Yann Cambier, International Airlines Group

CC: Andrew Walker, Civil Aviation Authority; Hannah Newell, Department for Transport

26 March 2026

Dear Yann

Thank you for sharing the Oliver Wyman ("OW") report. We appreciate the transparent and constructive way you have engaged with us, and we welcome that important challenge.

Having reviewed the report in detail - and followed up with you on the supporting methodology - we would like to set out several areas where we believe the analysis understates airline profitability at Heathrow and therefore understates the level of charges that would be commercially sustainable. For avoidance of doubt, our goal is not just commercial sustainability but for it to be commercially attractive for airlines to operate at an expanded Heathrow and continue to explore all drivers to achieve that.

- **OW modelling approach to estimate current airline margins relies on input assumptions available to IAG only and cannot be replicated independently**. This contrasts with other approaches we have shared with you, which through multiple methods, each using publicly available information, we can robustly triangulate to an average airline EBIT margin of 15%.
- **OW estimated margins for non-IAG airlines (~5%) are not consistent with observed behaviours**. If the sustainable long-term margin for airlines is ~7% by your own logic those carriers would leave Heathrow for other London airports (and sell their slots to you for a windfall profit). That they have not – and continue to invest significant capital to remain and grow at Heathrow – implies the OW conclusion is not consistent with revealed airline behaviours.
- **OW estimated limit for an increase in charges (£4.50 - £5.50) appears difficult to reconcile with observed behaviours**. Heathrow charges were £7 higher in real terms in 2014/15, but slots continued to trade at record levels (£50m per pair, 2024p). Average Heathrow APD per passenger is due to rise by ~£9 per passenger in 2026 vs 2024, but you forecast 3% growth in 2026.
- **OW proposed limit on the expansion capital plan (£30bn) appears arbitrary with no transparency on the other building block assumptions**. There are several ways to seek to mitigate the charge increase associated with expansion other than by reducing the capital plan.
- **OW contextual information on profitability and demand is inaccurate or misleading**. UK airfares have grown faster than GDP and inflation. Using operating margins to compare airports and airlines ignores invested capital, which when accounted for shows European airlines have consistently achieved a higher return.

We offer these points constructively, with respect for the significant effort behind the report and recognition that the CAA and DfT will want to test all methodologies independently. We also recognise differences in analytical conclusions are inevitable in a project of this scale, and engaging on those differences is inherently valuable as it helps ensure decisions are robust and well tested.

Where we can agree is that Heathrow's design should be as efficient as possible, governance should give you assurance that Heathrow is being effectively held to account for efficient delivery and we need to work closely together to ensure an expanded Heathrow is commercially attractive.

In that spirit, we suggest that Heathrow and IAG jointly focus on:

A. **Aligning on the masterplan and phasing strategy that delivers the requirements of the ANPS and the requirements of our future customers, all the while remaining cost efficient**. While this will take time to mature, we can now jointly explore material opportunities to lower the charge associated with our Summer 2025 submission to Government.
B. **The governance, incentives and procurement approach required to provide you with sufficient assurance that delivery is efficient**. We have submitted a proposal to the CAA to seek common ground between the position you propose in your response to CAP3195 and our own – providing enhanced, independent assurance and transparency while keeping governance streamlined and focused on delivery – and would welcome the opportunity to discuss.
C. **Other means to make an expanded Heathrow commercially attractive, including slot reform, passenger proposition and ensuring the new airfield and apron is efficient to operate from**. We have already discussed in our recent bilateral meetings the hierarchy of your priorities, recognising that the level of airport charge is most important to you, and stand ready to engage when you are open to doing so.

We remain committed to ensuring that expansion supports the long-term commercial success of IAG and all Heathrow carriers, and we believe that working through these issues together will deliver a better outcome for everyone

As you have shared the Oliver Wyman report with the Department for Transport and Civil Aviation Authority, I have extended copy of this letter to them too.

Pierpaolo Barrett

Regulation and Commercial Strategy Director

Detailed Response

Our understanding of the report's conclusions:

a. In 2024 the weighted EBIT margin of airlines at Heathrow was 9.6%
b. The long-term sustainable margin of airlines to cover their cost of capital is 7%.
c. The 2.6% difference is the equivalent of a £4.50 - £5.50 increase to the airport charge, beyond which would not be affordable to airlines.
d. This requires the cost of expansion to be limited to no more than £30bn.

1. The modelling approach relies on inputs available only to IAG and cannot be replicated

We understand the methodology employed uses:

- IAG and JB/JV actuals for cost and revenue, which only you can access.
- Manual discretionary revenue adjustments for c.35% of traffic, particularly for Middle Eastern and European flag carriers, that you cannot share with us.
- The only carrier data where we are using a common dataset is Virgin Atlantic (c.6% of Heathrow passengers).

We recognise the value of the insights your internal data provides, and our intention here is not to challenge IAG's commercial judgement, but to highlight areas where external parties may struggle to assess replicability or cross-validate findings. For example, we believe there are potential omissions in your approach that would likely underestimate airline profitability:

- Heathrow creates additional value for airlines because it sits at the centre of their wider route networks. Flights to and from Heathrow don't just make money on their own — they also support profitable connections across an airline's whole network. Around 20% of Heathrow passengers go on to transfer at another hub, and the additional profit from those onward journeys isn't captured in OW's estimates of Heathrow-specific profitability. As is evident in Table 1, the biggest differences between our estimated margins for different carrier groups are those where there a higher onward connections (e.g. ME3).
- The data used to calculate airline margins doesn't show the full profit airlines make from flying to Heathrow. For instance, it's unclear whether profits from cargo or loyalty programmes are included. If the analysis is based only on the airline's operating company, it would capture passenger ticket revenue but miss other income that may be recorded elsewhere in the airline group.

We acknowledge that any approach carries inherent uncertainty. However, our conclusion is based on the preponderance of independently verifiable evidence that we have presented to you and others:

- Fare data for other major EU hubs, using econometric analysis to control for differences in mix, purchasing power parity, etc., to isolate the excess profitability airlines secure at Heathrow. In Figure 1 below I include 2024 airline revenue generated at Heathrow relative to other EU hubs to illustrate the scale of difference.
- Slot valuations, including the publicly available valuation secured by Virgin Atlantic in 2025[1], to demonstrate what airlines are willing to pay to secure access to Heathrow relative to other airports. Airlines would not pay more for a slot than the net present value of the profit they expect to make from the slot over and above flying from another airport.
- Demand modelling, using DfT forecasts for unconstrained demand and DfT assumptions for elasticities, to forecast how each year of ongoing constraint at Heathrow will increase scarcity rents. It is inevitable that if demand exceeds supply – as it has done at Heathrow for two decades – the cost to consumers will increase and this cost is a form of scarcity rent.

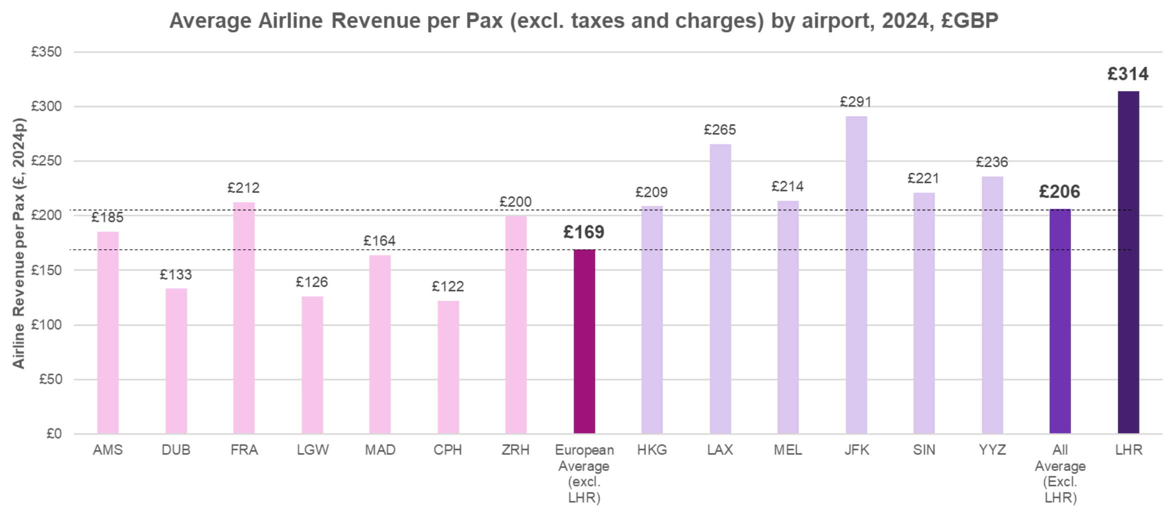


Figure 1: Average Airline Revenue by Airport[2].

We note your concerns with the econometric approach in your response to CAP3195 and believe we can respond in full below:

- You outline that fare differentials between Heathrow and other airports simply reflect a more affluent, time-sensitive passenger mix. While passenger mix does contribute to higher average fares, this explanation is incomplete. All passenger types participate in a single market, and airlines cannot isolate pricing by traveller segment in the way you imply. This is especially evident as business-travel demand has structurally shifted toward lower volumes and greater price sensitivity.
- Your examples of competitive pricing within narrow passenger segments do not address the central point: scarcity rents arise at the airport level due to constrained capacity, not from pricing behaviour within a specific cabin, booking window, or time-of-day category. The evidence that price-sensitive travellers have been displaced from Heathrow underscores the effect of constrained supply, not competitive neutrality.
- Finally, the relevant comparison for assessing scarcity rents is not whether Virgin is profitable at Heathrow, but how their profitability differs relative to operating from an alternative London airport on an otherwise equivalent basis. Virgin's improved performance after consolidating at Heathrow from Gatwick illustrates the value uplift created by scarcity, contrary to your assertions.

Our multi-method, independently sourced, verifiable approach to identify profitability of between £30 and £35 per passenger above is further validated by:

- Skailark data, which is the basis for Heathrow estimates of airline margins (see Table 1 below, which summarises how margins differ across airline groups and illustrates the significance of onward connections in explaining differences in our respective estimates).
- The difference between BA and IATA Operating Profit Per Passenger 2024 (£45 per passenger vs. £9 per passenger)[3].

Table 1: Margins by Airline Group[4]

	% of LHR Pax	OW Est. Margin	Skailark Est. Margin	% Onward Connecting
British Airways	[redacted]	[redacted]	[redacted]	[redacted]
Other IAG Carriers	[redacted]	[redacted]	[redacted]	[redacted]

IAG Joint Ventures/Businesses	[redacted]	[redacted]	[redacted]	[redacted]
US3: American, Delta, United	[redacted]	[redacted]	[redacted]	[redacted]
ME3: Emirates, Etihad, Qatar	[redacted]	[redacted]	[redacted]	[redacted]
European flag (excl. BA):	[redacted]	[redacted]	[redacted]	[redacted]
Virgin	[redacted]	[redacted]	[redacted]	[redacted]
All other carriers	[redacted]	[redacted]	[redacted]	[redacted]

We also note the approach we have taken is consistent with the conclusions the Airports Commission made:

> "Despite increases in charges levied on airlines, fares would be likely to remain unaffected or even to fall. This is due to the significant scarcity rents accruing to airlines…which would allow them to absorb any rise in charges rather than pass it on to passengers through increased fares".[5]

Since the Airport Commission reported, Heathrow's airport charges have fallen by 17% in real terms, whereas passenger fares have grown by 30%.[6]

2. OW estimated 2024 airline margins are difficult to reconcile with observed behaviours

The report concludes that airlines at Heathrow achieved an average EBIT margin of **9.6% in 2024**, and the long-term sustainable margin is 7%, forming the basis for the £4.50–£5.50 charge headroom.

If BA delivered around 14% EBIT in 2024 while operating ~50% of Heathrow's seats. This would require the remaining half of carriers to earn ~5%**.** This would imply behaviours we do not observe in practice:

- **If non-IAG airlines were on average 5%, this is lower than the 7% threshold you identify as the level at which airlines would withdraw capacity.** If correct we would see airlines shifting to Gatwick or other London airports (and realise profit from selling or leasing their Heathrow slots).
- **The opposite is the case**. Virgin moved all their Gatwick flights to Heathrow. Several long-haul airlines have moved to Heathrow when capacity has been available. When Aeroflot was sanctioned WestJet and China Airlines moved their flights from Gatwick to Heathrow. We have also seen some airlines start flights at Gatwick (because they can't grow at LHR) and have since scaled back those operations due to poor profitability.[7]

By way of example, in the OW profitability model you shared directly with us (Figure 2 below), Air France is modelled as having incurred a [redacted] negative margin on its seven daily Heathrow services in 2024. As outlined above, this is difficult to reconcile without considering the wider network and scarcity-value effects that may not be fully captured in the model:

- Air France generates most of its profit from long-haul and connecting passengers fed from short-haul services, and our analysis shows that [redacted] of passengers on its Heathrow flights in 2024 were connecting either in Paris or Heathrow, predominantly onto long-haul routes.
- This network value explains why Air France continued to operate all seven daily flights throughout 2024 and 2025, despite significant slot trades or leases being agreed during this

period and peak-time lease rates understood to exceed $6m per annum per daily slot pair — a risk-free revenue worth over £100 per passenger that Air France chose not to realise.[8]

- In the same period, Air France have agreed a long-term lease, and invested capital in, their first lounge at Heathrow since 2009.[9]
- This behaviour cannot be explained by a long-term strategy to hold slots while incurring significant near-term losses. Air France has also historically sold multiple Heathrow slots that were originally allocated to it for free, including one daily pair sold to Oman Air for $75m in 2017.

*Figure 2: **REDACTED** Slide provided to Heathrow by IAG on 15 February 2026*

The conclusion that airlines could tolerate no more than a £4.50–£5.50 real increase is also inconsistent with observed behaviour:

- **The average Air Passenger Duty at Heathrow will be ~£9 per passenger (real-terms) higher in 2026 than 2024[10]**, yet:
    - passenger volumes and demand – before the Iran conflict impacted capacity – was forecast to be at record levels.
    - IAG are on record as expecting 3% capacity growth in 2026 across its carriers.[11]
    - BA are making significant capital investments in Heathrow cabins, including new First Class seats and Starlink Wi-Fi.[12]
- In 2014, Heathrow's charges were **~£7 higher than today (~£35/passenger in 2024 prices)**, yet airlines were paying **$75m dollars for slot pairs**. This is difficult to reconcile with the claim that airlines would exit Heathrow if 2024 charges increased by £5.

3. Key assumptions underpinning the £30bn "affordable capex envelope" are not specified

The report states that the £4.50–£5.50 charge headroom corresponds to an affordable capital envelope of **up to £30bn**. However, the analysis does not set out the assumptions used for:

- H8 capital investment
- passenger volumes
- WACC
- depreciation
- maintenance / asset replacement capex
- operating cost forecasts
- commercial revenue forecasts

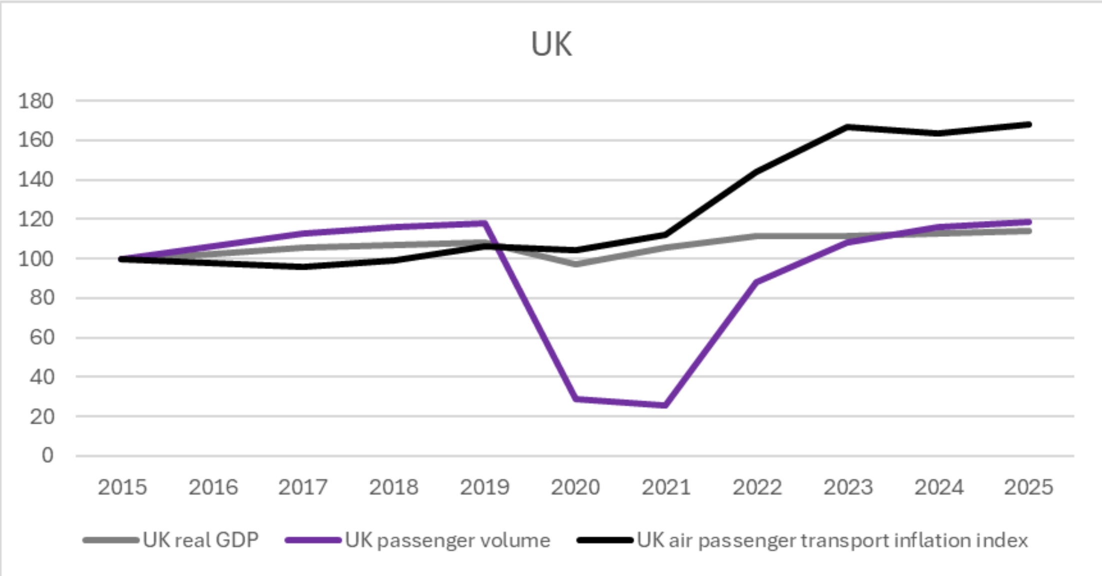
Given the sensitivity of results to these variables, the £30bn estimate is not possible to validate and may be subject to very wide error margins. Without other assumptions being identified it cannot meaningfully inform policy or regulatory consideration.

As we have shared with you previously, the other building blocks are significant drivers of the future airport charge, many are at least as significant as expansion capex. We are committed to working with you to explore how the leverage of those building blocks too.

4. **The report's comparison of airline operating margins with other sectors is not meaningful**

The OW report makes other assertions we do not believe are consistent with publicly available data or misrepresent profitability. We appreciate that this section is contextual, but it risks conveying an incorrect impression of relative value creation across the aviation sector.

- The **comparison between European airline industry revenue and total European GDP is misleading** because it excludes the rising market share of Middle Eastern carriers operating at European airports.
- UK airfares have risen **materially faster than inflation and GDP** since the pandemic, reflecting strong demand and constrained supply - contrary to the report's suggestion of a demand environment tightly bound to European GDP trends.



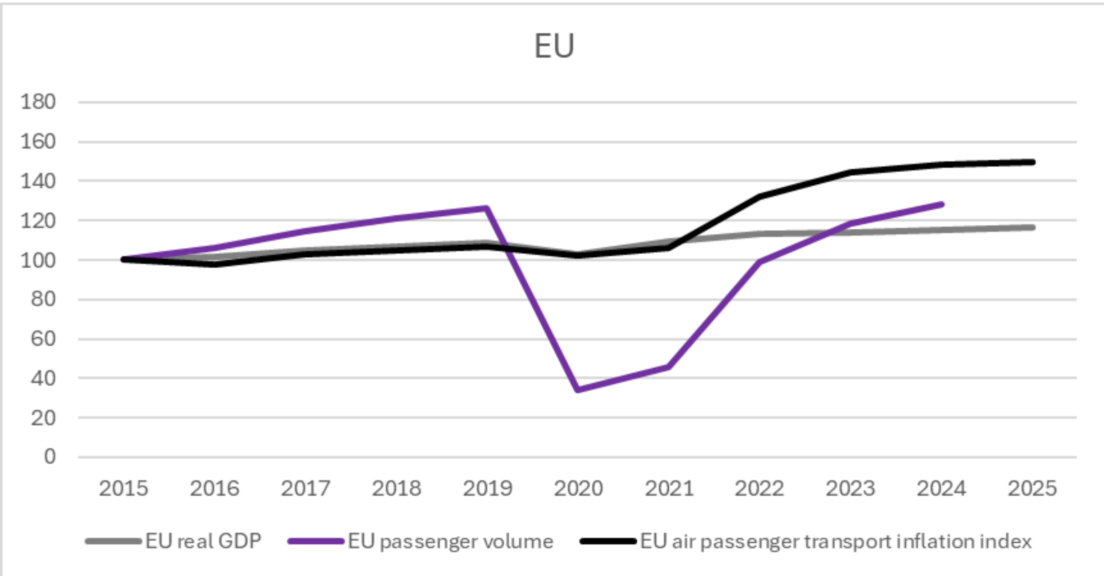


Figure 3: Price Index of Air Travel, Passenger volumes, and GDP

- **Operating margin is not an appropriate cross-sector profitability metric because it excludes capital costs** and therefore does not reflect differences in capital intensity. A more suitable financial metric is Return on Invested Capital, which shows that European airlines have historically outperformed airports - including regulated airports - despite similar or higher operating margins.

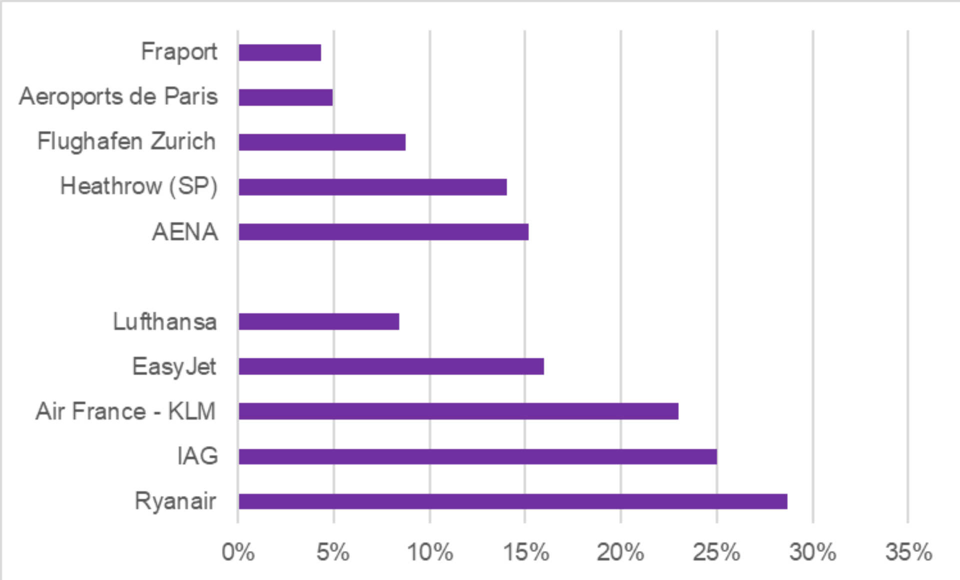


Figure 4: Return on Invested Capital of European Airports and Airlines

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[1] Virgin Atlantic does not record Heathrow slots as balance-sheet assets but has used them as loan collateral, including a $330 million mortgage on part of its slots and $745 million of senior secured financing backed by its full portfolio in 2025, totalling over $1 billion in secured debt. Based on a 75% loan-to-value ratio, this implies Virgin's Heathrow slots are worth roughly $1.3 billion. Given that Virgin holds ~ 4% of Heathrow's slots, this suggests a total Heathrow slot-market value of around $33 billion (approximately £25 billion). Using an income-based valuation, excess profit is calculated as slot value divided by a capitalisation rate, which HMRC places between 6% and 18%. This range implies excess profits of £1.5–£4.5 billion, with a midpoint of £3 billion.

[2] Comparator Airports from KPMG Benchmarking study / Airport IS 2024 FY / Fares exclude taxes and charges / All pax considered (incl. transfers) / GBP:EUR exchange rate of 0.865

[3] IAG 2024 accounts; IATA June 2024 Outlook: $59.9bn operating profit / 4.96bn pax; 2024 USD:GBP

[4] Carrier groupings resulted from format of information received from IAG, and include overlaps (e.g. American in US3 and IAG JV/JB)

[5] https://assets.publishing.service.gov.uk/media/5a808ab4e5274a2e8ab50bd4/airports-commission-final-report.pdf

[6] Heathrow charges, CPI (2014 to 2025), ONS cost of flying index (D7EH)

[7] e.g. JetBlue (cancelled JFK), Saudia (cancelled Neom and Jeddah), Air Mauritius wanting to come back to LHR after sustaining huge losses since moving to Gatwick.

[8] Air France have recently agreed to lease a single early-morning summer slot pair to Qatar Airways from S26 onwards. Although the financial terms of the lease are not publicly available, if they are broadly consistent with recent peak-time market transactions (~$6m/year), the agreement further demonstrates the congestion premium at Heathrow. Qatar could have operated the service from other London airports - where it already has a presence - but chose instead to pay an additional cost to secure Heathrow access, which would only be rational if the incremental profit from operating at Heathrow exceeded the lease cost. Equally, Air France's decision to lease the slot indicates that the lease revenue exceeded the value it would have derived from operating the flight itself. If Air France were genuinely incurring margins as low as -30% on these services, the rational decision would have been either to lease the slot for free or even pay another carrier to operate it on their behalf to retain grandfather rights.

[9] https://corporate.airfrance.com/en/press-releases/new-air-france-lounge-coming-soon-london-heathrow-airport

[10] Increases to Air Passenger Duty rates from 1 April 2024 - GOV.UK; Air Passenger Duty: rates from 1 April 2026 to 31 March 2027 - GOV.UK; we have deflated 2026 rates by 1.04 to 2024 figures; to simplify the traffic mix at Heathrow have used 44% Band A Reduced Rate and 56% Band B, split into 49% Reduced Rate Band B and 7% Higher Rate Band B.

[11] IAG Financial Results

[12] IAG Financial Report