



Heathrow (SP) Limited Regulatory Accounts Year ended 31 December 2018



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Introduction

Heathrow (SP) Limited (the 'Company') owns Heathrow Airport Limited ('Heathrow'), Heathrow Express Operating Company Limited ('HEX'), Heathrow Funding Limited and Heathrow (AH) Limited, which together comprise the regulated entity for the purposes of the regulatory accounts.

These regulatory accounts include the following schedules which track Heathrow's performance during 2018 against the Civil Aviation Authority's ('CAA's') regulatory determination:

- a comparison of the actual financial performance of Heathrow with the regulatory assumptions;
- a record of the movement in Heathrow's regulatory asset base, calculated in accordance with the basis used to set the price control for the control period;
- a record of the price control in each year; and
- a record of the RPI inflation indices used to convert between price bases in these statements.

For the year ended 31 December 2018, the regulatory accounts have been drawn up in accordance with the requirements of condition E1 of the 'Economic regulation at Heathrow from April 2014: notice granting the licence' ('the Licence') and the CAA's Regulatory Accounting Guidelines.

For further information on the preparation of these accounts, please refer to the notes on the basis of preparation and indexation in sections 7 and 9 respectively.

Reconciliations to statutory financial reporting are in section 8.

Objectives of the Regulatory Accounts

The purpose of the regulatory accounts is to make available, in a form and to a standard satisfactory to the CAA, such audited regulatory accounting information as will, in furtherance of the requirements of the Licence:

- a) enable the CAA, airlines and users of air transport services to assess on a consistent basis the financial position of Heathrow (SP) Limited and the financial performance of provision of airport operation services and associated services provided in connection with Heathrow Airport;
- b) assist the CAA, airlines and users of air transport services to assess performance against the assumptions underlying the price control conditions in Conditions C1 and C2 of the Licence; and
- c) inform future price control reviews.

2018 Performance Overview

We continued to deliver strong performance in 2018 and welcomed a record 80 million passengers travelling through the UK's only hub airport, up 2.7% on last year. We are one of only seven airports in the world to have exceeded 80 million passengers in a single year and the only airport to achieve this milestone with only 2 runways. Whilst continuing to deliver growth, we also sustained our high customer satisfaction scores and were named 'Best Airport in Western Europe' for the fourth year running, and 'Best Airport for Shopping' for the ninth year in the most recent Skytrax World Airport Awards.

We also progressed the four strategic priorities underpinning our vision to give our passengers the Best Airport Service in the World: making Heathrow a great place to work, transforming our service to passengers and airlines, beating the business plan over the current regulatory period and operating and growing Heathrow sustainably today and in the future.

Critical to the success of our vision is attracting, retaining and developing high quality talent. This is why making Heathrow a great place to work and creating careers where people can fulfil their potential is at the very heart of our strategy. In 2018 an outstanding 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We delivered outstanding service to our passengers during our busiest year ever. We achieved an excellent 4.15 out of 5.0 score in the global Airport Service Quality (ASQ) survey in 2018 as well as maintaining our high levels of successful baggage connections and departures punctuality. In addition, reflecting the success of our pricing strategy to boost domestic connectivity, short haul traffic grew by 2.2% and intercontinental by 3.1%. Intercontinental growth continued to be driven by routes to North America, through increased flight frequency and aircraft size, while passenger numbers to-and-from the Asia Pacific region also grew strongly driven by our new Chinese routes.

As part of our Heathrow 2.0 plan for sustainable growth, we released our Carbon Neutral Growth Roadmap, setting out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. We also launched our Living Wage Roadmap, showing how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Despite continuing to invest in winter resilience, special passenger assistance, security and expansion, we have continued to deliver declining costs per passenger. On the revenue side, aeronautical revenues grew by 1.7% compared to 2017 despite a delivering a 1% reduction in aeronautical revenue per passenger. Retail revenues grew by 8.6% as passengers responded strongly to several successful retail initiatives. We saw more passengers participating in our retail offering with each spending more. As a result of these dynamics, total revenues were almost £3 billion, up 3% on 2017. We raised close to £2.3 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14 billion consolidated debt.

2018 also saw the commencement of our plans to deliver expansion following the UK Parliament passing the airports National Policy Statement in June by a substantial majority.

2018 Performance Overview *continued*

We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable expansion that is affordable, sustainable and financeable. Following the launch of our initial planning consultation in January 2018, we also launched a consultation on airspace changes in January 2019 and are making final preparations for the statutory consultation on our masterplan for expansion in mid 2019. These consultations provide an opportunity for our local community and other stakeholders to help us shape Heathrow's future.

Passenger numbers in 2018 were 8% above the forecast based on the CAA decision. In financial terms, 2018 has seen a good performance. Higher revenue from airport charges was driven primarily by the higher passenger numbers. Other revenue was 6% above the forecast based on the CAA decision, including a solid retail performance and good growth in car parking revenue. Operating costs were 1% higher than the forecast based on the CAA decision.

Regulatory operating profit at £1,020 million was £125 million higher than the forecast based on the CAA decision. This variance was largely due to higher passenger numbers.

Heathrow's calculation of the weighted average Regulatory Asset Base (RAB) for 2018 was £15,994 million, £151 million lower than the forecast based on the CAA decision due to lower capital expenditure in both 2016 and 2017. Airport charges for 2018 have been adjusted downwards, through the Development/Core Capital adjustment mechanism, to reflect these lower levels of capital expenditure.

The actual return on RAB in 2018 of 6.4% compared to 5.5% in the forecast based on the CAA decision was primarily due to the higher regulatory operating profit and a lower RAB.

We continue to monitor progress made by the UK Parliament as it debates the proposed Brexit Withdrawal Agreement. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of the EU aviation contingency plans.

1. Performance Summary for the year ended 31 December 2018

£million (unless otherwise stated)	Section	Actual	CAA Forecast ¹	Variance	%
Total Passengers (thousands)	2	80,102	74,200	5,902	8%
Revenue	3				
Airport Charges		1,745	1,681	64	4%
Other Revenue		1,207	1,138	69	6%
Total Revenue		2,952	2,819	133	5%
Expenditure	4				
Operating costs		(1,130)	(1,122)	(8)	1%
Assumed ordinary depreciation		(802)	(802)	0	0%
Total Expenditure		(1,932)	(1,924)	(8)	(0%)
Regulatory operating profit		1,020	895	125	14%
Capital expenditure	5	783	634	149	24%
Opening RAB	6	15,786	16,011	(225)	(1%)
Closing RAB	6	16,202	16,275	(73)	(0%)
Average RAB		15,994	16,143	(149)	(1%)
Return on average RAB		6.38%	5.54%	0.84%	

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

The Regulatory accounts of Heathrow (SP) Limited were approved by the Board of Directors of

SP Limited on ^a April 2019 and signed on behalf: y:

ave
Director

Nicholas Golding
Director

2. Passenger Summary

Heathrow passengers for the year ended 31 December 2018

Thousands	Actual	CAA Forecast	Variance	(%)
	Departing passengers	39,640		
Arriving passengers	40,462			
Total passengers¹	80,102	74,200	5,902	8%

¹ Passenger totals are unrounded and defined in the basis of preparation in section 7.

Heathrow's passengers by geographic segment for year ended 31 December 2018 vs. year ended 31 December 2017

Thousands	Actual	Prior year	Variance	(%)
UK	4,795	4,802	(7)	(0%)
Europe	33,326	32,485	841	3%
North America	18,100	17,358	742	4%
Asia Pacific	11,532	11,258	274	2%
Middle East	7,660	7,622	38	0%
Africa	3,338	3,170	168	5%
Latin America	1,351	1,294	57	4%
Total passengers¹	80,102	77,989	2,113	3%

¹ Passenger totals are unrounded and defined in the basis of preparation in section 7.

Heathrow's passenger numbers for the year ended 31 December 2018 rose 2.7% to 80.1 million (2017: 78.0 million).

December 2018 was the 26th consecutive month of record passenger numbers. Aircraft continue to fly fuller, with load factors increasing to 79.4% (2017: 78.0%). The average number of seats per passenger aircraft increased to 213.4 (2017: 212.3) driven by aircraft upgrades on European and Middle Eastern routes.

6 new direct routes to growth cities in China were added during the year, doubling the number of connections from Heathrow, the UK's only hub and primary gateway airport to China. New routes were also announced to North America, with British Airways adding a new direct route to Pittsburgh and American Airways a new route to Phoenix, both commencing in April 2019.

Short haul traffic grew by 2.2% and intercontinental by 3.1%. Intercontinental growth continued to be driven by routes to North America through increased flight frequency and aircraft size, while passenger numbers to-and-from the Asia Pacific region also grew strongly driven by the new Chinese routes and increased frequencies to India.

3. Revenue

Summary

For the year ended 31 December 2018, revenue at £2,952 million was 5% favourable to the forecast based on the CAA decision.

£million		Actual	CAA Forecast ¹	Variance	(%)
Airport charges	3.1	1,745	1,681	64	4%
Retail (including car parking)	3.2	698	608	90	15%
Property		118	125	(7)	(6%)
Commercial Revenue		816	733	83	11%
Other regulated charges	3.3	243	242	1	0%
Rail		137	137	0	0%
Other		11	26	(15)	(58%)
Total revenue		2,952	2,819	133	5%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

3.1 Airport charges

For the year ended 31 December 2018, airport charges at £1,745 million were 4% favourable to the forecast based on the CAA decision.

£million (unless otherwise stated)		Actual	CAA Forecast ¹	Variance	(%)
Passenger Flights	3.1				
Departing passenger charges	3.2	1,193			
Landing charges		477			
Parking charges		65			
Total Passenger Flights	3.3	1,735			
Total Passengers (k)		80,102			
Actual yield per passenger		£21.66			
Total Non-Passenger Flights		10			
Total Airport Charges		1,745	1,681	64	4%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

The £64 million favourable variance is mainly driven by more passengers than forecast providing additional revenue of £130 million, offset by a lower yield per passenger resulting in less revenue of £76 million, with a further £10 million from non-passenger flights.

Details of the maximum allowable yield adjusting components can be found in Appendix A.

3.2 Retail Revenue

For the year ended 31 December 2018, gross retail income at £712 million was 12% favourable to the forecast based on the CAA decision. Net retail income ('NRI') was 15% favourable with NRI per passenger 6% favourable versus the CAA forecast.

£million (unless otherwise stated)	Actual	CAA Forecast ¹	Variance	%
- Retail concessions	323	326	(3)	(1%)
- Catering	61	48	13	27%
- Other retail	124	98	26	27%
- Other services	78	50	28	56%
Retail	586	522	64	12%
Car Parking	126	116	10	9%
Gross retail income	712	638	74	12%
Retail expenditure	(14)	(30)	16	53%
Net retail income	698	608	90	15%
Terminal Passengers (k)	80,102	74,200	5,902	8%
Net Retail income per passenger	£8.71	£8.19	£0.52	6%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Retail concessions were adverse by 1%. CAA stretch to Commercial Income was applied to Duty and tax-free income and did not include T1 and T2 assumptions. The adverse variance is partially offset by the favourable specialist shops income resulting from the weakening of GBP following the Brexit vote.

Catering income benefits from space reconfigurations and increased utilisation. Increases in other retail revenue comes from Foreign Exchange, VAT refund and advertising.

Other services were favourable by 56% due to a reclassification of VIP income and from other revenue.

Car parking revenue was favourable by 9% due to a short stay price changes that occurred earlier than expected and above forecast passenger growth.

Retail expenditure was 53% favourable due to better than expected renegotiation of the contract with APCOA for car park management and transfer of bussing costs to ground transport costs.

3.3 Other Regulated Charges Revenue

For the year ended 31 December 2018, other regulated charges (ORC) revenue at £243 million was £1 million favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast ¹	Variance	%
Baggage and check-in	140	135	5	4%
Fixed electrical ground power	10	11	(1)	(9%)
Utilities	47	56	(9)	(16%)
PRM	22	17	5	29%
Staff car parking & security documentation	17	17	0	0%
Other income	7	6	1	17%
Total	243	242	1	0%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Baggage & Check-In

Baggage & Check-in income was 4% up on forecast primarily as a result of more passengers.

Utilities

Utilities (incorporating electricity, water, heating, water & sewerage, gas, waste & recycling and pre-conditioned air) were 16% lower than forecast, lower Electricity purchase prices compared to expected tariffs, the main driver of lower prices for users.

Passengers with Reduced Mobility (PRM)

PRM was 29% higher than forecast due to an increase in demand for the service.

3.4 Other

For the year ended 31 December 2018, other revenue at £11 million was £15 million (58%) adverse to forecast based on the CAA settlement due to certain intercompany corporate revenue not being realised, together with a shortfall in sundry income, partly offset by increased aviation fuel rent to forecast.

4. Operating Costs

Summary

For the year ended 31 December 2018, total operating costs at £1,130 million was 1% adverse to the forecast based on the CAA decision. Total operating costs included £2 million Category B costs.

£million	Section	Actual	CAA Forecast ¹	Variance	%
Staff	4.1	(432)	(363)	(69)	19%
Maintenance and Equipment	4.2	(183)	(177)	(6)	3%
Rent and Rates	4.3	(141)	(174)	33	(19%)
Utilities	4.4	(90)	(121)	31	(26%)
Other expenditure	4.5	(285)	(287)	2	(1%)
Operating costs before adjustments		(1,131)	(1,122)	(9)	1%
Add back service quality rebates		1	-	1	N/A
Total operating costs		(1,130)	(1,122)	(8)	1%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

4.1 Staff

For the year ended 31 December 2018, staff costs at £432 million were 19% adverse to the forecast based on the CAA decision.

£million	Actual	CAA Forecast ¹	Variance	%
Security	(154)	(132)	(22)	17%
Other operational	(91)	(76)	(15)	20%
Non-operational	(124)	(95)	(29)	31%
Pension	(63)	(60)	(3)	5%
Total	(432)	(363)	(69)	19%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Security costs were £22 million adverse to CAA forecast, driven by more departing passengers, delayed security initiatives, additional resilience related costs, state pension change increasing NI contributions, legislative changes and explosive trace detection costs.

Other operational costs were £15 million adverse to CAA forecast mainly driven by organisation restructuring across various operational business units.

Non-operational costs were £29 million adverse to CAA forecast, driven by expansion costs not included in the CAA settlement, costs of change, increased activity for Talent & Development (Training) involving increased Heathrow Academy spend and the introduction of new courses and an increase in pension service costs.

4.2 Maintenance and Equipment

For the year ended 31 December 2018, maintenance & equipment costs at £183 million were 3% adverse to the forecast based on the CAA decision.

£million	Actual	CAA Forecast ¹	Variance	%
IT and computer services	(50)	(50)	0	0%
Maintenance	(117)	(112)	(5)	4%
Stores and equipment	(16)	(15)	(1)	7%
Total	(183)	(177)	(6)	3%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Maintenance and Equipment costs were materially in line with the CAA forecast.

4.3 Rent and Rates

For the year ended 31 December 2018, rent and rates at £141 million were 19% favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast ¹	Variance	%
Rent	(15)	(17)	2	(12%)
Rates	(126)	(157)	31	(20%)
Total	(141)	(174)	33	(19%)

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Rent costs were favourable due to office premises being vacated and favourable rental lease negotiations.

Rates were 20% favourable driven by lower than expected Uniform Business Rates rises, re-negotiation of Heathrow's primary rates bill and better than expected outcome from large infrastructure projects such as T3 Integrated Baggage and T2.

4.4 Utilities

For the year ended 31 December 2018, utilities at £90 million were 26% favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast ¹	Variance	%
Electricity	(44)	(59)	15	(25%)
Water and sewerage	(2)	(4)	2	(50%)
Gas	(3)	(12)	9	(75%)
Waste and recycling	(7)	(7)	0	0%
Other	(34)	(39)	5	(13%)
Total	(90)	(121)	31	(26%)

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

4.4 Utilities continued

In the year ended 31 December 2018, utilities costs were £31 million favourable to the forecast based on the CAA decision, mainly driven by electricity (£15 million favourable to forecast), gas (£9 million favourable to forecast) and other costs (£5 million favourable to forecast).

Drivers of lower electricity costs included the forecast Carbon Reduction Commitment (approximately £5 million per annum) that, following consultation, were no longer deemed payable due to an overlap with an interchangeable European Union ('EU') scheme. In addition, the Energy Demand Management business case has reduced consumption and prices have continued to remain favourable to the CAA decision.

The favourable gas variance was driven by mild weather and reduced consumption across the airport.

Other costs, principally Electricity distribution fees, were favourable as a result of renegotiation of the UK Power Network Service contract in 2016.

4.5 Other expenditure

For the year ended 31 December 2018, other expenditure at £285 million was 1% favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast ¹	Variance	%
Police	(34)	(32)	(2)	6%
Rail	(72)	(63)	(9)	14%
Cleaning	(30)	(33)	3	(9%)
Service quality rebate	(1)	-	(1)	-
Intra group	(14)	(1)	(13)	1300%
PRM costs	(23)	(17)	(6)	35%
Other (including Air navigation service)	(111)	(141)	30	(21%)
Total other costs	(285)	(287)	2	(1%)

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Rail

Rail costs were £9 million adverse due to increased staffing, maintenance and consultancy costs as a result of the Rail separation in 2015. This was partially offset by a reduction in rent due to the move from Paddington to Heathrow and an additional cost share credit from Great Western Rail.

Cleaning

Cleaning costs were £3 million favourable, driven mainly by contract renegotiations with key suppliers.

Service Quality Rebate (SQR)

SQRs related to stands availability.

4.5 Other expenditure *continued*

Intra group

The adverse variance was driven by intercompany costs not included within the forecast.

Other

Other operational costs were £30 million favourable due to significant savings achieved in marketing and advertising strategies, reductions in the level of general expenses, partially offset by bussing costs transferred from retail expenditure.

4.6 Assumed Ordinary Depreciation

The depreciation allowance was determined by the CAA in the Licence covering the economic regulation at Heathrow from April 2014. This has been indexed to current year values in accordance with the methodology specified in Appendix B of this document. The depreciation allowance for the year ended December 2018 in figure H.1, Appendix H of the 2014 licence of £676m (2011/12 prices) has been increased by 18.6% to £802 million in 2018 prices.

5. Capital Expenditure

Summary

£million	Actual	CAA Forecast ¹	Variance	%
Capital expenditure incurred in the year ended December 2018	666	634	32	5%
Category B	108	-	108	-
Category C	11	-	11	-
Total Capex added to the RAB	785	634	151	24%
Category B Capex not added to the RAB	8	-	8	-
Total Capex spent	793	634	159	25%

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

Category B costs are costs which are directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity, including through the Development Consent Order (“DCO”) process. Heathrow has spent a total of £118 million in the Regulatory Year of 2018 on Category B, including net operating costs of £2 million. £10 million of this will be recovered through aeronautical charges in 2020. The remaining £108 million will be added to the RAB, with the Q6 return on this expenditure (5.35% on average RAB) calculated on average RAB for the year (in the same way as capex).

Category C costs are costs typically (but not exclusively) incurred after planning permission is granted and cover the construction of new capacity, up to entry-into-operation. Category C costs amounting to £11 million has been added to the RAB subject to the CAA’s policy on Category C, which is being finalised.

5.1 Analysis of actual expenditure

Detail	Total Capex (£million)
B243 Kilo Apron Development (Core)	80
B211 Ground Movement Control System	12
B312 Airfield Efficiency & Resilience	9
B112 Airfield Efficiency and Resilience	7
Other Airport Resilience	9
Total Airport Resilience	117
B101 Engineering Asset Replacement	124
B102 Rail Asset Replacement	24
B103 IT Asset Replacement	3
B127 Surface Water Management Infrastructure	9
B028 Metering & Energy Demand Management	8
B066 Energy and Utilities Management	8
B169 Asset Management Capability	5
Other Asset Management	40
Total Asset Management	221
B216 HBS & Asset Replacement	145
B097 T1 Baggage Resilience	12
B006 Improved Baggage Capacity & Resilience	8
Baggage IT Security Compliance	0
B466 T5 Fast Track	6
B464 Baggage Improvements	2
Other Baggage	31
Total Baggage	204
B116 T3 Security Capacity	26
B329 Automation of the Passenger Journey	18
T3 Refurbishment & Enhancement	10
B041 Commercial BAU fund	7
B045 Enhanced Terminal Facilities for Passengers	7
B026 Security Fixed Post Modernisation	5
Other Passenger Experience	26
Total Passenger Experience	99
Q6 Realisation	6
Additional Capacity	19
Subtotal	666
Category B ¹	108
Category C	11
Total	785

¹ 5.35% return will be added to the average RAB

5.1 Analysis of actual expenditure *continued*

Investment continued across the campus in a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continued to develop our plans for expanding Heathrow.

5.2 Development and core capital expenditure

£million	Actual	CAA Forecast ¹	Variance	%
Development capital expenditure which transitioned to core capital expenditure (including the spend incurred during the development stages) for the year ended December 2018 (Excluding Expansion)	626	634	(8)	(1%)
Total	626	634	(8)	(1%)

¹ CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 9.

The average cost of capital on the £8 million variance between the forecast capital expenditure and the actual amount that transitioned to core will be returned to the airlines through airport charges in 2020.

5.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate (£000's)	Rebate paid (£000's)
B101 T3 Engineering Asset Replacement	T3 Airbridges Replacement (including modifications to existing foundations)	January 2018	January 2018	69	N/A
BC216 HBS and Asset Replacement	Proposed % of Hold Baggage Screening Standard 3 machines installed and in use in T5	September 2018	September 2018	465	N/A
BC451 Commercial Telecom	New cellular platform available for MNO connection (G5)	March 2018	March 2018	79	N/A
BC131 Tunnels	Main tunnel life safety systems	December 2016	December 2019	91	1,097

5.4 Independent Funds Surveyor

The Independent Fund Surveyor (IFS) has been engaged since April 2014 and to date has been deployed on 26 projects – of which 12 are currently in construction – and on 3 programmes. The IFS has completed close out reports on 9 projects. Key IFS recommendations are being addressed on two levels, by respective project teams and at portfolio level. Key portfolio issues are being managed through the IFS Working Group (Capital Portfolio sub-group) with a range of airline community stakeholders to progressively work through common IFS themes/recommendations to drive improvement. During 2018 this group continued to review areas including scheduling, cost estimating, benchmarking, change management, procurement, requirements management, risk and lessons learnt. It was also used as the forum with the airlines to discuss and agree responses to the CAA consultant's report in to Heathrow Airport's Q6 Capex Governance Framework.

6. Regulatory Asset Base (RAB)

Opening Regulatory Asset Base at 1 April 2014

£million (average 11/12 & 13/14 prices)		Increase in RPI to 31 March 2014	Adjusted RAB at 1 April 2014
Forecast RAB at 31 March 2014 in Annex H, Economic regulation at Heathrow from April 2014	13,816	7.36%	14,832
Actual capital expenditure 2013/14	1,360	1.22%	1,376
Assumed capital expenditure 2013/14	(1,293)	7.36%	(1,388)
Actual proceeds from disposal 2013/14	(4)	1.22%	(4)
Adjusted opening RAB at 1 April 2014			14,816

Closing Regulatory Asset Base at 31 December 2018

£million	Actual	CAA Forecast	Variance	%
Opening RAB at 1 January 2018	15,786	16,011	(225)	(1%)
Additions in year	666	634	32	5%
Category B costs ²	108	0	108	N/A
Category C costs ¹	11	0	11	N/A
5.35% return on Category B costs ²	8	0	8	N/A
Assumed ordinary depreciation	(802)	(802)	-	0%
Indexation to 31 December 2018	425	432	(7)	(2%)
Closing RAB at 31 December 2018²	16,202	16,275	(73)	(0%)

¹ Category C costs amounting to £11 million have been added to the RAB subject to the CAA's policy on Category C, which is being finalised.

² Accumulated Category B costs of £190 million are included within the RAB as at 31 December 2018.

7. Basis of Preparation

Summary

The Company is required to prepare regulatory accounts by condition E1 of the 'Economic regulation at Heathrow from April 2014: notice granting the licence' (the "Q6 Decision"), issued pursuant to the Civil Aviation Act 2012. The primary purpose of these accounts is to serve the process of regulation by the CAA.

The CAA requires that the regulatory accounts shall comprise a report in the format shown in sections 1 to 10 of this report and be prepared in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

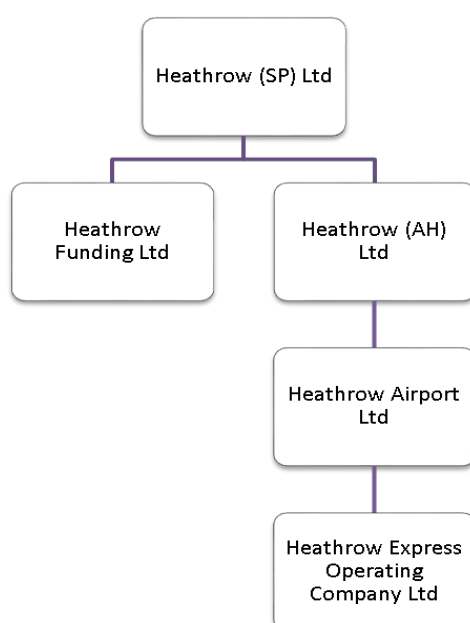
This sets out actual performance for the year under review compared with the forecasts underlying the determination of the price cap for the Company. These forecasts are set out in the CAA's Q6 Decision document, following a quinquennial review. The regulatory accounts include notes as agreed with the CAA which describe the derivation of key regulatory results and, where relevant, adjustments to the statutory and management accounts of the Company.

The Directors of the Company are responsible for preparing the annual regulatory accounts in accordance with the CAA issued Regulatory Accounting Guidelines.

The following explains the key underlying assumptions in the preparation of this report:

Data Sources

The principal sources of data used in the preparation of these accounts are the audited financial statements of Heathrow (SP) Limited for the year ended 31 December 2018. These are referred to in these regulatory accounts as 'the underlying accounts'. The underlying accounts are prepared in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU on a consolidated basis.



7. Basis of Preparation *continued*

Passengers

Total passenger numbers represent those passengers on all flights except cargo who physically pass through the airport's facilities. It also includes passenger numbers for the following flight categories, which are included in the table in section 3 showing the breakdown of airport charges – non-scheduled passenger, air ambulance, government charter (troops and cargo), air taxi, general aviation, diplomatic and military. Terminal passenger numbers exclude those passengers in the flight categories above.

The Regulatory Asset Base (“RAB”)

The CAA, in Annex K of its Q6 Decision, determined how the value of the RAB at 31 March 2014 should be calculated, and this is shown in section 6. The CAA further determined in Annex K how the value of the RAB should be rolled forward annually thereafter and this is shown in appendix C. Capital expenditure in the year has been uplifted by the increase in RPI in accordance with Annex K of the Q6 Decision. The same principles apply to Category B costs. Forecast capital expenditure has likewise been uplifted by the increase in RPI, from average 2011/12 prices (as in the Q6 Decision) to average 2018 prices, in accordance with CAA guidance.

The depreciation allowance has been set for each of the regulatory periods. This is referred to in Annex H of the Q6 Decision and in this report as ‘Assumed Ordinary Depreciation’ as shown in section 4. The weighted average RAB is calculated using the weighting formula adopted in the Q6 Decision. This equates to the sum of the closing balance multiplied by a factor of 0.5 and the opening balance multiplied by a factor of 0.5.

Operating revenues and costs

Operating revenues and costs are taken from the underlying accounts and underlying accounting records of the Group. They also include Category B Expansion costs. Adjustments have been made to align the presentation of actual results to that in the Q6 Decision. The principal adjustments are:

- retail costs, principally car park management fees, are netted off against retail revenue;
- other regulated charges revenue, principally utilities and check in/baggage revenue are re-categorised from other revenue lines into one category;
- pension costs reflect the Company's cash contribution to the British Airport Authority ('BAA') Pension Scheme;
- service quality rebates are excluded from operating costs;
- gains or losses on asset disposals are excluded from operating costs; and
- Heathrow Consolidation Centre costs are netted off against revenue.

Indexation

The forecasts have been derived by indexing forward the forecasts in the Q6 decision to 2018 prices in accordance with the CAA Q6 Decision. The appropriate RPI indices are shown in section 9. Profit and loss items have been indexed forward to 2018 using the average Retail Price Index ('RPI') for 2018, and the RAB using the RPI at 31 December 2018.

7. Basis of Preparation *continued*

Forecast

The forecast contained in the regulatory accounts reflects:

- the total ORC, commercial and other revenue allowances set by the CAA, uplifted by RPI. The disaggregated revenue for these categories has been agreed with the CAA; and
- the total operating expenditure allowance set by the CAA, uplifted by RPI. The disaggregated operating expenditure has been agreed with the CAA.

Net Fixed Assets

Net fixed assets as shown in Section 8 are as shown in the underlying accounts except that the Net Book Value of Terminal assets have been further broken down by Terminal. The break-down has been provided using location codes and asset descriptions as recorded in the source accounting data (the Fixed Asset Register). Terminal assets which have been categorised as Terminal non-specific include those assets outside of terminal buildings and assets which have not yet been transferred to the Fixed Asset register.

Development and core capital expenditure

Development and core capital expenditure for the year is calculated by adding the cumulative capital expenditure which has been transitioned to core to the cumulative development capital expenditure and subtracting from the prior year total. Adjustments are made where capital that has been transferred to core has been delayed into future periods.

8. Reconciliations

This section comprises the reconciliations of revenue, operating costs and the closing RAB to the underlying accounts.

Reconciliation of Revenue

Reconciliation to the underlying accounts	£million
Regulatory revenue	2,952
Add back consolidation centre costs netted off against revenue	4
Add back retail costs netted off against revenue	14
Revenue per the underlying accounts	2,970

Reconciliation of Operating Costs

Reconciliation to the underlying accounts	£million
Regulatory expenditure	(1,932)
Add statutory depreciation	(743)
Remove assumed ordinary depreciation	802
Add back Service Quality Rebate	(1)
Add back retail costs netted off against revenue	(14)
Add back consolidation centre costs netted off against revenue	(4)
Remove pension cash contribution adjustment	16
Operating costs including depreciation per the underlying accounts	(1,876)

8. Reconciliations

Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2018

		£million
Closing RAB at 31 December 2018		16,202
Difference between net fixed assets and RAB at 31 March 2014	(a)	(1,339)
Adjusted closing RAB		14,863
Interest capitalised disallowed within the RAB	(b)	194
Difference between net book value of disposals and proceeds	(c)	(2)
Revaluation in the underlying accounts	(d)	475
Indexation of RAB	(e)	(1,759)
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	(f)	261
Expansion capex and provisions excluded	(g)	18
Subtotal of cumulative Q6 variance		(813)
Net fixed assets per the underlying accounts at 31 December 2018		14,050

Notes to the reconciliation of the closing RAB at 31 December 2018 to the fixed assets in the underlying accounts

These reconciling items are explained as follows:

a) Difference between net fixed assets and RAB at 31 March 2014

	£million
Cumulative borrowing costs capitalised from 1 April 1995 to 31 March 2014	(1,400)
Payments for land purchase obligations	44
Difference between the value of asset revaluations in the statutory accounts and the indexation uplifts provided in the Regulatory Accounts to 31 March 2014	3,417
Difference between depreciation in the underlying accounts and assumed ordinary depreciation	(197)
CAA disallowance for Q6 (T3IB)	(32)
A reduction in respect of a pensions holiday in Q4	(93)
Intercompany transfers primarily relating to the transfer of the partly constructed Personal Rapid Transport system from BAA Enterprises which was excluded from the RAB in Q5	(21)
An asset valuation uplift on transition to IFRS accounting standards	(360)
A reduction in respect of other valuation differences	(19)
Total	1,339

8. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2018 to the fixed assets in the underlying accounts *continued*

- b) Borrowing costs amounting to £194 million were capitalised cumulatively in Q6 to date. The roll forward calculation for the RAB specified in the CAA Licence excludes capitalised borrowing costs.
- c) Statutory non-current assets are derived after deducting the net book value of assets disposed of during the year. The RAB value specified in the CAA Licence is derived by deducting the proceeds of asset disposals.
- d) Investment properties and land held for development are subject to annual revaluation in the underlying accounts as well as impairment reviews. Remaining assets are held at depreciated historic cost.
- e) The RAB is revalued annually by reference to RPI as specified in the CAA Licence.
- f) This reflects the difference between the amount charged as depreciation in the underlying accounts and the Assumed Ordinary Depreciation allowed in the CAA Licence.
- g) This comprises the capitalised expansion costs of £20 million (see summary in note 5) plus a home loss provision of £7 million for payments due to previous owners' residential property owned by Heathrow which will be paid once planning consent is obtained, less the cumulative 5.35% return on Category B Expansion expenditure.

	£million
Closing RAB at 31 December 2018	16,202
Difference between RAB and net fixed assets at 31 March 2014	(1,339)
Adjusted closing RAB	14,863
Cumulative Q6 variance	(813)
Net fixed assets per the underlying accounts at 31 December 2018	14,050
Breakdown of non-current assets	
Terminal 1	204
Terminal 2	1,917
Terminal 3	1,094
Terminal 4	399
Terminal 5	2,825
Terminals non-specific	817
Terminal (Total)	7,256
Airfields	1,446
Plant and Equipment	615
Other land and buildings	152
Rail	822
AICC	1,114
Investment properties	2,472
Intangible assets	173
Net fixed assets per the underlying accounts at 31 December 2018	14,050

9. Indexation

The following indices have been used for revaluing forecasts:

Indexation	
Average RPI index for the year ended 31 March 2012	237.3
Average RPI index for the 12 months ended 31 December 2015	258.5
Average RPI index for the year ended 31 December 2016	263.1
Average RPI index for the year ended 31 December 2017	272.5
Average RPI index for the year ended 31 December 2018	281.6
RPI index at 31 December 2016	267.1
RPI index at 31 December 2017	278.1
RPI index at 31 December 2018	285.6
Increase from average 2011/12 to 31 December 2018	20.35%
Increase from average 2011/12 to average 2018	18.66%
Increase from average 2018 to 31 December 2018	1.43%
Increase from 31 December 2017 to 31 December 2018	2.70%

*The indexation calculations are based on unrounded numbers.

10. Independent Report from Deloitte LLP

Independent auditor's report to the Civil Aviation Authority (the "Regulator") and the directors of Heathrow Airport Limited and Heathrow (SP) Limited (together the "Companies")

Report on the audit of the Audited Statements

Opinion

We have audited the financial information included within the Regulatory Accounts of Heathrow (SP) Limited for the period ended 31 December 2018 (the "Regulatory Accounts") on pages 6 to 23, comprising of statements 1 to 9 (the "Audited Statements").

The financial reporting framework that has been applied in their preparation is the financial reporting provisions of Condition E1 of the Regulatory Licence granted to Heathrow Airport Limited under section 15 of the Civil Aviation Act 2012 ("the Regulatory Licence") and the Regulatory Accounting Guidelines.

In our opinion, the Audited Statements for the year ended 31 December 2018 have been prepared, in all material respects, in accordance with the financial reporting provisions of Condition E1 of the Regulatory Licence and the Regulatory Accounting Guidelines.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the Audited Statements section of our report. We are independent of Heathrow (SP) Limited in accordance with the ethical requirements that are relevant to our audit of the Audited Statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Audited Statements have been prepared in accordance with Condition E1 of the Regulatory Licence and the Regulatory Accounting Guidelines. The nature, form and content of the Audited Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The Audited Statements are separate from the statutory financial statements of Heathrow (SP) Limited and have not been prepared under the basis of International Financial Reporting Standards ("IFRS"). Financial information other than that prepared on the basis of generally accepted financial reporting standards does not necessarily represent a true and fair view of the financial performance of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Reconciliations between the Audited Statements and the statutory financial statements, which have been prepared under IFRS are included in Statement 8 within the Audited Statements.

The Audited Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the respective directors' and auditor's responsibilities sections below. As a result, the Audited Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors of Heathrow (SP) Limited use of the going concern basis of accounting in the preparation of the Audited Statements is not appropriate; or
- the directors of Heathrow (SP) Limited have not disclosed in the Audited Statement any identified material uncertainties that may cast significant doubt about the ability of Heathrow (SP) Limited to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Audited Statements are authorised for issue.

Other information

The other information comprises all of the information in the Regulatory Accounts other than the Audited Statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Audited Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Audited Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Audited Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Audited Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the directors Heathrow (SP) Limited

The directors of Heathrow (SP) Limited are responsible for the preparation of the Audited Statements in accordance with the financial reporting provisions of Condition E1 of the Regulatory Licence and the Regulatory Accounting Guidelines.

The directors of Heathrow (SP) Limited are also responsible for such internal control as they determine is necessary to enable the preparation of the Audited Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Audited Statements, the directors of Heathrow (SP) Limited are responsible for assessing the ability of Heathrow (SP) Limited to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate Heathrow (SP) Limited or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Audited Statements

Our objectives are to obtain reasonable assurance about whether the Audited Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Audited Statements.

A further description of our responsibilities for the audit of the Audited Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by Condition E1

Under the terms of our contract, we have assumed responsibility to provide the following additional opinions in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the Companies as required by Condition E; and
- the Audited Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Use of this report

This report is made, on terms that have been agreed, solely to the Companies and the Regulator in order to meet the requirements of Condition E1 of the Regulatory Licence.

Our audit work has been undertaken so that we might state to the Companies and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist Heathrow Airport Limited to meet its obligation under Condition E1 to procure such a report and (b) to facilitate the carrying out by the Regulator its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Companies and the Regulator, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Audited Statements is separate from our opinion on the statutory financial statements of the Companies for the period ended 31 December 2018 on which we report, which are prepared for a different purpose. Our audit reports in relation to the statutory financial statements of the Companies (our 'statutory audits') were made solely to the members of the respective companies, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the members of the respective companies those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive style, with a large, stylized 'D' at the beginning.

Deloitte LLP
Statutory Auditor
London, United Kingdom
30 April 2019

Appendices (unaudited)

Appendix A

Maximum Allowable Yield

The table below shows the maximum allowable yield that Heathrow was allowed to charge in 2018:

		£
Specified yield for 2017		22.305
Forecast 12 months RPI movement to April 2017	3.5%	0.781
Value of X	(1.5%)	(0.335)
Forecast capital trigger payments		0.000
SQR Bonus		0.005
Cumulative development capital expenditure adjustment		(0.205)
Security cost pass through (S factor)		0.000
Business rate revaluation factor (BR factor)		(0.452)
Category B costs		0.130
2016 correction 'K' factor over recovery		(0.172)
Forecast 2018 maximum allowable yield		22.057

The following factors contribute to the calculation of the 2018 maximum allowable yield:

Cumulative development capital expenditure adjustment

The forecast development capital expenditure adjustment for 2018 considered that fewer projects were transitioning from development capital to core capital than originally anticipated in the settlement, as such adjustment was made for lower cumulative capital spend to 2018 than the CAA's Q6 settlement.

Any subsequent change in actual development capex transitioning to core will be adjusted in the K factor when setting charges for 2020.

2016 correction 'K' factor over recovery

K factor analysis		
Airport charges revenue 2016 (£thousands)	a £thousands	1,691,779
Passengers 2016 (thousands)	b thousands	75,715
Actual yield	£	22.344
Forecast to recover 2016	c £	22.180
Interest rate	d	3.197%
Forecast passengers 2018 (thousands)	e thousands	76,953
2016 correction 'K' factor = $((a-(b*c))/e*((1+d)^2)$		(0.172)

Maximum Allowable Yield - Actual vs Forecast

£	9 mo. 2014	2015	2016	2017	2018
Forecast maximum allowable yield	23.155	22.627	22.118	21.907	22.057
Actual yield	23.111	22.560	22.344	21.871	21.656
Variance	(0.044)	(0.067)	0.226	(0.036)	(0.401)
%	(0.2%)	(0.3%)	1.0%	(0.2%)	(1.8%)

Appendix B

This section provides a list of CAA forecasts in 2011/12 prices for the 9 month and four years duration.

Figure B.9: CAA's Q6 passenger forecasts

Millions	9 mo. 2014	2015	2016	2017	2018	Total
Passengers	55.4	72.0	72.7	73.4	74.2	347.7

Source: CAA

Figure I.2: Net revenue requirement (passenger charges) in Q6 - 4 years 9 months duration

£ millions	9 mo. 2014	2015	2016	2017	2018	Total
Net revenue requirement (profiled yield)	1,130	1,449	1,444	1,428	1,417	6,868

Source: CAA

Figure F.5: Forecast commercial revenue in Q6

£ millions	9 mo. 2014	2015	2016	2017	2018	Total
Commercial Revenue	413	574	591	601	611	2,790

Source: CAA

Figure G.3: Forecast revenue from ORCs and OR's in Q6

£ millions	9 mo. 2014	2015	2016	2017	2018	Total
ORCs	174	215	206	205	204	1,004
OR's	108	139	141	144	144	676
Total	282	354	347	349	348	1,680

Source: CAA

Figure E.5: Forecast OpEx in Q6

£ millions	9 mo. 2014	2015	2016	2017	2018	Total
OpEx	805	1,029	993	955	948	4,730

Source: CAA

Figure C.7: CAA's decision for CapEx

£ millions	9 mo. 2014	2015	2016	2017	2018	Total
CapEx	439	669	646	529	534	2,817

Source: CAA

Figure H.1: CAA's licence projections for HAL's RAB in Q6

£ millions	9 mo. 2014	2015	2016	2017	2018	Total
Opening RAB	13,816	13,788	13,812	13,805	13,662	13,816
Net CapEx	439	669	646	529	534	2,817
Depreciation	(467)	(645)	(653)	(672)	(676)	(3,113)
Closing RAB	13,788	13,812	13,805	13,662	13,519	13,520
Average RAB	13,802	13,800	13,808	13,733	13,590	n/a

Source: CAA

Appendix C

Rolling forward the Regulatory Asset Base

Purpose and basis of the calculation

- B1 This Appendix specifies the detail of the formulae that the CAA intends to use for tracking the regulatory asset base. The purpose of this Appendix is to describe how to calculate the regulatory asset base (RAB) for Heathrow.
- B2 The equations set out below are based on the projections made by the CAA in reaching its final decision on the charge conditions for the control period 1 April 2014 to 31 December 2018.

Inflation indices

- B3 Each year, the RAB is expressed in actual end year price levels. The modelling used fixed 2011/12 price levels and the figures below must be uplifted to current price terms each year

Retail Price Index ("RPI") Growth t from 2011/12 = The RPI (as defined in the Condition) as at 31 December of financial year t divided by the average of the relevant monthly RPI figures for the financial year 2011/12, which (based on the All Items index¹ and based on 13 January 1987 = 100) equals 237.3

Annual RPI Growth t = The RPI as at 31 December of financial year t divided by The RPI as at 31 December of financial year $t-1$

Within Year RPI Growth t = The RPI as at 31 December of financial year t divided by the average of the monthly RPI figures for the relevant number of preceding months (nine for the first Regulatory Period, 12 for all subsequent Regulatory Years)

Heathrow RAB

- B4 This section describes how the Heathrow RAB will be rolled forward from one Regulatory Period or year to another.

RAB t = (Basic RAB) t + (Cumulative Profiling Adjustment) t

¹ All Items (CHAW) index, source: Office for National Statistics (ONS).

B5 Both the Basic RAB and the Cumulative Profiling Adjustment are to be separately identified. This is to allow full visibility to interested parties.

Closing (Basic RAB) t = Opening RAB t
 + (Total Actual Capex t (including Category Costs above £10m) x Within Year RPI Growth t)² +
 (5.35% on the average RAB of Category B cost (above £10m) x Within Year RPI Growth t)
 - (Proceeds from Disposals t)
 - (CAA's Assumed Ordinary Depreciation t x RPI Growth from 2011/12)

Opening (Basic RAB) t = For the first Regulatory Period (1 April to 31 December 2014, where t=1), this figure will be set according to the following formula:
 £ 13,815.828 million x RPI Growth from 2011/12
 + Actual Capex 2013/14 x RPI Growth from 2013/14
 - £ 1,292.874 million x RPI Growth from 2011/12
 - (Actual proceeds from Disposals 2013/14) x RPI Growth from 2013/14
 = For the remaining Regulatory Years, this figure will be set according to the following formula:
 Closing RAB t-1 x Annual RPI Growth t

Assumed Ordinary Depreciation t in 2011/12 prices = For each financial year this figure will be fixed at the following values:
 Regulatory Period 1 (1 April to 31 December 2014): £ 467.255 million
 Regulatory Year 2 (calendar year 2015): £ 644.921 million
 Regulatory Year 3 (calendar year 2016): £ 652.732 million
 Regulatory Year 4 (calendar year 2017): £ 672.132 million
 Regulatory Year 5 (calendar year 2018): £ 676.246 million

² Accrued capital expenditure with no adjustment for movements in working capital.

Appendix D

Service Quality Rebates and Bonus (SQRB)

Summary of 2018 SQRB performance

Category	SQR element	Target	Number of Passes	Number of Failures	Rebates paid £million
Passenger satisfaction (QSM)	Departure lounge seating availability	3.80	48	0	0.0
	Cleanliness	4.00	48	0	0.0
	Wayfinding	4.10	48	0	0.0
	Flight information	4.30	48	0	0.0
	Security	Publication only			
	Wi-Fi	Publication only			0.0
Security	Central Search - less than 5 mins	95.00%	48	0	0.0
	Central Search - less than 10 mins	99.00%	48	0	0.0
	Transfer search	95.00%	48	0	0.0
	Staff search	95.00%	48	0	0.0
Campus Passenger Operational	Control posts	95.00%	48	0	0.0
	Passenger Sensitive Equipment (PSE general)	99.00%	48	0	0.0
	Passenger Sensitive Equipment (PSE priority)	99.00%	48	0	0.0
	Arrivals baggage carousels	99.00%	48	0	0.0
	T5 track transit system - 1 train availability	99.00%	12	0	0.0
	T5 track transit system - 2 trains availability	97.00%	12	0	0.0
Airline operational	Stands	99.00%	46	2	0.25
	Jetties	99.00%	48	0	0.0
	Fixed electrical ground power	99.00%	48	0	0.0
	Stand entry guidance	99.00%	48	0	0.0
	Pre-conditioned air - T2, T3, T5	98.00%	36	0	0.0
	Pier service stand usage - T1, T2, T3, T4	95.00%	36	0	0.0
Airfield	Aerodrome congestion term		N/A	0	0.0
	Total		862	2	0.25
	Total at risk				120.4

Note: Any difference between the cash rebates paid in this table and the value in the accounts is due to SQR post year end wash up and provision changes.

Note: Rebates paid are based on forecast airport charges. A post year end reconciliation to calculate rebates based on actual airport charges occurs and subsequent credits/invoices are issued.

Note: Stand rebates are subject to final confirmation that an SQR Exclusion should be applied.

2018 SQR Bonus

SQR bonuses	No. of months in which bonus achieved	Bonus (£thousands)
Departure lounge seating availability	-	-
Cleanliness	-	-
Wayfinding	11	684
Flight information	-	-
Total	11	684

There were 11 SQR bonuses earned in 2018.