Heathrow (SP) Limited
Regulatory Accounts
Year ended 31 December 2021

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 2021 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 2021, 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 2021, the CAA agreed that the Q6 price control period would roll forward three 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 2020.

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.

2021 Performance Overview

Looking back on 2021, it is remarkable how far we have come. The year started with a third lockdown, significant travel restrictions and a continued focus on protecting the business. As we slowly returned to some sense of normality across the second half of the year, the arrival of Omicron in December reminded us all that the pandemic was far from over. Only 19.4 million passengers travelled through Heathrow in 2021 – less than one quarter of 2019 and the lowest annual volume since 1972. We have more reasons to be optimistic as we look ahead to 2022. However, recovery of the aviation industry will take time, and we will not fully recover until all travel restrictions are removed in all the markets we serve, and consumers are confident they will not be reimposed at short notice at both ends. While this creates enormous uncertainty for the CAA in setting a new 5-year regulatory settlement, the regulator needs to focus on an outcome that improves service, incentivises growth and maintains affordable private financing.

The safety of our colleagues and passengers remained our number one priority throughout the year and we were delighted that our COVID-19 safe programme was recognised externally by the Airports Council International, the CAA and Skytrax. With travel largely closed in the first quarter of the year, we played our part in the Government's vaccination drive in March by transforming part of our head office building into an NHS COVID-19 vaccination centre. In the same month, we submitted our proposal to the Global Travel Taskforce for the safe reopening of international travel, and we were pleased to see this aligned with the traffic light system implemented by the UK Government in May.

Following our request for a £2.5 billion RAB adjustment, the CAA published its interim decision in April confirming that a £300 million adjustment should be made to Heathrow's RAB immediately. We continue to believe that this interim adjustment does not go far enough, and the CAA's decision damages confidence in the principle that all efficiently incurred investment is recovered at some point. In the same month, the CAA published its 'Way Forward' document that set out the CAA's initial assessment of our RBP and provided further thinking on key policy issues for the H7 period.

May was a landmark month in more ways than one. We celebrated 75 years since Heathrow officially became a commercial airport, and international travel restarted after several travel restrictions. In the same month, we became one of the largest private testing facilities in the UK, with a capacity for up to 25,000 COVID-19 tests per day.

In June 2021, and in response to changes in the traffic light system, Terminal 4 was converted to a dedicated facility for arrivals from 'red list' countries. We also submitted the first update of our Revised Business Plan (RBP) to the CAA and airlines, to ensure that the CAA had the most up to date evidence base available on which it could build its Initial Proposals.

Over the summer months, we saw a steady build in passengers travelling through Heathrow as more countries were added to the 'green list' and fully vaccinated UK residents could travel more freely. To meet this demand, we reopened Terminal 3 and recommenced operations from two runways in July.

However, the reopening of the borders was slightly slower than we expected, in particular with key markets such as the US. Given the caution around border controls and the gradual reopening of travel, we revised our traffic forecast downwards to 21.5 million, and we took the prudent and proactive step to address the risk of a covenant breach by requesting a waiver from Heathrow Finance's creditors, which was successfully approved in August.

2021 Performance Overview *continued*

In October, the government made significant progress in simplifying the rules for all travellers, moving from the traffic light system to one based on individual vaccination status. By mid-October, we received the CAA's Initial Proposals for the H7 period, the first time we saw a detailed response from the CAA. The CAA recognised that lower passenger numbers, high fixed costs and a higher cost of capital meant there would need to be a step up in charges.

November represented another milestone in the reopening of international travel with the return of flights to the US for the first time in over 18 months. The occasion was marked with a spectacular parallel take-off across both runways. However, with the emergence of the Omicron variant later in the month, the UK Government reintroduced some travel restrictions, damaging passenger confidence in the busiest period of the year. At least 600,000 passengers cancelled travel plans from Heathrow in December due to Omicron and the uncertainty caused by swiftly imposed government travel restrictions which impacted our recovery.

We submitted our response to the CAA's Initial Proposals in mid-December setting out material and basic errors in their proposals. Alongside our response we also submitted the second update to our Revised Business Plan (RBP), known as RBP Update 2. The CAA also published an interim charge for 2022 of £30.19. We were extremely disappointed in the decision, but we continue to work with the CAA to resolve the issues identified ahead of their final decision later in 2022. Despite the pandemic, we also completed our £1.6 billion 2021 funding plan which maintained our strong liquidity position.

Throughout the year, we made tangible progress in decarbonising Heathrow. We integrated sustainable aviation fuels in our operation, and we saw an increased commitment to SAF and net-zero from Heathrow airlines. We also engaged in several initiatives, including Jet Zero Council, DfT's Net Zero Aviation Consultation and COP26. This progress has laid the foundation for Heathrow 2.0: Connecting People and Planet, our refreshed sustainability strategy that sets out our pathway to 2030 and a long-term sustainable expansion.

Above all, our talented team at Heathrow continued to demonstrate resilience and complete commitment during what has been another challenging year. The hard work and success of our colleagues have put us in the best position to win the recovery, and their actions will make the Heathrow community a better, healthier place to live and work.

1. Performance Summary for the year ended 31 December 2021

£million (unless otherwise stated)	Section	2021	2020	Variance	%
Total Passengers (thousands)	*2*	**19,393**	22,110	**(2,717)**	**(12%)**
Revenue	*3*				
Airport Charges		**554**	647	**(93)**	**(14%)**
Other Revenue		**647**	512	**135**	**26%**
Total Revenue		**1,201**	1,159	**42**	**4%**
Expenditure	*4*				
Operating costs		**(832)**	(911)	**79**	**(9%)**
Assumed ordinary depreciation		**(869)**	(830)	**(39)**	**5%**
Total expenditure		**(1,701)**	(1,741)	**40**	**(2%)**
Regulatory operating loss (before exceptional operating costs)		**(500)**	(582)	**82**	**(14%)**
Exceptional operating costs	*5*	**(31)**	(184)	**153**	**(83%)**
Regulatory operating loss		**(531)**	(766)	**235**	**(31%)**
Capital expenditure	*6*	**289**	424	**(135)**	**(32%)**
Opening RAB	*7*	**16,492**	16,598	**(106)**	**(1%)**
Closing RAB	*7*	**17,474**	16,492	**982**	**6%**
Average RAB		**16,983**	16,545	**438**	**3%**
Return on average RAB		**(3.13%)**	(4.63%)	**1.50%**	**(32%)**

The Regulatory accounts of Heathrow (SP) Limited were approved by the Board of Directors of Heathrow (SP) Limited on 30 March 2022 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 2021

Thousands	2021	2020	Variance	%
Departing passengers	9,518	10,928	(1,410)	(13%)
Arriving passengers	9,875	11,182	(1,307)	(12%)
Total passengers[1]	**19,393**	**22,110**	**(2,717)**	**(12%)**

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

Heathrow's passengers by geographic segment for the year ended 31 December 2021 compared to the year ended 31 December 2020

Thousands	2021	2020	Variance	%
UK	1,768	1,460	308	21%
Europe	8,795	9,835	(1,040)	(11%)
North America	3,337	3,862	(525)	(14%)
Asia Pacific	1,739	2,911	(1,172)	(40%)
Middle East	2,301	2,463	(162)	(7%)
Africa	1,040	1,148	(108)	(9%)
Latin America	413	431	(18)	(4%)
Total passengers[1]	**19,393**	**22,110**	**(2,717)**	**(12%)**

[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 2021 declined 12% to 19.4 million (2020: 22.1 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 2021. This resulted in a decrease in number of flights and passengers.

3. Revenue

Summary

For the year ended 31 December 2021, revenue at £1,201 million was 4% up on 2020. Revenue excluding other regulated charges was 13% down on 2020 due to lower passenger numbers as a result of the COVID-19 pandemic.

		2021 £m	2020 £m	Variance £m	%
Retail (including car parking)	*3.2*	204	218	(14)	(6%)
Property		115	125	(10)	(8%)
Commercial Revenue		319	343	(24)	(7%)
Airport charges	*3.1*	554	647	(93)	(14%)
Other regulated charges	*3.3*	297	118	179	152%
Rail		30	49	(19)	(39%)
Other		1	2	(1)	(50%)
Total revenue		**1,201**	**1,159**	**42**	**4%**

3.1 Airport charges

For the year ended 31 December 2021, airport charges (excluding airline rebate) at £570 million were 12% lower from 2020.

£million (unless otherwise stated)	2021	2020	Variance	%
Passenger Flights				
Departing passenger charges	249	321	(72)	(22%)
Movement charges	196	206	(10)	(5%)
Parking charges	38	45	(7)	(16%)
Total Passenger Flights	**483**	572	(89)	(16%)
Total Passengers (k)	19,393	22,110	(2,717)	(12%)
Actual yield per passenger	£24.91	£25.87	(£0.96)	(4%)
Total Non-Passenger Flights	**87**	75	12	16%
Total Airport Charges	**570**	647	(77)	(12%)
Airline deal rebate	**(16)**	-	(16)	N/A
Total Airport Charges after rebate	**554**	647	(93)	(14%)

The decline in airport charges is predominantly due to reduced passenger numbers and number of flights, and a reduction in the Maximum Allowable Yield.

The total revenue from non-passenger flights increased by 16% 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 2021, gross retail income at £211 million was 8% lower from 2020. Net retail income ('NRI') was 6% lower with NRI per passenger 7% higher compared to 2020.

£million (unless otherwise stated)	2021	2020	Variance	%
Retail				
- Retail concessions	87	112	(25)	(22%)
- Catering	21	19	2	11%
- Other retail	18	22	(4)	(18%)
- Other services	38	36	2	6%
Total retail revenue	**164**	**189**	**(25)**	**(13%)**
Car Parking	**47**	**40**	**7**	**18%**
Gross retail revenue	**211**	**229**	**(18)**	**(8%)**
Retail expenditure	(7)	(11)	4	(36%)
Net retail revenue	**204**	**218**	**(14)**	**(6%)**
Terminal Passengers (k)	**19,393**	**22,110**	**(2,717)**	**(12%)**
Net Retail revenue per passenger	**£10.52**	**£9.86**	**£0.66**	**7%**

Total retail revenue declined by 13% driven by reduced passenger numbers and mix of retail service available.

Car parking income increased by 18% as a result of passengers favouring short stay parking.

3.3 Other Regulated Charges Revenue

For the year ended 31 December 2021, other regulated charges ('ORC') revenue increased to £297 million as a result of the Airport Cost Recovery Charge which was effective from 1 January 2021 and higher prices charged.

	2021 £m	2020 £m	Variance £m	%
Baggage and check-in	123	49	74	151%
Fixed electrical ground power	10	8	2	25%
Utilities	40	37	3	8%
PRS	23	9	14	156%
Staff car parking & security documentation	14	12	2	17%
Other income	87	3	84	2,800%
Total	**297**	**118**	**179**	**152%**

Baggage & Check-In

Baggage & Check-in income was 151% up on last year due to higher prices published on the general notice effective from August 2021.

Utilities

Utilities (incorporating electricity, water, heating, water & sewerage, gas, waste & recycling and pre-conditioned air) were 8% higher than 2020, primarily driven by higher prices.

Passengers requiring service ('PRS')

PRS was 156% higher than 2020 due to an increase in prices for the service.

Other income

Other income was 2,800% higher than 2020 due to increased revenue from the Airport Cost Recovery Charge which was effective from 1 January 2021.

4. Operating Costs

Summary

For the year ended 31 December 2021, total operating costs at £832 million were 9% down from 2020. Total operating costs included £nil (2020: £4 million) Category B costs.

	Section	2021 £m	2020 £m	Variance £m	%
Staff	*4.1*	(281)	(335)	54	(16%)
Maintenance and Equipment	*4.2*	(174)	(170)	(4)	2%
Rates	*4.3*	(119)	(119)	-	0%
Utilities	*4.4*	(60)	(63)	3	(5%)
Other expenditure	*4.5*	(198)	(224)	26	(12%)
Total operating costs before exceptional operating costs		**(832)**	**(911)**	**79**	**(9%)**

4.1 Staff

For the year ended 31 December 2021, staff costs at £281 million were 16% lower than 2020.

	2021 £m	2020 £m	Variance £m	%
Security	(99)	(117)	18	(15%)
Other operational	(66)	(79)	13	(16%)
Non-operational	(67)	(80)	13	(16%)
Pension	(49)	(59)	10	(17%)
Total	**(281)**	**(335)**	**54**	**(16%)**

Decrease in staff costs is mainly driven by the reduced number of full time employees in the business. Security and other operational costs declined by £31 million due to a reduction in passenger volumes, reduced terminals in operations and a reduction in overtime. Pension costs were £10 million lower mainly due to the reduced number of full time employees in 2021.

Government grants of £21 million (2020: £36 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 £14 million (2020: £37 million) were capitalised in 2021 and are not included within the total of £281 million as shown above.

4.2 Maintenance and Equipment

For the year ended 31 December 2021, maintenance & equipment costs at £174 million were 2% up from 2020.

	2021 £m	2020 £m	Variance £m	%
IT and computer services	(63)	(60)	(3)	5%
Maintenance	(100)	(102)	2	(2%)
Stores and equipment	(11)	(8)	(3)	38%
Total	**(174)**	**(170)**	**(4)**	**2%**

An increase in IT support costs resulted in an increase in IT and computer services by 5%.

4.3 Rates

For the year ended 31 December 2021, rates at £119 million were in linewith 2020.

	2021 £m	2020 £m	Variance £m	%
Rates	(119)	(119)	-	0%
Total	**(119)**	**(119)**	**-**	**0%**

4.4 Utilities

For the year ended 31 December 2021, utilities at £60 million were 5% or £3 million down on 2020 due to lower consumption as a result of decrease in passengers and consolidation of operations into two terminals.

	2021 £m	2020 £m	Variance £m	%
Electricity	(42)	(41)	(1)	2%
Water and sewerage	(2)	(2)	-	0%
Gas	(5)	(3)	(2)	67%
Waste and recycling	(4)	(9)	5	(56%)
Other	(7)	(8)	1	(13%)
Total	**(60)**	**(63)**	**3**	**(5%)**

4.5 Other expenditure

For the year ended 31 December 2021, other expenditure at £198 million was lower than prior year due to cost saving measures taken during the year.

	2021 £m	2020 £m	Variance £m	%
Police	(30)	(33)	3	(9%)
Rail	(37)	(40)	3	(8%)
Cleaning	(23)	(25)	2	(8%)
Intra group	(15)	(12)	(3)	25%
PRS costs	(16)	(21)	5	(24%)
Other (including Air navigation service)	(77)	(93)	16	(17%)
Total other costs	**(198)**	**(224)**	**26**	**(12%)**

Rail
Rail costs decreased by £3 million mainly due to the reduction in staff cost which was driven by lower passenger numbers. Additionally, in 2021 the trains were replaced and are now leased which reduced the maintenance cost. There were also savings in electricity due to moving to a meter and more efficient trains.

Cleaning
Cleaning costs decreased by £2 million due to a decrease in service needed due to the temporary consolidation of operations into two terminals.

Other
The other operational costs decreased by £16 million in total, primarily driven by management actions to reduce costs. Key contributions came from lower development cost relating to noise and blight, passenger ambassadors, bus and court operations, insurance, legal and consultancy fees and advertising fees.

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 £677 million (2011/12 prices) to £869 million in 2021 prices.

5. Exceptional operating costs

	2021 £m	2020 £m	Variance £m	%
Business transformation	-	(92)	92	(100%)
Capital write off	(31)	(92)	61	(66%)
Total exceptional operating costs	**(31)**	**(184)**	**153**	**(83%)**

Year ended 31 December 2021 exceptional items

As a consequence of the impact of the COVID-19 pandemic, the Group has 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 have been 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.

Year ended 31 December 2020 exceptional items

In the prior year, 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), the Group underwent a business transformation in order to simplify operations and reduce costs. Following this review the Group 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. In addition, the Group reviewed its asset portfolio and recognised a non-cash impairment and write-off charge of £92 million on assets in the course of construction. At 31 December 2020, £13 million of costs relating to the business transformation programme had not been utilised and were included within provisions. In the twelve months ended 31 December 2021, £11 million of this provision was utilised with the remaining £2 million expected to be utilised in 2022.

6. Capital Expenditure

Summary

	2021 £m	2020 £m	Variance £m	%
Capital expenditure incurred in the year	284	356	(72)	(20%)
Category B	-	24	(24)	(100%)
Category C	4	38	(34)	(89%)
Total Capex added to the RAB	**288**	**418**	**(130)**	**(31%)**
Category B Capex not added to the RAB	1	6	(5)	(83%)
Total Capex spent	**289**	**424**	**(135)**	**(32%)**

We are investing in various programmes to ensure the airport's safety and resilience. Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, Kilo Apron development, back-office systems upgrades and renewal of assets that have come to the end of their economic life.

We also invested £5 million in the period (2020: £68 million) on plans to expand the airport mostly before the Court of Appeal's judgement was announced.

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 £383 million in Category B costs and £130 million in Category C costs, a total of £513 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)	24	
B7216 - AGL Reinforcement	2	
B7220 NATS Emergency and	1	
B117 T4 Code F Stands	1	
Other Airport Resilience	45	
Total Airport Resilience		**73**
B131 Tunnel Refurb	31	
B7501 Cyber Plus Phase 3	13	
B6203 Pier 7	10	
B7213.03 - Emergency Works	7	
Other Asset Management	38	
Total Asset Management		**99**
B216 HBS & Asset Replacement	8	
B097 - T1 OOG Facility	3	
B6313 Baggage Asset End of Life Management	1	
Other Baggage	1	
Total Baggage		**13**
B329 Auto Passenger Journey	6	
B7615.10 Forecourt Access Char	5	
B7679.02 Cargo OAA Security im	4	
B7611.05 Customer Relation	2	
B025 Premium Products	2	
B7680.00 Security Trans	2	
B7649 Automation Prog iH7 2019	1	
Other Passenger Experience	14	
Total Passenger Experience		**36**
Q6 Realisation		**14**
Additional Capacity		**9**
Business Information Technology Programme		**40**
Subtotal		**284**
Category B[1]		1
Category C		4
Total		**289**

[1] **4.83% (2020: 4.83%) return will be added to the average RAB**

6.2 Development and core capital expenditure

	2021 £m	2020 £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 2021 (Excluding Expansion)	284	356	(72)	(20%)
Total	**284**	**356**	**(72)**	**(20%)**

6.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate £'000	2021 Rebate £'000
B131 - Tunnels	Main tunnel life safety systems	December 2016	-	91	1,092

6.4 Independent Funds Surveyor

The Independent Fund Surveyor (IFS) has been engaged since April 2014 and to date has been deployed on 55 projects and 5 programmes. Currently 6 projects are in delivery. The IFS has completed close out reports on 20 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 which was instigated to help in the design of the regulatory regime for H7. The IFS Working Group was restarted later in 2020, where it was available to consider such aspects of project management such as scheduling, cost estimating, benchmarking, change management, procurement, requirements management, earned value, risk, benefits and lessons learnt. In 2021 it considered a number of matters regarding current delivery alongside potential changes for H7.

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 2021

	2021 £m	2020 £m	Variance £m	Variance %
Opening RAB at 1 January	**16,492**	**16,598**	**(106)**	**(1%)**
Additions in year	284	356	(72)	(20%)
Disposals in year	(14)	-	(14)	N/A
Category B costs[2]	-	24	(24)	(100%)
Category C costs[1]	4	38	(34)	(89%)
4.83% (2020: 4.83%) return on Category B costs[2]	19	18	1	6%
Cost of change addition to RAB	-	91	(91)	(100%)
Assumed ordinary depreciation	(869)	(830)	(39)	5%
Indexation to 31 December	1,220	197	1,023	519%
RAB adjustment	338	-	338	N/A
Closing RAB at 31 December[2]	**17,474**	**16,492**	**982**	**6%**

[1] Category C costs amounting to £4 million have been added to the RAB subject to the CAA's policy on Category C, which is being finalised (2020: £38 million).
[2] Accumulated Category B costs of £404 million are included within the RAB as at 31 December 2021 (2020: £391 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.

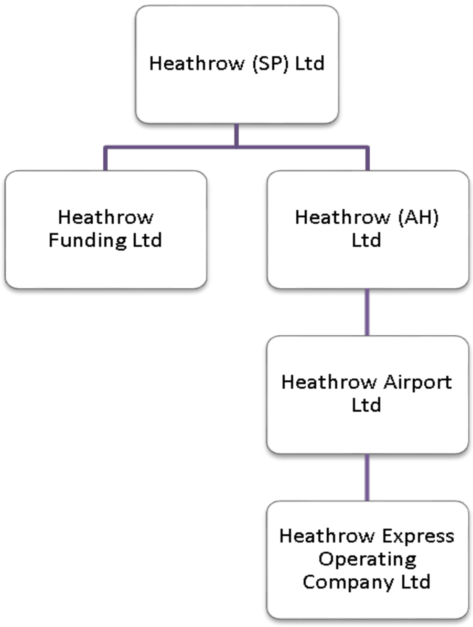
The regulatory accounts include notes as agreed with the CAA which describe the derivation of key regulatory results and, where relevant, adjustments to the statutory and management accounts of the Company.

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 2021. 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 22rd February 2022.



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	**1,201**
Add back consolidation centre costs netted off against revenue	6
Add back retail costs netted off against revenue	7
Revenue per the underlying accounts	**1,214**

Reconciliation of Operating Costs

Reconciliation to the underlying accounts	£m
Regulatory expenditure before exceptional items	**(1,701)**
Add statutory depreciation	(797)
Remove assumed ordinary depreciation	869
Add back retail costs netted off against revenue	(7)
Add back consolidation centre costs netted off against revenue	(6)
Remove pension cash contribution adjustment	15
Add back exceptional items	(31)
Operating costs including depreciation per the underlying accounts	**(1,658)**

Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2021

		£m	£m
Closing RAB at 31 December 2021		**17,474**	
Difference between net fixed assets and RAB at 31 March 2014	*(a)*	(1,339)	
Adjusted closing RAB			**16,135**
Interest capitalised disallowed within the RAB	*(b)*	281	
Difference between net book value of disposals and proceeds	*(c)*	2	
Revaluation in the underlying accounts	*(d)*	280	
Indexation of RAB	*(e)*	(3,535)	
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	*(f)*	517	
Expansion capex and provisions excluded	*(g)*	(21)	
AICC write off	*(h)*	(123)	
Cost of change addition to RAB	*(i)*	(91)	
RAB adjustment	*(j)*	(338)	
Subtotal of cumulative Q6 variance			**(3,028)**
Net fixed assets per the underlying accounts at 31 December 2021			**13,107**

9. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2021 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 £281 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 4.83% (2020: 4.83%) return on Category B Expansion expenditure of (£63 million).

9. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2021 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 £123 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. This has been adjusted for inflation.

	£m
Closing RAB at 31 December 2021	**17,474**
Difference between RAB and net fixed assets at 31 March 2014	(1,339)
Adjusted closing RAB	**16,135**
Cumulative Q6 variance	(3,028)
Net fixed assets per the underlying accounts at 31 December 2021	**13,107**
Breakdown of non-current assets	
Terminal 1	162
Terminal 2	1,646
Terminal 3	923
Terminal 4	509
Terminal 5	1,810
Terminals non-specific	1,611
Terminal (Total)	**6,661**
Airfields	1,441
Plant and Equipment	443
Other land and buildings	244
Rail	688
AICC	1,177
Investment properties	2,297
Intangible assets	156
Net fixed assets per the underlying accounts at 31 December 2021	**13,107**

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
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
Increase from average 2011/12 to 31 December 2021	33.88%
Increase from average 2011/12 to average 2021	28.50%
Increase from average 2021 to 31 December 2021	4.19%
Increase from 31 December 2020 to 31 December 2021	7.55%

*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, 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, 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 continues to be significantly impacted by the COVID-19 pandemic which has resulted in a deterioration in passenger traffic and cash flows. The Company's forecast and projections assume the regulatory tariffs and a gradual recovery in the passenger number forecast in the going concern period which still represents a significant reduction to historical revenue levels. In addition, the Company has been impacted by uncertainties in relation to the confirmation of their regulatory pricing from the Civil Aviation Authority (CAA) for the upcoming regulatory period (H7). 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 covenant waivers in respect to the interest cover ratio (ICR) measured as at 31 December 2022. 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 about 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.

Conclusions relating to going concern

In auditing the accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the accounts is appropriate. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 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.

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 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, 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 directors 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 10 March 2022 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 2021 on which we reported on 22 February 2022, 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 directors, 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 directors 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
30 March 2022

Appendices (unaudited)
Appendix A

Maximum Allowable Yield

The table below shows the maximum allowable yield that Heathrow was allowed to charge in 2021:

		£
Specified yield for 2020		**23.531**
Actual 12 months RPI movement to April 2020	1.5%	0.353
Value of X	(1.5%)	(0.353)
Forecast capital trigger payments		(0.039)
SQR Bonus		0.014
Cumulative development capital expenditure adjustment		(2.420)
Security cost pass through (S factor)		-
Business rate revaluation factor (BR factor)		(1.097)
Category B costs		-
2019 correction 'K' factor under recovery		(0.626)
Forecast 2021 maximum allowable yield		**19.363**

The following factors contribute to the calculation of the 2021 maximum allowable yield:

Cumulative development capital expenditure adjustment

The forecast development capital expenditure adjustment for 2021 considered that fewer projects were transitioning from development capital to core capital than originally anticipated in the settlement; as such an adjustment was made for the lower cumulative capital spend to 2021 than the CAA's Q6/iH7 settlement, reducing the maximum allowable yield for the 2021 airport charge.

Any subsequent change in actual development capex transitioning to core will be adjusted for in the K factor when setting charges for 2023.

2019 correction 'K' factor under recovery

K factor analysis		
Airport charges revenue 2019 (£thousands)	a £thousands	1,865,000
Passengers 2019 (thousands)	b thousands	80,886
Actual yield	£	23.057
Forecast to recover 2019	c £	22.79
Interest rate	d	3.64%
Forecast passengers 2021 (thousands)	e thousands	37,056
2019 correction 'K' factor = [a-(b*c)]/e*[(1+d)^2]		**0.626**

Maximum Allowable Yield - Actual vs Forecast

£	2017	2018	2019	2020	2021
Forecast maximum allowable yield	21.907	22.057	22.913	23.560	19.363
Actual yield	21.871	21.656	23.057	25.871	24.906
Variance	(0.036)	(0.401)	0.140	2.311	5.543
%	(0.2%)	(1.8%)	0.6%	9.8%	28.6%

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 2021 SQRB performance

Category	SQR element	Target	Number of Passes	Number of Failures	Rebates paid £m
Passenger satisfaction	Departure lounge seating availability	3.80	28	-	-
(QSM)	Cleanliness	4.00	28	-	-
	Wayfinding	4.10	28	-	-
	Flight information	4.30	28	-	-
	Security	Publication only	28	-	-
	Wi-Fi	Publication only	28	-	-
Security	Central Search - less than 5 mins	95.00%	29	-	-
	Central Search - less than 10 mins	99.00%	28	1	0.37
	Transfer search	95.00%	29	-	-
	Staff search	95.00%	29	-	-
Campus	Control posts	95.00%	29	-	-
Passenger Operational	Passenger Sensitive Equipment (PSE general)	99.00%	28	-	-
	Passenger Sensitive Equipment (PSE priority)	99.00%	28	-	-
	Arrivals baggage carousels	99.00%	28	-	-
	T5 track transit system - 1 train availability	99.00%	12	-	-
	T5 track transit system - 2 trains availability	97.00%	12	-	-
Airline operational	Stands	99.00%	28	-	-
	Jetties	99.00%	28	-	-
	Fixed electrical ground power	99.00%	28	-	-
	Stand entry guidance	99.00%	28	-	-
	Pre-conditioned air - T2, T3, T5	98.00%	28	-	-
	Pier service stand usage - T1, T2, T3, T4	95.00%	17	-	-
Airfield	Aerodrome congestion term		28	-	-
	Total		**605**	**1**	**0.37**
	Total at risk				**41**

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.

Appendix C *continued*

Service Quality Rebates and Bonus (SQRB) *continued*

Note: For the number of passes and failures, due to COVID-related SQRB alleviations, seven months relates to two terminals in operation and five months relates to three terminals in operation. However, with the exception of security elements and pier-served stand usage, all SQR elements were excluded in T3 in August. The maximum number of passes for 2021 is 605.
Note: Heathrow is in discussions with the airline community on a SQRB alleviation on Security - Central Search

Despite continuing lower passenger volumes and operational challenges as a consequence of COVID-19, the SQRB scheme operated as normal during 2021.

The failure during 2021 continues to be under discussion with the airline community for alleviation. As a consequence, no payments have yet been made, but the risk provided for.

2021 SQR Bonus

SQR bonuses	No. of months in which bonus achieved	Bonus £'000
Departure lounge seating availability	12	1,141
Cleanliness	12	1,272
Wayfinding	12	876
Flight information	12	658
Total	**48**	**3,947**

There were 48 SQR bonuses earned in 2021.