



Heathrow (SP) Limited
Regulatory Accounts
Year ended 31 December 2017

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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 2017 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
- a record of the RPI inflation indices used to convert between price bases in these statements

For the year ended 31 December 2017, 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.

2017 Performance Overview

2017 was a record year at Heathrow during which the company made excellent progress toward delivering its vision: to give passengers the best airport service in the world. Heathrow maintained strong momentum across the four priorities underpinning its vision: making Heathrow a great place to work, transforming 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.

The success of Heathrow's vision is bound to 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 strategic priorities. In 2017, 74% of colleagues (2016: 78%) rated themselves engaged: a particularly strong outcome as the company-wide survey was run as an industrial action ballot was taking place. Heathrow was also voted one of The Sunday Times' Top 30 Best Big Companies to Work For. The Company took great pride in becoming the UK's first airport to be a fully accredited London Living Wage employer. Heathrow rolled out its Digital Workplace to its central functions as it continues evolving toward a more agile responsive organisation, further empowering our colleagues.

Heathrow delivered an outstanding service to its passengers during the busiest year on record. The Company achieved an excellent 4.18 out of 5.0 score in the global Airport Service Quality survey in Q4 2017, while it also achieved record levels of baggage connections and departures punctuality. Passengers voted Heathrow 'Best Airport in Western Europe' for the third year running and 'Best Airport for Shopping' globally for the eighth consecutive year at the 2017 Skytrax World Airport Awards. Lastly, Heathrow was named the world's best airport for security in the inaugural awards from International Airport Review.

In 2017, a record 78.0 million passengers chose to travel through Heathrow, up 3.0% on 2016 - the single best endorsement of Heathrow's strategy. This was the seventh successive annual record and was enabled by record load factors. Passengers benefitted from an even greater choice in terms of destinations with new long haul services to Barbados, New Orleans, Portland, Qingdao and Santiago. Heathrow also delivered for the UK, supporting British trade with a significant increase in cargo volumes, up 10.2% on last year.

Heathrow's Expansion really moved into delivery mode in 2017 following the government's backing for our plans in late 2016. We are already making good progress toward delivering this once-in-a-generation boost for Britain's economy, one that will help secure the country's economic future as an outward looking nation. The government considers Heathrow Expansion as strategically important for the UK and intends to submit its Airports National Policy Statement, the key legislative enabler for expansion, to a vote in Parliament in the first half of 2018. We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable expansion that is affordable, sustainable and financeable. Finally, in January 2018, we launched our first planning consultation. The consultation outlines our emerging proposals and options to deliver an expanded Heathrow while keeping our commitments to local communities and meeting strict environmental tests. It is the opportunity for our local community and the broader public to help us shape Heathrow's future.

Passenger numbers in 2017 were 6% above the forecast based on the CAA decision. In financial terms, 2017 has seen a good performance. Higher revenue from airport charges was driven primarily by the higher passenger numbers. Other revenue was 5% above the forecast based on the CAA decision, including a solid retail performance and good growth in car parking revenue. Net operating costs were 3% higher the forecast based on the CAA decision.

* Net Operating costs exclude £3 million of Category B costs which will be recovered through aeronautical charges in 2019. Refer to statement 5.

2017 Performance Overview *continued*

Regulatory operating profit at £964 million was £100 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 2017 was £15,512 million, £267 million lower than the forecast based on the CAA decision due to lower capital expenditure in both 2016 and 2017. Airport charges for 2017 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 2017 of 6.2% 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.

1. Performance Summary for the year ended 31 December 2017

£million (unless otherwise stated)	Section	Actual	CAA Forecast*	Variance	%
Total Passengers (thousands)	2	77,989	73,400	4,589	6%
Revenue	3				
Airport Charges		1,716	1,640	76	5%
Other Revenue		1,148	1,090	58	5%
Total Revenue		2,864	2,730	134	5%
Expenditure					
Operating costs	4	(1,128)	(1,094)	(34)	(3%)
Assumed ordinary depreciation		(772)	(772)	-	-
Total Expenditure		(1,900)	(1,866)	(34)	(2%)
Regulatory operating profit		964	864	100	12%
Capital expenditure	5	(693)	(607)	(86)	(14%)
Opening RAB	6	15,237	15,536	(299)	(2%)
Closing RAB	6	15,786	16,011	(225)	(1%)
Average RAB		15,512	15,774	(262)	(2%)
Return on average RAB		6.2%	5.5%	0.7%	N/A

*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 Heathrow (SP) Limited on 28 March 2018 and signed on behalf of the Board by:


Javier Echave
Director


Nicholas Golding
Director

2. Passenger Summary

Heathrow passengers for the year ended 31 December 2017

Thousands	Actual	CAA Forecast*	Variance	(%)
Departing passengers	38,576	N/A	N/A	N/A
Arriving passengers	39,413	N/A	N/A	N/A
Total passengers	77,989	73,400	4,589	6.3%

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

Heathrow's passengers by geographic segment for the year ended 31 December 2017 vs. the year ended 31 December 2016

Thousands	Actual	Prior year	Variance	(%)
UK	4,802	4,650	152	3.3%
Europe	32,485	31,738	747	2.4%
North America	17,358	17,188	170	1.0%
Asia Pacific	11,258	10,774	484	4.5%
Middle East	7,622	6,975	647	9.3%
Middle East	3,170	3,164	6	0.2%
Africa	1,294	1,226	68	5.5%
Latin America				
Total passengers*	77,989	75,715	2,274	3.0%

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

Heathrow's passenger numbers for the year ended 31 December 2017 rose 3.0% to 78.0 million (2016: 75.7 million), with an average load factor of 78.0% (2016: 76.0%).

Intercontinental traffic was the key geographic driver of our traffic growth, increasing 3.5%, with load factors improving significantly. Intercontinental traffic growth was particularly robust on routes serving the Middle East where passenger numbers increased 9.3% supported by larger aircrafts, including additional A380 services from Emirates, Etihad and Qatar Airways and more flights, including additional services from Oman Air. The 4.5% rise in Asia Pacific traffic was driven by substantial growth in load factors on existing routes serving Malaysia and more increased services to Thailand, Philippines and Vietnam. North American traffic rose 1.0% mainly benefitting from increased load factors. Latin American traffic grew 5.5%, due to more flights and fuller aircrafts serving the region.

European traffic increased by 2.4% due to fuller, larger planes with notable growth on routes to Italy, Russia, Belgium, Denmark, Netherlands and Portugal with over 70,000 extra passengers in each market. Flybe's new Scottish services contributed to the 3.3% growth in domestic traffic.

3. Revenue

Summary

For the year ended 31 December 2017, revenue at £2,864 million was 5% favourable to the forecast based on the CAA decision.

£million		Actual	CAA Forecast*	Variance	(%)
Airport charges	3.1	1,716	1,640	76	5%
Retail (including car parking)	3.2	640	576	64	11%
Property		119	122	(3)	(2%)
Commercial Revenue		759	698	61	9%
Other regulated charges	3.3	240	235	5	2%
Rail		136	135	1	1%
Other		13	22	(9)	(41%)
Total revenue		2,864	2,730	134	5%

*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 2017, airport charges at £1,716 million were 5% favourable to the forecast based on the CAA decision.

£million (unless otherwise stated)	Actual	CAA Forecast*	Variance	(%)
Passenger Flights				
Departing passenger charges	1,179			
Landing charges	465			
Parking charges	63			
Total Passenger Flights	1,707			
Total Passengers (k)	77,989			
Actual yield per passenger	£21.884			
Total Non-Passenger Flights	9			
Total Airport Charges	1,716	1,640	76	5%

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

The £76 million favourable variance is predominantly driven by increased passenger numbers (£103 million) above forecast, offset by a reduction in the price per passenger from the forecast yield due to lower RPI (£7 million) and adjustment for capital expenditure below the value permitted in the Q6 settlement (£23 million). The remaining variance (£3 million) relates to the K factor adjustment.

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

3.2 Retail Revenue

For the year ended 31 December 2017, gross retail income at £656 million was 8% favourable to the forecast based on the CAA decision. Net retail income ('NRI') was 11% favourable with NRI per passenger 5% favourable versus the CAA forecast.

£million (unless otherwise stated)	Actual	CAA Forecast*	Variance	%
- Retail concessions	305	311	(6)	(2%)
- Catering	56	45	11	24%
- Other Retail	106	104	2	2%
- Other services	69	36	33	92%
Retail	536	496	40	8%
Car Parking	120	110	10	9%
Gross retail income	656	606	50	8%
Retail expenditure	(16)	(30)	14	47%
Net retail income	640	576	64	11%
Terminal Passengers (k)	77,989	73,400	4,589	6%
Net Retail income per passenger	£8.21	£7.85	£0.36	5%

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

Retail concessions were adverse by 2%. 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 VAT refund and advertising.

Other services were favourable by 92% due to a reclassification of VIP income and from other revenue.

Car parking revenue was favourable by 9% (£120 million) as compared to forecast (£110 million) due to a short stay price changes that occurred earlier than expected and above forecast passenger growth.

Retail expenditure was 47% 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. Some of the saving was included in the CAA forecast but a much better final result meant a larger saving.

3.3 Other Regulated Charges Revenue

For the year ended 31 December 2017, other regulated charges (ORC) revenue at £240 million was 2% favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast*	Variance	%
Baggage/check-in	142	129	13	10%
Fixed electrical ground power	9	10	(1)	(10%)
Utilities	46	56	(10)	(18%)
PRM	22	17	5	29%
Staff car parking & security documentation	15	17	(2)	(12%)
Other income	6	6	-	-
Total	240	235	5	2%

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

Baggage & Check-In

Baggage & Check-in income was 10% up on forecast as a result of the agreed recovery of additional resilience costs and the recovery of a £4 million under recovery in the 2016 regulatory year.

Utilities

Utilities (incorporating electricity, water, heating, water & sewerage, gas, waste & recycling and pre-conditioned air) were 18% lower than forecast. Electricity was the main driver of this variance where lower electricity purchase prices resulted in a lower price to users.

Passengers with Reduced Mobility (PRM)

PRM was 29% higher than forecast as variable costs of the contract increase with a higher volume of passengers using the PRM service.

3.4 Other

For the year ended 31 December 2017, other revenue at £13million was £9million adverse to forecast based on the CAA settlement due to certain intercompany corporate revenue not being realised (£6million), together with a shortfall in sundry income (£4million), partly offset by increased aviation fuel rent, £3million to forecast.

4. Operating Costs

Summary

For the year ended 31 December 2017, net operating costs at £1,128 million were 3% adverse to the forecast based on the CAA decision. Net operating costs included £3 million Category B costs.

£million	Section	Actual	CAA Forecast*	Variance	%
Staff	4.1	(422)	(362)	(60)	(17%)
Maintenance & Equipment	4.2	(174)	(174)	-	-
Rent & Rates	4.3	(145)	(165)	20	12%
Utilities	4.4	(86)	(117)	31	26%
Other expenditure	4.5	(301)	(276)	(25)	(9%)
Operating costs before adjustments		(1,128)	(1,094)	(34)	(3%)
Add back service quality rebates		-	-	-	-
Total operating costs		(1,128)	(1,094)	(34)	(3%)

*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 2017, staff costs at £422 million were 17% adverse to the forecast based on the CAA decision.

£million	Actual	CAA Forecast*	Variance	%
Security	(147)	(128)	(19)	(15%)
Other operational	(107)	(98)	(9)	(9%)
Non operational	(104)	(76)	(28)	(37%)
Pension	(64)	(60)	(4)	(7%)
Total	(422)	(362)	(60)	(17%)

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

Security costs were £19 million adverse to CAA forecast, driven by an increase in departure passenger volume, delayed security initiatives, additional resilience related costs, state pension change increasing NI contribution, legislative changes and explosive trace detection costs.

Other operational costs were £9 million adverse to CAA forecast, mainly driven by organisation restructuring across various operational business units at the airport including voluntary severance payments made in 2017, consolidation of the airport control rooms into the Airport Operations Control Centre (APOC) and the organisational review in the Fire service business unit.

Non-operational costs were £28 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 introduction of new courses and an increase in pension service costs.

4.2 Maintenance and Equipment

For the year ended 31 December 2017, maintenance & equipment costs at £174 million remained flat when compared to the forecast based on the CAA decision.

£million	Actual	CAA Forecast*	Variance	%
IT & computer services	(44)	(47)	3	6%
Maintenance	(116)	(112)	(4)	(4%)
Stores & equipment	(14)	(15)	1	7%
Total	(174)	(174)	-	-

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

Maintenance costs were materially in line with the CAA forecast.

4.3 Rent and Rates

For the year ended 31 December 2017, rent and rates at £145 million were 12% favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast*	Variance	%
Rent	(14)	(16)	2	13%
Rates	(131)	(149)	18	12%
Total	(145)	(165)	20	12%

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

Rates were 12% 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 ('T3IB') and T2.

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

4.4 Utilities

For the year ended 31 December 2017, utilities at £86 million were 26% favourable to the forecast based on the CAA decision.

£million	Actual	CAA Forecast*	Variance	%
Electricity	(41)	(57)	16	28%
Water & sewerage	(3)	(4)	1	25%
Gas	(3)	(12)	9	75%
Waste & recycling	(6)	(6)	-	-
Other	(33)	(38)	5	13%
Total	(86)	(117)	31	26%

*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 2017, utilities costs were £31 million favourable to CAA forecast, predominantly driven by electricity (£16 million favourable to forecast), gas (£9 million favourable to forecast) and other costs (£5 million favourable to forecast).

For electricity, the drivers included forecast Carbon Reduction Commitment (c. £5m per annum) that, following consultation, were no longer deemed payable due to an overlap with an interchangeable European Union ('EU') scheme. The favourability was also driven by Energy Demand Management business cases which reduced consumption and price favourability due to ongoing reduced price in comparison to original CAA settlement.

The favourable gas variance was driven mainly by the mild weather experienced in 2017. Additionally, consumption has reduced across Heathrow campus.

Other costs were principally distribution fee costs which were favourable as a result of renegotiation of the UK Power Network Service contract, for the distribution of the power supply to the airport.

4.5 Other expenditure

For the year ended 31 December 2017, other expenditure at £301 million was 9% adverse to the forecast based on the CAA decision.

£million	Actual	CAA Forecast*	Variance	%
Police	(28)	(31)	3	10%
Rail	(65)	(62)	(3)	(5%)
Cleaning	(27)	(33)	6	18%
Service quality rebate	-	-	-	-
Intra group	(15)	(1)	(14)	(1,400%)
PRM costs	(21)	(17)	(4)	(24%)
Other (including Air navigation service)	(145)	(132)	(13)	(10%)
Total other costs	(301)	(276)	(25)	(9%)

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

Police

Police costs were £3 million favourable due a renegotiation of the police contract which resulted in a one off saving in 2017 which included a reduction in overhead set up costs.

Rail

Rail costs were £3 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 £6 million favourable, driven mainly by contract renegotiations with our key suppliers.

Service Quality Rebate

There were no Service Quality Rebates paid for the year ended 2017.

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 £13 million adverse due to an increased spend on airport operational resilience. This cost is predominantly made up of training procedures to ensure staff are familiar with the airport plant and equipment. This was also used in the year to manage the adverse snow conditions.

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 2017 in figure H.1, appendix H of the 2014 licence of £672m (2011/12 prices) has been increased by 14.9% to £772 million in 2017 prices.

5. Capital Expenditure

Summary

£million	Actual	CAA Forecast*	Variance	%
Capital expenditure incurred in the year ended December 2017	618	607	11	2
Category B	68	-	68	-
Category C	7	-	7	-
Total	693	607	86	14%

*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 £78 million in the Regulatory Year of 2017 on Category B, including net operating costs of £3 million. £10 million of this will be recovered through aeronautical charges in 2019. The remaining £68 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 £7 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

Capital Programme	Detail	Total Capex (£million)
Airport resilience		90
B015	Operational Systems Critical Asset Replacement	7
B073	Vehicle Charging	4
B111	Enabling New Generation of Wide Body Aircraft	8
B112	Airfield Efficiency and Resilience	5
B211	Ground Movement Control System	10
B421	Airport Operations Centre	6
B243	Kilo Development	44
Other		6
Passenger experience		108
B116	T3 Connections Security Capacity	27
B451	4G Upgrade	18
B411	T5 Additional Fast Track Capacity	10
B316	T3 Enhancements	12
B045	Enhanced Terminal Facilities for Passengers	11
B041	Commercial BAU Fund	6
B329	Automation of the Passenger Journey	8
B434	T5 Connections	7
B026	Security Fixed Post Modernisation	3
Other		6
Baggage		171
B216	HBS & Asset Replacement	128
B465	Baggage IT Resilience	11
B006	Improved Baggage Capacity & Resilience	12
B051	T3IB Q5 Rollover	1
Other		19
Asset Management		242
B028	Metering & Energy Demand Management	14
B066	Energy and Utilities Management	6
B101	Engineering Asset Replacement	135
B102	Rail Asset Replacement	16
B103	IT Asset Replacement	36
B127	Surface Water Management Infrastructure	9
B131	CTA & Cargo Tunnels	14
B303	IT/BAU End User Equip	12
Q6 Realisation		7
Subtotal		618
Category B*		68
Category C		7
Total		693

*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.

Passengers have benefited from improvements delivered in Terminal 4 including increased space in the immigration hall to ease congestion and the completion of the luxury retail redevelopment. In Terminal 5, premium passengers are enjoying the new 'First Wing' offering, a fast track route with dedicated security lanes to the British Airways lounge. The self-boarding gates installed in Terminal 5 won the 'Best Gate Initiative' at the 2017 Future Travel Experience Global Conference. Self-boarding gates will help reduce boarding times as we continue extending automation across the passenger journey and further enhance efficiency for airlines. New combined body-scanner/metal detectors were also installed to enhance the transfer security experience.

Airfield improvements continued to meet increased A380 operations with additional taxiway widening and stand modifications now substantially completed. Our largest single investment of the current regulatory period, the upgrade of the hold baggage screening machines has begun across all terminals with a portion of bags in Terminal 5 already being screened through the new security machines. Lastly, in relation to expansion, our key investment related to finalising the components and options that will underpin the expanded infrastructure. This work informed the preparation of our first planning consultation launched in January 2018.

5.2 Development and core capital expenditure

£million	Actual	CAA Forecast*	Variance	%
Development capital expenditure which transitioned to core capital expenditure (including the spend incurred during the development stages) for the year ended December 2017 (Excluding Expansion)	665	607	58	10%
Total	665	607	58	10%

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

The average cost of capital on the £58 million variance between the forecast capital expenditure and the actual amount that transitioned to core will be recovered from the airlines through airport charges in 2019.

5.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate (£000's)	Rebate paid (£000's)
BC111 Bravo Realignment Project	Bravo Taxiway Open for Code F Operations	28/09/2017	27/10/2017	263.9	263.9
BC131 Tunnels Refurbishment Project	Main Tunnel Life Safety Systems	30/12/2016	N/A	91.4	N/A

*Monthly rebate has been uplifted from 11/12 prices based upon indexation included in section 9

The Bravo trigger date was achieved 1 month later than assumed at the time the aeronautical charges for 2018 were set. The monthly rebate will be accounted for in the 2019 aeronautical charges consultation.

BC131 Tunnels Refurbishment Project (Main tunnel life safety systems) was due for completion on 30 December 2016. This has not been met and completion is now expected in the final quarter of 2018. The monthly rebate on this trigger of £91.4k will be accounted for in the 2019 aeronautical charges consultation.

5.4 Independent Funds Surveyor

The Independent Fund Surveyor (IFS) has been engaged since April 2014 and to date have been deployed to monitor 24 key projects, 15 of which are currently in construction. The IFS has completed close out reports on a further 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 Board sub-group) with a range of airline community stakeholders to progressively work through common IFS themes/recommendations to drive continuous improvement. During 2017 this group continued to review areas including project scheduling, cost estimating, benchmarking, change management, risk and lessons learnt.

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

6. Regulatory Asset Base (RAB) *continued*

Closing Regulatory Asset Base at 31 December 2017

£million	Actual	CAA Forecast	Variance	%
Opening RAB at 1 January 2017	15,237	15,536	(299)	(2%)
Additions in year	618	607	11	2%
Category B costs	68	-	68	-
Category C costs*	7	-	7	-
5.35% return on Category B costs	2	-	2	-
Assumed ordinary depreciation	(772)	(772)	-	-
Indexation to 31 December 2017	626	640	(14)	(2%)
Closing RAB at 31 December 2017	15,786	16,011	(225)	(1%)

* Category C costs amounting to £7 million has been added to the RAB subject to the CAA's policy on Category C, which is being finalised.

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.

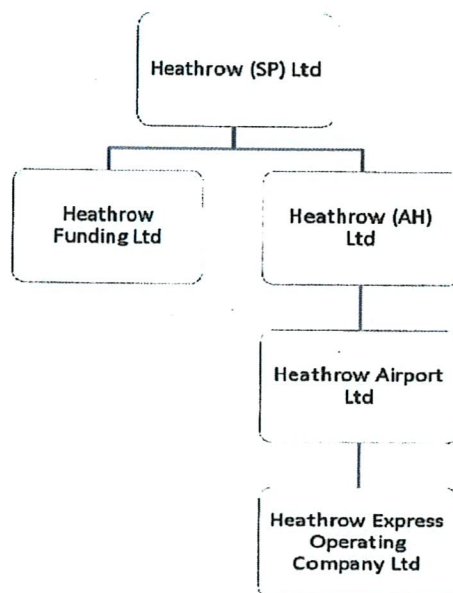
This sets out actual performance for the year under review compared with the forecasts underlying the determination of the price cap for the Company. These forecasts are set out in the CAA's Q6 Decision document, following a quinquennial review. The regulatory accounts include notes as agreed with the 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 2017. 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 2017 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 2017 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 2017 using the average Retail Price Index ('RPI') for 2017, and the RAB using the RPI at 31 December 2017.

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.

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		2,864
Add back consolidation centre costs netted off against revenue		4
Add back retail costs netted off against revenue		16
Revenue per the underlying accounts		2,884

Reconciliation of Operating Costs

Reconciliation to the underlying accounts		£million
Regulatory expenditure		(1,900)
Add statutory depreciation		(691)
Remove assumed ordinary depreciation		772
Add back Service Quality Rebate		-
Add back retail costs netted off against revenue		(16)
Add back consolidation centre costs netted off against revenue		(4)
Remove pension cash contribution adjustment		24
Operating costs including depreciation per the underlying accounts		(1,815)

8. Reconciliations *continued*

Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2017

		£million
Closing RAB at 31 December 2017		15,786
Difference between net fixed assets and RAB at 31 March 2014	(a)	(1,339)
Adjusted closing RAB		14,447
Interest capitalised disallowed within the RAB	(b)	144
Difference between net book value of disposals and proceeds	(c)	(2)
Revaluation in the underlying accounts	(d)	358
Indexation of RAB	(e)	(1,333)
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	(f)	201
2016 Category B capex recovered through first £10 million (in 2018 aeronautical charges)	(g)	5
2017 Category B capex recovered through first £10 million (to be recovered through 2019 aeronautical charges)	(g)	7
Home Loss provision not yet due	(g)	7
Cumulative 5.35% return on Category B capex	(g)	(2)
Subtotal of cumulative Q6 variance		(615)
Net fixed assets per the underlying accounts at 31 December 2017		13,832

Notes to the reconciliation of the closing RAB at 31 December 2017 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 2017 to the fixed assets in the underlying accounts *continued*

- b) Borrowing costs amounting to £144m 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 £12m (see summary in note 5) plus a home loss provision of £7m 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.

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 year 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
RPI index at 31 December 2016	267.1
RPI index at 31 December 2017	278.1
Increase from average 2011/12 to 31 December 2017	17.19%
Increase from average 2011/12 to average 2017	14.83%
Increase from average 2017 to 31 December 2017	2.06%
Increase from 31 December 2016 to 31 December 2017	4.12%

*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 2017 (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 2017 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.

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") continued

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.

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") *continued*

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 2017 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.



Deloitte LLP
London, United Kingdom

28 MARCH 2018

Appendices

Appendix A

Maximum Allowable Yield

The table below shows the maximum allowable yield that Heathrow was allowed to charge in 2017:

	£
Specified yield for 2016	22.349
RPI movement	0.291
Value of X	-0.335
Forecast capital trigger payments	0.000
SQR Bonus	0.000
Cumulative development capital expenditure adjustment	-0.298
Security cost pass through (S factor)	
Business rate revaluation factor (BR factor)	0.000
2014 correction 'K' factor over recovery	-0.100
Forecast 2017 maximum allowable yield	21.907

The following factors contribute to the calculation of the 2017 maximum allowable yield:

Cumulative development capital expenditure adjustment

The forecast development capital expenditure adjustment for 2017 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 2017 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 2019.

2015 correction 'K' factor over recovery

K factor analysis		
Airport charges revenue 2015 (£thousands)		1,692,000
Passengers 2015 (thousands)	thousands	74,999
Actual yield	£	22.560
Forecast to recover 2015	£	22.467
Interest rate		3.468%
Forecast passengers 2017 (thousands)		75,126
2014 correction 'K' factor = $\frac{((b*c)-a)}{e} * ((1+d)^2)$		-0.100

Maximum Allowable Yield - Actual vs Forecast

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

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	13,661	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.

$$\begin{aligned} \text{Closing (Basic RAB) } t &= \text{Opening RAB } t \\ &+ (\text{Total Actual Capex } t \text{ (including Category Costs above } \pounds 10\text{m) } \times \\ &\quad \text{Within Year RPI Growth } t)^2 + \\ &\quad (5.35\% \text{ on the average RAB of Category B cost (above } \pounds 10\text{m) } \times \\ &\quad \text{Within Year RPI Growth } t) \\ &- (\text{Proceeds from Disposals } t) \\ &- (\text{CAA's Assumed Ordinary Depreciation } t \times \text{RPI Growth from } \\ &\quad \text{2011/12}) \end{aligned}$$

$$\begin{aligned} \text{Opening (Basic RAB) } t &= \text{For the first Regulatory Period (1 April to 31 December 2014,} \\ &\quad \text{where } t=1\text{), this figure will be set according to the following} \\ &\quad \text{formula:} \\ &\quad \pounds 13,815.828 \text{ million } \times \text{RPI Growth from 2011/12} \\ &+ \text{Actual Capex 2013/14 } \times \text{RPI Growth from 2013/14} \\ &- \pounds 1,292.874 \text{ million } \times \text{RPI Growth from 2011/12} \\ &- (\text{Actual proceeds from Disposals 2013/14) } \times \text{RPI Growth from} \\ &\quad \text{2013/14} \\ &= \text{For the remaining Regulatory Years, this figure will be set} \\ &\quad \text{according to the following formula:} \\ &\quad \text{Closing RAB } t-1 \times \text{Annual RPI Growth } t \end{aligned}$$

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

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

Appendix D

Service Quality Rebates and Bonus (SQRB)

Summary of 2017 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			
Security	Wi-Fi	Publication only			0.0
	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	Control posts	95.00%	48	0	0.0
Passenger Operational	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%	48	0	0.0
	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		864	0	0.0
	Total at risk				120.1

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.

2017 SQR Bonus

SQR bonuses	No. of months in which bonus achieved	Bonus (£thousands)
Departure lounge seating availability		
Cleanliness		
Wayfinding	12	520
Flight information		
Total	12	520

There were 12 SQR bonus earned in 2017.