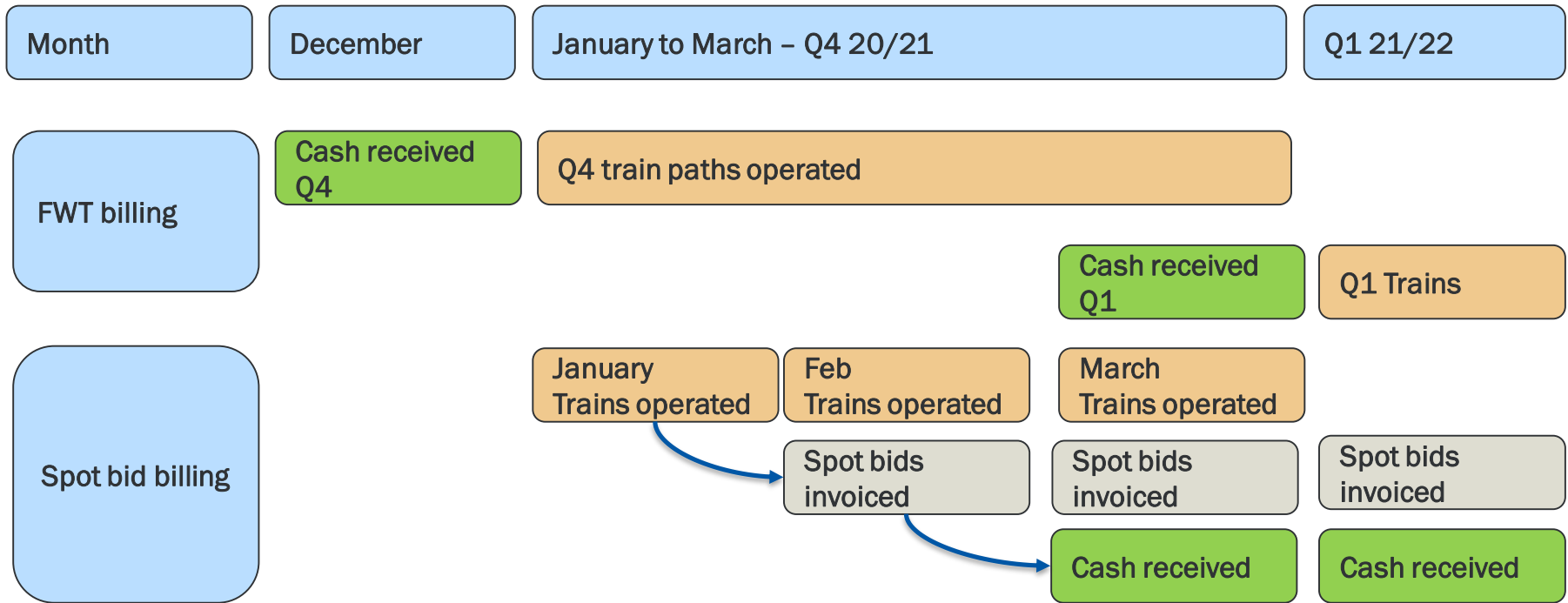
The forward booked timetable drives whether train paths are billed in advance or in arrear. The July 2020 timetable submission impacts December 2020 and March 2021 planned cashflows, creating a working capital timing difference, for the same number of trains



- July timetable has been submitted by LSER
- No timetable submitted by Eurostar
- A key change from the budget used in the March compliance certificate is the Eurostar track access receipts
  - Spot bid IRC is paid periodically in arrear, not quarterly in advance
  - An assessment of the impact on OMRC is on-going

# FWT booking and potential working capital impact

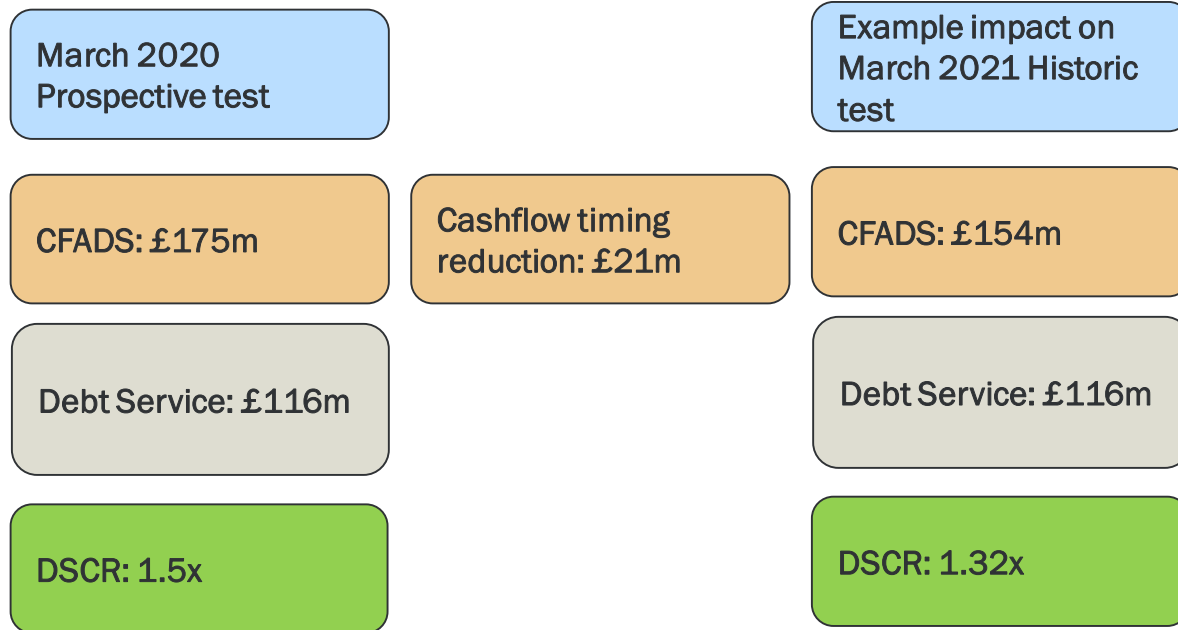
HS1 would typically expect to receive an advanced track access booking from EIL in July for the Dec 20 to May 21 period. A move instead to spot bookings would have a working capital impact on HS1



- There is a one off cashflow timing impact from a move to spot bids, assuming train paths are the same. The next financial year will have 13 rail periods of cash receipts

# Impact on the covenant

HS1 forecast a security group covenant of 1.5x in June. With the nil FWT, the company will be preparing a historic compliance certificate in March 2021 with the one off cashflow timing impact included



- For spot bids there is likely to be a lag in cash receipts of c. 4 months forecast 2020/21 budget Eurostar cash is expected to fall into the next financial year
  - The historic covenant will also capture actual train paths to 31 March

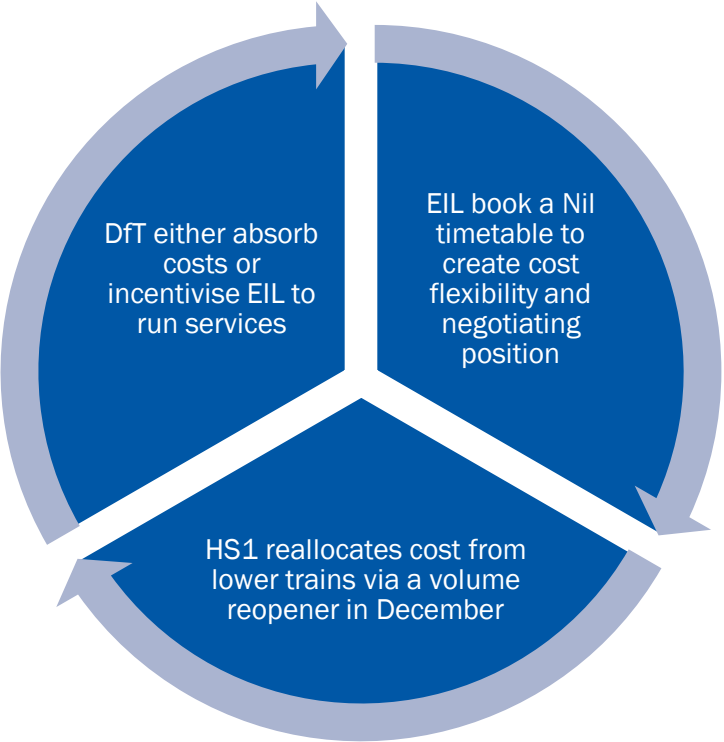


# System response – COVID-19

As Eurostar has booked a nil timetable in advance, costs need to be allocated to TOCs to ensure HS1 covers the costs of running the railway. Implications are each marginal train booked is more expensive. Most costs would be allocated to DfT via LSER. The aim is to get DfT to redeploy this cash from contracts to support underlying EIL services

**Cost recovery for HS1**

- HS1 has contractual ability to recover costs of the railway
- However, with spot bids this creates uncertainty and possibly “in arrears” billing for IRC and some OMRC depending on the “Review Event”



**System response**

- Meetings with DfT and Eurostar, including regulatory engagement
- Find a solution that incentivises more train paths

# Retail recovery strategy

HS1 has not been immune from the lockdown which has driven a significant year on year loss. However, there is an active recovery plan in place, phasing in retailers as passenger numbers increase. St Pancras still retains its unique proposition of convenience, footfall and gifting

Number of retail units in St Pancras

62

Units currently open

26

- HS1's experienced inhouse team has been in individual conversations with Lessees in relation to current terms and payment profile
- Bespoke arrangements have been put in place to keep the right retailers, protecting occupancy and be ready for growth as lock down is lifted
- Active conversations are on-going with a pipeline of prospective lessees

# HS1's response to the Nil Timetable submission

The Nil timetable increases short term uncertainty for HS1 but the business has established a number of actions to be delivered over the coming months in advance of the next covenant test

July

- Engage stakeholders (DFT / ORR / TOCs)
- Negotiation with retailers

August

- Continue negotiations on a system response to the COVID 19 crisis and incentivising Eurostar train paths

Sept

- Set out approach on OMRC cost recovery to ORR
- Annual rating agency reviews due

Oct

- Aim for a system based commercial agreement on train paths and costs
- HS1 Half year close

Nov

- Invoice LSER quarterly in advance

Dec

- New timetable starts – monitor spot bids
- Trigger “Review Event” and start volume reopener – if no negotiated settlement



HS1's strategic response to  
COVID 19  
Dyan Crowther



# Working to drive volume

Ensuring passengers return and feel safe on the railway is critical to HS1 growth, alongside this work is ongoing across multiple workstreams to ensure the best possible bounceback

Workstream	Short term	Medium term	Long term
International	Stakeholder negotiations on interim support	Competition	Green Speed
Domestic passengers	Repurpose underutilised domestic stations	Influence direct award capacity study	Lobby campaign to protect opportunities for growth
Retail growth	Lease management and marketing	Customer confidence/satisfaction	Re-positioning St Pancras
One-offs	Land sales in line with permitted disposal regime	Accelerate Planning	Residual Value Mechanism for long term projects
Sustainability	Sustainability strategy	Regenerative braking	Electricity purchasing
HS1 Internal	Cost management, enhance team	Supply chain efficiency	Influencing strategy

# Stakeholder Management

HS1 is a trusted asset and we are working with stakeholders to deliver for the future

## Government & Regulatory

 Department for Transport  
10 DOWNING STREET  
LONDON SW1A 2AA

 **GOVERNEMENT**  
*Liberté  
Egalité  
Fraternité*

 HM Treasury

 **ORR**  
OFFICE OF RAIL AND ROAD

Customers

 **EMR**  
southeastern

 *e*  
EUROSTAR™

 **DB**

**HIGH**  
  
**SPEED**

Operators & Suppliers

 **NetworkRail**

**UK Power Networks**  
Delivering your electricity

 **mitie**

**HIGH**  
  
**SPEED**

**HIGH**  
**3**  
**SPEED**

# Wrap up

Dyan Crowther



# Wrap up

1. HS1 has a structured 3 point plan to respond to COVID 19
2. Eurostar's response to COVID 19 creates a working capital timing difference and increases uncertainty about the future train paths
3. HS1 is working with relevant stakeholders to ensure a strong response to the challenges COVID 19 has presented and has an exciting pipeline to deliver growth and further demonstrate the resilience of the concession model
4. HS1 expects to update the lender community regularly, including the Annual Investor Presentation (October)
  - Annual credit ratings are also due about the same time
5. The next compliance process, for the period to 30 September 2020 is in December
  - We will look to share spot bid paths billed on a monthly basis going forward