INTERNATIONAL AIRLINES GROUP

Connecting people, businesses and countries

DfT-IAG meeting, 05 Nov 25 – NON-CONFIDENTIAL VERSION

Agenda

1. Recap - why we are concerned?
2. How does BA approach network decisions in today's 2R environment based on cost pressures? How does it impact UK connectivity ?
3. How does EI approach its DUB-LON network based on cost pressures ?
4. Summary and Next steps

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We understand three core objectives associated with expansion

Successful expansion should deliver:

More trade links and inbound tourism	***Greater domestic connectivity***	***Increased UK-based employment***

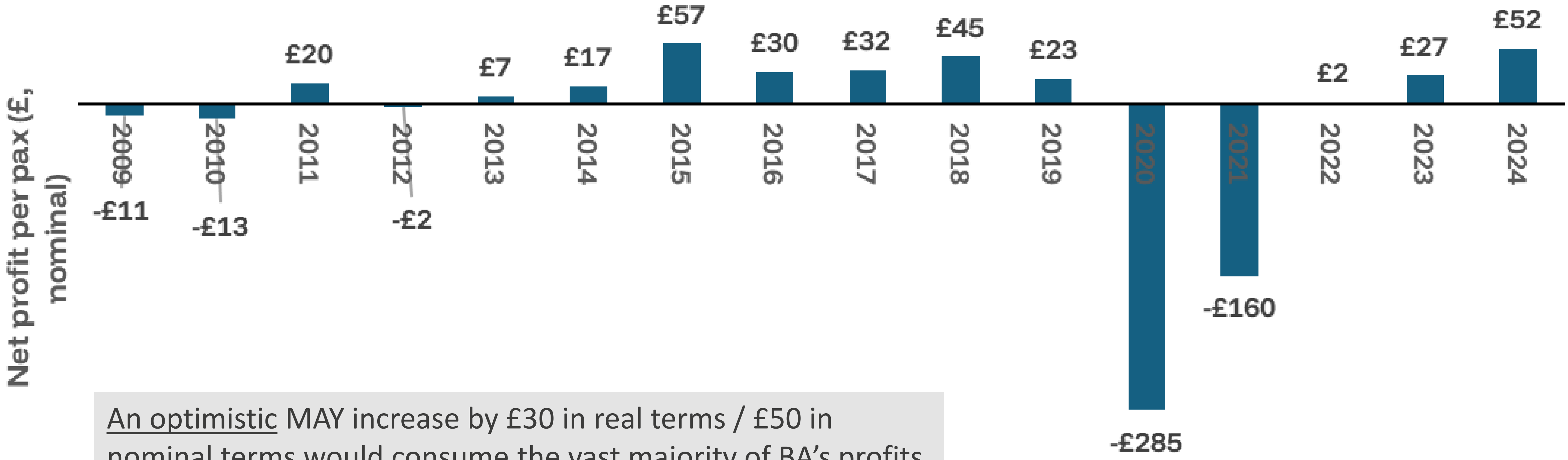
Ensuring that LHR is an attractive hub is critical to expansion being a success and delivering these benefits

- Targeted capacity expansion is large *(+75% mppa increase)*
- Capacity growth needs to be commercially viable for the airline community: *"not at any cost"*
- Connecting passengers will play a greater role than today to underpin viability

Even in the most optimistic scenario, HAL's MAY would be at least 2x today's level (in real terms).

See CEPA Annex A for latest modelling

The potential aero charge increase (£30 in real terms, £50 in nominal terms) would consume BA's profitability in most years



<u>An optimistic</u> MAY increase by £30 in real terms / £50 in nominal terms would consume the vast majority of BA's profits in most years (<u>note: airlines compete in nominal terms)</u>

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Source: Annual Report

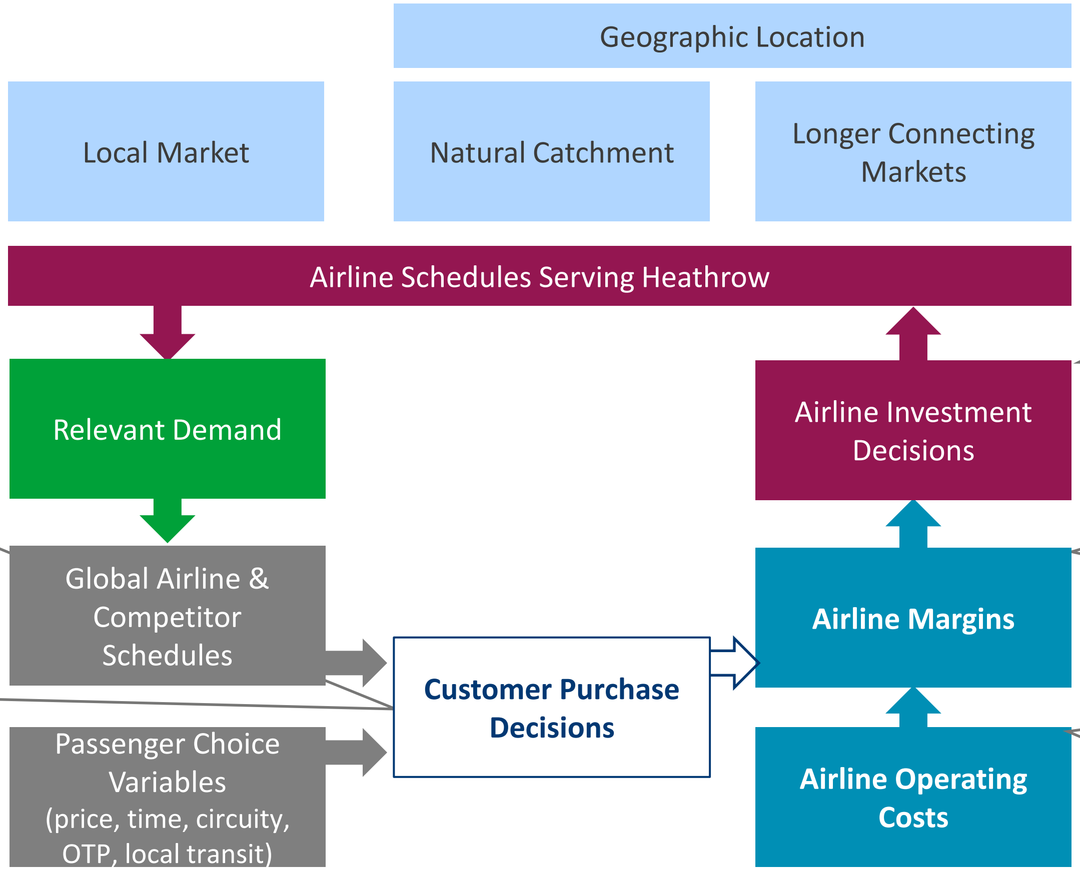
Airlines all work with feedback loops focused on making deployed capacity units profitable *(e.g. the daily out & back frequency)*

Callout #1: *Passengers generally have multiple choices across carriers, time, and airports.*

Selling price includes all fixed add-ons: airport charges, APD, etc

Selling price changes is a running algorithmic response to prior and expected customer demand.

Raising charges at one airport has spillover impacts on competition.



Callout #4*: Cycle by cycle, airlines make capacity allocation decisions to maximise long-term profitability.*

Callout #3*: Intense airline competition means that margins are thin and bounded across airlines, even at Heathrow.*

Callout #2: *A material change in operating costs (e.g. through massively increased landing fees) is outside airline pricing decisions.*

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Contains strictly confidential information including trade secrets and provided in strictest confidence to the Department for Transport and the Civil Aviation Authority –not to be shared with any third party without IAG’s prior written consent

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The proposed cost for expansion introduces significant risk for aviation to / from LHR and the materialisation of targeted benefits from R3

- Pressures on fares will be high in early years as airlines try to make it work to/from LHR ("gold rush mentality")
- Revenue and cost pressures will create challenges for home airlines to deploy aircraft at LHR profitably
- The targeted outcomes from expansion have a high risk of not materialising:
  - New trade links >> under a scenario with aero charges doubling (or more), airlines will likely need to consolidate their network on strong direct O&D markets and avoid routes relying heavily on transfer traffic
  - Domestic connectivity >> UK regions are already well connected via AMS (some better than via LHR). This trend would not be reversed under a scenario with high aero charges
  - UK employment >> LHR based airlines (like BA) will face (far) more risk than foreign airlines, dampening growth appetite and therefore dampening UK employment prospects for pilots, cabin crews, engineers, handlers, etc.
- Ultimately, at the charges expected and growth needed to be "full", Heathrow faces significant risk of de-hubbing and damaging UK aviation overall