

6<sup>th</sup> July 2018

Dame Deirdre Hutton CBE  
Chair, Civil Aviation Authority  
CAA House  
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Dear Deirdre,

Following the overwhelming support in Parliament for designation of the Airports National Policy Statement last week, I have noted some continuing debate regarding the financials for expanding Heathrow. There have been questions on the impact on passenger charges, the role of regulation in promoting investment and the role of shareholder equity in funding expansion.

We are now moving into the delivery phase. It is in consumers', and the nation's, interest that we deliver expansion as fast as possible, on budget and with private financing. As I know well from the Olympics and elsewhere, that will take pragmatism from us all and a clear focus on the objectives that really matter. It also means taking the time to plan properly to base our decisions on facts and calm assessment rather than rumour and assertion.

As Chairman of the Board of Heathrow, I therefore want to set the record straight and reassure your team that Heathrow and all its shareholders are working to deliver this critical project for the UK's future in a way that is sustainable, affordable and financeable.

### **Private investment delivers value**

Heathrow is a responsible, well-run company, which champions the interests of consumers. In recent years, the management team have consistently improved service levels, while reducing costs and passenger charges. It has also become a better neighbour, a leader on sustainability, and played its part in supporting the UK economy by stimulating domestic and long-haul routes to growing markets.

That wasn't true when the airport's shareholders invested in Heathrow in 2006. It was known for 'Heathrow hassle' after years of under investment. They believed in better and collectively decided to take a risk on transforming Britain's global gateway.

£12 billion of private investment later and Britain's hub airport is now rated by passengers as one of the top ten in the world. We have invested that money to streamline the airport's operations. Heathrow is now the most punctual airport in Britain, 98% of our passengers are through security in less than five minutes and a state-of-the-art baggage system means that baggage connection rates are among the best in Europe.

The main challenge for passenger service today is the long queues at the border, which we will work constructively with the Home Office to address.

The improvements we have made to passenger service and reductions in costs have supported the success of the airlines which operate at Heathrow. The value that airlines can generate from operating at Heathrow can be seen in the prices they are prepared to pay to acquire slots from one another – up to \$75m for a slot pair.

Private investment has delivered excellent value to consumers.

## **We can deliver an affordable expansion**

Shareholders are clear that Heathrow must remain affordable – to protect their current investment and billions of pounds of further investment. While Heathrow's charges are less than 3% of the total fare that passengers pay on average today (£650 airfare plus £90 Air Passenger Duty), they must remain competitive.

That is why the Board accepted the affordability challenge set out by the Secretary of State in October 2016, namely that we deliver expansion at the prices current then in real terms adjusted for RPI in each year of the expansion period.

Meeting that challenge is not easy. Major global hubs – from Singapore and Hong Kong to Los Angeles and Frankfurt - have needed to increase charges in real terms to finance their own expansion.

The reality is there is still a lot of work to be done. It requires defining a single masterplan, solidifying capital cost estimates, integrating these with traffic demand, cost and commercial revenue projections. There is also work to be done to narrow down risk on major cost items, for example the M25 build or ground conditions. We also must ensure we can deliver on all our commitments, in particular to local communities and the environment, while keeping this affordable and financeable.

This can only be achieved through close collaboration with airlines. Over the past 18 months, joint working has identified £2.5 billion of savings on the project and opportunities to accelerate traffic growth. We are also working with airlines to see how we can better use existing facilities – for example, common standards for stand turnaround and common use of terminal infrastructure. We have also launched the Innovation Partners process to bring in creative ideas from third parties.

It is our responsibility to balance the needs of current and future customers, local communities and the environment as well as investors to ensure that Heathrow expansion is delivered as quickly as possible, in line with the NPS.

This is a serious project with many moving parts deserving careful deliberation. Developing it collaboratively will be a significant effort, as recognised by both the enhanced engagement with airlines and with the Community Engagement Board and the Consumer Challenge Board. We look forward to bringing this together when we submit our Initial Business Plan to the CAA in 2019, beginning the formal regulatory review where your team will scrutinise the plan in every detail.

Heathrow's Board will hold management to account on affordability. The overwhelming vote in Parliament has not changed our commitment to deliver expansion at close to 2016 charges in real terms. The progress we have already made means we are increasingly confident that we can do so.

## **We will invest billions more to deliver a growing Heathrow**

As the Chairman of Heathrow, I know that expansion can be entirely privately funded – all it requires is a credible business plan, the right commercial incentives and a stable, long-term regulatory framework that provides a fair return for the extra risk investors take on.

The airport today successfully finances itself privately. Our investors have shown their commitment to the UK by financing the £12 billion transformation of Heathrow, and continued to invest through the Global Financial Crisis - including adding a further £1 billion of equity - when many other investors pulled back.

The returns they have received over the last 12 years of private ownership are below or in line with the regulatory settlement, less than they would have received by investing in the FTSE100 or the S&P Global infrastructure indices. They took no dividends for 6 years, and have only started to pay a dividend when they came towards the end of the heavy investment cycle. On an equity investment of £5.5 billion, shareholders have received dividends equivalent to only 10% of operating cashflows over the 12 years other than distributions from selling airports. This is the track record of responsible, long-term investors. They are proud of Heathrow and the positive impact their investment has had in unlocking growth for the UK economy and they are ready to invest further.

Our financing platform is a great strength. We are backed by some of the world's largest long-term infrastructure investors, with over \$1 trillion of assets and an appetite to invest further in Heathrow. In recent years we have built up a global financing base, raising bonds in 6 different currencies, which has given us the track record to raise further financing for expansion. We are a well-regarded, successful business with strong cash generation from existing operations, not a greenfield site, which gives us the steady cashflows required to service debt.

We have an investment grade credit rating, and existing shareholders will invest equity to maintain this through the higher risk expansion period. This is a very strong position from which to finance the expansion of Heathrow through an economic cycle, at very competitive rates.

That investment will create tens of thousands of new skilled jobs, boost Britain's global trade by billions and lower airfares for consumers by delivering new capacity. Upgraded facilities at Britain's hub airport will mean passengers and exporters will continue to benefit from a reliable, quality experience at Heathrow. There will be no cost to the taxpayer to deliver any of this.

Following the NPS vote, we now all need to get on with delivery.

I hope this letter strengthens your confidence in Heathrow and provides reassurance to your team that Heathrow is a company working hard for its passengers today, and committed to delivering for them in the decades to come.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'P. Deighton', with a long horizontal line extending to the right.

Lord Paul Deighton  
Chairman