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**Heathrow Airport Limited
2008-09 PCR Trading Statements to Table 6-3 Variance Analysis**

Introduction

The CAA forecast for specified activities lists the revenue that is forecast to be generated by Heathrow airport (i.e. third party revenue) for the fifth quinquennium (Q5). This forecast is based on certain assumptions and any derivation from this forecast is required to be explained and justified to users and the CAA.

This report provides users with explanations of variances between actual performance and CAA forecast for activities identified as 'Specified Activities' within Table 6-3 of the 'Economic Regulation of Heathrow and Gatwick Airports 2008-2013' CAA decision dated 11th March 2008' for the year ending 31st March 2009.

The specified activities are:

- Check-in desks
- Other desks
- Staff car parking
- Airside licenses
- Gas
- Water and sewerage
- Electricity
- Security ID passes
- Fixed electrical ground power
- Bus and coach services
- Heating and ventilation

The variance analysis has been made against third party elements of the 'PCR Trading statements for the period 1st April 2008 to 31st March 2009'.

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2008/09 from Office of national statistics (ONS) and Oxford Economic Forecast (OEF) for future years.

The RPI uplift is applied to provide a consistent comparison between CAA forecast and actuals in nominal prices (i.e. current year prices). The actuals used for the comparison have been extracted from the trading statements (third party element). These variances are explained on the following sheets.

| Breakdown Table 6.3 in 07/08p | | | | | | Breakdown Table 6.3 in Outturn | | | | | Trading Statement | |
|--|---------------|---------------|---------------|---------------|---------------|--------------------------------|---------------|---------------|---------------|---------------|-------------------|-----------------|
| RP\ | | | | | | 2.97% | -0.68% | 1.48% | 1.85% | 2.65% | | Variance |
| Index | | | | | | 1.030 | 1.023 | 1.036 | 1.057 | 1.085 | | |
| 2008-09 | | | | | | | | | | | | |
| Baggage & Check-in | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 89.08 | 86.72 | 87.72 | 87.36 | 89.47 | 91.73 | 88.69 | 91.04 | 92.34 | 97.08 | 104.077 | (12.350) |
| Direct Cost | 82.3 | 79.1 | 79.4 | 78.3 | 79.8 | 84.70 | 80.93 | 82.39 | 82.80 | 86.57 | 108.733 | (24.030) |
| Annully | 0 | 0 | 0 | 0 | 0 | - | - | - | - | - | 0.000 | 0.000 |
| Allocated Costs | 6.8 | 7.6 | 8.3 | 9.0 | 9.7 | 7.02 | 7.76 | 8.65 | 9.55 | 10.52 | 7.024 | 0.000 |
| Total | 89.081 | 86.720 | 87.721 | 87.361 | 89.472 | 91.727 | 88.693 | 91.040 | 92.344 | 97.081 | 115.757 | (24.030) |
| Net Over (Under) Recovery | | | | | | | | | | | (11.680) | |
| Staff Car Parking | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 19.510 | 19.570 | 19.550 | 19.530 | 19.500 | 20.089 | 20.015 | 20.290 | 20.644 | 21.158 | 23.128 | (3.039) |
| Direct Costs | 7.853 | 7.871 | 7.857 | 7.843 | 7.826 | 8.086 | 8.050 | 8.154 | 8.291 | 8.491 | 9.995 | (1.909) |
| Annully | 7.453 | 7.480 | 7.476 | 7.472 | 7.464 | 7.674 | 7.650 | 7.759 | 7.898 | 8.099 | 7.674 | 0.000 |
| Allocated Costs | 4.204 | 4.219 | 4.217 | 4.215 | 4.210 | 4.329 | 4.315 | 4.377 | 4.455 | 4.568 | 4.329 | 0.000 |
| Total | 19.510 | 19.570 | 19.550 | 19.530 | 19.500 | 20.089 | 20.015 | 20.290 | 20.644 | 21.158 | 21.998 | (1.909) |
| Net Over (Under) Recovery | | | | | | | | | | | 1.130 | |
| Airside Licences | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 0.780 | 0.780 | 0.780 | 0.780 | 0.780 | 0.803 | 0.798 | 0.810 | 0.824 | 0.846 | 0.685 | 0.118 |
| Direct Costs | 0.378 | 0.378 | 0.378 | 0.378 | 0.378 | 0.390 | 0.387 | 0.393 | 0.400 | 0.411 | 0.390 | 0.000 |
| Annully | 0.041 | 0.041 | 0.041 | 0.041 | 0.041 | 0.042 | 0.042 | 0.042 | 0.043 | 0.044 | 0.042 | 0.000 |
| Allocated Costs | 0.361 | 0.361 | 0.361 | 0.361 | 0.361 | 0.371 | 0.369 | 0.374 | 0.381 | 0.391 | 0.371 | 0.000 |
| Total | 0.780 | 0.780 | 0.780 | 0.780 | 0.780 | 0.803 | 0.798 | 0.810 | 0.824 | 0.846 | 0.803 | 0.000 |
| Net Over (Under) Recovery | | | | | | | | | | | (0.118) | |
| Heating and Ventilation & Gas | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 0.980 | 0.950 | 0.930 | 0.910 | 0.890 | 1.009 | 0.972 | 0.965 | 0.962 | 0.966 | 1.117 | (0.108) |
| Direct Costs | 0.702 | 0.681 | 0.666 | 0.652 | 0.638 | 0.723 | 0.696 | 0.692 | 0.689 | 0.692 | 1.064 | (0.340) |
| Annully | 0.565 | 0.548 | 0.536 | 0.525 | 0.513 | 0.582 | 0.560 | 0.557 | 0.555 | 0.557 | 0.582 | 0.000 |
| Allocated Costs | 0.299 | 0.290 | 0.284 | 0.278 | 0.272 | 0.308 | 0.297 | 0.295 | 0.294 | 0.295 | 0.308 | 0.000 |
| Total | 1.567 | 1.519 | 1.487 | 1.455 | 1.423 | 1.613 | 1.553 | 1.543 | 1.538 | 1.544 | 1.954 | (0.340) |
| Net Over (Under) Recovery | | | | | | | | | | | (0.837) | |
| Water & Sewerage | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 0.950 | 0.930 | 0.930 | 0.930 | 0.930 | 0.978 | 0.955 | 0.963 | 0.980 | 1.005 | 1.117 | (0.139) |
| Direct Costs | 0.598 | 0.597 | 0.600 | 0.605 | 0.610 | 0.616 | 0.610 | 0.623 | 0.639 | 0.662 | 0.687 | (0.071) |
| Annully | 0.163 | 0.156 | 0.152 | 0.149 | 0.146 | 0.167 | 0.159 | 0.158 | 0.157 | 0.159 | 0.167 | 0.000 |
| Allocated Costs | 0.189 | 0.181 | 0.176 | 0.173 | 0.170 | 0.195 | 0.185 | 0.183 | 0.183 | 0.184 | 0.195 | (0.000) |
| Total | 0.950 | 0.934 | 0.928 | 0.927 | 0.926 | 0.978 | 0.955 | 0.963 | 0.980 | 1.005 | 1.049 | (0.071) |
| Net Over (Under) Recovery | | | | | | | | | | | 0.068 | |
| Electricity | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 29.490 | 28.750 | 28.420 | 27.920 | 28.970 | 30.369 | 29.404 | 29.495 | 29.512 | 31.434 | 23.654 | 6.715 |
| Direct Costs | 22.212 | 21.478 | 21.375 | 20.957 | 21.754 | 22.871 | 21.966 | 22.184 | 22.153 | 23.604 | 14.702 | 8.169 |
| Annully | 4.771 | 4.764 | 4.618 | 4.565 | 4.727 | 4.913 | 4.872 | 4.793 | 4.826 | 5.129 | 4.913 | (0.000) |
| Allocated Costs | 2.510 | 2.507 | 2.430 | 2.402 | 2.487 | 2.585 | 2.564 | 2.522 | 2.539 | 2.699 | 2.585 | (0.000) |
| Total | 29.493 | 28.749 | 28.422 | 27.925 | 28.968 | 30.369 | 29.403 | 29.498 | 29.517 | 31.432 | 22.200 | 8.169 |
| Net Over (Under) Recovery | | | | | | | | | | | 1.453 | |
| Security ID | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 2.730 | 2.750 | 2.780 | 2.800 | 2.730 | 2.811 | 2.813 | 2.885 | 2.960 | 2.962 | 2.439 | 0.373 |
| Direct Costs | 1.327 | 1.337 | 1.351 | 1.361 | 1.327 | 1.366 | 1.367 | 1.402 | 1.438 | 1.440 | 1.214 | 0.153 |
| Annully | 0.079 | 0.080 | 0.081 | 0.081 | 0.079 | 0.081 | 0.081 | 0.084 | 0.086 | 0.086 | 0.081 | 0.000 |
| Allocated Costs | 1.324 | 1.334 | 1.348 | 1.358 | 1.324 | 1.363 | 1.364 | 1.399 | 1.436 | 1.437 | 1.363 | 0.000 |
| Total | 2.730 | 2.750 | 2.780 | 2.800 | 2.730 | 2.811 | 2.813 | 2.885 | 2.960 | 2.962 | 2.658 | 0.153 |
| Net Over (Under) Recovery | | | | | | | | | | | (0.219) | |
| Fixed Electrical Ground Power | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 7.180 | 7.160 | 7.120 | 7.090 | 7.060 | 7.393 | 7.323 | 7.389 | 7.494 | 7.660 | 6.938 | 0.455 |
| Direct Costs | 3.094 | 3.085 | 3.055 | 3.042 | 3.038 | 3.186 | 3.155 | 3.170 | 3.215 | 3.296 | 2.016 | 1.170 |
| Annully | 2.078 | 2.072 | 2.089 | 2.079 | 2.054 | 2.140 | 2.119 | 2.168 | 2.197 | 2.228 | 2.140 | 0.000 |
| Allocated Costs | 2.008 | 2.003 | 1.977 | 1.969 | 1.968 | 2.067 | 2.049 | 2.051 | 2.082 | 2.136 | 2.067 | 0.000 |
| Total | 7.180 | 7.160 | 7.120 | 7.090 | 7.060 | 7.393 | 7.323 | 7.389 | 7.494 | 7.660 | 6.223 | 1.170 |
| Net Over (Under) Recovery | | | | | | | | | | | 0.715 | |
| Bus and Coach | | | | | | | | | | | | |
| Income | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | | |
| | 1.390 | 1.390 | 1.390 | 1.390 | 1.390 | 1.431 | 1.422 | 1.443 | 1.469 | 1.508 | 1.461 | (0.030) |
| Direct Costs | 0.109 | 0.109 | 0.109 | 0.109 | 0.109 | 0.113 | 0.112 | 0.113 | 0.116 | 0.119 | 0.480 | (0.368) |
| Annully | 0.783 | 0.783 | 0.783 | 0.783 | 0.783 | 0.806 | 0.801 | 0.813 | 0.828 | 0.850 | 0.806 | 0.000 |
| Allocated Costs | 2.523 | 2.523 | 2.523 | 2.523 | 2.523 | 2.598 | 2.580 | 2.618 | 2.667 | 2.737 | 2.598 | (0.000) |
| Total | 3.415 | 3.415 | 3.415 | 3.415 | 3.415 | 3.517 | 3.493 | 3.544 | 3.610 | 3.706 | 3.884 | (0.368) |
| Net Over (Under) Recovery | | | | | | | | | | | (2.423) | |

Baggage; Check-in & CUSS 2008-09

£m

| <u>3rd Party Element only</u> | Variance to 6-3 | Comment |
|--|-----------------------|---------|
| Revenue | <u><u>(12.35)</u></u> | |
| Direct Costs | | |
| Check-in & CUSS | | |
| CUSS Costs | 1.20 | |
| Check-in Desks Agreed Capital Charge | 1.46 | |
| Check-in Site Fee | <u>1.38</u> | |
| T1 OOG assumed closed | 4.0 | |
| Terminal 3 - Transfer Facility (Building 139) | 0.2 | |
| Terminal 4 Ancillary Baggage Facility additional scope | 0.4 | |
| Terminal 2 agreed cost change | 0.8 | |
| Terminal 5 IT Costs | 1.2 | |
| Terminal 5 Transfers & Arrivals scope | 3.2 | |
| Road Based Connectivity | 4.7 | |
| Increased scope of Arrivals | 1.0 | |
| T2 Delayed Closure | 0.4 | |
| T1 to T4 Tunnel delay | | |
| Tunnel ITO | 0.9 | |
| Delayed relocations ITO costs | 1.1 | |
| | 1.6 | |
| | <u>1.6</u> | |
| Other Inc - Inflation vs Supplier contract uplifts and various other changes | 5.2 | |
| | 2.9 | |
| Total Direct Cost Variance | <u><u>24.03</u></u> | |

Staff Car Parking 2008-09

£ 000's

3rd Party Element only

Revenue

| | | |
|---------------------------|---------|--|
| Pricing differential | (3,315) | |
| Volume Differential | (839) | Actual average cost £ 699 per pass Vs Table 6-3 forecast £ 600 |
| Change in 3rd party share | 1,115 | Actual number of average passes 42,977 Vs Table 6-3 forecast 41,489 (Note 1) Actual share 76.99% Table 6-3 forecast 80.70%. |

Variance to 6-3

Comment

(3,039)

Note - Full PCR numbers not 3rd Party

Direct Costs

| | | |
|-------------------------|---------|----------------------------------|
| Staff | (96) | |
| Coaching & Fuel | (1,928) | Add Manpower Vs Reduced Mgmt Fee |
| Management Fee/Security | 370 | Add Schedules and fuel costs |
| Rates | (311) | |
| Rent | 68 | Rating increase |
| PTL | (11) | |

Total Direct Cost Variance

(1,909)

Airside Licences 2008-09

£ 000's

3rd Party Element only

Revenue

Pricing differential

Volume Differential

Change in 3rd party share

Rounding

Variance to 6-3

(231)

254

93

1

118

Direct Costs

0

Total Direct Cost Variance

0

Comment

Actual Licence cost £ 2,590 Vs Table 6-3 forecast £ 2,010
Actual number of Licences 300 Vs Table 6-3 forecast 398 (Note 1)
Actual share 88.02% Table 6-3 forecast 100%.

Note - Full PCR numbers not 3rd Party

Heating and Ventilation and Gas 2008-09

£ 000's

3rd Party Element only

Variance to 6-3

Comment

Heating from the major Boilerhouses (448, 523, T4 and the T5 Energy Centre) is generally charged as a rental per square foot, but some is charged on a unit price per Kilo Watt Hour (kwh). Rates vary from contract to contract, but each contains provision for a supplementary charge or credit based on the results for each calendar year to compensate for any over or under recovery.

Revenue

(108)

T5 Energy Centre income was not included in the Table 6-3 submission, neither was the reduction in the other boiler houses caused by the relocated usage. Therefore the additional income has been offset by a fall in revenue from the other boilerhouses.

Direct Costs

Staff

(185)

Property Related

192

Maintenance and Equipment

(269)

General

(31)

Indirect charges

(47)

T5 Energy Centre Costs

T5 Energy Centre Costs

T5 Energy Centre Costs

T5 Energy Centre Costs

Total Direct Cost Variance

(340)

Water & Sewerage 2008-09

£ 000's

3rd Party Element only

Variance to 6-3

Comment

Revenue

Pricing differential

(240)

Actual cost £ 2.67 Vs Table 6-3 forecast £ 2.03

Volume Differential

216

Actual number of units 2,210,525 Vs Table 6-3 forecast 2,837,065 (Note 1)

Change in 3rd party share

(116)

Actual share 18.92% Table 6-3 forecast 16.96%.

Rounding

1

Note - Full PCR numbers not 3rd Party

(139)

Direct Costs

Staff

(118)

Additional costs re maintenance of T5 water assets

Raw Materials

16

Maintenance

45

General

(15)

Total Direct Cost Variance

(71)

Electricity 2008-09

£ 000's

3rd Party Element only

Revenue

Pricing differential

Volume Differential

Change in 3rd party share

Rounding

Variance to 6-3

(146)

4,386

2,476

6,715

Comment

Actual cost 12p Vs Table 6-3 forecast £ 11.9p

Actual number of units 64,140,046 Vs Table 6-3 forecast 74,546,459 (Note 1)

Actual share 36.87% Table 6-3 forecast 40.73%.

Note - Full PCR numbers not 3rd Party

Direct Costs

Raw Materials

8,169

Reduced Consumption reflected in lower costs

Total Direct Cost Variance

8,169

Security ID's 2008-09

£ 000's

| 3rd Party Element only | Variance to 6-3 | Comment |
|------------------------------------|------------------------|--|
| Revenue | | |
| Price and Volume differential | 93 | Forecast price £84.94, giving expected issue of 38,945 average passes. Actual unit prices vary depending on the type of pass required. Actual number of average passes issued 42,968 at an average price of £74.43. (Note 1) |
| Change in 3rd party share Rounding | 279 | Actual share 76.25% Table 6-3 forecast 84.99%. |
| | <u>372</u> | Note - Full PCR numbers not 3rd Party |
| Direct Costs | | |
| Staff | 401 | |
| Property Related | 85 | |
| Maintenance and Equipment General | 72 | |
| Indirect Charges | (7) | |
| | (399) | Net effect of all changes to process and occupation agreed with AOC. |
| Total Direct Cost Variance | <u>153</u> | |

Fixed Electrical Ground Power 2008-09

£ 000's

3rd Party Element only

Variance to 6-3

Comment

Revenue

455

Direct Costs

Electricity

482

Reduced Consumption reflected in lower costs

Maintenance

689

Lower costs of maintenance

Total Direct Cost Variance

1,170

Bus and Coaches 2008-09

£ 000's

3rd Party Element only

Variance to 6-3

Comment

Revenue

(30)

Variance is due to a fall in the retail income from the outlets in the CTA.

Direct Costs

Property Related
Maintenance and Equipment
General

(10)
(153)
(205)

Additional costs of maintenance
Additional costs

Total Direct Cost Variance

(368)