# Heathrow Express Operating Company Limited

## Annual report and financial statements
## for the year ended 31 December 2022

Company registration number:

03145133

# Heathrow Express Operating Company Limited

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# Heathrow Express Operating Company Limited

**Officers and Professional Advisors**

**Directors**
Ross Baker
Phillip Bearpark
Sophie Chapman
Anthony Caccavone – resigned on 30 September 2022
Michael Hodson
Daniel Edwards – appointed 24 October 2022

**Registered office**
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**Independent auditors**
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**Bankers**
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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 2022.

**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 ("Heathrow") owns all infrastructure (stations, tunnels and track from Heathrow 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 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 2022 the Heathrow Express service carried a total of 4.71 million passengers, 296% above 2021 (2021: 1.19 million passengers). The end of COVID-19 lockdown rules in the UK has seen a ramp up of passenger volumes. Fare revenues subsequently increased by 292% from £23.3m in 2021 to £91.4m in 2022.

Non fare revenue decreased to £0.5 million (2021: £2.4 million) due to no furlough compensation in 2022 and a decrease in Crossrail and HS2 engineering works compensation.

Revenue from the provision of rail services to Heathrow remained broadly consistent at £1.9 million (2021: £1.8 million) due to the continuation of the inter-terminal transfer services throughout the year.

The profit after taxation for the financial year totalled £19.1 million (2021: loss of £17.4 million), this increase is predominantly driven by change in passenger volumes generating higher 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 81.16% (2021: 86.03%). 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 2021, with MTR Elizabeth Line ramping up their services.
- Profit Before Tax: £24.8 million, a 197% increase on 2021 (loss of £25.6 million) due mainly to an increase in passenger volumes and fares.
- Operating Costs: £71.6 million, a 32% increase on 2021 (£54.1 million) due to the ramp up of operations at Heathrow airport and subsequently Heathrow Express with the increase in passenger numbers post COVID-19 lockdown.
- Movement in Net Assets: There was a 23% increase in net assets from £83.4 million in 2021 to £102.5 million in 2022. This was due mainly to an increase in intercompany receivables from Heathrow Airport Limited where cash generated by the Company is transferred to Heathrow as part of Group cash management.

**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 HAHL 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; and
- 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 2022, we have continued to improve 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 'HAHL Board') has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two HAHL 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 company objectives, all our risks are evaluated against defined risk appetite levels, which are captured in a formal risk appetite statement which 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 every six weeks. 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 HAHL 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 HAHL 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.

**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***

Principal risk

An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks and with the pace and rate of our growth as we build back capacity these risks increase. Nationally, COVID-19 has resulted in a worsening of physical and mental health and external pressures including the war in Ukraine and cost of living crisis are adding to people's anxiety.

If we do not set and strive for the highest standards of fire, safety, health and wellbeing, we risk causing harm to our colleagues and stakeholders, compromising our service to passengers, and damaging our reputation and ultimately our business performance.

We therefore value, above all else, the health and safety of colleagues, passengers and anyone else affected by the airport's activities. Our focus on health and safety is not just the right thing to do, it is the foundation of an efficient operation, a secure airport and a sustainable business.

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.

Risk mitigation strategy

Our risk mitigation strategy is built from our fire, safety, health and wellbeing framework of safe and healthy 'place', 'work', 'team' and 'decisions'.

Place – We ensure our physical environment and assets are designed, built, used, and maintained so that they don't cause harm. Our change control processes are designed to ensure that new equipment, technology, and processes are introduced safely.

Work – Our, fire, health and safety management systems are designed to ensure a planned and controlled way of working. We set Fire Health and Safety ('FHS') standards for the airport community and influence industry standards working with UK and international regulators and industry bodies. Our risk assessment processes adopt the hierarchy of controls and we set FHS standards for the airport community. Governance and assurance processes are used to ensure that controls around health-and-safety risks remain effective, and continuous improvement is encouraged.

Team – Consultation, engagement and collaboration are key to a safe and healthy team. We work closely with our Trade Union partners on health and safety matters and engage colleague views through our engagement surveys. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles. We collaborate across Team Heathrow through a range of mechanisms, including the Team Heathrow Safety Council and Network, to drive standards and performance. We held our first Heathrow Airport Safety Summit with Team Heathrow in June 2022 and started to measure safety culture across organisations operating at the airport.

Decisions – In the last 12 months our focus has been on 'healthy minds' to ensure safe and healthy decision making. Our extensive range of health and wellbeing products and services has been further promoted this year resulting in increased utilisation, supplemented by the provision of mental fitness training for line managers and support for financial wellbeing. Over 60% of line managers within our Security function have received mental fitness training, providing practical tools so that line managers prioritise their own mental fitness and develop confidence in holding wellbeing conversations and signposting colleagues to appropriate support. Support for financial wellbeing includes practical support and access to one-to-one financial coaching.

We also have a confidential reporting line through which concerns of wrongdoing at work can be reported (Safecall).

We work with law enforcement and government agencies to ensure security procedures are appropriate and mitigate evolving threats. Procedures are subject to review through the internal controls mechanism and via independent scrutiny from the Civil Aviation Authority ('CAA') and other domestic/international agencies.

**Principal risks** *continued*

***Information Security***

Principal risk

Information security, which refers primarily to our systems and information and the data contained in them, continues to be a risk for Heathrow. Malicious cyber-attack is a continued risk given the size and breadth of our network and operating environment. Attacks continue to be more sophisticated, especially around phishing and ransomware which are now a persistent challenge for all industries. In addition, new ways of working following the COVID-19 crisis have also resulted in an increased risk profile.

Risk mitigation strategy

Heathrow is a Critical National Infrastructure ('CNI') and therefore complies with The CAA "Cyber Security Oversight Process for Aviation" (CAP 1753) based on the National Cyber Security Centre's "Cyber Assessment Framework" and in turn is broadly aligned to the NIST Cyber Security Framework. The Regulator (CAA/DfT) requires that Heathrow achieve compliance with CAP1753, through the CAA ASSURE audit process.

Heathrow has top-down support for Cyber Security. It is an active topic at the Executive Committee and briefings are provided as required or requested. Regular reporting is also performed through reports at Executive/Board/Non-Executive risk committees. Cyber risk assessment is performed at a system, supplier, and departmental level, and rolled up into overall corporate risk management processes. Mandatory cyber and data privacy training is rolled out to colleagues annually. Monthly phishing awareness campaigns are run and tracked. Execution of Business Continuity Plans is managed through the Heathrow Resilience "Command and Control" process. We work with Strategic Security in partnership with governing bodies as part of our CNI status.

***Regulation Requirements***

Principal risk

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.

Risk mitigation strategy

The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team. This team ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHL Board on regulatory matters. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority. In addition, 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')***

Principal risk

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 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 judgment 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". While work to expand Heathrow during COVID-19 was paused, the post pandemic period has shown the demand from airlines to fly from Heathrow, as well as how critical Heathrow is for the UK's trade routes. 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 and we are reviewing our options.

# Heathrow Express Operating Company Limited

## **Strategic report** *continued*

**Principal risks** *continued*

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

Risk mitigation strategy

In 2020 we appealed the Court of Appeal's judgment on legal grounds with a view to reinstating the ANPS. Having won the appeal and restored the ANPS, we have positively reiterated the case for expanding Heathrow in line with Government policy and we are continuing 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. When demand returns to pre COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions.

***Reduction in global demand and revenues***

Principal risk

Operational ecosystem challenges impacting capacity rebuilding and revenue growth.

COVID-19 has led to an unprecedented reduction in passenger volumes and revenues, which the industry was forced to respond to with workforce reductions and temporary closure of two terminals to weather the pandemic. The lack of targeted industry support and unstable travel policies (quarantines, testing requirements) by the government exacerbated the industry's ability to plan for recovery. Brexit has impacted on worker availability, particularly in relation to ground handling staff.

Continued policy inconsistency on VAT Free shopping provides significant revenue uncertainty and lack of competitive parity with EU airports. The Next Generation Security Project is expected to have a negative impact on aviation capacity and retail revenue from 2023 onwards.

Significant potential revenue impacts are expected relating to workforce challenges requiring capacity restrictions and removal of VAT Free shopping.

Revenue growth may be inhibited by the lack of certainty over consumer demand recovery in 2023-2024, driven by high inflation, a slowdown in economic growth, impact of a recession and pressure on consumer spending. A limited capacity for growth dependent on slot trading combined with the highest aviation taxes in Europe ('APD') continue to put pressure on airports and hub airlines.

Risk mitigation strategy

Aviation

Our strategic response to protect revenues and drive passenger volumes has been:

1. Slot Strategy in place to secure desired slot recommendation for winter 22, summer 23 and for the future, with advocacy plan also in place to influence Department for Transport, Airport Council International ('ACI') (World and Europe), International Air Transport Association ('IATA') and other stakeholders to align to Heathrow's position.
2. 2022 – 2026 Network Strategy in place to target new routes, grow market share and competition in key markets and protect weaker performing routes.
3. Senior engagement and account plans in place with key airlines to rebuild relations and accelerate collaboration, post COVID-19.
4. 2022 – 2026 Aviation Strategy 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.
5. Worked with Airport Coordination Limited ('ACL') (and Ops Planning on pre-season schedule optimisation to maximise capacity where resources are limited.
6. Industry monitoring via daily updates from CAPA (market intelligence for the aviation and travel industry), media cuts and other industry events, as well as attendance at Routes (network) and IATA (slots and cargo) conferences.
7. Close alignment internally with Space, Retail and Property teams to optimise commercial opportunities while maintaining alignment with Security Project.

Retail

Key measures implemented to contain the impact on retail income include:

1. Close monitoring and balance of assessed debt and contractual fixed income guarantees to maximise overall retail revenue.
2. Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deal with minimal level of disruption and delays (e.g., lending locations to businesses that could make immediate use of the structure 'as is').

**Principal risks** *continued*

***Reduction in global demand and revenues*** *continued*

3. Continued dialogue with officials in the Treasury (HMT) around the impact and pitching an alternative solution for the reintroduction of VAT free shopping for departing passengers and the opportunity to introduce duty free shopping for arriving passengers.

***Liquidity and ability to access finance***

Principal risk

We need to continue to be able to access finance to fund our current operations.

Risk mitigation strategy

We produce long-term forecasts which include consideration of significant downside risk to enable our management to conclude that covenant terms are likely to be met, and that we have the ability to access additional future finance as required. 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 that investments can be appropriately financed.

***Resilience of Team Heathrow***

Principal risk

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as on the wider eco-system of key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that the level of passengers and Air Traffic Movement growth exposes the gaps in operational resilience across the wider Team Heathrow, impacting on our collective ability to provide the safety, resilience, service levels and passenger experience our passengers expect.

Following the removal of government restrictions, both in the UK and globally, Heathrow and the wider aviation sector has experienced a rapid increase in passenger demand. Airports, including Heathrow, and their partners and suppliers, have experienced significant challenges in ensuring sufficient resources are available to support rapidly increasing demand, placing particular challenges on key parts of the passenger journey at peak times – security, airline ground-handling and immigration.

Risk mitigation strategy

We continue to monitor and build on our operational insight and data to ensure we have capacity and resource ready ahead of demand with planned responses. We have developed a build back capacity programme led by our Chief Solutions Officer to specifically address pain points and risk areas around resilience. This programme reviews resourcing capacity across Heathrow's ecosystem and measures short and medium-term forecasting to enable capacity planning. We work closely with our stakeholders and airlines undertaking regular reviews via the capacity sub-group. This includes seasonal peaks and flying schedules.

We continue to work closely with our airline customers, retailers and wider stakeholders. We monitor the financial health of our key Team Heathrow partners to ensure we have early warning of any concerns so that where possible we can work together to find a solution or provide alternative facilities where this proves to be the more viable option. Regular engagement takes place at both management and operative level across key members of Team Heathrow to discuss future plans and strategies.

Across our supply chain, our Supplier Management function monitors the real-time financial risks associated with our critical suppliers (e.g., financial strength, likelihood of insolvency, liquidity, credit worthiness, compliance with payment terms). This monitoring enables early sight of potential insolvency risks, which are initially investigated by Supplier Management and highlighted immediately to relevant Commercial Managers, allowing risks to be managed by all relevant stakeholders and mitigated.

***Ineffective Organisation – Systems and People***

Principal risk

Systems – Technology is evolving rapidly. To meet the needs of our business we must constantly adapt to our internal and external requirements. Existing systems and processes become unsuitable, outdated and need to evolve so that we can remain competitive, effective and efficient.

People – Our people ensure that we operate effectively and efficiently. External and internal requirements put pressure on colleagues. This pressure has increased as a result of growth and associated workload, cost of living and the challenging external resourcing market. Recruitment demand remains high with vacancies in the UK at over 1.2 million (Oct 2022). Labour market supply is low, combined with economic inactivity being at the highest level in at least 30 years (2.49 million – Oct 2022).

**Principal risks** *continued*

***Ineffective Organisation – Systems and People*** *continued*

Risk mitigation strategy

Systems – We continuously review systems and processes to ensure they meet the needs of our business. Where benefits exceed the cost, we invest in new systems. In October 2021 we launched our new cloud financial and people ERP system to enable working in a simpler, more agile and cost-effective way. Moving to a cloud-based system enables us to receive quarterly upgrades to ensure it remains modern and relevant and provides the opportunity for continuous improvement and benefits.

People – We continue to invest in our people and have a strategy to ensure the development of talent and careers at Heathrow. Policies are in place to engage and motivate our colleagues; as well as maintain accountability and compliance with internal governance, policies and procedures. We provide career opportunities, development and training. In September 2022, we launched our new leadership development programme. It has been designed to help leaders address the needs of our colleagues in light of the changing landscape; and enable them to better understand the impact of their leadership style. Talent and criticality of roles and individuals are reviewed regularly. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

***Political environment***

Principal risk

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.

Risk mitigation strategy

We continue to make a strong case for our place in the wider economy and the part we play in a successful Global Britain, and we explain the benefits that our ability to meet the UK's demand for long-haul travel brings. Whilst a change in the Government and their focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAHL Board, which has implemented a structured approach to the identification and management of all risks related to changing Government policy.

***Competition***

Principal risk

We compete against other airports both within the UK and across the world for passengers; some make marginal choices, particularly connecting passengers, about which route to fly. The impact of COVID-19 has disrupted aviation and lower passenger numbers means that rival airports have more capacity and therefore greater potential to compete with Heathrow. In addition, Heathrow's charges increased significantly in 2022, potentially reducing our competitive advantage compared to other airports in the London system and our European hub competitors. Heathrow will need to continue to deliver great value to our airlines in order to retain them at these higher charges.

Risk mitigation strategy

Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users and build back capacity so that we can deliver the throughput and service levels that we did before COVID-19. Maintaining commercial strategies that enable us to deliver great value to airlines and consumers is key to improving competitiveness and retaining key passenger groups and partners.

***Climate change and net zero carbon***

Principal risk

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry must demonstrate real progress towards achieving the sector's net zero goal in this decade. Heathrow has implemented the Task Force for Climate related Financial Disclosures ('TCFD') recommendations and climate related risk is therefore considered 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 recover, 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.

# Heathrow Express Operating Company Limited

## **Strategic report** *continued*

**Principal risks** *continued*

***Climate change and net zero carbon*** *continued*

These risks are presented in greater detail in the TCFD section of the HAHL Group annual report and financial statements which can be found at www.heathrow.com/company/investor-centre.

Risk mitigation strategy

Policy and global alignment to transition the aviation sector to net zero carbon emissions by 2050. We have been working with relevant aviation stakeholders to promote policies to scale up sustainable aviation fuel ('SAF'), to increase aircraft efficiency, and to support the development of zero emissions aircraft.

In November 2022, ICAO, the International Civil Aviation Organisation, formed by 193 member states, committed to net zero carbon emissions for international civil aviation by 2050. The building blocks of this commitment were the development of the required technical feasibility assessment combined with a robust consensus-driven approach for a global framework led by some member states, particularly the UK that developed an international aviation coalition climate ambition during its COP26 presidency. In 2021, the entire aviation industry had already committed to net zero carbon emissions by 2050, including IATA, the international industry airline body. Heathrow has committed to net zero carbon and, in February 2022, 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.

The significant priority is accelerating net zero flying in the 2020s 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 have established net zero as a strategic programme in our H7 regulatory settlement period which ends in 2026. The programme, which includes over £200m of capital investment, will deliver the carbon emissions reductions we included in our plan, during this period. To ensure 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.

**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.

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.

# Heathrow Express Operating Company Limited

## Strategic report *continued*

**Financial stability** *continued*

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 2022, the HAHL Group had cash and cash equivalents and term deposits of £3,012 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. The corporate governance structure and group policies are set by the HAHL 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 HAHL 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 HAHL Group and specifically those affecting the Company.

The Company's key stakeholders are its passengers, communities and the environment, 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 HAHL 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 HAHL 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 HAHL Group's 2021 annual report and financial statements.

# Heathrow Express Operating Company Limited

## **Strategic report** *continued*

**Section 172 (1) statement** *continued*

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, ESG (environmental, social and corporate governance) 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.

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

**Sophie Chapman**
Director
29 June 2023
Company registration number: 03145133

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2022.

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 10.

**Results and dividends**
The profit after taxation for the financial year amounted to £19.1 million (2021: loss of £17.4 million). The Company's net assets as at 31 December 2022 were £102.5 million (2021: £83.4 million).

No dividends were proposed or paid during the year (2021: £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
Anthony Caccavone – resigned on 30 September 2022
Michael Hodson
Daniel Edwards – appointed 24 October 2022

**Going concern**
The financial information presented within these financial statements has been prepared on a going concern basis with the absence of material uncertainty. The Company's annual report and financial statements for the year ended 31 December 2021 was prepared on a basis of going concern with material uncertainty. Since then the HAHL Group has experienced strong passenger number growth. This growth provided significantly increased confidence over covenant compliance in future periods. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. More detail can be found 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 Heathrow.

**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.

# Heathrow Express Operating Company Limited

## Directors’ report *continued*

### 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 2021 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

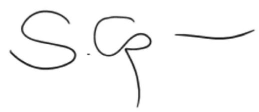
Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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.

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



**Sophie Chapman**
Director
29 June 2023
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; and
- 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.

**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; and
- 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
29 June 2023

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

## Report on the audit of the financial statements

### Opinion

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 2022 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 2022; statement of comprehensive income and statement of changes in equity for the year then ended; the accounting policies; the 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 2022 *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 Director's 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 Director's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Director's report for the year ended 31 December 2022 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 Director's 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, 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 2022 *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 Heathrow Airport's CAA license being revoked, breaches of environmental regulations and rail regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. 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 management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with; management, including representatives outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals crediting revenue or those posted with unexpected words.
- Challenging assumptions and judgements made by management in its significant accounting estimates.
- Reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations.

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.

E Sowerby

Emma Sowerby (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
29 June 2023

# Heathrow Express Operating Company Limited

**Statement of comprehensive income** for the year ended 31 December 2022

| | Note | **Year ended 31 December 2022 £'000** | Year ended 31 December 2021 £'000 |
|---|---|---|---|
| Revenue | *1* | **93,789** | 27,518 |
| Operating costs | *2* | **(71,571)** | (54,112) |
| Operating profit/(loss) | | **22,218** | (26,594) |
| | | | |
| Financing | | | |
| Finance income | *3* | **2,548** | 1,015 |
| Profit/(loss) before tax | | **24,766** | (25,579) |
| | | | |
| Taxation (charge)/credit | *4* | **(5,631)** | 8,158 |
| **Profit/(loss) for the financial year** | | **19,135** | (17,421) |

The notes on pages 27 to 33 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 2022

| | Note | **31 December 2022 £'000** | 31 December 2021 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | *6* | **11,614** | 13,751 |
| Property, plant and equipment | *5* | **-** | 4 |
| Deferred tax asset | *8* | **15,417** | 15,468 |
| | | **27,031** | 29,223 |
| **Current assets** | | | |
| Trade and other receivables | *7* | **104,808** | 79,443 |
| Cash and cash equivalents | *9* | **1,081** | 64 |
| | | **105,889** | 79,507 |
| **Total assets** | | **132,920** | 108,730 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **(30,434)** | (25,379) |
| | | **(30,434)** | (25,379) |
| **Total liabilities** | | **(30,434)** | (25,379) |
| **Total assets less current liabilities** | | **102,486** | 83,351 |
| **Net assets** | | **102,486** | 83,351 |
| **Capital and reserves** | | | |
| Called up share capital | *11* | **-** | - |
| Share premium | | **38,000** | 38,000 |
| Retained earnings | | **64,486** | 45,351 |
| **Total shareholders' funds** | | **102,486** | 83,351 |

The notes on pages 27 to 33 form part of these financial statements

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) from page 18 to 33 were approved by the Board of Directors on 29 June 2023 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 2022

| | Called up share capital[1] £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| 1 January 2021 | - | 38,000 | 62,772 | 100,772 |
| Comprehensive income | | | | |
| Loss for the financial year | - | - | (17,421) | (17,421) |
| Total comprehensive expense | - | - | (17,421) | (17,421) |
| 31 December 2021 | - | 38,000 | 45,351 | 83,351 |
| **Comprehensive income** | | | | |
| **Profit for the financial year** | **-** | **-** | **19,135** | **19,135** |
| **Total comprehensive income** | **-** | **-** | **19,135** | **19,135** |
| **31 December 2022** | **-** | **38,000** | **64,486** | **102,486** |

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

The notes on pages 27 to 33 form part of these financial statements

# Heathrow Express Operating Company Limited

## **Accounting policies** for the year ended 31 December 2022

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 company of Heathrow Airport Limited is Heathrow (AH) Limited for which consolidated financial statements are prepared. The ultimate controlling undertaking for which consolidated financial statements is prepared is the 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*
The company is part of the wider Heathrow Group of companies. 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 including within the main operating company, Heathrow Airport Limited. Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026. Due to its delays in making a final decision, the CAA put in place an interim tariff (the "2023 Interim Tariff") from 1 January 2023 to 31 December 2023 of £31.57 in nominal terms, ahead of a Final Decision which was subsequently published on 8th March 2023. This Final Decision provides an average H7 tariff of £23.06 in 2020 CPI real terms and has been arrived at based on a set of assumptions such as higher passenger numbers, lower operating costs and higher commercial revenues versus those forecast by the wider Heathrow Group, which has led to a lower tariff than the Group believes is appropriate. Whilst the H7 Final decision contains a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they do not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time.

This critical relationship between H7 prices and forecast passenger numbers, as well as the potential resultant impact to liquidity and debt covenant compliance have been considered in assessing the appropriateness of preparing this annual report and financial statements on a going concern basis.

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.

**Going concern** *continued*

*Base case*

The Directors have considered the wider Heathrow Group when assessing going concern. In assessing the going concern position, the Directors have considered the regulatory uncertainty described above, as well as the potential impact of any further COVID-19 impacts on cash flow, liquidity and debt covenant compliance over the next 12 months.

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 traffic forecasts.
- 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, projected covenant requirements, and its ability to access the debt markets.

*Base case passenger forecast*

In modelling passenger number recovery from COVID-19, there remains a degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Nevertheless, passenger numbers have increased significantly in the first 5 months of 2023; with total passengers to 31 May being 95% of 2019 levels. Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong.

*Base case tariffs*

The base case uses the CAA's Interim Tariff for the entirety of 2023, with a 2024 nominal tariff of £25.43 based on the tariff set out in the CAA's Final Decision. 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"). Despite a continued challenging market, there continues to be confidence and support for the Group's credit with £546 million of new debt raised in FY22 in addition to the successful refinancing of the group's £1.38bn revolving credit facility in Q4 2022. No additional debt was raised in Q1. Consequently, Heathrow SP held cash of £1.1 billion as at 31 March 2023. Total debt maturity within Heathrow SP for the next 12 months from 31 March 2023 is £0.6 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £2.3bn available at 31 March 2023. 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 in the preparation of the annual report and financial statements. 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 2023 and 2024 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% reduction against the base case. The tariff assumptions remain the same as in the base case.

*Conclusion*

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds 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 it is accordingly appropriate to adopt a going concern basis with no material uncertainty for the preparation of these results.

**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 profit and loss account 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 profit and loss statement as they are provided.

**Tangible fixed assets**
Major assets used by the Heathrow Express service, such as stations, tunnels and track from Heathrow 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:

| | *Fixed asset lives* |
|---|---|
| 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 six 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.

**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.

# Heathrow Express Operating Company Limited

## **Accounting policies** for the year ended 31 December 2022 *continued*

**Impairment of assets** *continued*
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 profit and loss account 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.

**Trade and other receivables**
Trade and other receivables are recognised initially at cost less any provision for impairment.

**Cash**
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

**Trade and other payables**
Trade and other payables are recognised at cost.

**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 Profit and Loss Account 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)/credit 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 19% (2021: 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.

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 2022

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

**Going concern**
The impact of post-pandemic recovery and regulatory uncertainty on the going concern assessment was considered in some detail. Further information can be found within the 'Basis of preparation' section above.

### Key sources of estimation uncertainty

**Rights to Operate**
Management has assumed that the company will have the rights to operate the Heathrow Express service until 2028, based on the arrangement of an extended track access agreement with Network Rail. If the rights were to terminate in June 2023 at the end of the current track access agreement, the impact on the financial statements for the year ended 31 December 2022 would be to increase the amortisation charge by £7.0 million.

# Heathrow Express Operating Company Limited

## **Notes to the financial statements** for the year ended 31 December 2022

### 1 Revenue

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

| | **Year ended 31 December 2022 £'000** | Year ended 31 December 2021 £'000 |
|---|---|---|
| Fare Revenue | **91,390** | 23,275 |
| Other Income[1] | **485** | 2,421 |
| Provision of Rail Services to Heathrow | **1,914** | 1,822 |
| | **93,789** | 27,518 |

[1] Other income includes Crossrail engineering works compensation and HS2 engineering works compensation. For the year-ended 2021, other income also includes receipts from the Job Retention Scheme of £682,000. All revenue is earned in the United Kingdom.

### 2 Operating costs

Operating costs, comprise the following:

| | **Year ended 31 December 2022 £'000** | Year ended 31 December 2021 £'000 |
|---|---|---|
| Employment | | |
| Wages and salaries | **4,823** | 3,825 |
| Social security costs | **504** | 435 |
| Other pension costs[1] | **202** | 197 |
| Other staff related costs | **458** | 285 |
| | **5,987** | 4,742 |
| Operational | **14,092** | 11,277 |
| Maintenance | **4,816** | 4,737 |
| Rates | **1,994** | 2,455 |
| Utilities | **3,488** | 480 |
| Intra-group charges[2] | **13,287** | 14,787 |
| Other[3] | **25,766** | 13,403 |
| **Total operating costs before depreciation and amortisation** | **69,430** | 51,881 |
| Depreciation and amortisation | | |
| Property, plant and equipment | **4** | 66 |
| Intangible assets | **2,137** | 2,165 |
| | **2,141** | 2,231 |
| **Total operating costs** | **71,571** | 54,112 |

[1] Pension costs of £202,000 (2021: £197,000) 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 £21,236,000 (2021: £12,444,000).

***Rentals under operating leases***

| | **Year ended 31 December 2022 £'000** | Year ended 31 December 2021 £'000 |
|---|---|---|
| ***Operating costs include:*** | | |
| Plant and machinery [1] | **6,963** | 8,633 |
| Land and Buildings [2] | **284** | 302 |
| Other operating leases [3] | **23,808** | 23,213 |

[1] Plant and machinery £6,963,000 of rolling stock lease charges from GWR (2021: £7,179,000). The year-ended 31 December 2021 also included rolling stock lease charges of £1,454,000 from Heathrow Airport Limited for an agreement which ended during the prior year.
[2] Land and Buildings for the year-ended 31 December 2021 included £302,000 for train depot lease charges from Heathrow Airport Limited.
[3] Other Operating Leases includes £12,275,000 for track access charges payable to Heathrow Airport Limited (2021: £12,819,000) for the right to use the 9km 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 £11,533,000 (2021: £10,250,000) 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 2022 *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 2022 £'000** | Year ended 31 December 2021 £'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 | **50** | 61 |

***Employee information***

The monthly average number of employees of the Company during the year was 133 (2021: 109).

**By activity**

| | **Year ended 31 December 2022** | Year ended 31 December 2021 |
|---|---|---|
| Operations | **97** | 91 |
| Support services | **21** | 18 |
| **Total** | **118** | 109 |

***Directors' remuneration***

| | **Year ended 31 December 2022 £'000** | Year ended 31 December 2021 £'000 |
|---|---|---|
| Salaries and employee benefits [1] | **299** | 356 |
| Value of Company pension contributions to pension schemes | **22** | 23 |
| | **321** | 379 |

[1] For the year ended 31 December 2022 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP'), and termination benefits.

Ross Baker was a director of a number of companies within the Heathrow Airport Holdings 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. Anthony Caccavone was paid by but is not a director of Heathrow Airport Limited. Sophie Chapman, Daniel Edwards, Michael Hodson and Phillip Bearpark were paid by and are directors of the Company.

| | **Year ended 31 December 2022 £'000** | Year ended 31 December 2021 £'000 |
|---|---|---|
| Highest paid director's remuneration | | |
| Salaries and employee benefits [1] | **132** | 211 |
| Value of Company pension contributions to pension schemes | **14** | 18 |
| | **146** | 229 |

[1] For the year ended 31 December 2022 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP'), and termination benefits.

| | **Year ended 31 December 2022 Number** | Year ended 31 December 2021 Number |
|---|---|---|
| Number of directors who: | | |
| - are members of a defined benefit pension scheme | **-** | - |
| - are members of a defined contribution pension scheme | **2** | 2 |

## Heathrow Express Operating Company Limited

**Notes to the financial statements** for the year ended 31 December 2022 *continued*

### 3 Finance Income

| | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Interest receivable from group undertaking | **2,548** | 1,015 |

### 4 Taxation (charge)/credit

| | Note | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|---|
| UK corporation tax | | | |
| Current tax charge at 19% (2021: 19%) | | **(5,580)** | - |
| Deferred tax | | | |
| Current year (charge)/credit | *8* | **(47)** | 5,838 |
| Prior year credit | *8* | **15** | 12 |
| Change in tax rate | *8* | **(19)** | 2,308 |
| **Taxation (charge)/credit for the year** | | **(5,631)** | 8,158 |

The tax charge on the Company's profit/(loss) 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 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| **Profit/(loss) before tax** | **24,766** | (25,579) |
| **Reconciliation of the tax charge** | | |
| Tax calculated at the UK statutory rate of 19% (2021: 19%) | **(4,706)** | 4,860 |
| Expenses not deductible for tax purposes | **(921)** | (423) |
| Adjustments in respect of deferred income tax of prior years | **15** | 12 |
| Change in tax rate | **(19)** | 3,709 |
| **Taxation (charge)/credit for the year** | **(5,631)** | 8,158 |

The tax charge recognised for the year ended 31 December 2022 was £5,631,000 (2021: credit £8,158,000). Based on a profit before tax for the year ended 31 December 2022 of £24,766,000 (2021: loss £25,579,000), this results in an effective tax rate of 22.7% (2021: 31.9%). The tax charge for 2022 is more than implied by the statutory rate of 19% (2021: 19%) primarily due to non-deductible expenses (2021: primarily due to the re-measurement of opening deferred tax balances to 25% and some of the current year deferred tax movements being therefore measured at the 25% tax rate, offset by non-deductible expenses reducing the tax credit for the year).

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.

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 2022 *continued*

### 5 Property, plant and equipment

| | Office equipment £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **31 December 2021** | 155 | 421 | 576 |
| **31 December 2022** | **155** | **421** | **576** |
| | | | |
| **Depreciation** | | | |
| 1 January 2021 | 143 | 363 | 506 |
| Charge for the year | 10 | 56 | 66 |
| **31 December 2021** | 153 | 419 | 572 |
| **Charge for the year** | **2** | **2** | **4** |
| **31 December 2022** | **155** | **421** | **576** |
| | | | |
| **Net book value 31 December 2022** | **-** | **-** | **-** |
| Net book value 31 December 2021 | 2 | 2 | 4 |

### 6 Intangible assets

| | Rights to Operate £'000 | Software £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| 1 January 2021 | 38,000 | 180 | 38,180 |
| Additions | - | - | - |
| **31 December 2021** | 38,000 | 180 | 38,180 |
| **Additions** | **-** | **-** | **-** |
| **31 December 2022** | **38,000** | **180** | **38,180** |
| | | | |
| **Amortisation** | | | |
| 1 January 2021 | 22,169 | 95 | 22,264 |
| Charge for the year | 2,111 | 54 | 2,165 |
| **31 December 2021** | 24,280 | 149 | 24,429 |
| **Charge for the year** | **2,111** | **26** | **2,137** |
| **31 December 2022** | **26,391** | **175** | **26,566** |
| | | | |
| **Net book value 31 December 2022** | **11,609** | **5** | **11,614** |
| Net book value 31 December 2021 | 13,720 | 31 | 13,751 |

**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 allows the Company to operate its services until June 2023. The Secretary of State for Transport has, through the Heathrow Express Overarching Agreement dated 17 April 2018 with the Company and Heathrow, committed to providing reasonable assistance in obtaining extended track access rights beyond 2028. At 31 December 2022, formal negotiations with Network Rail are underway with terms expected to be agreed and finalised by December 2023. At the end of the existing agreement in June 2023, the Company will move onto a 6-month rolling contract with Network Rail which will be superseded by the new agreement signed.

**6 Intangible assets** *continued*
**Rights to Operate** *continued*

At 31 December 2022, 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 (2021: £nil). The Intangible asset will be fully amortised as at 30 June 2028.

## 7 Trade and other receivables

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| | **£'000** | £'000 |
| **Current** | | |
| Trade debtors | **2,503** | 2,483 |
| Amounts owed by group undertakings – interest bearing[1] | **97,402** | 67,616 |
| Amounts owed by group undertakings – interest free | **3,740** | 3,740 |
| Other debtors[2] | **526** | 1,924 |
| Prepayments | **637** | 3,680 |
| | **104,808** | 79,443 |

[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 2022 | **15,468** |
| Charge to income statement | **(66)** |
| Credit to income statement – prior year credit | **15** |
| **31 December 2022** | **15,417** |

Analysis of the deferred tax asset balances is as follows:

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Losses carried forward | **15,313** | 15,343 |
| Excess of depreciation over capital allowances | **95** | 111 |
| Other timing differences | **9** | 14 |
| | **15,417** | 15,468 |

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.

The net deferred tax asset expected to reverse in 2023 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.

### 9 Cash and cash equivalents

| | 31 December 2022 £'000 | 31 December 2021 £'000 |
|---|---|---|
| Cash at bank | **1,081** | 64 |

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 2022 £'000 | 31 December 2021 £'000 |
|---|---|---|
| **Current** | | |
| Trade Creditors | **2** | 3,139 |
| Taxation and social security | **119** | 99 |
| Other creditors | **32** | 31 |
| Accruals | **18,915** | 2,517 |
| Deferred income[1] | **5,786** | 19,593 |
| Group tax relief payable | **5,580** | - |
| | **30,434** | 25,379 |

[1] Deferred income includes £5.5 million (2021 £19.5 million) of compensation received from the Department for Transport as part of the Heathrow Express Overarching Agreement. The remaining amount will be fully released to the Profit and Loss account in 2023.

### 11 Called up share capital

| | £ |
|---|---|
| **Authorised** | |
| At 1 January 2022 and 31 December 2022 | |
| 100 ordinary shares of £1 each | 100 |
| **Called up, allotted and fully paid** | |
| At 1 January 2022 and 31 December 2022 | 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 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | Land & buildings £'000 | Other leases £'000 | Land & buildings £'000 | Other leases £'000 |
| Within one year | **175** | **33,301** | 284 | 31,226 |
| Later than one year and not later than five years | **266** | **138,779** | 375 | 141,068 |
| After five years | **33** | **17,737** | 100 | 56,943 |
| | **474** | **189,817** | 759 | 229,237 |

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

**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 £15,670 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 are Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., 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%) (through its general partner, ART Asset Operations Limited)*, 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 general partner of QS Airports UK, LP changed from Eagle Airports General Partner 2, Limited, an entity controlled by Alinda Capital Partners, to ART Asset Operations Limited with effect from 27 May 2023.

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2022, 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 and Heathrow Airport Holdings Limited for the year ended 31 December 2022.

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.

**14 Subsequent events**

There are no subsequent events to disclose.