Heathrow Express Operating Company Limited
Annual report and financial statements
for the year ended 31 December 2019

Company registration number: 03145133

Heathrow Express Operating Company Limited

Contents

Heathrow Express Operating Company Limited

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Heathrow Express Operating Company Limited

Strategic report

Heathrow Express Operating Company Limited (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, rolling stock 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 also pays track access charges to Network Rail for use of the track from Airport Junction to London Paddington.

Review of business and future developments
Recent key events are detailed below.

Under an agreement between Heathrow, the Company and the Secretary of State for Transport, the "Heathrow Express Overarching Agreement", the following changes were put in place and agreed using a phased approach:

2018	A "Services Agreement" between the Company, Heathrow and First Greater Western Limited (trading as Great Western Railway, "GWR") was set up. Heathrow Express train drivers, Paddington station staff and specified management staff (FTE 126) were transferred to Greater Western Railway (GWR). Operation of the Heathrow Express trains and Paddington station was transferred to GWR, on behalf of the Company. In a separate arrangement, Heathrow Railway station staff (FTE 156) were transferred from The Company to Heathrow, in order to operate the Heathrow railway stations on behalf of Heathrow Express, and also Transport for London (TfL) Rail (to be Crossrail).
2019	In agreement with the Office of Rail and Road ("ORR"), Heathrow Express services operated, from October, on the Great Western Railway Safety Certification which was amended in order to meet the requirements of the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (ROGS). Heathrow Express introduced formal assurance arrangements to ensure GWR meet its legal obligations in respect of the safe management of these services. This re-organisation involved an additional TUPE transfer of 15 Service Controller, safety and performance staff to GWR.
2020	The provision by GWR of new class 387 trains for use on the Heathrow Express service is expected to commence in the second half of 2020. These trains will replace the Heathrow Express class 332 trains currently in service. When the class 387 trains have fully replaced the class 332 trains, the 332 trains will be returned to the legal owners Heathrow to be sold. The lease of the train care depot at Old Oak Common will also be surrendered to Heathrow which in turn will surrender its lease to the Department for Transport.

Strategic report *continued*

Review of business and future developments *continued*

As part of the agreements, the Department for Transport has agreed to compensate the Company for the incremental costs incurred as a result of the structural changes including operating the service through GWR.

The Heathrow Express service carried a total of 6.32 million passengers, +0.2% up on 2018 (6.31million). Its growth was driven by the 4% increase in non-transfer airport passengers at Heathrow, although it fell short of the 4% increase due to the business having to adjust to the significant structural changes detailed above in 2018.

There was no Heathrow Connect service during the year. The service ceased on 20th May 2018 and therefore carried zero passengers during the year (2018: 0.25m). Fare revenues declined by 3% from £119m in 2018 to £116m in 2019 due to both the reduction in net yield from Heathrow Express fares and the cessation of the Heathrow Connect service.

Non fare revenue declined to £1.8m (2018 £5.2m), due to reduced Crossrail works compensation from fewer engineering works requiring service cancellations, lower release of DfT compensation and decline in advertising and sponsorship revenues.

Revenue from the provision of rail services to Heathrow reduced to £1.8m (2018 £6.5m) due mainly to the TUPE transfer of station staff from the Company to Heathrow, and also from the re-alignment of Inter-terminal transfer services within Heathrow following the commencement of TfL rail service in May 2018.

The profit after taxation for the financial year amounted to £30.1 million (2018: £34.3 million). The reduction in profit was due mainly to the drop in net fare yield and the impact on both revenue and cost of the structural changes arising from the Overarching and Services Agreements implemented in November 2018.

Key performance indicators focus on:
1. Operational punctuality with each service being monitored and recorded. Heathrow Express operational performance improved with punctuality at 90.01% (2018: 83.71%). This was achieved through working closely with GWR on operational performance in its first year of the services agreement, along with fewer disruptions to the timetable through Network Rail and Crossrail possessions.
2. Profit Before Tax: £37.8m, a 11.9% reduction on 2018 (£42.9m) due mainly to lower HEX fare revenues, the reduction in Crossrail works compensation due to its nearing completion, the change in intercompany fees and costs arising as a result of the structural changes and the loss of the Heathrow Connect Service.
3. Operating Costs: £84.1m, a 5.6% reduction on 2018 (£89.1m) due to the 2018 structural changes and the transfer of staff to GWR and Heathrow Rail (see table above).
4. Movement in Net Assets: There was an increase of 29.0% in net assets from £103.8m (2018) to £134.0m (2019). This was due mainly to the increase in the Inter-Company account with Heathrow, through the daily and weekly transfer of cash funds from the Company to Heathrow.

Heathrow Express finished first in the National Rail Passenger Survey (Autumn 2019) with an overall score of 96% (Autumn 2018: 96%, 1st position).

In 2020 the new Crossrail service is expected to introduce its own new class 345 rolling stock between Paddington and Heathrow Central Terminal and Terminal during the second half of 2020, with a full service through London expected by the end of 2021.

The Company anticipates a market share challenge from Crossrail, and measures are being, and will be, put in place to respond. As part of its future strategy, the Company will replace its class 332 rolling stock with new GWR class 387 trains from September 2020.

As a result of the Covid-19 virus, the Company is experiencing a significant shortfall in its own passenger volumes and revenues in the second quarter of 2020. This is expected to continue for the remainder of 2020. Actions to mitigate the lost revenues include:

- halving service frequency to 2 trains per hour, while maintaining an essential service for key workers,
- furloughing operational and management staff,
- company wide salary reductions for 2020, and cancellation of bonuses,
- recruitment freeze,
- reduction in non-essential expenditure and
- the review of its long term cost structure.

Uncertainty around how long the pandemic will last and its medium to long term effect on the aviation industry, means that the financial impact cannot be estimated with any degree of accuracy in the long term at this time. The financial impact of Covid-19 presents a risk that the Company will be unable to meet its financial commitments. For a period of at least twelve months from the approval of the financial statements, Heathrow Airport Limited has committed to providing sufficient liquidity to the Company to enable it to meet its financial commitments as they fall due.

Strategic report *continued*

Internal controls and risk management

Internal controls and risk management are key elements of the Group's corporate operations. Heathrow Airport Holdings Limited ('HAHL') Group has the overall responsibility of Risk and Assurance Management (HRAM) system framework, establishing the Group's risk appetite 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 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.

Risks identified by each of Heathrow's business functions are formally reported to the central Risk and Assurance Team on a quarterly basis by each function's 'risk champion'. Risks are analysed and evaluated to assess the residual risk, i.e. the risk after mitigating actions and controls. The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee. 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 report is then reviewed and approved by the HAHL Board on a quarterly basis.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Group and for reviewing the effectiveness of the system. This is implemented by applying the 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.

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

- a group-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

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.

Strategic report *continued*

Principal risks

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

- Mojo. 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;
- Transform customer service. 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;
- Beat the plan. 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
- Sustainable Growth. To grow and operate our airport sustainably, now and in the future.

Post year end the emergence and spread of the COVID-19 is a new principal risk. The pandemic is having a material impact on our operations and financial performance and management are still in the process of assessing and responding to its impact. The additional identified Covid-19 risks include significant financial loss from a material reduction in passengers, restrictions on access to finance including a higher risk of a covenant breach, failure of key customers and suppliers and operational risk from remote working and organisational restructuring. We have taken immediate action to respond to these risks including safeguarding Heathrow's financial resilience by reducing cost and capital expenditure, liaising with financers and credit rating agencies, supporting our customers such as providing free aircraft parking and reviewing our supplier portfolio to better understand our reliance and mitigate risk from failures, we have engaged with and implemented advice from Public Health England to protect our stakeholders and continue to seek new ways to protect our stakeholders. We will continue to monitor and respond to an evolving and fast changing situation over the coming months and will provide updates in our next set of results.

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

Climate Change & Carbon Targets

Climate-related risk has been split into two areas:
Physical risks – Heathrow's operational resilience to the impact of climate change; and
Transitional risks – the inability to meet our obligations as a responsible business regarding our own and UK/Global Carbon targets which could result in fines, reputation damage and negatively impact expansion plans.

Risk mitigation
Sustainability has been embedded into all governance structures within Heathrow. Proactive environmental management systems and employee training programmes occur within all of our operations which set clear environmental strategies and resource conservation initiatives. We have launched Heathrow 2.0 and work closely across functions to ensure sustainable growth is achieved. We have reduced energy consumption by 9% since 2014 despite a 9% rise in passenger numbers over the same period, and our airport operations have become carbon neutral. We are working towards achieving zero-carbon airport infrastructure by the mid-2030s, while working with the aviation industry to reach net-zero emissions from all flights departing the UK by 2050.

A Safe and Secure Operating Environment

We have a statutory and moral responsibility to ensure that we safeguard the welfare and safety of our people, business partners and the public who may be affected by our activities. Failure to operate a safe environment risks damage to the health and wellbeing of a stakeholder, operational disruption, inconvenience to passengers and long-term damage to our reputation. The UK threat level is substantial. 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
Our safety management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. Governance, led by our senior management teams, and assurance processes are used to ensure that controls around health and safety risks remain effective and continuous improvement is encouraged. In the current year our safety improvement team has initiated a new '4 pillar' safety plan which is designed to improve the fundamental building blocks of a safe operating environment. The overall Operational Health and Safety Policy has also been updated and improved. We work with 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 CAA.

Ability to Access Finance

We need to continue to be able to access finance to fund our current operations and future expansion plans.

Risk mitigation
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 Treasury and Investment team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed.

Strategic report *continued*

Ineffective Organisation – Systems and People

Systems - We are constantly adapting to our internal and external requirements. As we continue to grow existing systems and processes become unsuitable and need to evolve to meet the needs of our business.

People - We rely on our people to ensure that we operate effectively. The requirements externally and internally put pressure on colleagues and, during 2019, there was the additional risk of a threat of industrial action.

Risk mitigation

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 the current year we have launched a project to upgrade our financial system to support working in a simpler, easier, more agile and cost-effective way.

People - We continue to invest in our people and have a strategy to ensure the development of talent. Policies are in place to engage and motivate our colleagues, so they are excited and challenged by their work environment and accountable and compliant with internal governance, policies and procedures. We provide great career opportunities, development and training, retaining talent and knowledge and preventing single points of failure. We were pleased that unions recently accepted a revised pay deal.

Security

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.

Risk mitigation

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.

Information Security

Information security, primarily the risk of malicious cyber-attack is a continued risk given the size and breathe of our network and operating environment.

Risk mitigation

We are implementing an improved cyber security programme to comply with ISO 27001 Information Security. Mandatory training has been rolled out, and multiple awareness campaigns have been initiated which will continue throughout 2020.

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 section 172 requires a director to have regard (amongst other matters) to:

a. The likely consequences of any decisions in the long-term;
b. The interests of the company's employees;
c. The need to foster the company's business relationships with suppliers, customers and others;
d. The impact of the company's operations on the community and environment;
e. The desirability of the company maintaining a reputation for high standards of business conduct; and
f. The need to act fairly as between members of the company.

In discharging our section 172 duty we, the directors of the Company, have regard to the factors set out above. 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.

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

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

HAHL Board is responsible for setting the corporate governance structure and group policies. The Board of Heathrow Express Operating Company Limited ensures that when applying these group policies it has due regard to its fiduciary duties and responsibilities. The Board of Heathrow Express Operating Company Limited 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 Company's key stakeholders are its passengers, colleagues, airlines, investors, suppliers, commercial partners and rail industry including Network Rail, the Office of Rail Regulation and Department for Transport. 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 HAHL Board's approval. The directors have considered it acceptable for the Company to provide less detail in its own report, as it is abiding by policies set at the HAHL Group level. For details of the engagement that takes place at HAHL Group level with the Company's stakeholders, please see HAHL Group's consolidated financial statements.

We set out below some examples of how we have had regard to the matters set out in section 172(1)(a) - (f) when discharging our section 172 duty and the effect of that on decisions taken by us.

Key decision made by the directors of the Company

1) Capital Allocation
In 2019, the Board recommended that no dividend should be proposed or paid during the year. In making the decision the Board considered a range of factors. These include the long-term viability of the Company, its expected cash flow and financing requirements, the strength of the Company's balance sheet and the ongoing need for the business to support the safe and efficient operations over the long term. The Company operates a group treasury relationship with Heathrow, its 100% parent, in which cash balances are swept to Heathrow from the Company on a daily and weekly basis.

2) Borrowings
As required, the directors of the Company review and approve commercial terms for borrowing. In approving terms, the directors seek to ensure that appropriate funds are available to continue to invest in services, at a minimal cost and for a suitable period of time. The final decision on borrowing is approved by the HAHL Board following the recommendation from the Board.

Approved by the Board of directors and signed on its behalf

Les Freer
Director

1 July 2020

Company registration number: 03145133

Directors' report
The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

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

From October 2019 Heathrow Express services operated on the Great Western Railway Safety Certification which has been amended in order to meet the requirements of the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (ROGS).

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks, likely future developments are reported in the Strategic report on pages 2 to 7.

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 7.

Results and dividends
The profit after taxation for the financial year amounted to £30.1 million (2018: profit of £34.3 million) after providing for intangible amortisation of £2.1m (2018: £2.7m). No dividends were proposed or paid during the year (2018: £nil). The statutory results for the year are set out on page 13.

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

Ross Baker
Phillip Bearpark
Anthony Caccavone
Leslie Freer
Michael Hodson
Andrew MacMillan

Going concern
These financial statements have been prepared on the going concern basis, which requires the Directors to have reasonable expectation that the Company, as part of the Heathrow SP Limited Group, has adequate resources to continue in operational existence for the foreseeable future. The going concern accounting policy on page 16 provides more detail.

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. The Company's investment in learning and development is guided by senior line managers who ensure that the Company provides the learning opportunities to support the competencies that are seen as key to the Company's success.

Colleagues with disabilities 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 in line with the Reasonable Adjustments Policy as agreed between the Company and the recognised Trade Unions (Unite, PCS and Prospect).

Directors' report *continued*

Employment policies *continue*d

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, road shows and an intranet. Collective bargaining takes place with the unions Unite, PCS and Prospect for those employee groups for which these unions are recognised. The Company is committed to managing people through change fairly.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. A Share In Success saver scheme in which eligible employees can save money which the Company matches as a contribution in line with business performance has been in place since 2015. In addition, some senior management participate in long-term incentive plans which also rewards based on company's performance.

Employee engagement statement

Details of how the Directors have engaged with employees can be found in the section 172 (1) statement on page 6.

Subsequent events:

Subsequent events are disclosed in note 14.

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

After a comprehensive tender process, and recommendation made by the Audit Committee, the Board has appointed PricewaterhouseCoopers (PwC) as auditor of the Group for the financial year ending 31 December 2020.

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the appointment of the auditor PricewaterhouseCoopers (PwC) will be proposed within the period set out in section 485.

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.

Statement of disclosure of information to the Auditor *continued*

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

Approved by the Board of directors and signed on its behalf

Les Freer
Director

1 July 2020

Company registration number: 03145133

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.

Independent auditor's report to the members of Heathrow Express Operating Company Limited for the year ended 31 December 2019

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Heathrow Express Operating Company Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the accounting policies;
- the significant accounting judgements and estimates; 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 Financial Reporting Council's (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.

Independent auditor's report to the members of Heathrow Express Operating Company Limited for the year ended 31 December 2019 *continued*

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.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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.

Simon Cleveland

Simon Cleveland (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

1 July 2020

Heathrow Express Operating Company Limited

Statement of comprehensive income for the year ended 31 December 2019

	Note	**Year ended 31 December 2019**	Year ended 31 December 2018
		Total	Total
		£'000	£'000
Revenue	*1*	**119,415**	130,758
Operating costs	*2*	**(84,116)**	(89,068)
Operating profit		**35,299**	41,690
Financing			
Finance income	*3*	**2,453**	1,296
		37,752	42,986
Profit before tax		**37,752**	42,986
Taxation			
Taxation charge	*4*	**(7,699)**	(8,657)
Profit for the year[1]		**30,053**	34,329

[1]All results are from continuing operations.

Heathrow Express Operating Company Limited

Statement of financial position as at 31 December 2019

	Note	**31 December 2019 £'000**	31 December 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	*5*	**171**	202
Intangible assets	*6*	**18,017**	20,053
Trade and other receivables	*7*	**49**	59
		18,237	20,314
Current assets			
Trade and other receivables	*7*	**136,405**	108,110
Cash and cash equivalents	*8*	**1,596**	548
		138,001	108,658
Total assets		**156,238**	128,972
Liabilities			
Current liabilities			
Group relief payable		**(7,598)**	(8,597)
Trade and other payables	*9*	**(14,757)**	(16,545)
		(22,355)	(25,142)
Total liabilities		**(22,355)**	(25,142)
Net assets		**133,883**	103,830
Equity			
Capital and reserves			
Share capital	*10*	**-**	-
Share premium	*11*	**38,000**	38,000
Retained Earnings	*12*	**95,883**	65,830
Total shareholder's equity		**133,883**	103,830

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 1 July 2020. They were signed on its behalf by:

Les Freer
Director

Anthony Caccavone
Director

Heathrow Express Operating Company Limited

Statement of changes in equity for the year ended 31 December 2019

	Share capital[1] £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
1 January 2018	**-**	**38,000**	**31,501**	**69,501**
Comprehensive income				
Profit for the financial year	-	-	34,329	34,329
31 December 2018	-	38,000	65,830	103,830
Comprehensive income				
Profit for the financial year	-	-	30,053	30,053
Total comprehensive income	-	-	**30,053**	**30,053**
31 December 2019	**-**	**38,000**	**95,883**	**133,883**

[1] Details of share capital can be found in note 10 to the financial statements.

Accounting policies for the year ended 31 December 2019

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 under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 ('FRS 102') issued by the Financial Reporting Council. The Company has applied the amendments to FRS 102 issued by the FRC in December 2017 with effect from 1 January 2019.

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, 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 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.

The ultimate parent of the Company is FGP Topco Limited. The Heathrow group of entities raises finance within a consolidated securitised group Heathrow SP Limited ('Heathrow SP') and its parent company Heathrow Finance Plc ('Heathrow Finance').

The Company is a subsidiary of Heathrow SP Limited and therefore part of the securitised group. In concluding on the going concern of Heathrow Airport Limited the Directors have considered the ability of Heathrow SP to continue to have access to finance for a period of 12 months.

The Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months and the corresponding impact on the covenants associated with Heathrow SP's financing arrangements. During Q1 steps have been taken to access significant additional liquidity and Heathrow SP has drawn down an additional £1,531 million of pre-agreed facilities, and raised an additional £80 million in Class A debt. Consequently, Heathrow SP held cash and cash equivalents of £2,486 million as at 31 March 2020. Total debt maturity within Heathrow SP for the next 12 months is £250 million. The wider Heathrow Group (which includes Heathrow Finance and Heathrow SP) has cash and committed facilities of circa. £3.2 billion available. No debt matures outside of Heathrow SP for the next 12 months. The Directors have modelled revised cash flow projections for Heathrow SP, in the context of the significant impact of COVID-19 on the aviation industry, reflecting the additional operational and financial risks and have considered the following:
- the forecast revenue and operating cash flows from the underlying operations,
- the forecast level of capital expenditure, and
- the overall Group liquidity position, including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and its ability to access the debt markets.

The models have included the impacts of several important steps to reduce operating expenditure including temporarily shrinking the Group's operation, cancelling executive pay, a companywide pay reduction and bonus cancellation, freezing recruitment and removing all non-essential costs. Steps have also been taken to adjust Heathrow's capital expenditure which we anticipated being around £500 million in the current year. In modelling the impact of COVID-19, notably the rate at which passenger numbers will return from the around 97% reduction expected in April, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of the forecasting is therefore inherently subjective.

Accounting policies for the year ended 31 December 2019 *continued*
Going concern *continued*

In Heathrow Express, the Company has experienced a significant shortfall in its own passenger volumes with year on year reductions in March (68%), April (99%) and May (98%). This is expected to continue for the remainder of 2020. Mitigating actions include:
- the reduction of service frequency to 2 trains per hour,
- furloughing operational and management staff,
- company wide salary reductions and bonus cancellations for 2020,
- a recruitment freeze,
- a reduction in non-essential expenditure and
- the review of its long term cost structure.

The financial impact of Covid-19 presents a risk that the Company will be unable to meet its financial commitments. For a period of at least twelve months from the approval of the financial statements, Heathrow Airport Limited has committed to providing sufficient liquidity to the Company to enable it to meet its financial commitments as they fall due.

In reaching our going concern conclusion the Directors have therefore considered several potential downside scenarios. These scenarios were prepared by internal experts and challenged by our governance committees. Our stress test was considered to represent a downside scenario which was worse than forecasts provided by others in the market. We continue to monitor available evidence and will update our forecasts as more information becomes available.

Having modelled various scenarios, and the corresponding impact on various debt covenants, the Directors have a reasonable expectation that there will be no default event triggering a repayment of external debt within the Heathrow SP group of companies within the going concern period.

We have also considered the potential impact of Covid-19 on other entities within the group above Heathrow SP notably Heathrow Finance. We noted that the directors of the entity have confirmed there is appropriate cash held within Heathrow Finance Plc to meet forecast commitments for the next 12 months and no capital repayments were due until 2024. The directors continue to assess the longer-term impact of Covid-19 on default covenants and the possible mitigating actions that would be implemented if necessary. Default covenants within Heathrow Finance are assessed based on the financial year ended 31 December 2020 and compliance certificates are not due for submission until June 2021.

In conclusion, having had regard to both liquidity and debt covenants for the Company and the wider securitised group that the Company is part of, the Directors have concluded that there will be sufficient funds available for at least twelve months from the date of these accounts.

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 and 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.

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 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

Accounting policies for the year ended 31 December 2019 *continued*

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 eight 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.

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

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 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.

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.

Significant accounting judgements and estimates for the year ended 31 December 2019

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

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 the DfT. If the rights were to extend only to 2023, the end of the current track access agreement, the impact on the financial statements for the year ended 31st December 2019 would be to increase the amortisation charge by £2.3m.

Notes to the financial statements for the year ended 31 December 2019

1 Revenue

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Fare Revenue	**115,833**	119,063
Other Income[1]	**1,760**	5,200
Provision of Rail Services to Heathrow	**1,822**	6,495
	119,415	130,758

[1] Other income includes Crossrail Engineering works compensation £1,054,000 (2018 £2,541,000), advertising revenue £206,000 (2018: £559,000), and DfT compensation in accordance with the Overarching Agreement £500,000 (2018: £2,100,000).
[2] Revenue is earned in the United Kingdom.

2 Operating costs

Operating costs, comprise the following:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Employment		
Wages and salaries	**8,433**	19,361
Social security	**854**	1,984
Pension[1]	**312**	663
Other staff related costs	**632**	1,508
	10,231	23,516
Operational	**13,649**	12,260
Maintenance	**10,935**	11,124
Rates	**1,731**	2,782
Utilities	**3,318**	2,239
Intra-group charges[2]	**25,463**	23,914
GWR/ DfT agreement	**9,864**	2,422
Other	**6,655**	8,001
Total operating costs	**81,846**	86,258
Depreciation and amortisation		
Property, plant and equipment	**129**	100
Intangible assets	**2,141**	2,710
	2,270	2,810
Total operating costs	**84,116**	89,068

1 Pension costs comprise £312,000 (2018: £663,000) of pension costs related 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 The GWR/ DfT agreement includes all costs incurred in implementing the Overarching Agreement in 2019.

Notes to the financial statements for the year ended 31 December 2019 *continued*

2 Operating costs *continued*
Rentals under operating leases

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating costs include:		
Plant and machinery [1]	**10,243**	10,265
Land and Buildings [2]	**2,155**	2,155
Other operating leases [3]	**21,540**	20,141

[1] Plant and machinery includes £10,209,000 for rolling stock leasing charges from Heathrow Airport Limited for the year ended 31 December 2019 (2018: £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 2019 (2018: £2,122,000).
[3] Other Operating Leases includes £12,060,000 for track access charges payable to Heathrow Airport Limited for the year ended 31st December 2019 (2018: £10,296,000) 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. (2018 also included Terminal 4 up to 20th May). It also includes £9,260,000 (2018: £9,369,000) 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 2019 £'000	Year ended 31 December 2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Audit of the Company pursuant to legislation	20	19

Employee information
The average number of employees of the Company during the year was 186 (2018: 398) The decrease in the average number of employees year on year is due Heathrow express train drivers, Paddington station staff and management being transferred to Greater Western Railway (GWR). In addition, station staff and management were transferred to Heathrow Airport Limited. This took place on November 2018.

Directors' remuneration

	Year ended 31-Dec-19 £'000	Year ended 31-Dec-18 £'000
Salaries and employee benefits [1 2]	**507**	244
Value of Company pension contributions to pension schemes	**30**	6
	537	251

1 For the year ended 31 December 2019 aggregate emoluments includes salaries, allowances, director fees, accrued bonuses and amounts payable under long term incentive plans ('LTIP').
2 £66,375 bonus was paid in cash in 2019 (2018: Nil)

2 **Operating costs** *continued*

Directors' remuneration *continued*

Ross Baker, Andrew Macmillan, Fraser Brown and Stephen Chambers were directors of a number of companies within the Heathrow Airport Holdings Group during the year. The remuneration of Ross Baker and Andrew Macmillan 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. Fraser Brown and Steve Chambers were paid by but are not directors 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. Antony Caccavone, Lesley Freer, Michael Hodson and Phillip Bearpark were paid by and are directors of the Company.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Highest paid director's remuneration		
Salaries and employee benefits [1 2]	**288**	180
Value of Company pension contributions to pension schemes	**18**	5
	306	185

1 For the year ended 31 December 2019 aggregate emoluments includes salaries, allowances, director fees, accrued bonuses and amounts payable under long term incentive plans ('LTIP').
2 £46,697 bonus was paid in cash in 2019 (2018: Nil)

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Number of directors who:		
- are members of a defined benefit pension scheme	**2**	2
- are members of a defined contribution pension scheme	**2**	2

None of the directors (2018: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2018: none) were received or became receivable under long term incentive plans.

Notes to the financial statements for the year ended 31 December 2019 *continued*

3 Finance Income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest receivable from group undertaking	**2,453**	1,295
Interest receivable on bank deposits	**0**	1
Net interest receivable and similar income	**2,453**	1,296

4 Taxation expense

	Note	**Year ended 31 December 2019 £'000**	Year ended 31 December 2018 £'000
Current tax			
Group relief payable		**(7,598)**	(8,597)
Adjustments in respect of prior periods		**(91)**	(64)
Total current tax expense		**(7,689)**	(8,661)
Deferred tax			
Origination and reversal of timing differences		**3**	3
Adjustments in respect of prior periods		**(13)**	1
Total deferred tax credit	7	**(10)**	4
Taxation charge		**(7,699)**	(8,657)

Reconciliation of tax expenses

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2018: 19%). 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 2019 £'000	Year ended 31 December 2018 £'000
Profit before tax	**37,752**	42,986
Tax on profit at 19% (2018: 19%)	**(7,173)**	(8,167)
Effect of:		
Expenses not deductible for tax purposes	**(422)**	(427)
Adjustments in respect of prior periods – current tax	**(91)**	(64)
Adjustments in respect of prior periods – deferred tax	**(13)**	1
Taxation charge	**(7,699)**	(8,657)

The tax charge recognised for the year ended 31 December 2019 was £7,699,000 (2018: £8,657,000). Based on a profit before tax for the year of £37,752,000 (2018: £42,986,000), this results in an effective tax rate of 20.4% (2018: 20.1%). The tax charge is more (2018: more) than implied by the statutory rate of 19.00% (2018: 19.00%) primarily due to non-deductible expenses in respect of the intangible amortisation in 2019 and 2018.

Under legislation enacted by the balance sheet date, the headline UK corporation tax rate is 19% up to 31 March 2020 and reduces to 17% with effect from 1 April 2020. Subsequently, draft legislation in Finance Bill 2020 repeals the rate reduction and maintains the rate at 19%. At the balance sheet date this amendment had not been substantively enacted so has not been reflected in the deferred tax balances

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

Notes to the financial statements for the year ended 31 December 2019 *continued*

5 Tangible fixed assets

	IT equipment, software & other assets £'000
Cost	
1 January 2018	683
Additions	184
Disposals	(389)
31 December 2018	**478**
Additions	98
31 December 2019	**576**
Depreciation	
1 January 2018	566
Charge for the year	100
Disposals	(390)
31 December 2018	**276**
Charge for the year	129
31 December 2019	**405**
Net book value 31 December 2019	**171**
Net book value 31 December 2018	202

6 Intangible fixed assets

	Rights to Operate £'000	Software £'000	Total £'000
Cost			
1 January 2018, 31 December 2018	**38,000**	**13**	**38,013**
Additions		105	105
31 December 2019	**38,000**	**118**	**38,118**
Amortisation			
1 January 2018	15,238	12	15,250
Charge for the year	2,709	1	2,710
31 December 2018	**17,947**	**13**	**17,960**
Charge for the year	2,111	30	2,141
31 December 2019	**20,058**	**43**	**20,101**
Net book value 31 December 2019	**17,942**	**75**	**18,017**
Net book value 31 December 2018	20,053	-	20,053

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.

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. However, as at the year ended 31 December 2019 no formal negotiations had commenced

At 31 December 2019, 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. (2018: £NIL). The Intangible asset will be fully amortised as at 30 June 2028.

Notes to the financial statements for the year ended 31 December 2019 *continued*

7 Debtors

	31 December 2019 **£'000**	31 December 2018 £'000
Current		
Trade debtors	**1,323**	9,725
Accrued income	**5,474**	4,164
Amounts owed by group undertakings[1]	**127,211**	92,807
Other debtors	**2,397**	1,414
	136,405	108,110
Non-current		
Deferred tax asset	**49**	59
Total debtors	**136,454**	108,169

[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. The increase is due to cash sweeps from the Company to Heathrow Airport Limited. Please see Strategic Report Key Performance Indicators for further details. Heathrow Express Operating Company Limited is a wholly owned subsidiary of Heathrow Airport Limited.

Deferred tax

	£'000
1 January 2019	59
Charged to profit and loss account	(10)
31 December 2019	**49**

Analysis of the deferred tax asset balances is as follows:

	31 December 2019 **£'000**	31 December 2018 £'000
Excess of depreciation over capital allowances	**42**	46
Other timing differences	**7**	13
	49	59

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

Based on the current net deferred tax asset, a 19% corporation tax rate would increase the net deferred tax asset to an estimated £60,000 which would give rise to a £6,000 deferred tax credit due to changes in tax rates.

8 Cash at bank and in hand

	31 December 2019 **£'000**	31 December 2018 £'000
Cash at bank and in hand	**1,596**	548

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

Current	**31 December 2019 £'000**	31 December 2018 £'000
Trade Creditors[1]	**1,503**	217
Accruals	**2,728**	5,257
Deferred income	**10,284**	10,826
Other tax and social security	**193**	200
Other creditors	**49**	45
	14,757	16,545

[1] For the year ended 31 December 2018 a provision for Trade Creditors was held for £217,000 for capital project (train overhaul project) invoices from Siemens

Deferred income includes £10.0m (2018 £9.0m restated as £10.5m) of compensation received from the Department for Transport as part of the Heathrow Express Overarching Agreement (see Strategic Report). The amount will be released to the Profit and Loss account over the ten years of the agreement, to offset the additional costs incurred by the Company as a result of the agreement.

10 Called up share capital

	£
Authorised	
At 1 January 2019 and 31 December 2019:	
100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2019 and 31 December 2019	**4**

11 Share Premium

	£'000
Cost	
1 January 2019	**38,000**
31 December 2019	**38,000**

12 Retained Earnings

	£'000
1 January 2018	31,501
Profit for the financial year	34,329
31 December 2018	65,830
Profit for the financial year	30,053
31 December 2019	**95,883**

13 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 2019		31 December 2018	
	Land & buildings £'000	**Other leases £'000**	Land & buildings £'000	Other leases £'000
Within one year	**2,122**	**36,806**	2,122	35,469
Within two to five years	**2,122**	**114,626**	2,122	115,800
After five years	**0**	**105,139**	0	82,313
	4,244	**256,571**	4,244	233,582

13 Commitments and contingent liabilities *continued*

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 increased from 2018 to 2019 following the agreement between Heathrow Airport Limited, Heathrow Express Operating Company Limited and the Secretary of State for Transport to ensure continued Heathrow Express services up to 2028.

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 Subsequent events

The spread of COVID-19 represents a material challenge for the global aviation industry. The pandemic has had a material impact on our operations and Heathrow's financial performance 2020 will be significantly impacted. In response to COVID-19 we have taken immediate action to safeguard Heathrow's financial resilience including temporarily shrinking our operation to a single runway in Terminals 2 and 5, cancelling executive pay, a companywide pay reduction and bonus cancellation, freezing recruitment and removing all non-essential costs

From March 2020 COVID-19 has materially impacted Heathrow trading results, passenger numbers were down by 52% in March 2020, 97% in April and 97% in May. Management have considered the impact that COVID-19 will have on our 2020 trading results. However, uncertainty around how long the pandemic will last and its medium to long term effect on the aviation industry, means that the financial impact cannot be estimated with any degree of accuracy in the long term at this time.

The impact of COVID-19 on the Company and its operations has caused a significant shortfall in its own passenger volumes, which were down by 68% in March, 99% in April and 98% in May. Low passenger levels are expected to continue for the remainder of 2020. COVID-19 has caused increased uncertainty in the financial performance of the Company and forecasting how long the government restrictions will be in place and the speed of recovery cannot be estimated with any degree of accuracy. Therefore management are still assessing the potential impact on the carrying value of the Company's assets and liabilities, however the majority of its 31st December 2019 debtors have been settled. There is a risk that reduced cash flows could cause a reduction in the right to operate asset.

The Company has taken a number of actions to mitigate the lost passengers and revenues. These include:
- reducing service frequency to 2 trains per hour,
- furloughing operational and management staff,
- company wide salary reductions and bonus cancellation for 2020,
- a recruitment freeze,
- a reduction in non-essential, non- committed expenditure and
- the review of its long term cost structure.

For a period of at least twelve months from the approval of the financial statements, Heathrow Airport Limited has committed to providing sufficient liquidity to the Company to enable it to meet its financial commitments as they fall due.

We have considered the implications on the financial statements as at 31 December 2019 and concluded that this is not an adjusting event under FRS 102. We will continue to monitor the situation over the coming months and will provide updates as required.

15 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), QS Airports UK, LP (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 2019, 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 2019.

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.