

Heathrow Express Operating Company Limited
Annual report and financial statements
for the year ended 31 December 2017

Heathrow Express Operating Company Limited

Contents

Officers and professional advisers	1
Strategic report	2
Directors' report	4
Directors' responsibilities statement	6
Independent auditor's report	7
Financial statements	
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Notes to the financial statements	12

Heathrow Express Operating Company Limited

Officers and professional advisers

Directors

Ross Baker
Fraser Brown
Stephen Chambers
Christopher Green
Andrew MacMillan
Robert Smallwood

Registered office

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Bankers

Lloyds Bank PLC
City Office, PO Box 72
Bailey Drive
Gillingham Business Park
Gillingham
ME8 0LS

Barclays Bank plc
Pall Mall Corporate Banking
50 Pall Mall
London
SW1Y 5AX

Heathrow Express Operating Company Limited

Strategic report

Heathrow Express Operating Company Limited (the "Company") operates the rail service between Heathrow airport and Paddington station, London. Heathrow Airport Limited ("Heathrow") owns all infrastructure (stations, tunnels, rolling stock and track from Heathrow as far as Airport Junction on the Great Western Mainline). Track access charges are paid to Network Rail for use of the track from Airport Junction to London Paddington.

Going Concern

The financial statements have been prepared on a going concern basis, which requires the Directors to have a reasonable expectation that the Company, as part of the Heathrow Airport Holdings Limited group, has adequate resources to continue in operational existence for the foreseeable future. The going concern accounting policy on page 12 provides more detail.

Review of business and future developments

Key events occurring during the year and developments since the beginning of 2017 are detailed below.

The Heathrow Express service carried a total of 6.37 million passengers driving a market share of 10.9% (2016: 10.6%) of total non-transfer airport passenger journeys at Heathrow (i.e. total airport journeys less transfer passengers). Heathrow Connect carried 0.67 million passengers during the year and the combined passenger number for both services increased by 9.5% from 6.43 million in 2016 to 7.04 million in 2017. Total Heathrow passenger growth was 3.1% up on 2016 and the through ticket transfer rate (i.e. passengers who have purchased a 'through-ticket' with the airline, therefore never leaving the airport) decreased by 2.5% to 25.1% (2016: to 25.8%). The profit after taxation for the financial year amounted to £1.9 million (2016: loss of £7.4 million) after providing for intangible amortisation of £4.1m (2016: £9.5m).

Key performance indicators focus on operational punctuality with each service being monitored and recorded. Heathrow Express operational performance dropped with punctuality at 82.89% (2016: 83.15%). Network Rail infrastructure faults, together with Crossrail works were the key factors in the reduction in performance causing disruptions to the timetable through possession overruns.

Heathrow Express finished fourth in the National Rail Passenger Survey (Autumn 2017) with an overall score of 91% (Autumn 2016: 96%, 2nd position).

In 2018 the main objective is to continue to grow passenger numbers during a year where the new Crossrail service commences at the end of May. The new service will commence on 20th May and will replace the Heathrow Connect stopping service between Heathrow and Paddington station. Focus is also on continuous improvements to safety with the identification and implementation of further passenger train interface (PTI) initiatives.

Principal risks and uncertainties and risk management

Our aim is to gain a deep understanding of the principal risks we face at all levels of the business and to focus management attention on effective mitigation of these risks as well as a review of over-the-horizon emerging risks which may impact the business and strategy of Heathrow.

We continue to roll out a risk improvement plan which is focussed on improving accountability for end-to-end risk management at all levels and drive improvements in our risk culture. The risk improvement plan covers all the key elements of an effective risk management framework including risk leadership, informed risk decision making, competency and risk skills, governance including timeliness and transparency of risk information and clarity of accountability for managing risks. We assess and monitor our risk maturity across all key areas and drive improvements where required.

Principal risks

Our principal risks are aligned to our 4 strategic priorities as follows:

- to be a great place to work, we will help our people fulfil their potential and work together to lead change across Heathrow with energy and pride;
- to give passengers the best airport service in the world we'll work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience;
- to secure future investment we will beat the Q6 business plan and deliver a competitive return to our shareholders by growing our revenue, reducing costs and delivering investments more efficiently; and
- to grow and operate our airport sustainably, now and in the future.

The principal risks identified by the Executive Committee are:

Safety risks

Health and safety is a core value of the business and the Company actively promotes the role of safety leadership in creating a safety culture that is intolerant of accidents and incidents.

Heathrow Express Operating Company Limited

Strategic Report continued

The Company's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the Company's business. The Company also operates robust asset management processes to ensure property and equipment remains safe. Governance, led by the senior management teams and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

Security risks

Heathrow is responsible for ensuring that its assets, infrastructure, human and electronic systems and processes meet the minimum statutory requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers. It also needs to ensure that its assets, infrastructure, human and electronic systems are protected from theft, damage or intrusion.

Security risks, including cyber security, terrorism risks, and information security are mitigated by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading edge security technology. Heathrow works closely with airlines and government agencies including the police building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

The Company has a security plan for stations and trains which adhere to regulations laid down by the Government Department of Transport.

Corporate social responsibility

As part of Heathrow, the Company understands the importance to its business of the communities in which it operates, and through consultation and engagement seeks to ensure that their concerns are taken into account in the operation and planning of Heathrow. It may restrict opportunities to grow and threaten Heathrow's social license to operate if local communities do not believe the airport is managed responsibly or that its economic benefits are optimised without prioritising profits over the long-term interests of local communities. Environmental risk has the potential to impact negatively upon Heathrow's reputation and jeopardise its licence to operate and to grow.

Heathrow undertakes procurement responsibly and encourages trade and employment opportunities for local communities. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established.

Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. The Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

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. Negotiations for a 2018 agreement have been completed, and consultation has begun on the agreement to outsource the trains and their operation to GWR from September 2018.

Post Balance Sheet Event

In March 2018 the Company reached agreement with the Department for Transport and First Group which confirmed that Great Western Railway ("GWR") would provide and operate the Heathrow Express trains on behalf the Company from September 2018. The agreement will involve the gradual replacement of the existing Class 332 trains with new Class 387 trains during 2019. It will also involve the transfer of drivers and support staff to GWR. The Company will continue to be responsible for the overall business including the Office of Rail and Road ("ORR") safety certificate.

On behalf of the Board



Fraser Brown
Director

21 June 2018

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

Principal activities

The Company operates the rail service between Heathrow airport and Paddington station, London.

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks, likely future developments, post balance sheet events and going concern are reported in the strategic report on pages 2 to 3.

The Company considers punctuality, passenger volumes and growth, airport market share and profit after taxation to be key performance indicators which are discussed in the Strategic Report on pages 2 to 3.

Results and dividends

The profit after taxation for the financial year amounted to £1.9 million (2016: loss of £7.4 million) after providing for intangible amortisation of £4.1m (2016: £9.5m, including intangible amortisation of £4.9m, and an impairment charge of £4.6m). No dividends were proposed or paid during the year (2016: £nil). The statutory results for the year are set out on page 9.

There was one post balance sheet event regarding an agreement reached with the DfT and First Group to operate the Heathrow Express trains. This is described in the strategic report on page 3 and note 15 on page 23.

Directors

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

Ross Baker	Appointed 17 January 2017
Normand Boivin	Resigned 3 October 2017
Fraser Brown	
Stephen Chambers	Appointed 5 July 2017
Jonathan Coen	Resigned 17 January 2017
Simon Earles	Resigned 30 June 2017
Christopher Green	
Andrew MacMillan	Appointed 5 July 2017
Derek Provan	Appointed 3 October 2017, Resigned 25 October 2017
Robert Smallwood	

Employment policies

The Company's employment policies are designed to balance the needs of the business, the customer and the employee and to enable it to attract, recruit and retain high performing individuals from the diverse communities that it provides services to.

The Company remains committed to encouraging diversity and fair and consistent practices in all stages of the employee life cycle, from recruitment onwards. The Company's Diversity policy takes account of relevant legislation and full consideration and support is given to employees who become disabled or require flexible working arrangements in order to remain employed.

Opportunities for development and progression are available to all and learning and development activities receive a high priority to continuously improve the performance of individuals and teams and to retain talented individuals. The Company places great emphasis and allocates substantial resources to ensure that the views of employees are sought and employees are engaged in delivering against business objectives.

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Company has further procedures to ensure that disabled colleagues are fairly treated in line with the Equality Act (2010). Where employees have become disabled during the course of employment, the Company endeavours to ensure continuing employment through the arrangement of appropriate training.

Collective consultation takes place with two rail unions, ASLEF (Association of Locomotive Engineers and Firemen) and the RMT (Rail, Maritime and Transport workers union), for a large proportion of the Company's employees. In addition regular formal and informal consultation processes exist for consulting with all employees directly, including working parties, training days for operational employees, employee surveys and line manager briefings.

A number of internal communications tools exist, such as daily newsletters, a company intranet/extranet site and employee briefing processes, which aim to ensure employees have both the knowledge to effectively carry out their day-to-day activities but also to further understand the importance of their actions in achieving financial and service performance targets.

Heathrow Express Operating Company Limited

Directors' Report continued

Employment policies continued

Reward and recognition practices also seek to align individual performance to Company objectives and financial targets for employees, managers and senior managers. Bonuses paid to employees and managers are linked to performance against financial targets.

Supplier payment policy

The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should:

- agree payment terms at the outset of a transaction and adhere to them;
- provide suppliers with clear guidance on payment procedures;
- pay bills in accordance with any contract agreed or as required by law; and
- advise suppliers without delay when invoices are contested and settle disputes quickly.

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.

Auditor

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485 or, Deloitte LLP will be deemed re-appointed where no such resolution is proposed, following the period set out in section 485 in accordance with section 487.

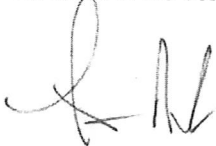
Statement of disclosure of information to the Auditor

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the Board



Fraser Brown
Director

21 June 2018

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Heathrow Express Operating Company Limited

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Heathrow Express Operating Company Limited (the 'Company') which comprise:

- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity;
- Accounting policies; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

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

Heathrow Express Operating Company Limited

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

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.

Auditor's 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 auditor's 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

21 June 2018

Heathrow Express Operating Company Limited

Statement of comprehensive income for the year ended 31 December 2017

		Year ended 31 December 2017	Year ended 31 December 2016
		Total	Total
	<i>Note</i>	£'000	£'000
Revenue	1	135,185	129,346
Operating costs	2	(132,311)	(136,856)
Other operating items			
Operating profit/(loss)		2,874	(7,510)
Financing			
Finance income	3	557	635
		3,431	(6,875)
Profit/ (loss) before tax		3,431	(6,875)
Taxation			
Taxation charge	4	(1,517)	(503)
Profit/ (loss) for the year		1,914	(7,378)
Total comprehensive income/(Loss) for the year attributable to the parent		1,914	(7,378)

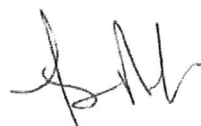
All results are from continuing operations.

Heathrow Express Operating Company Limited

Statement of financial position as at 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	5	117	177
Intangible assets	6	22,763	26,904
Trade and other receivables	7	55	48
		22,935	27,129
Current assets			
Trade and other receivables	7	50,848	46,123
Cash and cash equivalents	8	2,657	1,133
		53,505	47,256
Total assets		76,440	74,385
Liabilities			
Current liabilities			
Current income tax liabilities		(1,477)	(521)
Trade and other payables	9	(5,462)	(6,277)
		(6,939)	(6,798)
Total liabilities		(6,939)	(6,798)
Net assets		69,501	67,587
Equity			
Capital and reserves			
Share capital	10	-	-
Share premium	11	38,000	38,000
Retained Earnings	12	31,501	29,587
Total shareholder's equity		69,501	67,587

These financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) were approved by the Board of Directors and authorised for issue on 21 June 2018. They were signed on its behalf by:



Fraser Brown
Director



Ross Baker
Director

Heathrow Express Operating Company Limited

Statement of changes in equity for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
1 January 2016	-	38,000	36,965	74,965
Comprehensive income:				
Loss for the year			(7,378)	(7,378)
31 December 2016	-	38,000	29,587	67,587
Comprehensive income:				
Profit for the year			1,914	1,914
Total comprehensive income	-	-	1,914	1,914
31 December 2017	-	38,000	31,501	69,501

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017

Accounting Policies

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 and approved by the Directors in compliance with Financial Reporting Standard ('FRS') 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'.

The Company

The Company is a private company, limited by shares, incorporated in the United Kingdom and registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Basis of accounting

The Company financial statements are prepared in accordance with FRS 102 and are presented on the basis of the historical cost convention.

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 and related party transactions. 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 statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow (SP) Limited group (the "SP Group"), which is the smallest group to consolidate these financial statements, and the level at which the financial risks are managed for the Company.

Consequently the Directors have reviewed the cash flow projections of the SP Group taking into account:

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall SP Group liquidity position, including the projected upstreams of cash remaining committed and uncommitted facilities available to it, its scheduled debt maturities, and its forecast financial ratios and its ability to access debt markets.

As a result of the review, and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

Revenue

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue represents all fare and non-fare income earned directly by the Company. Income from fares is recognised when the ticket is sold, or, in the case of advance purchase tickets, revenue is recognised based on the date of travel.

Interest

Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

Tangible fixed assets

Rolling stock and all major assets used by the service are owned and depreciated by Heathrow Airport Limited.

Assets owned by the Company are stated at cost less accumulated depreciation.

Depreciation is provided on these operational assets, mainly office and computer equipment, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows:

	<i>Fixed asset lives</i>
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years

Intangible assets – rights to operate

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 five and a half years to June 2023.

Impairment of assets

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

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

Leases

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

Company as a lessee

Operating lease payments are recognised as an expense in the 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.

Company as a lessor

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as the rental income.

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.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

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 HAML Board and Ferrovia 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 income tax

The tax expense for the year comprises current and deferred tax and is recognised in the statement of comprehensive income.

Current tax liabilities are measured at the amount expected to be 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 balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

In accordance with FRS 102 Section 29 timing differences, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

Pension costs

For the year ended 31 December 2017 the full share of the retirement benefit scheme obligations of the Company have been allocated to Heathrow Airport Limited ('HAL'). As from 1st January 2015 the Company has not been allocated a share of the deficit or surplus as it will better reflect the exposure that will ultimately be funded out of HAL and isn't changed by arbitrary, short-term, movements of staff between management roles at HAL and the Company.

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.

Cash flow statement and related party transactions

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2017. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2017 (intermediate parent entity and the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement and from disclosing related party transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group under the terms of accounting standard FRS 102 (1.12 (b) and (e)).

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

Significant accounting judgements and estimates for the year ended 31 December 2017

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

Critical judgements in applying the Company's accounting policies

There are no critical judgements for the Company.

Key sources of estimation uncertainty

Valuation of the intangible asset (rights to operate)

A Business Transfer Agreement ("BTA"), signed between the Company and Heathrow with effect from 1st September 2015, was valued at £38m at that date. For the year ended 31st December 2017 the valuation was reviewed, including making a judgement on forward passenger growth forecasts post Crossrail, fare revenue forecasts and cost trends. The model forecast horizon was extended up to 2028 from 2023 due to the GWR, DfT agreement which committed to extend the Track Access agreement from 2023 up to 2028. See note 15 for further details.

As a result of the review of the valuation, no impairment was required or included in the accounts (2016: £4.6m).

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

1 Revenue

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Fare Revenue	120,755	111,734
Non Fare Revenue	6,089	9,271
Provision of Rail Services to Heathrow	8,341	8,341
	135,185	129,346

2 Operating costs

Operating costs, comprise the following:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Employment		
Wages and salaries	21,042	20,404
Social security	2,187	2,021
Pension ¹	753	645
Other staff related costs	1,374	1,483
	25,356	24,553
Operational	7,988	8,244
Maintenance	12,145	12,873
Rates	2,429	1,821
Utilities	2,110	1,636
Intra-group charges ²	72,573	72,437
Other	5,480	5,723
Total operating costs	128,081	127,287
Depreciation and amortisation		
Property, plant and equipment	89	84
Intangible assets	4,141	4,853
Impairment of intangible assets (note 6)	-	4,632
	4,230	9,569
Total operating costs	132,311	136,856

¹ Pension costs comprise £753,000 (2016: £645,000) of pension costs related to the Company's defined contribution pension scheme. There were £0 (2016: £0) recharges from LHR Airports Limited in relation to the LHR Airports Limited defined benefit pension scheme. Refer to the Accounting policies.

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.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

Rentals under operating leases

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<i>Operating costs include:</i>		
Plant and machinery ¹	10,276	10,276
Land and Buildings ²	2,155	2,155
Other operating leases ³	68,216	67,067

¹ Plant and machinery includes £10,209,000 for rolling stock leasing charges from Heathrow Airport Limited for the year ended 31 December 2017 (2016: £10,209,000).

² Land and Buildings includes £2,122,000 for train depot lease charges from Heathrow Airport Limited for the year ended 31st December 2017 (2016: £2,122,000).

³ Other Operating Leases includes £58,885,000 for track access charges payable to Heathrow Airport Limited for the year ended 31st December 2017 (2016: £58,885,000) 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, terminal 4 and terminal 5. It also includes £7,507,000 (2016: £7,888,000) 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.

Auditor's 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 2017 £'000	Year ended 31 December 2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Audit of the Company pursuant to legislation	22	16

Employee information

The average number of employees of the Company during the year was 460 (2016: 446).

Directors' remuneration

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Directors' remuneration		
Aggregate emoluments ¹	232	193
Value of Company pension contributions to pension schemes	77	7
	309	200

¹ For the year ended 31 December 2017 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP') and termination benefits.

Fraser Brown, Ross Baker, Jonathan Coen, Derek Provan, Normand Boivin, Andrew Macmillan and Stephen Chambers were directors of a number of companies within the Heathrow Airport Holdings Group, during the year. The remuneration of Normand Boivin for the year ended 31 December 2017 was disclosed in the financial statements of Heathrow Airport Limited, the director does not believe it is possible to accurately apportion his remuneration to individual companies based on services provided. Brian Woodhead, Jonathan Coen and Fraser Brown were paid by, but are not directors of Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided. Simon Earles and Stephen Chambers were paid by, but are not a director of Heathrow Airport Limited. Robert Smallwood and Christopher Edward Wastie Green were paid by and are directors of the Company.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

2 Operating costs continued

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Highest paid director's remuneration		
Aggregate emoluments ^{1 2}	92	152
Value of company pension contributions to defined contribution scheme	66	7
	158	159

¹ For the year ended 31 December 2017 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP') and termination benefits.

² £nil of bonus was paid in cash in 2017 (2016: £nil).

The highest paid director participates in various Long Term Incentive Performance Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The highest paid director's remuneration in 2017 includes £25,000 which will be paid in 2019 if the targets are fully met. In 2017, £21,000 was paid.

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Number of directors who:		
- are members of a defined benefit pension scheme	1	2
- are members of a defined contribution pension scheme	1	2

None of the directors (2016: none) exercised any share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2016: none) were received or became receivable under long term incentive plans.

3 Finance Income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest receivable from group undertaking	556	634
Interest receivable on bank deposits	1	1
Net interest receivable and similar income	557	635

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

4 Taxation charge

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax			
Group relief payable		(1,477)	(521)
Adjustments in respect of prior periods		(47)	24
Total current tax charge		(1,524)	(497)
Deferred tax			
Origination and reversal of timing differences		5	(16)
Adjustments in respect of prior periods		2	13
Change in tax rate		-	(3)
Total deferred tax credit/ (charge)	7	7	(6)
Tax charge		(1,517)	(503)

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19.25% (2016: 20%). The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit/(loss) on ordinary activities before tax	3,431	(6,875)
Tax on profit on ordinary activities at 19.25% (2016: 20%)	(660)	1,375
Effect of:		
Expenses not deductible for tax purposes	(812)	(1,912)
Adjustments in respect of prior periods – current tax	(47)	24
Adjustments in respect of prior periods – deferred tax	2	13
Change in tax rate – deferred tax	-	(3)
Tax charge	(1,517)	(503)

The tax charge recognised for the year ended 31 December 2017 was £1,517,000 (2016: £503,000). Based on a profit before tax for the year of £3,431,000 (2016: £6,875,000 loss), this results in an effective tax rate of 44.2% (2016: 7.3% negative). The tax charge is more (2016: more) than implied by the statutory rate of 19.25% (2016: 20%) primarily due to non-deductible expenses in respect of the intangible amortisation in 2017, and intangible amortisation and impairment in 2016.

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act 2016 enacted a further reduction in the main rate of corporation tax to 17% from 1 April 2020. The effects of these rate reductions were reflected in the deferred tax balances in the 2016 financial statements.

In November 2017 the Finance (No.2) Act 2017 received Royal Assent, giving effect to a new interest deductibility regime. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). As a result of the new legislation, from 1 April 2017, interest deductions are limited to 30% of tax based EBITDA, with the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). Heathrow will be protected from the 30% of tax based EBITDA cap as a result of applying either the PIE or GRR and therefore no interest disallowance has been reflected in the 2017 tax charge (2016: nil).

Other than these changes there are no items which would materially affect the future tax charge.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

5 Tangible fixed assets

	Plant, equipment & other assets £'000
Cost	
1 January 2016	558
Additions	96
31 December 2016	654
Additions	29
31 December 2017	683
Depreciation	
1 January 2016	393
Charge for the year	84
31 December 2016	477
Charge for the year	89
31 December 2017	566
Net book value 31 December 2017	117
Net book value 31 December 2016	177

6 Intangible fixed assets

Heathrow Express Operating Company Limited Right to Operate

	£'000
Cost	
1 January 2016, 31 December 2016, 31 December 2017	38,013
Amortisation	
1 January 2016	1,624
Charge for the year	4,853
Impairment charge	4,632
31 December 2016	11,109
Charge for the year	4,141
31 December 2017	15,250
Net book value 31 December 2017	22,763
Net book value 31 December 2016	26,904

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 £38m, representing the value to the Company, at the date of transfer, for the ability to operate the services.

At 31 December 2017, 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. (2016: impairment of £4.6m).

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

7 Debtors

	31 December 2017	31 December 2016
	£'000	£'000
Current		
Trade debtors	1,822	1,371
Accrued income	9,699	12,147
Amounts owed by group undertakings ¹	37,772	31,188
Other debtors	1,555	1,417
	50,848	46,123
Non-current		
Deferred tax asset	55	48
Total debtors	50,903	46,171

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

Deferred tax

	£'000
1 January 2017	48
Credited to profit and loss account	7
31 December 2017	55

Analysis of the deferred tax asset balances is as follows:

	31 December 2017	31 December 2016
	£'000	£'000
Excess of depreciation over capital allowances	39	36
Other timing differences	16	12
	55	48

Provision has been made for deferred taxation in accordance with FRS 102. It is anticipated that there will be no net reduction in the deferred tax asset in the next twelve months.

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act 2016 enacted a further 1% reduction in the main rate of corporation tax to 17% from 1 April 2020. The effects of these rate reductions were reflected in the deferred tax balances in the 2016 financial statements.

8 Cash at bank and in hand

	31 December 2017	31 December 2016
	£'000	£'000
Cash at bank and in hand	2,657	1,133

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

9 Trade and Other Payables

	31 December 2017	31 December 2016
	£'000	£'000
Current		
Trade Creditors	14	-
Accruals and deferred income	4,744	5,619
Other tax and social security	584	534
Other creditors	120	124
	5,462	6,277

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

10 Called up share capital

	£
Authorised	
At 1 January 2017 and 31 December 2017: 100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2017 and 31 December 2017	4

11 Share Premium

	£'000
Cost	
1 January 2017	38,000
31 December 2017	38,000

12 Retained Earnings

	£'000
1 January 2017	29,587
Profit for the financial year	1,914
31 December 2017	31,501

13 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Company as a lessee

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

	31 December 2017		31 December 2016	
	Land & buildings £'000	Other leases £'000	Land & buildings £'000	Other leases £'000
Within one year	2,155	27,891	2,155	77,343
Within two to five years	8,488	105,866	8,488	184,499
After five years	6,366	40,926	6,366	95,960
	17,009	174,683	17,009	357,802

The Company leases various buildings, plant and machinery under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

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

Other leases commitments include Track Access and Rolling Stock agreements with Heathrow Airport Limited, and also Track Access agreements with Network Rail. The commitment level on "Other Leases" has reduced from 2016 to 2017 following the ORR's determination on the level of Track Access fees Heathrow will charge to the Company.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2017 continued

Securities and guarantees

The Company, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security over their assets to secure their obligations under their financing agreements. Each Obligor has also provided a guarantee of the obligations of the other Obligors.

BAA Pension Trust Company Limited is a Borrower Secured Creditor and has a right to receive up to approximately £284 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

The Company and Heathrow Express Operating Company Limited have provided a guarantee in favour of Lloyds bank plc as Borrower Account Bank in respect of their liabilities under the Borrower Account Bank Agreement.

14 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow (AH) Limited, a company registered in England and Wales.

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), Alinda Airports UK L.P. (11.18%) (an investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2017, 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 2017.

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.

15 Post Balance Sheet Event

In March 2018 the Company reached agreement with the Department for Transport and First Group which confirmed that Great Western Railway ("GWR") would provide and operate the Heathrow Express trains on behalf the Company from September 2018. The agreement will involve the gradual replacement of the existing Class 332 trains with new Class 387 trains during 2019. It will also involve the transfer of drivers and support staff to GWR. The Company will continue to be responsible for the overall business including the Office of Rail and Road ("ORR") safety certificate.