Heathrow (SP) Limited
Regulatory Accounts
Year ended 31 December 2022

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 2022 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 2022, 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 2022, the CAA put in place an interim price cap ("iH7") for the two years (2020 and 2021) following the end of the Q6 price control period (2014 to 2019) and then a holding price cap for 2022.

During the preparation of these accounts the CAA published its H7 Final Decision (for the five year period starting in January 2022 and ending in December 2026), on 8 March 2023, with the modifications to the Licence taking effect from 1 May 2023. Therefore these accounts have been prepared on the same basis as 2021.

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.

2022 Performance Overview

2022 has been a year of significant recovery at Heathrow – we welcomed 61.6 million passengers, an increase of 42.2 million versus 2021, which represented the highest passenger increase of any major airport globally. Whilst we delivered this significant growth, we also successfully provided very good service to our passengers.

Looking at 2022 more closely, we continued to progress all four strategic priorities – mojo, transforming customer service, beating the plan and sustainable growth – which underpin our vision to give passengers the best airport service in the world.

We had a very slow start to the year, given ongoing travel restrictions and uncertainty over Omicron. When the UK Government removed all travel restrictions in March, we saw a surge in pent-up demand with passenger numbers climbing to the highest level since the start of the pandemic. Q1 also saw the introduction of our Sustainable Aviation Fuel (‘SAF’) incentive to encourage airlines to shift to lower carbon fuels. This was oversubscribed, and we transitioned 0.5% of the airport’s fuel. We plan to do more in the coming years, steadily increasing the use of SAF at the airport and complementing the Government’s Jet Zero policy.

As the UK aviation sector continued to recover, passenger demand increased through Q2. Given the ramp-up plan we initiated in November 2021, we were able to successfully manage the peaks across Easter and the Jubilee bank holiday and all operations, including Terminal 4, were open before the summer peak.

However, by late June, we started to experience increased pressure across the entire airport ecosystem. Despite our best efforts, we saw periods where service dropped to a level that was not acceptable. This was due to a combination of reduced arrivals punctuality (as a result of delays at other airports and in European airspace) and increased passenger numbers starting to exceed the combined capacity of airlines, airline ground handlers and the airport. We took swift action in early July to protect consumers by applying a temporary capacity limit on departing passenger numbers to better align capacity and demand.

Over the summer, 18 million passengers travelled through the airport, making Heathrow the busiest out of any European hub airport. The departing cap successfully improved passenger journeys with fewer last-minute cancellations, better punctuality, and shorter queue times. Overall, the vast majority of passengers who travelled through Heathrow over the summer had a very good experience. We were therefore able to remove the temporary cap at the end of October.

Following our experience in the summer, we established a ‘Build Back Capacity’ programme in Q3 covering all aspects of the airport ecosystem. This was designed to get capacity, service levels and resilience back to the high levels that they were before the pandemic. Team Heathrow ended 2022 with nearly 75,000 people, and we continue to work alongside airlines and their ground handlers to boost recruitment in 2023 through our programme.

Forward planning and close collaboration with airport partners ensured we provided a smooth and efficient service to travellers during the busiest Christmas getaway since 2019. 92% of passengers passed through security in under ten minutes during the Christmas peak, service for passengers requiring support improved, and arriving travellers reported a friendly and efficient journey through immigration, in spite of industrial action.

From a financial perspective, the growth in passenger numbers led to an Adjusted EBITDA of £1.7 billion for the year. We raised £546 million of debt financing throughout 2022 and successfully concluded the refinancing of our Revolving Credit Facility at a size of £1.4 billion.

2022 Performance Overview *continued*

Throughout the year, we made tangible progress in delivering our sustainability agenda. A historic global agreement on net zero international aviation by 2050 was reached at the ICAO Assembly in October. It brings the global industry in line with UK aviation, which committed to this in 2020. In addition to the introduction of our first SAF incentive, we continue to support the Government on its plans to introduce the mandates and consult on the price incentives needed to stimulate domestic investment in SAF. We also published our Surface Access Strategy in August which set out plans to increase passenger public transport mode share, reduce colleague single-occupancy-car mode share, reduce carbon emissions, improve air quality and increase public transport catchment, to support the delivery of the goals and targets set out in both key pillars of Heathrow 2.0.

Above all, our talented colleagues have worked tirelessly and in close partnership with the airlines and all of Team Heathrow to support the recovery and this sets a strong foundation from which we will provide great service to our passengers.

1. Performance Summary for the year ended 31 December 2022

£million (unless otherwise stated)	Section	2022	2021	Variance	%
Total Passengers (thousands)	*2*	**61,634**	19,393	**42,241**	**218%**
Revenue	*3*				
Airport Charges		1,879	554	**1,325**	**239%**
Other Revenue		1,014	647	**367**	**57%**
Total Revenue		**2,893**	1,201	**1,692**	**141%**
Expenditure	*4*				
Operating costs		(1,189)	(832)	**(357)**	**43%**
Assumed ordinary depreciation		(1,062)	(869)	**(193)**	**22%**
Total expenditure		**(2,251)**	(1,701)	**(550)**	**32%**
Regulatory operating profit/(loss) (before exceptional operating costs)		**642**	(500)	**1,142**	**228%**
Exceptional operating items	*5*	**14**	(31)	**45**	**145%**
Regulatory operating profit/(loss)		**656**	(531)	**1,187**	**224%**
Capital expenditure	*6*	**457**	289	**168**	**58%**
Opening RAB	*7*	**17,474**	16,492	**982**	**6%**
Closing RAB	*7*	**19,182**	17,474	**1,708**	**10%**
Average RAB		**18,328**	16,983	**1,345**	**8%**
Return on average RAB (before exceptional operating costs)		**3.50%**	(2.94)%	**6.45%**	**219%**
Return on average RAB		**3.58%**	(3.13)%	**6.71%**	**214%**

The Regulatory accounts of Heathrow (SP) Limited were approved by the Board of Directors of Heathrow (SP) Limited on 30 March 2023 and signed on behalf of the Board by:

Javier Echave
Director

Martin Bailey
Director

2. Passenger Summary

Heathrow passengers for the year ended 31 December 2022

Thousands	2022	2021	Variance	%
Departing passengers	30,267	9,518	20,749	218%
Arriving passengers	31,367	9,875	21,492	218%
Total passengers[1]	**61,634**	**19,393**	**42,241**	**218%**

[1] Total passengers are defined in the basis of preparation in section 8.

Heathrow's passengers by geographic segment for the year ended 31 December 2022 compared to the year ended 31 December 2021

Thousands	2022	2021	Variance	%
UK	3,357	1,768	1,589	90%
Europe	25,750	8,795	16,955	193%
North America	15,414	3,337	12,077	362%
Asia Pacific	5,562	1,739	3,823	220%
Middle East	6,947	2,301	4,646	202%
Africa	2,880	1,040	1,840	177%
Latin America	1,724	413	1,311	317%
Total passengers[1]	**61,634**	19,393	**42,241**	**218%**

[1] Total passengers are defined in the basis of preparation in section 8.

The removal of all travel restrictions in the UK in March 2022 released a wave of pent-up demand which continued throughout the year which resulted in a significant increase in passenger numbers. Heathrow's passenger numbers for the year ended 31 December 2022 increased 218% to 61.6 million (2021: 19.4 million).

3. Revenue

Summary

For the year ended 31 December 2022, revenue at £2,893 million was 141% up on 2021. Revenue excluding Other regulated charges was 193% up on 2021 due to higher passenger numbers after the lifting of travel restrictions in March 2022.

		2022 £m	2021 £m	Variance £m	%
Retail (including car parking)	*3.2*	544	204	340	167%
Property		121	115	6	5%
Commercial Revenue		665	319	346	108%
Airport charges	*3.1*	1,879	554	1,325	239%
Other regulated charges	*3.3*	247	297	(50)	(17)%
Rail		94	30	64	213%
Other		8	1	7	700%
Total revenue		**2,893**	1,201	**1,692**	**141%**

3.1 Airport charges

For the year ended 31 December 2022, airport charges (excluding airline rebate) at £1,879 million were 230% higher than 2021.

£million (unless otherwise stated)	2022	2021	Variance	%
Passenger Flights				
Departing passenger charges	1,106	249	857	344%
Movement charges	640	196	444	227%
Parking charges	82	38	44	116%
Total Passenger Flights	**1,828**	483	**1,345**	**278%**
Total Passengers[1] (k)	61,634	19,393	42,241	218%
Actual yield per passenger	£29.66	£24.91	£4.75	19%
Total Non-Passenger Flights	**51**	87	**(36)**	**(41)%**
Total Airport Charges	**1,879**	570	**1,309**	**230%**
Airline deal rebate	-	(16)	16	100%
Total Airport Charges after rebate	**1,879**	554	**1,325**	**239%**

[1] Total passengers are defined in the basis of preparation in section 8.

The increase in airport charges is predominantly due to increased passenger numbers and an increase in the Maximum Allowable Yield.

The total revenue from non-passenger flights decreased by 41% compared to prior year due to more cargo being carried on passenger flights instead of dedicated cargo flights.

Details of the calculation of maximum allowable yield for 2022 can be found in Appendix A.

3.2 Retail Revenue

For the year ended 31 December 2022, gross retail income at £558 million was 164% higher than 2021. Net retail income ('NRI') was 167% higher with NRI per passenger 16% lower compared to 2021.

£million (unless otherwise stated)	2022	2021	Variance	%
Retail				
- Retail concessions	228	87	141	162%
- Catering	59	21	38	181%
- Other retail	26	18	8	44%
- Other services	102	38	64	168%
Total retail revenue	**415**	164	**251**	**153%**
Car Parking	**143**	47	**96**	**204%**
Gross retail revenue	**558**	211	**347**	**164%**
Retail expenditure	(14)	(7)	(7)	100%
Net retail revenue	**544**	204	**340**	**167%**
Terminal Passengers[1] (k)	**61,630**	19,393	**42,237**	**218%**
Net Retail revenue per passenger	**£8.83**	£10.52	**£(1.69)**	**(16)%**

[1] Terminal passengers are defined in the basis of preparation in section 8.

Total retail revenue and car parking income increased by 153% and 204% respectively driven by increased passenger numbers.

3.3 Other Regulated Charges Revenue

For the year ended 31 December 2022, Other Regulated Charges ('ORC') revenue decreased to £247 million, predominantly driven by the removal of the Airport Cost Recovery Charge which was not applicable in 2022.

	2022 £m	2021 £m	Variance £m	%
Baggage and check-in	137	123	14	11%
Fixed electrical ground power	4	10	(6)	(60)%
Utilities	33	40	(7)	(18)%
Passengers requiring support ('PRS')	40	23	17	74%
Staff car parking & security documentation	23	14	9	64%
Other income	10	87	(77)	(89)%
Total	**247**	297	**(50)**	**(17)%**

Baggage & Check-In

Baggage & Check-in income was 11% up on last year due to higher passenger numbers.

Utilities

Utilities (incorporating electricity, water, heating, water & sewerage, gas, waste & recycling and pre-conditioned air) were 18% lower than 2021, primarily driven by lower prices.

Passengers requiring support ('PRS')

PRS was 74% higher than 2021 due to increased passenger numbers.

Staff car parking & security documentation

Staff car parking & security documentation was 64% higher than 2021 due to the increased number of employees in the business as a result of the ramp up of operations from increased passenger demand.

Other income

Other income was 89% lower than 2021 due to the removal of the Airport Cost Recovery Charge which was not applicable in 2022.

4. Operating Costs

Summary

For the year ended 31 December 2022, total operating costs at £1,189 million were 43% up on 2021. Total operating costs included £nil (2021: £nil) Category B costs.

	Section	2022 £m	2021 £m	Variance £m	%
Staff	*4.1*	(401)	(281)	(120)	43%
Maintenance and Equipment	*4.2*	(213)	(174)	(39)	22%
Rent and Rates	*4.3*	(121)	(119)	(2)	2%
Utilities	*4.4*	(105)	(60)	(45)	75%
Other expenditure	*4.5*	(383)	(198)	(185)	93%
Operating costs before adjustments		**(1,223)**	(832)	**(391)**	**47%**
Add back service quality rebates		34	-	34	N/A
Total operating costs before exceptional operating costs		**(1,189)**	(832)	**(357)**	**43%**

4.1 Staff

For the year ended 31 December 2022, staff costs at £401 million were 43% higher than 2021.

	2022 £m	2021 £m	Variance £m	%
Security	(148)	(99)	(49)	49%
Other operational	(105)	(66)	(39)	59%
Non-operational	(102)	(67)	(35)	52%
Pension	(46)	(49)	3	(6)%
Total	**(401)**	(281)	**(120)**	**43%**

Increase in staff costs is mainly driven by the increased number of full time employees in the business. Security and other operational costs increased by £88 million as a result of the ramp up of operations from increased passenger demand. Pension costs were £3 million lower due to lower defined benefit scheme costs and recognition of a net past service credit, both offset by increased defined contribution scheme costs.

No government grants (2021: £21 million) have been received for reimbursement of employee costs relating to staff furloughed under the Coronavirus Job Retention Scheme following the end of the scheme in September 2021. The grants received in 2021 are included within the staff costs and reduce the total expense recognised in that year.

Staff costs of £16 million (2021: £14 million) were capitalised in 2022 and are not included within the total of £401 million as shown above.

4.2 Maintenance and Equipment

For the year ended 31 December 2022, maintenance & equipment costs at £213 million were 22% up from 2021.

	2022 £m	2021 £m	Variance £m	%
IT and computer services	(69)	(63)	(6)	10%
Maintenance	(126)	(100)	(26)	26%
Stores and equipment	(18)	(11)	(7)	64%
Total	**(213)**	(174)	**(39)**	**22%**

Maintenance costs were 26% up from 2021 as a result of increase in passenger numbers and the reopening of terminals.

4.3 Rent and Rates

For the year ended 31 December 2022, rent and rates at £121 million were 1.7% up on 2021.

	2022 £m	2021 £m	Variance £m	%
Rent	(2)	-	(2)	N/A
Rates	(119)	(119)	-	0%
Total	**(121)**	(119)	**(2)**	**1.7%**

4.4 Utilities

For the year ended 31 December 2022, utilities at £105 million were 75% up on 2021 due to increased consumption as a result of the increase in passenger numbers and the reopening of terminals.

	2022 £m	2021 £m	Variance £m	%
Electricity	(84)	(42)	(42)	100%
Water and sewerage	(4)	(2)	(2)	100%
Gas	(5)	(5)	-	0%
Waste and recycling	(5)	(4)	(1)	25%
Other	(7)	(7)	-	0%
Total	**(105)**	(60)	**(45)**	**75%**

4.5 Other expenditure

For the year ended 31 December 2022, other expenditure at £383 million was 93% higher than prior year due to increased activity as a result of the increase in passenger numbers and the reopening of terminals.

	2022 £m	2021 £m	Variance £m	%
Police	(36)	(30)	(6)	20%
Rail	(53)	(37)	(16)	43%
Cleaning	(39)	(23)	(16)	70%
Service quality rebate	(34)	-	(34)	N/A
Intra group	(19)	(15)	(4)	27%
PRS costs	(34)	(16)	(18)	113%
Other (including Air navigation service)	(168)	(77)	(91)	118%
Total other costs	**(383)**	(198)	**(185)**	**93%**

Police
Police costs increased by £6 million due to an increase in service needed with the increase in passenger numbers and the reopening of terminals post-COVID.

Rail
Rail costs increased by £16 million mainly due to increases in staff costs, access charges, utility costs (all driven by higher passenger numbers) and also increases in marketing and PR costs post-COVID.

Cleaning
Cleaning costs increased by £16 million due to an increase in service needed with the increase in passenger numbers and the reopening of terminals.

Service quality rebate
Service quality rebate increased to £34 million. A summary of 2022 service quality rebate performance can be found in Appendix C. Any difference between the cash rebates actually paid in the year of £29 million as shown in the Appendix C table and the value above of £34 million is due to SQR post year end wash up and provision changes. Based on the year end wash up, a further net rebate of £5 million is expected to be paid for 2022.

PRS costs
PRS costs increased by £18 million due to an increase in service needed with the increase in passenger numbers and the reopening of terminals.

Other
The other operational costs increased by £91 million in total, primarily driven by increase in service needed with the increase in passenger numbers and the reopening of terminals. Key contributions came from passenger ambassadors, bus and court operations, insurance, consultancy fees and marketing and PR costs.

4.6 Assumed Ordinary Depreciation

For the purpose of calculating the closing RAB for 2022, the regulatory depreciation forecast by Heathrow for 2022 has been used. This is £879 million in 2018 prices or £1,062 million in nominal prices.

5. Exceptional operating items

	2022 £m	2021 £m	Variance £m	 %
Impairment reversal	14	-	14	N/A
Capital write off	-	(31)	31	100%
Gain/ (loss) on exceptional items	**14**	(31)	**45**	**145%**

Year ended 31 December 2022 exceptional items

Following a significant recovery in the business from the COVID-19 pandemic in 2022, and further certainty of H7 capital activities, the Group has reversed £14 million of previously recognised impairment from 2020 and 2021. These reversals represent previously paused projects that have either restarted, have been agreed with airlines to restart during H7, or have a high likelihood of restart within reasonable timescales subject to the ongoing consultation with the CAA on the H7 settlement.

Year ended 31 December 2021 exceptional items

As a consequence of the impact of the COVID-19 pandemic, the Group had recognised a non-cash impairment and write-off charge of £24 million on assets in the course of construction and £7 million on intangible assets. A number of partially complete projects were placed on hold, some of which are unlikely to be restarted in the foreseeable future or are unlikely to be restarted without material changes to the original proposed design. Costs incurred to date on these projects have been impaired.

6. Capital Expenditure

Summary

	2022 £m	2021 £m	Variance £m	%
Capital expenditure incurred in the year	454	284	170	60%
Category C	3	4	(1)	(25)%
Total Capex added to the RAB	**457**	288	**169**	**59%**
Category B Capex not added to the RAB	-	1	(1)	(100)%
Total Capex spent	**457**	289	**168**	**58%**

Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, airport apron development (Kilo taxiway area), back-office systems upgrades and renewal of assets that have come to the end of their economic life.

We also invested £3 million in the period (2021: £5 million) on projects relating to expansion.

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.

Heathrow has invested £383 million in Category B costs and £133 million in Category C costs, a total of £516 million (after £10 million of re-work impairment recognised in 2020).

6.1 Analysis of actual expenditure

Detail	Total Capex (£m)
B243 Kilo Apron Development	29
B6119.01 Tower Transformation VCF Build	9
B6677.04 C-UAS Phase 4	4
B119.03 Tower Transformation VCF Systems	3
Other Airport Resilience	4
Total Airport Resilience	**49**
B131 Tunnel Refurb	68
B7501 Cyber Plus Phase 3	18
B7228.02 - Runway Resurfacing	20
B6201, B6204, B6206.16 - Fire System Improvements and replacements	15
B7201.08 Forecourts H&S works	8
B7227.0 - Terminals Critical	9
B7233.0 -T2 Baggage Program	8
B101-T3 Landside Arrivals Balcony	7
B7238 - Liquid Explosive Detection System (LEDS) Replacement	5
B6203 Pier 7	4
Other Asset Management	89
Total Asset Management	**251**
B6315 Baggage Safety and Welfare	2
Other Baggage	2
Total Baggage	**4**
B7680.00 Security Transformation Program	35
B6641 Care	10
B7611.06 Commercial Digit	5
B7615.10 Forecourt Access Char	3
B7679.02 Cargo OAA Security	2
Total Passenger Experience	**55**
Commercial Revenue	**50**
Business Information Technology Programme	**28**
Security	**7**
Carbon & Sustainability	**3**
Efficient Airport	**1**
Other	**6**
Subtotal	454
Category B[1]	-
Category C	3
Total	**457**

[1] No return on Category B costs from 2022 with commencement of the new regulatory period (2021: 4.83% return added to the average RAB).

6.2 Development and core capital expenditure

	2022 £m	2021 £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 2022 (Excluding Expansion)	454	284	170	60%
Total	**454**	284	**170**	**60%**

6.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate £'000	2022 Rebate £'000
B131 - Tunnels	Main tunnel life safety systems	December 2016	-	91.4	1,096.8

6.4 Independent Funds Surveyor

The Independent Fund Surveyor (IFS) has been engaged since April 2014 and to date has been deployed on 61 projects and 10 programmes of which 5 have been closed. Currently 5 programmes and 4 projects are in development and 8 projects are in delivery. The IFS has completed close out reports on 22 projects. Key IFS recommendations are being addressed on two levels, by respective project teams and at portfolio level.

Key portfolio issues continue to be managed through the IFS Working Group (Capital Portfolio Board sub-group), attendees include a range of airline community stakeholders, to progressively work through common IFS themes and recommendations to drive improvement. In 2022 it considered a number of matters regarding project management including the impact consequent of the introduction of a number of IT systems, including RiskHive and Ecosys. Programme Management best practice and deployment were covered by a temporary Programme Airline Working Group.

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 2022

	2022 £m	2021 £m	Variance £m	Variance %
Opening RAB at 1 January	**17,474**	16,492	**982**	**6%**
Additions in year	454	284	170	60%
Disposals in year	-	(14)	14	(100)%
Category C costs[1]	3	4	(1)	(25)%
Return on Category B costs (2021: 4.83%) [2]	-	19	(19)	(100)%
Assumed ordinary depreciation	(1,062)	(869)	(193)	22%
Indexation to 31 December	2,313	1,220	1,093	90%
RAB adjustment	-	338	(338)	(100)%
Closing RAB at 31 December[2]	**19,182**	17,474	**1,708**	**10%**

[1] Category C costs amounting to £3 million have been added to the RAB (2021: £4 million).
[2] Accumulated Category B costs of £404 million are included within the RAB as at 31 December 2022 (2021: £404 million). There is no return on Category B costs from 2022 with commencement of the new regulatory period.

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.

During the preparation of these accounts the CAA published its H7 Final Decision (for the five year period starting in January 2022 and ending in December 2026), on 8 March 2023, with the modifications to the Licence taking effect from 1 May 2023. Therefore these accounts have been prepared on the same basis as 2021.

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.

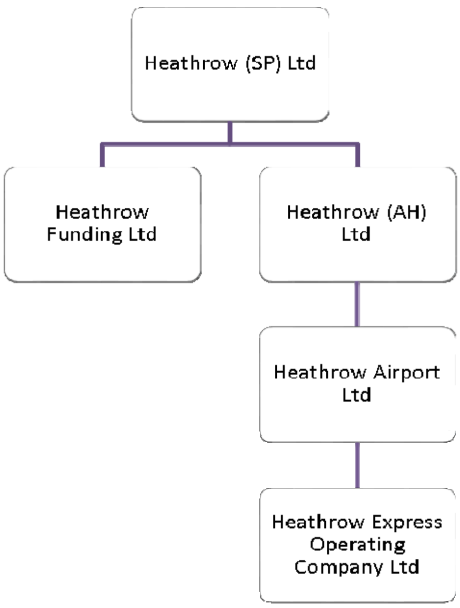
The regulatory accounts include notes as agreed with the CAA which describe the derivation of key regulatory results and, where relevant, adjustments to the statutory and management accounts of the Company.

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 2022. 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 at the date of signing on 22 February 2023.



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. This includes transit passengers totalling 0.03m in 2022. 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 –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 H7 Final Decision (CAP2524) was published by the CAA on 8 March 2023. This sets out an allowance for regulatory depreciation in H7. As the RAB was calculated and published in Heathrow's year end results on 23 February 2023, prior to the H7 Final Decision, please refer to 'Assumed Ordinary Depreciation' as shown in section 4.6 for the basis of preparation for 2022. 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. 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	**2,893**
Add back consolidation centre costs netted off against revenue	6
Add back retail costs netted off against revenue	14
Revenue per the underlying accounts	**2,913**

Reconciliation of Operating Costs

Reconciliation to the underlying accounts	£m
Regulatory expenditure before exceptional items	**(2,251)**
Add statutory depreciation	(770)
Remove assumed ordinary depreciation	1,062
Add back Service Quality Rebate	(34)
Add back retail costs netted off against revenue	(14)
Add back consolidation centre costs netted off against revenue	(6)
Remove pension cash contribution adjustment	14
Add back exceptional items	14
Operating costs including depreciation per the underlying accounts	**(1,985)**

Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2022

		£m	£m
Closing RAB at 31 December 2022		**19,182**	
Difference between net fixed assets and RAB at 31 March 2014	*(a)*	(1,339)	
Adjusted closing RAB			**17,843**
Interest capitalised disallowed within the RAB	*(b)*	325	
Difference between net book value of disposals and proceeds	*(c)*	2	
Revaluation in the underlying accounts	*(d)*	211	
Indexation of RAB	*(e)*	(5,848)	
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	*(f)*	850	
Expansion capex and provisions excluded	*(g)*	(21)	
AICC write off	*(h)*	(129)	
Cost of change addition to RAB	*(i)*	(91)	
RAB adjustment	*(j)*	(338)	
Subtotal of cumulative Q6 variance			**(5,039)**
Net fixed assets per the underlying accounts at 31 December 2022			**12,804**

9. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2022 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 £325 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 £35 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 return on Category B Expansion expenditure of (£63 million).

9. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2022 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 £129 million on assets in the course of construction.

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 £88.2 million was incurred across 2020, giving a total addition of £90.6 million 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.

j) As a consequence of the impact of the COVID-19 outbreak, the CAA agreed to a £300 million RAB adjustment in April 2021 in order to account for the losses, and adjusted for inflation totalled £338 million.

	£m
Closing RAB at 31 December 2022	**19,182**
Difference between RAB and net fixed assets at 31 March 2014	(1,339)
Adjusted closing RAB	**17,843**
Cumulative Q6 variance	(5,039)
Net fixed assets per the underlying accounts at 31 December 2022	**12,804**
Breakdown of non-current assets	
Terminal 1	119
Terminal 2	1,624
Terminal 3	848
Terminal 4	478
Terminal 5	2,134
Terminals non-specific	1,000
Terminal (Total)	**6,203**
Airfields	1,444
Plant and Equipment	384
Other land and buildings	232
Rail	667
AICC	1,450
Investment properties	2,230
Intangible assets	194
Net fixed assets per the underlying accounts at 31 December 2022	**12,804**

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
Average RPI index for the year ended 31 December 2021	304.9
Average RPI index for the year ended 31 December 2022	340.3
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
RPI index at 31 December 2021	317.7
RPI index at 31 December 2022	360.4
Increase from average 2011/12 to 31 December 2022	51.88%
Increase from average 2011/12 to average 2022	43.42%
Increase from average 2022 to 31 December 2022	5.90%
Increase from 31 December 2021 to 31 December 2022	13.44%

*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 Directors 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, the Audited Statements within the 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 24, 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, 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, including the Financial Reporting Council's ("FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Special purpose 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 under 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 24 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.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the Audited Statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the Audited Statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 inconsistencyor 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 licence 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, including those outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in their significant accounting estimates
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, and
- 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, is made, on terms that have been agreed, solely to the directors of the companies as a body and the Regulator in order to meet the requirements of Condition E1 of the Regulatory Licence ("Condition E1"). 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 2022 on which we reported on 22 February 2023, 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 and Statutory Auditors
Watford
30 March 2023

Appendices (unaudited)
Appendix A

Maximum Allowable Yield

During summer 2021, as part of the Airport Charges Consultation for 2022, Heathrow consulted with the airline community on a Maximum Allowable Yield (MAY) of £37.63, based on its Revised Business Plan assumptions and using a formula consistent with previous years' calculations.

In 2022, the CAA imposed a decision through CAP2305 (page 31, cell C1), setting the 2022 MAY at £30.19. The methodology used by the CAA was not based on the calculation formula used by Heathrow as part of its 2022 Airport Charges Consultation. On 17 December 2021, Heathrow published its 2022 Airport Charges Decision, adopting the £30.19 charge set by the CAA.

Maximum Allowable Yield - Actual vs Forecast

£	2018	2019	2020	2021	2022
Forecast maximum allowable yield	22.057	22.913	23.560	19.363	30.190
Actual yield	21.656	23.057	25.871	24.906	29.659
Variance	(0.401)	0.140	2.311	5.543	(0.531)
%	(1.8)%	0.6%	9.8%	28.6%	(1.8)%

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 During the preparation of these accounts the CAA published its H7 Final Decision (for the five year period starting in January 2022 and ending in December 2026), on 8 March 2023, with the modifications to the Licence taking effect from 1 May 2023. Therefore these accounts have been prepared on the same basis as 2021. 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 x Within Year RPI Growth t)[2]
		-	(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 Regulatory Year 6 (calendar year 2019): £ 676.246 million Regulatory Year 7 (calendar year 2020): £ 672.062 million Regulatory Year 8 (calendar year 2021): £ 676.573 million Calendar year 2022[3]: £ 879 million in 2018 prices or £1,062 million in nominal prices.

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

[3] The H7 Final Decision (CAP2524) was published by the CAA on 8 March 2023. This sets out an allowance for regulatory depreciation in H7. As the RAB was calculated and published in Heathrow's year end results on 23 February 2023, prior to the H7 Final Decision, please refer to 'Assumed Ordinary Depreciation' as shown in section 4.6 for the basis of preparation for 2022.

Appendix C

Service Quality Rebates and Bonus (SQRB)

Summary of 2022 SQRB performance

Category	SQR element	Target	Number of Passes	Number of Failures	Rebates paid £m
Passenger satisfaction (QSM)	Departure lounge seating availability	3.80	43	-	-
	Cleanliness	4.00	43	-	-
	Wayfinding	4.10	43	-	-
	Flight information	4.30	43	-	-
	Security	Publication only	43	-	-
	Wi-Fi	Publication only	43	-	-
Security	Central Search - less than 5 mins	95.00%	8	35	8.28
	Central Search - less than 10 mins	99.00%	10	33	7.04
	Transfer search	95.00%	22	21	6.90
	Staff search	95.00%	35	8	2.35
Campus	Control posts	95.00%	27	16	3.85
Passenger Operational	Passenger Sensitive Equipment (PSE general)	99.00%	43	-	-
	Passenger Sensitive Equipment (PSE priority)	99.00%	43	-	-
	Arrivals baggage carousels	99.00%	43	-	-
	T5 track transit system - 1 train availability	99.00%	12	-	-
	T5 track transit system - 2 trains availability	97.00%	11	1	0.34
Airline operational	Stands	99.00%	43	-	-
	Jetties	99.00%	43	-	-
	Fixed electrical ground power	99.00%	43	-	-
	Stand entry guidance	99.00%	43	-	-
	Pre-conditioned air - T2, T3, T5	98.00%	36	-	-
	Pier service stand usage - T1, T2, T3, T4	95.00%	31	-	-
Airfield	Aerodrome congestion term		43	-	-
	Total		**794**	**114**	**28.76**
	Total at risk				**104.0**

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: T4 reopened mid June 2022 and had an SQRB alleviation until this date. With the exception of Security and Pier Service all measures in T4 had an SQBR alleviation until 31 July 2022
Note: The maximum number of passes for 2022 was 908, with 794 actual passes and 114 failures.

Appendix C *continued*

Service Quality Rebates and Bonus (SQRB) *continued*

2022 SQR Bonus

SQR bonuses	No. of months in which bonus achieved	Bonus £'000
Departure lounge seating availability	7	1,407
Cleanliness	10	1,148
Wayfinding	12	2,269
Flight information	12	1,355
Total	**41**	**6,179**

There were 41 SQR bonuses earned in 2022.