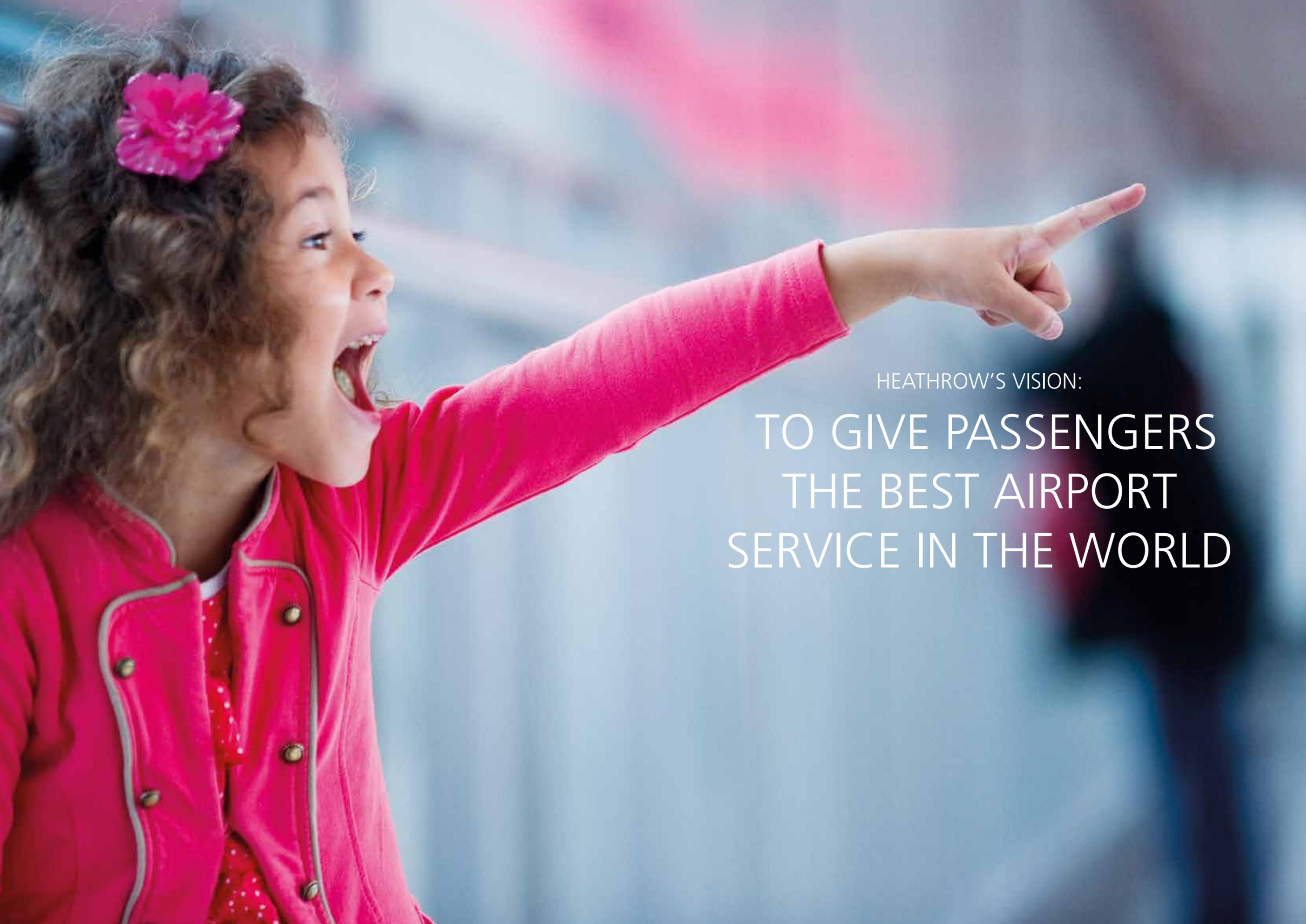


HEATHROW'S

INITIAL
BUSINESS PLAN
SUMMARY



HEATHROW'S VISION:

TO GIVE PASSENGERS
THE BEST AIRPORT
SERVICE IN THE WORLD

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HEATHROW'S PLAN FOR THE 2020s

Heathrow expansion will connect all of Britain to global growth, putting it at the heart of the global economy for generations to come. We will be the best-connected country in the world, with regular direct flights to all the major cities in the United States, China and India, the great economies of the 21st century.

Regular flights to every corner of the UK and rail links to North, South, East and West will spread the benefits of growth to every nation and region of our country.

This Initial Business Plan shows how we will deliver the global connections that Britain needs in a way that is sustainable, affordable, deliverable and financeable.

We will meet all the requirements of the Airport National Policy Statement (ANPS), which received the overwhelming support of MPs. Since the ANPS vote, we have committed to doing all we can to achieve net zero flying by 2050. For Heathrow's own operations at the airport we will be carbon neutral from next year. IAG, our largest airline customer, has committed to net zero carbon for flight by 2050. We are working with them and others to make this the standard in global aviation, to take the carbon out of flying and remove any competitive distortions.

This plan meets the affordability challenge. This is an incredible achievement, given the increases in charges that have been required to expand other major hubs. We want to deliver expansion as cost efficiently as possible, and have worked closely with our airline customers to minimise

capital spend. We are also providing a comprehensive package of measures to minimise the negative impacts of growth on local communities and maximise the benefits they receive.

None of this is easy, but our enviable track record in delivering complex infrastructure projects on time and on budget, and our strong, predominantly UK supply chain means that we can be trusted to deliver.

Heathrow expansion will be one of the largest privately financed infrastructure projects in the world. The current regulatory framework, with a Regulated Asset Base and single till, have proven the most efficient ways to finance large, long term projects. This plan ensures the necessary cashflows to support global debt financing at an investment grade, while maintaining a sufficient return to attract equity investment to support the expansion programme through any shocks or the economic cycle.

The big prize for consumers is through lower airfares. While we have been constrained by runway capacity, only around 50% of routes have faced competition between airlines, making airfares higher than they could be. The introduction of more competition and choice between airlines will

reduce passenger fares by tens or even hundreds of pounds a ticket. This value could potentially support the shift to zero carbon flights.

We do face some real choices over the speed, service, connectivity and resilience that we plan for over the next 15 years. We have reflected these in two options, both of which meet the challenge of being sustainable, affordable, deliverable and financeable.

This Initial Business Plan is the start of a conversation with consumers, airlines and other stakeholders. Your feedback will be reflected in our Final Business Plan in 2020.

Heathrow expansion will connect all of Britain to global growth, allowing future generations to enjoy the benefits of aviation that we enjoy today, in a world without carbon.

John Holland-Kaye
Chief Executive, Heathrow

OUR PLANS AND OPTIONS

We have listened carefully to our consumers and wider stakeholders. We believe these plans meet their needs. However, there are trade-offs to be made and we have reflected some of these in two options "PRIORITISING SAVINGS" and "PRIORITISING SERVICE." Both options lead to lower passenger fares.

	<p>Affordable</p> <p>Consumer tested for willingness to pay and meets affordability challenge</p>
	<p>Financeable</p> <p>Can be entirely privately financed with the right regulation</p>
	<p>Deliverable</p> <p>Delivers capacity by 2030 and is buildable with an assured plan</p>
	<p>Sustainable</p> <p>Meets tough ANPS requirements in noise, air quality and mode share and compatible with net zero carbon flying by 2050</p>

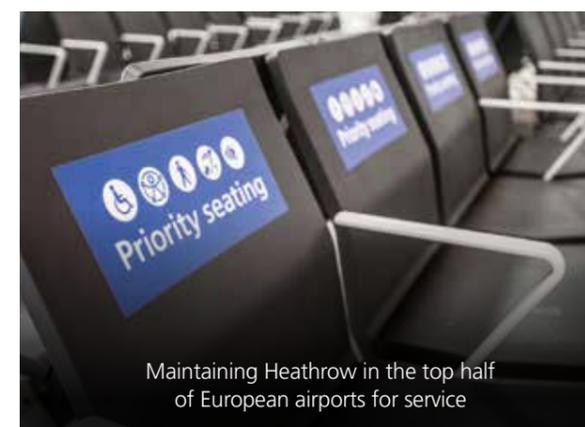
The CAA published its policy update on the early costs of Heathrow expansion in December 2019. Our plan is broadly consistent with the CAA schedule assumptions. However, at first reading we are concerned over whether the CAA is setting the right incentives to allow investment. Inability to make these early investments will impact, or could even prevent, the delivery of our plans. We are reviewing the detail and will respond in due course to the CAA consultation.

OPTIONS IMPACT THE DELIVERY AND OUTCOMES FOR CONSUMERS

PRIORITISING SAVINGS



PRIORITISING SERVICE



AIRPORT CHARGE £23.81 (2014p)
(15 year average) £26.20 (2018p)

AIRPORT CHARGE £27.19 (2014p)
(15 year average) £29.91 (2018p)

HEATHROW TODAY

Heathrow enables over 80 million passengers, to visit the UK, to go on holiday, conduct business and visit friends and relatives each year.

Heathrow is the UK's only hub airport. Hub airports combine direct passengers, transfer passengers and freight to enable long-haul aircraft to fly to destinations all over the world that cannot be served by 'point to point' airports which rely on local demand alone.



EXCELLENT
82% OF PASSENGERS NOW RATING THEIR EXPERIENCE AS EXCELLENT OR VERY GOOD, COMPARED TO 40% IN 2006

We have more happy passengers travelling through the airport too, with our Airport Service Quality (ASQ) scores on an upward trend for the last 10 years.



16%
REDUCTION OF OPERATING COSTS

We've become significantly more efficient. We systematically cut operating costs by 16% in real terms between 2014 and 2018.



£3bn
INVESTED IN Q6

In Q6 we invested £3bn in resilience, baggage and transforming the passenger journey. We are entering a new phase of investment which will enable the building of a third runway, new and improved terminal infrastructure and better surface access options.



84 AIRLINES SERVED | **200+** GLOBAL DESTINATIONS

Heathrow currently serves more than 200 destinations in more than 80 countries, through 84 airlines, connecting the UK to the world and the world to the UK.

In the last five years we also doubled our domestic routes and now we also serve 12 cities in China. We are rated number one for connectivity by OAG's Megahubs index, which is valuable for UK PLC.



SHIPPING OVER **£100bn** OF IMPORTS & EXPORTS

It is not just passengers that travel through Heathrow; over £100bn worth of imports and exports with countries outside the EU were shipped through Heathrow in 2018, helping British businesses access customers in every corner of the globe.



No.1 AIRPORT IN WESTERN EUROPE

Heathrow has consistently won Skytrax awards for World's Best Airport Terminal (where our newest terminals, Terminal 2 and Terminal 5 compete for top spot), Best Airport in Western Europe and Best Airport Shopping.



99% OF PASSENGERS TRAVELLING WITH BAGS

We established our Airport Operations Centre (APOC) in 2014 significantly increasing resilience to weather, technology failures and now drones.

80% of our flights now depart within 15 minutes of schedule.



100% RENEWABLE ELECTRICITY

Heathrow is making progress decarbonising the airport's infrastructure and is on track to be carbon neutral in the next 12 months.

In 2019, we won edie's Mission Possible Sustainable Business of the Year Award.

Heathrow has been running on 100% renewable electricity since April 2017. We have the UK's largest fleet of electric vehicles.



4:1 MPs BACKED HEATHROW EXPANSION

An overwhelming majority of almost 4:1 MPs backed Heathrow expansion to connect all of Britain to global growth.

OUR LESSONS FROM Q6



1

WE ARE A SERVICE BUSINESS

We are aligned behind a single vision “to give passengers the best airport service in the world.” Our work with Team Heathrow to improve punctuality, speed through immigration and baggage connection rates have transformed passenger satisfaction. We now have the highest punctuality of any major hub airport and are the only one to have improved punctuality in the last five years.

2

INVESTING IN PEOPLE DELIVERS SERVICE

At a global hub airport, with the most diverse consumers on the planet, service must be delivered by people. We have therefore invested in the skills of our talented people and promoted diversity to reflect our consumer base. We have also invested in mental health and well-being, for example through our “StRaW Buddies” programme, where specialist trained colleagues listen, offer guidance and can recommend professional help if appropriate.

3

AN INTEGRATED END-TO-END OPERATION IS BEST FOR SERVICE, EFFICIENCY AND RESILIENCE

Since the snow crisis of 2010, we have taken responsibility for the end-to-end passenger journey at Heathrow. We have worked with Team Heathrow partners to create a complete view of airport operations in our Airport Operations Centre (APOC). We have standardised processes and systems to increase resilience. This has also reduced operating costs and improved efficiency and service. The number of “Gold” disruption incidents has fallen significantly, and we have been able to provide support to our airline customers during disruption to their business. We were one of the only airports in Europe to remain open through a week of snow in early 2018.

4

WE ARE NOW COST COMPETITIVE WITH OTHER HUBS

We have systematically reduced operational costs at Heathrow since 2014 – our own costs and those of airlines. We have renegotiated all contracts and introduced new terms and conditions. This has been extremely challenging, but we have managed to avoid strike action. Future cost savings are likely to come from complete process re-engineering and looking across the value chain.

5

WORKING WITH AIRLINES CAN UNLOCK GROWTH

While we have a common agenda with airlines on cost, service, sustainability and resilience, we have very different commercial incentives. Airlines at Heathrow have a commercial incentive to maximise price per passenger (yield), whereas the airport is incentivised to increase passenger numbers and reduce cost per passenger. We have had some success in working with airlines to improve load factors. However, lack of competition on around 50% of routes as a result of runway constraints is making fares higher than they could be.

6

AVIATION MUST GET TO NET ZERO CARBON

We have to earn our licence to operate and to grow. Our “environmentally managed growth” proposal would mean that we can only grow if we meet tough sustainability targets. Heathrow 2.0 has been a ground-breaking approach to delivering ambitious sustainability targets. The next challenge is to decarbonise flight so that future generations can enjoy the benefits of aviation in a world without carbon.

We believe we have reflected these lessons in designing our outcomes and proposals for service, efficiency and investment through to 2036.

DELIVERING GROWTH FOR CONSUMERS

The 2020s will be one of the most exciting periods of change ever for Heathrow. Growth will accelerate as we develop and then open new capacity with a third runway. That is a huge win for consumers. All the while we must ensure that over 80 million passengers a year pass through Heathrow safely and delighted with their travelling experience.

Our aim today, and throughout this period of change, is to provide passengers with the best airport service in the world.

Consumers have helped shape our Initial Business Plan. In the last few years we have revamped and expanded our consumer insight and engagement. Building on a new Consumer

Engagement Strategy we have listened to their needs and increasingly co-developed ideas through new research, approaches and conversations. We have spoken to our current passengers and potential future passengers to reflect changing needs.

The big prize for consumers is through lower fares. While we have been constrained by capacity, only about 50% of routes face competition between airlines, making fares higher than they could be. The introduction of competition and choice between airlines will reduce passenger fares by tens or even hundreds of pounds on each ticket. The DfT estimates Heathrow expansion will deliver c£68bn in consumer savings.

We also heard from our consumers that we need to get the basics right today, for example, cleanliness and getting rid of queues at any stage of the journey. A predictable, reliable journey and surface access are also high priorities. Consumers want to feel looked after when they are with us. We also need to delight consumers to ensure Heathrow is an airport of choice for consumers today and in the future.

STRIVING FOR BETTER

We made considerable improvements during Q6 to become a top-ten airport in terms of service while reducing our operating costs and charges.

Growth is an opportunity for transformational change. We will bring in the best ideas from around the world and work in partnership with others to find ways to delight our consumers. This may mean new technologies, or simply doing things in a better, more sustainable way. Throughout our Initial Business Plan, we have tested our assumptions with external benchmarks and challenged ourselves on efficiency and improvements.

BALANCING VIEWS

Consumers are at the heart of our plans. We must also recognise that to deliver for consumers we need to balance, the sometimes competing, views of our airlines, communities, colleagues and investors. This is in addition to meeting the obligations and guidance set by the CAA, DfT and wider policy.

Our plan must be sustainable. Our communities need certainty that we will meet the tough Airport National Policy Statement (ANPS) commitments on noise, air quality, surface access and carbon. We need to deliver a carbon neutral airport and support the broader shift to net zero flying.

Both we and our airline customers are seeking an affordable scheme. Our plans have been tested for consumers' willingness to pay for them. Our plan meets the affordability challenge.

Our plan must be financeable. As our growth will be privately funded at no cost to the tax payer, we need to maintain our strong investment grade credit rating through expansion. This plan ensures necessary conditions to do that, while maintaining a sufficient return to attract equity investment to support the expansion programme through any shocks or the economic cycle.

We want to deliver expansion as cost efficiently as possible and have worked with airlines to minimise capital spend. Our enviable track record in delivering complex infrastructure projects on time and on budget and our strong, predominantly UK supply chain mean that we can be trusted to deliver.

CONNECTING THE WHOLE OF THE UK TO GLOBAL GROWTH IN A CHANGING WORLD

The aviation industry has been significantly disrupted in the last few decades, particularly from within: new economic models (e.g. low-cost carriers), new technology (e.g. self-service), automation of airport processes (e.g. baggage), new distribution systems (e.g. Skyscanner) and new technology (e.g. Artificial Intelligence) have transformed the way we work.



These trends have changed consumer expectations to have better service at lower cost and to be more in control of their time. Technology is transforming aviation's role in society, reducing the impact of noise on local communities, reducing CO₂ emissions, but also allowing more cities to be connected.

We build airport infrastructure to last for 50-60 years, so in developing our masterplan, we are trying to anticipate the future needs of passengers. We also need to remain flexible to accommodate changing airline ownership and partnerships. Our masterplan accommodates this through fewer, larger terminals, better inter-terminal connections for passengers and bags and common use facilities.

TAKING BRITAIN FURTHER - THE BENEFITS OF A HUB

Heathrow is one of the world's great airports. We are the largest passenger airport in Europe and the largest cargo port in the UK. Almost all our cargo is carried in the hold of passenger planes, so as we develop more long-haul destinations, we also develop more direct trading routes.

By pooling demand from across Europe, we can support regular long-haul flights to more destinations than any other airport in the world. This is a rare and valuable asset for the UK. The UK enjoys 20 times more trade with countries to which it has a direct flight than those without. Through regular connections to every corner of the UK, we spread the benefits of a world class hub to every nation and region of our country.

New aircraft technology is allowing airlines to add more "spokes" from their main hubs, which means that more UK regional airports now enjoy direct flights to big hubs such as Singapore, New York and Dubai. But it also means that more regional cities around the world can now be served directly from Heathrow. Our goal is to be the best-connected airport in Europe to all the major cities in the US, China and India – the great economies of the 21st Century. That will secure Britain's position at the heart of the global economy.

A SIGNIFICANT OPPORTUNITY FOR AIRLINE GROWTH

Global air traffic demand is expected to grow rapidly, doubling by 2030, due to population growth, an ageing demographic travelling more and the growth of emerging economies, particularly in the East. We anticipate there is sufficient demand for an expanded Heathrow.

Heathrow is the number one destination for international airlines. Heathrow is fantastically well located, within a direct flight of 95% of the global economy. London is the biggest aviation market in the world, meaning strong point to point demand. We compete with other hubs in Europe and the Middle East, particularly for transfer passengers and cargo. We compete on convenience, service and cost. Our competitive advantages are our high value catchment area, high frequency connections and premium service standards. Increasingly, we will need to provide better transfer facilities for passengers and simpler processes for cargo.

However, while Heathrow has been operating at capacity, we have had to turn away airlines who have typically chosen to operate instead from our main European hub competitors in France, Germany and elsewhere. We have not been able to develop the frequent business routes to meet all of the demand to markets such as China and India that Britain will need if it is to remain one of the world's great trading nations.

Expansion will allow IAG, Virgin and other UK airlines to grow, as well as allowing international airlines to expand in the UK. We expect a mix of "low cost" carriers as well as network airlines. With up to 40 new long-haul routes as well as more domestic and European routes, Britain will be the best-connected country in the world.

ENVIRONMENTALLY MANAGED GROWTH

Through the Airports Commission and Airports National Policy Statement (ANPS) we have agreed a tough set of measures around carbon, noise, air quality and congestion on local roads. We are proposing a mechanism that incentivises airlines and the airport to meet these tough targets to release new capacity. This is a ground-breaking approach which will ensure that the aims of the aviation community and the local community are aligned. It is described in more detail in our consultation materials.

TACKLING CARBON HEAD ON

There are many benefits of aviation. It connects consumers to the world - enabling visits to family and friends, letting people explore their world and connecting the UK to markets, trade and global growth.

The challenge is to protect the benefits of aviation in a world without carbon. It is possible. It will need a complete industry shift – with more investment in offsetting and carbon capture schemes, a major switch to sustainable fuels and new flight technologies.

Consumers say sustainability matters directly to them too:

- 60% think reducing emissions should be an industry priority
- 38% of people would be willing to pay a levy to help protect the environment (8% more than in 2018)¹

Heathrow can't solve the carbon challenge alone. Where we control emissions - from our infrastructure - we will get to carbon neutral from next year. The real prize beyond that is to decarbonise flights - which account for 95% of aviation's overall carbon footprint. We will support our airline customers' growing commitment to net zero flight.

CARBON NEUTRAL AIRPORT FROM 2020

Heathrow has made significant progress in decarbonising our infrastructure – reducing emissions by 93% since 1990 through steps including:

- Reducing use of heat and electricity with low energy technology
- Smart infrastructure design to cut direct emissions
- Investing in on-site renewable energy including biomass and solar

We already run our airport on 100% renewable electricity. Our cars and small vans will be electric from 2020. Our last major source of emissions is from heating the airport with gas. The final big step is to switch off our boilers and go carbon free. We are planning to do that by the mid-2030s at the latest with a heat exchange scheme included in our plan but we want to go faster if we can. We already run Terminal 2 on green gas and from 2020 will do the same for all our buildings which will cut our absolute emissions. We will remove any remaining emissions through natural climate solutions in the UK, such as peatland restoration and major forestry projects in Scotland.

REMOVING CARBON FROM GROUND OPERATIONS

The two major UK-based carriers at Heathrow, IAG and Virgin, have both committed to be net zero by 2050. We need to support them and other airlines to deliver their ambitions. We can help by setting standards for operations on the ground and investing in the right infrastructure. We will introduce an Ultra-Low Emissions Zone for airside vehicles in 2025 and build the infrastructure to support electric vehicles. We will upgrade plug-in air-conditioning and change our charging, so aircraft do not need to run their

engines on the ground. We will improve public transport options for passengers and the 70,000-plus people who work at Heathrow.

DECARBONISING FLIGHT

An expanding, commercially successful industry, including a growing Heathrow, provides an opportunity to accelerate decarbonising wider UK flying as well. In the 2020s we need to accelerate and scale solutions. We believe zero carbon flight is possible. Our plan is structured to allow us to work with others to make it reality.

NOW: CARBON OFFSETTING AND REMOVAL

Carbon offsetting is an important part of aviation's transition to net zero. The one thing passengers can do immediately is to fund reducing and removing emissions in other parts of the economy. Flights in Europe have been in the Emissions Trading System since 2012, reducing 130m tonnes of carbon by 2018. A binding UN agreement will offset all growth in global flights from 2020. Some airlines are going further, such as IAG offsetting all domestic flights, and easyJet all its flights. We are looking at how our landing charges could provide a stronger incentive for airlines to reduce carbon or offset. We will promote responsible offsetting to our passengers too so that they can choose to fly "carbon neutral today." Nature-based carbon removals in the UK, which include peatland, forest and soil projects, offer cost effective and trustworthy, verifiable opportunities to remove residual emissions from flights. They also protect and enhance biodiversity and manage flood risk.

NEAR: ACCELERATE SUSTAINABLE ALTERNATIVE FUELS (SAFs)

Heathrow wants to work with Government to tackle the gross carbon emissions from flights head on. SAFs are the fastest way for aviation to reduce gross carbon emissions. SAFs from second-generation biofuels are now proven to work safely, can be blended with traditional kerosene, run through existing infrastructure and aircraft engines. They can potentially deliver up to 100% cuts in flight emissions. The cost of SAFs is currently too high. Airlines must be supported in adopting these breakthrough fuels. We believe that potential ways to help include prioritising second generation biofuels for aviation, mandating a rising volume of SAFs, stimulating production of SAFs and narrowing the cost gap between fossil fuels and SAFs. Heathrow will do what it can by structuring our charges. However, Government support is needed to stimulate this change at the speed needed.

NEXT: ZERO-CARBON FLIGHT

In the long-term, the goal is flying without producing any carbon. Manufacturers and start-ups are investing in electric flight. These could start to be used for short-haul routes from the 2030s. We will need the right electric charging network for these planes. The weight of batteries means they are not an option for long journeys, but renewably produced hydrogen could be. In the meantime, airlines are making significant progress by choosing to operate newer, cleaner and quieter aircraft and we actively encourage that through our charges today. We have not built the cost of these infrastructure changes that could be required for this into our plan.

¹ NATS, Aviation Index 2019

AIRSPACE MODERNISATION

Airspace change is required as part of our expansion and part of plans to modernise the wider UK's airspace to benefit the environment and passengers. The major changes to flight paths will make airspace more efficient by improving punctuality, cutting CO₂ emissions, better managing noise by exploring the use of multiple routes, reducing of aircraft holding at low levels and ensuring capacity to meet future demand. We will also collaborate in the EU's Single European Sky proposal, which will significantly reduce emissions and improve service.

CLEAN AIR

Clean air on the ground in local communities is vital for health. Road transport is the single biggest lever to improve air quality as well as reducing carbon emissions. Even with expansion, we will have no more airport related traffic on the roads relative to today's levels. We have shown this is possible. Over the last 20 years, Heathrow's passenger numbers have risen, with airport related traffic remaining the same.

We continue to reduce the reliance on cars to access the airport by:

- Improving public transport options
- Supporting ways to reduce the reliance on cars to access the airport
- Introducing an Ultra-Low Emissions Zone, followed by a Vehicle Access Charge in the 2020s

OUR COMMITMENTS

Heathrow 2.0 is our overall plan for sustainable growth. It sets out how we will improve life for colleagues and communities, contribute to a thriving economy, and how we can help to tackle global challenges including climate change.

We have made commitments as part of our expansion which will not be compromised. Our commitments require investment which is reflected in our plan. We recognise that there may be instances where acting sustainably means not choosing the cheapest option, and Heathrow is clear on advocating this choice where we think it right.

We are collaborating with other firms across global aviation through our sustainability partnerships with Sustainable Aviation, Air Transport Action Group (ATAG) and the World Economic Forum (WEF).

Some of the carbon initiatives with financial impacts in our plans include:

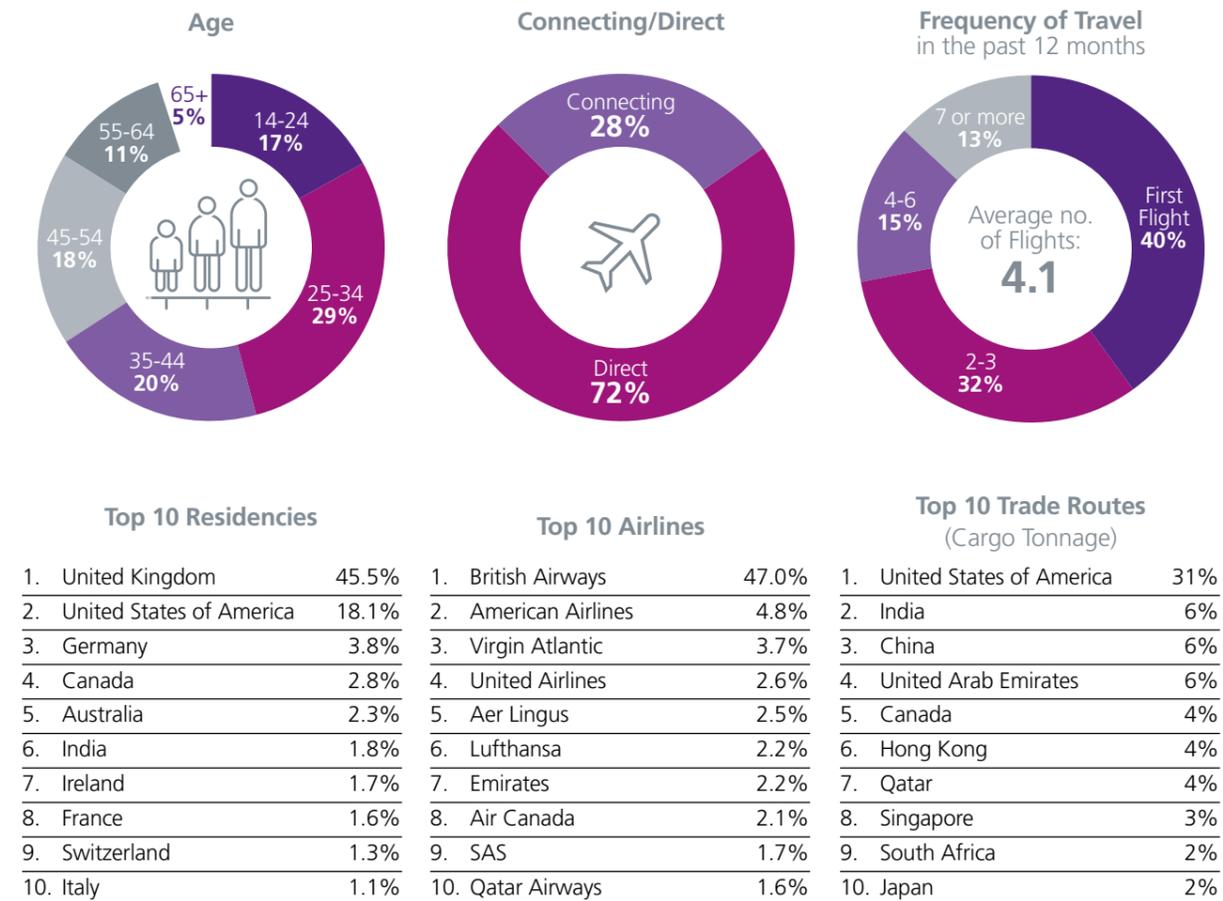
- Carbon offsetting through UK forestry and peatland restoration
- Maximising investment in on-site generation and energy demand reduction and management
- Masterplan components such as new zero carbon heating schemes
- Use of less carbon intensive materials and manufacturing principles during construction
- Expanded infrastructure for charging electric and hybrid vehicles

We are clear that Heathrow and aviation can only grow if we cut carbon. It would be a huge mistake to try to cut flying instead. Taking the carbon out of flying is possible, but we all need to tackle that challenge head on. Previous attempts to cut carbon by stopping airport growth have just exported emissions. The better solution is to decarbonise flight, protecting the benefits of aviation for future generations.



WHO ARE OUR CONSUMERS?

OUR CURRENT CONSUMERS²



Top 10 Destinations

1. New York
2. Dubai
3. Dublin
4. Amsterdam
5. Hong Kong
6. Frankfurt
7. Madrid
8. Los Angeles
9. Munich
10. Doha

OUR FUTURE CONSUMERS



More fliers from emerging markets and key trade routes like China, India, Indonesia and Vietnam

44% of additional air passenger trips will come from China and India.⁵



Passengers with higher expectations, making more discerning choices regarding travel

"John Lewis - nothing is too much trouble."

"Apple - they tell you how long you've got to wait if there are queues. Brilliant."⁶



End-to-end personalised journey driven by data services and connectivity

"I think this is going to involve lots of 'smart technology', such as real-time tracking of passenger numbers, management of queues etc., as well as more personalisation, where passengers can receive discount vouchers for their favourite airport retailers/restaurants ahead of their visit."³



Older demographics mean new demands on mobility and convenience

By 2050, the UN expects 21% of the global population to be over 60.⁴

² Heathrow Passenger profiler (survey of departing passengers), Twelve months to September 2019

³ Arup, Future of Air Travel, 2016

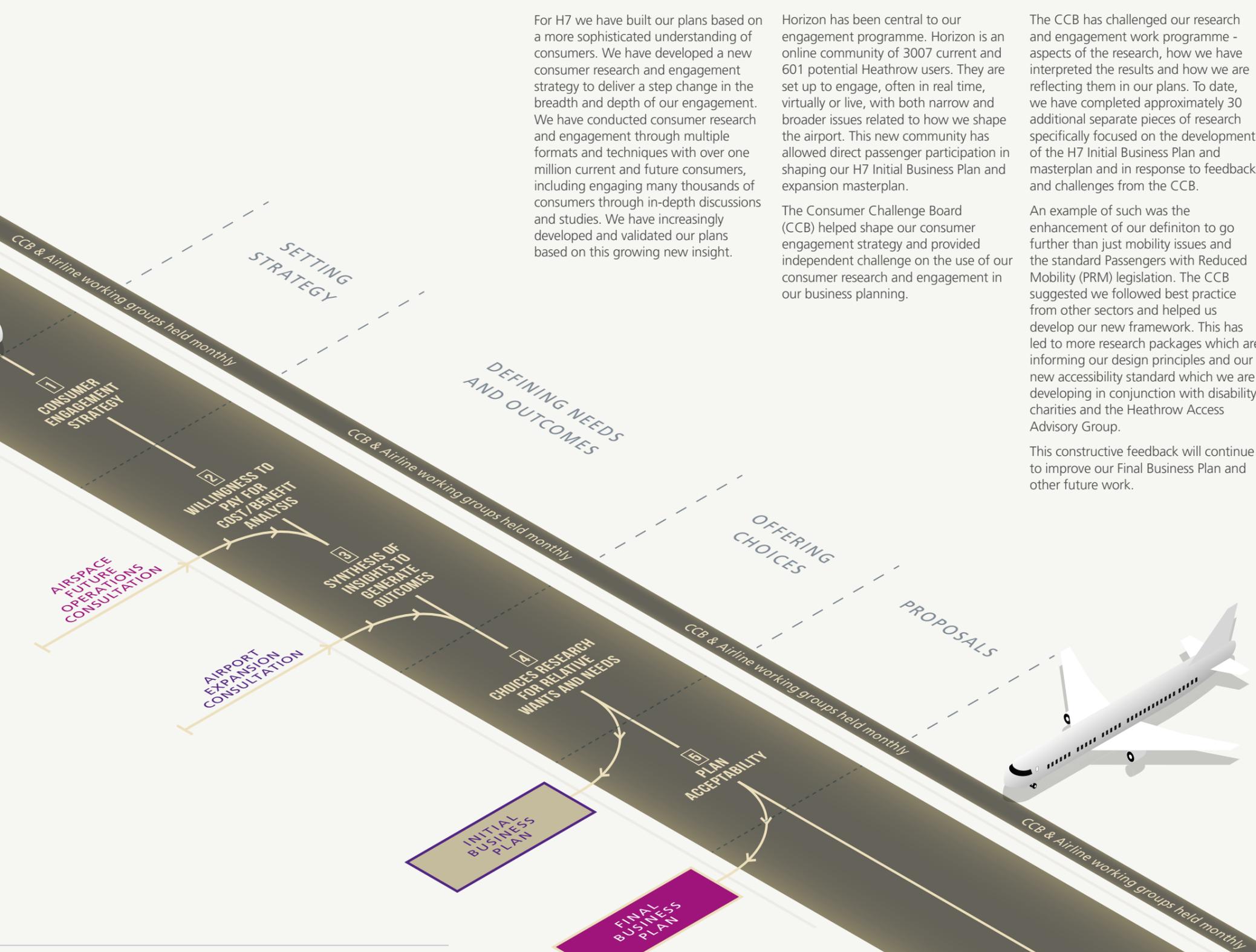
⁴ Join the Dots, Innovations, January 2019

⁵ IATA, 20 Year Air Passenger Forecast, April 2019

⁶ Caroline Thompson Associates, Willingness to Pay: Qualitative Research Findings, November 2017

HOW WE HAVE LISTENED CAREFULLY TO CONSUMERS

We must ensure we provide the right service at the right price for consumers, otherwise they will choose to fly from elsewhere. For this reason, we have used consumer and stakeholder insights to inform our business decisions.



For H7 we have built our plans based on a more sophisticated understanding of consumers. We have developed a new consumer research and engagement strategy to deliver a step change in the breadth and depth of our engagement. We have conducted consumer research and engagement through multiple formats and techniques with over one million current and future consumers, including engaging many thousands of consumers through in-depth discussions and studies. We have increasingly developed and validated our plans based on this growing new insight.

Horizon has been central to our engagement programme. Horizon is an online community of 3007 current and 601 potential Heathrow users. They are set up to engage, often in real time, virtually or live, with both narrow and broader issues related to how we shape the airport. This new community has allowed direct passenger participation in shaping our H7 Initial Business Plan and expansion masterplan.

The Consumer Challenge Board (CCB) helped shape our consumer engagement strategy and provided independent challenge on the use of our consumer research and engagement in our business planning.

The CCB has challenged our research and engagement work programme - aspects of the research, how we have interpreted the results and how we are reflecting them in our plans. To date, we have completed approximately 30 additional separate pieces of research specifically focused on the development of the H7 Initial Business Plan and masterplan and in response to feedback and challenges from the CCB.

An example of such was the enhancement of our definition to go further than just mobility issues and the standard Passengers with Reduced Mobility (PRM) legislation. The CCB suggested we followed best practice from other sectors and helped us develop our new framework. This has led to more research packages which are informing our design principles and our new accessibility standard which we are developing in conjunction with disability charities and the Heathrow Access Advisory Group.

This constructive feedback will continue to improve our Final Business Plan and other future work.

WHAT WE HEARD FROM YOU

Through engagement we know increasingly more about what matters most to consumers from their experience at Heathrow. We can also start describing how expansion could best serve consumers and other stakeholders.

Consumers want a smooth, stress free journey that flows well and gets them to the gate or to their onward destination quickly and efficiently. Travelling can be stressful, caused by anxiety to get to the flight on time, and for the flight to be on time. Therefore ease, control and predictability are all key factors for consumers.

Consumer expectations continue to rise based on their other experiences. Consumers welcome an airport experience that induces a sense of well-being as well as meeting their practical needs. This can be an experience that makes it stand out: the sense of personal care and welcome, the terminal design, the sense of calm, the sense of place, the elements that surprise or delight.

Consumers do not want us to treat everyone the same; different consumers have different needs, depending on whether it is their first flight, if they need assistance, or they are an anxious flyer.

For H7, we have greatly increased our consumer engagement. Since 2017 we have engaged with over one million consumers to inform our business plan. In 2019 alone, our consumer research has involved engaging with over 350,000 consumers and taken over 70,000 hours. Here is just a snapshot of what they've said⁷:



LEISURE

"To have a wheelchair available when disembarking. We had to wait."



BUSINESS

"I want a really quick immigration system - just want to be home once I get off that plane."



LEISURE

"One of the things I found at Heathrow is the lack of light. It needs more greenery and plants."



LEISURE

"I want to get there [to my flight] on time and that we don't have any delays... no security check queue. Just getting through quickly."



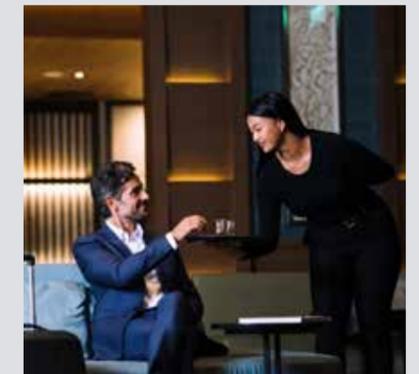
BUSINESS

"It could be more personalised. As a frequent traveller there could be more done to use your known identity to help you."



LEISURE

"Maybe an App... The gate information. If it's personal to you it can tell you where your gate is and how to get there. It comes up and it tells you when your flight is ready to board. You don't even have to ask anyone."



UK BUSINESS

"Now more than ever, we need connections through Heathrow for exporting to new markets and to attract investment."



CARGO

"As Britain's hub airport, only Heathrow can provide us with the global connections we need to get our salmon to stores, stalls and dinner tables across the world."

⁷ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings*, November 2017

We've also listened to our airlines:

WILLIE WALSH, CEO IAG, 2019

"We do support the expansion of Heathrow, but it has to be at the right price and it cannot be the consumers using Heathrow that are expected to pick up the bill."

SHAI WEISS, CEO VIRGIN ATLANTIC, 2019

"We need a stronger hub airport in order to connect Britain to the world, but we need to make sure it works for British customers and businesses. And the way to do that is through competition."

And our communities through consultations:

CONCERNS FOR EMISSIONS, EITHER AIR QUALITY OR CARBON

"This is a significant step change in Heathrow's effort to clean up local ground level air pollution by shifting people into the cleanest modes of transport. I have never pulled my punches talking to the airport about local air quality and I look forward to continuing to hold Heathrow to account in my new independent role as Chair of the Heathrow Area Transport Forum."

Former London Deputy Mayor for Transport and Chair of independent Heathrow Transport Area Forum, Val Shawcross

CONCERN FOR NOISE FROM INCREASED ATMS AND CONCENTRATION OF FLIGHT PATHS OVER SPECIFIC AREAS

"Whilst a majority of local people support Heathrow for jobs, they also want a fair deal. That's why in March alongside local Cranford residents and councillors, I called on Heathrow to extend the Quieter Homes Initiative and our representation has been fed into the Noise Consultation."

Seema Malhotra, Member of Parliament for Feltham and Heston

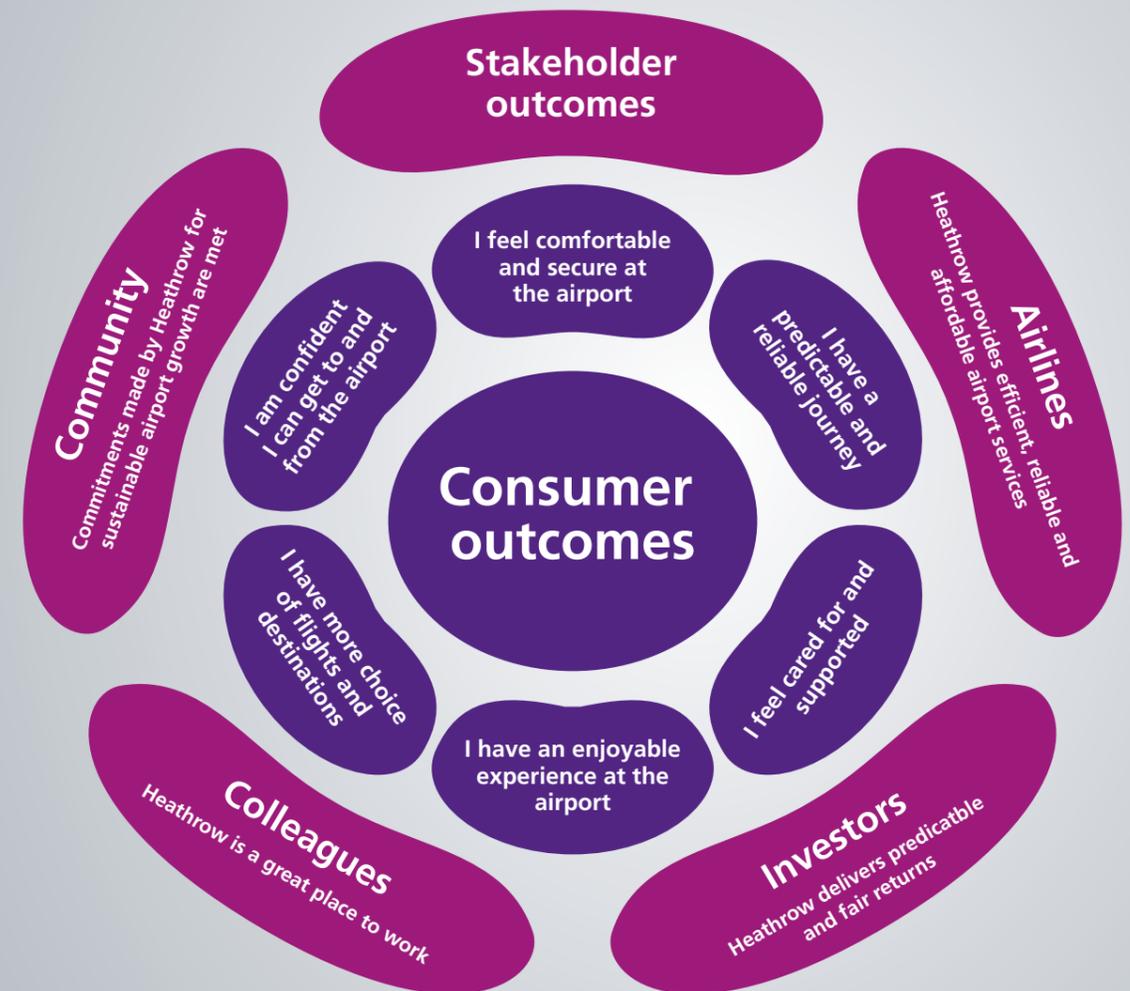
CONSIDERATION OF THE ECONOMIC AND SOCIAL BENEFITS OF AN EXPANDED HEATHROW

"In Slough we recognise that the proposed Heathrow expansion will bring huge benefits to our local area, including new jobs, improved public transport and an enhanced transport infrastructure. We do realise that all of this will not come without its challenges, which is why hosting a summit like this as part of the Heathrow Strategic Planning Group (HSPG) will ensure that any potential impacts are raised and minimised."

Cllr James Swindlehurst, Leader of Slough Borough Council on the HSPG

DELIVERING OUTCOMES

We synthesised our extensive research into six consumer outcomes and also have collaboratively developed four stakeholder outcomes.

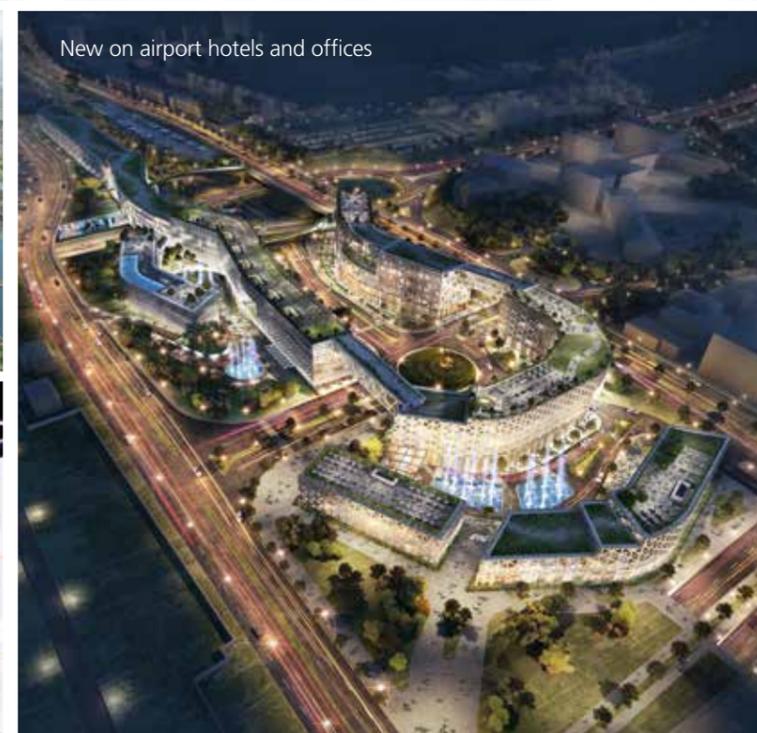


WHAT WILL THE FUTURE HEATHROW BE LIKE FOR CONSUMERS?

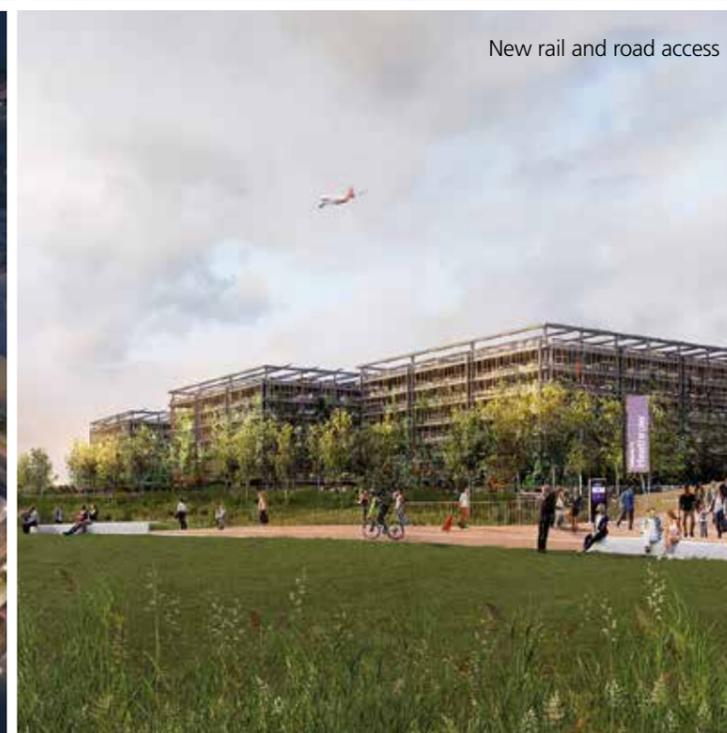
New landside spaces and passenger terminal interchange



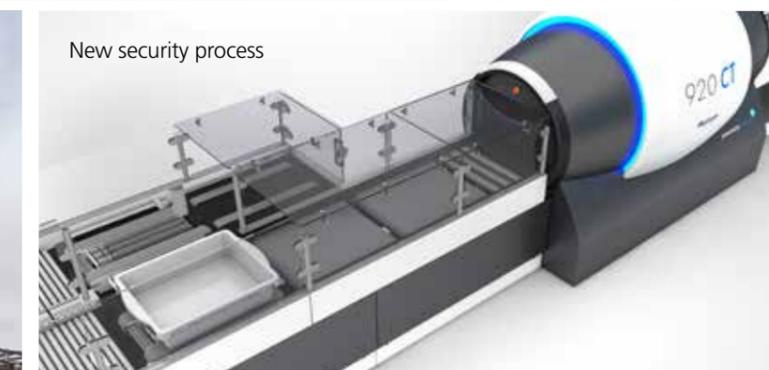
New runway and airfield capacity



New on airport hotels and offices



New rail and road access



New security process



New retail and digital offers



12-Mile Green Loop and new spaces on perimeter



DELIVERING OUTCOMES FOR CONSUMERS

“I have more choice of flights and destinations”

OVERVIEW

Consumers want the airport to offer more destinations served more widely by airlines, at more convenient times and more competitive prices. They want to be able to trust Heathrow will deliver. Central to our plan for the next 15 years therefore is expanding our capacity to add at least 260,000 more flights a year. This new capacity could allow us to serve 6 million more passengers per year by 2028 and an additional 30 million more by 2036. Airfares could be £20 to £140 a ticket cheaper than otherwise. We could serve up to 100 new destinations, connecting the whole of the UK to vital trading links including China, India and the United States.



WHAT WE HEARD FROM CONSUMERS

To be the airport of choice, Heathrow needs to be able to support as wide a range as possible of consumers' travel plans. We heard three needs:

Flights I want when I need them

Consumers have told us that to be an option for them, Heathrow has to offer flights to their chosen destination at a time that meets their needs. Consumers' overall aim is to find the right flight for their trip. If Heathrow doesn't offer it, they'll travel from elsewhere.

57% of British travellers would support more choice at Heathrow airport, while 59% of passengers would choose to connect via Heathrow if there were more airlines and routes to choose from.⁸

Trust in Heathrow

Consumers need to trust that Heathrow will deliver their travel plans. Consumers tell us it is important that they have clear and comparable information before they travel so that they can make an informed decision. They also need to have confidence that Heathrow will provide the journey as planned. Previous experience is a key driver of passenger choice and trust in Heathrow. So too are consumer views on our sustainability and responsibility in the widest sense. Perceptions of Heathrow from other sources also impact consumers' willingness to choose us.

Good value and affordable travel

For Heathrow to meet consumers' needs when booking, the cost of the overall journey needs to represent good value for money. They consider the whole cost of the journey. That includes the overall ticket price from Heathrow, travel to the airport, direct airport costs and the "notional cost of stress." This is compared to the value and service of the whole journey – flight, airport and access.

Cost is an influencing factor on where consumers fly from – but cost means more than the ticket price.⁹

Of those who have not flown recently, 31% cite budget constraints/ the cost of travel as the main barrier.¹⁰

⁸ Populus/Virgin Atlantic Survey, October 2019

⁹ Caroline Thompson Associates, Willingness to Pay: Qualitative Research Findings, November 2017

¹⁰ CAA, UK Aviation Consumer Survey, June 2019

WHAT WE WILL DELIVER

More choice with a new runway

We have consistently worked with our airlines to start or increase flights to destinations in demand. We have also attracted new airlines such as China Southern and Garuda Indonesia. However, we have been capped by a 480,000 Air Transport Movement (ATM) limit. At the centre of our plans for the 15 years from 2022 is delivering a new runway and new capacity to raise that limit. Our expansion plans play a large part in delivering on this outcome for consumers. Capacity means we can offer them more choice of flights, to more destinations over the 2020s and beyond. We will give airlines that currently do not operate at the scale they might wish, or do not operate from Heathrow at all, the opportunity to grow their businesses. Expansion will also help to drive down ticket prices for consumers, thanks to releasing the capacity constraint. Long-term this is the surest way to ensure that flights available from Heathrow are affordable.

More choice with Early Growth

We can start to deliver more choice for consumers right from 2022, ahead of a new runway. We are proposing targeted investments and improvements to the use of existing terminal infrastructure alongside an additional 25,000 ATMs on the existing two runways. These improvements can reinforce Heathrow's resilience at the same time. By adapting our current infrastructure and with support from airlines, Heathrow estimates that load factor can increase from 79.4% in 2018, up to the IATA average of 81.9%. This 2.5%-point increase to average load factors would deliver an extra 2.5m passengers to the airport, which would also improve airport economics and reduce the airport charge.

Opening more routes also means more domestic connections to emerging growth economies around the world. As the UK's only hub airport, being able to offer more choice of destinations through more carriers will have a unique multiplier effect by helping to strengthen the UK's connection proposition and trade links through increased cargo.

Direct air connections support economic growth. UK businesses trade 20 times more with emerging markets that have direct daily flights than with those with less frequent or no direct services. Through expansion we have the opportunity to double our cargo capacity, bringing significant trading links and benefits to exporters of all size across the UK.

Subsequent phases of expansion will see us able to release more runway capacity in a phased way from the late 2020s – we are proposing to release at least 24,000 ATMs a year subject to meeting environmental targets. We will also construct new terminal capacity in both the west and east of the airport to meet passenger and airline demand.

Reflecting the values of our consumers

We recognise that different passengers have different requirements from their time at Heathrow and from their choice of airline. For this reason, Heathrow

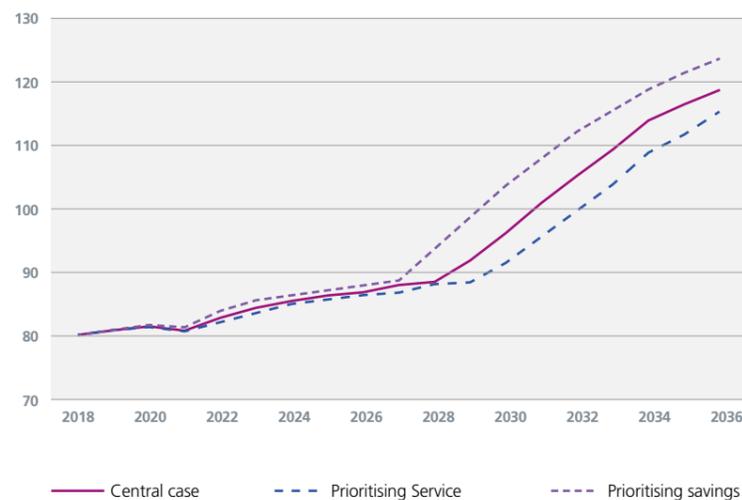
hopes that through the slot allocation process and flexible terminal occupancy we will encourage a diverse set of airlines able to provide compelling offers to consumers.

We also understand the growing requirement from consumers to have their service providers act in a socially and environmentally responsible way. This will be reflected in how we expand and operate – from the most basic services we provide in the terminals such as water refill points to the construction methods and materials we use to build. We will need airlines to support this, by flying more efficient new aircraft, switching to sustainable fuels and signing up to night flight regimes amongst other important measures. We will continue to use our pricing structure to incentivise these behaviours.

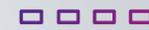
The impact of strategic options

- The pace of growth will have an impact on airline choice, where slower growth means a more gradual release of slots and therefore less competition and impact on airfares
- Faster growth is possible within environmental limits, but we are mindful of these constraints and the impact on airline operations. We anticipate that parts of the airport could feel slightly more congested but aim to mitigate this through efficiency improvements.

Heathrow Passenger Forecast (m)



OUR DELIVERABLES IN A SNAPSHOT



New capacity

Capacity for at least 260,000 more flights per year with a new runway



More choice

Up to 100 new international and domestic routes



More passengers

c.88m passengers by 2028 (+6%)
c.120m passengers served by 2036 (+43%)



Cheaper fares

Airfares £20-£140 lower per ticket



Boosting UK exports

Expanding cargo capacity so that we can handle three million tonnes per annum





DELIVERING OUTCOMES FOR CONSUMERS

“I am confident I can get to and from the airport”

OVERVIEW

A consumer's physical journey begins from the moment they leave their home, office or hotel. Therefore, getting to, from and around Heathrow matters to airport experience and airport choice. Consumers want to do so quickly, easily and in a way they trust.

Perception, research and relative value for money all affect airport and mode choice. By 2040 we can expand the range and resilience of rail and road links, closing gaps in our access to the west and south and bringing 90% more people within an hour by public transport than there are today. Lower public transport fares combined with new vehicle charging at the airport will incentivise more sustainable modes of transport. Raising the share of journeys on public transport to 50% will also cut congestion and delay for all consumers.

Simpler, intuitive consumer journeys to all parts of the airport will improve the experience for all and create a further positive incentive for sustainable choices. We could invest to improve wayfinding across the airport too.



WHAT WE HEARD FROM CONSUMERS

Speed

Time is critical for consumers travelling to or from an airport. They either have a flight to catch or want to get to their destination as quickly as possible. Consumers' perception of speed is important when they are making choices between modes.

Private transport modes, i.e. car and taxi, remain an important choice at Heathrow. Consumers perceive these modes to be direct and give them the feeling of control. When calculating speed, consumers look at the end-to-end journey, including time to and from train or coach stations and making changes between modes.

“Drive with no hold ups on roads... straight to a parking space and as soon as unloaded the shuttle bus turns up... then straight to the terminal”¹²

However, consumers do trade-off this need for a quicker journey with price, to find the best value for money for them for each trip.

Ease

Consumers clearly say they want to get to or from Heathrow via the most simple, intuitive and direct route with the fewest changes. An easy journey minimises stress and improves the airport experience.

To make their journey easy, consumers say they want to have the knowledge they need to make the right decisions for them. Without information, the experience becomes much more stressful.

“Easy access. It's the biggest one for me. If I can't get there easily it becomes a big event. [I'm worried about] getting there on time.”¹³

Trust

As with a consumer's choice of airport, they need to trust that a surface access option will deliver for them. The service needs to be reliable and predictable. Consumers often choose transport they frequently use or are reticent to change if an option has worked for them before.

Providing consistent up-to-date information is also key to ensure passenger trust. As with ease, consumers want to access the right information at the right time to forward plan and reassure on the go.

Sustainability

Consumers also care about the general sustainability of travel.

“Making travel more affordable, comfortable and climate friendly are great initiatives for Heathrow and will allow its reputation to grow even further.”¹⁴

They support efforts to cut carbon emissions, improve air quality and cut congestion for everyone's benefit. Heathrow will also only be able to grow if we meet stretching ANPS requirements for mode share.

¹² Join the Dots, Surface Access Report, August 2018

¹³ Caroline Thompson Associates, Willingness to Pay: Qualitative Research Findings, November 2017

¹⁴ Join the Dots, Surface Access Interventions, April 2019

WHAT WE WILL DELIVER

We plan a long-term programme of rail, road and on-airport changes to 2036 that will make Heathrow an easier and faster airport to access for more consumers. We will become a fully integrated transport hub with rail lines to north, south, east and west. We can offer more choices and resilient back-up options for journeys. The package of better choices and different financial incentives should also shift how people access Heathrow - with 50% of passengers using public transport by 2030, a 25% fall in colleague car journeys by the same date and no increase in airport related traffic. If we deliver all these improved links, by 2030, over 40% of Britain's population will be within three hours of the airport.

New rail links

Committed new public rail schemes, such as the Elizabeth Line, HS2 and upgrades to the Piccadilly line will mean 2.1m more people will be 90 minutes from Heathrow by public transport. More of these rail journeys will be direct and easier too. Heathrow Express tops the UK in rail satisfaction surveys due to its easy, 15 minute reliable service. The service will be rejuvenated with a modern fleet before the start of H7 and continue to operate to at least 2028. We are also working with DfT to create new airport rail links. A Western Rail link to Reading would allow passengers to travel to the airport from the South Coast, South West, South Wales and West Midlands without going into London. In the 2030s a Southern Rail link connecting the South West and Waterloo to Heathrow is also planned. A key option is any airport contribution to these schemes balanced with overall consumer costs.

Better road links and new transport services

Even as we promote a shift to public transport, road links will continue to be indispensable for consumers. In the last five years taxi and private hire trips have risen from 12% to 17% of all journeys to Heathrow as consumers have taken to the convenience and price of services like Uber (which now makes up almost 30% of these trips). In response Heathrow plans to work with providers to develop new offers – such as shared rides, backfilling incentives, and even managed air-taxi services. These steps will mitigate congestion, emissions and other downsides of these shifts while maximising the consumer convenience and choice. These new multi-user services improve congestion and air quality and could be considered a form of “public transport.”

Our masterplan will build new consolidated parkways on the southern and later the northern perimeter to offer a different mix of parking and vehicle charging services. They will have direct links into terminals. We will also invest to improve local bus services and coach links, including 24-hour buses similar to the recently introduced Rail Air link from Guildford.

By 2030 we will address some critical pinch points in road access by opening the Southern Road Tunnel giving access to the Central Terminal Area from the south for the first time. Likewise, two new M25 junctions will create safer, easier and faster routes into both Terminal 5 (T5) and the new Southern parkway.

We will redevelop our Central Terminal Area in Terminal 2 (T2) and Terminal 3 (T3) to support growth. We have also designed better public transport interchanges as part of our masterplan, creating easier connections and interchanges and making us a transport hub beyond aviation.

More intuitive terminal access

Legacy infrastructure means that access in, out and around terminals is not as simple as consumers might want. Changes of direction, level and gaps in information confuse, stress and delay. As we expand the airport we can steadily improve this part of the journey. We plan new ‘transport interchanges’ in the east and west that will create shorter, line of sight journeys to terminals, particularly from public transport. This will create more welcoming, less stressful environments. New terminal spaces such as T5X will have fewer floors reducing changes in level and direction. We also see opportunities to invest in digital and physical wayfinding to reassure and guide passengers in a more 21st century way.

Changing financial incentives

Consumers want the widest possible range of price and service options when judging access value for money. We must also incentivise more sustainable travel choices. A mix of charges and discounts are part of our plans to 2036.

Consumers will see a wider and cheaper range of rail fares as the Elizabeth Line and other services begin. We will continue to expand the range of discounts on the revamped Heathrow Express. Our plan will also increase subsidies for local buses and to incentivise airport colleagues to shift out of single-occupancy cars. A “green loop” around the perimeter of the airport will connect bus routes with cycle and walking paths.

To protect air quality around the airport, we are proposing an HULEZ (Heathrow Ultra Low Emissions Zone) from 2022 that will charge the older, more polluting vehicles extra. This becomes a general Heathrow Vehicle Access Charge (HVAC) of around £15 from 2026 to ease congestion for travellers even as we grow. The charges will be recycled to bring down airport charges and fund airport linked transport investments.

We are currently discussing with DfT, an airport contribution to Western Rail project. If the project was delayed or cancelled we can still meet mode share targets with alternative investments and a higher vehicle access charge. However consumers prefer the rail option so we offer options to increase the likelihood of delivery.

36% of those who currently park at the airport would be less likely to do so following an emissions charge¹⁵

The impact of strategic option

- We assume building Western Rail in both options, but our contribution varies. Investment in any Southern Rail Link also varies by option
- Road, tunnel and parkway construction would be the same in each option
- Passenger interchanges with new terminals come in faster in the Prioritising Savings option
- Fare, carparking and HULEZ/ HVAC changes are similar in both options, although with faster growth there may be a need to bring some forward sooner

¹⁵ Join the Dots, *Surface Access Interventions*, April 2019

OUR DELIVERABLES IN A SNAPSHOT



Bigger catchment area

More of the largest towns connected to Heathrow. Elizabeth Line and refreshed Heathrow Express services

- Western Rail by mid-2020s
- Southern Rail by mid-2030s



Cheaper rail fares

More and cheaper options on rail and bus fares



Less road congestion

Southern Road tunnel and two junctions to M25



Integrated vehicle parkways

Consolidated parking with easy transfers to terminals



New cycle paths

Perimeter Green Loop with 12 miles of cycle paths by 2035



Access charging

Access charging (HULEZ 2022; HVAC from 2026)



DELIVERING OUTCOMES FOR CONSUMERS

“I have a predictable & reliable journey”

OVERVIEW

When using the airport, consumers need to have confidence that their journey will run to plan. They are looking for quick and easy progress through the airport with clear and accurate information and no surprises. There can be extra needs for this outcome for certain consumers, such as families or vulnerable passengers. This outcome is also very important for many business travellers who prioritise a speedy, no hassle and reliable service.

By the 2030s we can sustain some of the best hub airport punctuality in Europe, cut waiting in the air and on the airfield and increase the number of passengers with a short connection. We are not directly responsible for key parts of the journey such as check-in, boarding, immigration and baggage delivery - we will work with Team Heathrow partners to achieve a consistent and fast passenger journey. We can simplify security and could cut arrivals queues as well. Automation enables multi-tasking between airport, airlines and handlers and gives us an extra level of resilience.



WHAT WE HEARD FROM CONSUMERS

On time and predictable

Consumers want the airport to operate in a predictable, reliable way. They prioritise flights departing and arriving on-time. They want the basic steps in their journey to work smoothly with no surprises.

“I want to get there [to my flight] on time and that we don’t have any delays ...no security check queue. Just getting through quickly.”¹⁶

Easy and quick

Consumers want to get to the next step in their journey as quickly as possible with minimal stress. Consumers want assistance when needed, manageable walking distances and no long queues.

“As a business class passenger, I expect quicker baggage check-in and not long queuing for the check-in desk.”¹⁷

Wayfinding

Consumers want to know where they are and find their way around the airport easily. This involves ensuring they are given the right amount of information. It means passenger areas having good signage. However, consumers also want to know where to go intuitively through good space design and lines of sight.

“Wayfinding and services clearly communicated, so they can make the most of their time, with minimum effort on decision-making & searching”¹⁸

Information

Consumers want clear, consistent, up to date and relevant information to allow them to navigate the airport smoothly. Consumers want the right information at the right time, not just to be bombarded with it, so they can make appropriate preparations and decisions. They want live updates through their journey, especially when delayed. They want information via the most convenient source for them, increasingly for example through digital channels or apps in multiple languages.

¹⁶ Rainmakers, *Consolidated perspective of passengers’ needs at Heathrow Airport, July 2017*

¹⁷ Truth Consulting, *DNA Integrated Analysis: The way forward, May 2017*

¹⁸ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings, November 2017*

WHAT WE WILL DELIVER

More end-to-end travel

There is a lot of variability in the predictability and speed of different steps in the journey at Heathrow today. Consumers care about the end-to-end experience. Value-for-money is a factor for our spending so that we deliver expansion as cost efficiently as possible. Our plan for 2022-2036 therefore focuses on at least maintaining speed and reliability everywhere while improving journey steps that are currently weakest.

In building a new runway, changing airspace and optimising the airfield, we can raise punctuality and mitigate against disruption and delay to flights. For the first time we propose departure punctuality being a reporting measure for Heathrow. We propose releasing new flight capacity in a planned way with well-prepared operational readiness to avoid growth itself being a cause of poorer resilience.

From listening to consumers, we know that immigration wait times are a pain point in the arrivals experience. Now more than ever, we need to welcome the world to the UK at Heathrow through a world class immigration process. For this reason we are both expanding the use of eGates so a vast majority of passengers can use them and we are proposing the public reporting of immigration wait times.

We will have a single integrated baggage system, preparing us for additional luggage and improving reliability. We plan to accelerate investment in T2 future baggage and will invest in new integrated systems for T5X.

Across many of the basic process steps, Heathrow's current service is at or near best in Europe levels or speeds identified by consumers as satisfactory. We are therefore proposing to maintain service in these areas given both costs and the scale of change already implied by our wider plans.

Moving around the airport

Connecting passengers report lower satisfaction – we need to improve the speed and predictability of the connecting journey. Our masterplan will result in fewer, larger terminals; T5 in the west and T2 in the east, replacing T3 and T1. T5X and T5N are not new terminals, simply extensions of T5. This will significantly improve connection times and resilience. This is especially so when transferring between terminals. Terminal occupancy changes for Early Growth mean that approximately 1m more passengers will connect through the same terminal, especially in the west with T5 and then T5X.

Improving older terminals

We will also make a physical connection between T2 and T3, making domestic and international connections much simpler. Increasingly T2 and T3 will be a single terminal. Towards the end of H7 we will expand T2 to allow the demolition of T3, which will be at the end of its useful life.

T3 currently accommodates almost 20 million passengers each year and prior to new terminal infrastructure being built, it will need to serve a greater number of passengers. To ensure it is resilient for future operations, we are renewing and refurbishing the terminal. This includes investment in check-in and arrivals to improve the passenger experience and using new technology to make the experience more efficient and to maintain our resilience.

Where we are planning to build new terminal spaces we propose using layouts that emerged from consumer testing. These contain shorter walking distances and have a more intuitive flow with fewer confusing changes of direction or level.

Investing in information

From 2022 we will continue to develop our digital platforms to interact with passengers across existing and emerging channels. It is hard to predict the exact nature of these services into the 2030s, but they will inevitably require new systems. Flight information display systems (FIDS) and dynamic

signage could offer ever more intuitive navigation and help passenger flow. We see options in how much we invest which will determine how fast we adapt to changing technology opportunities in providing information.

Less disruption, more resilience

Consumers stress how important it is to them to minimise disruption. Building resilience into our future infrastructure and operations at Heathrow as we grow is fundamental. New capacity is itself an important investment in resilience. Two main common use terminals will significantly improve resilience and flexibility. New facilities in T2 will perform better than T1 and T3. Opening a new runway will deliver much greater airfield resilience through more runway, airspace, stand, taxiway and apron headroom as well as more alternatives to provide flexibility. Furthermore, redeveloped terminal infrastructure will help make the most of our best assets, while replacing those that are older and more liable to fail or underperform.

Our Early Growth proposition for 25,000 additional ATMs prior to runway opening has been carefully designed for a phased introduction of new flights after DCO grant. The same is true of new runway, airfield and terminal capacity in the late 2020s.

Our resilience also encompasses changes to airport operations and physical and virtual infrastructure. We propose increased investment protecting against cyber-attacks and drones. We discuss all these resilience strands in a stand-alone chapter of the detailed plan.

The impact of strategic options

- If we grow quicker there may be some pressure on punctuality and resilience but we have plans in place to manage the growth
- Prioritising Service option has allowed for more investment in wayfinding, information and support for additional requirements



OUR DELIVERABLES IN A SNAPSHOT



Better punctuality

Maintain or improve flight punctuality above 80%



Better facilities

Fewer, larger terminals: An expanded T2 replacing T1 and T3, and expanding T5



Improved reliability

Cut air holding and delays and disruption with the new runway



Easier connections

More passengers connect in the same terminal and new direct connections between T2 - T3 and T5 - T5X



Smoother immigration process

Less hassle at immigration and security



Integrated baggage system

A new baggage system for T2 by 2028



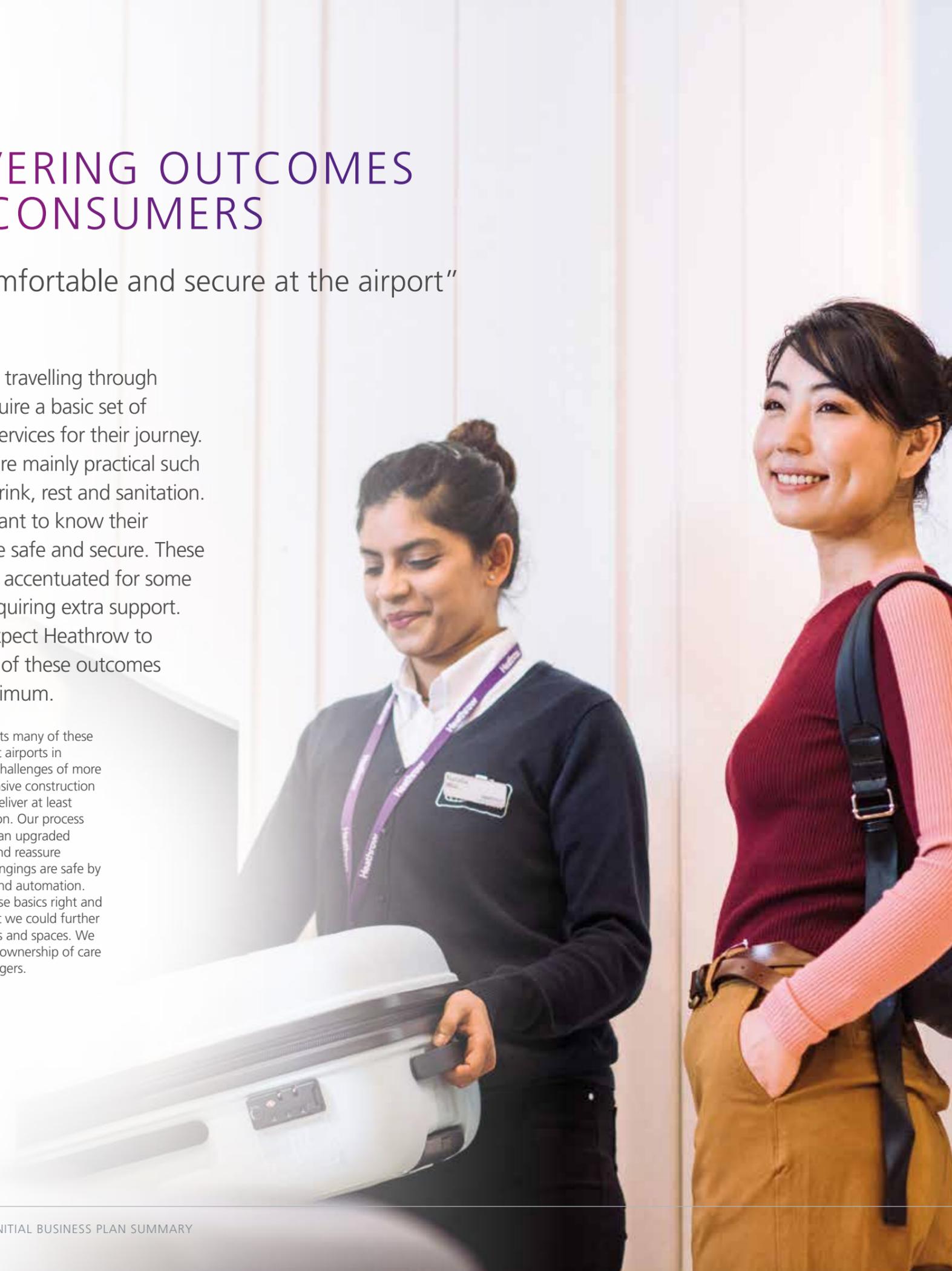
DELIVERING OUTCOMES FOR CONSUMERS

“I feel comfortable and secure at the airport”

OVERVIEW

All consumers travelling through Heathrow require a basic set of facilities and services for their journey. These needs are mainly practical such as food and drink, rest and sanitation. Consumers want to know their belongings are safe and secure. These needs may be accentuated for some passengers requiring extra support. Consumers expect Heathrow to provide many of these outcomes as a basic minimum.

Today Heathrow meets many of these needs as well as most airports in Europe. Despite the challenges of more passengers and extensive construction we will continue to deliver at least this level of satisfaction. Our process changes will provide an upgraded security experience and reassure passengers their belongings are safe by utilising self-service and automation. We expect to get these basics right and with extra investment we could further upgrade core facilities and spaces. We will also take greater ownership of care for vulnerable passengers.



WHAT WE HEARD FROM CONSUMERS

Physical needs

Consumers expect to have clean facilities, food and beverage options, adequate seating and somewhere where they can get fresh air.

Basic needs change for different passenger groups. For example, passengers requiring mobility assistance may also have a basic need for a buggy service. Or families may have a need for baby changing facilities. Business travellers expect space to work as a basic comfort. Connecting passengers want a seating area where they can sleep. Groups of travellers want a larger, livelier space to be together.

“I need to rest. I need to sleep... I’m cold...I would have liked a leather foam chair.”¹⁹

Belongings

As well as their own physical needs, consumers want to know their belongings are safe and that they won’t have anything taken away from them at security. They are also concerned about being able to securely use their devices, such as phones or computers, and now see Wi-Fi and charging points as a basic comfort not an extra. The need for ensuring their belongings are well looked after is particularly heightened for more vulnerable passengers.

“My wheelchair is precious – it’s my arms and legs.”²⁰

Safety and security of me and my family

Consumers expect to be safe throughout their airport experience. They want to see security is thorough. However, they do not want to be reminded of the security risks of their travel or experience overly onerous and intrusive security processes.

It is important for consumers to be able to stay close to their friends and families. Some passenger groups also have particular needs in the security process, for example for family lanes which are wider and allow the family to stay together even where speed is not a priority.

“A family lane would have been good. It takes the pressure off. Because you don’t want to get delayed. But you also don’t want to delay other people. You don’t want to feel a burden.”²¹

¹⁹ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings*, November 2017

²⁰ Caroline Thomson Associates, *Special Assistance Open Day - Qualitative Research Findings*, September 2017

²¹ Caroline Thompson and Associates

WHAT WE WILL DELIVER

To give passengers the best airport service in the world we must continue to get the basics right. We expect an 16% increase in passengers travelling through existing terminals before the late 2020s. Some of our key projects are designed to reduce wait times and increase efficiency. We plan to maintain or improve our performance on security, cleanliness, seating and baggage satisfaction ratings. We believe policy changes could help to improve efficiency such as greater use of immigration eGates, reforming transit visas, one-stop security or perhaps the UK equivalent of TSA PreCheck. We will also invest in our satellites to provide a real alternative for food and beverage, retail and services to reduce congestion in the main departure lounges.

Brilliant basics

We are focusing on delivering brilliant basic facilities across the airport including:

- Continued investment in standards of washrooms, which could include an accelerated investment in new, better quality and stylish washrooms across the campus in the Prioritising Service option
- Enhancing charging capabilities across the campus including in-seat charging, charging lockers and wireless charging
- Improving the layout and variety of comfortable seating including reclining seats and options designed for passengers requiring support or accessible seating areas
- Maintaining spend on cleaning, trolleys and core maintenance
- Expanding functional basics like water refill stations, which also cut single use plastic waste
- Ongoing investment in automation of core activities like check-in and boarding

Next Generation Security

Heathrow's current security process is quick compared to other airports. Satisfaction has been improving with it too. Next Generation Security will help our passengers feel safe and secure when travelling through the airport as well as efficiently moving passengers to the departure lounge. Many changes will be visible to travellers - for example new passenger screening technologies like CT scanners will mean no need to separate liquids or electronics. They should be in widespread use in early H7. Others will be less obvious such as changes to cargo, perimeter, airfield and cyber security that ensure Heathrow continues to be one of the safest airports in the world.

More comfortable special assistance support

Airports with their complex, time-pressured and internationally varying processes can make any passenger feel vulnerable on any given day. Our plans would commit us to more ownership of our passenger assistance service. We will also invest to upgrade the comfort of their experience throughout the journey, for example with better assistance lounges.

The impact of strategic options

- Our focus on service is to continue despite increasing passenger numbers through the terminal. We are committed to investing in the basics and improving the flow of the airport
- The Prioritising Service option would mean Heathrow investing up to £500m more every five years on basic comfort and security facilities based on consumer feedback on their priorities, including special assistance lounges, enhanced washrooms and rest and relaxation spaces.



OUR DELIVERABLES IN A SNAPSHOT



Intuitive travel

More intuitive line of sight travel to reduce anxiety – in T5X, revamped T3 and Parkways and Public Transport Interchanges



Better washrooms

Upgrading washrooms with the option to accelerate the programme



Faster security

Next Generation Security with liquids and laptops in bags



Better seating

Expanding share of multi-purpose seating and enhancing charging facilities



Better special assistance

Steadily improving experience for vulnerable passengers with support service brought closer to airport operation



Enhanced retail & service

Significantly enhanced retail and service offer in satellites



DELIVERING OUTCOMES FOR CONSUMERS

“I feel cared for & supported”

OVERVIEW

When travelling through Heathrow, in addition to the expected basic levels of service, consumers want to feel looked after, valued and supported in all situations. This encompasses both emotional and physical needs. These needs vary by passenger groups and stages of travel. Feeling cared for is particularly important in times of disruption or other unexpected situations where passengers are under more stress.

We have come a long way in minimising the likelihood and impact of disruption and have learnt from key incidents, such as major snow or IT events. Our established resilience strategy is designed to evolve, continually learning and adapting to new challenges.



WHAT WE HEARD FROM CONSUMERS

Assistance at hand

Prior to travelling, consumers want certainty on the assistance available to them. On arrival, they want to be welcomed by friendly colleagues. There's an expectation that, when things go wrong, colleagues will act proactively, provide information and deal with passenger concerns. This can be particularly important for less confident passengers or infrequent fliers.

“When they tell you there's a delay, but they don't tell you why, then your mind starts going, do you know what I mean?”²²

Feeling looked after

Consumers expect courteous service from colleagues across Team Heathrow. They do not distinguish between different companies or operators across their journey. They want colleagues to be attentive and to feel noticed and valued. Feeling looked after is particularly important for passengers requiring support.

“You want them to want to help you, not just that they have to help you.”²³

Individual service

Consumers have told us when we actively respond to their individual needs and provide a personalised level of care it makes them feel special or unique. This can be as simple as how passengers are addressed.

“The automated entry gate recognised my number plate and greeted me by name - which was nice.”²⁴

²² Collaborate research, *Consumer attitudes to journey disruption: A qualitative research report, November 2016*

²³ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings, November 2017*

²⁴ Ipsos Loyalty, *Understanding the key drivers of surface access mode choice and satisfaction, July 2016*

WHAT WE WILL DELIVER

Service Signatures

In 2018, we introduced our Service Signatures which were developed by a large cross section of colleagues and tested with consumers. They are;

- Notice and care
- Share what you know
- Make things better

This directly supports our vision and especially the feeling cared for and supported outcome. We have reprioritised spend to invest in training all our colleagues thoroughly in the Service Signatures. We hope Team Heathrow colleagues also exhibit these principles, however they are expressed. Consumers tell us they want a seamless service. Lines are increasingly blurred between airport, airline and handlers. We therefore hope to expand our collaborative training and common standards throughout H7 to develop a common agenda in terms of passenger interaction at Heathrow.

Unique journeys

Our passengers are unique. They are from every country with different backgrounds and experiences. Sometimes there is no replacement for the level of care a direct human touch can provide. Increasingly we need to complement this with personalised digital interactions. Indeed, for many consumers they now expect and prefer the digital experience.

“Balancing human staff with efficient technology is key for the future of the airport”²⁵

Our Next Generation Digital effort will continually upgrade our offer and the platform we can offer others. We plan increasingly widespread use of biometric and automated technology to increase the personalisation of information and processes. It also arms our colleagues with up to date information, enabling them to support consumers whether that be face-to-face, making a decision in Airport Operations Centre (APOC) or via 1:1 interaction in multiple languages on social media.

Caring for people when disruption happens

Our resilience efforts focus on prediction, prevention and preparation. Both our day-to-day operation and infrastructure investment plan is built to minimise the risk of disruption in the first place. Through data, horizon scanning and our “plan, do, review” cycle we are able to understand the likelihood of disruption and how we can reduce the risk and impact.

There will inevitably be times when the airport or a journey is disrupted. We will continue our current welfare, recovery and information investments such as our ‘Here to Help’ programme that deploys colleagues to assist on site. An increasingly automated airport, while faster and more efficient most of the time, can offer challenges to deploy sufficient numbers of colleagues in disruption. In the 2020s with multi-skilled colleagues, we can create more flexible service roles, and increase our digital capacity to provide care when most needed.

Consumers with additional requirements

We know that different consumers have different views on how they would like to be cared for. For example, the right information will vary for English or non-English speakers, business or connecting journeys, or for vulnerable passengers. We have been testing our designs for new spaces and processes with all these groups – for example the balance of signs, intuitive paths or digital information in managing wayfinding. We also offer options to invest more for some aspects of care for some key passenger groups – for example more smoking areas or child friendly spaces.

We are proposing that the provision for Passengers with Reduced Mobility (PRMs) is brought closer to Heathrow’s control and into the airport charge to ensure that we can provide the care and service that passengers need in a more seamless manner.

The impact of strategic option

- We aim to at least maintain our current service levels in both options. In the Prioritising Service option we can invest in basics, facilities and our digital offer to enhance our service and care further.
- We do not foresee a compromise in our resilience and response to disruption, in either option. We want our passengers to always feel cared for and supported, and this is especially true for those with additional requirements.

OUR DELIVERABLES IN A SNAPSHOT



Consistent service standards

Service Signatures rolled out:

- Notice and care
- Share what you know
- Make things better



Personalised journeys

Next Generation Digital enabling personalised journeys



Better care facilities

More care facilities, such as child areas and places to rest



Smoking areas

Requested changes such as smoking and vaping areas



Enhanced disruption response

Digital, multi-skilled and multi-lingual disruption response

²⁵ Join the Dots, Arrivals, Products and Services Report, December 2018





DELIVERING OUTCOMES FOR CONSUMERS

“I have an enjoyable experience at the airport”

OVERVIEW

An airport journey can be elevated to a fantastic consumer experience, that is memorable for all the right reasons. Once travel basics are met, consumers say they would love Heathrow to give them a personalised connection to the world outside. This experience can start even before entering the airport. We can also make a difference to a passenger’s journey by providing moments of unexpected joy, surprise and new discoveries.

As a global hub airport, Heathrow must attract more connecting passengers. We are learning from leading airports like Changi and Hong Kong which have developed the experience to meet the needs of connecting passengers - relaxation, entertainment and exercise, as well as food and retail. Heathrow needs to create such experiences. We therefore see opportunities to build new, enjoyable experiences for consumers through redesigned, greener spaces, online and reserved shopping, chances to treat themselves in stores and restaurants, lounges or new experiential offers.



WHAT WE HEARD FROM CONSUMERS

Environment and Aesthetics

Consumers want an interesting and modern environment that makes a statement about an airport’s identity rather than being a sterile environment. Aesthetics that are important include music and sound, lighting and the use of plants and greenery.

“It could do with some art, maybe some music, some colour.”²⁶

Connection to the world outside the airport

Consumers want to stay connected to their life and the ‘real world’ while they’re in the airport. This goes above the basic need for Wi-Fi connectivity and means actively facilitating communications on social media, for example with props for photos, or giving people the right space to work and use their time productively.

Consumers also want to feel a sense of place when they’re at the airport. They want to know that they’re in the UK and experience a little of what this means. This is especially important for connecting passengers who may spend long amounts of time in the airport.

“Social media opportunities as well... once you’re through...you’re checking in and saying where you are flying to, on social media anyway. You could have personalised opportunities to engage with social media – at festivals and things you have props to do that, and then share it with friends and families.”²⁷

Entertainment

While they’re at the airport, consumers appreciate having a range of opportunities to stay entertained. Consumers want activities to suit their taste and budget that they can choose from to enhance their experience. This can be anything from films and exhibitions to different dining experiences and a range of retail outlets. Consumers also value a range of seating or relaxation options, such as sleeping facilities and showers, to pass their time at the airport.

“They need a couple of TVs. The news playing. And more comfy chairs.”²⁸

²⁶ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings, November 2017*

²⁷ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings, November 2017*

²⁸ Caroline Thompson Associates, *Willingness to Pay: Qualitative Research Findings, November 2017*

WHAT WE WILL DELIVER

We aim to provide a compelling entertainment offer. Building on our current proposition where we have some of the world's most desired brands, special pop-up displays and experiential events and famous chefs designing menus at unique restaurants. Despite being constrained for space, we have responded so far to the changing consumer expectations and market environment.

Making best use of space

62% of our passengers chose to go straight to the gate to know they are in the right place for their flight. They then stay there for an average of 72 minutes. This is often in a more remote satellite or pier. As part of our Early Growth programme we will use these spaces even more imaginatively and efficiently. We propose to redesign the space in the satellites and piers, modifying lounges and seating and adding food and beverage and entertainment options. A better use of our piers and satellites will also be supported by a digital 'anytime anywhere' offer. This could include 'digital' shopping zones in satellites. Our future terminals will be built with these concepts in mind. This should avoid creating a sentiment where passengers feel they must "travel back" for amenities or they are stuck with nothing to do.

Catering to a range of tastes

We are a global gateway and welcome passengers from all over the world. We already aim to provide a diversified food and beverage offer. Yet in the 2020s our consumer mix will evolve with different nationalities and demographics with changing tastes. We plan to diversify the mix of offers in terms of the price, cuisines and diets for which we cater and the way consumers want to eat it (e.g. grab and go versus dining in). Even as we offer a wider choice of options to reflect changing consumer demand, we will ensure that all new suppliers will uphold our sustainability standards.

Creating memorable experiences

Showcasing the "Best of British" helps give people, particularly connecting passengers, a sense of place. Our insight tells us that passengers want us to avoid stereotypes and showcase British diversity. One of the ways we intend on providing this is through a packed events calendar. We will also offer immersive experiences, such as relaxation and wellness zones and varied art installations. This is valuable for consumers as shown by their admiration for offers like that seen at Singapore's Changi.

The design of our new spaces learns from others and our building of T2 and T5. Based on consumer workshops, international benchmarking and supply chain design competitions we are proposing 'Third Spaces' – exposed to the air but sheltered, featuring greenery and light and easier to navigate. We also intend to seek more opportunities for cost effective but striking iconic designs in these spaces to create a real sense of Heathrow.

New landside facilities and offers

Heathrow's commercial developments landside lag behind some other global hubs. We believe the consumer experience could be improved with new developments of hotels, retail, service amenities and offices around the Central Terminal Area and the perimeter. Some regulatory support could unlock these opportunities as the masterplan develops. This will also maximise public transport use by clustering developments close to stations and create new revenue streams to improve affordability over H7.

The impact of strategic options

- Our Prioritising Service option provides a route to improving the experience for passengers. We will be able to differentiate our offer further through investing in enhanced products (such as general amenities and premium lounges). We can also enrich the terminal and landside design, making them destinations in their own right.
- Our commercial property development will require additional capital expenditure investment above that set out for expansion. Options of managing this investment are discussed in the regulatory framework section of the detailed plan.

OUR DELIVERABLES IN A SNAPSHOT



Better facilities and services

New services, entertainment and digital offers in satellites



Best of British

Exhibiting the best of British through unique retail, events and design



Wider F&B offer

Wider food and beverage offers to meet the needs of different cultures



Enhanced landside facilities

Landside hotels, and services linked to public transport



DELIVERING OUTCOMES FOR COMMUNITIES

“Commitments made by Heathrow for sustainable growth are met”

OVERVIEW

We want to benefit our local community and be a good neighbour. That is why we have taken the time to understand the views of the people living closest to the airport. Heathrow is also committed to spearheading a more sustainable future for air travel. Expansion at Heathrow will not come at any cost.

WHAT WE HEARD FROM COMMUNITIES

Our most recent 10-week Airport Expansion Consultation in summer 2019 provided us with another opportunity to listen to our community. We heard that communities are worried about the environmental impacts of noise, air quality and emissions for both the construction phase and once the runway is open. There is concern for the impact on green space, tranquillity and biodiversity. Changes to flight paths also cause concern.



WHAT WE WILL DELIVER

Carbon Neutral

Our goal is for Heathrow to be a zero carbon and resource efficient airport. This has impacted both the way we are designing our future infrastructure and the processes we use. Our plan aligns to the ANPS in relation to carbon emissions. We will be a carbon neutral airport by 2020. Beyond that, in line with our largest airline customer, IAG, we are committed to net zero aviation by 2050. We are now working to make this target the standard across global aviation, to take the carbon out of flying and remove any competitive distortions.

Carbon offsetting is an important part of aviation's transition to net zero. This includes nature-based carbon removals in the UK - peatland, forest and soil projects. We are also working with airlines and Government on how we can move from fossil fuels to Sustainable Alternative Fuels (SAFs). Wherever possible, we will be decarbonising our construction process using new techniques and materials.

Local air quality

Journeys by car and taxi have the biggest impact on air quality around Heathrow. That is why we are promoting low emission alternatives, such as public transport and electric vehicles. Heathrow has a proven track record on improving local air quality, cutting ground-based emissions by 16% over five years.

We have pledged to deliver expansion with no-more airport related traffic on the roads. We will reduce the reliance on cars to access the airport by improving public transport options and encouraging passengers to use them with incentives including a Heathrow Vehicle Access Charge.

A modern airspace

Airspace change at Heathrow is required as both part of expansion of the airport and as part of plans to modernise the whole UK's airspace for environmental and passenger benefits. These changes will minimise noise disruption and carbon emissions by reducing the time aircraft are held waiting to land. We remain committed to providing respite for local communities.

Noise

Aircraft noise is the biggest single issue for local communities. The “noise footprint” is smaller than it has ever been, thanks to significant investment by airlines in new, quieter aircraft. However, with new flight paths, there will be communities impacted by aircraft noise.

Through progressive consultation with local communities over the last five years we have developed a package of measures to ensure that fewer people will be impacted by aircraft noise than today.

The new runway has been located to the north and west of the current airport to keep planes flying higher over London. We are also changing operating procedures to minimise noise, for example, by moving the landing point and changing the angle of descent. All communities will have respite from noise through runway alternation. Changes to airspace design may allow noise to be allocated more fairly and local communities to have more predictable respite.

We will extend the period at night without scheduled flights from 5 hours today to 6.5 hours when the new runway opens. We will provide insulation for homes and schools in the current and new flightpaths.

Community Fund

The ANPS called for an appropriate compensation package for communities. The Airports Commission considered that a sum of £50m per annum could be an appropriate amount over a 15 year period. We do not see this as part of the airport business itself but are seeking views on how this should be raised, administered and used most efficiently.

Impact of options

- Our sustainability and community commitments remain the same in both options. Growing faster will put more pressure on surface access targets but we believe they are still achievable.
- We need to work with current and new airlines to help them to use newer, cleaner and quieter aircraft when expanding their fleet for new routes at Heathrow. Again, this is more urgent with the Prioritising Savings option.

OUR DELIVERABLES IN A SNAPSHOT



Carbon neutral

Carbon neutral airport as soon as possible, working towards net zero flying by 2050



No more people impacted by noise

Homes and schools in current and new flight paths insulated from noise



More quiet nights

Extended period at night without scheduled flights from 5 hours up to 6 1/2



Ultra-low emissions

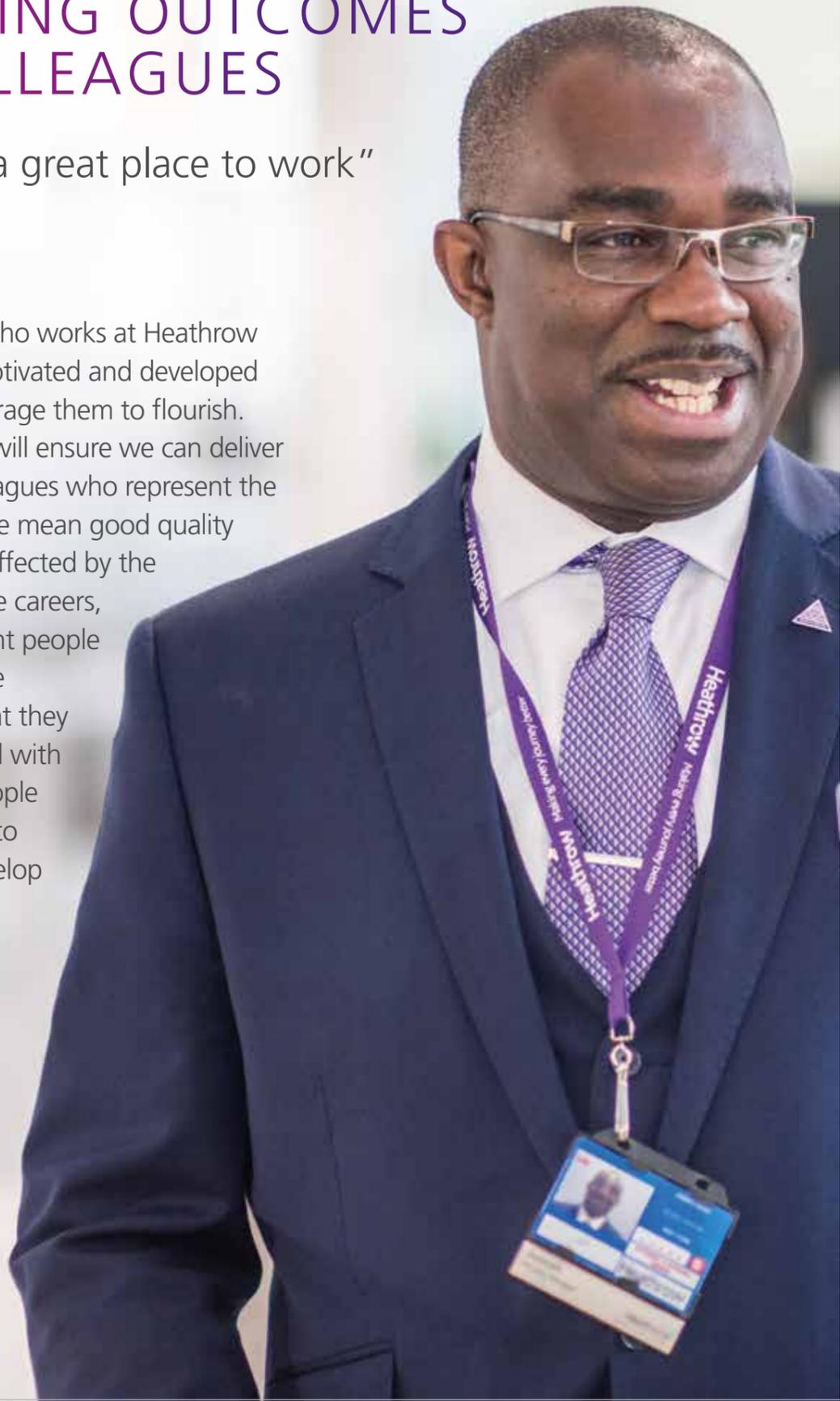
No more airport-related cars on the road and emissions and access charge

DELIVERING OUTCOMES FOR COLLEAGUES

“Heathrow is a great place to work”

OVERVIEW

We want everyone who works at Heathrow to be safe, happy, motivated and developed in ways which encourage them to flourish. Engaged colleagues will ensure we can deliver for consumers. Colleagues who represent the communities we serve mean good quality jobs for those most affected by the airport. We will create careers, not just jobs. We want people to be trusted to make decisions and feel that they can do so quickly and with impact. We want people taking opportunities to grow, adapt and develop their skills.



WHAT WE HEARD FROM COLLEAGUES

Colleagues want a fair deal for the work they do. This includes ensuring they have fair rewards in salary and benefits compared to the market and a supportive environment at work.

WHAT WE WILL DELIVER

A change in culture

By moving to a culture that is more focused on our colleagues, we know that our colleagues will, in turn, take great care of our passengers. By embedding a culture of sustainability, all colleagues will know that they have a part to play in shaping our future. Colleagues tell us that the restroom, catering and healthcare facilities we provide are not consistently high quality and we need to fix this as soon as possible.

Safe and well

We want everyone working at or visiting Heathrow to go home safe and well. This is partly about having the right processes. It is also through creating a culture where colleagues feel empowered to put safety first and to prioritise the mental and physical wellbeing of everyone at the airport.

We track safety performance across Team Heathrow to help us identify and address safety risks. We have set up a Team Heathrow Safety Network to encourage collaboration, learn from incidents and share best practice. Safety will never be compromised for cost.

The opportunity to transform the airfield and baggage areas with greater use of automation for routine tasks will also improve safety.

Careers, not just jobs

At Heathrow, every role should offer a sense of purpose and progress, with opportunities for our colleagues to develop and grow. We have made a big commitment to increase our investment in skills, training and work experience in the 2020s.

We convened the Heathrow Skills Taskforce to advise on the skills and training programmes needed. This identified five strands:

- Leading business change
- Celebrating diversity and embracing inclusion
- Maximising apprenticeship opportunities
- Promoting career choices and engaging with the education sector
- Enabling skills for a lasting legacy

This requires a joint effort from all businesses operating at Heathrow. Heathrow has been a proud London Living Wage employer since 2017 and we will help transition our direct supply chain colleagues to this too.

Impact of strategic options

- We will need additional colleagues to support more passengers, although we do see opportunities for efficiencies so do not anticipate a like-for-like increase. In either option, we need to ensure that our colleagues are multi-skilled.

OUR DELIVERABLES IN A SNAPSHOT



Home safe

Year on year improvement in our colleague home safe measure



Skilled jobs

Deliver 10,000 apprenticeships by 2030 to help people develop skilled and sustainable careers



Reflecting diversity

Reflect the diversity of our local community at every level by 2025



Great place to work

Better welfare facilities, catering and on-site healthcare

DELIVERING OUTCOMES FOR AIRLINES

“Heathrow provides efficient, affordable and reliable airport services”

WHAT WE HEARD FROM AIRLINES

We have listened to our current and future airline customers through extensive engagement. They say they want more automation of the passenger journey, more investment in baggage systems to increase resilience and a better connection proposition. They prioritise a robust, punctual and resilient airfield operation. There is also a strong focus on an affordable airport charge. They have a range of views on the speed and sequence of new capacity and whether Heathrow should focus on more passengers or maintaining a higher fare yield.

WHAT WE WILL DELIVER

Efficient operations

We will continue to reduce airline operating costs by reducing baggage misconnects, standardising systems and processes, and increasing use of automation. By having a common use terminal operation for self check-in, bag drop and boarding, we can improve consumer service and reduce operating costs.

The introduction of a new baggage system for T2 will allow an integrated baggage transfer service for virtually all connecting passengers. Baggage loading and unloading remains a very manual process and we will explore options to provide a more efficient service.

We will move to the IATA Ground Operations Manual (IGOM) to allow better safety and more efficient use of capacity. This could allow the introduction of shared ground service equipment, improving efficient use of scarce resources and reducing barriers to entry for ground handling. Standardisation of airside operations should allow increasing automation of processes such as push back, baggage operations and bussing.

Next Generation Security will allow a significant improvement in passenger experience, flow rate and represent a major opportunity to improve cost efficiency.

Punctuality and resilience

Punctuality is a big driver of passenger satisfaction and airline cost efficiency. We have made significant improvements in the last 10 years. Airspace change and a third runway can transform punctuality, reducing holding times and allowing a more flexible operation. The Airport Operations Centre (APOC) will have a stronger role in developing daily operating plans and in allocating resources across the airport to address any changes. Increasingly we will have better visibility of passenger flows coming to and through the airport and will be able to predict and avoid bottlenecks using Artificial Intelligence.

As core services are progressively automated, we will invest in technology and people to provide resilience. As an international hub, with a very diverse passenger base, we will always need a core number of people to provide service and security. Increasingly, we will need to develop a multi-skilled team across Team Heathrow, capable of providing core front of house passenger services, such as check-in and bag drop as well as other service roles to ensure that the operation keeps flowing even when technology fails.

An affordable airport charge

Airlines have always been clear that Heathrow expansion must be affordable. We want this too, so we can remain competitive as we grow. These plans meet the affordability challenge. This is an incredible achievement, given the increases in charges that have been required to expand other major hubs. We want to deliver expansion as cost efficiently as possible and have worked closely with our airline customers to ensure this happens. Although we are already operating efficiently compared to other airports, we have set ourselves challenging goals to further reduce costs and increase commercial revenues.

The airport charge per passenger is not just a function of capital spend and operating costs, it is also a function of passenger numbers, which is largely driven by airline strategy.

Heathrow is highly valued by airlines because its premium catchment area allows a greater proportion of high value business and first-class passengers than at other airports. Airlines typically have larger premium cabins on Heathrow routes and fewer overall seats per plane. This is an economically rational choice by airlines, which meets the needs of consumers, but also reduces the potential passenger numbers at Heathrow by at least 5%.

In spite of scarce capacity at Heathrow, it may seem surprising that aircraft load factors remain below the IATA average. One reason is that airlines at Heathrow choose to maximise yield per passenger, not load factor. This inefficient use of scarce assets from an airport perspective means that airport charges per passenger are higher than otherwise. As an indication of the scale of the opportunity, filling all empty seats would reduce airport charges by 20-25% overnight. Through marketing and price incentives we have had some success in encouraging airlines to fill some of the 20 million empty seats that are flown from Heathrow every year.

The introduction of more competition and choice between airlines will reduce passenger fares by tens or hundreds of pounds per ticket. The greater passenger numbers this will stimulate will also help to further reduce the airport charge per passenger. This also represents a huge commercial opportunity for growing carriers.

Impact of strategic options

The speed of growth and importantly slot release will impact airline competition. This in turn will impact the choice of flights provided for consumers and lower the airport charge and airfares.

OUR DELIVERABLES IN A SNAPSHOT



Meet affordability challenge



20% lower costs

20% decrease operating cost per passenger by 2036



More automation

Widespread process automation across Heathrow, cutting airline costs



Better punctuality

New airspace, airfield capacity and faster turn arounds maintain or improve Heathrow punctuality



Easier connections

Better connections for airline joint ventures and codeshare partners

DELIVERING OUTCOMES FOR INVESTORS

“Heathrow delivers predictable and fair returns”

OVERVIEW

Heathrow expansion will be one of the largest privately financed infrastructure projects in the world. We will invest £14bn (2014 prices) to get the runway open, and more after opening to provide the passenger facilities to meet demand. This entire investment for the users of the airport will be financed without public funds or Government guarantees.

Investors – equity and debt – cannot be taken for granted. This plan ensures the necessary cashflows to support global debt financing at existing strong investment grade ratings, while maintaining a sufficient return to attract equity investment to support the expansion programme.

Our owners are well funded, long term investors who have shown their commitment to Heathrow, and the UK, in transforming it into a world class airport. They will be required to inject new equity and to be patient through many years of construction before they can achieve an acceptable cash return on their investment.

Our financing strategy has focused on liquidity, diversification and duration. We have developed a global debt funding platform in eight currencies. This allows us to access debt in various deep and liquid markets such as the US dollar at very competitive rates and through economic cycles.

Our financing is based on a “whole business securitisation.” Any material changes to the nature of our business or the regulatory framework could jeopardise financing.

We need to maintain the investment programme through at least one economic cycle, and perhaps one or more shocks. Our equity and debt investors have already proven resilient to the Global Financial Crisis, major security changes, and events such as the ash cloud. We can therefore be confident that, provided there is stable long term economic regulation, expansion is financeable.

The current regulatory framework, with a Regulated Asset Base (RAB) and single till, have proven the most efficient ways to finance large, long term projects. The RAB is well understood by debt and equity investors globally so we propose very few changes to it. One important change will be a 15-year period to provide certainty to investors over equity returns through the investment cycle thus offering long term cashflow visibility to creditors.

WHAT WE HEARD FROM INVESTORS

We have engaged in some depth with debt and equity investors, rating agencies and the CAA's and DfT's financial advisors. We are hearing consistent messages:

- Maintaining an A- credit rating is critical to raise the amount of debt needed at appropriate cost, maintain confidence in us and support large bank facilities
- Cashflow credit metrics are key to creditors and credit rating agencies
- Heathrow will need to raise a large quantum of new equity to enable debt financing.

Equity investors worldwide tell us they require an appropriate return on capital over the investment time horizon. Infrastructure equity investors are characterised as requiring long term stable returns. They could commit to delivering expansion if returns are at a fair rate of return to reflect the additional risks compared to international comparators. The long period of negative free-cashflow, means recovery for equity investors is pushed very far into the future. For this reason, they require regulatory stability for longer than five years to give them confidence to invest.

Failure to build confidence from rating agencies, debt markets and equity investors will have consequences. It might prevent expansion at all or push financing costs and our charges higher.

WHAT WE WILL DELIVER

Our shareholders support this plan and will provide the equity injection required under the right regulatory and commercial conditions. This support from our shareholders is essential to raise the significant quantity of debt that we will need to fund expansion.

We have provided an initial financeability assessment in this IBP. We are working with all our current credit rating agencies to understand a preliminary opinion of the credit metrics that Heathrow should achieve to retain an A- rating throughout expansion. The process is ongoing.

We have implemented a debt financing strategy based on three pillars:

- Liquidity – increasing liquidity to support large capital expenditures and absorb the variations in expenditure and volatile access to debt capital markets
- Diversification – establishing strong positions in global debt markets to support our large capital expenditure plans while maintaining efficient pricing and reducing costs for consumers
- Duration – focusing on maximising the available duration in each market

Our financing strategy is designed to support our commitment to our existing investment credit ratings and build liquidity to ensure that we can meet financing needs. It is designed to do so as efficiently as possible and ultimately to reduce costs to maximise benefits for consumers. We have a very strong track record of delivering capital projects on time and on budget. Nevertheless, our financing strategy is designed to mitigate foreseeable financial risks associated with completing such a large capital project.

Based on the financial analysis that we have undertaken using the CAA's financial model, under the notional structure, expansion can be successfully financed from the perspective of both debt and equity. Our ability to successfully finance expansion relies heavily on maintaining debt investor confidence.

Impact of strategic options

- The speed of growth and capital expenditure requirements do have an impact on the risk profile and therefore returns. We believe that both options are financeable, if the right supporting regulatory framework is in place.

OUR DELIVERABLES IN A SNAPSHOT



Investment grade credit rating

Investment grade credit rating



Fair return

“Fair-return” taking risks into account



Stable regulatory framework

Long-term stable regulatory framework

THE STRATEGIC OPTIONS WE FACE

WHY THERE IS A CHOICE

In this plan we have set out our aspirations to offer what we understand consumers want. Yet we recognise that there are trade-offs consumers make between value and cost or different aspects of the service. Constraints from other stakeholders mean that there is a balance to be found. We have a base plan that is affordable, financeable, deliverable and sustainable. Within those parameters we see choices.

Some elements of the plan are largely settled. A once in a generation chance for new capacity offers such a large benefit for consumers and the UK, it is core to all our plans. Heathrow intends to keep a focus on service, sustainability and resilience through this period of change. Our masterplan has been developed and reviewed by stakeholders and our consumers. It sets out the vision for how Heathrow will look by 2050, but our route to achieve it has some flexibility.

CHOICES

We see three key considerations. The first is the speed at which we deliver new capacity. Second is the level of investment in service for consumers. The third choice is centred on the balance of risk. How we make these choices affects the resulting airfare savings, service levels, our airport charges and possibly the way we regulate and finance the airport.

Speed determines the degree to which we enable airlines to offer more competition and choice.

One of the greatest consumer benefits from expansion is new routes and airlines. The sooner we can deliver new capacity, the greater the benefit for consumers. Faster passenger growth also helps airport economics by bringing in more passengers, sooner, spreading the costs of investment. However, a faster build may also lead to more crowding, or put pressure on service and operations.

Consumers tell us they are looking for better service in certain stages of the journey, especially better access to the airport and a more reliable, resilient and less stressful trip through it. Our research tells us they are willing to pay a few pounds more to do so. We can identify areas where we can invest more on these priorities – such as contributions to rail schemes, or investments in more resilient infrastructure, or better terminal amenities.

A third trade-off is the degree of regulatory change and risk mitigation. Some changes to the way regulation works are simply necessary to finance expansion. Others such as traffic incentives change the balance of risk. The more risk rests with investors, the higher the cost of financing and vice versa.

STRATEGIC OPTIONS

Growth at Heathrow is complex, with a multitude of potential variables and options. We have defined two integrated options that coherently combine the impacts.

The first we have described as “Prioritising Savings.” It creates new capacity faster and opens terminal spaces earlier – as soon as feasible. Faster growth can mean a bigger fall in airfares, the only constraint to growth would be our ability to meet environmental targets through environmentally managed growth. We would maintain overall service levels similar to today. It keeps airport charges lower despite accelerated investment by maximising the use of existing infrastructure, growing passenger numbers faster and limiting investment in surface access and service improvements. We expect this option could require more regulatory changes to manage risk and reward appropriately.

The second we have described as “Prioritising Service.” It is more cautious with capacity release, seeking to protect resilience and stability of the operation. It also invests more in rail and service improvements. Service levels could improve even as we grow.

Airfares reduce significantly in both options, offsetting the small difference in airport charge.

The options have emerged out of the research and consumer engagement we have done so far. Having developed the integrated options, we will do more engagement and consultation with consumers and stakeholders on these choices prior to submitting a Final Business Plan in 2020.

PRIORITISING SAVINGS

PRIORITISING SERVICE

What does it mean?

Airfare saving

- Short haul; £37
- Long haul; £142

- Short haul; £21
- Long haul; £81

Growth schedule



- Runway open as soon as possible – 2028 - subject to consent and investment conditions
- Terminal expansion occurs more quickly, developing T5 and T2/T3 campuses simultaneously

- Runway opens in 2029
- Slower sequential terminal expansion from 2031

Capacity and passenger growth



- Slots and ATM capacity released at a faster rate, meaning faster passenger growth, potential different approach to traffic risk sharing

- Slower release of slots and ATMs and slower passenger growth

Service



- Basic service investments in key initiatives; e.g. washrooms, seating, charging and walkway improvements
- Current service levels to be maintained

- Additional service investments of c£500m, consisting of
- Consumer preferred service improvements through four pillars; championing service, best environment, leading product and open communications
 - Additional consumer driven cost-benefit interventions to improve baggage, punctuality and ambience and ease which would allow us to target higher service quality regulatory targets for four measures

Other developments



- Minimal investment in Western Rail and no investment in Southern Rail as per allowance made in M4 exit masterplan
- No commercial property development

- Additional contribution to both Western Rail and Southern Rail
- Commercial property development

Airport charge* (2022-2036)

£23.81 (2014p)
£26.20 (2018p)

£27.19 (2014p)
£29.91 (2018p)

Average Airfare Saving²⁹

Shorthaul Travel



Longhaul Travel



*saving versus no new capacity scenario.

²⁹ Frontier Economics

CONSUMER VIEWS ON OPTIONS



To understand customer views on the choices we face we undertook 'Choices' research with over 3,500 current and potential Heathrow consumers who represented a variety of demographics and journey types.

Passengers were presented with two options for delivering new Heathrow capacity, Slow and Fast. Potential implications for choice and airfares, as well as airport charges, were outlined for participants. Slow and Fast were further subdivided into two service offers - Regular and Enhanced (+). The Enhanced (+) options offered passengers an improved level of flight punctuality, increased satisfaction and a reduced chance of bags being delayed, consistent with potential outcomes in our options.

Findings from this evidence were:

- For current users, twice as many respondents preferred the Enhanced "+" (i.e. higher service) options over the lower service options
- Nearly half of potential users also picked the Enhanced (+) option
- This trend was true irrespective of the speed of new capacity
- The most valued service improvements are reduced baggage delays, less crowding and improved flight punctuality
- The Choices research, combined with other willingness to pay feedback, suggests that consumers might be willing to pay at least £1-2 extra on airport charges to receive a higher level of service

- There was a polarised response to the introduction of a vehicle access charge, linked to whether consumers currently travel to Heathrow via public transport or drive
- Over 60% of current consumers felt that it was important or very important or that there is an increased choice of flights including to more destinations and with more airlines
- Consumers had a small preference for slower capacity release if doing so improved resilience

Initial conclusions are that there is a clear consumer preference for targeted service investments for which they are prepared to pay but that while consumers value growth they are unsure on the right speed.

A CONSOLIDATED VIEW OF OUR PLAN

PRIORITISING SAVINGS

- Based on M4 exit masterplan with a faster build profile
- Scheduled runway opening date 2028
- Faster passenger growth forecast
- Forward curve cost of debt indexed WACC, starting at 6.4%
- HULEZ/HVAC charge included
- Updated Other Regulated Charges package
- Basic surface access and service improvements included only

PRIORITISING SAVINGS	(2018P)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
OPENING RAB	£m	17,378	19,681	22,886	26,436	29,466	31,793	33,830	35,419	36,177	36,461	36,598	36,244	36,019	36,061	36,357
CAPEX	£m	3,175	4,077	4,399	3,881	3,307	3,020	2,525	1,762	1,390	1,348	880	1,057	1,318	1,562	997
DEPRECIATION	£m	-872	-872	-848	-851	-980	-984	-935	-1,004	-1,106	-1,211	-1,235	-1,282	-1,275	-1,265	-1,353
CLOSING RAB	£m	19,681	22,886	26,436	29,466	31,793	33,830	35,419	36,177	36,461	36,598	36,244	36,019	36,061	36,357	36,002
MID-YEAR RAB	£m	18,529	21,283	24,661	27,951	30,630	32,812	34,624	35,798	36,319	36,530	36,421	36,131	36,040	36,209	36,179
RETURN ON RAB	£m	1,134	1,305	1,512	1,713	1,877	1,870	1,973	2,040	2,069	2,081	2,016	2,000	1,995	2,004	2,002
OPERATING COSTS	£m	1,250	1,266	1,273	1,272	1,333	1,325	1,349	1,326	1,421	1,461	1,439	1,518	1,487	1,482	1,475
COMMERCIAL REVENUE	£m	1,344	1,350	1,349	1,345	1,584	1,576	1,640	1,595	1,674	1,743	1,796	1,860	1,902	1,936	1,969
AVERAGE WACC	%			6.1%				5.7%						5.5%		
PASSENGERS	m	84.1	85.6	86.4	87.0	87.8	88.4	93.5	98.5	103.5	107.9	112.3	115.8	118.9	121.3	123.7
EST. AIRPORT CHARGE PER PASSENGER	£								26.20							

PRIORITISING SERVICE

- Based on M4 exit masterplan with a slower build profile
- Scheduled opening date 2029
- Slower passenger growth forecast
- Forward curve cost of debt indexed WACC, starting at 6.4%
- HULEZ/HVAC charge included
- Updated Other Regulated Charges package
- Additional surface access and service improvements included

PRIORITISING SERVICE	(2018P)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
OPENING RAB	£m	17,370	19,616	22,410	25,833	29,531	31,766	33,795	35,458	36,752	37,524	38,032	38,188	37,887	38,179	38,530
CAPEX	£m	3,118	3,666	4,293	4,568	3,203	3,140	2,676	2,330	1,908	1,779	1,533	1,112	1,681	1,802	1,633
DEPRECIATION	£m	-872	-872	-870	-871	-968	-1,110	-1,013	-1,036	-1,136	-1,271	-1,378	-1,412	-1,389	-1,451	-1,545
CLOSING RAB	£m	19,616	22,410	25,833	29,531	31,766	33,795	35,458	36,752	37,524	38,032	38,188	37,887	38,179	38,530	38,618
MID-YEAR RAB	£m	18,493	21,013	24,121	27,682	30,648	32,780	34,627	36,105	37,138	37,778	38,110	38,037	38,033	38,354	38,574
RETURN ON RAB	£m	1,131	1,288	1,479	1,697	1,878	1,868	1,973	2,058	2,116	2,152	2,109	2,105	2,105	2,123	2,135
OPERATING COSTS	£m	1,265	1,287	1,296	1,295	1,355	1,346	1,339	1,295	1,311	1,379	1,359	1,442	1,417	1,499	1,469
COMMERCIAL REVENUE	£m	1,330	1,338	1,341	1,339	1,573	1,566	1,572	1,490	1,530	1,598	1,653	1,726	1,778	1,846	1,892
AVERAGE WACC	%			6.1%				5.7%						5.5%		
PASSENGERS	m	82.3	84.0	85.0	85.8	86.3	86.8	87.2	87.6	91.7	95.6	99.7	103.9	107.9	111.8	115.2
EST. AIRPORT CHARGE PER PASSENGER	£								29.91							

Further information can be found in our detailed plan.

A SUPPORTING REGULATORY FRAMEWORK

Investment to grow over the next decade will more than double the Regulatory Asset Base to over £30bn. The new market dynamics that come with growth and any investment programme of such size brings new risks. The right supporting regulatory framework is vital to deliver for consumers, and ensure that expansion is affordable, financeable, deliverable and sustainable.

The existing regulatory framework provides a proven starting point. The basic framework has achieved much for consumers with better service, falling charges, efficiency and investment. It is also able to protect the interests of airlines and other stakeholders. Given the significant change Heathrow is undergoing, we believe evolution is better than revolution or change for change's sake. Evolution also helps ensure appropriate and better understood mechanisms are in place to govern service, volume, construction, financing and other risks.

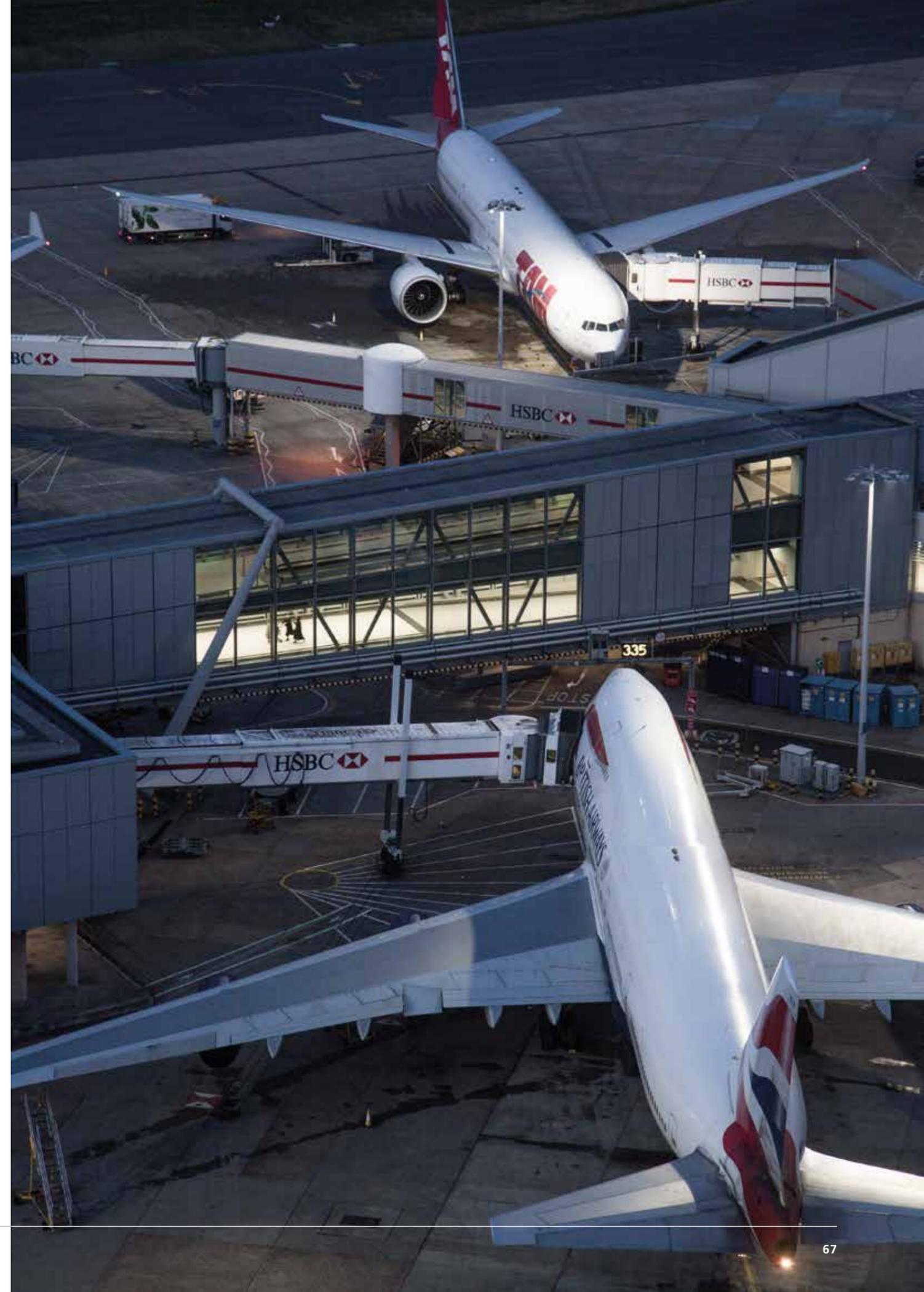
Time periods are also intrinsically linked to risk and uncertainty. Heathrow will be investing for over a decade – indeed the masterplan and Development Consent Order (DCO) scope runs to 2050 – to deliver consumer and commercial benefit well into the 2030s. Patient capital can finance that type of business. Commercially sophisticated airlines can plan to exploit the new capacity. But both airports and airlines need longer term predictability to do so. The period of heightened risk and reward is longer than the traditional 5-year regulatory settlement. A 5-year period would thus impact both affordability and financeability.

For this reason, Heathrow is proposing a 15-year price control period for 2022-2036. It would help smooth and spread cost and risk over the period of expansion. All else equal, that reduces costs and increases certainty for consumers. To avoid excessive deviations from fair performance for all parties we propose reset mechanisms over the 15-year period.

We have developed a balanced approach to the regulatory framework that balances predictability, flexibility and risk. This is set out below:

BUILDING BLOCK	COMPONENT	RECOMMENDED OPTION
PASSENGER FORECASTS	OVERALL FORECASTS	Subject to performance-based or periodic reset through 15 years
	25K EARLY GROWTH ATMS	Mechanistic adjustment to airport charges when cap is lifted
CAPEX	INCENTIVES AND FRAMEWORK	Development and Core ex-ante milestone triggers set at G3
	RAB INDEXATION	RPI for duration of the settlement
OPEX	GENERAL OPEX	Subject to performance-based or periodic reset through 15 years
COMMERCIAL	GENERAL COMMERCIAL	Subject to performance-based or periodic reset through 15 years
	VEHICLE ACCESS CHARGES	Income in single till with options to mitigate risk
SERVICE QUALITY	INCENTIVES	Outcomes based targets building on SQRB with potential for ongoing evolution over 15 years
WACC	COST OF DEBT	Debt indexation for new debt and defined allowance for embedded debt
	COST OF EQUITY	Fixed for 2022-2036 Explicit Expansion Risk Premium based on additional risks, confirmed once expansion triggered
	FINANCIAL STRUCTURE	60/40% Debt to Equity notional fixed to 2036
	TAX	Based on notional structure, updated for corporation tax
ALTERNATIVE MECHANISMS	COMMERCIAL DEAL	Supported to supplement regulatory framework and promote growth
	INNOVATION PARTNERSHIPS	Included to drive efficiency and service innovation for an integrated hub airport
	COMMERCIAL PROPERTY	Options to develop ancillary facilities over longer term period

The CAA published its policy update on the early costs of Heathrow expansion in December 2019. Our plan is broadly consistent with the CAA schedule assumptions. However, at first reading we are concerned over whether the CAA is setting the right incentives to allow investment. Inability to make these early investments will impact, or could even prevent, the delivery of our plans. We are reviewing the detail and will respond in due course to the CAA consultation.



THE REGULATORY REQUIREMENTS FOR OUR BUSINESS PLAN

The CAA guidance set requirements for our business plan. We have met these in our submission.



OUTCOMES AND CONSUMER ENGAGEMENT

The plans we are presenting are outcomes focused and the result of working with many different consumers, through a range of research techniques to understand their preferences. The approach has been reviewed by the CCB and we have responded to many of their challenges.

The outcomes presented in this document are a result of synthesising over 150 different pieces of research. We've also presented consumers with choices to start to understand what provides them with maximum value.

We've also worked extensively with our airlines, with over 450 hours of engagement in the last two years.



RESILIENCE

We recognise the central importance of continued resilience, even as we grow and face the challenges of construction in a live operational environment. Resilience both underpins our base assumptions around our operations and infrastructure development and is inherent in the strategic options we present. A fuller discussion of resilience is in the detailed plan.



COSTS

We want to deliver expansion as efficiently as possible and have worked with our airline customers to minimise capital spend. We have created a robust, transparent, benchmarked, validated and evidenced plan. We have ensured that our costs include ambitious efficiency improvements. By presenting options we show where we see trade-offs and the cost implications of those options.



INCENTIVES AND RISKS

We have identified our key risks in delivering our plans. They are discussed further in the detailed plan. Our proposed incentives are tested against the common regulatory definitions of risk.

We propose an evolution of the Q6 regulatory framework to support efficient delivery for consumers.



FINANCEABILITY AND AFFORDABILITY

Our plans are affordable as tested against consumer willingness to pay. We have also shown how we meet the affordability challenge.

Our plans are financeable, subject to a supporting regulatory framework and an ability to maintain our credit rating with agencies. We provide analysis against financing metrics in support.



SCOPE

This plan is an integrated proposal for our business as usual operations and expansion. We do illustrate likely financials for non-expansion scenarios but have not created a detailed counterfactual plan.



We have submitted our plan to the Civil Aviation Authority, which is responsible for assessing it and setting limits on our prices. We are also engaging with airlines and other stakeholders on our proposals. Based on the feedback we receive, we will produce a Final Business Plan in 2020. The CAA will then publish their initial views and final decisions on our plan will be made by the CAA in 2021.

YOUR VIEWS

We are now in a period of wider engagement on our proposals, and we would welcome any comments on our plan.

Let us have your views either by contacting us online at www.heathrow.com or by writing to us at:

**Regulation (Initial Business Plan), Compass Centre,
Nelson Road, Hounslow, TW6 2GW**

Or by email to regulation@heathrow.com

The closing date is 31st March, 2020.
We look forward to hearing from you.

