



Heathrow (SP) Limited  
Regulatory Accounts  
9 months ended 31 December 2014

**Heathrow**  
*Making every journey better*

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## Introduction

Heathrow (SP) Limited (the 'Company') owns Heathrow Airport Limited ('Heathrow') and Heathrow Express Operating Company Limited ('HEX') 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 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 nine month financial period ended 31 December 2014, 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' 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 8 and 10 respectively.

Reconciliations to statutory financial reporting are in section 9.

## Objectives of the Regulatory Accounts

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

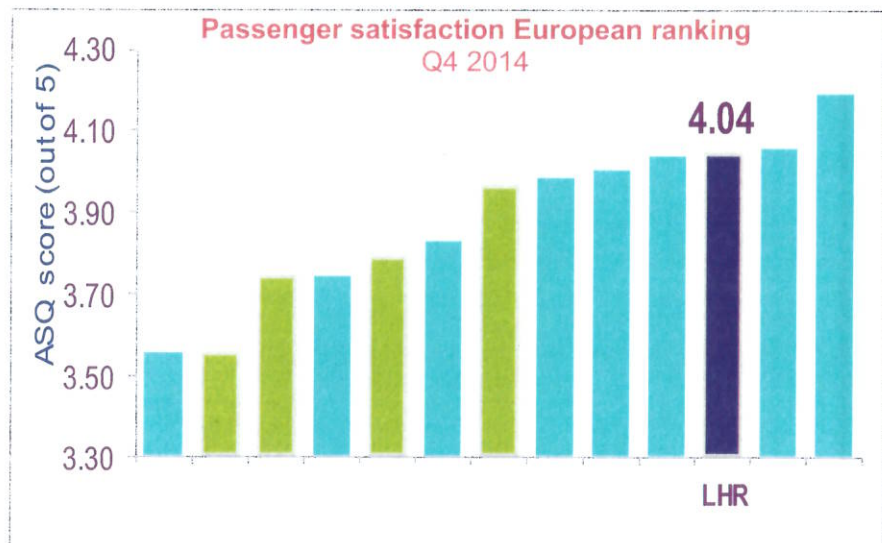
- a) enable the CAA, airlines and users of air transport services to assess on a consistent basis the financial position of Heathrow and the financial performance of provision of airport operation services and associated services provided in connection with Heathrow Airport;
- b) assist the CAA, airlines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

## 2014 Performance Overview

In the period from April – December 2014, Heathrow successfully opened Terminal 2: the Queen's Terminal in June and achieved the highest passenger satisfaction of all European hub airports whilst handling more passengers than ever.

Heathrow achieved its highest ever overall passenger satisfaction in the independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI), averaging 4.04 out of 5.00 and 2014 was the first year in which passenger satisfaction was above 4.00 in every quarter.

The score reflects strong operational performance and improved levels of both punctuality and satisfaction across key passenger service attributes, which reflects the improvements delivered through the year including the opening of Terminal 2. Despite operating at full capacity, departure punctuality improved through the year with 78% of flights departing within 15 minutes of schedule as operational procedures improved



across all stakeholders. As part of a programme to build greater operational resilience, a centralised airport operations control centre was opened in late 2014 with Heathrow operations staff co-locating with many of the airport's primary operators in order to enhance operational awareness and collaboration. Work also continued to improve the resilience of baggage operations after significant operational issues in June 2014.

Heathrow welcomed 57.4 million passengers in the 2014 regulatory period, a million more than in the same period in 2013. New routes and additional flights were launched to emerging market and other long haul destinations, benefitting from the strength of efficient hub facilities. New destinations include Manila, Chengdu, Bogota and Austin and Air China consolidated its London operation into Heathrow. By the end of 2014, Heathrow had more airlines operating Boeing 787s than any other airport globally, whilst the number of airlines operating Airbus 380s increased to seven.

2014 also saw the opening of Terminal 2: the Queen's Terminal in June. The terminal is home to 26 airlines including 23 Star Alliance airlines operating at Heathrow. The terminal provides the ability for airlines to operate with low minimum connecting times for transfer passengers, benefitting from the hub infrastructure.

Together with Terminal 5, which has been the winner of the Skytrax World's Best Airport Terminal for four successive years, Heathrow now has two world-class terminals, complemented by continuing investment in Terminals 3 and 4.

Other elements of the capital investment programme in 2014 included investment in baggage infrastructure and operational resilience, refurbishment of tunnels to the Central Terminal Area, asset replacement and the resurfacing of the northern runway took place over the summer and completed on time at the end of September. Improvement to passenger experience included the expansion of security lanes and a new designer retail offering in Terminal 5.

In 2014, there was a significant focus on developing the proposals for expanding the airport. Heathrow held public consultations and worked with local authorities, communities and other stakeholders in order to submit a refreshed proposal to the Airports Commission reflecting input received. This proposal improved on the July 2013 plan with further reduction of noise impact, improved road capacity, reduced congestion impacts and faster delivery of hub capacity.

In financial terms, April to December 2014 has seen a good performance in airport charges driven by higher passengers and the recovery of yield dilution from the 2012/13 regulatory year plus a solid retail performance and operating costs that are broadly in line with the CAA forecast.



The regulatory operating profit at £710m was £112m higher than the forecast based on the CAA decision covering the Q6 regulatory period. Excluding the 'K' factor correction element of the allowable yield in 2014 and allowance for potential demand shocks included in the CAA passenger forecast that did not occur in the period, results in a lower favourable variance of £49m.

As at 31 December, Heathrow's calculation of the weighted average regulatory asset base (RAB) was £14,860m, £99m lower than forecast due to lower capital expenditure in 2014.

Operating performance and the RAB resulted in a headline actual return of 4.79% compared to 4.02% in the forecast. Adjusting for the 'K' factor and the allowance for demand shocks reduces the return to 4.36%.

# 1. Performance Summary for 9 months ended 31 December 2014

£million (unless otherwise stated)	Section	Actual	CAA Forecast*	Variance	%
<b>Total Passengers (thousands)</b>	2	<b>57,371</b>	<b>55,400</b>	<b>1,971</b>	<b>4%</b>
<b>Revenue</b>	3				
Airport Charges		1,331	1,223	108	9%
Other Revenue		763	753	10	1%
<b>Total Revenue</b>		<b>2,094</b>	<b>1,976</b>	<b>118</b>	<b>6%</b>
<b>Expenditure</b>	4				
Operating costs		(877)	(871)	(6)	(1)%
Assumed ordinary depreciation		(507)	(507)	0	0%
<b>Total Expenditure</b>		<b>(1,384)</b>	<b>(1,378)</b>	<b>(6)</b>	<b>(0)%</b>
<b>Regulatory operating profit (before exceptional operating costs)</b>		<b>710</b>	<b>598</b>	<b>112</b>	<b>19%</b>
<b>Exceptional operating costs</b>	5	0	0	0	-
<b>Regulatory operating profit</b>		<b>710</b>	<b>598</b>	<b>112</b>	<b>19%</b>
<b>Capital expenditure</b>	6	<b>392</b>	<b>475</b>	<b>(83)</b>	<b>(17)%</b>
<b>Opening RAB</b>	7	<b>14,816</b>	<b>14,832</b>	<b>(16)</b>	<b>(0)%</b>
<b>Closing RAB</b>		<b>14,860</b>	<b>14,959</b>	<b>(99)</b>	<b>(1)%</b>
<b>Average RAB</b>		<b>14,838</b>	<b>14,896</b>	<b>(58)</b>	<b>(0)%</b>
<b>9 month return on average RAB<sup>†</sup> (before exceptional operating costs)</b>		<b>4.79%</b>	<b>4.02%</b>	<b>0.77%</b>	
<b>9 month return on average RAB<sup>†</sup></b>		<b>4.79%</b>	<b>4.02%</b>	<b>0.77%</b>	

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

†Annualised equivalent return is 6.38% vs CAA forecast of 5.36%

The regulatory accounts of Heathrow (SP) Limited were approved by the Board of Directors on 27 March 2015 and signed on behalf of the Board by:



Andrew Efiang – Director



Emma Gilthorpe – Director

## 2. Passenger Summary

### Heathrow passenger traffic for the 9 months ended 31 December 2014

Thousands	Actual	CAA Forecast*	Variance	(%)
Departing passengers	28,437			
Arriving passengers	28,934			
<b>Total passengers</b>	<b>57,371</b>	<b>55,400</b>	<b>1,971</b>	<b>4%</b>

Passenger totals are unrounded and defined in the basis of preparation in section 8

Total passenger numbers were 57.4m for the 9 months to 31 December 2014 which is 2.0m higher than the CAA forecast. Excluding the demand shock allowance which was included in the CAA decision, the variance reduces by 0.6m to 1.4m, meaning underlying traffic was 3% higher than the CAA forecast.

### Heathrow's passenger traffic by geographic segment for the 9 months ended 31 December 2014 vs 9 months ended 31 December 2013

Thousands	Actual	Prior year	Variance	(%)
UK	4,131	3,939	192	5%
Europe	23,516	23,356	161	1%
North America	13,645	13,410	235	2%
Asia Pacific	7,915	7,787	127	2%
Middle East	4,646	4,482	164	4%
Africa	2,655	2,631	24	1%
Latin America	863	809	55	7%
<b>Total passengers</b>	<b>57,371</b>	<b>56,412</b>	<b>959</b>	<b>2%</b>

Passenger totals are unrounded and defined in the basis of preparation in section 8

Heathrow's traffic between April and December 2014 rose 1.7% to 57.4 million passengers (2013: 56.4 million), with an average load factor of 78.4% (2013: 77.7%). Traffic and load factors were impacted by the timing of Easter which shifted the holiday demand peak from March in 2013 to April in 2014. Taking into account the movement in the timing of Easter, the underlying rate of growth for the last nine months of 2014 is estimated to be in the region of 1%.

Airlines continue to operate larger planes with an average of 204.9 seats per passenger aircraft (2013: 203.7 seats) and overall air transport movements increased by 0.2% with a shift to more intercontinental services, particularly East Asia.

Domestic traffic grew 4.9%, reflecting increased capacity for UK domestic services and European traffic was 0.7% higher than last year, primarily impacted by the Easter timing change. Intercontinental traffic performed well in most regions, growing by 2.1%. North America benefitted from increased services and the use of larger aircraft and traffic with the Middle East grew by 3.7% as a result of additional movements and stronger load factors.

## 3. Revenue

### Summary

For the period April to December 2014, revenue at £2,094m is 6% favourable to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	(%)
<b>Airport charges</b>	<b>1,331</b>	<b>1,223</b>	<b>108</b>	<b>9%</b>
Retail (including car parking)	374	360	14	4%
Property	82	86	(4)	(5%)
<b>Commercial Revenue</b>	<b>456</b>	<b>446</b>	<b>10</b>	<b>2%</b>
<b>Other regulated charges</b>	<b>178</b>	<b>188</b>	<b>(10)</b>	<b>(5%)</b>
Rail	99	95	4	4%
Other	30	24	6	25%
<b>Total revenue</b>	<b>2,094</b>	<b>1,976</b>	<b>118</b>	<b>6%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

### 3.1 Airport charges

For the period April to December 2014, airport charges at £1,331m are 9% favourable to the CAA forecast.

£million (unless otherwise stated)	Actual	CAA Forecast*	Variance	(%)
<b>Passenger flights</b>				
Departing passenger charges	969			
Landing charges	306			
Parking charges	51			
<b>Total passenger flights</b>	<b>1,326</b>			
Total passengers (thousands)	57,371			
Actual yield per passenger	£23.113			
<b>Total non-passenger flights</b>	<b>5</b>			
<b>Total airport charges</b>	<b>1,331</b>	<b>1,223</b>	<b>108</b>	<b>9%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

The £108m favourable variance is primarily driven by £50m 'K' correction factor recovery of yield dilution from the year 2012/13 which relates to Q5 and therefore is not included in the CAA forecast, £46m as a result of the increase in passenger numbers and the difference between the forecast and actual yield.

Details of the maximum allowable yield and 'K' factor for 2014 can be found in Appendix A.

### 3.2 Retail Revenue

For the period April to December 2014, gross retail income at £392m is 3% favourable to the CAA forecast. Net retail income ('NRI') is favourable by 4% with NRI per passenger in line with forecast.



£million (unless otherwise stated)	Actual	CAA Forecast*	Variance	%
- Duty and tax-free	101	110	(9)	(8%)
- Airside specialist shops	72	69	3	4%
- Bureau de change	37	35	2	6%
- Catering	31	28	3	11%
- Other retail revenue	74	67	7	10%
<b>Retail</b>	<b>315</b>	<b>309</b>	<b>6</b>	<b>2%</b>
<b>Car Parking</b>	<b>77</b>	<b>72</b>	<b>5</b>	<b>7%</b>
<b>Gross retail income</b>	<b>392</b>	<b>381</b>	<b>11</b>	<b>3%</b>
Retail expenditure	(18)	(21)	3	14%
<b>Net retail income</b>	<b>374</b>	<b>360</b>	<b>14</b>	<b>4%</b>
<b>Terminal Passengers (k)</b>	<b>57,371</b>	<b>55,400</b>	<b>1,971</b>	<b>4%</b>
<b>Net Retail income per passenger</b>	<b>£6.52</b>	<b>£6.50</b>	<b>£0.02</b>	<b>0%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

Duty and tax-free is (8%) adverse as the CAA stretch to commercial income was applied only to duty and tax-free income. The adverse variance is offset by the favourable variances in airside specialist shops, bureau and catering income lines. Underlying performance is broadly in line with the forecast. The favourable variances in airside specialist shops, bureau and catering were driven by increased passenger spend in Terminal 3 and Terminal 5 shops, a revised commercial agreement and good performance in Terminal 2 respectively.

Other retail revenue is 10% favourable driven by car rental revenue with higher average transaction values and more demand, with all car rental providers requesting more space. There was also growth in advertising and telecommunications income.

Car parking revenue is 7% favourable due to a short stay parking price change that was implemented earlier than expected.

Retail expenditure is 14% favourable due to lower car park management costs.

### 3.3 Property

Property income is (5%) adverse to the CAA forecast driven by the CAA stretch applied to basic rents which has not been achieved.

### 3.4 Other Regulated Charges Revenue

For the period April to December 2014, other regulated charges (ORC) income at £178m is (5%) adverse to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
Baggage/check-in	98	106	(8)	(8%)
Fixed electrical ground power	8	8	0	0%
Utilities	36	43	(7)	(16%)
PRM	16	14	2	14%
Staff car parking & security documentation	15	13	2	15%
Other income	5	4	1	25%
<b>Total</b>	<b>178</b>	<b>188</b>	<b>(10)</b>	<b>(5%)</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

### Baggage & Check In

Baggage/Check-in income is (8%) adverse as a result of lower forecast costs to be recovered. These are driven by savings in operations and maintenance due to a new contract and a delay in the go-live of the Terminal 3 Integrated Baggage System (T3IB). These variances had a neutral impact on regulatory operating profit. The increase in passengers also created a favourable variance due to the increase in bags however this was offset by the over recovery from the 2013/14 regulatory year which was returned to the airport community via 2014 pricing.

### Utilities

Utilities (incorporating electricity, heating, water & sewerage, gas, waste & recycling and pre-conditioned air) income is (16%) adverse. The majority of the adverse variance is due to electricity driven by lower electricity prices and consumption reducing income as well as the £3m over recovery from the 2013/14 regulatory year which was returned to the airport community via 2014 pricing. Lower consumption of pre-conditioned air (PCA) also reduced revenue.

### Passengers with Reduced Mobility (PRM)

PRM income is 14% favourable due to the £2.3m under recovery from the 2013/14 regulatory year which was recovered from the airport community via 2014 pricing.

### Staff Car Parking & Security Documentation

Income from staff car parking & security documentation is 15% favourable driven by a higher number of car park passes being issued than forecast.

## 3.5 Rail

Rail income is 4% favourable to the CAA forecast. This variance is split between Heathrow Express and Piccadilly Line extension due to an increase in the level of compensation received for disruption from Crossrail works and an increase in passenger growth respectively.

## 3.6 Other

Other income is 25% favourable driven by VIP income as a result of a price increase and increased volume.

## 4. Operating Costs

### Summary

For the period April to December 2014, net operating costs at £877m are (1%) adverse to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
Staff	(325)	(321)	(4)	(1%)
Maintenance & Equipment	(134)	(151)	17	11%
Rent & Rates	(101)	(114)	13	11%
Utilities	(72)	(81)	9	11%
Other expenditure	(232)	(204)	(28)	(14%)
<b>Operating costs before adjustments</b>	<b>(864)</b>	<b>(871)</b>	<b>7</b>	<b>1%</b>
Add back service quality rebates†	6	0	6	-
Transfer of exceptional costs included in CAA forecast	(19)	0	(19)	-
<b>Total operating costs</b>	<b>(877)</b>	<b>(871)</b>	<b>(6)</b>	<b>(1)%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

† Service quality rebates are not an allowable cost for inclusion in operating expenditure

### 4.1 Staff

For the period April to December 2014, staff costs at £325m are (1%) adverse to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
Security	(118)	(116)	(2)	(2%)
Other operational	(76)	(83)	7	8%
Non operational	(68)	(66)	(2)	(3%)
Pension	(63)	(56)	(7)	(13%)
<b>Total</b>	<b>(325)</b>	<b>(321)</b>	<b>(4)</b>	<b>(1%)</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

Savings due to unfilled roles across a number of departments are offset by higher costs in security and some additional re-structuring costs. Higher pension and security costs plus additional re-structuring expenditure are partially offset by savings due to unfilled roles across a number of departments.

### 4.2 Maintenance and Equipment

For the period April to December 2014, maintenance & equipment costs at £134m are 11% favourable to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
IT & computer services	(30)	(32)	2	6%
Maintenance	(94)	(108)	14	13%
Stores & equipment	(10)	(11)	1	9%
<b>Total</b>	<b>(134)</b>	<b>(151)</b>	<b>17</b>	<b>11%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

Lower operations and maintenance costs in baggage generated by a new contract, which are offset by reduced ORC income, drive the bulk of the favourable variance. Other elements include the one-off T2 operational readiness spend and the delay in go-live of T3IB.

### 4.3 Rent and Rates

For the period April to December 2014, rent and rates at £101m are 11% favourable to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
Rent	(11)	(14)	3	21%
Rates	(90)	(100)	10	10%
<b>Total</b>	<b>(101)</b>	<b>(114)</b>	<b>13</b>	<b>11%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

Rent costs were reduced as the Heathrow Point West and World Business Centre 2 premises were vacated earlier than expected. Rates costs were reduced as a result of a lower than forecast rateable value of airport assets.

### 4.4 Utilities

For the period April to December 2014, utilities at £72m are 11% favourable to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
Electricity	(35)	(40)	5	13%
Water & sewerage	(2)	(3)	1	33%
Gas	(4)	(8)	4	50%
Waste & recycling	(4)	(4)	0	0%
Other	(27)	(26)	(1)	(4%)
<b>Total</b>	<b>(72)</b>	<b>(81)</b>	<b>9</b>	<b>11%</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

Electricity costs are favourable due to reduced consumption helped by the early delivery of Energy Demand Management projects, and a lower price due to macroeconomics and market forces factors. Favourable gas costs are driven by reduced consumption as a result of the closure of a boiler house, milder weather than average and a reduced price.

## 4.5 Other

For the period April to December 2014, other costs at £232m are (14%) adverse to the CAA forecast.

£million	Actual	CAA Forecast*	Variance	%
Police	(22)	(23)	1	4%
Rail	(46)	(46)	0	0%
Cleaning	(22)	(25)	3	12%
Service quality rebate	(6)	0	(6)	0%
Intra group	(14)	(3)	(11)	(367%)
PRM costs	(14)	(14)	0	0%
Other (including Air navigation service)	(108)	(93)	(15)	(16%)
<b>Total other costs</b>	<b>(232)</b>	<b>(204)</b>	<b>(28)</b>	<b>(14%)</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

### Service Quality Rebate

Rebates totalling £5.7m were paid in the period April to December 2014, primarily driven by security queuing times in Terminal 5 and levels of passenger satisfaction with flight information displays across Terminals 1, 4 and 5. Further details can be found in Appendix D.

### Intra group

The adverse variance is driven by costs disallowed by the CAA and therefore not included within the forecast.

### Other

There has been increased spend in the period April to December 2014 on airport resilience and on submissions for the Airports Commission on runway capacity.

## 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 April – December 2014 in figure H.1, appendix H of the 2014 licence of £467m (2011/12 prices) has been increased by 8.5% (refer to section 10) to £507m in 2014 prices.

## 5. Exceptional Operating Costs

£million	Actual	CAA Forecast*	Variance	%
T2 operational readiness costs	(11)			
Re-structuring	(8)			
Transfer of exceptional costs included as operational costs in the CAA forecast	19			
<b>Exceptional pre-tax charge</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(100%)</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

Exceptional operating costs totalling £19m and relating to Terminal 2 operational readiness and re-structuring have been transferred into operating expenditure in line with the treatment in the CAA licence.

## 6. Capital Expenditure

### Summary

	£million
Capital expenditure forecast included in the Q6 settlement for 2014*	475
Actual capital expenditure incurred during the period April to December 2014	392
Variance	(83)
%	(17%)

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

The capital spend in the period April to December 2014 has been slower than anticipated due to the scale of the Development change programme implemented across Heathrow. The changes were critical to adapt to the different nature of the overall portfolio and the different Q6 regulatory model. Changes included a full re-organisation, implementation of new processes and the introduction of new contracts with programme designers, delivery integrators, cost and commercial consultants and logistics integrator, along with a shift towards a professional collaboration model. The size of this change, particularly affecting the mobilisation of the new supply chain, has impacted the progress of the business cases compared to the original CAA Q6 decision. However, as these changes have been embedded throughout the year, the teams are now focusing on how to accelerate works in order to recover some of these delays.

## 6.1 Analysis of actual expenditure

Capital Programme	Detail	Total CapEx (£million)
<b>Airport resilience</b>		<b>70</b>
B206	B206 Airport Resilience Programme Rollover	33
B117	B117 T4 Infrastructure Improvement	13
B043	B043 APOC	9
B111	B111 Enabling New Generation of Wide Body Aircraft - Airfield	7
B015	B015 Operational Systems Critical Asset Replacement	3
B112	B112 Airfield Efficiency and Resilience	3
	Other Airport resilience projects	2
<b>Passenger experience</b>		<b>57</b>
B204	B204 Passenger Experience Programme Rollover	30
B116	B116 T3 Security Capacity	4
B024	B024 Commercial Advertising and Sponsorship	4
B009	B009 Northern Perimeter	4
B018	B018 T5 Security Capacity	3
B020	B020 Commercial IT and telecoms	3
B044	B044 Commercial systems replacement and upgrades	3
	Other Passenger Experience Projects	6
<b>Baggage</b>		<b>89</b>
B051	B051 T3IB Q5 Rollover	60
B216	B216 HBS & Asset Replacement	15
B205	B205 Baggage Programme Rollover	14
<b>Asset Management</b>		<b>78</b>
B207	B207 Asset Management Programme Rollover	36
B131	B131 CTA & Cargo Tunnels	17
B102	B102 Rail Asset Replacement	5
B101	B101 Engineering Asset Replacement	5
B028	B028 Metering & Energy Demand Management	4
B103	B103 IT Asset Replacement	3
B212	B212 - Rapid Goods Screening Centre Relocation	3
	Other Asset Management Projects	5
<b>Q6 Realisation</b>		<b>34</b>
B193	B193 Portfolio	19
B208	B208 Q6 Realisation Programme Rollover	10
B164	B164 Back Office IT	5
<b>Terminal 2</b>		<b>64</b>
B150	B150 Terminal 2 Phase 1 Completion	64
	<b>Total</b>	<b>392</b>

The start of Q6 has seen the majority of spend occurring on the completion of the key Q5 rollover projects whilst the design of the new Q6 business cases has been developed. In particular, the largest spend has been on the new Terminal 3 Integrated Baggage project where the build of the new facility has completed and the investment in the new systems has progressed significantly in order to move the project into the Testing and Commissioning phase ready for 'go live' in March 2015. 2014 has also seen the completion of the runway resurfacing project which has resulted in an increase in the life of both runways and minimises operational risk.



## 6.2 Development and core capital expenditure

	£million
Capital expenditure forecast included in the Q6 settlement for 2014*	475
Development capital expenditure which transitioned to core capital expenditure (including the spend incurred during the development stages) during the period April to December 2014	363
Variance	(112)
%	(24%)

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

The average return on £112m variance between the CAA forecast capital expenditure and the actual amount that transitioned to core will be returned to the airlines through airport charges in 2016. Any subsequent capital expenditure that transitions to core would be recovered in subsequent years through airport charges.

## 6.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate (£thousands)	Rebate paid (£thousands)
B207	Northern Runway Returned to Cat 3 Operations	Sep - 2014	Sep - 2014	79.2	0.0
B117	Reconfigure Stand 410 to handle Code F Aircraft	Dec - 2014	Nov - 2014	47.3	0.0

\*Monthly rebate has been uplifted from 11/12 prices based upon indexation included in section 10

Two projects had triggers applied in the period from April to December 2014, and both projects were completed to their milestone dates.

## 6.4 Independent Funds Surveyor

The Independent Fund Surveyor (IFS) has been engaged since April 2014 and is now monitoring 17 key projects across 10 business cases on a monthly basis and at key gateways. 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. Key areas of focus include; variable approach gateway governance, clearer capture of stakeholder endorsement, adherence to change control processes and improvements in active risk management in some areas.

## 7. 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
<b>Forecast RAB at 31 March 2014 in Annex H, Economic regulation at Heathrow from April 2014</b>	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)
<b>Adjusted opening RAB at 1 April 2014</b>			<b>14,816</b>

### Closing Regulatory Asset Base at 31 December 2014

£million	Actual	CAA Forecast*	Variance	%
Opening RAB at 1 April 2014	14,816	14,832	(16)	(0%)
Additions in year	392	475	(83)	(17%)
Proceeds from disposals	0	0	0	0%
Assumed ordinary depreciation	(507)	(507)	0	0%
Indexation to 31 December 2014	159	159	0	(0%)
<b>Closing RAB at 31 December 2014</b>	<b>14,860</b>	<b>14,959</b>	<b>(99)</b>	<b>(1%)</b>

\*CAA forecast has been uplifted from 11/12 prices based upon indexation included in section 10

## 8. 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 (IFRS) as adopted by the EU from time to time.

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.

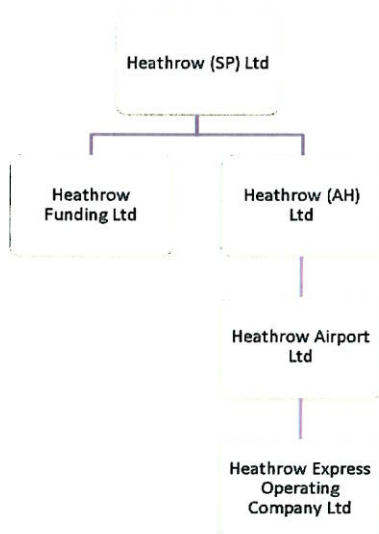
The Directors of the Company are responsible for preparing the annual regulatory accounts in accordance with the CAA issued Regulatory Accounting Guidelines.

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 2014 and unaudited management accounts for the three month period ended 31 March 2014. Together, 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 (IFRS) as adopted by the EU.

The move to Heathrow (SP) Limited from Heathrow Airport Limited (HAL) has been made in order to meet the IFRS requirement contained in condition E1 of the Q6 Decision and incorporate the impact of rail regulation upon the Heathrow Express Operating Company Limited (HEX). There is no impact to the performance summary as a result of this change.



## Passengers

Total passenger numbers represent those passengers on all flights except cargo who physically pass through the airport's facilities. This includes transit passengers numbering 0.03m in the 2014 regulatory period. It includes passenger numbers for the following flight categories, which are included in the table in section 3 showing the breakdown of airport charges – scheduled and non-scheduled passenger, air ambulance, government charter (troops and cargo), air taxi, general aviation, diplomatic and military. Terminal passenger numbers exclude those passengers on 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 7. 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. Forecast capital expenditure has likewise been uplifted by the increase in RPI, from average 2011/12 prices (as in the Q6 Decision) to average 2014 prices, in accordance with CAA guidance.

The depreciation allowance has been set for each of the five years. 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 Company. 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 income;
- other regulated charges income, 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;
- exceptional operating costs relating to Terminal 2 operational readiness and restructuring costs are moved to operating costs;
- service quality rebates are excluded from operating costs; and
- gains or losses on asset disposals are excluded from operating costs.

## Indexation

The forecasts have been derived by indexing forward the forecasts in the Q6 decision to 2014 prices in accordance with the CAA Q6 Decision. The appropriate RPI indices are shown in section 10. Profit and loss items have been indexed forward to 2014 using the average RPI for 2014, and the RAB using the RPI at 31 December 2014.

## 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.

## 9. 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
<b>Regulatory revenue</b>	<b>2,094</b>
Add back HCC costs netted off against revenue	4
Add back retail costs netted off against revenue	18
<b>Revenue per the underlying accounts</b>	<b>2,116</b>

### Reconciliation of Operating Costs

Reconciliation to the underlying accounts	£million
<b>Regulatory expenditure</b>	<b>(1,384)</b>
Add back statutory depreciation	(463)
Remove assumed ordinary depreciation	507
Profit on disposals of tangible fixed assets	0
Remove exceptional T2 and restructuring costs	19
Add back Service Quality Rebate	(6)
Add back retail costs netted off against revenue	(18)
Add back HCC costs netted off against revenue	(4)
Remove pension cash contribution adjustment	18
<b>Operating costs per the underlying accounts excluding exceptional operating costs</b>	<b>(1,332)</b>
Add back exceptional costs (pension charge, T2 operational readiness costs and restructuring)	(173)
<b>Expenditure per the underlying accounts</b>	<b>(1,505)</b>

### Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2014

	£million
<b>Closing RAB at 31 December 2014</b>	<b>14,860</b>
Difference between statutory non-current assets and RAB at 31 Mar 2014 (a)	(1,339)
<b>Adjusted closing RAB</b>	<b>13,521</b>
Borrowing costs capitalised disallowed (b)	41
Difference between net book value of disposals and proceeds (c)	(1)
Revaluation in the underlying accounts (d)	70
Indexation of RAB (d)	(158)
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation (e)	44
<b>Sub total of in year variance</b>	<b>(4)</b>
<b>Statutory non-current assets per the underlying accounts at 31 December 2014</b>	<b>13,517</b>

**Notes to the reconciliation of the closing RAB at 31 December 2014 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**

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)
<b>Total</b>	<b>1,339</b>

- b) Borrowing costs amounting to £41m were capitalised in the year. The roll forward calculation for the RAB specified in the CAA Licence excludes capitalised borrowing costs.
- c) Statutory valuations 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. The RAB is revalued annually by reference to the Retail Prices Index ("RPI") as specified in the CAA Licence.
- e) This reflects the difference between the amount charged as depreciation in the underlying accounts and the Assumed Ordinary Depreciation allowed in the CAA Licence.

## 10. 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 March 2014	251.7
Average RPI index for the 9 months ended 31 December 2014	256.8
RPI index at 31 March 2014	254.8
RPI index at 31 December 2014	257.5
Increase from average 2011/12 to 31 March 2014	7.36%
Increase from average 2011/12 to 31 December 2014	8.49%
Increase from average 2011/12 to average 9 month period to 31 December 2014	8.18%
Increase from average 2013/14 to 31 March 2014	1.22%
Increase from average 9 month period to 31 December 2014 to 31 December 2014	0.29%
Increase from 31 March 2014 to 31 December 2014	1.06%

## 11. Independent Report from Deloitte LLP



## **Independent auditors' report to the Civil Aviation Authority (the "Regulator") and the Directors of Heathrow Airport Limited and Heathrow (SP) Limited (together the "Companies")**

We have audited the financial information included within the Regulatory Accounts of Heathrow (SP) Limited for the period ended 31 December 2014 on pages 6 to 24, comprising of statements 1 to 10 (the "Regulatory Accounts").

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out within the Regulatory Accounts.

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 granted to Heathrow Airport Limited under section 15 of the Civil Aviation Act 2012 ("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.

### **Respective responsibilities of the Regulator, the directors and auditors**

The directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the Regulatory Accounts**

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information presented with the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we

become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of Heathrow (SP) Limited where these are laid down by Condition E1. Where Condition E1 does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

### **Opinion on Regulatory Accounts**

In our opinion, the Regulatory Accounts for the year ended 31 December 2014:

- have been properly prepared in accordance with Condition E1 and the Regulatory Accounting Guidelines; and
- on that basis, fairly present the financial performance of Heathrow (SP) Limited.

### **Emphasis of matter - Basis of preparation**

Without modifying our opinion on the Regulatory Accounts, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition E1 of the Regulatory Licence and the Regulatory Accounting Guidelines.

The Regulatory Accounts are separate from the statutory financial statements of Heathrow (SP) Limited and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). 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 Regulatory Accounts and the statutory financial statements, which have been prepared under International Financial Reporting Standards ("IFRS") are included in Statement 9 within the Regulatory Accounts.

### **Opinion on other matters prescribed by Condition E**

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:

- adequate accounting records have been kept by the Companies as required by Condition E; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained

for the purpose of preparing the Regulatory Accounts.

**Other matters**

- The nature, form and content of Regulatory Accounts 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.
- Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Companies for the period ended 31 December 2014 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 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 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*

**Deloitte LLP**  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
27 March 2015

## Appendices

### Appendix A

#### Maximum Allowable Yield

The table below shows the maximum allowable yield that Heathrow was allowed to charge in 2014:

	£
<b>Opening yield as defined by the CAA</b>	<b>22.261</b>
Forecast capital trigger payments	0.000
SQR bonus	0.000
Cumulative development capital expenditure adjustment	0.000
2012/13 correction 'K' factor under recovery	0.894
<b>Forecast 2014 maximum allowable yield</b>	<b>23.155</b>

The following factors contribute to the calculation of the 2014 maximum allowable yield:

#### Forecast capital trigger payments

There were no forecast capital trigger payments for 2014.

#### SQR bonus

The CAA has set that the bonus for certain service quality measures for actual Q5 performance will continue to be recovered through the correction 'K' factor.

#### Cumulative development capital expenditure adjustment

There was no forecast development capital expenditure adjustment for 2014.

#### 2012/13 correction 'K' factor under recovery

K factor analysis			
Airport charges revenue 2012/13	a	£thousands	1,314,098
Passengers 2012/13	b	thousands	70,338
Actual yield		£	18.683
Forecast to recover 2012/13	c	£	19.398
Interest rate	d		0.285%
Forecast passengers 2014	e	thousands	56,601
<b>2012/13 correction 'K' factor = <math>((a-(b*c))e^{*}((1+d)^{2})</math></b>			<b>0.894</b>

\*^2 relates to the two year compound rate

The calculation for the maximum allowable yield in accordance with Heathrow's price control conditions from 2015 will separately take account for the value of 'X', RPI and the business rates revaluation.

## Appendix B

This section will provide 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	1,130	1,449	1,444	1,428	1,417	6,869

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
<b>Total</b>	<b>282</b>	<b>354</b>	<b>347</b>	<b>349</b>	<b>348</b>	<b>1,680</b>

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	2,816

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 index<sup>1</sup> 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

<sup>1</sup> All Items (CHAW) index, source: Office for National Statistics (ONS).  
Heathrow (SP) Limited – Regulatory Accounts 9 months ended 31 December 2014

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 x Within Year RPI Growth t) <sup>2</sup> - (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

<sup>2</sup> Accrued capital expenditure with no adjustment for movements in working capital.  
Heathrow (SP) Limited – Regulatory Accounts 9 months ended 31 December 2014

## Appendix D

### Service Quality Rebates and Bonus (SQRB)

#### Summary of 2014 SQRB performance

Category	SQR element	Target	Number of Passes	Number of Failures	Rebates paid £million	
<b>Passenger satisfaction (QSM)</b>	Departure lounge seating availability	3.80	43	0	0.0	
	Cleanliness	4.00	43	0	0.0	
	Wayfinding	4.10	43	0	0.0	
	Flight information	4.30	25	18	2.0	
<b>Security</b>	Security	Publication only				
	Wi-Fi	Publication only				
	Central Search (interim) - less than 5 mins	95.00%	41	2		
	Central Search (interim) - less than 10 mins	99.00%	42	1	2.3	
	Central Search (final)	99.00%				
	Transfer search (interim)	95.00%	41	2	1.2	
<b>Campus Passenger Operational</b>	Transfer search (final)	99.00%				
	Staff search	95.00%	43	0	0.0	
	Control posts	95.00%	45	0	0.0	
	Passenger Sensitive Equipment (PSE general)	99.00%	43	0	0.0	
	Passenger Sensitive Equipment (PSE priority)	99.00%	43	0	0.0	
	Arrivals baggage carousels	99.00%	43	0	0.0	
	T5 track transit system - 1 train availability	99.00%	9	0	0.0	
	T5 track transit system - 2 trains availability	97.00%	9	0	0.0	
	<b>Airline operational</b>	Stands	99.00%	43	0	0.0
		Jetties	99.00%	43	0	0.0
Fixed electrical ground power		99.00%	43	0	0.0	
Stand entry guidance		99.00%	43	0	0.0	
Pre-conditioned air - T2, T3, T5		98.00%	25	0	0.0	
Pier service stand usage - T1, T2, T3, T4		95.00%	27	0	0.0	
<b>Airfield</b>		Aerodrome congestion term		N/A	1 material event	0.1
	<b>Total</b>		<b>737</b>	<b>23</b>	<b>5.7</b>	
	<b>Total at risk</b>				<b>92.5</b>	

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

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



## Summary of 2014 SQRB rebates by terminal and element

Terminal	SQR element	Failures	Rebate per failure £thousands	Total rebate £thousands
1	Flight information	4.5	114	513
4	Flight information	4.5	153	689
5	Flight information	2	421	842
5	Central Search Area queues	2	584	1,168
5	Transfer queues	2	1,168	2,336
N/A	Aerodrome congestion term	1	N/A	124
<b>Total</b>		<b>16</b>		<b>5,672</b>

\*Rebate is dependent upon the number of movements impacted by the failure

Note: rebates paid are actuals 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.

## 2014 SQR Bonus

SQR bonuses	No. of months in which bonus achieved	Bonus (£million)
Departure lounge seating availability	0	0
Cleanliness	0	0
Wayfinding	0	0
Flight information	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

There was no SQR bonus earned in the 2014 regulatory period.

## Confidential appendix

This appendix will provide an annual confidential update for the CAA of any additional security costs as a result of changes in the regulatory environment, in particular where these costs have not yet reached the security factor threshold.

CAA certified changes in the required security standards	Impact of change (£million)	Per passenger
	£0	0.000
<b>Total</b>	<b>£0</b>	<b>0.000</b>