Heathrow (SP) Limited
Regulatory Accounts
Year ended 31 December 2023

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 2023 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 2023, the regulatory accounts have been drawn up in accordance with the requirements of condition E1 of the 'Licence granted to Heathrow Airport Limited by the Civil Aviation Authority under section 15 of the Civil Aviation Act 2012 on 13 February 2014, 1 May 2023' ('the Licence'), the CAA's Regulatory Accounting Guidelines and any other relevant guidance issued by the CAA.

For further information on the preparation of these accounts, please refer to the notes on the basis of preparation and indexation in sections 7 and 9 respectively.

Reconciliations to statutory financial reporting are in section 8.

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.

2023 Performance Overview

2023 was a strong year for Heathrow with passenger numbers recovering to 79.2 million, an increase of 29% on the previous year and the third highest in our history. We were rated the "best airport in Europe" and reclaimed our position as "the most connected airport in the world", underscoring the pivotal role Heathrow plays in connecting all of Britain to global growth.

From a financial perspective, the increase in passengers resulted in an Adjusted EBITDA of £2.2 billion and we returned a small adjusted profit before tax of £38 million after three years of losses. We successfully raised £780 million of new funding, including our first sustainability-linked bond. This supported our year end liquidity position of £3.3 billion, and with gearing remaining below pre-pandemic levels, our balance sheet remained strong.

In March 2023, the CAA published their final decision on the H7 price control. We chose to appeal to the CMA certain parts of the CAA's decision, including the WACC allowance, the £300 million RAB adjustment and the application of an additional K-factor. Unfortunately, the CMA determined that the CAA was not wrong in most of the aspects of the final decision, which had been subject to appeal. Three specific elements have been referred to the CAA for further consideration, including the additional K-factor, although the CMA have indicated that they do not expect any changes which may arise to have a material impact on the final decision.

While the final decision sets a more challenging settlement under which to operate, we continued to progress our next phase of investment in the airport with £636 million of capital additions during the year. Work commenced across all six capital programmes with projects including the first new security lanes going live, the appointment of a lead contractor to replace the T2 baggage system and ongoing runway resurfacing work.

With an ongoing commitment to sustainability, we were pleased to be the first airport to achieve science-based validation from the SBTi for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. We also expanded our Sustainable Aviation Fuel (‘SAF’) initiatives, building on the success of the previous year's incentive scheme. Our SAF incentive was set at 1.5% of the airport's fuel. Slightly less was delivered due to delays in supply, however we have plans for continued growth to 2.5% in 2024. We have seen a clear sign of the growing adoption of SAF with the world’s first 100% SAF powered transatlantic flight departing Heathrow to New York in November 2023, a landmark achievement for the UK aviation industry. With our financing framework directly linked to our sustainability strategy, Heathrow 2.0, we are making significant strides towards our carbon reduction targets ‘in the air’ and ‘on the ground’.

Our overall success is highly dependent on our colleagues, which is why we prioritise making Heathrow a great place to work and provide career opportunities that allow people to reach their full potential. As we welcomed back even more passengers during the year and with detailed planning and close collaboration across all Team Heathrow, we rebuilt resourcing to capture this increased demand. Despite experiencing industrial action in April and May, our contingency plans enabled us to maintain the airport's smooth operation and we successfully signed a new two-year pay deal with our front-line colleagues.

We have started to see the benefit of the investments made in recruitment and training over the past two years, with much improved service for our customers. We achieved a score of 3.99 out of 5.00 in the global Airport Service Quality (ASQ) survey, which was an improvement over the previous year, despite having almost one-third more passengers. We also made significant progress in security performance, with 92.8% of direct passengers passing through security within 5 minutes, compared to 69.4% in 2022. Our baggage connection rates remained stable, and we were able to reduce the gap between departures and arrivals punctuality from 11.2% in 2022 to 3.6% in 2023.

1. Performance Summary for the year ended 31 December 2023

£million (unless otherwise stated)	Section	Actual	CAA forecast[1]	Variance	%
Total Passengers (thousands)	*2*	**79,218**	73,000	**6,218**	**9**
Revenue	*3*				
Airport Charges		**2,442**	2,283	**159**	**7**
Other Revenue		**1,245**	1,215	**30**	**2**
Total Revenue		**3,687**	3,498	**189**	**5**
Expenditure	*4*				
Operating costs		**1,452**	1,378	**74**	**5**
Assumed ordinary depreciation		**1,046**	1,046	**-**	**-**
Total expenditure		**2,498**	2,424	**74**	**3**
Regulatory operating profit		**1,189**	1,074	**115**	**10**
Capital expenditure	*5*	**636**	681	**(45)**	**(7)**
Opening RAB	*6*	**19,314**	19,287	**27**	**-**
Closing RAB	*6*	**19,804**	19,964	**(160)**	**(1)**
Average RAB		**19,559**	19,626	**(67)**	**-**
Return on average RAB		**6.5%**	5.8%	**0.7%**	**12**

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9 (with the exception of the RAB CAA forecast which has been uplifted from 2018 RPI prices based upon RPI indexation included in section 9).

The Regulatory accounts of Heathrow (SP) Limited were approved by the Board of Directors of Heathrow (SP) Limited on 28 March 2024 and signed on behalf of the Board by:

Javier Echave
Director

Martin Bailey

Martin Bailey
Director

2. Passenger Summary

Heathrow passengers for the year ended 31 December 2023

Thousands	Actual	CAA forecast	Variance	%
Departing passengers	38,977			
Arriving passengers	40,241			
Total passengers[1]	**79,218**	**73,000**	**6,218**	**9**

[1] Total passengers are defined in the basis of preparation in section 7.

Heathrow's passengers by geographic segment for the year ended 31 December 2023 compared to the year ended 31 December 2022

Thousands	Actual	Prior year	Variance	%
UK	4,244	3,357	887	26
Europe	31,492	25,750	5,742	22
North America	19,992	15,414	4,578	30
Asia Pacific	9,807	5,562	4,245	76
Middle East	8,019	6,947	1,072	15
Africa	3,599	2,880	719	25
Latin America	2,065	1,724	341	20
Total passengers[1]	**79,218**	**61,634**	**17,584**	**29**

[1] Total passengers are defined in the basis of preparation in section 7.

In 2023, Heathrow welcomed 79.2 million passengers, an increase of 17.6 million, or 29%, compared to the prior year and 9% favourable to the forecast based on the CAA decision. This included a very strong Christmas period with our busiest ever December.

Our main markets continued to demonstrate strong performance, with our transatlantic routes performing particularly well. New York (JFK) maintained its position as our most popular destination, serving over three million passengers for the first time since 2019. In total, we had 24 routes which served over a million passengers this year. Latin America, Africa and Asia Pacific also experienced a significant rebound in traffic figures, in particular the Asia Pacific region, considering that borders only fully reopened earlier in the year. Terminal 5 experienced its busiest year ever, with more than 33 million passengers. By the end of the year, we were connected to 207 destinations in 88 countries and territories, up from 189 and 84 respectively last year.

Passenger air transport movements ('ATMs') grew by 22.6%, slightly behind the increase in passenger numbers. This resulted from aircraft operating with slightly higher seats per ATM (221 compared to 218 in the prior year) and higher load factors (79.6% compared to 77.0% in the prior year). This combination of higher load factors and the use of bigger aircraft provides further opportunities for growth.

3. Revenue

Summary

For the year ended 31 December 2023, revenue at £3,687 million was 5% favourable to the forecast based on the CAA decision due to higher passenger numbers.

£million		Actual	CAA forecast[1]	Variance	%
Retail (including car parking)	*3.2*	698	737	(39)	(5)
Property		140	139	1	1
Rail		131	102	29	28
Other		5	2	3	150
Commercial revenue		974	980	(6)	(1)
Passenger airport charges	*3.1*	2,442	2,283	159	7
Other regulated charges	*3.3*	240	211	29	14
Cargo revenue	*3.4*	31	24	7	29
Total revenue		**3,687**	3,498	**189**	**5**

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.

3.1 Airport charges

For the year ended 31 December 2023, airport charges at £2,442 million were 7% favourable to the forecast based on the CAA decision due to higher passenger numbers.

£million (unless otherwise stated)	Actual	CAA forecast[1]	Variance	%
Passenger flights				
Departing passenger charges	1,444			
Movement charges	910			
Parking charges	88			
Total passenger airport charges	**2,442**	2,283	**159**	**7**
Total passengers (k)	79,218			
Actual yield per passenger	£30.826			

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.

The favourable variance is mainly driven by higher passenger numbers.

Details of the calculation of maximum allowable yield for 2023 can be found in Appendix A.

3.2 Retail Revenue

For the year ended 31 December 2023, retail revenue at £698 million was 5% adverse to the forecast based on the CAA decision.

£million (unless otherwise stated)	Actual	CAA forecast[1]	Variance	%
Retail and bureaux	408	457	(49)	(11)
Car parking and rentals, bus and coach	196	174	22	13
Service	54	62	(8)	(13)
Terminal drop-off charge	40	44	(4)	(9)
Total retail revenue	**698**	737	**(39)**	**(5)**
Terminal Passengers[2] (k)	**79,215**	73,000	**6,215**	**9**
Retail revenue per passenger	**8.81**	10.10	**(1.29)**	**(13)**

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.
[2] Terminal passengers are defined in the basis of preparation in section 7.

Retail and bureaux revenue was adverse by 11% compared to the CAA forecast due to a lower retail spend per passenger than forecast. Retail income has been impacted by the government's decision to abolish VAT free shopping from 1 January 2021.

Car parking and rentals, bus and coach revenue was favourable by 13% compared to the CAA forecast primarily due to increased number of passengers.

Service revenue was adverse by 13% compared to the CAA forecast primarily due a reduced mix of retail services available.

Terminal drop-off charge revenue was adverse by 9% compared to the CAA forecast due to a reduction in penalty charges.

3.3 Other Regulated Charges Revenue

For the year ended 31 December 2023, other regulated charges (ORC) revenue at £240 million was 3% down on the prior year.

£million	Actual	Prior year	Variance £m	%
Baggage and check-in	118	137	(19)	(14)
Fixed electrical ground power	8	4	4	100
Utilities	48	33	15	45
Passengers requiring support ('PRS')	50	40	10	25
Staff car parking and security documentation	8	23	(15)	(65)
Other income	8	10	(2)	(20)
Total	**240**	**247**	**(7)**	**(3)**

Baggage and Check-In

Baggage and Check-in revenue was 14% down on the prior year due to a decrease in the price per bag in the current year to £2.97 (2022: £4.43).

Fixed electrical ground power

Fixed electrical ground power was 100% up on the prior year due to increased unit costs in the year.

Utilities

Utilities (incorporating electricity, water, heating, water and sewerage, gas, waste and recycling, and pre-conditioned air) were 45% higher than the prior year, primarily driven by electricity costs due to an increase in price per unit to £0.38 (2022: £0.22).

Passengers requiring support (‘PRS’)

PRS was 25% higher than the prior year due to increased passenger numbers and an increase in demand for the service.

Staff car parking and security documentation

Staff car parking was 65% lower than the prior year primarily due to a decrease in pricing during 2023 to £29.17 per passenger (2022: £91.07).

Other income

Other income was 20% lower than prior year primarily due to a decrease in price of staff security identity cards to £19.22 (2022: £62.64).

3.4 Cargo

For the year ended 31 December 2023, cargo revenue at £31 million was £7 million favourable to the forecast based on the CAA decision.

£million	Actual	CAA forecast[1]	Variance £m	%
Total	**31**	24	**7**	**29**

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.

Cargo revenue was 29% up on forecast, with cargo tonnage increasing in 2023 with belly hold capacity returning to normal levels on numerous routes. However, cargo tonnage continues to lag due to the global air cargo industry grappling with the impacts of various macroeconomic factors, which have led to subdued demand.

4. Operating Costs

For the year ended 31 December 2023, total operating costs at £1,452 million were 5% higher than the forecast based on the CAA decision.

£million	Actual	CAA Forecast[1]	Variance £m	%
People costs	439	382	57	15
Operational costs (excluding insurance)	371	328	43	13
Insurance costs	19	19	-	-
Facilities and maintenance costs	214	200	14	7
Rates	113	143	(30)	(21)
Utilities (excluding distribution)	134	122	12	10
Distribution contract costs	4	35	(31)	(89)
General expenses	165	139	26	19
Surface access initiative costs	6	6	-	-
Other overlay costs	-	4	(4)	(100)
Operating costs before adjustments	**1465**	1,378	87	6
Add back MTI rebates	(13)	-	(13)	-
Total operating costs	**1,452**	1,378	74	5

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.

People costs were £57 million higher than forecast based on the CAA decision, driven by ramp up costs across all business areas with increased passenger numbers.

Operational costs (excluding insurance) were £43 million higher than the forecast based on the CAA decision, mainly driven by the reopening of T4 in June 2022, which saw higher levels of 3rd party resourcing and bussing in 2023 to accommodate increased terminal utilisation as well as additional passenger demand.

Insurance costs were in line with the forecast based on the CAA decision.

Facilities and maintenance costs were £14 million higher than the forecast, driven by increase in passenger volumes and price increases.

Rates were £30 million lower than the forecast based on the CAA decision, driven by higher occupation and more refunds received during 2023.

Utilities (excluding distribution) were £12 million higher than the forecast based on the CAA decision, primarily driven by electricity costs due to an increase in price per unit to £0.38 (2022: £0.22).

Distribution contract costs were £31 million lower than the forecast based on the CAA decision, as the forecast does not account for the accounting adjustments for IFRS 16 leases.

General expenses were £26 million higher than the forecast based on the CAA decision, primarily driven by the increase in charges set by the Department for Transport in 2023, and the increase in colleague travel throughout the year.

Surface access initiative costs were in line with the forecast based on the CAA decision.

4.1 Assumed Ordinary Depreciation

For the purpose of calculating the closing RAB for 2023, the regulatory depreciation forecast by the CAA has been used. This is £789 million in 2018 RPI prices and £1,046 million translated to 2023 RPI prices.

5. Capital Expenditure

Summary

	Actual	CAA Forecast[1]	Variance £m	%
Capital expenditure incurred in the year	633	681	(48)	(7)
Category C	3	-	3	100
Total Capex added to the RAB	**636**	681	**(45)**	**(7)**

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.

Total capital expenditure was £636 million. Our H7 capital investment plan is centred around six core programmes which will run throughout the regulatory period – asset management and compliance, replacing the Terminal 2 baggage system, next generation security, investing in our commercial proposition, investing in carbon and sustainability to deliver our net zero goals and investment to improve efficiency and service.

During the year, we invested £633 million across these six core programmes to ensure the airport's safety, resilience and compliance whilst continuing to invest in our customer proposition and strategic initiatives. We saw our next generation security programme start work across all terminals within the estate. Further drivers of capital expenditure have been the investment in our cargo and main tunnel projects connecting vehicles and passengers across the estate, our runway resurfacing projects and ensuring our assets remain resilient with a new virtual contingency facility.

We also invested £3 million in the period on projects related to expansion (Category C) under the property hardship scheme.

5.1 Analysis of actual expenditure

Detail	Total Capex (£million)
B131 Main and Cargo Tunnels Works	69
B6119 Control Tower Transformation (Virtual Contingency Facility)	43
B7228.01- Runway Resurfacing	33
B7681- Minor Works	16
B6401.06- Track Transit Systems Enhancements	13
B71-053.00 H7 Asset Management and Compliance Programme	10
B71-001.00 H7 Taxiway and Stands Enhancements	9
B243 KILO Apron Development	8
B7201.08 Forecourts Health & Safety Works	8
B7227 Critical Terminal Works	7
B71-011.00 End User Computing – Laptop and Desktop Refresh	6
B7501 Cyber Plus- Phase 3	6
B7209.03 Multi-Storey Car Park 4 Works	6
B7126 Airfield Ground Lighting Bypass and Network Upgrade	6
Other Asset Management and Compliance	139
Total Asset Management and Compliance	**379**
B7680.07 – Terminal 3: Central Search Area	49
B7680.00 H7 Security Transformation Programme	26
B7680.05 Terminal 3: Enabling Works	8
B7680.09 Terminal 3 Flight Connections Centre	8
B7689.06 Campus Pilot Projects	6
B7680.08 – Terminal 2: Central Search Area	4
Other Next Generation Security	13
Total Next Generation Security	**114**
B094 – Crossrail Contribution	50
B75-030.00 Digital Continuous Improvements	5
Other Commercial Revenue	26
Total Commercial Proposition	**81**
Terminal 2 Baggage System	**36**
Carbon and Sustainability	**15**
Improve Efficiency and Service	**8**
Subtotal	**633**
Category C	3
Total	**636**

5.2 Development and core capital expenditure

	Actual	CAA Forecast[1]	Variance £m	%
Development capital expenditure which transitioned to core capital expenditure (including the spend incurred during the development stages) for the year ended December 2023 (excluding expansion)	633	681	(48)	(7)
Total	**633**	681	**(48)**	**(7)**

[1] CAA forecast has been uplifted from 2020 CPI-real prices based upon CPI indexation included in section 9.

5.3 Capital Triggers

Business case	Trigger milestones	Trigger date	Actual completion date	Monthly rebate £'000	2023 Rebate £'000
B131 - Tunnels	Main tunnel life safety systems	December 2016	-	91.4	1,096.8

5.4 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 15 projects are in delivery and five programmes are being progressed. The IFS has completed close out reports on 22 projects. Key IFS recommendations are being addressed at three levels, respective project teams, at programme level 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 2023 it considered a number of matters regarding project management including the administration of projects which were either paused or stopped as a consequence of the Covid pandemic, the impact of inflation on capital cost estimating and the mechanisms in place to measure the quality of the work provided by HAL's supply chain.

6. Regulatory Asset Base ('RAB')

Opening Regulatory Asset Base at 1 January 2023

£m (average 2018 RPI prices and 2022 prices)		Increase in RPI to 31 December 2022	Adjusted RAB at 1 January 2023
Forecast RAB at 31 December 2022 (Appendix B – Table 7)	15,052	27.99%	19,265
Actual capital expenditure 2022	457	5.90%	484
Assumed capital expenditure 2022	(340)	27.99%	(435)
Adjusted opening RAB at 1 January 2023			**19,314**

Closing Regulatory Asset Base at 31 December 2023

	Actual	CAA forecast[1]	Variance £m	Variance %
Opening RAB at 1 January	**19,314**	19,287	**27**	**-**
Additions in year	633	732	(99)	(14)
Category C costs[2]	3	-	3	100
Assumed ordinary depreciation	(1,046)	(1,046)	-	-
TRS Adjustment	(90)	-	(90)	(100)
Indexation to 31 December	990	991	(1)	-
Closing RAB at 31 December	**19,804**	19,964	**(160)**	**(1)**

[1] CAA forecast has been uplifted from 2018 RPI prices based upon RPI indexation included in section 9.
[2] Category C costs amounting to £3 million have been added to the RAB (2022: £3 million).

7. Basis of Preparation

Summary

The Company is required to prepare regulatory accounts by condition E1 of the "'Licence granted to Heathrow Airport Limited by the Civil Aviation Authority under section 15 of the Civil Aviation Act 2012 on 13 February 2014, 1 May 2023" ("H7 Decision"). 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 9 of this report and be properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

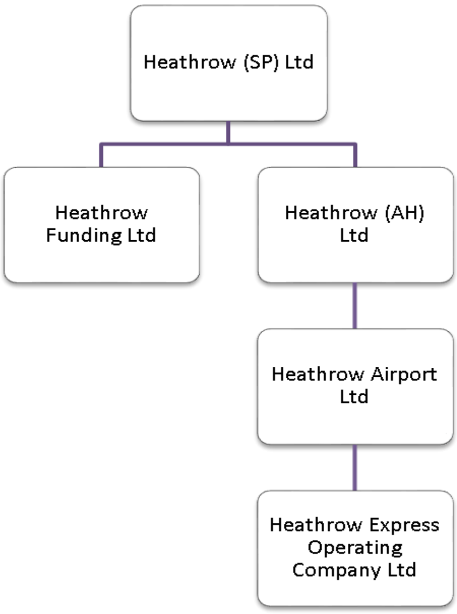
The regulatory accounts include notes as agreed with the CAA which describe the derivation of key regulatory results and, where relevant, adjustments to the statutory and management accounts of the Company.

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 2023. 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 20 February 2024.



7. 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 0.06m in 2023. 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 H of its H7 Decision, determined how the value of the RAB at 31 December 2021 should be calculated, and this is shown in section 6. The CAA further determined in Annex H 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 H of the H7 Decision.

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 H7 Decision. The principal adjustments are:

- pension costs reflect the Company's cash contribution to the British Airport Authority ('BAA') Pension Scheme;
- service quality rebates are excluded from operating costs; and
- gains or losses on asset disposals are excluded from operating costs.

Net Fixed Assets

Net fixed assets as shown in section 8 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.

Indexation

The forecasts have been derived by indexing forward the forecasts in the H7 decision to 2023 prices in accordance with the CAA H7 Decision. The appropriate CPI and RPI indices are shown in section 9. Profit and loss items have been indexed forward to 2023 using the average CPI for 2023, and the RAB using RPI at 31 December 2022.

8. 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	**3,687**
Revenue per the underlying accounts	**3,687**

Reconciliation of Operating Costs

Reconciliation to the underlying accounts	£m
Regulatory expenditure before exceptional items	**2,498**
Add statutory depreciation	730
Remove assumed ordinary depreciation	(1,046)
Add back MTI Rebates	13
Remove pension cash contribution adjustment	(6)
Operating costs including depreciation per the underlying accounts	**2,189**

Reconciliation of statutory non-current assets in the underlying accounts to the closing RAB at 31 December 2023

		£m	£m
Closing RAB at 31 December 2023		**19,804**	
Difference between net fixed assets and RAB at 31 December 2021	*(a)*	(4,370)	
Adjusted closing RAB			**15,434**
Interest capitalised disallowed within the RAB	*(b)*	146	
Revaluation in the underlying accounts	*(c)*	140	
Indexation of RAB	*(d)*	(3,311)	
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	*(e)*	571	
TRS write off	*(f)*	90	
AICC write off	*(g)*	(13)	
Subtotal of cumulative H7 variance			**(2,377)**
Net fixed assets per the underlying accounts at 31 December 2023			**13,057**

8. Reconciliations *continued*

Notes to the reconciliation of the closing RAB at 31 December 2023 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 December 2021

	£m
Cumulative borrowing costs capitalised from 1 April 1995 to 31 December 2021	(1,681)
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 December 2021	6,675
Difference between depreciation in the underlying accounts and assumed ordinary depreciation to 31 December 2021	(714)
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)
AICC write off in Q6	123
Cost of change addition to RAB in Q6	91
RAB adjustment in Q6	338
Total	**4,370**

b) Borrowing costs amounting to £146 million were capitalised cumulatively in H7 to date. The roll forward calculation for the RAB specified in the CAA Licence excludes capitalised borrowing costs.

c) 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.

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

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

f) Cumulative TRS adjustment to the RAB for the part of the traffic risk sharing adjustment that is not implemented by adjusting allowed charges in H7, see Appendix C for more details and calculation.

g) This cumulative non-cash impairment and write-off charge of £13 million on assets in the course of construction relates to capital projects paused in previous years which have since been discontinued.

8. Reconciliations *continued*

	£m
Closing RAB at 31 December 2023	**19,804**
Difference between RAB and net fixed assets at 31 December 2021	(4,370)
Adjusted closing RAB	**15,434**
Cumulative H7 variance	(2,377)
Net fixed assets per the underlying accounts at 31 December 2023	**13,057**
Breakdown of non-current assets	
Terminal 1	75
Terminal 2	1,598
Terminal 3	797
Terminal 4	451
Terminal 5	2,292
Terminals non-specific	737
Terminal (Total)	**5,950**
Airfields	1,530
Plant and Equipment	351
Other land and buildings	229
Rail	648
AICC	1,677
Investment properties	2,449
Intangible assets	223
Net fixed assets per the underlying accounts at 31 December 2023	**13,057**

9. Indexation

The following indices have been used for revaluing forecasts:

Indexation-RPI	
Average RPI index for the year ended 31 December 2018	281.58
Average RPI index for the year ended 31 December 2020	293.14
Average RPI index for the year ended 31 December 2022	340.33
Average RPI index for the year ended 31 December 2023	373.32
RPI index at 31 December 2018	285.60
RPI index at 31 December 2020	295.40
RPI index at 31 December 2021	317.70
RPI index at 31 December 2022	360.40
RPI index at 31 December 2023	379.00
Decrease from 31 December 2022 to average 2018	(21.86)%
Increase from average 2018 to average 2023	32.58%
Increase from average 2020 to average 2023	27.35%
Increase from average 2018 to 31 December 2022	27.99%
Increase from average 2018 to 31 December 2023	34.60%
Increase from average 2020 to 31 December 2023	29.29%
Increase from average 2022 to 31 December 2022	5.90%
Increase from average 2023 to 31 December 2023	1.52%
Increase from 31 December 2022 to 31 December 2023	5.16%

Indexation-CPI	
Average CPI index for the year ended 31 December 2018	105.92
Average CPI index for the year ended 31 December 2020	108.75
Average CPI index for the year ended 31 December 2022	121.66
Average CPI index for the year ended 31 December 2023	130.54
CPI index at 31 December 2020	109.20
CPI index at 31 December 2022	127.20
CPI index at 31 December 2023	132.20
Increase from average 2018 to average 2023	23.25%
Increase from average 2020 to average 2023	20.04%
Increase from average 2020 to 31 December 2023	21.56%
Increase from average 2023 to 31 December 2023	1.27%
Increase from 31 December 2022 to 31 December 2023	3.93%

*The indexation calculations are based on unrounded numbers.

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 5 to 19, comprising statements 1 to 9 (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 7. 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 5 to 19 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 in statement 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 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 7 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 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 company's members of the companies as a body and the Regulator in order to meet the requirements of Condition E1 of the Regulatory Licence ("Condition E1").

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 2023 on which we reported on 20 February 2024, 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. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

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

28 March 2024

Appendices (unaudited)
Appendix A

Maximum Allowable Yield

During summer 2022, as part of the Airport Charges Consultation for setting 2023 prices, Heathrow consulted with the airline community on a Maximum Allowable Yield (MAY) of £31.92, based on the Price Control formula outlined by the CAA in its H7 Final Proposals. Following the consultation and based on airline community feedback, Heathrow revised the forecast MAY to £31.57.

On 8 December 2022, the CAA launched a consultation on the 2023 interim price cap (CAP2488), proposing a 2023 MAY of £31.57, which was later confirmed in the CAA's February 2023 decision (CAP2515).

Maximum Allowable Yield - Actual vs Forecast

£	2022	2023	2024	2025	2026
Forecast maximum allowable yield	30.190	31.574			
Actual yield	29.659	30.826			
Variance	(0.531)	(0.748)			
%	(1.8)%	(2.4)%			

Appendix B

This section provides a list of CAA forecasts in 2020 CPI-real prices (unless otherwise stated) for the five years duration.

Table 1: Passenger forecasts for H7

Millions	2022	2023	2024	2025	2026	Total
Passengers	61.6	73.0	78.9	80.7	81.3	375.5

Source: CAA

Table 2: Passenger airport charges

£ millions	2022	2023	2024	2025	2026	Total
Passenger airport charges	1,661	1,902	1,659	1,696	1,710	8,628

Source: CAA

Table 3: Forecast commercial revenue for H7

£ millions	2022	2023	2024	2025	2026	Total
Commercial revenue excl. cargo	735	816	889	917	930	4,287
Cargo	35	20	14	12	11	92
Commercial revenue incl. cargo	770	836	903	929	941	4,379

Source: CAA

Table 4: Forecast revenue from ORCs for H7

£ millions	2022	2023	2024	2025	2026	Total
ORCs	175	176	182	185	182	900

Source: CAA

Table 5: Forecast operating expenditure for H7

£ millions	2022	2023	2024	2025	2026	Total
Operating expenditure	1,145	1,148	1,188	1,213	1,201	5,895

Source: CAA

Table 6: Capex for H7

£ millions	2022	2023	2024	2025	2026	Total
Capex	367	567	703	1,017	967	3,621

Source: CAA

Table 7: CAA's licence projections for HAL's RAB in H7 (in 2018 RPI Prices)

£ millions	2022	2023	2024	2025	2026	Total
Opening RAB	15,490[1]	15,052	14,772	14,581	14,623	15,490
Capex	340	509	626	902	851	3,228
Assumed ordinary depreciation	(778)	(789)	(817)	(860)	(898)	(4,142)
Closing RAB	15,052	14,772	14,581	14,623	14,576	14,576
Average RAB	15,271	14,912	14,677	14,602	14,600	15,033

[1] The opening RAB is £17,476.872 million in 31 December 2021 RPI prices (Appendix C - A10) and has been translated to 2018 RPI prices.

Source: CAA

Appendix C

Rolling forward the RAB

Purpose and basis of the calculation

A1 This Appendix specifies the detail of the formulae that we intend to use for tracking the regulatory asset base ("RAB") for the purposes of setting the H7m price control.

A2 The equations set out below are based on the projections made by the CAA in reaching this Final Decision on the charge conditions for the H7 price control period from 1 January 2022 to 31 December 2026.

Inflation adjustment

A3 The data used in calculating inflation adjustments is published by the Office for National Statistics ("ONS") as follows:

a. Consumer price index (CPI): CPI INDEX 00: ALL ITEMS 2015=100 (the D7BT series); and

b. retail price index (RPI): RPI ALL ITEMS Jan 1987=100 (the CHAW series).

A4 From these CPI and RPI data, we have adopted the following series:

a. $\mathrm{RPI}_{\mathrm{Dec,t}}$ is the RPI index for December of Regulatory Year t;

b. $\mathrm{RPI}_{\mathrm{Dec,t-1}}$ is the RPI index for December of Regulatory Year $\mathrm{t}-1$;

c. $\mathrm{RPI}_{\mathrm{Annual,t}}$ is the arithmetic mean of monthly RPI index values for each month in Regulatory Year t;

d. $\mathrm{CPI}_{\mathrm{Annual,t}}$ is the arithmetic mean of monthly CPI index values for each month in Regulatory Year t; and

e. $\mathrm{CPI}_{\mathrm{Annual,2020}}$ is the arithmetic mean of monthly CPI index values for each month in Regulatory Year 2020.

A5 From these five series we have constructed the following inflation adjustment terms:

Inflation adjustment	Used for
$\dfrac{\mathrm{RPI}_{\mathrm{Dec,t}}}{\mathrm{RPI}_{\mathrm{Dec,t-1}}}$	Annual RPI growth from December of Regulatory Year $\mathrm{t}-1$ prices to December of Regulatory Year t prices
$\dfrac{\mathrm{RPI}_{\mathrm{Dec,t}}}{\mathrm{RPI}_{\mathrm{Annual,t}}}$	RPI growth from annual average of Regulatory Year t prices to December of Regulatory Year t prices (within year RPI growth)

$\frac{RPI_{Dec,t}}{RPI_{Annual,2018}}$	RPI growth from 2018 RPI annual average prices to December of Regulatory Year t prices

A6 In each year, the RAB is expressed in December RPI-real prices of that year. The CAA assumed ordinary depreciation figures are expressed in 2018 RPI-real annual average prices.

A7 A value corresponding to a Regulatory Year can be expressed in different price bases and denoted by the subscripts as follows:

Price base	Subscript
RPI prices in December of the previous Regulatory Year	$Dec, t-1$
RPI prices in December of that Regulatory Year	Dec, t
Annual average RPI prices of that Regulatory Year	$Annual, t$
Annual average RPI prices of Regulatory Year 2018	$Annual, 2018$

Composition of the RAB

A8 The RAB of Regulatory Year t consists of two elements:

$$RAB(t)_{Dec,t} = Basic\ RAB(t)_{Dec,t} + Cumulative\ profiling\ adjustment(t)_{Dec,t}$$

where:

a. $RAB(t)_{Dec,t}$ = the RAB of Regulatory Year t

b. $Basic\ RAB(t)_{Dec,t}$ = the Basic RAB of Regulatory Year t

c. $Cumulative\ profiling\ adjustment(t)_{Dec,t}$ = Cumulative profiling adjustment of Regulatory Year t. This is the adjustment to reflect profiling/smoothing of charges within a regulatory period.

The Opening Basic RAB

A9 The Opening Basic RAB of Regulatory Year t equals to the Closing Basic RAB of Regulatory Year $t-1$, both expressed in RPI prices in December of Regulatory Year $t-1$. That is:

$$Opening\ Basic\ RAB(t)_{Dec,t-1} = Closing\ Basic\ RAB(t-1)_{Dec,t-1}$$

A10 For H7, the Opening Basic RAB of Regulatory Year 2022 expressed in RPI prices in December of Regulatory Year 2021, $Opening\ Basic\ RAB(2022)_{Dec,2021}$, is £17,476.872 million. Detailed calculations are given in chapter 10 (The H7 Regulatory Asset Base and HAL's request for a RAB adjustment).

Annual Basic RAB roll-forward

A11 The annual Basic RAB roll-forward is given by:

$$\begin{aligned}
&\text{Closing Basic RAB(t)}_{\text{Dec,t}} \\
&\qquad = \text{Opening Basic RAB(t)}_{\text{Dec,t}-1} \times \frac{\text{RPI}_{\text{Dec,t}}}{\text{RPI}_{\text{Dec,t}-1}} \\
&\qquad + \text{Actual capex(t)}_{\text{t}} \times \frac{\text{RPI}_{\text{Dec,t}}}{\text{RPI}_{\text{Annual,t}}} \\
&\qquad - \text{Proceeds from disposals(t)}_{\text{t}} \times \frac{\text{RPI}_{\text{Dec,t}}}{\text{RPI}_{\text{Annual,t}}} + \text{TRSA(t)}_{\text{t}} \times \frac{\text{RPI}_{\text{Dec,t}}}{\text{RPI}_{\text{Annual,t}}} \\
&\qquad - \text{CAA assumed ordinary depreciation(t)}_{\text{RPI,2018}} \times \frac{\text{RPI}_{\text{Dec,t}}}{\text{RPI}_{\text{Annual,2018}}}
\end{aligned}$$

where:

a. t represents Regulatory Years 2022, 2023, 2024, 2025 and 2026;

b. $\text{Closing Basic RAB(t)}_{\text{Dec,t}}$ is the RAB at the end of Regulatory Year t;

c. $\text{Opening Basic RAB(t)}_{\text{Dec,t}-1}$ is the Opening Basic RAB at the beginning of Regulatory Year t;

d. $\text{Actual capex(t)}_{\text{t}}$ is the capital expenditure that has passed through Gateway 3 in Regulatory Year t;

e. $\text{Proceeds from disposals(t)}_{\text{t}}$ is the proceeds from disposals in Regulatory Year t;

f. $\text{TRSA(t)}_{\text{t}}$ is the adjustment to the RAB in Regulatory Year t for the part of the traffic risk sharing adjustment that is not implemented by adjusting allowed charges in H7. It is calculated as follows:

(i) $\text{TRSA(2022)}_{2022} = 0.7 \times \text{ARS(2022)}_{2022} \times (1 + \text{RWACC})^{4.5}$;

(ii) $\text{TRSA(2023)}_{2023} = 0.8 \times \text{ARS(2023)}_{2023} \times (1 + \text{RWACC})^{3.5}$;

(iii) $\text{TRSA(2024)}_{2024} = 0.9 \times \text{ARS(2024)}_{2024} \times (1 + \text{RWACC})^{2.5}$;

(iv) $\text{TRSA(2025)}_{2025} = \text{ARS(2025)}_{2025} \times (1 + \text{RWACC})^{1.5}$;and

(v) $\text{TRSA(2026)}_{2026} = \text{ARS(2026)}_{2026} \times (1 + \text{RWACC})^{0.5}$;

where:

1. ARS(t)_{t} is calculated in the same way as ARS_{t} in Condition C1.21 of HAL's licence; and

2. RWACC is the pre-tax RPI-real weighted average cost of capital which shall have a value of 4.04%; and

g. $\text{CAA assumed ordinary depreciation(t)}_{\text{RPI,2018}}$ is the CAA's assumed ordinary depreciation in Regulatory Year t. The values over H7 are given by:

(i) Regulatory Year 2022: £778.365 million;
(ii) Regulatory Year 2023: £788.810 million;
(iii) Regulatory Year 2024: £817.054 million;
(iv) Regulatory Year 2025: £860.134 million; and
(v) Regulatory Year 2026: £898.404 million.

Appendix D

Measures, Targets and Incentives Bonus (MTI)

Summary of 2023 MTI performance

Category	SQR element	Target	Number of Passes	Number of Failures	Rebates paid £m
Passenger satisfaction (QSM)	Departure lounge seating availability	3.80	16	-	-
	Cleanliness	4.00	48	-	-
	Wayfinding	4.10	48	-	-
	Flight information	4.30	16	-	-
	Helpfulness/ Attitude of Security Staff	Publication only	32	-	-
	Wi-Fi	Publication only	32	-	-
Security	Central Search - less than 5 mins	95.00%	41	7	8.11
	Central Search - less than 10 mins	99.00%			
	Transfer search	95.00%	47	1	0.70
	Staff search	95.00%	48	-	-
Campus	Control posts	95.00%	48	-	-
Passenger Operational	Passenger Sensitive Equipment (PSE general)	99.00%	16	-	-
	Passenger Sensitive Equipment (PSE priority)	99.00%	16	-	-
	Arrivals baggage carousels	99.00%	48	-	-
	T5 track transit system - 1 train availability	99.00%	10	2	0.68
	T5 track transit system - 2 trains availability	97.00%			
	Lifts, Escalators & Travelators	N/A	32	-	-
	Check in infrastructure	N/A	30	2	0.64
	Hygiene safety testing- amber/red tests in 24 hrs	N/A	30	2	0.18
Airline operational	Stands	99.00%	48	-	-
	Jetties	99.00%	46	2	0.52
	Fixed electrical ground power	99.00%	48	-	-
	Stand entry guidance	99.00%	48	-	-
	Pre-conditioned air - T2, T3, T5	98.00%	36	-	-
	Pier service stand usage - T1, T2, T3, T4	95.00%	36	-	-
Airfield	Aerodrome congestion term		364	1	0.16
	Total		**1,184**	**17**	**10.99**
	Total at risk				**148.0**

Notes:

- Any difference between the cash rebates paid in this table and the value in the accounts is due to MTI wash-up post year-end and provision changes.
- 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.
- T3 Jetties in December 2023 are subject to an alleviation request. A rebate value of £171,755 has been included in the above table but has not been paid yet pending the outcome of this alleviation request.
- Based on the year end wash up, a further net rebate of £2,011,628 is expected to be paid for 2023. This includes £56,460 which relates to T3 Jetties and is subject to an alleviation request.
- Q6 targets were in operation from Jan - Apr 2023 and revised H7 targets were in operation from May - Dec 2023.
- The maximum rebate at risk value of £148m is based on forecast airport charges. The maximum rebate at risk based on actual airport charges is £171m.
- T3 Pier Service had an alleviation granted for September to December 2023.

2023 MTI Bonus

MTI bonuses	No. of months in which bonus achieved	Bonus £'000
Departure lounge seating availability	-	-
Cleanliness	-	-
Wayfinding	4	549
Flight information	2	72
Central search security < 5 minutes (commenced May-23)	5	2,138
Transfer search security < 10 minutes (commenced May-23)	5	505
Total	**16**	**3,264**

Notes:

- There were 16 MTI bonuses earned in 2023.
- The bonus based on 2023 forecast airport charges is £2,646k.
- The Transfer Search security bonus for May 2023 was achieved but Heathrow decided not to pursue this due to alleviations granted in relation to Industrial Action. This bonus of £66,916 has been excluded from the above table.
- Following a post year end reconciliation to calculate bonuses based on actual actual pax numbers and specified yield the final 2023 bonus value is £3,264k.
- Achievement of the Central Search Security <5 minutes bonus is also dependent on passing the target for 'Helpfulness / Attitude of Security staff in the same month.