

A4. H7 COMMERCIAL REVENUES PROGRAMME APPENDIX

This appendix covers:

- Our Commercial Revenues Programme Delivery Objective.
- Revenue at risk and incremental revenue generation.
- Providing further detail behind each of our H7 Commercial Revenue Programme investments.

Our H7 Delivery Objective for the Commercial Revenues Programme

Commercial Revenues Programme Delivery Objective

Heathrow will invest £562m (2018p) (excluding scope moved to Asset Management & Compliance) in H7 to protect existing commercial revenue and unlock additional revenue. Absent this investment, our commercial revenue forecast over H7 will be lower by [X] – increasing the per passenger charge.

This delivery objective includes the following sub-objectives:

Surface Access: Invest £33m in car parking to deliver improvements to our passenger and colleague parking proposition, protecting [X] revenue at risk and delivering [X] incremental revenue through H7. Invest a further £2m in Terminal Drop Off Charge infrastructure to protect this revenue stream through H7. This investment will help to contribute to the following OBR measures; Ease of access to the airport, overall satisfaction and an airport that meets my needs. This business case delivers an average payback of [X].

Retail & Media Development: Invest £207m in retail initiatives throughout H7, which centre on Space Optimisation and Operational Compliance & Improvements. These investments will deliver improvements to passenger experience and will protect [X] revenue at risk and generate [X] incremental revenue. This investment will help to contribute to the following OBR measures; Enjoy my time at the airport, overall satisfaction and an airport that meets my need. This business case delivers an average payback of [X].

Digital Transformation: Invest a total of £62m in income generation digital propositions through H7 (One Heathrow Ecosystem, Curated Marketplace and Seamless Journey) to respond to changing consumer needs, enhancing passengers' digital experience - protecting [X] of revenue at risk and [X] incremental revenues over H7. This investment will help to contribute to the following OBR measures; Enjoy my time at the airport, overall satisfaction, helpfulness/attitude of airport staff, ease of understanding Heathrow's Covid-19 safety information and an airport that meets my needs. This business case delivers an average payback of [X].

Cargo Development: Invest £27m in redevelopment of the on-airport cargo estate, deliver an airside transshipment centre and ensuring a continued safe, sustainable and efficient cargo operation. These investments do not generate quantifiable commercial revenue in H7, but will deliver significant strategic value to the wider Heathrow commercial model to the benefit of passengers, airlines and Heathrow. This investment will help to contribute to the following OBR

measures; Departures flight punctuality and control post vehicle queue time. This business case delivers an average payback of [X].

Property Development: Invest £161m to undertake a range of property development across the Heathrow estate – including Eastern Business Park and D’Albiac House replacement, car park densification, estates optimisation and perimeter/CTA redevelopment enabling studies/works. These investments will protect [X] revenue and generate [X] incremental revenue over H7, as well as ensuring safety and compliance across the Heathrow estate. This investment will help to contribute to the following OBR measures; Ease of access to the airport, enjoy my time at the airport, and an airport that meets my needs. This business case delivers an average payback of [X].

In addition, we have £68m in the portfolio for Crossrail and £4m for Agile Commercial works to respond to unplanned events

Protection of Revenue at risk and incremental revenue generation associated with our H7 commercial revenue capital investment

A4.1 As set out in the Commercial Revenues Chapter 5, capital investment is a driver of commercial revenues and key to meeting passenger expectations.

A4.2 Previous sections outlined the role of transformative capital investment – new terminals that add new retail, property and car parking spaces – in driving commercial revenues. Given the fall in passenger numbers relative to Q6, there is no need for significant new terminal space in H7 to drive commercial revenues.

A4.3 Even if no significant new retail space is needed, there remains a significant role for commercial capital in H7:

- Maintaining commercial assets protects current revenues and promotes efficiency.
- Investment in digital retail allows us to update our service and commercial proposition to meet materially increased passenger expectations post Covid-19.
- Strategic investment in new revenue streams Heathrow needs to diversify revenue streams to become commercially resilient.

A4.4 Our Commercial Capital Programme is a blend of these three roles and delivers two measurable outcomes in H7:

- Protects existing revenue that would otherwise be lost in H7 due to obsolescence or failure. This outcome is quantified by “Revenue Risk”
- Creates an opportunity for incremental H7 revenue in addition to that currently generated. This outcome is quantified by “Incremental Revenue”.

A4.5 In H7 we expect to face additional challenges for these capital business cases:

- Significant investment planned for 2020 and 2021 was slowed, paused, or stopped completely in response to the Covid-19 pandemic and now needs to

be caught up in H7. We therefore anticipate a spike in Property – Essentials and Retail & Media Asset Maintenance.

- The rollover of commercial contracts in iH7 means several major contracts expire, increasing new shell and core. This is compounded by a changed passenger mix, evolved passenger behaviours and no VAT-free shopping changing the future mix of our retailers. We therefore anticipate a spike in retail & media development to adapt our commercial offer accordingly.

A4.6 These challenges are evident in our plans, where our investment is larger than that at Q6, but the revenue at risk from not investing is too significant to ignore, and therefore has a payback period within H7.

A4.7 Below we provide a summary view of the Commercial Revenue Programme investments, their forecast revenue generation and payback periods.

Table 1: H7 Commercial Revenue Programme investments, incremental revenue, revenue at risk and payback

Commercial Revenues 2018 prices	2022	2023	2024	2025	2026	H7
CrossRail Contribution	33.7	33.7	0.0	0.0	0.0	67.5
Retail & Media - Asset Replacement	0.0	0.0	0.0	0.0	0.0	0.0
Retail & Media - Development	30.9	35.8	50.7	52.6	37.1	207.1
Property - Essentials	0.0	0.0	0.0	0.0	0.0	0.0
Agile Fund/Contingency	0.9	0.9	0.9	0.9	0.9	4.7
Maintain	65.6	70.5	51.6	53.5	38.1	279.3
Digital & Data Transformation	18.1	16.5	7.1	9.5	10.7	61.8
Digital	18.1	16.5	7.1	9.5	10.7	61.8
Cargo	1.7	7.4	6.6	6.6	4.7	26.9
Surface Access	6.7	12.1	9.7	3.2	0.8	32.6
Property Development	0.9	46.0	44.6	39.3	30.5	161.3
Diversify	9.4	65.5	60.9	49.0	36.0	220.8
Commercial Revenues Programme Total	93.1	152.5	119.6	112.0	84.8	562.0
Asset Mangement & Compliance (Commercial Scope)	2022	2023	2024	2025	2026	H7
T4	4.7	4.7	23.4	18.7	18.7	70.3
Asset replacement	8.9	13.3	9.7	0.2	0.9	33.1
Property - Essentials	8.4	4.3	4.6	4.6	6.2	28.2
Total	22.0	22.3	37.8	23.6	25.9	131.6
Total H7 Commercial Revenue Scope	115.0	174.8	157.4	135.6	110.7	693.6

[X]

Source: Heathrow

Providing further detail behind each of our H7 Commercial Revenue Programme investments

A4.8 The overall Commercial Programme is less mature than some of our other H7 programmes, such as Security, T2 Baggage, and Asset Maintenance and Compliance. This is in part due to the significant reduction of Commercial Revenues investments 2020-21 and to the general nature of commercial projects, which tend to be much smaller, as well as quicker and simpler to deliver. As such, we have a small proportion of inflight projects flowing through into 2022 and beyond.

A4.9 Due to the early-stage nature of the overall programme, the majority of the cost estimation is largely based upon order of magnitude costs. Where more mature information is available, we have used this such as for some projects within our digital and data transformation business case, or provided historic reference points to support the estimation.

A4.10 Below we provide a table summary of the investments within the Commercial Revenues Programme, including their current stage in the Heathrow Gateway Lifecycle and cost estimate bases.

Table 2: Further detail of Commercial Revenue investments, gateway stages and cost estimate basis

Investment	H7 Allocation (2018p)	Gateway Stage	Potential Scope / Indicative Projects and Cost Estimate Basis
Retail and Media Development	£207m	Pre-G0	<ul style="list-style-type: none"> • Optimise Space/Reimagine Space – Shell and Core Provision based on historic demand. The investment estimate is based on costs of previous S&C business cases (e.g., BC7626), plus assumptions of churn over the next 5 years relating to contract/outlet expiries. • Optimise Space - IDL Identified Projects. These investments are based on historic similar projects such as T2 Retail Optimisation G2 cost plans • Reimagine Space – Secondary - optimise the landside retail offer, particularly in T3 where this offer is sub-standard and to potentially create two new independent lounges from areas that are currently not commercialised. Cost estimate based on an order of magnitude cost using historical costs from similar projects. • One Heathrow Ecosystem - enhancing the experience of Heathrow's VIP/Royal Suite areas. This cost estimate is based on the G1 cost plan for BC7622.01 VIP Refurbishment Costs • 'Best Fulfilment' - operational compliance and operational improvements. Estimates based on T5 Heathrow Click & Collect BC7626.11. • Leverage Duty Free – Liquor and Tobacco. The investment estimate is based on the provision of four new WDF units, one in each terminal, in the Baggage Reclaim areas; the indicative cost has been supplied by [X].

			<ul style="list-style-type: none"> • Extend F&B - new kitchen extract technologies to realise more energy efficient ways of high-risk cooking in airport environments. The investment estimate is high-level and has been made using professional judgement.
Digital and Data Transformation	£62m	Pre-G0	<ul style="list-style-type: none"> • One Heathrow Ecosystem - Deliver individual passenger experiences based on data, including decisioning on next best actions & shopping preferences. Cost estimates are based on Commercial Digital Transformation programme (B7611). • Curated Marketplace – digital assistance, digitally extending retailer’s range, enhancing Boutique offer, integration of personal shoppers. Cost estimates are based on the Commercial Digital Transformation programme (B7611).
Cargo	£27m	Pre-G0	<ul style="list-style-type: none"> • Cargo Redevelopment Enabling Redevelopment of the on-airport cargo estate including enhancements to the off-airport cargo estate. In H7, we will progress design, surveys and associated enabling works to reconfigure roads, deliver new aircraft stands and realign a taxiway to enable the construction and operation of [3] new cargo facilities to increase cargo capacity by c. 300k tonnes. • Airside Transshipment Centre To enable connecting cargo – predominantly that carried in passenger aircraft – to remain airside at Heathrow, subject to Government policy change, we will deliver an airside transshipment centre capable of accommodating up to 350k tonnes of connecting cargo per annum. • Cargo Safety and Efficiency Improvements A package of measures in support of safe, sustainable and efficient cargo movements. The delivery of a new Truck Call Forward Facility is an example of one such potential project that will improve safety through reducing congestion.

			<p>We will retain flexibility to re-allocate capex between these projects as understanding of phasing of Cargo Redevelopment develops.</p> <p>The capital estimate for Cargo is calculated from an order of magnitude cost estimate based on elemental cost information and facility and functional level cost estimate. Where appropriate to do so we have used historical costs based upon similar projects.</p>
Surface Access	£33m	G2	<ul style="list-style-type: none"> • Car Parking - The CPOC project was approaching G3 pre-pandemic, and the costs had been estimated by [X]. A fixed price had been received from the preferred contractor, which at the time (Q1 2020) was being negotiated. The scope now needs to be revisited for streamlining and prioritising for H7 and therefore a lower cost has been included for H7.
Property Development	£161m	Pre-G0	<ul style="list-style-type: none"> • Eastern Business Park (EPB) - Site development appraisals have been undertaken by two external firms, with each producing similar cost estimates and projected revenue streams. • Densifying Car Parks - The decking cost has been estimated using historic figures, and build costs taken from external development appraisals • Estates Strategy & Optimisation • Mayfield Farm • CTA Redevelopment Enabling Studies/Works • D'Albiac House Redevelopment • Perimeter Redevelopment Enabling Studies/Works <p>The capital estimate for property development is calculated from an order of magnitude cost estimate due to the immaturity of the projects within the business</p>

			case. Where appropriate, previously produced cost estimation for expansion has been used. In other instances, 3 rd party development appraisals have been used as a basis of estimate.
Asset Replacement Business Cases moved to the Asset Management and Compliance Programme			
Property - Essentials	£28m	Pre-G0	<ul style="list-style-type: none"> • Telecoms Minor Works • Property Common Area Refurbishment (P2 areas) • BA Crew Car Park - H&S works • MEES (Minimum Energy Efficiency Standards) - EPC compliance Property • Property Minor Works (H&S) • Property Common Area Refurbishment (P1 areas) <p>The capital estimate for property essentials is calculated from an order of magnitude cost estimate. This is due to the immaturity of the projects within the business case. Where appropriate to do so we have used historical costs based upon similar property projects, example of this are BA crew car park and EPC projects.</p>
Terminal 4 MSCP	£70m	G0	<ul style="list-style-type: none"> • Complete refurbishment of the car park within the existing boundary of the car park

			<p>The capital estimate for MSCP4 is based upon a 3-point estimate from work completed in 2019. The option included within the cost plan is a complete refurbishment of the car park within the existing boundary of the car park.</p>
<p>Retail and Media Asset Replacement</p>	<p>£33m</p>	<p>Pre-G0</p>	<ul style="list-style-type: none"> • Media Asset Replacement Large format Digital - T5 Towers • DAPs Replacement - all Terminals and Gateroom • CTA Digital exteriors replacement (site 8 and Grand View CTA) • i-Visions Replacement - T5 Couture Totems, T4 Couture Totems, T2, T3, T4, T5 BL iVisions • CAPS Replacement of all Baggage Reclaim digital screens • T2 Couture & T3 Motion Large Format Digital Sites <p>• The capital estimate for retail & media asset replacement is calculated from an order of magnitude cost estimate due to the immaturity of the projects within the business case. Approximately half of the value of the capex in this business case is supported by high level supplier estimation of costs. Other estimates have used historical costs from similar shell and core projects.</p>