

Heathrow Express Operating Company Limited
Annual report and financial statements
for the year ended 31 December 2023

Company registration number:

03145133

Heathrow Express Operating Company Limited

Contents

Strategic report	2
Directors' report	12
Statement of directors' responsibilities in respect of the financial statements	14
Independent auditors' report	15
Financial statements	
Statement of comprehensive income	18
Statement of financial position	19
Statement of changes in equity	20
Accounting policies	21
Significant accounting judgements and estimates	27
Notes to the financial statements	28

Heathrow Express Operating Company Limited

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Heathrow Express Operating Company Limited

Strategic report

The directors of Heathrow Express Operating Company Limited (the "Company") present their strategic report for the year ended 31 December 2023.

Principal activities

The Company is a wholly owned subsidiary of Heathrow Airport Limited. The Company operates the rail service between Heathrow airport and Paddington station, London. Heathrow Airport Limited owns all infrastructure (stations, tunnels and track from Heathrow Airport as far as Airport Junction on the Great Western Mainline). The Company bears the costs and retains all revenues from operating the service. It pays track access charges to Heathrow Airport Limited for the use of the track from Airport junction to the airport stations and pays track access charges to Network Rail for use of the track from Airport Junction to London Paddington. It also pays First Greater Western Limited (trading as Great Western Railway, "GWR") for rolling stock and other charges.

Review of business and future developments

During the year ended 31 December 2023 the Heathrow Express service carried a total of 4.9 million passengers, 4% above 2022 (2022: 4.7 million passengers). Fare revenues subsequently increased by 6% to £97.0 million in 2023 (2022: £91.4 million). Non fare revenue increased to £4.3 million (2022: £0.5 million) due to an increase in Crossrail and HS2 engineering works compensation. Revenue from the provision of rail services to Heathrow Airport remained broadly consistent at £2.0 million (2022: £1.9 million).

Profit after taxation for the financial year totalled £18.2 million (2022: £19.1 million), this decrease is predominantly driven by increased operating and finance costs offset by increased revenue.

No significant changes to the activities of the Company are expected in the foreseeable future.

Results and dividends are discussed in the Directors' report on page 12.

Key performance indicators

Key performance indicators focus on:

- Operational punctuality with each service being monitored and recorded. Heathrow Express operational performance declined with punctuality at 78.8% (2022: 81.2%). This is due to factors outside of Heathrow Express's control, such as Industrial Action, track maintenance, infrastructure failures and an overall increase in the number of trains running on route compared to 2022, with MTR Elizabeth Line running two additional services to Heathrow from May 2023.
- Profit Before Tax: £23.8 million, a 4% decrease on 2022 (2022: £24.8 million) due mainly to increased operating and finance costs, offset by an increase in passenger volumes, fares, and Crossrail and HS2 engineering works compensation.
- Operating Costs: £85.8 million, a 20% increase on 2022 (2022: £71.6 million) predominantly due to the conclusion of the release of compensation received from the Department for Transport as part of the Heathrow Express Overarching Agreement.
- Movement in Net Assets: There was an 18% increase in net assets from £102.5 million in 2022 to £120.7 million in 2023. This was due mainly to a release of accruals and deferred income in the year.

Internal controls and risk management

Internal controls and risk management are key elements of the Company's corporate operations.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company and for reviewing the effectiveness of the system. This is implemented by applying the Heathrow Airport Holdings Limited Group ("HAHL Group") internal control procedures, supported by a Code of Professional Conduct Policy, appropriate segregation of duties controls, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

Heathrow Express Operating Company Limited

Strategic report *continued*

Internal controls *continued*

The key features of the HAML Group's internal control and risk management systems in relation to the financial reporting process include:

- A company-wide comprehensive system of financial reporting and financial planning and analysis.
- Documented procedures and policies.
- Defined and documented levels of delegated financial authority.
- An organisational structure with clearly defined and delegated authority thresholds and segregation of duties.
- A formal risk management process that includes the identification of financial risks.
- Detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics.
- Audit Committee review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items;
 - Compliance with accounting, legal, regulatory and lending requirements.
 - Critical accounting policies and the going concern assumption.
 - Significant areas of judgement and estimates.
 - Key financial statement risk areas as reported further below in the report.
- Independent review of controls by the Internal Audit function, reporting to the Audit Committee.
- A confidential whistleblowing process.

Risk management

The Heathrow Risk and Assurance Management Framework is an enterprise risk management system that is embedded Group-wide with the principal aim of providing oversight and governance of the key risks that Heathrow faces, and to monitor current, upcoming and emerging risks.

The framework provides guidance on how risks should be identified, mitigated, reviewed, and reported within Heathrow. During the year we continued the evolution of our risk processes, building on the current risk management structure, to enhance the data quality, completeness of risk information and control measurement in addition to improving the overall reporting integrity.

The Heathrow Airport Holdings Limited Board (the 'HAML Board') has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two HAML Board sub-committees which are responsible for risk: the Audit Committee, which reviews the effectiveness of systems for internal financial and operational control, and the Sustainability and Operational Risk Committee, which reviews the effectiveness of operational reporting and performs an oversight review of the performance against sustainability goals and operational targets.

To achieve a balanced view of our risk landscape in line with wider group objectives, all of our risks are evaluated against defined risk appetite levels, which are captured in a formal risk appetite statement that is consolidated and reviewed on an annual basis.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets quarterly. The risks are then reviewed by the Executive Committee before being submitted to the Audit Committee and Sustainability and Operational Risk Committee for independent review and challenge. The final Heathrow Risk Outlook Report is then reviewed and approved by the HAML Board on a quarterly basis.

Principal risks have been identified at an executive level ensuring a comprehensive top-down approach to risk identification and management. A Principal Risk is a risk that has been identified by the HAML Board, its formal Committees, the Executive Committee, or the Risk and Assurance Committee, as an important risk that fundamentally affects the business's ability to deliver on its overarching objectives. A Principal Risk is assessed according to the likelihood, consequence, and velocity by which the risk may impact Heathrow. Key controls and mitigations are documented, and every Principal Risk has clear management oversight.

Emerging and Short-Term Risks are also analysed on a quarterly basis as part of our bottom-up functional risk management reviews. They are assessed in line with the Heathrow Risk and Assurance Management Framework and managed through functional risk registers.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks

The risks outlined below are the principal strategic, corporate and operational risks identified. This is a current point-in-time assessment of the risk profile that the HAHL Group faces, as the risk environment evolves these risks are being constantly reviewed and updated.

A Safe and Secure Operating Environment

Context:

Our focus on fire, health, safety and wellbeing is driven by our values. It's not only the right thing to do; if we don't set and strive for the highest standards, we risk causing harm to our colleagues and stakeholders, compromising our service to passengers, and damaging our reputation. Ultimately this will affect our business performance.

The UK security threat level is substantial, meaning an attack is likely. We are responsible for ensuring that our assets, infrastructure, human and electronic systems, and processes meet requirements to protect aviation security, deliver high security standards, and build confidence with regulators, airlines and passengers.

Causes:

Fire, Health, Safety and Wellbeing

- Our occupational health and safety risks reflect working in a complex operational environment. Driving airside and other high-risk activities, such as working at height, are mainly undertaken by third parties, hence the importance of the Safety Culture Programme and local and senior level safety networks.
- Our understanding of the risks from fire of alternative fuelled vehicles to safety and operation is evolving as the technology and widespread use increases. A sub-group of the Airport Safety Committee has been setup to keep pace with the change and learn from other airports and incidents e.g., the Luton car park fire.
- Mental Health and musculoskeletal ('MSK') are the top two reported reasons for sickness absence, at 23% and 12% of working days lost respectively in 2023. We are committed to preventative interventions including risk assessing work design and providing line manager mental fitness training, whilst further increasing awareness and utilisation of the tools and services available to support colleagues.
- H7 will deliver the fifth largest capital spend in the UK. Competing for labour in a depleting national workforce increases the risk of inexperienced operatives delivering works in a complex operational environment.

Security

- Security threats can emanate from a variety of sources. Aviation will always be an attractive, high-profile target for groups seeking to disrupt. Heathrow has a mature and comprehensive way of risk identification and, working with law enforcement and other agencies, designs appropriate mitigation to counteract potential risks.
- The number and variety of customers utilising the security product and the airside landscape within which we operate, contribute to the safety risk profile and therefore the hazards and injuries sustained. Verbal and physical abuse from customers, along with the manual handling of cabin baggage remain key contributors within Terminals and on our Campus. Occupational driving and working at height when screening high-sided vehicles are high consequence risks. Security has integrated competent safety resource within its organisation to identify and mitigate risk under its safety improvement plan.

Key controls and mitigations:

- Championing a Just Culture where everyone feels they are supported to be psychologically safe.
- Embedding clear Fire, Health and Safety standards, supported by second and third line of defence assurance.
- Embedding and assuring the Management of Third-Party Standards.
- Measurement of Heathrow and Team Heathrow's Safety Culture against a baseline and monitoring improvement against KPI's (e.g., Lost Time Injuries).
- Ensuring hierarchy of controls are applied in design, build, maintenance and change control.
- Heathrow operates to the Aviation Security baseline, as defined by Department for Transport in the National Aviation Security Plan ('NASP'). Heathrow's compliance with the NASP is assessed throughout the year through Civil Aviation Authority ('CAA') observations, testing, inspection, and audit mechanisms.

Information Security

Context:

Information security continues to be a significant risk for Heathrow, primarily concerning our systems, information, and the data they contain. There has been an escalation in the risk level due to an increase in malicious activities, motivated both geopolitically and criminally.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks *continued*

Information Security *continued*

Causes:

The year 2023 marked a continued rise in incidents affecting Critical National Infrastructure, including Distributed Denial of Service attacks targeting transportation services and associated third-party suppliers. Phishing and ransomware persist as the prevalent attack vectors in the majority of incidents impacting the aviation industry.

Key controls and mitigations:

- Heathrow has adopted the 'Cyber Security Oversight Process for Aviation' (CAP 1753), as outlined by the CAA, which is based on the National Cyber Security Centre's 'Cyber Assessment Framework'. A strategic, incremental improvement program has been established to enable compliance with CAP1753 via the ASSURE audit process. Confidence in the security of technology, personnel, and processes relevant to essential functions has been bolstered through rigorous assurance activities.
- Information and Cyber Security is a regular item on the Executive Committee's agenda, with frequent updates on the Cyber Delivery Programme, current security posture, and upcoming initiatives. Furthermore, discussions include emerging cyber risks and measures for enhancement. A robust cyber security risk management framework has been instituted to ensure comprehensive understanding and management of system, supplier, and departmental risks.
- Promoting a culture of cyber security is a top priority for Heathrow. This is achieved through mandatory annual training for all colleagues and privileged users, alongside regular campaigns to enhance cyber hygiene and inform about policy updates. Innovative and realistic phishing simulations are also employed.
- Heathrow maintains a resilient process for managing and responding to threats through regular threat intelligence, robust vulnerability management, and a dedicated Security Operating Centre. This is complemented by close collaboration with business resilience teams. To maintain cutting-edge knowledge and expertise, we collaborate with governing bodies to safeguard the Critical National Infrastructure status of the airport.

Regulation Requirements

Context:

We are subject to economic regulatory review. Changes to economic regulation could materially impact the performance of the business. Failure to comply with laws and regulations could result in loss of licence, penalties, claims and litigation, reputational damage, and loss of stakeholder confidence.

Causes:

- Inadequate submissions by Heathrow to the CAA.
- Unfavourable CAA decisions on price limits.
- Unfavourable CAA decisions on regulatory framework.
- Failure to comply with licence requirements including compliance and reporting.

Key controls and mitigations:

- The risk of an adverse outcome from economic regulatory review is mitigated as far as possible by a dedicated regulatory team together with governance and oversight by the Executive Committee and the Board.
- The Regulatory team acts to ensure that all submissions to the CAA are accurate and consistent with the wider Heathrow strategy. The team engages regularly with the CAA to ensure good understanding and to be able to provide the CAA with the right form of information.
- The Regulatory team is currently focusing on the right form of regulation for H8 and beyond and preparing for an H8 business plan submission within the next two years.
- The Regulatory team ensures full compliance with regulatory requirements, establishes a sound relationship with the CAA and advises the Executive Committee and HAML Board on regulatory matters.
- We engage closely with internal and external legal advisors to ensure that relevant and appropriate advice is received and that our response to reviews, and our actions to ensure compliance with regulatory requirements, reflect such advice.

Legal status of Airports National Policy Statement ('ANPS')

Context:

In June 2018 Parliament approved the Airports National Policy Statement ('ANPS') which sets out the policy framework for expansion at Heathrow Airport and is the primary basis for decision-making on any development consent application for a new north-west runway.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks *continued*

Legal status of Airports National Policy Statement ('ANPS') *continued*

Heathrow was making considerable progress towards developing its Development Consent Order ('DCO') application to deliver a sustainable, affordable and financeable expanded Heathrow, including holding multiple consultations to seek feedback on its proposals. However, on 27 February 2020, the Court of Appeal concluded that the UK Government was required but had failed to take into account the Paris Climate Agreement when preparing the ANPS. The Court declared that the ANPS had no legal effect unless and until the UK Government carried out a review of the policy.

Heathrow appealed against this decision and in December 2020, the Supreme Court unanimously held that the UK Government had acted lawfully when making the ANPS, overturning the Court of Appeal's decision. The judgement confirmed that the UK Government had properly exercised its discretion and had taken into account the Paris Climate agreement by having regard to the Climate Change Act 2008 in the ANPS.

On 6 September 2021, the Secretary of State for Transport decided that it was not appropriate to review the ANPS at this time. Further confirmation of the status of the ANPS has been made through the May 2022 publication of 'Flightpath to the Future' and the July 2022 publication of 'Jet Zero Strategy'. The Government's ANPS continues to provide policy support for Heathrow's plans for a third runway and the related infrastructure required to support an expanded airport.

Causes:

- The ANPS, put in place in June 2018, may in due course be subject to review.
- A possible change in UK Government in 2024 could mean a different approach is taken in regard to airport expansion policy.

Key controls and mitigations:

- Since the Supreme Court overturned the Court of Appeal's decision and the ANPS was restored, we have positively reiterated the case for expanding Heathrow in line with Government policy.
- We continue to engage with the Government, the CAA and other stakeholders on the next steps to progress our plans.
- Heathrow remains committed to a long-term sustainable expansion.

Volatility in global demand and revenues

Context:

Revenue growth may be inhibited by the lack of certainty over global consumer demand recovery in 2024, driven by high inflation, potential slowdowns in economic growth and pressure on consumer spending. A limited capacity for growth dependent on slot trading, combined with the highest aviation taxes in Europe ('Air Passenger Duty'), continue to put pressure on airports and hub airlines.

There is significant revenue risk relating to the continued absence of VAT Free shopping and lack of competitive parity with EU airports.

Causes:

- Market volatility.
- Cost inflation.

Key controls and mitigations:

Aviation

- A Network Strategy is in place to target new routes, grow market share and increase competition in key markets.
- An Aviation Strategy is in place to optimise revenues generated from aviation with the goal of delivering sustainable growth, increased hub connectivity, both globally and domestically, and diversifying revenue.
- Industry monitoring via daily updates from CAPA – Centre for Aviation (market intelligence for the aviation and travel industry), media cuts and other industry events, as well as attendance at Routes (network) and International Air Transport Association ('IATA') (slots and cargo) conferences.
- Senior engagement and account plans are in place with key airlines to continue collaboration in order to drive passenger growth.
- There is close alignment internally with the Space, Retail and Property teams to optimise commercial opportunities.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks *continued*

Volatility in global demand and revenues *continued*

Retail

- Close monitoring and balance of assessed debt and contractual fixed income guarantees to maximise overall retail revenue.
- Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deal with minimal disruption and delay (e.g., lending locations to businesses that could make immediate use of the structure 'as is').
- Continued dialogue with officials in the Treasury ('HMT') around the impact and pitching of an alternative solution for the reintroduction of VAT free shopping for departing passengers and the opportunity to introduce duty free shopping for arriving passengers.

Ability to access financial markets

Context:

We need to maintain access to sources of finance to fund our current operations.

Causes:

A more challenging H7 regulatory settlement and the realisation of principal risks such as volatility in global demand and revenues, could impact financial performance and lead to a deterioration in our credit rating.

Key controls and mitigations:

- Long-term forecasting including downside sensitivity analysis, to enable management to assess credit metrics against covenant levels and rating agency thresholds, identifying mitigating actions as necessary, and ensuring protection against minimum thresholds and continued access to financial markets.
- We have invested in a suitably skilled Business Planning and Treasury team who have robust procedures in place to ensure that the best quality investment decisions are made and can be appropriately financed.

Organisational resilience

Context:

The operating of an airport on the scale of Heathrow presents both known and unforeseen challenges. The purpose of organisational resilience is to ensure a level of preparedness to disruptive events. Following a cycle of activities (Prevent, Mitigate, Prepare, Respond, Recover) Operational and Business Resilience teams develop Heathrow's incident response and business continuity capability.

Causes:

A major critical event, leading to significant operational and business impact, and resulting in significant disruption and potential closure of the airport. This could be as a result of one or many internal causes, including critical infrastructure or asset failures, loss of resource, and mass congestion due to inadequate planning, or external causes, including extreme adverse weather, terrorism or security threat, and loss of a critical supplier or service.

Key controls and mitigations:

- Adherence to CAA licence requirement: to secure the availability and continuity of airport operations services, particularly in times of disruption, and to further the interests of users of air transport services in accordance with best practice and in a timely, efficient and economical manner.
- Risk identification and avoidance with systematic reviews of operational and non-operational risks and associated control measures and their efficacy.
- Asset management lifecycle, certified to ISO55001, to mitigate the likelihood of asset failures and to support longer term capital replacement programmes.
- Mitigation and contingency planning with development of a series of plans that can be deployed in the event of a disruption.
- Exercising and post incident review which supports increased preparedness and continuous improvement of our incident response.
- Command and Control aligned to the UK standard of Integrated Emergency Management for disruptive events and aligns with industry best practice by adopting the UK Joint Emergency Services Interoperability Principles ('JESIP').
- Collaboration with key partners to develop joint contingency plans.
- The Airport Operations Centre ('APOC') is a 24/7 facility which brings together the operational planning, monitoring and day-to-day oversight of Heathrow with our service partners. Providing support to front line teams to steer smooth running of the airport and is the foundation for command and control structures in times of a disruption.
- End to end understanding by taking a holistic approach to resilience, considering the upstream and downstream impacts of a disruption to support wider organisational resilience.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks *continued*

Resource and talent

Context:

Our people ensure that we can operate the airport effectively and efficiently. Strong progress has been made over the past 12 months to stabilise Heathrow's resource position back to around pre-pandemic levels, enhancing operational resilience. With a significant proportion of colleagues relatively new to the organisation, it is critical that we continue to deliver effective induction and talent development, as well as retaining longer-serving colleagues through upskilling and offering career opportunities. These activities ensure that the airport can provide great passenger service and deliver across key capital portfolios.

Causes:

Throughout 2023, Heathrow experienced significant growth at a fast pace and in a highly competitive recruitment market and reward landscape, influenced by external economic factors. The outlook for 2024 is positive. External labour market demand is slowing and current resource levels are optimised. Despite this, attrition levels will continue to be carefully monitored.

Key controls and mitigations:

- A Dedicated Resourcing Taskforce delivered focused activity to drive down vacancy volumes through 2022-23.
- Launch of the 'No Place Like Heathrow' campaign, which coherently communicates the Heathrow colleague proposition.
- Resourcing process efficiencies and automation have been introduced to improve delivery capability across candidate selection and onboarding.
- Career and Talent strategy plans have been endorsed to include the:
 - Introduction of new integrated performance and talent frameworks, focused on colleague engagement through wellbeing, capability, aligning opportunities to aspirations and readiness to progress careers.
 - Regular review of talent and attrition data to ensure stretch opportunities are provided and less conservative career moves are facilitated.
 - Introduction of an internal careers' advice service in 2023 (Careers Champions).
 - Re-introduction of early careers programmes in 2022 and 2023.
 - Design and implementation of a range of new colleague development and upskilling programmes through 2023 and into 2024.

Political environment

Context:

Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. Political stability has become more uncertain, with any change in either the current Prime Minister and Cabinet, or a new Government, having the potential to impact the environment in which Heathrow operates.

Causes:

- The 2024 UK General Election.
- Increased frequency of ministerial changes.

Key controls and mitigations:

- We continue to make a strong case for our place in the wider economy and the part we play in a successful Global Britain.
- We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAML Board, which has implemented a structured approach to the identification and management of all risks related to changing Government policy.

Competition

Context:

We compete against other airports both within the UK and across the world for passengers, some of which make marginal choices, particularly connecting passengers, about which route they will fly.

Heathrow's aeronautical charges will decrease from 2023, but they are still higher than other London airports and European Hub competitors; this potentially reduces our competitive advantage. We will need to continue to deliver great value and service quality to our airlines and passengers to retain them.

Causes:

Regulated framework and pricing.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks *continued*

Competition *continued*

Key controls and mitigations:

- Ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users.
- Maintain commercial strategies to deliver great value to airlines and consumers.

Climate change and net zero carbon

Context:

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow. Working with the wider aviation industry, we must demonstrate tangible progress towards achieving the sector's net zero goal in this decade.

In November 2022, the International Civil Aviation Organisation ('ICAO'), formed by 193 member states, committed to net zero carbon emissions for international civil aviation by 2050. By 2021, the entire aviation industry had already committed to the same goal, including the International Air Transport Association ('IATA'), the international industry airline body. Heathrow has committed to net zero carbon and, in February 2022, we published our Net Zero Plan which guides our approach to decarbonisation. Our plan is aligned to the broader UK sector roadmap and sets clear goals and targets to cut emissions by 2030 and beyond.

Causes:

Heathrow considers climate related risks under the following categories:

- Transitional risks – Transitional risks relate to the decarbonisation of Heathrow and the aviation sector to achieve net zero carbon emissions. Political, consumer and investor attitudes to aviation's climate impacts will become more negative without tangible progress to cut emissions and deliver the sector's Net Zero Plan, threatening our ability to operate and grow.
- Physical risks – Physical risks relate to the resilience of our assets, operations and network to the negative impacts of climate change including more extreme weather events.

Key controls and mitigations:

- The significant priority is accelerating net zero flying this decade by securing the right policies for sustainable aviation fuel ('SAF') production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. We work with the broader aviation sector and the UK Government as part of the Jet Zero Council to progress net zero aviation. We have also established a SAF incentive as part of our aeronautical charges to encourage airlines to uplift SAF at Heathrow and provide a market demand signal.
- We have established a strategic carbon delivery programme in our H7 regulatory settlement period which ends in 2026. The programme, which includes £250 million of capital investment, will deliver the carbon emissions reductions we included in our Net Zero Plan, during this regulatory settlement period. Capital investment projects include works at Heathrow to enable airspace modernisation and improve the efficiency of aircraft movements on the ground, replacing and expanding the provision of pre-conditioned air to heat and cool aircraft on the ground, avoiding engine use, delivering electric vehicle charging and design work on our future zero carbon heating and cooling solution.
- To guide and support the delivery of our Net Zero Plan, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 140001 and 50001 management systems which commit us to continuous improvement.
- We complete a climate adaptation risk assessment every five years which informs our overall approach to adapting our airport to future climate conditions which is incorporated into our overall risk management framework. The risk assessment guides our approach to understanding the nature of impacts and the effectiveness of our mitigation measures, as well as informing improvements including updating our asset standards and identifying infrastructure improvements.

Financial stability

The HAHL Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the HAHL Group Finance Committee. Senior management directly control day-to-day treasury operations on a centralised basis.

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the HAHL Group's business operations and funding. To achieve this, the Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

Heathrow Express Operating Company Limited

Strategic report *continued*

Financial stability *continued*

The primary treasury-related financial risks faced by the HAHL Group are:

- a. Interest rates
The HAHL Group maintains a mix of fixed and floating rate debt. Interest rate swaps are entered by the Group to mitigate to interest rate risk for the Group.
- b. Inflation
The HAHL Group mitigates the risk of mismatch between Heathrow's aeronautical income and regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments, by the issuance of index-linked instruments.
- c. Foreign currency
The HAHL Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The HAHL Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.
- d. Funding and liquidity
The Group has established both investment grade and sub-investment grade financing platforms for Heathrow. The platforms support term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior or junior format. Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the HAHL Group Audit Committee, the Board and Executive Committee.

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

The HAHL Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, for at least 12 months from the approved date of these consolidated financial statements. As at 31 December 2023, the HAHL Group had cash and cash equivalents and term deposits of £2,392 million.

- e. Counterparty credit
The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

Specific to the Company:

Commercial and financial risks

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions.

Section 172 (1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, they must have regard to the range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006.

In discharging our section 172 duty we, the directors of the Company, have regard to such factors and take them into consideration when decisions are made. We also have regard to other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's vision, purpose and values together with its strategic priorities and having a process in place for decision-making we aim to ensure that our decisions are consistent and predictable.

As is normal for large companies, we delegate authority for day-to-day management of the Company and its subsidiaries. We do this through the Executive Committee. The Executive Committee is responsible for the development of strategy, related policies and their execution. The Executive Committee then engages the Board of Heathrow Airport Holdings Limited (the 'HAHL Board') in approving and overseeing execution of the business strategy and related policies.

Heathrow Express Operating Company Limited

Strategic report *continued*

Section 172 (1) statement *continued*

The corporate governance structure and group policies are set by the HAML Board. We ensure that when we are applying these group policies, we have due regard to our fiduciary duties and responsibilities. The Executive Committee also reviews health and safety, financial and operational performance, legal and regulatory compliance, business strategy, key risks, stakeholder-related matters, diversity and inclusivity, environmental matters and corporate responsibility. The directors of the Company include one member of the Executive Committee, which enables the dissemination of core information about the business of the HAML Group. There are also directors of the Company that attend the Risk and Assurance Committee, which helps to provide foresight of the key principal risks affecting the HAML Group and specifically those affecting the Company.

The Company's key stakeholders are its passengers, communities and the environment, Team Heathrow colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions for the HAML Board's approval. While there are cases where the Executive Committee itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our stakeholders and the Company means that generally our stakeholder engagement best takes place at the Heathrow Airport Limited (operational) or HAML Group level with the Company's stakeholders, so as to encourage the directors to understand the issues to which they must have regard, please see the HAML Group's 2023 annual report and financial statements.

During the year we received information to help us understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, environmental, social and corporate governance ('ESG') matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the Company.

No dividends were recommended by the Directors of the Company. In making this decision we consider a range of factors. These include the long-term viability of the Company, its expected cash flow and financing requirements, the strength of the Company's balance sheet and the ongoing need for the business to support the safe and efficient operations over the long term.

This report was approved by the board and signed on its behalf by:



Sophie Chapman

Director

14 June 2024

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2023.

A review of the progress of the Company's business during the year, the key performance indicators, internal controls and risk management, principal business risks and likely future developments are reported in the Strategic report on pages 2 to 11.

Results and dividends

The profit after taxation for the financial year amounted to £18.2 million (2022: £19.1 million). The Company's net assets as at 31 December 2023 were £120.7 million (2022: £102.5 million).

No dividends were proposed or paid during the year (2022: £nil). The statutory results for the year are set out on page 18.

Directors

The Directors who served during the year, and since the year end, except as noted, are as follows:

Ross Baker
Phillip Bearpark
Sophie Chapman
Michael Hodson
Daniel Edwards
Jess Kirbell – Appointed 01 October 2023

Going concern

The financial statements have been prepared on a going concern basis as detailed in the going concern statement on page 21.

Company secretary

Pursuant to section 270 of the Companies Act 2006, a private company registered within England and Wales is not required to have a company secretary.

Employment policies

The Company's employment policies are regularly reviewed and updated to ensure they remain effective. The Company's overall aim is to create and sustain a high performing organisation by building on the commitment of its people.

The Company has defined a set of guiding principles to ensure fair recruitment and selection. The Company continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles.

The Company is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Company actively encourages a diverse range of applicants and commits to fair treatment of all applicants.

We are an equal opportunities employer, all employment is decided on the basis of qualifications, merit and business need. As an accredited Disability Confident Leader, we are committed to attracting the widest possible pool of talent and are securing, retaining and developing disabled colleagues. We offer the opportunity for any individual with a disability, to be guaranteed an interview if they can demonstrate that they meet the minimum criteria for the role. We provide adjustments at both the recruitment stages and when colleagues are employed by us. We have policies in place and an active network to support colleagues with disabilities or those who develop disabilities whilst working for the Company.

Employee engagement statement

Details of how the Directors have engaged with employees can be found in Heathrow Airport Holdings Limited annual report and financial statements in the section 172 (1) statement.

Stakeholder engagement statement

Details of how the Directors have engaged with suppliers, customers and other stakeholders and the principal decisions made can be found in the HAHG Group annual report and financial statements within the section 172 (1) statement.

Heathrow Express Operating Company Limited

Directors' report *continued*

Internal controls and risk management

The HAML Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the HAML Group's internal controls and risk management policies can be found on pages 2 to 11 in the internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies

The HAML Group's financial risk management objectives and policies, along with the HAML Group's exposure to risk can be found on pages 2 to 11 in the Internal controls and risk management section of the Strategic report.

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office. The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies Act 2006) are in place during the 2023 financial year and at the date of approving the financial statements and reports.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed within the period set out in section 485 of the Companies Act 2006.

Statement of disclosure of information to the Auditors


Each of the persons who is a director at the date of approval of this annual report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.
- The Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Subsequent events:

Subsequent events are disclosed in note 14.

The strategic report and Directors' report were approved and authorised by the Board and was issued on behalf of the Board by:



Sophie Chapman

Director

14 June 2024

Company registration number: 03145133

Heathrow Express Operating Company Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware.
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved and authorised by the Board and was issued on behalf of the Board by:



Sophie Chapman

Director

14 June 2024

Heathrow Express Operating Company Limited

Independent auditors' report to the members of Heathrow Express Operating Company Limited

Report on the audit of the financial statements

In our opinion, Heathrow Express Operating Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: Statement of financial position as at 31 December 2023; the Statement of comprehensive income and Statement of changes in equity for the year then ended; the Accounting policies; Significant accounting judgements and estimates; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial 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 company 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.

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 financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's 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.

Heathrow Express Operating Company Limited

Independent auditor's report to the members of Heathrow Express Operating Company Limited for the year ended 31 December 2023 *continued*

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial 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 financial 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.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 financial statements

Our objectives are to obtain reasonable assurance about whether the financial 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 financial 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.

Heathrow Express Operating Company Limited

Independent auditor's report to the members of Heathrow Express Operating Company Limited for the year ended 31 December 2023 *continued*

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations and data protection requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, UK rail regulations, Heathrow Airport's continued access to its CAA operating license, and UK corporation, VAT and employment tax. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries in the underlying books and records, and management bias in accounting judgements and estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including those outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the company'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 in relation to the impairment assessment of intangible assets including the recoverability of deferred tax assets in relation to losses; and
- Identifying and testing journal entries, in particular certain journal entries posted with unusual account combinations and journals crediting revenue.

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 financial 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 financial statements 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 opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Emma Sowerby (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 June 2024

Heathrow Express Operating Company Limited

Statement of comprehensive income for the year ended 31 December 2023

	<i>Note</i>	Year ended 31 December 2023	Year ended 31 December 2022
		£'000	£'000
Revenue	<i>1</i>	103,311	93,789
Operating costs	<i>2</i>	(85,820)	(71,571)
Operating profit		17,491	22,218
Financing			
Finance income	<i>3</i>	6,353	2,548
Profit before tax		23,844	24,766
Taxation charge	<i>4</i>	(5,654)	(5,631)
Profit for the financial year		18,190	19,135

The notes on pages 28 to 34 form part of these financial statements.

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.


Heathrow Express Operating Company Limited

Statement of financial position at 31 December 2023

	<i>Note</i>	31 December 2023 £'000	31 December 2022 £'000
Assets			
Non-current assets			
Intangible assets	<i>6</i>	10,498	11,614
Deferred tax asset	<i>8</i>	15,408	15,417
		25,906	27,031
Current assets			
Trade and other receivables	<i>7</i>	107,252	104,808
Cash and cash equivalents	<i>9</i>	815	1,081
		108,067	105,889
Total assets		133,973	132,920
Liabilities			
Current liabilities			
Trade and other payables	<i>10</i>	(13,297)	(30,434)
		(13,297)	(30,434)
Total liabilities		(13,297)	(30,434)
Total assets less current liabilities		120,676	102,486
Net assets		120,676	102,486
Called up share capital	<i>11</i>	-	-
Share premium		38,000	38,000
Retained earnings		82,676	64,486
Total shareholders' funds		120,676	102,486

The notes on pages 28 to 34 form part of these financial statements.

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) from page 18 to 34 were approved by the Board of Directors on 14 June 2024 and signed on its behalf by:



Sophie Chapman
Director



Ross Baker
Director

Heathrow Express Operating Company Limited**Statement of changes in equity** for the year ended 31 December 2023

	Called up share capital ¹ £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2022	-	38,000	45,351	83,351
Comprehensive income				
Profit for the financial year	-	-	19,135	19,135
Total comprehensive income	-	-	19,135	19,135
Balance as at 31 December 2022	-	38,000	64,486	102,486
Comprehensive income				
Profit for the financial year	-	-	18,190	18,190
Total comprehensive income	-	-	18,190	18,190
Balance as at 31 December 2023	-	38,000	82,676	120,676

¹ Details of share capital can be found in note 11 to the financial statements.

The notes on pages 28 to 34 form part of these financial statements.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2023

The principal accounting policies applied in the preparation of the financial statements of Heathrow Express Operating Company Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented, unless stated otherwise.

Statement of compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The Company

The Company is a private company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The Company's immediate parent undertaking is Heathrow Airport Limited. The parent undertaking of the smallest group to consolidate these financial statements is Heathrow (SP) Limited. The ultimate controlling undertaking for which consolidated financial statements is prepared is FGP Topco Limited.

Basis of accounting

The Company financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities as measured at fair value.

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Sterling, which is the Company's functional currency.

The Company has taken advantage of certain disclosure exemptions in FRS 102 as its financial statements are included in the publicly available consolidated financial statements of FGP Topco Limited. These disclosure exemptions relate to the statement of cash flows, related party transactions and financial instruments. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Going concern

The Directors have prepared the financial information presented within the annual report and financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Background

Heathrow Express Limited is within the Heathrow (SP) Limited independent securitised group. In considering the going concern assessment, the Directors have considered both the individual circumstances of the company but also the wider Group given the corporate structure, which involves activities and cash generation across the Group and within the main operating company, Heathrow Airport Limited, including any covenants as described below in assessing the liquidity.

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. The H7 price control period commenced on 1 January 2022 and during 2023 the CAA published their Final Decision of tariffs to cover the period from 1 January 2022 to 31 December 2026 with an average H7 tariff of £23.06 in 2020 CPI real terms.

Through the course of 2023 and heading into 2024, the macro-economic environment has changed, and passengers are now impacted by high inflation and high interest rates. Passenger forecasts are fundamental to the going concern analysis, and the Directors have considered trends in future expected passenger numbers. Through 2023 and the first quarter of 2024, there has been strong passenger demand for travel which gives confidence in our future expected passenger numbers.

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio ("RAR"), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base ("RAB"); and Interest Cover Ratios ("ICR"), a measure of operating cashflows to debt interest charge. These covenants exist at different levels within the Group's Class A and Class B debt. The Directors have assessed going concern for the period to 30 December 2025.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2023 *continued*

Going concern *continued*

Base case

In determining an appropriate base case, the Directors have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2024 traffic forecasts of 82.4 million passengers.
- Forecast level of capital expenditure based on the CAA's H7 Final Decision.
- The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and projected covenant requirements.
- The assumption of no future funding or access to capital markets.

Base case passenger forecast

There is inherent subjectivity in modelling future passenger numbers, nevertheless, passenger numbers have improved significantly in 2023 with total passengers for the year being 79.2 million (98% of 2019 levels). Furthermore, total passengers in the first quarter of 2024 were 18.5 million (10% increase from the first quarter of 2023). Despite a high-inflationary economic environment impacting the cost-of-living of passengers, demand has remained strong which signals that passengers are prioritising travel spend.

Base case tariffs

The base case uses a 2024 nominal tariff of £26.74 and 2025 nominal tariff of £24.70 based on the tariff methodology set out in the CAA's Final Decision. The tariff also includes the conservative downwards adjustment as part of the CMA appeals and determination. Under the base case, the Group will meet all covenants associated with its financial arrangements.

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow (SP) Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Continued support for the Group's credit enabled Heathrow to successfully raise £750 million of debt in the first quarter of 2024: a Class B GBP sustainability-linked bond of £350 million and £400 million of Heathrow Finance public debt. As at 31 March 2024, the wider group has total liquidity available of £3.8 billion, comprising of £2.4 billion of cash held at FGP Topco group and a £1.4 billion undrawn revolving credit facility. Total debt maturity for the period to December 2025 is £1.3 billion at Heathrow SP and £0.3 billion at Heathrow Finance. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios as part of the going concern assessment. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers – particularly in a highly inflationary economic environment impacting the disposable income of passengers – on cash flow generation, liquidity, and debt covenant compliance. Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2024 and 2025 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. The low range of passengers represents a 5.5% reduction against the base case for 2024 and 4.5% for 2025. The tariff assumptions remain the same as in the base case since these are now fixed subject to inflation. While deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding should there be any risk of credit downgrade in this scenario. Under the severe but plausible scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until at least December 2025, with no breach of its covenants in the same period.

Reverse stress test

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test which determines the earliest point of failure for the group, which would be a covenant breach in the next tested period in December 2024, where sufficient liquidity will remain intact. This involved modelling the breakeven level of passengers which would result in a covenant breach as at 31 December 2024. The model is based on a reduction in passenger numbers with no impact on costs. The Heathrow Finance plc ICR covenant is the most restrictive to operating performance, and for there to be a breach at this level, forecast passenger numbers would need to decrease by over 26.3% versus the base case for 2024, and 24.9% for 2025. An even greater passenger number decrease would be required for the Group to breach its RAR covenants. These passenger levels are below the low end of the Group's passenger forecast and are not considered plausible by the Directors. Should circumstances arise that require Management to take corrective action, the majority of previously utilised tactical actions could be available, including cost reduction, deferral of investment or temporary reprofiling of interest payments.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2023 *continued*

Going concern *continued*

Conclusion

Heathrow Express Limited is within the Heathrow (SP) Limited independent securitised group and under the security agreement each Obligor, that has entered into the security agreement, guarantees the obligations of each other Obligor. Having had regard to both liquidity and debt covenants and considering a severe but plausible downside and reverse stress testing, the Directors have concluded that there is sufficient liquidity available to meet the Group and Company's funding requirements for at least 12 months from the date of the annual report and financial statements and that the nature of operations for the entity are not expected to change. On this basis, the Directors have continued to adopt the going concern basis in preparing the Company financial statements.

Revenue

Heathrow Express derives its income under three main headings:

1. Fare Revenue. This is income from the sale of tickets to customers. Revenue from tickets sale is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue attributable to return tickets should be allocated to each journey and recognised on the day each journey takes place, therefore an accrual basis.
2. Other Income. This includes income from Crossrail engineering works compensation, advertising revenues, compensation from the Department for Transport (DfT) under the Overarching agreement (for further details please see the Strategic Report). Income is recognised in the period it is earned.
3. Provision of Rail Services to Heathrow. This includes income for provision of stations management and rail services and is recognised in the period the service is provided.

Interest

Interest payable and interest receivable are recognised in the income statement in the period in which they are incurred or earned respectively.

Deferred income

Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the income statement as they are provided.

Tangible fixed assets

Major assets used by the Heathrow Express service, such as stations, tunnels and track from Heathrow Airport as far as Airport Junction on the Great Western Mainline, are owned and depreciated by Heathrow Airport Limited.

Assets owned by the Company are stated at cost less accumulated depreciation. Depreciation is provided on plant, equipment and other assets, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows:

	<i>Fixed asset lives</i>
Office equipment	5 - 10 years
Computer equipment	4 - 5 years

Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation:

Rights to operate are measured at fair value, based on an arm's length transaction, and amortised on a straight line basis over the life of the contract on which the right to operate is based. The outstanding life is four and a half years to June 2028.

Computer Software are amortised on a straight line basis over their useful lives, estimated at between 3 and 7 years.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2023 *continued*

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a significant change in the circumstances underlying the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the amortisation is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a lessee

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2023 *continued*

Financial instruments *continued*

ii. Financial liabilities

Basic financial liabilities, including trade and other payables, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

As permitted by FRS 102, the Company has chosen to apply the classification provisions of International Accounting Standard ('IAS') 39 'Financial Instruments: Classification of financial assets and Classification of financial liabilities'. As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Amounts owed to group undertakings

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Shared Services Agreement ('SSA')

On 18 August 2008, the Company entered into a SSA with LHR Airports Limited by which the latter became the shared services provider of corporate services.

Centralised services

LHR Airports Limited is considered to be acting as principal in relation to the services of the HAHL Board and Ferrovial advisory services. These costs are recharged to Heathrow Express Operating Company Limited with a mark-up of 7.5% except where a margin has already been applied to the incurred costs. Other services are paid for and sourced directly by the Company.

Current and deferred taxation

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is recognised in other comprehensive income.

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Group relief claimed/ surrendered between UK companies is paid for at the applicable tax rate of 23.5% (2022: 19%) for the year.

Deferred income taxation is provided in full using the liability method on timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements, at rates expected to apply when they reverse, based on current tax rates and law. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2023 *continued*

Current and deferred taxation *continued*

Deferred income tax assets are recognised to the extent that it is probable that there are future taxable temporary differences from the unwind of the deferred income tax liabilities, against which these deductible temporary differences can be utilised and other future taxable profits. There are no unrecognised deferred income tax assets. The recognition of these deferred income tax assets is supported by a combination of the reversal of taxable temporary differences and forecast future taxable income. Deferred tax assets and liabilities are not discounted. For deferred tax purposes, there is a rebuttable presumption that investment properties are on a 'held for sale' basis. The Directors consider that this presumption is not rebutted.

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted during the year and are expected to apply in the periods in which the related deferred tax asset or liability is reversed.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs, allowing for any reductions in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Heathrow Express Operating Company Limited

Significant accounting judgements and estimates for the year ended 31 December 2023

In applying the Company's accounting policies management have made judgements and estimates in a number of key areas. Actual results may, however, differ from the estimates calculated and management believes that the following areas present the greatest level of uncertainty.

Critical judgements in applying the Company's accounting policies

There are no critical judgements in applying the Company's accounting policies.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2023

1 Revenue

Revenue represents all revenue earned directly by the Company, as described in the Accounting Policies.

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Fare Revenue	97,017	91,390
Other Income ¹	4,284	485
Provision of Rail Services to Heathrow Airport	2,010	1,914
	103,311	93,789

¹ Other income includes Crossrail engineering works compensation and HS2 engineering works compensation. All revenue is earned in the United Kingdom.

2 Operating costs

Operating costs, comprise:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Employment		
Wages and salaries	6,185	4,823
Social security costs	714	504
Pension costs ¹	249	202
Other staff related costs	1,263	458
	8,411	5,987
Operational	14,385	14,092
Maintenance	4,555	4,816
Business rates	1,946	1,994
Utilities	3,333	3,488
Intra-group charges ²	16,186	13,287
Other ³	34,889	25,766
Operating costs before depreciation and amortisation	83,705	69,430
Depreciation and amortisation		
Property, plant and equipment	-	4
Intangible assets	2,115	2,137
	2,115	2,141
Total operating costs	85,820	71,571

¹ Pension costs of £249,000 (2022: £202,000) relate to the Company's defined contribution pension scheme.

² Intra-group charges were for Rail separation charges including track access, rolling stock and depot leases, as well as corporate management fee, IT and car parking fees.

³ Other includes GWR/ DfT agreement costs of £30,356,000 (2022: £21,236,000).

Rentals under operating leases

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Operating costs include:		
Plant and machinery ¹	6,731	6,963
Land and Buildings	284	284
Other operating leases ²	27,614	23,808

¹ Plant and machinery £6,731,000 of rolling stock lease charges from GWR (2022: £6,963,000).

² Other Operating Leases includes £15,547,000 for track access charges payable to Heathrow Airport Limited (2022: £12,275,000) for the right to use the 9 km rail infrastructure at Heathrow Airport from the tunnel entrance at Hayes & Harlington to, and including, the stations at terminal 2/3 and terminal 5. It also includes £12,067,000 (2022: £11,533,000) for track access charges payable to Network Rail for the full year for the right to use the 18km route from Paddington station to the Heathrow tunnel entrance at Hayes & Harlington.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2023 *continued*

2 Operating costs *continued*

Auditors' remuneration

Audit fees and non-audit fees for the current year were borne by Heathrow Airport Limited and recharged to the Company.

	Year ended 31 December 2023	Year ended 31 December 2022
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements		
Audit of the Company pursuant to legislation	55	50

Employee information

The monthly average number of employees of the Company during the year was 146 (2022: 118).

By activity

	Year ended 31 December 2023	Year ended 31 December 2022
	Number of employees	Number of employees
Operations	120	97
Support services	26	21
Total	146	118

Directors' remuneration

	Year ended 31 December 2023	Year ended 31 December 2022
	£'000	£'000
Salaries and employee benefits ¹	312	299
Value of Company pension contributions to pension schemes	18	22
	330	321

¹ For the year ended 31 December 2023 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

Ross Baker was a director of a number of companies within the HAHL Group during the year. His remuneration was disclosed in the financial statements of Heathrow Airport Limited and the directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided. Daniel Edwards, Michael Hodson and Phillip Bearpark were paid by and are directors of the Company. Sophie Chapman and Jess Kirbell are directors of the Company and were paid by, but are not directors of, Heathrow Airport Limited.

	Year ended 31 December 2023	Year ended 31 December 2022
	£'000	£'000
Highest paid director's remuneration		
Salaries and employee benefits ¹	151	132
Value of Company pension contributions to pension schemes	14	14
	165	146

¹ For the year ended 31 December 2023 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP').

	Year ended 31 December 2023	Year ended 31 December 2022
	Number	Number
Number of directors who:		
- are members of a defined benefit pension scheme	-	-
- are members of a defined contribution pension scheme	3	2

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2023 *continued*

3 Finance Income

	Year ended 31 December 2023	Year ended 31 December 2022
	£'000	£'000
Interest receivable from group undertaking	6,353	2,548

4 Taxation charge

	Note	Year ended 31 December 2023	Year ended 31 December 2022
		£'000	£'000
UK corporation tax			
Current tax charge at 23.5% (2022: 19%)		(6,124)	(5,580)
Prior year tax credit		479	-
Deferred tax			
Current year tax charge	<i>8</i>	(21)	(47)
Prior year tax credit	<i>8</i>	12	15
Change in tax rate	<i>8</i>	-	(19)
Taxation charge for the year		(5,654)	(5,631)

The tax charge on the Company's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the company for the reasons set out in the following reconciliation:

	Year ended 31 December 2023	Year ended 31 December 2022
	£'000	£'000
Profit before tax	23,844	24,766
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 23.5% (2022: 19%)	(5,603)	(4,706)
Expenses not deductible for tax purposes	(542)	(921)
Adjustments in respect of deferred income tax of prior years	12	15
Adjustments in respect of current income tax of prior years	479	-
Change in tax rate	-	(19)
Taxation charge for the year	(5,654)	(5,631)

The tax charge recognised for the year ended 31 December 2023 was £5,654,000 (2022: £5,631,000). Based on a profit before tax for the year ended 31 December 2023 of £23,844,000 (2022: £24,766,000), this results in an effective tax rate of 23.7% (2022: 22.7%). The tax charge for 2023 is slightly higher (2022: higher) implied by the statutory rate of 23.5% (2022: 19%) primarily due to non-deductible expenses in excess of prior year adjustments (2022: primarily due to non-deductible expenses).

The Finance Act 2021 substantively enacted the increase in corporation tax from 19% to 25% to take effect from 1 April 2023. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements in prior years.

Deferred tax assets have been recognised in respect of all timing differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred tax assets.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2023 *continued*

5 Property, plant and equipment

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
31 December 2022	155	421	576
31 December 2023	155	421	576
Accumulated depreciation			
1 January 2022	153	419	572
Charge for the year	2	2	4
31 December 2022	155	421	576
31 December 2023	155	421	576
Net book value 31 December 2023	-	-	-
Net book value 31 December 2022	-	-	-

6 Intangible assets

	Rights to Operate £'000	Software £'000	Total £'000
Cost			
1 January 2022	38,000	180	38,180
Additions	-	-	-
31 December 2022	38,000	180	38,180
Additions	-	999	999
31 December 2023	38,000	1,179	39,179
Accumulated amortisation			
1 January 2022	24,280	149	24,429
Charge for the year	2,111	26	2,137
31 December 2022	26,391	175	26,566
Charge for the year	2,110	5	2,115
31 December 2023	28,501	180	28,681
Net book value 31 December 2023	9,499	999	10,498
Net book value 31 December 2022	11,609	5	11,614

Rights to Operate

For regulatory reasons, the Company has operated as a Train Operating Company ('TOC') with effect from 1 September 2015, operating the HEX and Connect services as a TOC.

A Business Transfer Agreement ('BTA') was signed between the Company and HAL, with effect from 1 September 2015, which transferred the beneficial ownership of the HEX and Connect businesses from HAL to the Company, for an arm's length consideration which was based on market valuation for the transaction of £38 million, representing the value to the Company, at the date of transfer, for the ability to operate the services.

The original track access agreement with Network Rail dated 16 August 1993 allowed the Company to operate its services until June 2023. In May 2024, an extension to the existing agreement was signed which allows the Company to operate until June 2028.

At 31 December 2023, management reviewed the carrying value of the intangible asset and concluded that there was sufficient uncertainty at that date as to whether there was a permanent diminution in value and consequently no impairment was recognised at that date (2022: £nil). The Intangible asset will be fully amortised as at 30 June 2028.

Heathrow Express Operating Company LimitedNotes to the financial statements for the year ended 31 December 2023 *continued***7 Trade and other receivables**

	31 December 2023	31 December 2022
	£'000	£'000
Current		
Trade debtors	3,991	2,503
Amounts owed by group undertakings – interest bearing ¹	93,902	97,402
Amounts owed by group undertakings – interest free	3,740	3,740
Other debtors ²	1,813	526
Prepayments	1,576	637
Accrued income	2,230	-
	107,252	104,808

¹ Amounts owed by group undertakings are due from Heathrow Airport Limited, repayable on demand and accrue interest at 1.5% plus Bank of England base rate.

² Other debtors predominantly consists of VAT.

8 Deferred tax asset

	£'000
1 January 2023	15,417
Charge to income statement	(21)
Credit to income statement – prior year credit	12
31 December 2023	15,408

Analysis of the deferred tax asset balances is as follows:

	31 December 2023	31 December 2022
	£'000	£'000
Losses carried forward	15,313	15,313
Excess of depreciation over capital allowances	95	95
Other timing differences	-	9
	15,408	15,417

Provision has been made for deferred taxation in accordance with FRS 102.

Finance Act 2021 substantively enacted an increase in the corporation tax from 19% to 25% to take effect from 1 April 2023. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements in prior years.

The net deferred tax asset expected to reverse in 2024 is £nil.

Deferred tax assets have been recognised in respect of all deductible timing differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred tax assets.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2023 *continued*

9 Cash and cash equivalents

	31 December 2023 £'000	31 December 2022 £'000
Cash at bank	815	1,081

Cash at bank earns interest at floating rates based on daily bank deposits rates and is subject to interest rate risk.

10 Trade and Other Payables

	31 December 2023 £'000	31 December 2022 £'000
Current		
Trade Creditors	1,155	2
Taxation and social security	144	119
Other creditors	44	32
Accruals	5,328	18,915
Deferred income ¹	502	5,786
Group tax relief payable	6,124	5,580
	13,297	30,434

¹ Deferred income in 2022 includes £5.5 million of compensation received from the Department for Transport as part of the Heathrow Express Overarching Agreement. This amount was fully released to the income statement in 2023.

11 Called up share capital

	£
Authorised	
At 1 January 2023 and 31 December 2023	
100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2023 and 31 December 2023	4

12 Commitments and contingent liabilities

Non-cancellable operating lease commitments

Total future minimum rentals payable at the end of the year are as follows:

	31 December 2023		31 December 2022	
	Land & buildings £'000	Other leases £'000	Land & buildings £'000	Other leases £'000
Within one year	284	34,429	175	33,301
Later than one year and not later than five years	993	125,338	266	138,779
After five years	-	-	33	17,737
	1,277	159,767	474	189,817

The Land & Buildings lease commitments include the lease of offices and a train care depot from Heathrow Airport Limited.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2023 *continued*

12 Commitments and contingent liabilities *continued*

Other leases commitments include Track Access agreements with Heathrow Airport Limited and with Network Rail and rolling stock agreements with GWR.

Securities and guarantees

The Company, Heathrow Airport Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. The total value secured is £15,897 million, equal to the gross value of Heathrow (SP) gross debt.

BAA Pension Trust Company Limited, as a trustee from time to time of the BAA Pension Scheme, is a Borrower Secured Creditor and ranks equally in an amount up to £284 million with senior (Class A) debt.

The Company and Heathrow Express Operating Company Limited have provided a guarantee and indemnity in favour of Lloyds Bank plc (in its capacity as the Borrower Account Bank) in respect of each other's obligations under the Borrower Account Bank Agreement and associated financing agreements.

13 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow Airport Limited, a company registered in the UK.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion: Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.E., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (an investment vehicle of Australian Retirement Trust), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2023, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2023.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW, which is also the registered address of these companies.

Ultimate shareholder update

On 28 November 2023, Ferrovial announced that an agreement has been reached for the sale of its entire stake (c.25%) in FGP Topco Limited, the parent company of Heathrow Airport Holdings Limited, for £2,368 million. The agreement has been reached with two different buyers, Ardian and The Public Investment Fund (PIF), who would acquire Ferrovial's shareholding in c.15% and c.10% stakes respectively, through separate vehicles. On 16 January 2024, Ferrovial announced that, pursuant to the FGP Topco Shareholders Agreement, certain other FGP Topco shareholders have exercised their tag-along rights which resulted in 60% of the total issued share capital of FGP Topco being available for sale. The parties are currently investigating options to satisfy the exercised rights. While we acknowledge the existence of a change of control clause in the bonds issued by Heathrow Finance plc (a company outside of the independent securitised group) and the continuing nature of the negotiations, we are not at this time privy to any information that would lead us to believe that the change of control clause would be triggered.

14 Subsequent events

On 31 May 2024, an extension to the current track access agreement with Network Rail was signed, extending access to the track running from the airport to Paddington until June 2028.