

Heathrow Express Operating Company Limited
Annual report and financial statements
for the year ended 31 December 2020

Company registration number:

03145133

Heathrow Express Operating Company Limited

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Heathrow Express Operating Company Limited

Officers and Professional Advisors

Directors

Ross Baker
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Sophie Chapman
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Andrew MacMillan

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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	<p>A "Services Agreement" between the Company, Heathrow and First Greater Western Limited (trading as Great Western Railway, "GWR") was set up.</p> <p>Heathrow Express train drivers, Paddington station staff and specified management staff (FTE 126) were transferred to Greater Western Railway (GWR).</p> <p>Operation of the Heathrow Express trains and Paddington station was transferred to GWR, on behalf of the Company.</p> <p>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).</p>
2019	<p>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.</p>
2020	<p>The provision by GWR of new class 387 trains for use on the Heathrow Express service commenced on 29 December 2020. These trains replaced the Heathrow Express class 332 trains previously operating the service.</p> <p>When the class 387 trains had fully replaced the class 332 trains, the 332 trains were returned to the legal owners Heathrow and were removed from the Depot for sale or scrappage before 21 February 2021. The lease of the train care depot at Old Oak Common was then surrendered to Heathrow which in turn surrendered its lease to the Department for Transport.</p>

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.

During the year ended 31 December 2020 the Heathrow Express service carried a total of 1.38 million passengers, 78% below 2019 (6.32 million). The impact of the COVID-19 pandemic significantly reduced passenger volumes at both Heathrow and Heathrow Express from April onwards.

Fare revenues consequently declined by 78% from £115.8m in 2019 to £25.2m in 2020.

Non fare revenue increased to £2.6 million (2019: £1.8 million), due to furlough compensation received in 2020, offset by the reduction in 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 remained at £1.8m (2019: £1.8m) due to the continuation of the inter-terminal transfer services throughout the year.

The loss after taxation for the financial year amounted to £33.1 million (2019: profit of £30.1 million), due to the significant impact of COVID-19 on passenger volumes and revenue.

Heathrow Express Operating Company Limited

Strategic report *continued*

Review of business and future developments *continued*

Key performance indicators focus on:

1. Operational punctuality with each service being monitored and recorded. Heathrow Express operational performance improved with punctuality at 94.47% (2019: 90.01%). 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. Loss Before Tax: £40.4 million, a 207% reduction on 2019 (profit of £37.8 million) due mainly to lower HEX passenger volumes and fare revenues as a result of the impact of COVID-19.
3. Operating Costs: £70.0 million, a 17% reduction on 2019 (£84.1 million) due to an organisational restructure, cessation of all non-committed expenditure and obtaining track access and GWR Services Agreement relief.
4. Movement in Net Assets: There was a reduction of 25% in net assets from £134 million (2019) to £101 million (2020). This was due mainly to the decrease in the Inter-Company account with Heathrow, through the transfer of cash from Heathrow to the Company to fund its operation during COVID-19.

Heathrow Express finished second in the National Rail Passenger Survey (Spring 2020) with an overall score of 94% (Autumn 2019: 96%, 1st position).

The Company completed the replacement of its class 332 rolling stock, with the new GWR class 387 trains being introduced into service from 29 December 2020. In quarter 1 2021, the Company plans to complete the disposal of the 332 (Heathrow Express service) and 360 (Heathrow Connect service) rolling stock, following which it will vacate the Depot in accordance with the Overarching Agreement with the Secretary of State for Transport.

COVID-19 continues to represent a seismic challenge for the aviation industry, including Heathrow and Heathrow Express. Despite this, our vision remains to give passengers the best airport service in the world. This vision has both helped to guide our COVID-19 response and make key changes to our business to secure future success.

Responding to an industry in crisis

Heathrow's market saw dramatic, sudden shifts through multiple national lockdowns and worldwide quarantines. Uncertainty continues as to when stability and growth will return.

In response, our strategy has focused on what we can control and what will maximise opportunities with recovery. We have reprioritised around controlling costs and ensuring financial stability. We have continued to listen to our passengers. They still want direct flights to destinations they want, and have a choice of ways of accessing the airport, including rail.

We reoriented the immediate business plan as the impacts of COVID-19 hit in spring 2020. We have focused on Protecting the Business, Winning the Recovery and Building Back Better as phases. These continue to pursue our strategic priorities but with a focus balanced across the stage of recovery we find ourselves in.

Protect the business

Safety and security remain our first and non-negotiable priorities. COVID-19 continues to have a significant impact on our business and recovery is expected to be much more gradual than previously thought. We have therefore implemented several steps to reduce our costs, preserve liquidity, and protect our financial covenants.

- **Extending our cost reduction programme** – Like most infrastructure businesses our cost base is largely 'fixed', while this has been a very efficient model when we have had stable demand, it is not suited to major changes in demand. In 2020 we have significantly reduced our cost base and started to make it more variable. By the end of 2020 we reduced our gross operating costs by 17% compared to 2019. Alongside organisational changes we also reduced our operations by operating a 2 trains per hour schedule instead of the normal 4 trains per hour. We also reviewed all contracts to find opportunities for cost reduction. The only major area where we have not been able to reduce cost is in governmental costs such as Business Rates.
- **Reorganising the business** – We made immediate changes to implement temporary pay cuts, bonus cancellations, recruitment freezes and to maximise the use of the Government furlough scheme. We have made significant changes to our organisational design, while protecting as many jobs as possible. Through 2020 our management and operational team reduced by around a third, through voluntary severance or redundancy.

Heathrow Express Operating Company Limited

Strategic report *continued*

Review of business and future developments *continued*

Win the recovery

Creating an environment where passengers feel safe and confident to travel by rail is fundamental to winning the recovery. We have worked with Heathrow Airport and the Rail Industry to implement the necessary standards and procedures as the pandemic has evolved. We have put in significant measures to keep passengers and colleagues safe, including long lasting specialist cleaning with additional cleaning of touch points, perspex screens and encouragement of mask wearing, social distancing reminders on board and staff training. We support all measures that will bring the COVID-19 crisis to an end.

- **Working to attract as much traffic as possible** – As part of the Services Agreement with GWR, new class 387 trains were introduced in December. These will facilitate improved reliability and customer service, and a full 4 trains per hour service will be resumed when appropriate to support Heathrow recovery.
- **Responding to passenger needs** – As part of its Digital strategy, Heathrow Express ceased accepting cash as a method of payment during the year, closing its cash operation on the 31st October. The company is focussed on providing a range of digital options to customers to make purchasing a Heathrow Express fare as easy as possible.

Building back better

While the immediate focus remains on beating the pandemic, we also stand ready to support Heathrow and the Government's efforts to build back better and deliver a cleaner, greener and more resilient economy.

- **Sustainable growth** – The new class 387 trains are powered by traction electricity, providing a cleaner transport option for customers travelling to and from the airport. Other improvements include a regenerative braking system which reduces electricity usage, and adoption of the European Train Control System signalling system which calculates safe maximum speeds for the trains during their journeys.
- **Heathrow Expansion** – As passenger numbers recover, our immediate focus will be to continue to ensure their safety and to maintain our service levels while we support Heathrow Airport in its consultation with investors, Government, airline customers and regulators on the next steps regarding Heathrow expansion.

Internal controls and risk management

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

Internal controls

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

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

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

Heathrow Express Operating Company Limited

Strategic report *continued*

Risk management

Heathrow Express operates within the Heathrow Risk and Assurance Management framework, which is an enterprise risk management system that is embedded Group-wide with the principal aim of providing oversight and governance of the key risks that HAML Group faces, and to monitor upcoming and emerging risks.

The framework provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow. During 2020, we have continued to improve our risk processes, building on the current risk-management structure, to enhance the data quality, completeness of risk information and control measurement in addition to improving the overall reporting integrity.

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

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

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

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.

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 HAML Group faces, as the risk environment evolves these risks are being constantly reviewed and updated.

Principal risks

A Safe and Secure Operating Environment

Keeping people safe is our top priority. We have a legal and moral responsibility to ensure that we safeguard the wellbeing of our people, and also our business partners and the public who may be affected by our activities, from the risks relating to fire, health, and safety. An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks, including its Heathrow Express rail service. In 2020, COVID-19 has added to those risks and the complexity of their management. Failure to operate a safe and healthy environment risks damaging the health and wellbeing of stakeholders, impacting colleague engagement, operational disruption and costs, inconvenience to passengers and long-term damage to our reputation. The UK security threat level is severe. 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

While Heathrow Express services have operated on the Great Western Railway (GWR) safety certification from October 2019 the Company works closely with both Heathrow Airport and GWR to assure the safety of customers and colleagues when using the Heathrow Express service. Responsibilities between the Company and GWR are clearly documented and regular reporting of the operations including any incidents is shared between the parties.

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 and safety culture. Colleagues' health and wellbeing is promoted and supported by a range of products and services including our Employee Assistance Programme, online GP service and information and tools for managers and colleagues.

Heathrow Express Operating Company Limited

Strategic report *continued*

Principal risks *continued*

Information Security

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

Risk mitigation

Under the direction of a newly formed Cyber Security Directorate, we are implementing an improved cybersecurity programme which will ensure strong technical and operational measures are in place to enable us to comply with our regulatory and legal requirements. Mandatory training has been successfully rolled out along with regular awareness campaigns with emphasis on phishing emails and the use of social media. The cyber-security programme will continue to make improvements across all parts of Heathrow and Heathrow Express into 2021.

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, particularly during the COVID-19 pandemic, with 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, as well as maintain accountability and compliance with internal governance, policies and procedures. We provide career opportunities, development and training. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

Financial stability

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

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

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

- a. Interest rates
The HAML Group maintains a mix of fixed and floating rate debt.
- b. Inflation
The HAML Group mitigates the risk of mismatch between Heathrow's aeronautical income and regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments, by the issuance of index-linked instruments.
- c. Foreign currency
The HAML Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The HAML Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

Heathrow Express Operating Company Limited

Strategic report *continued*

Financial stability *continued*

d. Funding and liquidity

The Group has established both investment grade and sub-investment grade financing platforms for Heathrow. The platforms support term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior or junior format. Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the HAHL Group Audit Committee, the Board and Executive Committee.

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

Risk mitigation

HAHL Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2021. As at 31 December 2020, the HAHL Group had cash and cash equivalents and term deposits of £3,930 million.

e. Counterparty credit

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

Specific to the Company:

Commercial and financial risks

Industrial relations

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

Section 172 (1) statement

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

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

As is normal for large companies, we delegate authority for day-to-day management of the Company and its subsidiaries. We do this through the Executive Committee. The Executive Committee is responsible for the development of strategy, related policies and their execution. The Executive Committee then engages the Board of Heathrow Airport Holdings Limited (the 'HAHL Board') in approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the HAHL Board. We ensure that when we are applying these group policies, we have due regard to our fiduciary duties and responsibilities. The Executive Committee also reviews health and safety, financial and operational performance, legal and regulatory compliance, business strategy, key risks, stakeholder-related matters, diversity and inclusivity, environmental matters and corporate responsibility. The directors of the Company include two of the members of the Executive Committee, which enables the dissemination of core information about the business of the HAHL Group.

There are also directors of the Company that attend the Risk and Assurance Committee, which helps to provide foresight of the key principal risks affecting the HAHL Group and specifically those affecting the Company.

The discussion on Heathrow's recent COVID-19 response, within the strategic report on page 4, provides an illustrative example of how the Board takes stakeholder views, and the impact on stakeholders, into account in its decision-making.

Heathrow Express Operating Company Limited

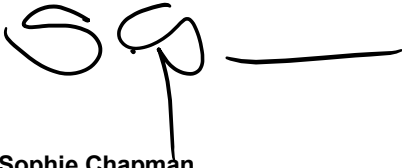
Strategic report *continued*

Section 172 (1) statement *continued*

The Company's key stakeholders are its passengers, communities and the environment, colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions for the HAHL Board's approval. While there are cases where the Executive Committee itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our stakeholders and the Company means that generally our stakeholder engagement best takes place at the Heathrow Airport Limited (operational) or HAHL Group level with the Company's stakeholders, so as to encourage the directors to understand the issues to which they must have regard, please see the HAHL Group's 2020 annual report and financial statements.

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

Approved by the Board of directors and signed on its behalf by

A handwritten signature in black ink, appearing to be 'SC' followed by a horizontal line and a vertical line extending downwards.

Sophie Chapman
Director

6 August 2021

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 2020.

Principal activity

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

The 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 8.

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 8.

Results and dividends

The loss after taxation for the financial year amounted to £33.1 million (2019: profit of £30.1 million) after providing for intangible amortisation of £2.2 million (2019: £2.1 million). Company's net assets as at 31 December 2020 were £101 million (2019: £134 million).

No dividends were proposed or paid during the year (2019: £nil). The statutory results for the year are set out on page 15.

Directors

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

Ross Baker
Philip Bearpark
Anthony Caccavone
Sophie Chapman – appointed 1 September 2020
Leslie Freer – resigned 1 September 2020
Michael Hodson
Andrew MacMillan

Going concern

The financial information presented within these financial statements has been prepared on a going concern basis. The Company, as part of the HAHL Group, has a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance Plc creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Company's ability to continue as a going concern. More detail can be found in the going concern statement on page 18.

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).

Heathrow Express Operating Company Limited

Directors' report *continued*

Employment policies *continued*

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 7.

Subsequent events:

Subsequent events are disclosed in note 17.

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office. The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies Act 2006) are in place during the 2020 financial year and at the date of approving the financial statements and reports.

Independent Auditor

After a comprehensive tender process, and recommendation made by the Audit Committee, the Board has appointed PricewaterhouseCoopers LLP (PwC) as auditors 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 LLP (PwC) will be proposed within the period set out in section 485.

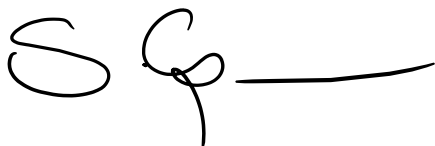
Statement of disclosure of information to the Auditors

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

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

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 by



Sophie Chapman
Director

6 August 2021

Company registration number: 03145133

Heathrow Express Operating Company Limited

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

The directors are 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.

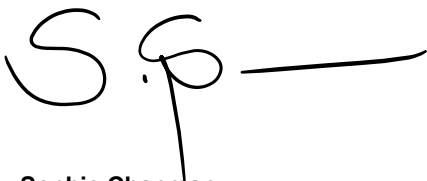
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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

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

Directors' confirmations

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

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

A handwritten signature in black ink, appearing to be 'S.C.' followed by a horizontal line extending to the right.

Sophie Chapman
Director

6 August 2021



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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: statement of financial position and statement of changes in equity as at 31 December 2020; statement of comprehensive income for the year then ended; the accounting policies; the significant accounting judgements and estimates ; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the going concern section of the accounting policies to the financial statements concerning the company's ability to continue as a going concern. The wider Heathrow group has been significantly impacted by the COVID 19 pandemic which has resulted in a rapid deterioration in passenger traffic and cash flows. The group's forecast and projections assume a continued phased increase in passenger forecast which represents a significant reduction to pre-pandemic revenue levels, along with cost saving measures and reductions in capital expenditure. In the event there are further waves of the pandemic, or the implementation or continuation of lockdown periods, leading to further travel restrictions being imposed worldwide, the wider Heathrow group, whilst having sufficient liquidity, may require further covenant waivers in respect to the group interest cover ratio measured as at 31 December 2021. These conditions, along with the other matters explained in note the going concern section of the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Heathrow Airport's CAA operating license being revoked, breaches of environmental regulations and rail regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the group's legal team, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.
- Challenging assumptions and estimates made by management in judgemental areas.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Sotiris Kroustis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

6 August 2021

Heathrow Express Operating Company Limited

Statement of comprehensive income for the year ended 31 December 2020

	<i>Note</i>	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Revenue	1	29,559	119,415
Operating costs	2	(69,979)	(84,116)
Exceptional Items	3	(2,088)	-
Operating (loss)/profit		(42,508)	35,299
Financing			
Finance income	4	2,142	2,453
(Loss)/ Profit before tax		(40,366)	37,752
Taxation			
Taxation credit/(charge)	5	7,255	(7,699)
(Loss)/Profit for the financial year		(33,111)	30,053

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

Heathrow Express Operating Company Limited

Statement of financial position at 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Assets			
Fixed assets			
Intangible assets	7	15,916	18,017
Property, plant and equipment	6	70	171
Deferred tax asset	9	7,310	49
		23,296	18,237
Current assets			
Trade and other receivables	8	92,121	136,405
Cash and cash equivalents	10	-	1,596
		92,121	138,001
Total assets		115,417	156,238
Liabilities			
Current liabilities			
Group relief payable		-	(7,598)
Loans and overdrafts	10	(316)	-
Trade and other payables	11	(14,329)	(14,757)
		(14,645)	(22,355)
Total liabilities		(14,645)	(22,355)
Total assets less current liabilities		100,772	133,883
Net assets		100,772	133,883
Equity			
Capital and reserves			
Called up share capital	12	-	-
Share premium	13	38,000	38,000
Retained earnings	14	62,772	95,883
Total shareholders' funds		100,772	133,883

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) from page 15 were approved by the Board of Directors on 6 August 2021 and signed on its behalf by:



Sophie Chapman
Director

Heathrow Express Operating Company Limited

Statement of changes in equity for the year ended 31 December 2020

	Share capital ¹ £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
1 January 2019	-	38,000	65,830	103,830
Comprehensive income				
Profit for the financial year	-	-	30,053	30,053
31 December 2019	-	38,000	95,883	133,883
Comprehensive income				
Loss for the financial year	-	-	(33,111)	(33,111)
Total comprehensive expense	-	-	(33,111)	(33,111)
31 December 2020	-	38,000	62,772	100,772

¹ Details of share capital can be found in note 12 to the financial statements.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2020

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 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('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 and domiciled in the United Kingdom and registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The Company's immediate parent undertaking is Heathrow Airport Limited. The parent company of Heathrow Airport Limited is Heathrow (AH) Limited for which consolidated financial statements are prepared. The ultimate controlling undertaking for which consolidated financial statements is prepared is the FGP Topco Limited.

Basis of accounting

The Company financial statements are prepared 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.

Exceptional items

The Company separately presents certain items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Company's result between periods. Exceptional items relate to business transformation costs which are material and merit separate presentation because of their size and nature. They are not expected to reoccur.

Going concern

The Directors have prepared the financial information presented within these 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.

Cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance Plc ('Heathrow Finance'). The Directors have considered the wider group when assessing going concern. In assessing the going concern position, the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months. The Directors have also considered the period beyond 12 months to December 2022.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.4 billion of debt to the approval date of these financial statements across the capital structure in bond format. New €500 million, C\$650 million, C\$300 million and AUD125 million Class A transactions and a £350 million Class B transaction were successfully executed during the first half of 2021. Consequently, Heathrow SP held cash of circa. £4.5 billion as at 30 June 2021. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2021 is £1.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £4.8 billion available. No debt matures outside of Heathrow SP for the next 12 months from 30 June 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the base case cash flow forecast or until at least October 2022 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Nevertheless, continued low levels of traffic and cash flows have put covenants at Heathrow Finance under strain and the corresponding impact on the covenants associated with financing arrangements has been carefully considered when modelling the impacts of COVID-19.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2020 *continued*

Going concern *continued*

Modelling the impact of COVID-19

The Directors have modelled future cash flows for the period beyond 12 months to December 2022 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations,
- 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, projected covenant requirements, and its ability to access the debt markets.

In their assessment, Directors have included the impacts of several important actions implemented in 2020 to reduce operating expenditure including temporarily consolidating our operations in fewer terminals, multiple contract renegotiations, permanent changes in terms and conditions, freezing recruitment, removing all non-essential costs and adjusting our capital expenditure. Directors have also included the impacts of actions implemented in 2021 to reprofile interest payments, which has created interest savings of £358 million, in their assessment.

In modelling the impact of COVID-19, 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 our forecasting is therefore inherently subjective. As reported in the June 2021 Investor Report, the Group has recently updated its financial modelling under the base case scenario to assume passenger traffic for 2021 will decline 2.7% compared to 2020 actual passenger numbers of 22.1 million, to 21.5 million passengers (a decrease of 73.4% compared to 2019). Despite the decline in passengers compared to 2020, Group EBITDA is expected to increase 23% to £332 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

To build the base case forecast of 21.5 million passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, roll-out of a vaccine and reopening of key travel corridors. The level of demand at each stage of recovery is overlaid using data on actual passenger numbers. This is done at a granular level splitting into geographical markets and purpose of travel. Thereon, a timeline for moving between stages using latest information on testing and vaccine roll out and adjusting this for each of the geographical regions was taken into account. This approach is calibrated against information from airlines on planned schedules. The base case of passenger numbers for 2022 forecasts an improvement in passenger numbers with a graduated return to pre-pandemic levels, however the forecasted 2022 passengers remain significantly below 2019.

Under the base case scenario, the Group will meet all covenants associated with its financial arrangements.

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least October 2022.

Directors have stress tested the base case, focusing in particular on the next annual covenant compliance date of 31 December 2021, by elongating the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through the stages of recovery. This is reflected in further decreases in passenger numbers and a resulting drop in EBITDA and operating cash flow. Although no covenant breach is forecast under our base case scenario, the headroom to our ICR covenant is expected to be limited given ongoing pressures on our cash flow generation, with a reduction of £66m in EBITDA likely to lead to a breach of the Heathrow Finance ICR.

The stress test scenario representing a 'severe but plausible' downside models 13.0 million passengers in 2021 and a 71% fall in EBITDA in 2021 compared to the base case, arising from further COVID-19 related disruption due to uncertainty associated with reopening of travel corridors. This 'severe but plausible' scenario is expected to cause the Group to breach minimum levels required for ICR covenant compliance at Heathrow Finance.

In 2020, management agreed a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. On 19 July 2021, the Group launched a public consent process to seek approval from Noteholders for a waiver of the Heathrow Finance ICR for the period ending 31 December 2021. The Group has also commenced discussions with its private lenders and investors over the same request to waive the Heathrow Finance ICR for the period ending 31 December 2021. The process for seeking approval from all creditors is expected to complete in August 2021, therefore after the approval date of these interim consolidated financial statements. Whilst directors are confident that they will receive support from creditors, there is no certainty that a further covenant waiver will be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2020 *continued*

Going concern *continued*

Conclusion

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds available to meet the Group and Company's funding requirements for at least 12 months from the date of these financial statements, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these financial statements.

The Directors consider that the underlying credit quality of the business means that it can secure, if necessary and in the event of a severe but plausible downside, the timely support of its Noteholders as it successfully secured in 2020.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern.

These financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

COVID-19

The COVID-19 outbreak has developed rapidly during 2020. Measures taken to contain the virus have affected the wider economy and directly impacted on the Company's trading results (as detailed further in the Strategic report). The Company continued to operate where possible, in a safe and appropriate manner and strictly in accordance with both Government and the Civil Aviation Authorities health and safety guidelines and regulations. In light of the pandemic, the Group has performed a further review of its accounting policies and consider they remain appropriate. Some of the key points and clarifications resulting from this review are highlighted below:

The main impact to the trading results has been to the revenue and margin shortfall resulting from lockdown which ultimately resulted in decreased fare revenue. The Company continues to recognise costs as incurred. Including, costs associated with the new working guidelines in respect of COVID-19 secure environment, providing such costs are expected to contribute to the satisfaction of the performance obligation.

The Company has utilised the Government's Job Retention Scheme. The grant income received has been recognised as other income in line with FRS 102 and our accounting policy in the Income Statement.

The Company has reviewed any potential impairment indicators of both financial and non-financial assets (in accordance with FRS 102 section 27 in particular), especially where operations have suffered due to COVID-19. As detailed in the Strategic report, the Company benefits from a wide customer base, which the Company considers provides greater financial security over the balances held within financial assets.

Revenue

Heathrow Express derives its income under three main headings:

1. Fare Revenue. This is income from the sale of tickets to customers. Revenue from tickets sale is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue attributable to return tickets should be allocated to each journey and recognised on the day each journey takes place, therefore an accrual basis.
2. Other Income. This includes income from Crossrail engineering works compensation, advertising revenues, compensation from the Department for Transport (DfT) under the Overarching agreement (for further details please see the Strategic Report). Income (including furlough receipt) is recognised in the period it is earned. Please refer to COVID-19 section in the accounting policy.
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.

Deferred and accrued income

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

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2020 *continued*

Tangible fixed assets

Rolling stock and all major assets used by the Heathrow Express 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:

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

Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation:

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

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

Accounting policies for the year ended 31 December 2020 *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 HAHL Board and Ferrovial advisory services. These costs are recharged to Heathrow Express Operating Company Limited with a mark-up of 7.5% except where a margin has already been applied to the incurred costs. Other services are paid for and sourced directly by the Company.

Current and deferred taxation

The tax credit/(charge) 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. Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 19% (2019: 19%) for the year.

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. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. 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.

Heathrow Express Operating Company Limited

Significant accounting judgements and estimates for the year ended 31 December 2020

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.

Exceptional items

The Company has separately presented certain material one-off items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Company's result between periods. Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results. In the current year business transformation costs, as a consequence of management decisions made in response to the COVID-19 virus, have been disclosed as exceptional items. Further details are disclosed in the accounting policy above and in Note 3.

Critical judgements in applying the Company's accounting policies

Going concern

The impact of COVID-19 on going concern was considered in some detail. Further information can be found within the 'accounting policies' section.

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 2020 would be to increase the amortisation charge by £2.2m.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020

1 Revenue

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Fare Revenue	25,150	115,833
Other Income ¹	2,587	1,760
Provision of Rail Services to Heathrow	1,822	1,822
	29,559	119,415

¹ Other income includes Furlough receipts (Job Retention Scheme) £1,843,000 (2019: £0), Crossrail Engineering works compensation £144,000 (2019: £1,054,000), DfT compensation in accordance with the Overarching Agreement £0 (2019: £500,000) and Advertising/ other revenue £600,000 (2019: £206,000), revenue is earned in the United Kingdom.

2 Operating costs

Operating costs, comprise the following:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Employment		
Wages and salaries	4,962	8,433
Social security costs	660	854
Other pension costs ¹	252	312
Other staff related costs	363	632
	6,237	10,231
Operational	7,353	13,649
Maintenance	10,715	10,935
Rates	2,299	1,731
Utilities	1,963	3,318
Intra-group charges ²	25,957	25,463
GWR/ DfT agreement ³	10,448	9,864
Other	2,743	6,655
Total operating costs before depreciation and amortisation	67,715	81,846
Depreciation and amortisation		
Property, plant and equipment	101	129
Intangible assets	2,163	2,141
	2,264	2,270
Total operating costs before exceptional items	69,979	84,116

¹ Pension costs comprise £252,000 (2019: £312,000) 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.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

2 Operating costs continued Rentals under operating leases

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Operating costs include:		
Plant and machinery ¹	10,326	10,243
Land and Buildings ²	2,155	2,155
Other operating leases ³	17,314	21,540

¹ Plant and machinery includes £10,209,000 for rolling stock leasing charges from Heathrow Airport Limited for the year ended 31 December 2020 (2019: £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 2020 (2019: £2,122,000).

³ Other Operating Leases includes £12,445,000 for track access charges payable to Heathrow Airport Limited for the year ended 31st December 2020 (2019: £12,060,000) for the right to use the 9km rail infrastructure at Heathrow Airport from the tunnel entrance at Hayes & Harlington to, and including, the stations at terminal 2/3 and terminal 5. It also includes £4,726,000 (full track access £10,024,000 less DfT COVID-19 relief £5,298,000), (2019: £9,260,000) 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.

Auditors' remuneration

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements		
Audit of the Company pursuant to legislation	23	20

Employee information

The monthly average number of employees of the Company during the year was 163 (2019: 186) The decrease in the average number of employees year on year is due Heathrow express operational staff and management being transferred to Greater Western Railway (GWR) in October 2019, and also a restructure during 2020 partly in response to COVID-19.

By activity

	Year ended 31 December 2020	Year ended 31 December 2019
Operations	111	127
Support services	52	59
Total	163	186

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

2 Operating costs *continued*

Directors' remuneration

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Salaries and employee benefits ^{1 2}	381	507
Value of Company pension contributions to pension schemes	25	30
	406	537

¹ For the year ended 31 December 2020 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 £74,474 bonus was paid in cash in 2019 (2019: £66,375).

Ross Baker and Andrew Macmillan 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. Anthony Caccavone and Leslie Freer were paid by but are not a director 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. Sophie Chapman, Michael Hodson and Phillip Bearpark were paid by and are directors of the Company.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Highest paid director's remuneration		
Salaries and employee benefits ^{1 2}	169	288
Value of Company pension contributions to pension schemes	16	18
	185	306

¹ For the year ended 31 December 2020 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 £56,575 bonus was paid in cash in 2020 (2019: £46,697).

	Year ended 31 December 2020 Number	Year ended 31 December 2019 Number
Number of directors who:		
- are members of a defined benefit pension scheme	-	2
- are members of a defined contribution pension scheme	4	2

None of the directors (2019: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2019: none) were received or became receivable under long term incentive plans.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

3 Exceptional Items

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Business transformation	(2,088)	-
Total operating loss on exceptional items	(2,088)	-
Tax credit on exceptional items	398	-
Loss on exceptional items after tax	(1,690)	-

Business transformation

As a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Company has undergone a business transformation in order to simplify operations and reduce costs. Following this review the Company incurred exceptional charges, consisting of £2,088,000 of people-related costs.

4 Finance Income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest receivable from group undertaking	2,142	2,453

5 Taxation credit/(charge)

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Current tax		
Group relief payable	-	(7,598)
Adjustments in respect of prior periods	(6)	(91)
Total current tax charge	(6)	(7,689)
Deferred tax		
Origination and reversal of timing differences	7,246	3
Adjustments in respect of prior periods	9	(13)
Change in tax rate	6	-
Total deferred tax credit/(charge)	7,261	(10)
Taxation credit/(charge) for the year	7,255	(7,699)

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

5 Taxation credit/(charge) *continued*

Reconciliation of tax expenses

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%). The actual tax credit/(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 2020 £'000	Year ended 31 December 2019 £'000
(Loss)/profit before tax	(40,366)	37,752
Tax calculated at the UK statutory rate of 19% (2019: 19%)	7,670	(7,173)
Effect of:		
Expenses not deductible for tax purposes	(424)	(422)
Adjustments in respect of prior periods – current tax	(6)	(91)
Adjustments in respect of prior periods – deferred tax	9	(13)
Change in tax rate	6	-
Taxation credit/(charge)	7,255	(7,699)

The tax credit recognised for the year ended 31 December 2020 was £7,255,000 (2019: £7,699,000 tax charge). Based on a loss before tax for the year of £40,366,000 (2019: profit before tax £37,752,000), this results in an effective tax rate of 18% (2019: 20.4%). The tax charge is less (2019: more) than implied by the statutory rate of 19% (2019: 19%) primarily due to non-deductible expenses in respect of the intangible amortisation.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax credit for the period by £2,308m. Other than these changes, there are no items which would materially affect the future tax charge.

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

6 Property, plant and equipment

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
1 January 2019	144	334	478
Additions	11	87	98
31 December 2019	155	421	576
Additions	-	-	-
31 December 2020	155	421	576
Depreciation			
1 January 2019	79	197	276
Charge for the year	40	89	129
31 December 2019	119	286	405
Charge for the year	24	77	101
31 December 2020	143	363	506
Net book value 31 December 2020	12	58	70
Net book value 31 December 2019	36	135	171

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

7 Intangible assets

	Rights to Operate £'000	Software £'000	Total £'000
Cost			
1 January 2019	38,000	13	38,013
Additions	-	105	105
31 December 2019	38,000	118	38,118
Additions	-	62	62
31 December 2020	38,000	180	38,180
Amortisation			
1 January 2019	17,947	13	17,960
Charge for the year	2,111	30	2,141
31 December 2019	20,058	43	20,101
Charge for the year	2,111	52	2,163
31 December 2020	22,169	95	22,264
Net book value 31 December 2020	15,831	85	15,916
Net book value 31 December 2019	17,942	75	18,017

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 2020 no formal negotiations had commenced.

At 31 December 2020, 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. (2019: £nil). The Intangible asset will be fully amortised as at 30 June 2028.

8 Trade and other receivables

	31 December 2020 £'000	31 December 2019 £'000
Current		
Trade debtors	3,419	1,323
Amounts owed by group undertakings ¹	79,204	127,211
Other debtors ²	1,658	2,397
Prepayment of 6 months of track access and OHLE Maintenance	5,244	-
Accrued income	2,596	5,474
	92,121	136,405

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.

² Other debtors predominantly consists of VAT and prepayments.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

9 Deferred tax asset

	£'000
1 January 2020	49
Credit to income statement	7,255
Credit to income statement - change in tax rate	6
31 December 2020	7,310

Analysis of the deferred tax asset balances is as follows:

	31 December 2020 £'000	31 December 2019 £'000
Losses carried forward	7,240	-
Excess of depreciation over capital allowances	63	42
Other timing differences	7	7
	7,310	49

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

The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in Finance Act 2020. The headline UK corporation tax rate of 19% was maintained and given Royal Assent on 22 July 2020. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax credit for the period by £2,308m. Other than these changes, there are no items which would materially affect the future tax charge.

Deferred tax assets have been recognised in respect of all deductible timing differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred tax assets. UK tax losses have no expiry date. The recognition of these deferred tax assets is supported by a combination of the reversal of taxable timing differences and forecast future taxable income for the Group.

In assessing the risks associated with future taxable income forecasts that have been used to support recognition, management have concluded that there is significant headroom (over 50%) above the amounts required to support recoverability of the deferred income tax assets. The reliance on future taxable profits has been made with a high level of certainty as there is considerable headroom in the Group's long-term forecasts over and above the amount forecast to be utilised to support recoverability of the deferred income tax assets.

The Company has a strong earnings history. The COVID-19 Pandemic has been very challenging for the rail industry, but the business fundamentals remain strong. The Company benefits from countercyclicality. In times of reduced passenger traffic across the aviation industry, airlines have tended to consolidate traffic towards hubs such as Heathrow Airport. This position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity. This underlying characteristic of Heathrow means that the airport is well placed to grow once passenger demand increases and travel restrictions are eased.

10 Cash and cash equivalents

	31 December 2020 £'000	31 December 2019 £'000
Bank overdraft	(316)	-
Cash at bank	-	1,596
Cash at bank and in hand and cash equivalent	(316)	1,596

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

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

11 Trade and Other Payables

	31 December 2020	31 December 2019
Current	£'000	£'000
Trade Creditors	66	1,503
Taxation and social security	98	193
Other creditors	3	49
Accruals	4,153	2,728
Deferred income	10,009	10,284
	14,329	14,757

Deferred income includes £10.0m (2019 £10.0m) 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.

12 Called up share capital

	£
Authorised	
At 1 January 2020 and 31 December 2020: 100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2020 and 31 December 2020	4

13 Share premium account

	£'000
Cost	
1 January 2020	38,000
31 December 2020	38,000

14 Retained Earnings

	£'000
1 January 2019	65,830
Profit for the financial year	30,053
31 December 2019	95,883
Loss for the financial year	(33,111)
31 December 2020	62,772

15 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 2020		31 December 2019	
	Land & buildings £'000	Other leases £'000	Land & buildings £'000	Other leases £'000
Within one year	586	31,779	2,122	36,806
Later than one year and not later than five years	1,135	123,505	2,122	114,626
After five years	709	80,525	-	105,139
	2,430	235,809	4,244	256,571

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2020 *continued*

15 Commitments and contingent liabilities *continued*

The Land & Buildings lease commitments include the lease of offices and 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.

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.

16 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow Airport 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 2020, 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 2020.

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.

17 Subsequent events

Heathrow Funding Limited issued a £350m class B bond in March 2021, a €500m class A bond, CAD650m class A bond and CAD300m class A bond in April 2021 and an AUD125m class A bond in June 2021. Heathrow Express Operating Company Limited is an obligor within the Heathrow SP securitised group.