

ANNUAL LENDER PRESENTATION

HS1 LIMITED

21 OCTOBER 2020

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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.



Agenda

Section	Presenter
Introduction	Dyan Crowther
Business and industry update	Dyan Crowther
Financial and regulatory update	Mark Farrer
Wrap up	Dyan Crowther
Questions	

Summary

The macro climate is challenging for the sector. HS1 is materially impacted as it has fixed destinations in Europe (Paris, Brussels and Amsterdam) with a single international operator. Our domestic underpin is invaluable in this context and remains a robust and stable protection for lenders.

Management is focused on protecting value for all stakeholders and in particular your interests as lenders. Recovery is the foundation of our strategy. The recent rating downgrade is not unexpected in light of the seriousness of the situation, however unfortunate it is.

Our investors remain strongly committed to supporting the business as we enter our first period of a nil FWT from Eurostar without the certainty that this usually brings. We are proactively managing the impact of this from a stakeholder and cash management point of view.

We remain open to a system solution and are having tripartite conversations with HMG, Southeastern and Eurostar. This is unlikely to bring short term certainty, but we remain optimistic in the medium to longer term.

While the future remains uncertain, our planning is in hand. We will continue to manage the business in the best interests of all stakeholders. We are aware of the potential for further uncertainty and will update and support you throughout this challenging time.

Business and Industry Update



What has changed

COVID-19 has created increased uncertainty. It may be accelerating structural shifts in the economy, such as home working and retail spending patterns/behaviours.



Rail industry change – EMA etc.

- Franchises as we know them will not exist.
- EMAs have been re-negotiated.
- Significant government control of TOCs for the foreseeable future.



UK and Global economy – unemployed / government debt

Recession means less disposable income affecting discretionary travel and retail purchase.



Volatility of international travel – work / leisure

- Risk of quarantine impacting on international travel.
- Business travel model has been significantly impacted.
- Volume now has to be driven from a zero base.



Working patterns impact on passenger /commuter volume

- Passenger volumes returning slowly
- Major firms moving to agile working. Reduced current appetite from working population to return to commuting.



Brexit

Brexit will happen and there is a uncertainty on the shape of a deal.



HS1

- Extra resources to deal with COVID 19
- COVID secure office
- Gold Investors in People accreditation received



Retail changes – a structural shift in shopping habits?

- A low passenger base means we have to find alternative customer base.
- St. Pancras will need to rely more on being a destination in its own right.

Increased uncertainty due to COVID-19

What has stayed the same

HS1 is operating well despite the uncertainty and has a strong concession framework, that protects many downside risks. However, the business is exposed to volume risks on IRC and OMRC variable costs, if trains do not run.



Domestic Underpin

The government commits to fund a minimum level of domestic services to enable debt to be serviced c.53k vs 55k timetabled.



Good relationships with stakeholders

- Good relationships with DFT/ ORR and customers.
- CP3 agreed with the regulator.
- Long term relationship with our supply chain partners that focuses on productivity and efficiency.



SDG stats in growth – Kent / tourism / housing / green

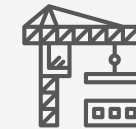
- Strong socio-economic credentials.
- 66,000 flights a year removed due to international services.
- £2bn p.a. tourism contribution.
- Each EIL service contributes 15k to the UK economy.



Excellent operational performance

6.4 seconds average train delay (2019/20).

HS1 concession structure is still strong



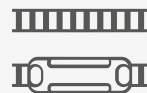
No Capex burden

Future renewals are funded by Train Operators and funding held in escrow accounts.



Safety

Safety measures the lowest achieved since the concession began - FWI at 0.027 down from 0.036 in the prior year



Available capacity create opportunities - freight

50% available capacity on our network to grow domestic/ international and freight traffic.



Sustainability

The business has launched its sustainability strategy and has clear objectives.



LSER

LSER has a direct award for 18 months up to October 2021, with an option of a 6 month extension



- CFADS for Y/E 31 March 2020 £187.7m, 7.1% up YoY

Budget 20/21 – Financial overview

HS1's budget did anticipate some reduction in Year on Year EBITDA and CFADS driven by Eurostar train paths, and lower retail income. However, with the booked timetable to December 2020 and because train paths were expected to recover to 2019 levels by the end of the financial year train volumes were only forecast (3)% down YoY

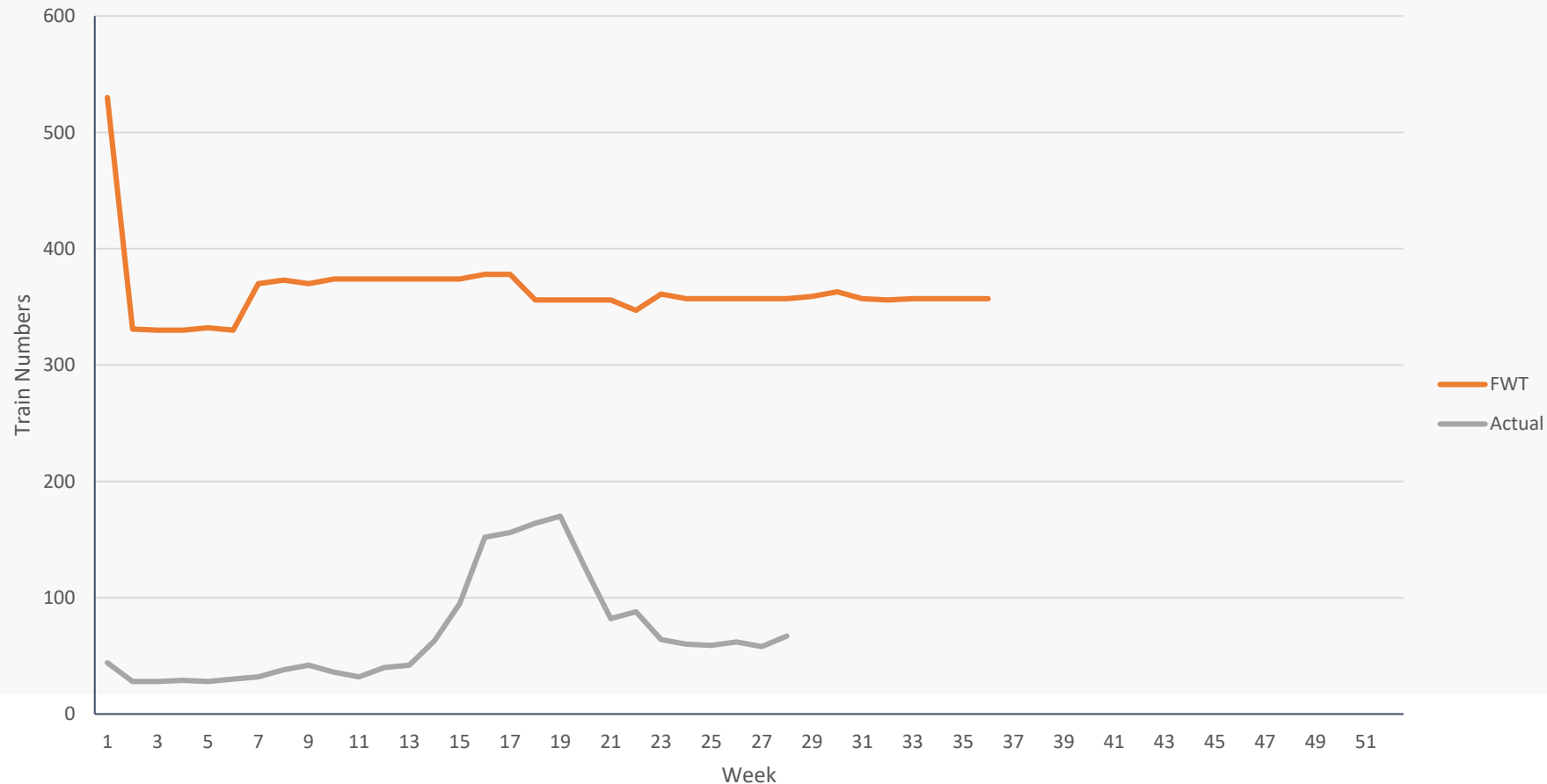
Key Financial Indicators			
	19/20 Actuals £m	20/21 Budget £m	Var
EBITDA	94.8	71.0	(25.1)%
CFADS	187.7	176.0	(6.2)%
DSCR (Security group)	1.58x	1.50x	N/A

Annual Train Paths Billed			
	19/20 Actuals	20/21 Budget	Var
LSER	55,890	55,491	(0.7)%
Eurostar	18,377	17,778	(3.3)%
Total	74,267	73,269	(1.3)%

- The budget was produced in May, prior to the Full Year DSCR review and compliance certificate – several assumptions have changed since June and this is reviewed in detail later in this presentation.
- We would draw your particular attention to slides 18 to 22 in this regard.

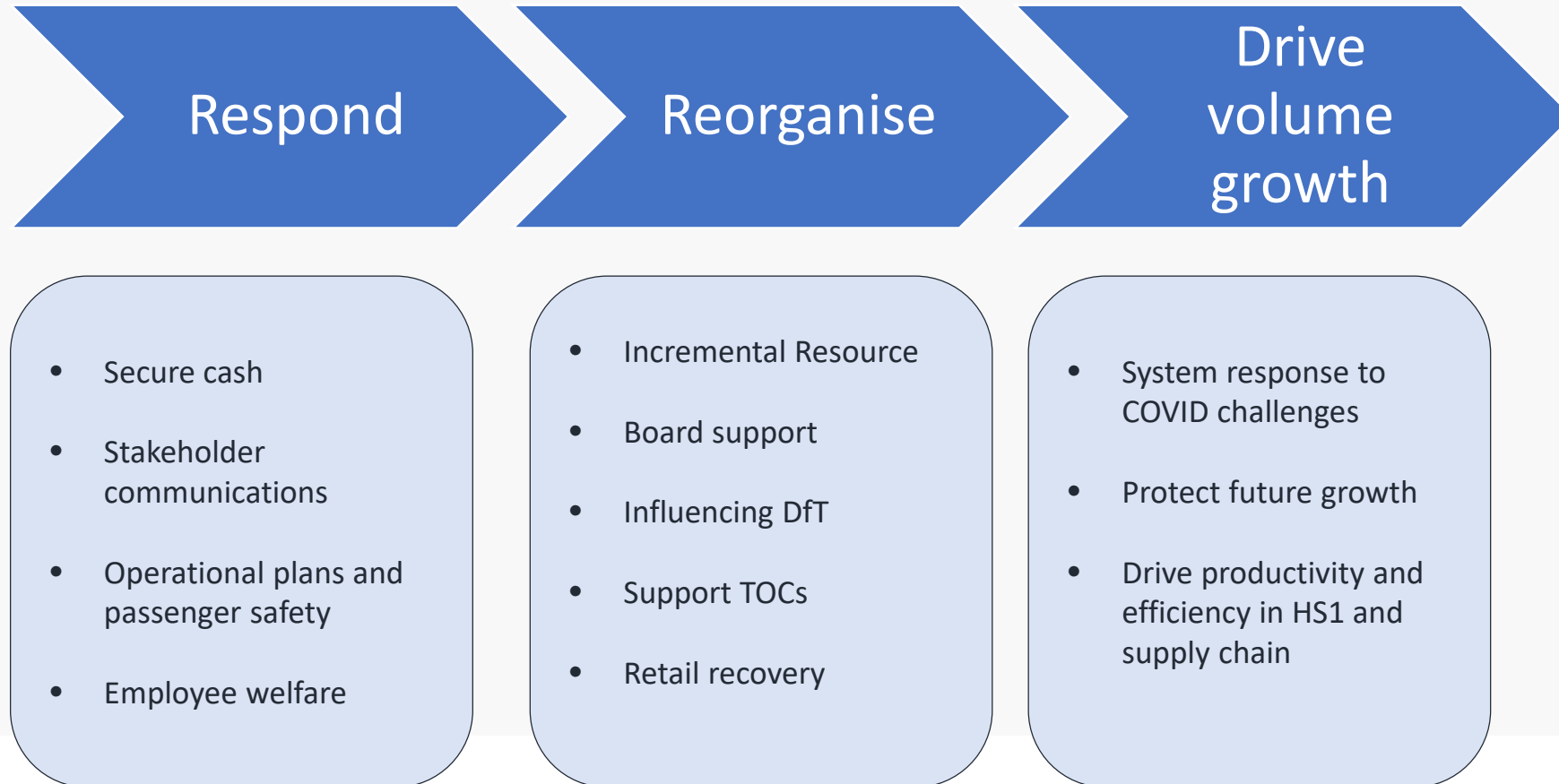
Train paths – Eurostar for 20/21

Eurostar are running significantly lower trains than the timetable (FWT). This showed a recovery from July which was in advance of the Eurostar forecast for recovery and our own forecasts. However this fell back following the imposition of the quarantine and has stabilised again. LSER is performing in line with expectations providing a stable source of cashflow for debt service.



Responding to the Initial COVID challenges

HS1 responded to the immediate challenges, including the health consequences and demand reduction. We have reorganised the business to meet the new demands.



HS1 Strategy

HS1's strategy is consistent, but we have called out 4 elements of the Vision on areas we are focusing on in the long term. In our Strategic Imperatives, we have added "Recover", driven by the current status of the business travel market

OUR PURPOSE

To be the world's leading High-Speed rail experience

OUR 2030 VISION

Contemporary

Agile

Sustainable

Trusted

OUR STRATEGY

Recover

Protect

Evolve

Grow

OUR VALUES


Safety is no
accident, we all
play our part


Punching
above our
weight

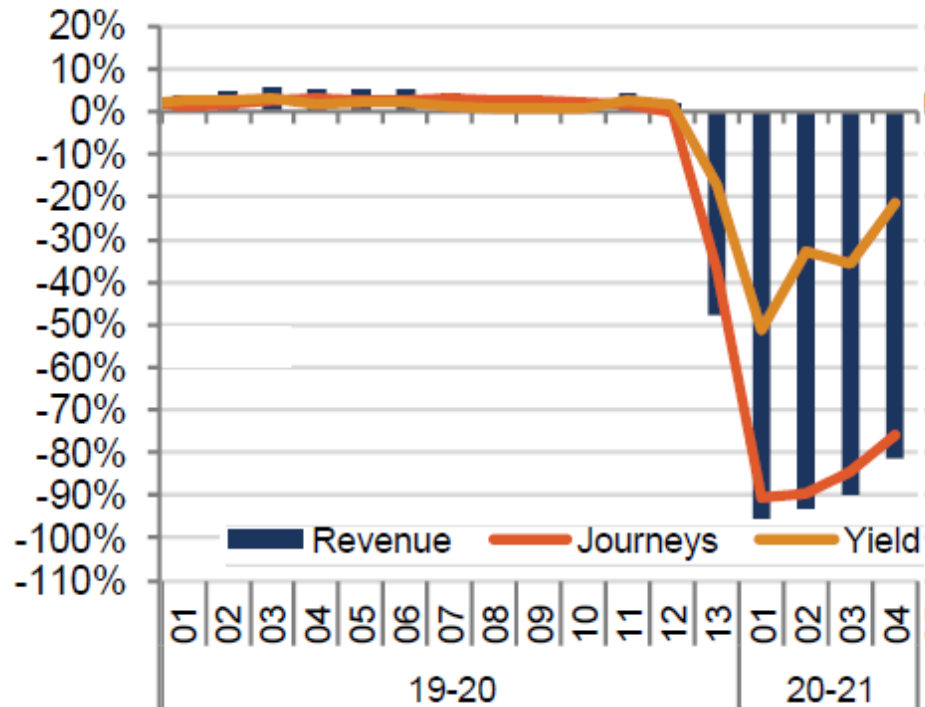

Personal feel,
professional
delivery


Winning
by inches

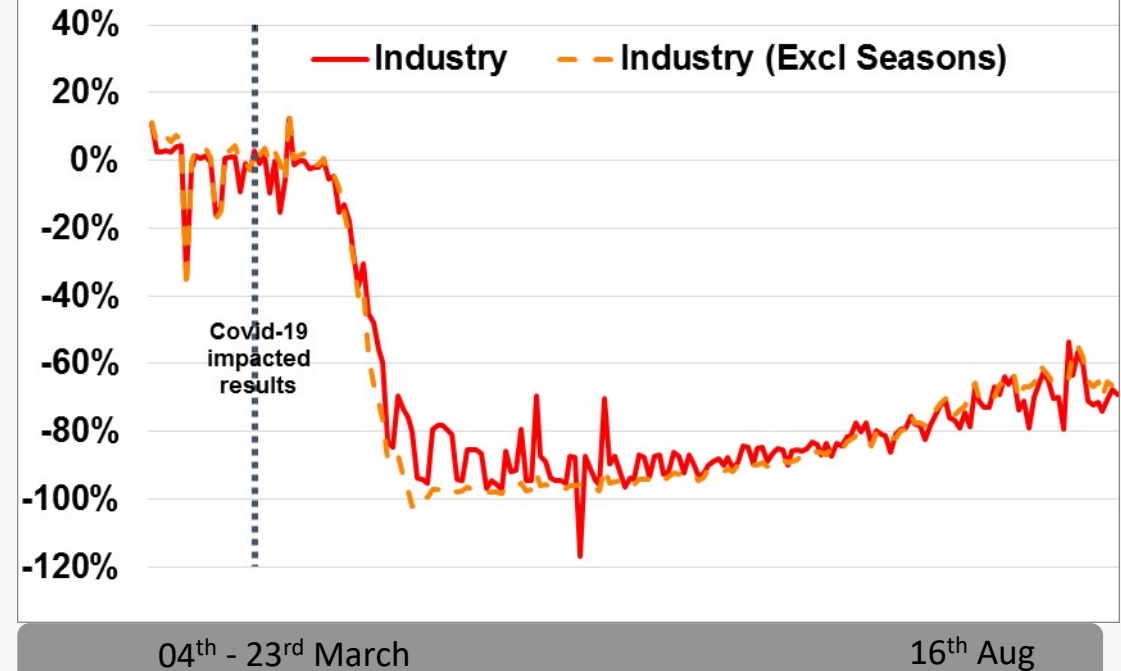
Rail Passenger demand

Rail passenger demand is recovering but slowly. It remains to be seen whether there are any structural shifts from a long term continuation of home working. However, it should be noted HS1 is paid on train paths not passenger numbers

Fully Adjusted Industry Revenue, Journeys and Yield (Year on Year %)



Industry Unadjusted Journeys Year on Year Change %

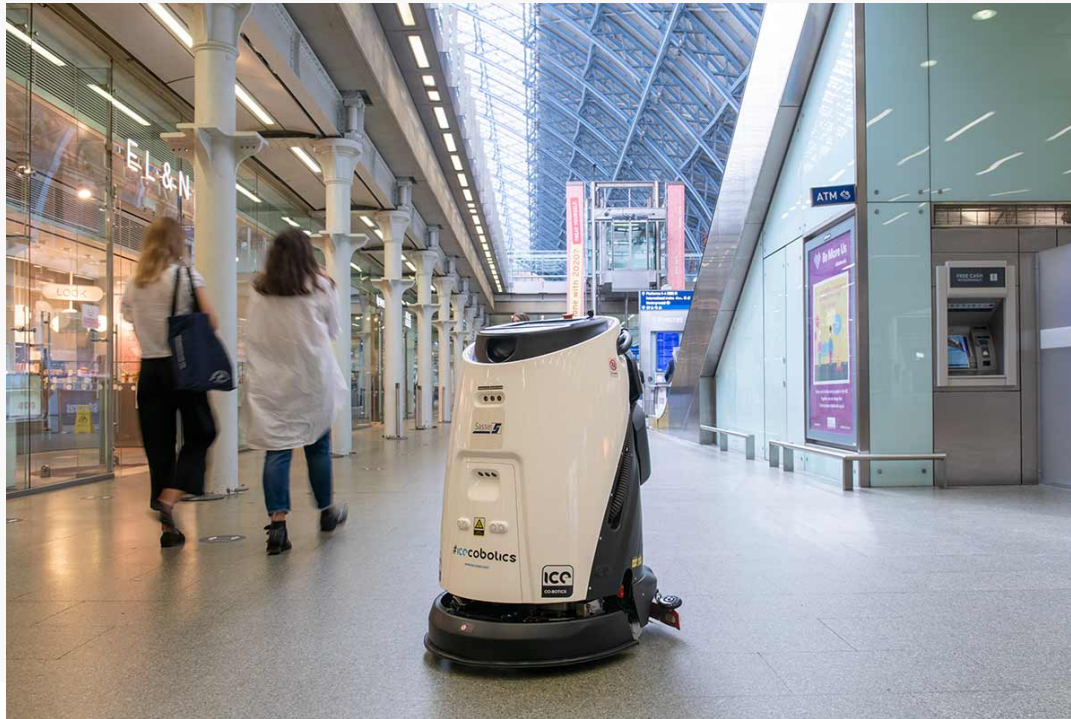


St Pancras New Cleaning Reports

Ensuring customers return to the stations and trains is imperative for the success of HS1. The cleaning robots are industry leading and designed to demonstrate the extra work HS1 is doing to build consumer confidence in rail travel

UVD Robot

Uses UV-C light rays to deliver fully autonomous, fast and chemical free disinfection to large areas. Its unique technology can kill 99.9999% of viruses and bacteria including COVID-19 on all surfaces and in the air surrounding it in a matter of minutes.



Eco Bot 50

Cleans and disinfects surfaces simultaneously with an automated scrubber dryer. Its function to auto-charge, drain and refill means minimal human interaction is needed and can provide thorough and consistent cleaning 24/7.



Eurostar

Eurostar have suffered significant passenger reductions since the April lockdown. This has culminated in them submitting a nil timetable for the period December 2020 to May 2021. This improves cashflow flexibility for them. HS1 has regular contact with this key customer to understand the situation and respond accordingly.

Greenspeed merger



Responding to the current environment

- Open Access Operator, no HMG support yet
- New CEO that knows Eurostar
- Nil Timetable booked from December 2020
- Focus on **core destinations** – not stopping at Kent stations
- Fundraising – circa £400m from banks
- On-going dialogue with Eurostar and the system

Direct return services to Amsterdam



Sustainability Strategy

While HS1 has driven a significant number of incremental workstreams from COVID, the business continues to focus on delivery of the underlying concession. For instance, today we launched our new Sustainability Strategy focused on 6 topics



ENERGY USE

Energy is a precious resource, so we will minimise our energy use. In parallel, we will work to secure sustainable & renewable energy sources for our transport, estates & vehicles.



CLIMATE

It's clear that the right transport choice has a huge role to play in global carbon emissions. We play a vital role in offering low-emission transport for the foreseeable future.



RESOURCES & WASTE

We recognise our role in using products and materials more efficiently and ensuring they're recovered when we no longer need them.



SOCIAL IMPACTS

Our role in the community is important to us - as a responsible neighbour and as an inspiration for everyone that uses our services and facilities.



BIODIVERSITY

We manage a diverse estate, from central London to the Garden of England. We are committed to maintaining a healthy and diverse natural environment.



TRANSPARENCY

We will report our progress clearly to demonstrate our performance.

Financial and Regulatory update



Key messages

HS1's budget in June was based on key assumptions about Eurostar's train paths and retail. The impact of the zero booked paths will start from December 2020. Eurostar is currently running very low train paths. LSER's performance remains strong and consistent with expectations.

There have been several updates since the July lender presentation in relation to Eurostar's business but there is no commitment on future Eurostar train paths, nor is that expected in the short term.

HS1 is preparing for an OMRC "volume reopener" to reflect in December/January to fully recover operations, maintenance and renewals costs, in the context of the zero timetabled train paths

Management is focused on protecting value for all stakeholders and in particular your interests as lenders. Stability and recovery is the foundation of our strategy. The recent rating downgrade is not unexpected in light of the seriousness of the market situation, however unfortunate that may be.

HS1 is constantly monitoring its risk register in the context of COVID. An update and presentation with future forecasts will be provided to you along with the Half Year covenants due later in the year. This is likely to be in December.

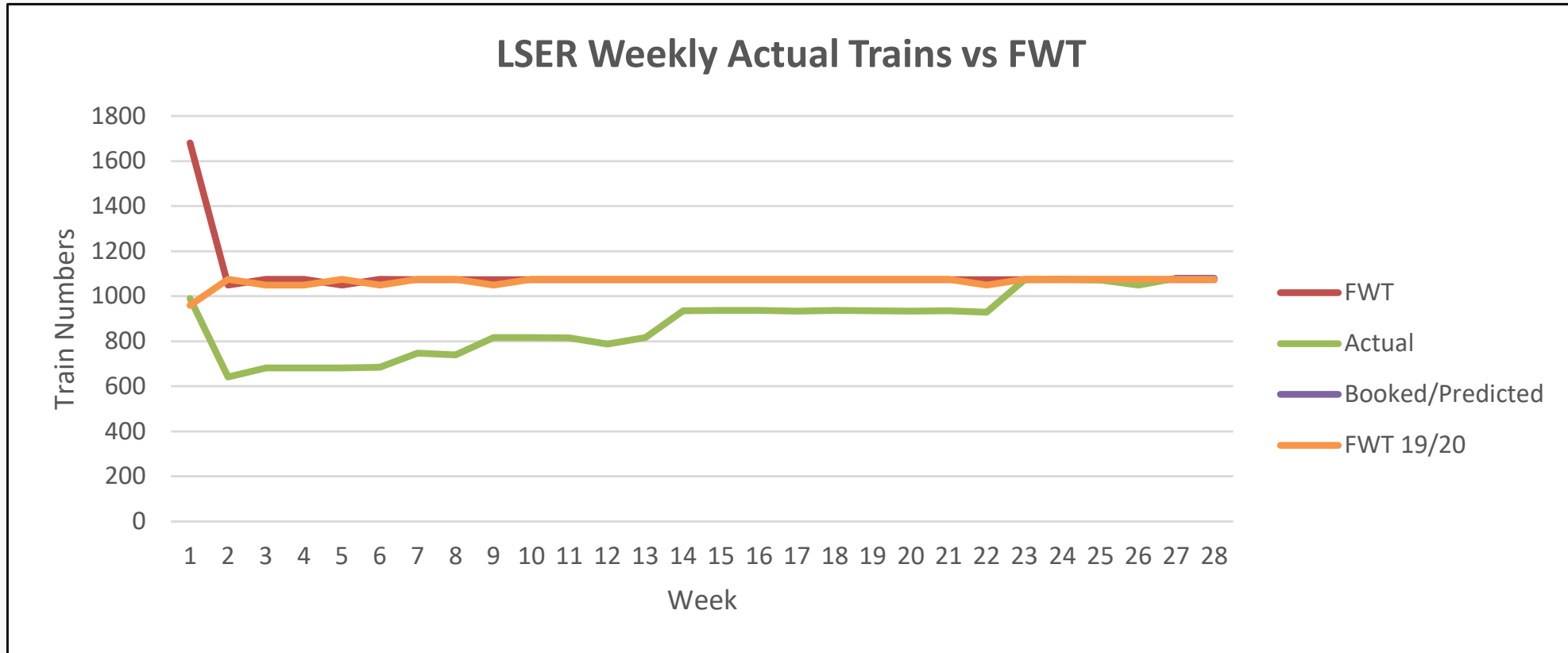
HS1 Budget 20/21

The budget was built on the key assumption provided by Eurostar in relation to train path recovery and we phased retail in line with it. Capex investment was reduced to help manage cashflows and the budget also included a £4.8m land sale.

	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		£(1)m (-£2m)	
	Power Charges	£78m		Power Costs	£(24)m	£0m		£0m	
Stations	Stations Charges	£24m		Station Costs	£(32)m	£0m		£0m (-£1m)	
Unregulated Activities	Retail & Advertising	£12m		Retail Costs	£(8)m	£4m		£4m (-£16m)	
	Car Parking	£4m		Car Park Costs	£(2)m	£2m		£2m (-£5m)	
Other	Other Income	£7m		Other Costs	£(3)m	£4m		£4m (+£6m)	
Total	£218m		£(147)m		£71m	£123m		£193m (-£17m)	
						Capital - UKPN/Capex/Tax		£(24)m (+£2m)	
						Working Capital		£7m (+£4m)	
Cash Flow Available for Debt Service (CFADS)									£176m (-£11m)

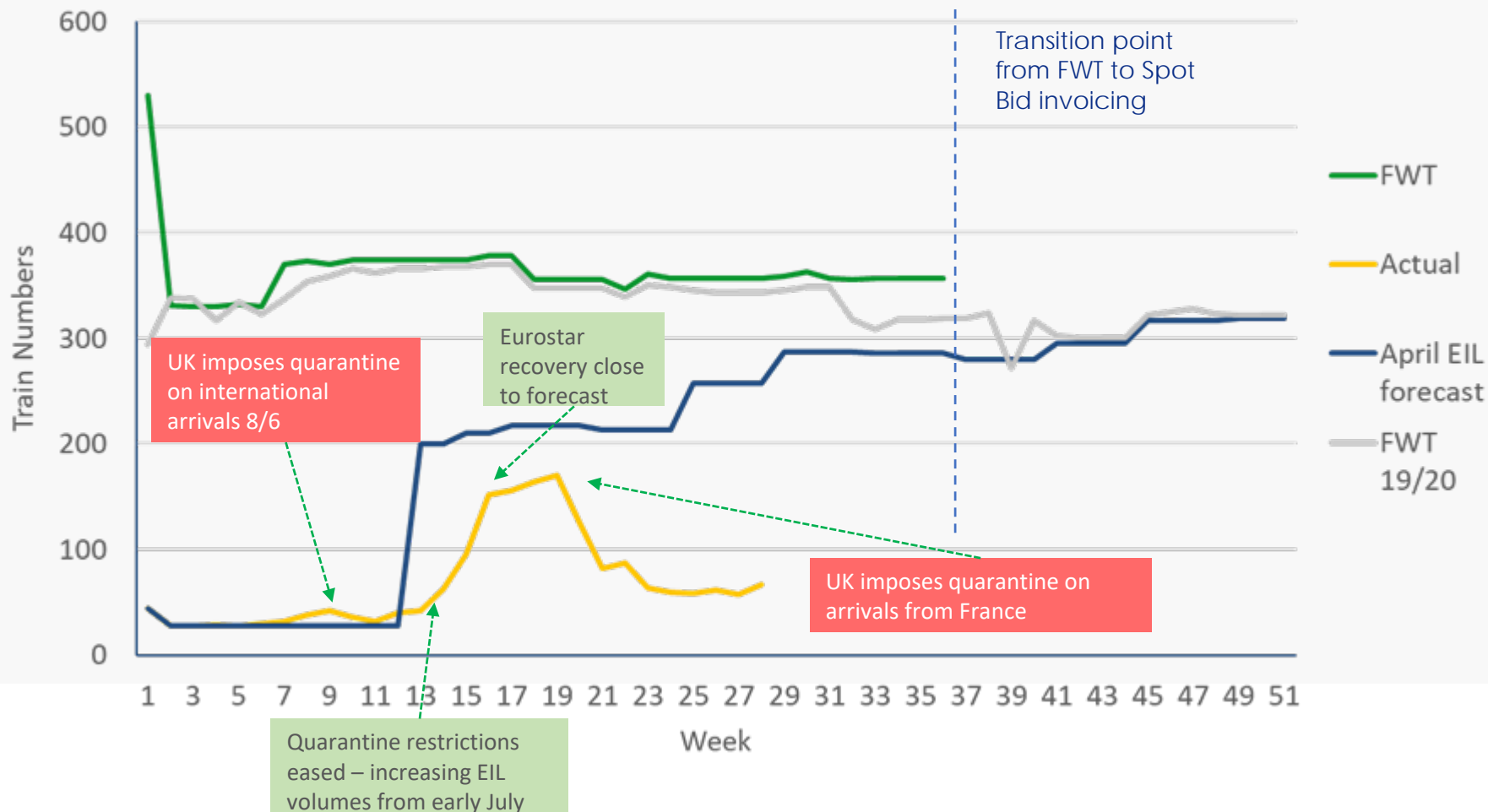
Train paths - LSER

LSER are back operating the trains they have paid for, in the timetable. We are monitoring the trend closely and working with stakeholders on the importance of retaining this timetable to enable the economic recovery and also support the economy



Train paths - Eurostar

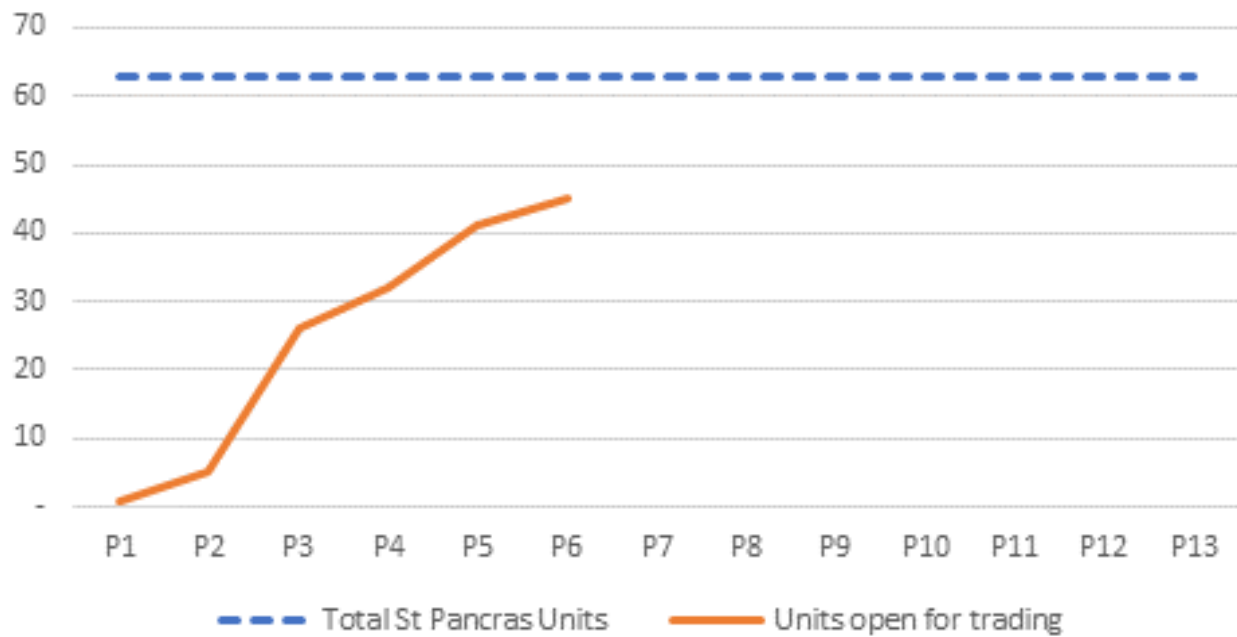
Eurostar are running significantly lower trains than the timetable. This showed a recovery from July which was close to the Eurostar forecast for recovery, but this has fallen since the quarantine and is now stable. We expect challenging market conditions again.



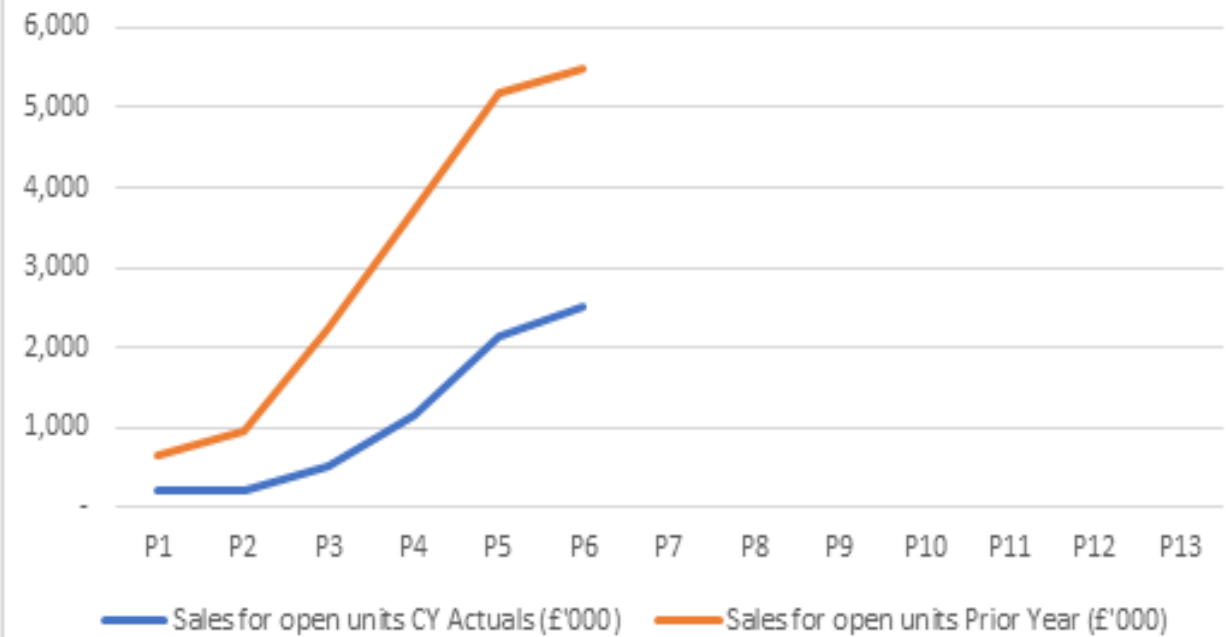
Retail performance

Retail re-openings have risen consistently since lock down. However, all units are not open yet. 4 do not have appointed tenants. While sales are improving as retailers return, sales per unit are down year on year given the lower passenger volume

Stores Open for Trading



Retail Sales CY vs PY



Key business plan assumptions

The budget issued in June for the compliance certificate was issued before the Eurostar nil timetable submission. Below is a summary of key planning assumptions and when they get updated. Market conditions will be challenging whilst quarantine and lockdown measures are in place and the business will update again in December.

Key assumption	Budget assumption	Current information	Review date	Risk of change to Financial year cashflows
LSER train paths	Approx 55k services – flat timetable	See LSER slide	Next timetable in Jan 21	
Eurostar train paths	Timetable recovers with 20% downside to 2019 levels during Dec to March 2020	No new planning assumptions shared but we have now have the Nil FWT. HS1 is preparing it's own forecasts.	Spot bids from mid December	
OMRC cost recovery	Full cost recovery	Expecting to initiate a Volume Reopener on lower train paths	Review Event Dec/Jan 21	
Station charges	Costs recovered plus 5%	Managing costs to reduce overall passthrough to TOCs, where possible – full cost recovery	Feb 21 for next financial year	
Retail	Bespoke agreements with retailers	On going negotiations broadly on track with budget	Contract by contract	
Car Parks	Passenger volumes in line with train paths	Traffic broadly in line with forecast – new HMRC deal signed as well	On going	
HS1 Capex	Minimal to maintain operations	No incremental capex planned	March 21	
Land sales	Land sale cash receipt of £4.8m expected	Planning approval received	Now expected in Feb 2021 at the earliest	
COVID response costs	Nil	Some incremental spend	On going	

DSCR Covenants

In previous projected DSCR covenant submissions HS1 anticipated good headroom over the “lock up” level of 1.2x. Based on current trading the headroom to lock up on the historic ratios is likely to be reduced given the current headwinds but this will be assessed in detail at the Half Year compliance process.

Covenant for the period to:	Projected covenant ratio	Finalised
Sept 20	1.59x	Nov/Dec 20
March 21	1.50x	June 21
Sept 21	To be confirmed through the HY compliance process	Dec 20

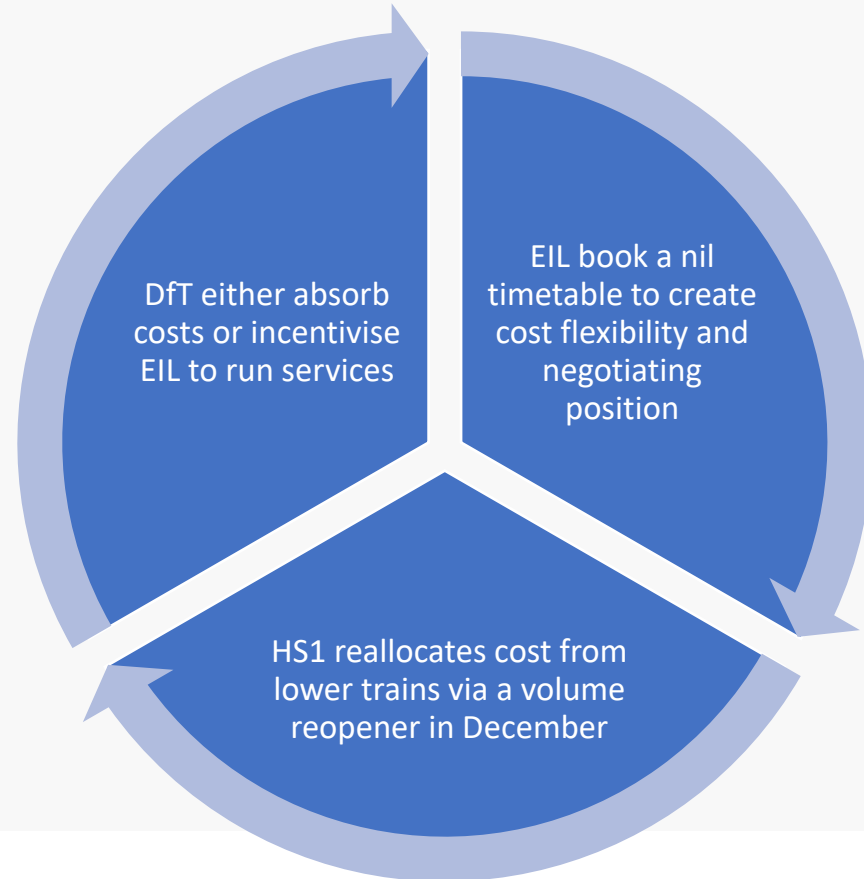
- While cash has been received on timetabled trains, there has been lower spot bid income.
- With increased retail uncertainty, cashflow from retailers and car parks is behind budget.

Assisted Market Recovery

HS1 has been leading conversations with the DfT, Eurostar and other stakeholders to try and find a way of finding a solution for the rail system that is better than each party operating in a silo. Conversations are continuing but there has been limited tangible progress made to date.

Cost recovery for HS1

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



System response

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

Cash management

With increased flexibility from the Eurostar timetable and the continued retail challenges, HS1 cashflows will have increased volatility. Plans are in place to manage this uncertainty.

- **Opco debt is sized to the underpin** on average over the life of the concession and this is supported by RPI swaps
- Regulatory process gives opportunity to **reopen charges to recover OMRC costs**, while some costs are pass through directly to TOCS, such as Traction Power
- Business wide **review of HS1 internal costs** to ensure they are appropriate for the business, including reviewing applicable government schemes to manage cashflow
- **Reduction in HS1 capex spend** to support cash management
- Historically, our **working capital facility is not fully utilized** giving a certain level of cashflow resilience

Credit ratings: HSRF1 (Opco Security Group)

Both rating agencies have issued ratings in the last few months, as per their annual cycle. A constructive dialogue is taking place with both agencies

S&P (October 2020): BBB+ (Negative Outlook)

- Downgrade from A- was not unexpected in this climate but is very disappointing
- S&P recognized the W/C impact of invoicing in arrear and looked that through to the March 2022 test date
- Difficult to predict further actions in the current climate - constructive dialogue continues

The project continues to benefit from LSER's unchanged reserved train paths, revenue from which we estimate could service HSRF1 debt even absent Eurostar traffic.

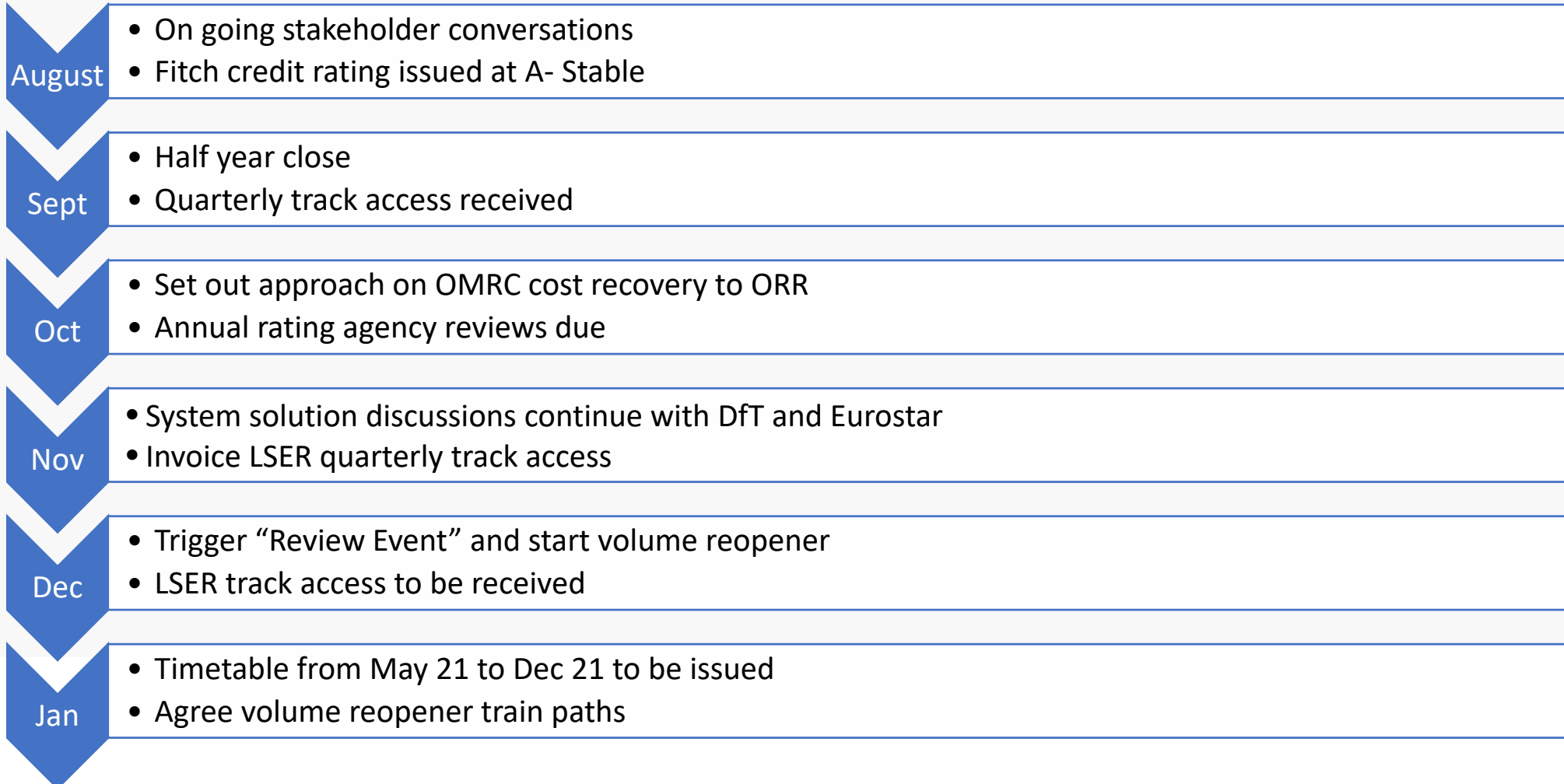
S&P Research Update High Speed Rail Finance (1) PLC 20 October 2020

Fitch (August 2020): A- Stable

- Fitch reiterated their rating earlier in the year

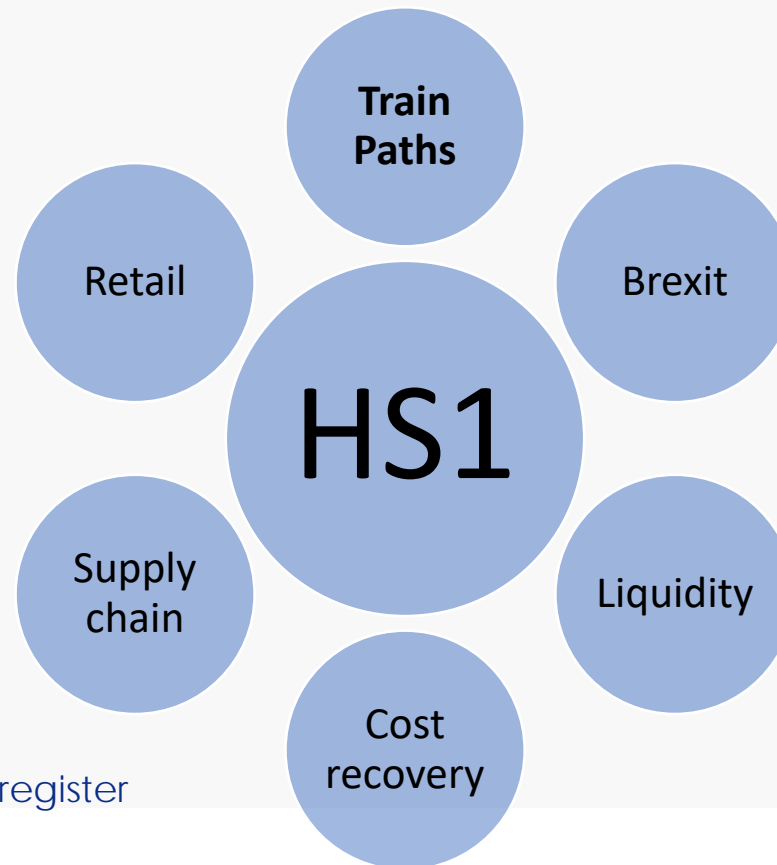
OMRC volume reopener - timeline

HS1 has a well established business rhythm and is preparing its half year financial accounts now. We are likely to have more certainty on Eurostar train paths then and are working on the assumption that we will trigger the volume reopener



Key Risks

COVID 19 has brought to the fore risks that were on the HS1 risk register but were considered relatively low likelihood. There is an active management plan for each area. However, HS1 needs passengers to return and trains to run to reduce a number of these risks



- See Appendix 7 for a detailed risk register

Summary

While there have been some public updates on topics that impact HS1, since the announcement of a nil booked timetable from Eurostar, there are still many uncertainties. We will endeavour to keep lenders up to date with significant new information

The June budget assumptions are out of date in several areas because of the nil timetable from Eurostar. The forecast is being reviewed with the Board

While there have been a number of pieces of new news since the announcement of a nil timetable from Eurostar but there are still a number of uncertainties to work through

HS1 is preparing to execute a volume reopener at the next contractual date and is in regular contact with stakeholders on the process to agree the train paths to allocate these costs across

Management is focused on protecting value for all stakeholders and in particular your interests as lenders. Recovery is the foundation of our strategy. The recent rating downgrade is not unexpected in light of the seriousness of the situation, however unfortunate that may be.

HS1 is constantly monitoring its risk register in the context of COVID. The update on future forecasts will be updated for the Half Year covenants due later in the year

Wrap up



Wrap up

In uncertain times communication is fundamental. The management team is committed to achieving the best possible outcome for all stakeholders, in particular you our lenders.

COVID 19 has presented the business with significant challenges and many uncertainties remain, in particular with Eurostar train paths

Management has already implemented protective measures stabilizing the business. As reflected in the S&P analyses, the domestic TOC revenue is sufficient to ensure debt service.

Management are also working to manage the underlying business and have recently launched the sustainability strategy

Management expect further potential challenges to arise. With the steps taken we are best placed to address this. We are about to commence the volume reopener process to recover costs. HS1 remains a quality concession in a challenged industry.

We will continue to keep you informed with the next presentation planned for December.

Questions

