Heathrow (SP) Limited
Regulatory Accounts
Year ended 31 December 2020

Heathrow
Making every journey better

Contents

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 2020 against the Civil Aviation Authority's ('CAA's') regulatory determination:

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

For the year ended 31 December 2020, 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 the year ending 31 December 2020, the CAA agreed that the Q6 price control period would roll forward two years with no update to forecasts other than for assumed ordinary depreciation and hence overall performance has been compared to the year ending 31 December 2019.

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 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.

2020 Performance Overview

2020 has been the toughest year by far in Heathrow's 75-year history. The year started strongly, with record passenger numbers in January, building on a record 80.9m passengers served in 2019. We were gearing up for further growth as we prepared the planning application for Heathrow Expansion, in line with the Airports National Policy Statement ('ANPS'), which was given overwhelming and cross-party parliamentary approval in 2018. In January our airport operation became carbon neutral, and in early February, we helped to launch the UK's Sustainable Aviation roadmap, the first time that an entire national aviation industry had committed to net zero emissions by 2050 and laid out a plan to get there.

In mid-February, the Court of Appeal suspended the ANPS, (a ruling which was reversed in December by the Supreme Court), and the first cases of COVID-19 started to appear in Europe. Through March, passenger numbers collapsed completely as COVID-19 became a global pandemic, countries closed their borders and the UK went into the first lockdown. In April passengers had fallen to only 3 percent of 2019 levels.

Our first concern was the safety of colleagues and passengers. We worked quickly with other airports and airlines around the world to set consistent high standards of COVID safety in the end to end passenger journey, and to implement them at Heathrow.

We acted quickly and decisively in March to conserve cash, stopping capital expenditure and implementing a £300m operating net cost reduction programme and suspended all work on expansion while retaining key talent. This change process was made more difficult through being managed remotely by people working from home.

At the same time, we worked hard to protect revenues and bring in new airlines, including dedicated cargo freighters. We supported the UK Government in developing a risk-based approach to reopening borders safely, which resulted in the introduction of travel corridors in June.

While this allowed travel to restart, it became clear in mid-August that the recovery had stalled so we started making plans for further cost reduction and began implementing in October. These included cutting all our costs to the lowest level we safely could, including further management reductions, closing our main office and suspending our free travel zone. We also changed our pricing to link it more to aircraft movement and cargo, and slightly less dependent on passenger numbers. By acting early, we have been able to get the maximum cash benefits for 2021.

The change programme has resulted in very difficult choices: a reduction of around a third of our management team and around a quarter of our frontline team choosing to leave under voluntary severance. As a significant local employer, we are very conscious that job losses in front line roles have a devastating impact on the community around Heathrow. We have therefore chosen to cut our payroll cost by reducing legacy terms and conditions to above market levels and the London Living Wage, which has allowed us to avoid front line compulsory redundancies. We are very grateful that 100% of our front line colleagues have accepted these new terms.

After a second lockdown in November, the market started to recover, only for further restrictions to be put in place in mid-December as new variants of COVID-19 emerged around the world. We are currently in a third lockdown and under tight border controls to protect against new variants, but the rapid roll out of vaccinations gives the prospect of bringing the COVID-19 crisis to an end and the return to a more normal life.

The result of acting quickly on revenues and capex and beating our £300 million net cost reduction target has been that we ended the year with only a slightly lower EBITDA than forecast in June despite lower traffic – which is a great credit to the hard work of our team in delivering the plan. We have been well supported by shareholders and creditors and have successfully raised £1.7 billion of debt and injected £600 million of capital into the regulated business.

2020 Performance Overview *continued*

The market remains extremely uncertain, but we have £3.9 billion of cash, which will be sufficient to take us well into 2023 under our current traffic forecast or through 15 months even without any revenue. This is as strong a position as we could have hoped for given that we have had no support from Government, other than the national furlough scheme.

Now, after 12 months with very few passengers, we are only just starting to see daylight at the end of a very long tunnel. While so much has changed, we still retain some of the strengths from February 2020. Heathrow, the UK's only hub airport and biggest port, has a critical role to play in rebuilding the national economy and connecting all of Britain to global growth.

Despite the pandemic, we have achieved record levels of customer service and resilience, which reflects the strength of our service culture. We have done this by working closely with our Team Heathrow partners to a common plan to help us all come through this crisis with a more efficient and agile operation which is designed around the needs of our passengers.

We have continued to work on a plan for net zero carbon aviation and to build a 'coalition of the willing' across the world; during 2020, airlines in the US, Middle East, Hong Kong and Russia have signed up, and the entire European aviation sector has announced a plan for net zero aviation.

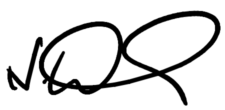
Most important of all, we have been able to retain a talented team at Heathrow who have demonstrated great versatility, resilience and teamwork in coming through 2020 and have grown in capability. They are the best reason for confidence in our future.

1. Performance Summary for the year ended 31 December 2020

£million (unless otherwise stated)	Section	2020 Actual	2019 Actual	Variance	%
Total Passengers (thousands)	*2*	**22,110**	80,886	**(58,776)**	**(73%)**
Revenue	*3*				
Airport Charges		**647**	1,831	**(1,184)**	**(65%)**
Other Revenue		**512**	1,220	**(708)**	**(58%)**
Total Revenue		**1,159**	3,051	**(1,892)**	**(62%)**
Expenditure	*4*				
Operating costs		**(911)**	(1,155)	**244**	**(21%)**
Assumed ordinary depreciation		**(830)**	(823)	**(7)**	**(1%)**
Total expenditure		**(1,741)**	(1,978)	**237**	**(12%)**
Regulatory operating (loss)/profit (before exceptional operating costs)		**(582)**	1,073	**(1,655)**	**(154%)**
Exceptional operating costs	*5*	**(184)**	-	**(184)**	**N/A**
Regulatory operating (loss)/profit		**(766)**	1,073	**(1,839)**	**(171%)**
Capital expenditure	*6*	**424**	856	**(432)**	**(50%)**
Opening RAB	*7*	**16,598**	16,202	**396**	**2%**
Closing RAB	*7*	**16,492**	16,598	**(106)**	**(1%)**
Average RAB		**16,545**	16,400	**145**	**1%**
Return on average RAB		**(4.63%)**	6.54%	**(11%)**	**(171%)**

The Regulatory accounts of Heathrow (SP) Limited were approved by the Board of Directors of Heathrow (SP) Limited on 31 March 2021 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 2020

Thousands	2020 Actual	2019 Actual	Variance	%
Departing passengers	10,928	39,958	(29,030)	(73%)
Arriving passengers	11,182	40,928	(29,746)	(73%)
Total passengers[1]	**22,110**	**80,886**	**(58,776)**	**(73%)**

[1] Passenger totals are unrounded and defined in the basis of preparation in section 8.

Heathrow's passengers by geographic segment for year ended 31 December 2020 compared to year ended 31 December 2019

Thousands	2020 Actual	2019 Actual	Variance	%
UK	1,460	4,840	(3,380)	(70%)
Europe	9,835	33,155	(23,320)	(70%)
North America	3,862	18,835	(14,973)	(79%)
Asia Pacific	2,911	11,407	(8,496)	(74%)
Middle East	2,463	7,750	(5,287)	(68%)
Africa	1,148	3,515	(2,367)	(67%)
Latin America	431	1,382	(951)	(69%)
Total passengers[1]	**22,110**	**80,886**	**(58,776)**	**(73%)**

[1] Passenger totals are unrounded and defined in the basis of preparation in section 8.

Heathrow's passenger numbers for the year ended 31 December 2020 declined 73% to 22.1 million (2019: 80.9 million).

With the World Health Organisation declaring COVID-19 as a global pandemic in March 2020, Governments across the world began to impose travel restrictions domestically and internationally in order to control the spread of the virus.

As a result of this, some airlines cancelled or limited travelling to and from Heathrow in 2020. This resulted in a decrease in number of flights and passengers.

3. Revenue

Summary

For the year ended 31 December 2020, revenue at £1,159 million was 62% down on 2019 due to lower passenger numbers as a result of the COVID-19 pandemic.

		2020 Actual £m	2019 Actual £m	Variance £m	%
Retail (including car parking) [1]	*3.2*	218	703	(485)	(69%)
Property[1]		125	118	7	(6%)
Commercial Revenue		343	821	(478)	(58%)
Airport charges	*3.1*	647	1,831	(1,184)	(65%)
Other regulated charges	*3.3*	118	244	(126)	(52%)
Rail		49	139	(90)	(65%)
Other		2	15	(13)	(87%)
Total revenue		**1,159**	**3,051**	**(1,892)**	**(62%)**

[1] Aviation fuel rent for 2020 has been reclassified from other revenue to property revenue. VAT cash refund unit and bureau de change revenue for 2020 have been reclassified from other retail revenue to retail concessions revenue.

3.1 Airport charges

For the year ended 31 December 2020, airport charges (excluding airline rebate) at £647 million were 65% lower from 2019.

£million (unless otherwise stated)	2020 Actual	2019 Actual	Variance	%
Passenger Flights				
Departing passenger charges	321	1,250	(929)	(74%)
Movement charges	206	543	(337)	(62%)
Parking charges	45	72	(27)	(38%)
Total Passenger Flights	**572**	1,865	(1,293)	(69%)
Total Passengers (k)	22,110	80,886	(58,776)	(73%)
Actual yield per passenger	£25.87	£23.05	£2.82	12%
Total Non-Passenger Flights	**75**	10	65	650%
Total Airport Charges	**647**	1,875	(1,228)	(65%)
Airline deal rebate	-	(44)	44	(100%)
Total Airport Charges after rebate	**647**	1,831	(1,184)	(65%)

The decline in airport charges is predominantly due to reduced passenger numbers and number of flights.

The total revenue from non-passenger flights increased by 650% compared to prior year as Heathrow played a critical role in facilitating imports of essential medical equipment, PPE and other tools to fight COVID-19.

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

3.2 Retail Revenue

For the year ended 31 December 2020, gross retail income at £229 million was 68% lower from 2019. Net retail income ('NRI') was 69% lower with NRI per passenger 13% higher compared to 2019. Retail income per passenger is largely distorted due to the reduced passenger numbers.

£million (unless otherwise stated)	2020 Actual	2019 Actual	Variance	%
Retail				
- Retail concessions[1]	112	339	(227)	(67%)
- Catering	19	64	(45)	(70%)
- Other retail[1]	22	113	(91)	(81%)
- Other services	36	76	(40)	(53%)
Total retail revenue	**189**	**592**	**(403)**	**(68%)**
Car Parking	**40**	**125**	**(85)**	**(68%)**
Gross retail revenue	**229**	**717**	**(488)**	**(68%)**
Retail expenditure	(11)	(14)	3	(21%)
Net retail revenue	**218**	**703**	**(485)**	**(69%)**
Terminal Passengers (k)	**22,110**	**80,886**	**(58,776)**	**(73%)**
Net Retail revenue per passenger	**£9.86**	**£8.69**	**1.17**	**13%**

[1] VAT cash refund unit and bureau de change revenue for 2020 have been reclassified from other retail revenue to retail concessions revenue.

Retail revenue declined by 68% driven by reduced passenger numbers and mix of retail service available.

Car parking income declined by 68% as a result of reduced passenger numbers.

3.3 Other Regulated Charges Revenue

For the year ended 31 December 2020, other regulated charges (ORC) revenue declined to £118 million as a result of a decrease in passenger numbers.

	2020 Actual £m	2019 Actual £m	Variance £m	Variance %
Baggage and check-in	49	137	(88)	(64%)
Fixed electrical ground power	8	11	(3)	(27%)
Utilities	37	44	(7)	(16%)
PRM	9	24	(15)	(63%)
Staff car parking & security documentation	12	17	(5)	(29%)
Other income	3	11	(8)	(73%)
Total	**118**	**244**	**(126)**	**(52%)**

Baggage & Check-In

Baggage & Check-in income was 64% down on last year due to a decrease in passengers as a result of the pandemic.

Utilities

Utilities (incorporating electricity, water, heating, water & sewerage, gas, waste & recycling and pre-conditioned air) were 16% lower than 2019, primarily due to lower consumption as a result of decrease in passengers and reduced airport operations.

Passengers with Reduced Mobility (‘PRM’)

PRM was 63% lower than 2019 due to a decrease in demand for the service.

4. Operating Costs

Summary

For the year ended 31 December 2020, total operating costs at £911 million were 21% down from 2019. Total operating costs included £4 million Category B costs.

	Section	2020 Actual £m	2019 Actual £m	Variance £m	%
Staff	*4.1*	(335)	(470)	135	(29%)
Maintenance and Equipment	*4.2*	(170)	(187)	17	(9%)
Rates	*4.3*	(119)	(125)	6	(5%)
Utilities	*4.4*	(63)	(68)	5	(7%)
Other expenditure	*4.5*	(224)	(306)	82	(27%)
Operating costs before adjustments		**(911)**	**(1,156)**	**245**	**(21%)**
Add back service quality rebates		-	1	(1)	(100%)
Total operating costs before exceptional operating costs		**(911)**	**(1,155)**	**244**	**(21%)**

4.1 Staff

For the year ended 31 December 2020, staff costs at £335 million were 29% lower than 2019.

	2020 Actual £m	2019 Actual £m	Variance £m	%
Security	(117)	(159)	42	(26%)
Other operational	(79)	(94)	15	(16%)
Non-operational	(80)	(152)	72	(47%)
Pension	(59)	(65)	6	(9%)
Total	**(335)**	**(470)**	**135**	**(29%)**

Restructuring of the business occurred during the year which resulted in a decrease of around 30% in management roles while around 25% of front line colleagues chose to leave the business under voluntary severance. The restructuring costs of £92 million were recognised as exceptional costs rather than as staff costs. These restructuring costs were mainly made up of redundancy costs and partially offset by pension settlements and curtailments. More detail can be found in section 5.

Other cost saving initiatives resulting in lower staff costs compared with prior year included temporary pay cuts and bonus cancellation.

Government grants of £34 million have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. The grants received are included within the staff costs and reduce the total expense recognised in the year.

Staff costs of £37 million (2019: £81 million) were capitalised in 2020 and are not included within the total of £335 million as shown above.

4.2 Maintenance and Equipment

For the year ended 31 December 2020, maintenance & equipment costs at £170 million were 9% down from 2019.

	2020 Actual £m	2019 Actual £m	Variance £m	%
IT and computer services	(60)	(58)	(2)	3%
Maintenance	(102)	(115)	13	(11%)
Stores and equipment	(8)	(14)	6	(43%)
Total	**(170)**	**(187)**	**17**	**(9%)**

An increase in IT support costs resulted in an increase in IT and computer services by 3%.

4.3 Rent and Rates

For the year ended 31 December 2020, rent and rates at £119 million were 5% down from 2019.

	2020 Actual £m	2019 Actual £m	Variance £m	%
Rent	-	(2)	2	(100%)
Rates	(119)	(123)	4	(3%)
Total	**(119)**	**(125)**	**6**	**(5%)**

Rent costs in 2019 predominantly related to costs for property security, this was not needed in 2020 with reduced airport operation.

Rates decreased by £4 million as a result of the revaluation of the business rates liability as part of the Transitional Relief under the rates legislation.

4.4 Utilities

For the year ended 31 December 2020, utilities at £63 million were 7% or £5 million down on 2019 due to lower consumption as a result of decrease in passengers and consolidation of operations in Terminal 2 and 5.

	2020 Actual £m	2019 Actual £m	Variance £m	%
Electricity	(41)	(48)	7	(15%)
Water and sewerage	(2)	(4)	2	(50%)
Gas	(3)	(3)	-	-
Waste and recycling	(9)	(7)	(2)	29%
Other	(8)	(6)	(2)	33%
Total	**(63)**	**(68)**	**5**	**(7%)**

4.5 Other expenditure

For the year ended 31 December 2020, other expenditure at £224 million was lower than prior year due to extensive cost saving measures taken during the year.

	2020 Actual £m	2019 Actual £m	Variance £m	%
Police	(33)	(35)	2	(6%)
Rail	(40)	(70)	30	(43%)
Cleaning	(25)	(32)	7	(22%)
Service quality rebate	-	(1)	1	(100%)
Intra group	(12)	(15)	3	(20%)
PRM costs	(21)	(26)	5	(19%)
Other (including Air navigation service)	(93)	(127)	34	(27%)
Total other costs	**(224)**	**(306)**	**82**	**(27%)**

Rail
Rail costs decreased by £30 million mainly due to the restructuring of the business, temporary pay cuts, reduction in overtime and other associated costs driven by lower passenger numbers. Additionally, both the Government's financial support under the Furlough scheme and the Department for Transport ('DfT') COVID-19 relief for track access were used and netted off within rail costs.

Cleaning
Cleaning costs decreased by £7 million due to renegotiated contracts with the supplier and decrease in service needed due to the temporary consolidation of operations into two terminals.

Other
Other operational costs decreased by £42 million following renegotiation of our suppliers' contracts as well as lower development cost relating to noise and blight, passenger ambassadors, bus and court operations, forecourt operations, and advertising and marketing.

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. Depreciation increased from £672 million (2011/12 prices) to £830 million in 2020 prices.

5. Exceptional operating costs

	2020 Actual £m	2019 Actual £m	Variance £m	%
Business transformation	(92)	-	(92)	N/A
Capital write off	(92)	-	(92)	N/A
Total exceptional operating costs	**(184)**	**-**	**(184)**	**N/A**

Business transformation

As a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), we have undergone a business transformation in order to simplify operations and reduce costs. Following this review, we incurred £92 million of exceptional charges, consisting of £142 million of people-related costs, principally redundancy, partially offset by a net £50 million credit associated with corresponding pension settlements and curtailments.

Asset impairment and write-off

In addition, we have recognised a non-cash impairment and write-off charge of £92 million on assets in the course of construction. While the vast majority of expansion assets remain on the balance sheet at year-end, a number of partially complete projects have been placed on hold, some of these projects are unlikely to be re-started in the foreseeable future or are unlikely to be restarted without material changes to the original proposal design, £82 million of costs incurred to date on these projects have been impaired. In addition, £10 million of costs which relates to forecast re-work, which will be required as a result of the estimated delay to the Expansion programme, have been impaired.

6. Capital Expenditure

Summary

	2020 Actual £m	2019 Actual £m	Variance £m	%
Capital expenditure incurred in the year	356	619	(263)	(42%)
Category B	24	158	(134)	(85%)
Category C	38	71	(33)	(46%)
Total Capex added to the RAB	**418**	**848**	**(430)**	**(51%)**
Category B Capex not added to the RAB	6	8	(2)	(25%)
Total Capex spent	**424**	**856**	**(432)**	**(50%)**

Total capital expenditure in 2020 was £424 million (2019: £856 million). We invested £356 million (2019: £619 million) in a variety of programmes to improve the essential works such as airport resilience and asset replacement. The decrease is due to cost saving as a result of the decrease in passenger numbers. Capital expenditure for Expansion decreased to £68 million in the period (2019: £237 million) following the Court of Appeal's ruling on the Airports National Policy Statement.

In 2020, our investment has focused on Hold Baggage Screening ('HBS') upgrade works, main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained and renewal of assets that have come to the end of their economic life.

Expansion-related capital expenditure includes Category B costs associated with the consent process and also includes early Category C costs predominantly relating to early design costs.

Since 2016, Heathrow has invested £381 million in Category B costs and £127 million in Category C costs, a total of £508 million (before capitalised interest and after £10 million of re-work impairment) that is carried in our balance sheet as assets in the course of construction.

6.1 Analysis of actual expenditure

Detail	Total Capex (£m)
B243 Kilo Apron Development (Core)	30
B7218.01 Southern Runway Rehab	7
B6677 C-UAS	7
B6113 Airside Compliance and Response	4
B7219 - Safe to Fly	3
B7216 - AGL Reinforcement	2
Other Airport Resilience	12
Total Airport Resilience	**65**
B131 Cargo Tunnel Refurbish	26
B6203 Passenger Experience Improvements	17
B6205 Operational Improvements	14
B101 E.A.R. I.T. Delivery	14
B7213 Eng AGILE Delivery	11
B6201.10 Terminal Fire Safety and Lighting	11
B6501 Cyber Security Programme	5
B7501 Cyber Plus Phase 3	5
B6204.04 Drain Infrastructure	5
B6209.03 MSCP4 Concrete Repair	3
Other Asset Management	27
Total Asset Management	**138**
B216 HBS & Asset Replacement	34
B6313 Baggage Asset End of Life Management	2
B6312 Eastern Campus Baggage Product Resilience	1
B6311 West Campus BagProdRes	1
B464 BAGTRAX SERVERS	1
B6314 SMH	1
B6315.02 BagSafety&Welfare Ph2	1
Other Baggage	1
Total Baggage	**42**
B045 Enhanced Facilities	12
B6675 Regulated Terminal Security	5
B6673 Perimeter Protection	4
B7649 Automating the Passenger Journey	3
B7615.01 Car Park Payment	3
B7611 Customer Channels	2
B6621 HEX New Fleet	2
Other Passenger Experience	9
Total Passenger Experience	**40**
Q6 Realisation	**-**
Additional Capacity	**29**
Business Information Technology Programme	**42**
Subtotal	**356**

6.1 Analysis of actual expenditure *continued*

	Total Capex (£m)
Subtotal *continued*	**356**
Category B[1]	30
Category C	38
Total	**424**

[1] **4.83% (2019: 5.35%) return will be added to the average RAB**

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.

6.2 Development and core capital expenditure

	2020 Actual £m	2019 Actual £m	Variance £m	%
Development capital expenditure which transitioned to core capital expenditure (including the spend incurred during the development stages) for the year ended December 2020 (Excluding Expansion)	356	594	(238)	(40%)
Total	**356**	**594**	**(238)**	**(40%)**

6.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate £'000	2020 Rebate £'000
B131 - Tunnels	Main tunnel life safety systems	December 2016	-	91	1,097
B216 - HBS and Asset Replacement	Hold Baggage Screening standard 3 machines installed in T2	September 2018	March 2020	426	1,278
B216 - HBS and Asset Replacement	Hold Baggage Screening standard 3 machines installed in T4	-	-	497	-

6.4 Independent Funds Surveyor

The Independent Fund Surveyor (IFS) has been engaged since April 2014 and to date has been deployed on 52 projects and 5 programmes. Currently 7 projects are in delivery. The IFS has completed close out reports on 18 projects. Key IFS recommendations are being addressed on two levels, by respective project teams and at portfolio level. The End of Q Review, undertaken by the CAA's consultants looking at our capital expenditure, used the IFS reports as the starting point for their reviews on projects and again at the end of the review to validate initial findings. The list of projects reviewed by the CAA was much reduced compared to Q5 as a result of the way in which the IFS process had worked during Q6, making the process shorter and less time consuming for both Heathrow and the Airline Community.

Key portfolio issues continue to be 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 and recommendations to drive improvement. During 2020 the work of this group was suspended to allow members to participate in the CAA lead Constructive Engagement process instigated to help in the design of the regulatory regime for H7. The IFS Working Group was restarted later in 2020 and continues its work reviewing areas such as scheduling, cost estimating, benchmarking, change management, procurement, requirements management, earned value, risk, benefits and lessons learnt. In future it will also consider, as appropriate, issues that arise out of the conclusion of the Constructive Engagement.

7. Regulatory Asset Base ('RAB')

Opening Regulatory Asset Base at 1 April 2014

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

Closing Regulatory Asset Base at 31 December 2020

	2020 Actual £m	2019 Actual £m	Variance £m	Variance %
Opening RAB at 1 January	**16,598**	**16,202**	**396**	**2%**
Additions in year	356	619	(263)	(42%)
Category B costs[2]	24	158	(134)	(85%)
Category C costs[1]	38	71	(33)	(46%)
4.83% (2019: 5.35%) return on Category B costs[2]	18	13	5	38%
Cost of change addition to RAB	91	-	91	N/A
Assumed ordinary depreciation	(830)	(823)	(7)	1%
Indexation to 31 December	197	358	(161)	(45%)
Closing RAB at 31 December[2]	**16,492**	**16,598**	**(106)**	**(1%)**

[1] Category C costs amounting to £38 million have been added to the RAB subject to the CAA's policy on Category C, which is being finalised (2019: £82 million).
[2] Accumulated Category B costs of £391 million are included within the RAB as at 31 December 2020 (2019: £356 million).

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 11 of this report and be properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

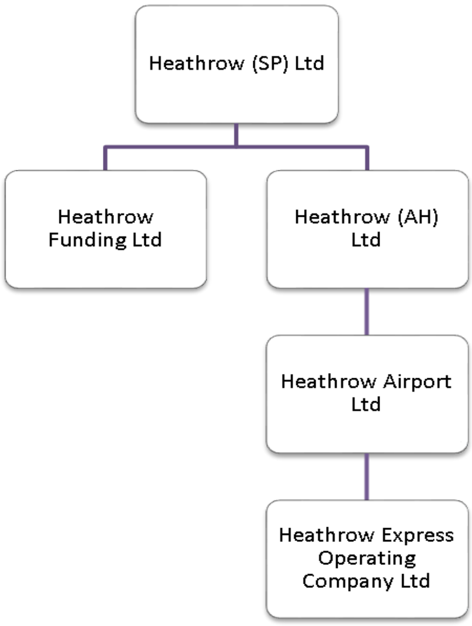
The regulatory accounts include notes as agreed with the CAA which describe the derivation of key regulatory results and, where relevant, adjustments to the statutory and management accounts of the Company.

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 2020. For the purposes of these regulatory accounts the directors have not prepared an updated going concern assessment. A set of financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. These are referred to in these regulatory accounts as 'the underlying accounts'. These underlying accounts were prepared on a Going Concern basis, with the existence of materiality uncertainty, at the date of signing on 23rd February 2021.



8. 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 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 B. 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.

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.

Net Fixed Assets

Net fixed assets as shown in Section 9 are as shown in the underlying accounts except that the Net Book Value of Terminal assets have been further broken down by Terminal. The break-down has been provided using location codes and asset descriptions as recorded in the source accounting data (the Fixed Asset Register). Terminal assets which have been categorised as Terminal non-specific include those assets outside of terminal buildings and assets which have not yet been transferred to the Fixed Asset register.

Development and core capital expenditure

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

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	£m
Regulatory revenue	**1,159**
Add back consolidation centre costs netted off against revenue	5
Add back retail costs netted off against revenue	11
Revenue per the underlying accounts	**1,175**

Reconciliation of Operating Costs

Reconciliation to the underlying accounts	£m
Regulatory expenditure before exceptional items	**(1,741)**
Add statutory depreciation	(812)
Remove assumed ordinary depreciation	830
Add back Service Quality Rebate	-
Add back retail costs netted off against revenue	(11)
Add back consolidation centre costs netted off against revenue	(5)
Remove pension cash contribution adjustment	22
Add back exceptional items	(184)
Operating costs including depreciation per the underlying accounts	**(1,901)**

Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2020

		£m	£m
Closing RAB at 31 December 2020		**16,492**	
Difference between net fixed assets and RAB at 31 March 2014	*(a)*	(1,339)	
Adjusted closing RAB			**15,153**
Interest capitalised disallowed within the RAB	*(b)*	271	
Difference between net book value of disposals and proceeds	*(c)*	(2)	
Revaluation in the underlying accounts	*(d)*	106	
Indexation of RAB	*(e)*	(2,314)	
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	*(f)*	406	
Expansion capex and provisions excluded	*(g)*	(1)	
AICC write off	*(h)*	(92)	
Cost of change addition to RAB	*(i)*	(91)	
Subtotal of cumulative Q6 variance			**(1,717)**
Net fixed assets per the underlying accounts at 31 December 2020			**13,436**

9. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2020 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

	£m
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**

b) Borrowing costs amounting to £271 million were capitalised cumulatively in Q6 to date. The roll forward calculation for the RAB specified in the CAA Licence excludes capitalised borrowing costs.

c) Statutory non-current assets are derived after deducting the net book value of assets disposed of during the year. The RAB value specified in the CAA Licence is derived by deducting the proceeds of asset disposals.

d) Investment properties and land held for development are subject to annual revaluation in the underlying accounts as well as impairment reviews. Remaining assets are held at depreciated historic cost.

e) The RAB is revalued annually by reference to RPI as specified in the CAA Licence.

f) This reflects the difference between the amount charged as depreciation in the underlying accounts and the Assumed Ordinary Depreciation allowed in the CAA Licence.

g) This comprises the capitalised expansion costs of £34 million plus a home loss provision of £7 million for payments due to previous owners' residential property owned by Heathrow which will be paid once planning consent is obtained, less the cumulative 4.83% (2019: 5.35%) return on Category B Expansion expenditure of (£42 million).

9. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2020 to the fixed assets in the underlying accounts *continued*

h) As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), non-cash impairment and write-off charge of £92 million on assets in the course of construction were recognised in 2020.

i) We reached an agreement with the airline community ('Cost of Change Programme') to add the exceptional costs relating to changes in the employment terms of mainly operational colleagues in 2020 to the RAB. The final audited cost of £88.2m was incurred across 2020, giving a total addition of £90.6m to the closing RAB at 31 December 2020 after including the related capitalised return. The approach is consistent with the one described in our December 2020 RBP submission.

	£m
Closing RAB at 31 December 2020	**16,492**
Difference between RAB and net fixed assets at 31 March 2014	(1,339)
Adjusted closing RAB	**15,153**
Cumulative Q6 variance	(1,717)
Net fixed assets per the underlying accounts at 31 December 2020	**13,436**
Breakdown of non-current assets	
Terminal 1	194
Terminal 2	1,690
Terminal 3	966
Terminal 4	400
Terminal 5	2,270
Terminals non-specific	1,567
Terminal (Total)	**7,087**
Airfields	1,514
Plant and Equipment	493
Other land and buildings	188
Rail	751
AICC	1,103
Investment properties	2,118
Intangible assets	182
Net fixed assets per the underlying accounts at 31 December 2020	**13,436**

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 12 months ended 31 December 2015	258.1
Average RPI index for the year ended 31 December 2016	263.1
Average RPI index for the year ended 31 December 2017	272.5
Average RPI index for the year ended 31 December 2018	281.6
Average RPI index for the year ended 31 December 2019	288.8
Average RPI index for the year ended 31 December 2020	293.1
RPI index at 31 December 2016	267.1
RPI index at 31 December 2017	278.1
RPI index at 31 December 2018	285.6
RPI index at 31 December 2019	291.9
RPI index at 31 December 2020	295.4
Increase from average 2011/12 to 31 December 2020	24.48%
Increase from average 2011/12 to average 2020	23.53%
Increase from average 2020 to 31 December 2020	0.77%
Increase from 31 December 2019 to 31 December 2020	1.20%

*The indexation calculations are based on unrounded numbers.

11. Independent Report from PricewaterhouseCoopers LLP

Independent auditors' report to the Civil Aviation Authority (the "Regulator") and the members of Heathrow (SP) Limited (the "Company) and Heathrow Airport Limited (together, the "Companies")

Report on the audit of the Audited Statements within the Heathrow (SP) Limited Regulatory Accounts

Opinion

In our opinion, Heathrow (SP) Limited's Regulatory Accounts have been prepared, in all material respects, in accordance with 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.

The sections of the Regulatory Accounts that we have audited comprise the financial information included on pages 6 to 25, comprising statements 1 to 10 (the "Audited Statements").

We have not audited the additional regulatory information included within the Appendices.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounts below, 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 Auditors' responsibilities for the audit of the Audited Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the Audited Statements, which is not modified, we have considered the adequacy of the disclosure made in the basis of preparation section of the Audited Statements concerning the Company's ability to continue as a going concern. Heathrow has been significantly impacted by the COVID-19 pandemic which has resulted in a rapid deterioration in passenger traffic and cashflows. The Company's forecast and projections assume a continued phased increase in passenger forecast which represents a significant reduction to historical revenue levels, along with cost saving measures and reductions in capital expenditure. In the event there are further waves of the pandemic, or the implementation or continuation of local lockdown periods, leading to further travel restrictions being imposed worldwide, the Company, whilst having sufficient liquidity, may require further covenant waivers in respect to the group interest cover ratio and group regulated asset ratio measured as at 31 December 2021. These conditions, along with the other matters referred to in the basis of preparation section of the Audited Statements, indicate the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. The Audited Statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Except for drawing attention to the material uncertainty upon the going concern basis of preparation of the underlying accounts, 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' use of the going concern basis of accounting in the preparation of the Audited Statements is not appropriate; or
- the directors have not disclosed in the Audited Statements any identified material uncertainties that may cast significant doubt about the company's ability 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Emphasis of matter - Basis of preparation

In forming our opinion on the Audited Statements, which is not modified, we draw attention to the fact that the Audited Statements have been prepared in accordance with a special purpose framework, Condition E1 of the Regulatory Licence and the Regulatory Accounting Guidelines set out in statement 8. 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 purpose. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the Regulator.

The Audited Statements are separate from the statutory financial statements of the Company and have not been prepared on the basis of International Accounting Standards in conformity with the requirements of the Companies Act 2006. Financial information other than that prepared on the basis of International Accounting Standards in conformity with the requirements of the Companies Act 2006 does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Audited Statements on pages 6 to 25 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from the International Accounting Standards in conformity with the requirements of the Companies Act 2006. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included note 8.

The Audited Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Regulatory Accounts and the audit and Use of this report sections below. As a result, the Audited Statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Regulatory Accounts other than the Audited Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Audited Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 for the Regulatory Accounts and the audit

Responsibilities of the directors for the Regulatory Accounts

As explained more fully in the basis of preparation section, the directors are responsible for the preparation of the Regulatory Accounts in accordance with the basis of preparation in statement 8 to the Regulatory Accounts and for determining that the basis of preparation are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Regulatory Accounts, the directors are responsible for assessing the Company's ability 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 the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the Audited Statements within the Regulatory Accounts

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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Heathrow Airport's CAA operating license being revoked, breaches of environmental regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the Audited Statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the Audited Statements (including the risk of override of controls), and determined that the principal risks were related to the underlying accounts as referred to in the basis of preparation section of the Audited Statements including posting inappropriate journal entries, either in the underlying books and records or as part of the consolidation process, and management bias in accounting estimates. Audit procedures performed included:

- Discussions with management, internal audit and the group's legal team, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.

- Challenging assumptions and judgements made by management in its significant accounting estimates.

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals crediting revenue or those posted by unexpected users.

- Testing all material consolidation and regulatory adjustments to ensure these were appropriate in nature and magnitude.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Audited Statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinion, has been prepared for and only for the company's members and the Regulator as a body in order to meet the requirements of Condition E1 of the Regulatory Licence ("Condition E1") in accordance with our engagement letter dated 23 March 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

Our audit work has been undertaken so that we might state to the Company 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 of its regulatory functions, and for no other purpose. In giving these opinions, to the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company 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 Company for the year ended 31 December 2020 on which we reported on 24 February 2021, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our “Statutory audit”) was made solely to the Company’s members, 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 Company’s members those matters we are required to state to them in a statutory audit report and for no other purpose.

Other required reporting

Opinion on other matters prescribed by Condition E1

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition E1 in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Watford
31 March 2021

Appendices (unaudited)
Appendix A

Maximum Allowable Yield

The table below shows the maximum allowable yield that Heathrow was allowed to charge in 2020:

		£
Specified yield for 2019		**23.183**
Actual 12 months RPI movement to April 2019	3.0%	0.695
Value of X	(1.5%)	(0.348)
Forecast capital trigger payments		(0.000)
SQR Bonus		0.010
Cumulative development capital expenditure adjustment		(0.022)
Security cost pass through (S factor)		0.000
Business rate revaluation factor (BR factor)		(0.425)
Category B costs		0.123
2018 correction 'K' factor under recovery		0.344
Forecast 2020 maximum allowable yield		**23.560**

The following factors contribute to the calculation of the 2020 maximum allowable yield:

Cumulative development capital expenditure adjustment

The forecast development capital expenditure adjustment for 2020 considered that more projects were transitioning from development capital to core capital than originally anticipated in the settlement.

Applying the cumulative development adjustment resulted in a lower average RAB for 2020 and reduced the maximum allowable yield for 2020 charges.

Any subsequent change in actual development capex transitioning to core during 2020 will be adjusted in the K factor when setting charges for 2022.

2018 correction 'K' factor under recovery

K factor analysis		
Airport charges revenue 2018 (£thousands)	a £thousands	1,735,000
Passengers 2018 (thousands)	b thousands	80,102
Actual yield	£	21.660
Forecast to recover 2018	c £	22.005
Interest rate	d	0.667%
Forecast passengers 2020 (thousands)	e thousands	81,462
2018 correction 'K' factor = ((a-(b*c))/e*((1+d)^2)		**0.344**

Maximum Allowable Yield - Actual vs Forecast

£	2016	2017	2018	2019	2020
Forecast maximum allowable yield	22.118	21.907	22.057	22.913	23.560
Actual yield	22.344	21.871	21.656	23.053	25.871
Variance	0.226	(0.036)	(0.401)	0.140	2.311
%	1.0%	(0.2%)	(1.8%)	0.6%	9.8%

Appendix B
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[1] 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).

Appendix B *continued*
Rolling forward the Regulatory Asset Base *continued*

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

Closing (Basic RAB) t	=		Opening RAB t
		+	(Total Actual Capex t (including Category Costs above £10m) x Within Year RPI Growth t)[2] +
			(5.35% on the average RAB of Category B cost (above £10m) x Within Year RPI Growth t)
		-	(Proceeds from Disposals t)
		-	(CAA's Assumed Ordinary Depreciation t x RPI Growth from 2011/12)
Opening (Basic RAB) t	=		For the first Regulatory Period (1 April to 31 December 2014, where t=1), this figure will be set according to the following formula: £ 13,815.828 million x RPI Growth from 2011/12
		+	Actual Capex 2013/14 x RPI Growth from 2013/14
		-	£ 1,292.874 million x RPI Growth from 2011/12
		-	(Actual proceeds from Disposals 2013/14) x RPI Growth from 2013/14)
	=		For the remaining Regulatory Years, this figure will be set according to the following formula: Closing RAB t-1 x Annual RPI Growth t
Assumed Ordinary Depreciation t in 2011/12 prices	=		For each financial year this figure will be fixed at the following values: Regulatory Period 1 (1 April to 31 December 2014): £ 467.255 million Regulatory Year 2 (calendar year 2015): £ 644.921 million Regulatory Year 3 (calendar year 2016): £ 652.732 million Regulatory Year 4 (calendar year 2017): £ 672.132 million Regulatory Year 5 (calendar year 2018): £ 676.246 million

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

Appendix C

Service Quality Rebates and Bonus (SQRB)

Summary of 2020 SQRB performance

Category	SQR element	Target	Number of Passes	Number of Failures	Rebates paid £m
Passenger satisfaction	Departure lounge seating availability	3.80	14	-	-
(QSM)	Cleanliness	4.00	14	-	-
	Wayfinding	4.10	14	-	-
	Flight information	4.30	14	-	-
	Security	Publication only			-
	Wi-Fi	Publication only			-
Security	Central Search - less than 5 mins	95.00%	14	-	-
	Central Search - less than 10 mins	99.00%	14	-	-
	Transfer search	95.00%	14	-	-
	Staff search	95.00%	14	-	-
Campus	Control posts	95.00%	13	1	0.4
Passenger Operational	Passenger Sensitive Equipment (PSE general)	99.00%	14	-	-
	Passenger Sensitive Equipment (PSE priority)	99.00%	14	-	-
	Arrivals baggage carousels	99.00%	14	-	-
	T5 track transit system - 1 train availability	99.00%	4	-	-
	T5 track transit system - 2 trains availability	97.00%	4	-	-
Airline operational	Stands	99.00%	14	-	-
	Jetties	99.00%	14	-	-
	Fixed electrical ground power	99.00%	14	-	-
	Stand entry guidance	99.00%	14	-	-
	Pre-conditioned air - T2, T3, T5	98.00%	11	-	-
	Pier service stand usage - T1, T2, T3, T4	95.00%	11	-	-
Airfield	Aerodrome congestion term		N/A	-	-
	Total		**253**	**1**	**0.4**
	Total at risk				**40.0**

Note: Any difference between the cash rebates paid in this table and the value in the accounts is due to SQR post year end wash up and provision changes.
Note: Rebates paid are based on forecast airport charges. A post year end reconciliation to calculate rebates based on actual airport charges occurs and subsequent credits/invoices are issued.
Note: Stand rebates are subject to final confirmation that an SQR Exclusion should be applied.
Note: For the number of passes and failures, due to COVID-related SQRB alleviations, only the months of January, February, March, and December have been counted. The maximum number of passes for 2020 is 14.

Appendix C *continued*

Service Quality Rebates and Bonus (SQRB) *continued*

2020 marked a year of significant drop in passenger volumes and operational challenges as a consequence of COVID-19. In light of this unprecedented event – Heathrow and the airline community agreed that from the end of March 2020 to the end of November 2020, full alleviations on payments and bonuses on the SQRB scheme should be in place. A rebate payment was made for the month of December in relation to control posts.

2020 SQR Bonus

SQR bonuses	No. of months in which bonus achieved	Bonus £'000
Departure lounge seating availability	1	50
Cleanliness	1	87
Wayfinding	4	144
Flight information	1	15
Total	**7**	**296**

There were 7 SQR bonuses earned in 2020. Due to COVID-related SQRB alleviations, only the months of January, February, March and December were entitled to a bonus.