



Heathrow's Finances

(prepared by Teddington Action Group)

The company accounts of Heathrow Airport Holdings Limited and its holding companies (as filed at Companies House) show Heathrow to be up to its eyeballs in debt, and incapable of funding expansion.

As of 31st December 2015 (with gross assets at £17,952,000,000 and liabilities of £16,064,000,000), the proportion of liabilities to gross assets for Heathrow Airport Holdings Limited was 89.48%.

Of the liabilities £13,172,000,000 were borrowings, mainly by loan stock - with redemption dates varying between 2016 and 2049 (and the majority are redeemable between 2025 and 2035). Furthermore, the Company is stagnant: while gross assets, liabilities and borrowings were broadly the same as 2014, revenue had increased by just 2.83% in 2015.

Unlike other London airports, which are not full and so can take on extra traffic to increase revenues, Heathrow cannot; in addition to which it is constrained in respect of its current revenue stream: for it cannot raise its aviation charges beyond a cap set by the CAA.

With a big project such as the construction of a third runway, one might suppose that Heathrow had built a savings chest to contribute to funding. Not only has it been unable to do this, but (according to the filed accounts) Heathrow Airport Holdings has found itself having to pay out extra dividends to keep its investors on board (92% of its shares are foreign owned).

Heathrow has engaged in some asset stripping to make up these dividend payments.

In 2013 Heathrow paid Three Hundred Million Pounds (£300,000,000) as an extraordinary dividend payment to its shareholders - part of the sale proceeds of Stansted Airport, that it was compelled to sell, that year.

In 2014, it paid as an extraordinary dividend of Six Hundred And Seventy Million Pounds (£670,000,000) - part of the sale proceeds of Glasgow, Aberdeen and Southampton Airports, held in a company called Airport Holdings NHD1 Limited, which Heathrow sold in the same year (formerly one of the subsidiary BAA companies with Heathrow Airport Holdings being the original BAA).

In 2015 the shareholders were paid Three Hundred And Thirty One Million Pounds (£331,000,000) in dividends (but with no extraordinary payment)

Dividends paid over recent years including the extraordinary payments are:

2012	£357,000,000
2013	£696,000,000 including an extraordinary dividend upon the sale of Stansted
2014	£1,098,000,000 including an extraordinary dividend upon the sale of Glasgow
2015	£331,000,000

The problem is that the assets - apart from Heathrow Airport itself (already heavily leveraged) - have now been sold. There is a threat to the large dividends to which its investors have become accustomed. And although expansion is now the only way of keeping its investors happy, someone else will need to pay for it.

For Heathrow is far too indebted to afford to expand on its own.

Sir Howard Davies says that the new runway will cost £17.6 billion. This is probably an underestimate (Hinkley Point was only estimated at £18 billion), just as will any new, downwardly revised cost touted by Heathrow; but, in any case, these will not include the transport infrastructure. So expansion of Heathrow would be an enormously expensive project. Davies does concede in his Final Report that "According to the Commission's approach the highest debt funding requirement in any single year for the Heathrow Airport Northwest Runway scheme would be around £6 billion, or 13% of total bond issuances in 2013. This is much larger than the biggest individual bond issuance for 2013 of £3.5 billion by Vodafone".

If the reality of the construction and land purchase costs were £25 billion and the transport infrastructure costs were £15 billion, as TfL estimated in their response to the Airports Commission's Final Report, and the Government does not contribute (as it has said it will not), the total cost of Heathrow expansion comes to £40 billion. Very much more than Hinkley Point. If Heathrow were to issue bonds for that amount, within the next 10 years, its proportion of liability to assets is likely to be 100% or even more. In other words, it will have no equity.

Another way of raising the money would be to charge for expansion now, so as to build up the savings chest of which it has hitherto been incapable. Yet total aeronautical income was £1,683,000,000 in 2015. Heathrow would need to treble that over 20 years, to recover a significant proportion of the costs. However, this would be uneconomic. Which commercial airlines would stand for that? After all, Heathrow is already (by far) the World's Most Expensive Airport. Referring to the possible expansion of Heathrow as little more than "a vanity project", BA have already said that they will relocate to Madrid if charges go up.

This leaves the taxpayers alone. And yet the Government has said that it will not fund it.

Heathrow will know that the Treasury fears the possibility of having to step in with taxpayers' funds; so it is quite possible that

Heathrow will seek to persuade the government that the costs of expansion can be minimised, to prevent government support for scheme from haemorrhaging.

But, were expansion of Heathrow to proceed, might the following not transpire?:

The work starts, there is a building site, but Heathrow announces that the money has run out; at which point the shareholders demand that the Government (which gave the go ahead, with its eyes open, surely) bankrolls the project. The Government finds itself with Hobson's choice: either pay up, or leave a giant building site in situ for decades (as testament to poor infrastructure project planning). It will certainly come under intense political pressure from the middle eastern, oil producing shareholders - as well as the Chinese, Singapore and Spanish workers' pension fund shareholders - to pay up (so that they can continue to receive their dividends) or face the consequences.

A fanciful thought: in the past, in some other countries, governments have initially concealed capitulation on infrastructure liabilities through use of borrowing through wholly or partly publicly owned lending institutions. Is there such an institution in the UK? Yes; the Royal Bank of Scotland, one of the country's largest lenders, and already Heathrow's main banker - currently chaired by Sir Howard Davies, who headed up the Airports Commission - which recommended Heathrow expansion - and who, at the time of his appointment to that Commission, was a remunerated Foreign Investment adviser and Board Member of GIC Private Limited (one of Heathrow's owners).

But, in any event, who would end up receiving the rewards of this public investment, in the form of dividends? There is an extraordinary web of companies that own Heathrow. There is only a single shareholder for each company until the ultimate holding company called FGP Topco Ltd. The chain goes: Heathrow Airport Holdings Ltd → ADI Finance 2 Ltd → ADI Finance 1 Ltd → FGP Topco Ltd which company has the institutional shareholders. Some of those shareholders are clothed in secrecy. For example, 689,011,234 shares out of 5,459,867,755 shares (12.62%) are held by Caisse de Depot et Placement du Quebec. That organization is an investment house that "is a long-term institutional investor that manages funds primarily for public and parapublic pension and insurance plans" according to its website. There is nothing illegal about nominee investments but they disguise the true owner, and are a prime target for money laundering - on which which the Government is avowedly seeking to crack down - and, according to the Law Society, is already subcontracting its legal enforcement to firms of solicitors. And it would surely be inappropriate for public money to go to an organization that disguises beneficiaries of that money, particularly when all the shareholders are foreign and outside the jurisdiction of the English Courts.

Let us hope that the Government sees this googly coming and does not start this vanity project.

Documents considered:

Heathrow Airport Holdings Accounts for years ending 31st December 2015, 2014, 2013.

Annual Returns Heathrow Airports Holdings Ltd, ADI Finance 2 Ltd, ADI Finance 1 Ltd, FGP Topco Ltd.

Airport Holdings NGH1 Ltd Accounts for year 31st December 2014

Accounts of Ivy Holdco Ltd and Gatwick Airport Ltd for year ending 31.3.2015

Web Site of Caisse de depot et Placement du Quebec

