

Heathrow Airport Limited

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27th January 2012

Dear Colleague

Heathrow Airport Limited - Airport Charges from 1 April 2012

Introduction

I would like to express my thanks for your participation in the 2012/13 Heathrow Airport Charges Consultation process. The 2012/13 Airport Charges Consultation process began on the 28th October 2011. Heathrow Airport Limited (HAL) held a formal consultation meeting on 7th December and received eight formal responses to its proposal. This letter announces HAL's decision, rationale for its decision and how airline community responses have been taken into account.

Decision

We have considered all airline and airline representative body responses on our price proposals, which include comments expressed at the consultation meeting and through written responses. HAL has come to a decision that it will recover the forecast maximum allowable yield of £19.316. The following sets out HAL's rationale.

Rationale for Decision

The economic outlook remains uncertain, and we are all facing severe cost pressures. These adverse market conditions have suppressed growth in passenger levels and HAL is facing significant shortfalls against the Regulator's assumed traffic volumes for the first three years of the current regulatory period, which has resulted in lower than anticipated cash flow to fund the £5 billion Q5 capital investment programme, which is already committed.

This capital programme is essential to deliver the shared vision of HAL and its airlines to become "A world class airport – to be Europe's hub of choice by making every journey better". The capital programme will deliver significantly improved facilities and experience for passengers and airlines.

The final 2012/13 airport charges tariffs for HAL is shown in **Annex A**.

Heathrow Airport Responses to Airline questions

I would now like to respond to each of the main themes from the airline responses to our price proposals and how HAL has considered these comments in coming to our final decision:

- (1) **Airline Question:** The increase in yield is unacceptable, why is HAL proposing to recover the forecast maximum allowable yield in one of the most difficult operating climates?

HAL Response: HAL has considered this request, but in light of HAL's £5 billion capital programme, HAL needs to fund its committed programme of spend. This capital programme is essential to deliver our shared vision to become "A world class airport – to be Europe's hub of choice by making every journey better". The capital spend will deliver significantly improved facilities for passengers and airlines. In addition, current market conditions have had a negative impact on HAL, as a result of shortfalls in traffic volumes for the first three years of the current regulatory period resulting in far lower return for HAL than anticipated.

This passenger volume shortfall is estimated to continue for the remainder of Q5. HAL is anticipating a shortfall in the region of 32 million passengers against the Regulator's assumed traffic volumes by the end of Q5, which will materially impact revenues and return allowed by the Regulator.

- (2) **Airline Question:** This level of price increase is making HAL less competitive to other hub airports and is unsustainable.

HAL Response: HAL has considered its price competitiveness against other European hub airports and has come to a conclusion supported by external consultancy reports that HAL remains competitive. This level of price is consistent with the regulatory settlement, which is funding the capital programme against a backdrop of significant shortfalls against the Regulator's forecast of passengers.

- (3) **Airline Question:** What impact does the increase in yield have on demand?

HAL Response: HAL has considered the impact of the price increase to passenger demand. HAL communicated at the 2012/13 Airport Charges Consultation meeting that the impact of the price increase is forecast to have no material impact on demand. HAL retains this view.

- (4) **Airline Question:** HAL must use a lower RPI figure than 5.2%, which is unrealistic and does not reflect actual cost increases incurred by HAL.

HAL Response: The RPI of 5.2% used in calculating the maximum allowable yield is consistent with the regulatory settlement. HAL has been managing its cost base and did communicate at the consultation meeting that operating costs for 2012/13 were likely to remain broadly flat. The regulatory settlement established the August RPI as the appropriate measure, which has been used in setting the maximum allowable yield. In

previous years, August RPI has been very low, or even negative, against the trend of other months.

(5) Airline Question: HAL must pass on any net opex efficiencies by pricing below the maximum allowable yield.

HAL Response: Net opex efficiencies are already built into the regulatory settlement. HAL takes all the risk of revenues and operating costs within the quinquennial period. This has resulted in returns that are lower than projected in the regulatory settlement, so there are no net benefits.

(6) Airline Question: The structural changes are unacceptable.

HAL Response: HAL undertook a robust and thorough consultation process to set the structure, which was implemented in April 2011. The structural changes to airport charges were designed to meet HAL's objectives. These objectives were supported by the airline community.

Q6 constructive engagement

Many of the comments raised by airlines during the consultation process are being discussed and explored through the Q6 constructive engagement (CE) process. The CE process will help to develop and shape Q6. There are six workstreams with representatives from HAL and the airline community. I would encourage you to attend these discussions as it is important that we explore all options to enable a positive outcome for our passengers in Q6.

Finally, I would like to thank you again for your participation in this consultation. It is a difficult time for the aviation industry and we fully recognise our increased charges will not be welcome. The airport is also under financial pressure and we believe the reasons for our decision on 2012/13 tariffs are economically rational in the circumstances.

Yours sincerely



John Holland-Kaye
BAA Commercial Director

Annex A

HEATHROW AIRPORT AIRPORT CHARGES 2012/13

**FINAL
2012/13
£ GBP**

Charges on Landing

Peak	
Chapter 2	5,772.24
Chapter 3 high	5,772.24
Chapter 3 base	1,924.08
Chapter 4 high	1,154.45
Chapter 4 base (equivalent)	962.04
Chapter 4 minus	577.22
Super Night Peak	
Chapter 2	14,430.60
Chapter 3 high	14,430.60
Chapter 3 base	4,810.20
Chapter 4 high	2,886.13
Chapter 4 base (equivalent)	2,405.10
Chapter 4 minus	1,443.05
Emissions charge (per kg)	6.69
ANS charge	
per ATM	78.97
Per Metric tonne	1.07

Charge on departing passengers

Europe - Destination	24.55
Other - Destination	34.49
Europe - Transfer	18.41
Other - Transfer	25.87
Europe - Transit	18.41
Other - Transit	25.87
Remote Stand Rebate (All paxs)	-4.59
Minimum charge	1,126.00

Charges on aircraft parking

Narrow bodied	14.56
Wide bodied	34.95