



Mr Madridejos and Mr López Mozo
Ferrovial S.A.
C/ Príncipe de Vergara, 135
CP 28002. Madrid. Spain

30 November 2019

Dear Mr Madridejos and Mr López Mozo,

Carbon Emissions Disclosure

TCI Fund Management Limited manages over \$30 billion across a range of asset classes. Since inception of the business over 15 years ago, cumulative investment returns have substantially outperformed equity index benchmarks.

TCI is a major shareholder in Ferrovial with a physical holding of approximately 1%.

Investment approach and engagement

As part of our investment process we assess a range of ESG factors, particularly climate change risk.

TCI believes that climate change-related risks, in particular a company's greenhouse gas (GHG) emissions, will have a material effect on a company's long-term profitability, sustainability and investor returns. These risks include regulation, taxation, competitive disadvantage, brand impairment, financing, physical asset impairment and litigation.

We actively engage on ESG to help us understand, quantify and influence a company's exposure to climate change-related risks and the way it is managing those risks.

Emissions disclosure

We require companies in which we invest to make appropriate and timely public disclosure of carbon and other GHG emissions. Such disclosure should include targets for emissions intensity reduction and absolute level reduction.

TCI fully supports compulsory disclosure on a standardised basis and the use of the Task Force on Climate-related Financial Disclosure (TCFD) reporting framework (www.tcfhub.org).

In our view, reporting to CDP (www.CDP.net) is the best way to implement TCFD. **We expect all our portfolio companies to make full annual public disclosure to CDP.**

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TCI Fund Management Limited is a private limited company incorporated and existing under the laws of England and Wales with registered number 08898250

Authorised and regulated by the Financial Conduct Authority

Low-Carbon Transition Plans

We expect companies in which we invest to have a credible, publicly-disclosed plan to reduce GHG emissions. This plan should include measurable science-based targets that align with the Paris Agreement, which requires full de-carbonisation of economies (net zero emissions) by 2050.

Actions that should be included in a low-carbon transition plan are to:

1. Change business processes to reduce the company's carbon footprint;
2. Introduce efficient energy management into buildings and factories;
3. Source low carbon energy through direct generation or power purchase agreements;
4. De-carbonise transport fleets, e.g. through electric vehicles;
5. Offset emissions from corporate travel, e.g. through afforestation;
6. De-carbonise supply chains and helping customers lower their carbon intensity;
7. Advocate for regulations which drive the de-carbonisation of their industry to ensure its sustainability.

Voting

1. **We will typically vote against all directors of companies which do not publicly disclose their emissions and do not have a credible plan for their reduction.**
2. **We will also vote against auditors where the Annual Report and Accounts fail to report material climate risks.**

Divestment

We will also evaluate divestment where a portfolio company refuses to disclose its emissions and does not have a credible plan for their reduction.

Ferrovial disclosure to CDP

We are pleased to see that Ferrovial has provided disclosure to CDP for 2018 and 2019 and we have carefully analysed these submissions. **For 2018, CDP awarded Ferrovial an overall A grade.**

Congratulations, this is the highest overall score achievable and demonstrates Ferrovial's strong industry leadership on environmental actions and stewardship, thorough understanding of the risks and opportunities related to climate change and alignment with TCFD disclosure recommendations.

Our recent discussion with Valentin Alfaya and team was very insightful. We are impressed with Ferrovial's efforts to de-carbonise your business and value chain:

- Upgrading low-carbon transition plan targets in collaboration with the Science-Based Targets Initiative (SBTI). Your current commitment of a 32% reduction in scope 1 and 2 emissions by 2030 (2009 base) has the potential to be increased;
- Aim to reduce scope 3 emissions to meet SBTI's criteria for ambitious value chain goals by working more closely with the energy intensive companies;
- Intention to achieve 100% renewable electricity consumption by 2040 (with a plan to significantly accelerate this) through procurement and self-generation. Joining RE100 would affirm this commitment;

- Implementing best practice energy efficiency across all buildings, processes, and transportation;
- Ongoing R&D investment into technologies to develop carbon-neutral highway concessions;
- Carbon offsetting through capturing biogas from landfill and afforestation;
- Use of an internal CO2 price when considering major investments, which embeds de-carbonisation into the culture of the business;
- Membership of the Spanish Green Growth Group, which aims to collaborate with companies and governments to create an efficient roadmap for a low-carbon economy.

Advocating for necessary regulatory changes to de-carbonise aviation

De-carbonising aviation is a massive challenge and Ferrovial has an important leadership role to play in advocating with regulators and politicians.

At Heathrow, we welcome your commitment to zero carbon by 2050 at the latest and the intermediate targets you have set, for example scope 1 and 2 carbon neutrality via offsets by 2020, and the use of science-based targets to set scope 3 emission reduction targets. Plans to establish an airside ultra-low emissions zone by 2025 and 50% of passenger journeys to be made by public and sustainable transport by 2030, are also helpful. However, more aggressive targets are needed to reduce absolute GHG emissions and GHG emissions intensity.

Ferrovial has a strong voice in industry decarbonisation:

- Your work at Heathrow with the UK coalition “Sustainable Aviation” and also with the World Economic Forum’s Clean Skies for Tomorrow Coalition;
- Heathrow Centre of Excellence for Sustainability is also playing a strong leadership role on research and innovation;
- Your commitment to net-zero emissions for the whole aviation sector by 2050 and your lobbying for ICAO to set that goal.

Alongside current technological developments in aircraft engine efficiency and airframe design, the development and adoption of low-carbon fuels is particularly important. Ferrovial should be advocating for internationally coordinated regulation and/or carbon pricing through the introduction of:

- A carbon tax on aviation fuel which grows progressively and predictably;
- A “green fuel” mandate that specifies a gradually increasing percentage (to 100% by 2050) of aviation fuel that must be sourced from zero carbon sustainable sources;
- Strict standards and regulatory safeguards to ensure low carbon fuels are truly sustainable;
- Specific aviation sector incentives to ensure greater use of low carbon fuels, in preference to other sectors of the economy where de-carbonisation can be achieved by other means (e.g. autos moving directly to electric vehicles).

Currently, the penalties, taxes and mandates are insufficient to encourage airlines and fuel companies to seriously invest in the production of, and purchase of, alternative fuels. However, it is only a matter of time before tougher regulation is imposed to force the use of alternative fuels.

It will require all aviation stakeholders to work together and coordinate such initiatives. We recognise that this may create conflicts of interest, however, the alternative is for regulation to be imposed on

the industry, including potential bans on old aircraft in certain regions. Currently, nine EU countries are lobbying the European Commission to introduce a carbon tax on air travel.

Ferrovial must also advocate for greater efficiency of air traffic management (ATM), which in turn will reduce emissions:

- Improving runway throughput via the ATM research programme SESAR;
- Reducing runway occupancy time (ROT) via the SESAR Enhanced Runway Throughput project;
- Reduce aircraft holding times and aircraft separation prior to landing using the Eurocontrol's LORD tool (a recent simulation at Zurich airport showed a 14% increase in runway throughput);
- Mandatory introduction of electric taxiing (which had been in development by Airbus and Safran).

ATM data and associated emissions should be disclosed.

Advocating for necessary regulatory changes to de-carbonise road transport

Ferrovial also has a leadership role to play in advocating with regulators and politicians to de-carbonise road transport through:

- **Increasing the efficiency of the transport system** by making the most of digital technologies, smart pricing and further encouraging the shift to lower emission transport modes;
- **Speeding up the deployment of low-emission alternative energy for transport**, such as advanced biofuels, electricity, hydrogen and renewable synthetic fuels and removing obstacles to the electrification of transport;
- **Moving towards zero-emission vehicles.** While further improvements to the internal combustion engine are expected, acceleration of the transition towards low- and zero-emission vehicles will be needed.

Specifically, the following technologies should be adopted for Ferrovial's road transport infrastructure:

- Electric charging stations at all service stations;
- Induction charging systems, once the technology delivers an efficient option;
- Digital traffic management systems.

A good example is Ferrovial's North Tarrant Express in the US. This is the first carbon neutral highway that uses dynamic traffic management to also ease traffic congestion on existing roads.

We appreciate the time and effort the company has made and the positive example this sets for other companies. We look forward to continuing the dialogue.

Yours sincerely,



Chris Hohn



Philip Green



Jonathan Amouyal