**GATWICK AIRPORT LIMITED**
**REGULATORY ACCOUNTS**
**FOR THE YEAR ENDED 31 MARCH 2013**

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## Financial Review

### General overview

The CAA continued its project to assess competition between airports during the year. The Company submitted its initial analysis of competition in November 2011, setting out that the available evidence does not support a finding that Gatwick has Substantial Market Power and thus it should not be subject to economic regulation beyond the end of Q5. The CAA published its initial views on the competitive position of Gatwick, Heathrow and Stansted in February 2012. The CAA's initial view was that each of the three airports currently subject to economic regulation have some degree of market power and thus could be subject to economic regulation beyond the end of Q5. The Company submitted further analysis during the year in response to the CAA's initial view, setting out that the available evidence does not support a finding that Gatwick has Substantial Market Power and that the Market Power Test in the CA Act 2012 is not met.

The CAA published, for consultation, its "minded to" position on Gatwick's market power in May 2013. The CAA is expected to publish its decision on its assessment of Gatwick's market power in January 2014. The CA Act 2012 includes provisions for the CAA's decision on its assessment of Gatwick's market power to be appealed to the Competition Appeal Tribunal. This work of the CAA is particularly important in the development of any future regulatory framework at Gatwick. The CAA is now considering how its competition analysis and work on forms of regulation should inform its regulatory design for any regulation beyond the end of Q5.

The CAA, as part of its preparations for any regulation beyond the end of Q5, required the Company to participate in constructive engagement with the airlines operating at Gatwick. This constructive engagement between the Company and represented airlines took place from April to December 2012. To facilitate constructive engagement, the Company provided to the airlines and the CAA its Initial Business Plan (April 2012) for the period to 2020. In particular, constructive engagement with the Airport's airline community assessed key themes such as capital investment, traffic forecasts, operating costs and commercial revenue opportunities. The outputs of constructive engagement were then used, as appropriate, by the Company to inform the Revised Business Plan that the Company submitted to the CAA in January 2013.

As part of the Company's Business Plan submission to the CAA it proposed that the Airport would enter into a set of legally enforceable Commitments to airlines covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The proposal was that these Commitments would be in place for seven years from April 2014 and would replace the need for economic regulation of Gatwick by the CAA. In addition, the Company envisaged that there would a series of bilateral Contracts, incorporating, for example, price, service and duration, agreed on a commercial basis between the Company and individual airlines. The Commitments proposal incorporated a price level which increases by RPI+1.3% for 7 years following a one off price correction of 10.7% in April 2014.

On 30 April 2013, the CAA issued for consultation its Initial Proposals for regulation at Gatwick beyond 31 March 2014. This document, together with the market power assessment noted above, propose that Gatwick has sufficient market power to justify on-going regulation, together with the introduction of a licence, at a price level which increases by no more than RPI+1% for 5 years.

The Company is continuing to engage with airlines and the CAA on the proposed Contracts and Commitments framework, which will protect airline and passenger interests, whilst accelerating Gatwick's drive for improved passenger service and operational excellence. The CAA's final proposals for regulation and draft licences for each airport will be published for consultation in October 2013. Final decisions on market power and economic regulation will be published by the CAA in January 2014.

Gatwick Airport operates in a competitive market. Passengers have a choice as to which airport they fly from and airlines have alternative bases from which to operate. The Company's strategy for the Airport is to transform the passenger experience and improve efficiency for the airlines and the Airport itself, thereby improving its competitiveness in the London airport market. A key element of the Company's strategy is to build and maintain strong relationships with its airline customers, regulators and other stakeholders.

The Company has set out its ambition – "competing to grow and become London's airport of choice" – and has established six strategic priorities to which the Company's activities are aligned. These priorities are to:

- deliver the best passenger experience: by listening to its passengers and delivering the kind of service that will make them choose to fly from Gatwick;
- help our airlines grow: by understanding airlines' goals and developing commercial partnerships;
- increase value and efficiency: by maximising income, lowering its operating costs and driving capital efficiency;
- protect and enhance its reputation: by building strong and constructive relationships with its stakeholders based on openness and trust;
- build a strong EH&S culture: by maintaining a relentless focus on achieving zero incidents; and
- develop the best people, processes & technology: by investing in high-performing people, continuous improvement and deploying the right systems.

Passengers for the year totalled 34.2 million, down 3.5 million or 9.2% versus the CAA forecast set out in the CAA's document entitled "Economic Regulation of Heathrow and Gatwick Airports 2008-2013, CAA Decision, 11 March 2008" ("the 2008 Decision").

Relative to the CAA forecast, the shortfall in passenger numbers had an estimated £53.7 million adverse impact on total revenue, which was mitigated by good operational performance and tight cost control. "Regulatory operating profit" was £113.0 million, £35.3 million below the CAA forecast.

The weighted average Regulated Asset Base ("RAB") was £2,296.3 million, £93.0 million lower than the forecast. This results in a return of 4.9% on the "weighted average RAB", which compares with the CAA forecast of 6.2%.

## Financial Review (continued)

### Passenger Numbers

Total passenger numbers for the year were 34.2 million, 9.2% below the CAA forecast, and 1.2% up on the prior year actuals. The performance against the CAA forecast reflects the impact of the continued economic downturn throughout Q5.

Growth was achieved through incumbent airlines such as easyJet, British Airways and Norwegian Air Shuttle growing frequencies and load factors on existing routes. Year-on-year growth was also contributed to by new airlines operating out of Gatwick, including Air China, WOW Air, Vueling and Gambia Bird, and new routes being launched notably: easyJet flying to Moscow; Norwegian Air Shuttle opening the first of 12 new routes; and British Airways increasing its services to Europe and the Caribbean.

Short haul routes contributed to 97% of the growth, of which domestic routes contributed 19.9%. Long haul market showed a year-on-year decline, down 1.4%.

Total Air Transport Movements (“ATMs”) were down 1.6% (or 3.8k) compared to the prior year. The impact of reduction in ATMs was minimised by an increase in capacity, up 1.1% from 172 seats per ATM on average in 2012 to 174 seats in 2013. This increase has resulted from a growing trend towards larger aircraft being used by airlines operating at Gatwick; the number of A320s operating at Gatwick increased by 29.3% supporting the growth in short haul market noted above. Gatwick saw record passenger load factors up 1.4% points in 2013 (82.6%) compared to 2012 (81.2%).

### Revenue

*Overall*
Relative to the CAA forecast, the 9.2% shortfall in passenger numbers had an estimated £53.7 million adverse impact on total revenue. The inclusion of £6.1 million of income from Passengers with Reduced Mobility (“PRM”) activities (not included in the CAA forecast) and a trigger payment of £15.6 million for cancelled capital expenditure increased this difference in total revenue to £63.5 million, 10.9% below the CAA forecast.

*Airport charges*
Airport charges were £41.0 million or 12.7% lower than CAA forecast. Of this, £29.7 million was due to lower traffic volumes and £15.6 million was due to trigger payment in relation to cancelled capital expenditure. This was marginally offset by £2.2 million of revenue from non-passenger flights not included in the CAA forecast, and an estimated £2.1 million over-recovery in aeronautical charges.

*Retail and car parking income*
The revenue generated from retail and car parking activities was £163.7 million, which was £21.0 million or 11.4% lower than CAA forecast. The 9.2% shortfall in passengers was the driver of an estimated £16.9 million adverse impact compared to the CAA forecast. The other significant factor driving a decrease in retail income was the redevelopment projects in the North and South Terminals which have resulted in the temporary closure of retail outlets throughout the year.

Competitive pressures in car parking meant car parking income per passenger continued to under-perform versus the CAA forecast.

## Financial Review (continued)

*Property Income*
Property income (excluding the specified charges relating to utilities income and “intra-group income”) totalled £26.6 million. This is £2.3 million below the CAA forecast (although £6.9 million lower than the CAA forecast for overall property income, taking into account the £4.6 million of intra-group property income forecast under “other income” below).

Income from the specified charge for utilities totalled £8.2 million, which is lower than the CAA forecast of £9.9 million due to lower consumption of electricity resulting from reduced occupancy.

*Other Income.*
Income from “other” activities totalled £37.4 million, £2.0 million above the CAA forecast. Higher income from check-in and baggage due to a revised charging structure was partially offset by lower vehicle fuel sales.

Following the change in ownership in December 2009, the Company receives no intra-group income. Included in the CAA forecast for other income was £4.6 million of intra-group income (largely property income relating to office accommodation taken by other BAA group functions as discussed above).

Offsetting this shortfall is £6.1 million of income from the provision of PRM services, which was not included in the CAA forecast.

### Expenditure

*Overall*
A detailed analysis of costs against the 2008 Decision is complex because of the separation of the Company from BAA in December 2009. While under BAA ownership, a number of services were performed centrally and recharged through “intra-group costs”. These activities are now undertaken directly by the Company and as such, some costs forecast within “intra-group costs” are now incurred within other categories. Further, many activities were migrated from BAA at different points during the prior years, and not just at the point of sale. The CAA forecast does not reflect the change in ownership nor the consequent separation of activities at different points in time. This is explained further below.

“Operating costs” were £294.2 million, £28.2 million below the CAA forecast. This reflects the savings made in intra-group charges, following the change in ownership, being greater than the offsetting increase in staff and IT costs as the Company separated from BAA. Also included are PRM costs of £6.4 million which are not included in the CAA forecast. Excluding these costs, underlying “operating costs” are £34.6 million below the CAA forecast.

## Financial Review (continued)

*Staff Costs*
Staff costs were £20.9 million higher than the CAA forecast. Ongoing improvements in customer service have required operational areas to increase primarily due to the introduction of additional security lanes in the North Terminal. Non-operational staff levels reduced by 17% reflecting the Company's drive for efficiency within the management of the business.

The Company is directly incurring greater staff and contractor costs than the forecast associated with the capital investment programme post separation, including the separation of the Company's IT environment from BAA. The increase in staff costs associated with aspects of the capital investment programme are offset by the subsequent capitalisation of these costs (recognised in "other costs" below). The capitalisation of staff costs increased to £22.1 million.

Allowing for the increase in staff costs that are subsequently capitalised, staff costs were approximately £1.2 million lower than the CAA forecast, which is consistent with the trend in prior years.

*Maintenance , Equipment and IT costs*
Maintenance, equipment and IT costs totalled £37.1 million, £4.8 million higher than the CAA forecast. Following the sale of the Company, IT costs, which are included in intra-group costs in the CAA forecast, are incurred directly by the Company. IT costs incurred directly and included in maintenance, equipment and IT costs totalled £10.6 million.

*Rent & Rates*
Rent and rates were £28.2 million for the year, were £5.7 million lower than forecast due to a reduction in the rateable value during the year due to the construction projects rending certain areas unusable throughout the year.

*Utility Costs*
Utility costs incurred in the year totalled £27.6 million, which was lower than CAA forecast by £4.5 million. This decrease is due to the ending of a fixed price agreement entered into while the Airport was owned by BAA combined with decreases in both the volume and unit cost of utilities consumed.

*Police costs*
Police costs for the year totalled £12.2 million, £2.3 million below the CAA forecast. Constructive dialogue with the Sussex Police has led to a small year-on-year reduction.

## Financial Review (continued)

*Other Costs & Intra-group costs.*
Following the change in ownership, the Company now no longer incurs intra-group charges from BAA. The costs previously charged by BAA are now incurred directly by the Company, particularly in staff and IT costs (discussed above).

“Other costs” totalled £40.0 million, £3.7 million below the CAA forecast. The CAA forecast does not include £6.4 million relating to PRM costs. It also does not include the credit for the capitalisation of staff costs of £22.1 million (discussed in staff costs above). Adjusting for these, “other costs” were £12.0 million more than the CAA forecast, due largely to higher than forecast professional consultants costs incurred during the year.

Aerodrome navigation service costs were £19.7 million, which was an increase on the prior year but comparable to the CAA forecast.

### Regulated Asset Base

The closing Regulatory Asset Base (“RAB”) as at 31 March 2013 has increased 7.9% to £2,391.6 million, which is £33.9 million lower than the CAA forecast, largely due to the phasing of the capital investment programme in Q5. Actual capital expenditure in the year was £226.7 million, bringing total Q5 expenditure to £983.5 million compared to the CAA forecast of £990.4 million.

## Performance Report

| | Note | Actual 2013 '000s | CAA Forecast 2013 '000s |
|---|---|---|---|
| **Terminal passengers** | 1 | **34,241** | **37,700** |
| | | **£m** | **£m** |
| **Revenue** | | | |
| Revenue from airport charges | 2 | 282.5 | 323.5 |
| Other revenue | 3 | 239.2 | 261.7 |
| **Total revenue** | | **521.7** | **585.2** |
| **Expenditure** | | | |
| Operating costs | 4 | 294.2 | 322.4 |
| Assumed Ordinary Depreciation | 5 , 6 | 114.5 | 114.5 |
| **Total expenditure** | | **408.7** | **436.9** |
| **Regulatory operating profit** | 6 | **113.0** | **148.3** |
| **Capital expenditure** | 1 , 8 | **226.7** | **105.0** |
| **Opening RAB** | | **2,200.9** | **2,353.1** |
| **Closing RAB** | 8 | **2,391.6** | **2,425.5** |
| **Weighted average RAB** | | **2,296.3** | **2,389.3** |
| **Return on weighted average RAB** | | **4.9%** | **6.2%** |

The notes on pages 8 to 16 form part of these regulatory accounts.

These regulatory accounts were approved by the Board of Directors on 24 June 2013 and signed on behalf of the Board.

## Notes to the performance report

### 1. BASIS OF PREPARATION

Gatwick Airport Limited ("the Company") is required to prepare Regulatory Accounts by the Airports Act 1986. The primary purpose of these accounts is to serve the process of regulation by the Civil Aviation Authority ("CAA").

The CAA has determined that the Regulatory Accounts shall comprise a report in the format shown on pages 10 to 16 of this report. This in turn comprises the Performance Report which sets out actual performance for the year under review compared with the forecasts underlying the determination of the price cap for Gatwick Airport Limited. These forecasts are set out in the CAA's document entitled "Economic Regulation of Heathrow and Gatwick Airports 2008-2013, CAA Decision, 11 March 2008" ("the 2008 Decision"), following its quinquennial review. The Performance Report includes 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 following explains the key underlying assumptions in the preparation of this report:

**(a) Data sources**

The principal source of data used in the preparation of these accounts is the audited financial statements of Gatwick Airport Limited for the year ended 31 March 2013 ("the audited financial statements").

**(b) Terminal passengers**

Terminal passenger numbers represent those passengers on commercial flights who physically pass through the Airport's passenger terminal facilities. This is consistent with the CAA's definition in Annex 5 of its document entitled "Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-2008, CAA Decision, February 2003" ("the 2003 Decision"). It excludes transit passengers. It also excludes passenger numbers for the following flight categories, which are included in the certificate of revenues from passenger flights provided annually to the CAA: air ambulance, government charter (troops and cargo), air taxi, general aviation, diplomatic and military.

## Notes to the performance report (continued)

### 1. BASIS OF PREPARATION (continued)

**(c) The Regulatory Asset Base ("RAB")**

The CAA, in Annex F of its 2008 Decision, determined how the value of the RAB at 31 March 2008 should be calculated, and this is shown in note 8. The CAA further determined in Annex F how the value of the RAB should be rolled forward annually thereafter.

Capital expenditure in the year has been uplifted by the increase in RPI in accordance with Annex F of the 2008 Decision. Forecast capital expenditure has likewise been uplifted by the increase in RPI, from average 2007/08 prices (as in the 2008 Decision) to average 2012/13 prices, in accordance with CAA guidance.

The depreciation allowance has been set for each of the first five years of the current regulatory period. This is referred to in Annex F of the 2008 Decision and in this report as "Assumed Ordinary Depreciation".

Comparisons with the 2008 Decision have been made with the CAA "RAB" forecasts. In that Decision the CAA adjusted the Basic RAB by including a profiling adjustment to arrive at a Closing RAB at each year end.

The Weighted Average RAB is calculated using the weighting formula adopted in the 2008 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.

**(d) Operating revenues and costs**

Operating revenues and costs are taken from the audited financial statements of the Company for the year ended 31 March 2013. Adjustments have been made to align the presentation of actual results to that in the 2008 Decision. The principal adjustments are:

- retail and car parking costs, principally car park management fees, are netted off against income;
- operational facilities income, principally check-in and baggage rents income, are re-categorised to "Other revenue" from "Property and operational facilities";
- service quality rebates are excluded from operating costs;
- gains or losses on asset disposals are excluded from operating costs; and
- finance lease income has been reclassified from "net interest payable and similar charges – ordinary" to "Property income".

**(e) Indexation**

The CAA forecasts have been derived by indexing forward the forecasts to 2012/13 in accordance with the 2008 Decision. The appropriate RPI indices are shown in note 10. Profit and loss items, except airport charges, have been indexed forward to 2012/13 using the average RPI for 2012/13, and the RAB using the RPI at 31 March 2013.

In accordance with the 2008 Decision, the CAA forecast for airport charges has been derived by indexing forward, on a cumulative basis, to August 2010.

## Notes to the performance report (continued)

### 2. AIRPORT CHARGES

| | Actual 2013 £m | CAA Forecast 2013 £m |
|---|---|---|
| Revenue from passenger flights | 280.3 | 323.5 |
| Revenue from non passenger flights | 2.2 | - |
| Revenue from airport charges | **282.5** | **323.5** |

### 3. OTHER REVENUE

| | Actual 2013 £m | CAA Forecast 2013 £m |
|---|---|---|
| Other traffic charges | 3.3 | 2.8 |
| Retail and car parking income | 163.7 | 184.7 |
| Property | 34.8 | 38.8 |
| Other | 37.4 | 35.4 |
| **Other revenue** | **239.2** | **261.7** |

**Reconciliation to the audited financial statements**

| | | |
|---|---|---|
| Other revenue | | 239.2 |
| Airport charges | | 282.5 |
| Retail and car parking costs netted off against revenue | | 17.6 |
| Finance lease income reclassified to Property income | (a) | (0.4) |
| **Revenue per the audited financial statements** | | **538.9** |

(a) During the current and prior years the Company granted long-term leases to third parties for the use of certain investment properties as hotels. The leases are classified as finance leases for accounting purposes, which resulted in the disposal of the investment properties from tangible fixed assets and the recognition of finance lease receivables in the respective years. The related income is no longer classified as Property income for accounting purposes and is recognised in “net interest payable and similar charges – ordinary” in the Company’s audited financial statements. To reflect the spirit of the transaction, for the purposes of the RAB and the Regulatory Accounts, the investment properties have not been considered to be a disposal from the RAB, and the related income has be reclassified from “Net interest payable and similar charges – ordinary” in the audited financial statements to “Property income” in these Regulatory Accounts. This is consistent with the prior year presentation.

## Notes to the performance report (continued)

### 4. OPERATING COSTS

| | Actual 2013 £m | CAA Forecast 2013 £m |
|---|---|---|
| Staff costs | 149.1 | 128.2 |
| Maintenance, equipment and IT costs | 37.1 | 32.3 |
| Rent and rates | 28.2 | 33.9 |
| Utility costs | 27.6 | 32.1 |
| Police costs | 12.2 | 14.5 |
| Other costs | 40.0 | 43.7 |
| Intra-group costs | - | 37.7 |
| **Adjusted "operating costs"** | **294.2** | **322.4** |

**Reconciliation to the audited financial statements**

| | |
|---|---|
| Adjusted "operating costs" | 294.2 |
| Statutory depreciation | 110.7 |
| Retail and car parking costs netted off against revenue | 17.6 |
| **"Operating costs – ordinary" per the audited financial statements** | **422.5** |

### 5. ASSUMED ORDINARY DEPRECIATION

The depreciation allowance was determined by the CAA in the 2008 Decision. This has been indexed to current year values in accordance with the methodology specified in Annex F of that document.

## Notes to the performance report (continued)

### 6. REGULATORY OPERATING PROFIT

**Reconciliation of operating profit between the audited financial statements and the Regulatory Accounts**

| | Actual 2013 £m |
|---|---|
| Operating profit per the audited financial statements | 116.4 |
| Statutory depreciation | 110.7 |
| Assumed Ordinary Depreciation per CAA (indexed) | (114.5) |
| Finance lease income reclassified to Property income | 0.4 |
| **Regulatory operating profit** | **113.0** |

### 7. OPENING REGULATORY ASSET BASE AT 1 APRIL 2008

| | £m | Increase in RPI to 31 March 2008 | Adjusted RAB at 1 April 2008 £m |
|---|---|---|---|
| Forecast Basic RAB at 31 March 2008 in 2008 Decision (at average 2006/07 prices) | 1,481.4 | 5.89% | 1,568.7 |
| Actual capital expenditure 2007/08 | 103.7 | 1.68% | 105.5 |
| Assumed capital expenditure for 2007/08 (at average 2006/07 prices) | (108.1) | 5.89% | (114.5) |
| **Adjusted opening Basic RAB at 1 April 2008** | | | **1,559.7** |
| Profiling adjustments (at average 2006/07 prices) | | 5.89% | - |
| **Adjusted opening RAB at 1 April 2008** | | | **1,559.7** |

## Notes to the performance report (continued)

### 8. CLOSING REGULATORY ASSET BASE AT 31 MARCH 2013

| | | Actual 2013 £m | CAA Forecast 2013 £m |
|---|---|---|---|
| Opening Basic RAB at 1 April 2012 | | 2,205.6 | 2,357.8 |
| Additions in year | (a) | 226.7 | 105.0 |
| Proceeds from disposal | (b) | (0.4) | - |
| Assumed Ordinary Depreciation | | (114.5) | (114.5) |
| Indexation to 31 March 2013 | | 74.2 | 77.2 |
| **Closing Basic RAB at 31 March 2013** | Note 9 | **2,391.6** | **2,425.5** |
| Cumulative profiling adjustment as determined by the CAA | (c) | - | - |
| **Closing RAB at 31 March 2013** | | **2,391.6** | **2,425.5** |

(a) Forecast additions in the year of £105.0 million have been calculated by indexing forward the forecasts in the 2008 Decision by RPI (note 1).

(b) Proceeds from disposal comprise amounts from the sale of operating assets and proceeds from insurance claims.

(c) This includes a current year price profiling adjustment as determined by the CAA of £4.7 million indexed by RPI (2012: £2.8 million). The cumulative profiling adjustment at 31 March 2013 was £nil.

### 9. RECONCILIATION OF FIXED ASSETS IN THE AUDITED FINANCIAL STATEMENTS TO THE CLOSING RAB AT 31 MARCH 2013

| | | Actual 2013 £m |
|---|---|---|
| Net fixed assets per the audited financial statements at 31 March 2013 | | 2,160.4 |
| Difference between net fixed assets and RAB at 31 March 2008 | (a) | (69.5) |
| Interest capitalised disallowed | (b) | (41.4) |
| Difference between net book value of disposals and proceeds | (c) | 21.6 |
| Revaluation in the audited financial statements | (d) | 21.4 |
| Indexation of RAB | (d) | 311.2 |
| Impairment in the audited financial statements | (e) | 9.0 |
| Difference between depreciation in the audited financial statements and Assumed Ordinary Depreciation | (f) | (21.1) |
| **Closing Basic RAB at 31 March 2013** | | **2,391.6** |

## Notes to the performance report (continued)

### 9. RECONCILIATION OF FIXED ASSETS IN THE AUDITED FINANCIAL STATEMENTS TO THE CLOSING RAB AT 31 MARCH 2013 (continued)

These reconciling items are explained as follows:

(a) This reflects the difference between the net fixed asset value in the audited financial statements of £1,629.2 million and the assessed value of the Basic RAB at 31 March 2008 of £1,559.7 million (note 7). This comprises:
   - (i) a reduction of £45.4 million in respect of interest capitalised from 1 April 1995 to 31 March 2008 in statutory fixed assets valuations but excluded from the RAB calculation;
   - (ii) an addition of £155.1 million in respect of the difference between the value of asset revaluations in the statutory accounts and the indexation uplifts provided in the regulatory accounts to 31 March 2008;
   - (iii) a reduction in respect of the difference between depreciation in the audited financial statements and Assumed Ordinary Depreciation of £86.8 million;
   - (iv) a reduction of £45.4 million in respect of pensions disallowed by the regulator; and
   - (v) a reduction of £47.0 million in respect of other valuation differences.

(b) Interest costs amounting to £8.6 million (2012: £11.7 million) were capitalised in the year. The roll forward calculation for the RAB specified in Annex F of the 2008 Decision excludes capitalised interest;

(c) Statutory asset valuations are derived after deducting the net book value of assets disposed of during the year. The RAB value specified in Annex F of the 2008 Decision is derived by deducting the proceeds of asset disposals;

(d) Investment properties and land held for development are subject to annual revaluation in the audited financial statements. Remaining assets are held at depreciated historic cost. The RAB is revalued annually by reference to the Retail Prices Index (“RPI”) as specified in Annex F of the 2008 Decision;

(e) Costs totalling £9.0 million were charged in the audited financial statements for impairment of fixed assets in prior years. There were no further impairments in the current year. The roll forward calculation for the RAB specified in Annex F of the 2008 Decision excludes impairment charges; and

(f) This reflects the cumulative difference between the amount charged as depreciation in the audited financial statements and the Assumed Ordinary Depreciation allowed in the 2008 Decision and specified in Annex F of that Decision.

## Notes to the performance report (continued)

### 10. INDEXATION

The following indices have been used for revaluing forecasts:

| | |
|---|---|
| Average RPI index for the year ended 31 March 2007 | 200.3 |
| Average RPI index for the year ended 31 March 2008 | 208.6 |
| Average RPI index for the year ended 31 March 2012 | 237.3 |
| Average RPI index for the year ended 31 March 2013 | 244.7 |
| RPI index at 31 March 2008 | 212.1 |
| RPI index at 31 August 2009 | 214.4 |
| RPI index at 31 March 2012 | 240.8 |
| RPI index at 31 March 2013 | 248.7 |
| Increase from average 2008/09 to 31 March 2009 | (1.62%) |
| Increase from average 2006/07 to 31 March 2008 | 5.89% |
| Increase from average 2007/08 to 31 March 2008 | 1.68% |
| Increase from average 2007/08 to 31 March 2012 | 15.44% |
| Increase from average 2007/08 to 31 March 2013 | 19.23% |
| Increase from average 2007/08 to average 2011/12 | 13.78% |
| Increase from average 2007/08 to average 2012/13 | 17.30% |
| Increase from average 2011/12 to 31 March 2012 | 1.46% |
| Increase from average 2012/13 to 31 March 2013 | 1.65% |
| Increase from 31 March 2011 to 31 March 2012 | 3.57% |
| Increase from 31 March 2012 to 31 March 2013 | 3.30% |
| Assumed increase to August 2007 per 2008 Decision | 2.63% |
| Increase from 31 August 2010 to 31 August 2011 | 5.17% |
| Cumulative increase from 2008 Decision to 31 August 2011 | 16.88% |

## Notes to the performance report (continued)

### 11. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | | 2013 £m |
|---|---|---|
| Operating profit per the audited financial statements | Note 6 | 116.4 |
| Depreciation | Note 4, 5 | 110.7 |
| Decrease in stock and debtors | | 12.6 |
| Increase in creditors | | 5.4 |
| Decrease in provisions | | (0.4) |
| Increase in net pension liability | | 0.1 |
| **Net cash inflow from operating activities** | | **244.8** |