

CIVIL AVIATION AUTHORITY

Attn: Mr. Paul Smith

Group Director of Consumers and Markets

Lisbon, 5th November 2020

0210 -10

By electronic email to paul.smith@caa.co.uk and economicregulation@caa.co.uk

Subject: CAP1966 Economic Regulation of Heathrow Airport Ltd: Response to its request for a Covid 19 related RAB adjustment

Dear Sirs,

TRANSPORTES AÉREOS PORTUGUESES, S.A., which also uses the commercial name **TAP Air Portugal**, a company with registered office at Edifício 25 do Aeroporto de Lisboa, 1700-008 Lisboa, parish of Olivais, municipality of Lisboa, district of Lisboa, Portugal, registered with the Lisbon Commercial Registration Department under the sole registration and taxpayer number 500 278 725, and with the share capital of €41,500,000 (forty-one million and five hundred thousand euros) ("**TAP**") hereby responds to the UK's Civil Aviation Authority ("**CAA**") consultation on Heathrow Airport Ltd's ("**HAL**") request to be compensated for their loss of revenue in 2020 and 2021 due to the Covid crisis.

1

We are aware that HAL has requested that the CAA should make an adjustment to its regulated asset base ("**RAB**"), consisting in the introduction of a mechanism that would compensate HAL for the majority of the revenue it expects to lose in 2020 and 2021 from the downturn in passenger traffic levels. HAL has estimated this lost revenue would be about £2.2 billion and its proposal would lead to an upward adjustment to the RAB to apply from 2022 of around £1.7 billion. HAL has said it would bear around £0.5 billion of the estimated revenue loss of £2.2 billion. The increase of HAL's RAB at the start of 2022 in compensation for lost revenue due to Covid would allow it to increase charges to airlines in future years.

As a preliminary remark, it should be noted that this request has been made despite the fact that HAL's licence does not include a specific mechanism to reopen the price control covering the period 2014 to 2018 ("**Q6**") or any specific criteria by which any request for such reopening would be assessed.

Moreover, the pandemic is having a dire effect on the entire civil aviation sector, particularly on airlines. TAP is making a significant effort to maintain its operation at Heathrow airport despite the huge decrease in demand and the increase of costs. For example, check-in charges are being distributed in their entirety amongst the few airlines that are operating, thus resulting in completely unreasonable increases which TAP has already challenged before HAL.

In the current context where airlines are struggling to recover, any increase of fees, taxes or other costs charged to airlines is, in TAP's view, counterproductive and may lead to a review of the financial feasibility of operations at Heathrow airport. Needless to say, adding to the already challenging current scenario the possibility of a general increase of charges to airlines in the near future through an £1.7bn increase to the RAB should be avoided, mostly because it would certainly ultimately affect the interests of consumers.

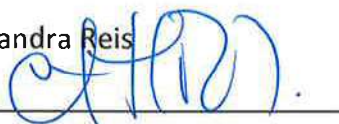
Therefore, TAP agrees with the contents of IATA and the LHR AOC letter addressed to the CAA on this matter (a draft of which is included as Annex I to this letter) and fully supports said entities positioning that CAA should reject HAL's request for the RAB increase.

Yours faithfully,

TRANSPORTES AÉREOS PORTUGUESES, S.A.

Name: Alexandra Reis

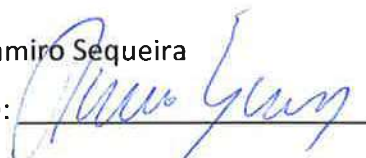
Signature:



Capacity: Member of the Board of Directors

Name: Ramiro Sequeira

Signature:



Capacity: Member of the Board of Directors