

**Heathrow Express Operating Company Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2021**

Company registration number:

03145133



# Heathrow Express Operating Company Limited

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## Heathrow Express Operating Company Limited

### Officers and Professional Advisors

#### Directors

Ross Baker  
Phillip Bearpark  
Sophie Chapman  
Anthony Caccavone  
Michael Hodson  
Andrew Macmillan (resigned on 31 August 2021)

#### Registered office

The Compass Centre  
Nelson Road  
Hounslow  
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TW6 2GW

#### Independent auditors

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Watford  
Hertfordshire  
WD17 1JJ  
United Kingdom

#### Bankers

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City Office, PO Box 72  
Bailey Drive  
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50 Pall Mall  
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## Heathrow Express Operating Company Limited

### Strategic report

The directors of Heathrow Express Operating Company Limited (the "Company") present their strategic report for the year ended 31 December 2021.

#### Principal activities

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

#### Review of business and future developments

During the year ended 31 December 2021 the Heathrow Express service carried a total of 1.19 million passengers, 13.8% below 2020 (2020: 1.38 million passengers which in turn was 78% below 2019). The continuing impact of COVID-19 led to a decrease in passenger volumes at both Heathrow and Heathrow Express. Fare revenues consequently declined by 7.5% from £25.2 million in 2020 to £23.3 million in 2021.

Non fare revenue decreased to £2.4 million (2020: £2.6 million) due to reduced furlough compensation, partially offset by an increase in Crossrail and HS2 engineering works compensation.

Revenue from the provision of rail services to Heathrow remained at £1.8 million (2020: £1.8 million) due to the continuation of the inter-terminal transfer services throughout the year.

The loss after taxation for the financial year totalled £17.4 million (2020: loss of £33.1 million), the decreased losses predominantly being due to a considerable decrease in operating costs from management initiatives implemented throughout 2020 including organisational restructure and the cessation of all non-committed expenditure.

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

Results and dividends are discussed in the Directors' report on page 11.

#### Key performance indicators

Key performance indicators focus on:

- Operational punctuality with each service being monitored and recorded. Heathrow Express operational performance declined with punctuality at 86.03% (2020: 94.47%). This was due to embedding the new fleet of trains provided by GWR, increase in number of Crossrail, Network rail and HS2 possessions (where a section of track is required for maintenance and trains cannot run) and an overall increase in the number of trains running on our line of route compared to the year before.
- Loss Before Tax: £25.6 million, a 36.6% reduction on 2020 (loss of £40.4 million) due mainly to a decrease in operating costs.
- Operating Costs: £54.1 million, a 22.7% reduction on 2020 (£70.0 million) due to management initiatives implemented throughout 2020 including organisational restructure and the cessation of all non-committed expenditure.
- Movement in Net Assets: There was a reduction of 17.3% in net assets from £100.8 million (2020) to £83.4 million (2021). 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.

#### Internal controls and risk management

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

#### Internal controls

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

## Heathrow Express Operating Company Limited

### Strategic report *continued*

#### Internal controls *continued*

The key features of the 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.

#### 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 HAHL 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 2021, 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 HAHL Board has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two HAHL Board sub-committees which are responsible for risk: the Audit Committee, which reviews the effectiveness of systems for internal financial and operational control, and the Sustainability and Operational Risk Committee, which reviews the effectiveness of operational reporting and performs an oversight review of the performance against *sustainability goals and operational targets*.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets every 6 weeks. The risks are then reviewed by the Executive Committee before being submitted to the Audit Committee and Sustainability and Operational Risk Committee for independent review and challenge. The final Heathrow Risk Outlook Report is then reviewed and approved by the HAHL Board on a quarterly basis.

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

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

## Heathrow Express Operating Company Limited

### Strategic report *continued*

#### Principal risks

##### **A Safe and Secure Operating Environment**

Keeping people safe and well is one of our core values and a non-negotiable 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. Since 2020 COVID-19 added to those risks and the complexity of their management and continues to be an area of specific focus. 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 substantial. We are responsible for ensuring that our assets, infrastructure, human and electronic systems and processes meet requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers.

##### **Risk mitigation**

Our fire, health and safety ('FHS') management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. We set FHS standards for our own operations and companies that work at our airport. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles. 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. COVID-19 specific risks have been addressed within our Fly Safe programme. We have invested in UK aviation's most extensive array of COVID-19-secure technologies. New rapid testing technologies are already helping to open up overseas markets safely. We also have a confidential reporting line through which concerns of wrongdoing at work can be reported (Safecall). We continue to manage COVID-19 related risks and have been awarded a 4\* Skytrax rating and COVID Excellence Award for our related controls.

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

##### **Information Security**

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

##### **Risk mitigation**

Through a Technology and Cyber Security Directorate led cyber improvement programme, we are implementing strong technical and operational measures to enable us to comply with our regulatory and legal requirements. Annual Mandatory training has been successfully rolled out along with regular awareness campaigns with emphasis on phishing emails, the use of social media and implementing good cyber security practices. The cyber security programme will introduce a revised training programme in 2022 and oversee the management of cyber risks at Heathrow within the wider business. The Heathrow Acceptable Use Policy has been amended to reflect our information security risks and the organisation's working practices.

##### **Regulation Requirements**

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

## Heathrow Express Operating Company Limited

### Strategic report *continued*

#### Principal risks *continued*

##### Regulation Requirements *continued*

###### Risk mitigation

The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team. This team ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHB Board on regulatory matters. The regulatory framework requires formal engagement with airline customers. All airlines are invited to be represented on engagement forums – for example joint steering groups. In addition, key stakeholders are engaged on a joint planning basis which provides the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.

We worked closely with airlines, the CAA and other stakeholders as we developed Heathrow's Revised Business Plan for the H7 regulatory period which was published in December 2020, and our Update 1 of this plan that was published in June 2021. In parallel we are engaging on our application for an adjustment to the RAB to recover an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. Both the H7 settlement and the enactment of any RAB adjustment are highly uncertain at this stage. There is a material risk for both that, based on regulatory publications to date, the regulator could fail in practice to enact established regulatory principles such as a fair balance of risk and return or the return of regulatory depreciation. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority.

The CAA set out its initial proposals in October 2021, which set out a range of potential charges for H7 and a range of assumptions on traffic, costs, capex, return and commercial revenues alongside a proposed regulatory framework for H7. There is a substantial gap between the CAA proposals and the estimates included in our H7 RBP Update 1. We submitted our response to the CAA's Initial Proposals in Mid-December setting out numerous errors in their proposals. Alongside our response we also submitted the second update to our Revised Business Plan (RBP Update 2).

The CAA completed its review of expansion costs as part of its initial proposals. It has allowed the vast majority of expansion costs to be recovered from 2022 in line with our request. The CAA has identified up to £5 million of expenditure that might be disallowed for being potentially inefficient. These costs have been incurred by Heathrow and will be removed from the Opening RAB for H7 by the CAA.

In addition, we engage closely with internal and external legal advisors to ensure that relevant and appropriate advice is received and that our response to reviews and our actions to ensure compliance with regulatory requirements reflect such advice.

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

In June 2018 the Secretary of State for Transport designated the ANPS providing policy support for Heathrow Expansion. In February 2020, the Court of Appeal held that the ANPS was not lawfully made because the Secretary of State was required but failed to take into account the Paris Agreement and other climate change matters. The Court of Appeal declared that the ANPS has no legal effect unless and until it is reviewed by the Government under statutory procedures. We appealed this decision. Our appeal was heard by the Supreme Court in October 2020 and judgement issued on 16 December 2020. The Supreme Court unanimously allowed our appeal meaning the ANPS has been reinstated. In September 2021, in response to several requests to review the ANPS, the Government decided that it is not appropriate to review the ANPS at this time. The ANPS is therefore current Government policy and has full effect.

###### Risk mitigation

In 2020 we appealed the Court of Appeal's judgement on legal grounds with a view to reinstating the ANPS. Having won the appeal and restored the ANPS, we have positively reiterated the case for expanding Heathrow in line with Government policy and we are continuing to engage with the Government, the CAA and other stakeholders on the next steps to progress our plans.

Heathrow remains committed to a long-term sustainable expansion. When demand returns to pre COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions.

## Heathrow Express Operating Company Limited

### Strategic report *continued*

#### Principal risks *continued*

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

COVID-19 has led to an unprecedented decline in passenger volumes and revenues. These circumstances have been exacerbated by the regulatory and policy environment – Government has imposed quarantines, delayed the introduction of testing solutions, removed VAT Free shopping and excluded Heathrow from full business rates alleviation. Retail has been the largest non-aeronautical income stream impacted.

Limited revenue growth is currently driven by the lack of certainty over consumer demand recovery in 2022, COVID-19 testing regimes and a continuation of restrictive travel policies in different countries and markets; with dependency on optimal slot outcomes potentially constraining the environment for growth.

#### Risk mitigation

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

1. Slot strategy in place to secure desired slot recommendation for S22 and for the future, with advocacy plan also in place to influence DfT, ACI (World and Europe), IATA and other stakeholders to align to Heathrow's position.
2. Senior engagement Plan in place with key airlines.
3. Network strategy in place to target, grow and protect vulnerable routes and new entrants.
4. Continuous focus on optimising revenues from Aviation's 4 Strategic Initiatives: Incumbent Build Back, London Consolidation, New Entrants and Cargo Growth.
5. Work with ACL (our coordinator) and Ops Planning on pre-season schedule optimisation.
6. Industry monitoring via daily updates from CAPA, media cuts and other industry events, as well as attendance at Routes (Network) and IATA (slots and cargo) conferences.

#### Retail

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

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

We have legally challenged the Government where we feel that Government decisions have over-reached their powers and will continue to ensure that we vigorously protect our revenue position.

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

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

#### Risk mitigation

We produce long-term forecasts which include consideration of significant downside risk to enable our management to conclude that covenant terms are likely to be met, and that we have the ability to access additional future finance as required. We have invested in a suitably skilled Treasury and Investment Finance team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed. Realisation of Principal and other risks, mainly regulatory uncertainty, could deteriorate the quality of our credit rating and increase this risk. These uncertainties may result in the Group needing to take further action, including seeking future further covenant waivers or amendments from 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.

## Heathrow Express Operating Company Limited

### Strategic report *continued*

#### Principal risks *continued*

##### **Resilience of Team Heathrow**

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as more widely on the other key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that a sustained lack of resilience across the wider Team Heathrow has an impact on our ability to provide the service levels and passenger experience our passengers and airlines expect. Ramp-up resource forecasts coupled with current UK labour market conditions appear to suggest a further potential exacerbation of the scenario.

##### **Risk mitigation**

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

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

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

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

**People** – Our people ensure that we operate effectively and efficiently. External and internal requirements put pressure on colleagues. This pressure has increased as a result of the COVID-19 pandemic, risk of a threat of industrial action and the challenging external resourcing market (i.e.: the “great resignation” plus the impact of Brexit on the labour market). Recruitment demand has sharply increased with vacancies in the UK peaking at 1.2 million (Sept 2021) however the labour market supply is low.

##### **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 2019 we launched a project to upgrade our financial and people ERP system to enable working in a simpler, more agile and cost-effective way. Now that the cloud-based system has successfully launched, it will be upgraded quarterly to ensure it remains modern and relevant and provides the opportunity for continuous improvement and benefits.

**People** – We continue to invest in our people and have a strategy to ensure the development of talent and careers at Heathrow. Policies are in place to engage and motivate our colleagues; as well as maintain accountability and compliance with internal governance, policies and procedures. We provide career opportunities, development and training. Talent and criticality of roles and individuals are reviewed regularly. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

##### **Political environment**

Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. The implementation of Brexit and COVID-19 related restrictions has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply chain, and our people.

##### **Risk mitigation**

We continue to make a strong case for our place in aviation and the wider economy and the part we play in Global Britain, and we explain the benefits that our ability to meet the UK’s demand for long-haul travel brings. Whilst a change in the Government’s focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAHB Board, which has implemented a structured approach to the identification and management of all risks related to Brexit and Government COVID-19 policy.

## Heathrow Express Operating Company Limited

### Strategic report continued

#### Principal risks continued

##### Competition

We compete against other airports both within the UK and across the world for passengers; some make marginal choices, particularly connecting passengers, about which route to fly. The impact of COVID-19 has closed many global aviation markets as governments seek to control the spread of the virus and led many airlines to materially reduce their flying schedules or even cease flying to some airports altogether. As a result, there is currently spare capacity across all of the airports in the 'London system' including Heathrow, and also across our European Hub competitors.

##### Risk mitigation

Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users, with no degradation to the experience of our passengers and colleagues despite the impact of COVID-19. Maintaining commercial strategies that enable us not only to remain affordable but will actually make us more competitive is also important to retain key passenger groups and partners.

##### Climate change and net zero carbon

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry, must set firmly on a path to net zero and demonstrate real progress in this decade. Heathrow follows the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and climate related risk is therefore considered under the following categories:

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

These risks are presented in greater detail in the HAHL Group annual report and financial statements within the TCFD section. These can be found on the [www.heathrow.com](http://www.heathrow.com) website.

##### Risk mitigation

In 2020, the UK aviation sector, including Heathrow, committed to net zero carbon and published a joint roadmap to get there. The aviation sector roadmap sets a clear industry goal for tackling climate change and focuses attention on the actions that will be needed to meet it. In October 2021, IATA, the international airline body also committed to net zero emissions by 2050.

We published our Net Zero Plan in February 2022 to guide our approach to decarbonisation. Our plan is aligned to the broader aviation sector roadmap and sets clear goals and targets to cut emissions by 2030 and beyond. The significant priority is accelerating net zero flying in the 2020s by securing the right policies for Sustainable Aviation Fuel (SAF) production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. To ensure and support the delivery of our Net Zero Plan, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 140001 and 50001 management systems which commit us to continuous improvement.

##### Financial stability

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

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

## Heathrow Express Operating Company Limited

### Strategic report *continued*

#### Financial stability *continued*

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

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

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

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 2021, the HAHL Group had cash and cash equivalents and term deposits of £2,901 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.

## Heathrow Express Operating Company Limited

### Strategic report *continued*

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

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

The Company's key stakeholders are its passengers, communities and the environment, colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions for the HAHL Board's approval. While there are cases where the Executive Committee itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our stakeholders and the Company means that generally our stakeholder engagement best takes place at the Heathrow Airport Limited (operational) or HAHL Group level with the Company's stakeholders, so as to encourage the directors to understand the issues to which they must have regard, please see the HAHL Group's 2021 annual report and financial statements.

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

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



**Sophie Chapman**

Director

23 September 2022

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 2021.

A review of the progress of the Company's business during the year, the key performance indicators, internal controls and risk management, principal business risks and likely future developments are reported in the Strategic report on pages 2 to 10.

## Results and dividends

The loss after taxation for the financial year amounted to £17.4 million (2020: loss of £33.1 million). The Company's net assets as at 31 December 2021 were £83.4 million (2020: £100.8 million).

No dividends were proposed or paid during the year (2020: £nil). The statutory results for the year are set out on page 17.

## 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  
Michael Hodson  
Andrew MacMillan – resigned 31 August 2021

## Going concern

The financial information presented within these financial statements has been prepared on a going concern basis. The Company, as part of the HAH Group, has a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. Nevertheless, there is uncertainty regarding the final decision from the CAA on passenger tariffs for the H7 period, as well as uncertainty of forecast passenger numbers due to the significant increase in inflation and the corresponding impact to cost of living, coupled with ongoing uncertainty about the ongoing global recovery from COVID-19. These uncertainties may result in the Group needing to take further action, including seeking future covenant waivers or amendments from 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 20.

## Company secretary

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

## Employment policies

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

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

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

# Heathrow Express Operating Company Limited

## Directors' report *continued*

### Employment policies *continued*

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).

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 Heathrow Airport Holdings Limited annual report and financial statements in the section 172 (1) statement.

### Subsequent events:

Subsequent events are disclosed in note 15.

### Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office. The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies Act 2006) are in place during the 2021 financial year and at the date of approving the financial statements and reports.

### Independent Auditors

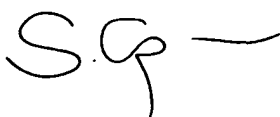
The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed within the period set out in section 485 of the Companies Act 2006

### Statement of disclosure of information to the Auditors

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

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

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



**Sophie Chapman**

Director

23 September 2022

Company registration number: 03145133

## Heathrow Express Operating Company Limited

### Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

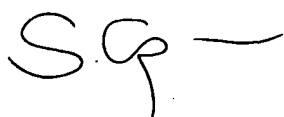
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the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

#### Directors' confirmations

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

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

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



**Sophie Chapman**

Director

23 September 2022

# 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 2021 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 2021; 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. Heathrow continues to be significantly impacted by the COVID19 pandemic which has resulted in a deterioration in passenger traffic and cash flows. The ability of the company to continue as a going concern is underpinned by the performance of the wider Heathrow group of companies ("the group"). The group's forecast and projections assume the regulatory tariffs as described in the going concern section on page 20 and a gradual recovery in the passenger number forecast in the going concern period which still represents a significant reduction to historical revenue levels. In addition, the group has been impacted by uncertainties in relation to the confirmation of their regulatory pricing from the Civil Aviation Authority (CAA) for the upcoming regulatory period (H7). In the event there are further waves of the pandemic, or the implementation or continuation of local lockdown periods, leading to further travel restrictions being imposed worldwide, the group and company, whilst having sufficient liquidity, may require covenant waivers in respect to the interest cover ratio (ICR) measured as at 31 December 2022.. These conditions, along with the other matters explained in 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.

# Heathrow Express Operating Company Limited

## 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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

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

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

## Heathrow Express Operating Company Limited

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, including representatives outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or those posted by unexpected users.
- 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

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

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Emma Sowerby (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Watford  
23 September 2022

**Heathrow Express Operating Company Limited****Statement of comprehensive income** for the year ended 31 December 2021

|                                    |             | Year ended<br>31 December 2021 | Year ended<br>31 December 2020 |
|------------------------------------|-------------|--------------------------------|--------------------------------|
|                                    | <i>Note</i> | £'000                          | £'000                          |
| Revenue                            | 1           | 27,518                         | 29,559                         |
| Operating costs                    | 2           | (54,112)                       | (69,979)                       |
| Exceptional items                  | 3           | -                              | (2,088)                        |
| Operating loss                     |             | (26,594)                       | (42,508)                       |
| Financing                          |             |                                |                                |
| Finance income                     | 4           | 1,015                          | 2,142                          |
| Loss before tax                    |             | (25,579)                       | (40,366)                       |
| Taxation credit                    | 5           | 8,158                          | 7,255                          |
| <b>Loss for the financial year</b> |             | <b>(17,421)</b>                | <b>(33,111)</b>                |

The notes on pages 27 to 34 form part of these financial statements

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

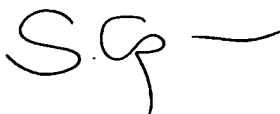
# Heathrow Express Operating Company Limited

## Statement of financial position at 31 December 2021

|                                              |      | 31 December 2021 | 31 December 2020 |
|----------------------------------------------|------|------------------|------------------|
|                                              | Note | £'000            | £'000            |
| <b>Assets</b>                                |      |                  |                  |
| <b>Non-current assets</b>                    |      |                  |                  |
| Intangible assets                            | 7    | 13,751           | 15,916           |
| Property, plant and equipment                | 6    | 4                | 70               |
| Deferred tax asset                           | 9    | 15,468           | 7,310            |
|                                              |      | <b>29,223</b>    | <b>23,296</b>    |
| <b>Current assets</b>                        |      |                  |                  |
| Trade and other receivables                  | 8    | 79,443           | 92,121           |
| Cash and cash equivalents                    | 10   | 64               | -                |
|                                              |      | <b>79,507</b>    | <b>92,121</b>    |
| <b>Total assets</b>                          |      | <b>108,730</b>   | <b>115,417</b>   |
| <b>Liabilities</b>                           |      |                  |                  |
| <b>Current liabilities</b>                   |      |                  |                  |
| Loans and overdrafts                         | 10   | -                | (316)            |
| Trade and other payables                     | 11   | (25,379)         | (14,329)         |
|                                              |      | <b>(25,379)</b>  | <b>(14,645)</b>  |
| <b>Total liabilities</b>                     |      | <b>(25,379)</b>  | <b>(14,645)</b>  |
| <b>Total assets less current liabilities</b> |      | <b>83,351</b>    | <b>100,772</b>   |
| <b>Net assets</b>                            |      | <b>83,351</b>    | <b>100,772</b>   |
| <b>Capital and reserves</b>                  |      |                  |                  |
| Called up share capital                      | 12   | -                | -                |
| Share premium                                |      | 38,000           | 38,000           |
| Retained earnings                            |      | 45,351           | 62,772           |
| <b>Total shareholders' funds</b>             |      | <b>83,351</b>    | <b>100,772</b>   |

The notes on pages 27 to 34 form part of these financial statements

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) from page 17 to 34 were approved by the Board of Directors on 23 September 2022 and signed on its behalf by:



**Sophie Chapman**  
Director



**Ross Baker**  
Director

**Heathrow Express Operating Company Limited****Statement of changes in equity for the year ended 31 December 2021**

|                             | Called up<br>share capital <sup>1</sup><br>£'000 | Share<br>premium<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|-----------------------------|--------------------------------------------------|---------------------------|-------------------------------|--------------------------|
| 1 January 2020              | -                                                | 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                  |
| Comprehensive income        |                                                  |                           |                               |                          |
| Loss for the financial year | -                                                | -                         | (17,421)                      | (17,421)                 |
| Total comprehensive expense | -                                                | -                         | (17,421)                      | (17,421)                 |
| 31 December 2021            | -                                                | 38,000                    | 45,351                        | 83,351                   |

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

The notes on pages 27 to 34 form part of these financial statements

## Heathrow Express Operating Company Limited

### Accounting policies for the year ended 31 December 2021

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 include business transformation costs in the prior year. These are not expected to reoccur in future years.

#### Going concern

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

#### 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 uncertainty that regulation could provide as Heathrow enters the next regulatory period (H7), as well as the potential impact on speed of recovery of any further COVID-19 impacts on cash flow and liquidity over the 12 months from the approval of these financial statements. The Directors have also considered the period beyond 12 months to December 2023.

# Heathrow Express Operating Company Limited

**Accounting policies** for the year ended 31 December 2021 *continued*

**Going concern** *continued*

## ***Cash flow and liquidity*** *continued*

Despite a challenging market backdrop, given the long recovery from the COVID-19 pandemic and the uncertainty surrounding tariffs for the H7 regulatory period, continued confidence and support for our credit enabled Heathrow to raise £0.3 billion of debt in the 6 months to 30 June 2022 with new £200 million and CHF165 million Class A transactions being successfully executed. Consequently, Heathrow SP held cash of £1.3 billion as at 30 June 2022. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2022 is £0.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £2.6 billion available. No debt matures outside of Heathrow SP for the next 12 months from 30 June 2022. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the current regulatory business plan cash flow forecast or until at least June 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

## ***Heathrow's regulatory business plan***

The Directors have modelled future cash flows for the period beyond 12 months to December 2023 and have considered the following:

- forecast revenue and operating cash flows from the underlying operations, based on a 2022 traffic forecast of 54.4 million passengers;
- 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 modelling the recovery from COVID-19, there remains a significant degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Passenger traffic continued to increase through H1 2022, with 26.1 million having travelled through the airport in the 6 months to 30 June 2022 (6 months to 30 June 2021: 3.9 million). Demand continues to be driven by outbound leisure as passengers take advantage of the removal of restrictions and travel vouchers from cancelled trips over the past two years, with inbound demand weaker due to COVID-19 restrictions in other countries. However, the degree of uncertainty is still significant due to steep inflation and the resultant increase in cost of living particularly for voucher-led outbound leisure, coupled with uncertainty of future travel restrictions caused by potential new COVID-19 variants of concern.

In addition to the inherent passenger forecast uncertainties described above, we do not yet have full certainty over passenger tariffs for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026), which is set by the Civil Aviation Authority (the "CAA"). As described on page 5 of the SP Group interim consolidated financial statements, the CAA's Final Proposals provide an average H7 tariff of £24.14 in 2020 prices, with a final decision expected later in 2022. Until the H7 tariff is finalised, the CAA has put in place an interim tariff (the "interim tariff") from 1 January 2022.

The cash flows in Heathrow's current regulatory business plan RBP Update 2, updated for latest passenger forecasts and inflation, reflect the Directors' view of the expected CAA passenger tariff for the H7 regulatory period. RBP Update 2 assumes the interim tariff will remain in place for the entirety of 2022 and that the overall tariff for the H7 period will be £42.63 (in 2020 prices). This is above the CAA's tariff set out in the Final Proposals. It is the Directors' view that its own RBP Update 2 has been carefully crafted to deliver for our passengers and other stakeholders and is therefore a realistic tariff supported by a detailed assessment of each individual block which form part of the tariff calculation. Under RBP Update 2, the Group will meet all covenants associated with its financial arrangements. The Directors acknowledge that this is a critical judgement and has therefore considered two further sensitivity scenarios for financial reporting purposes, described below.

# Heathrow Express Operating Company Limited

**Accounting policies** for the year ended 31 December 2021 *continued*

**Going concern** *continued*

## ***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 June 2023.

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the CAA's H7 tariff from the Final Proposals and further decreases in passenger numbers and a resulting drop in EBITDA. In addition, the Directors have modelled out to December 2023 given the close proximity to the subsequent covenant testing period.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff in line with the CAA's Final Proposals (£24.14 in 2020 prices). This scenario assumes no further RAB adjustment. Given the continued uncertainty over potential future travel restrictions in the UK and those markets which Heathrow services caused by any new COVID-19 variants, and a resultant impact on consumer confidence, the Directors have modelled downside passenger forecasts in 2022 and 2023. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of under 15 million in 2022 or over 8 million in 2023 (27% and 12% reduction versus RBP Update 2, respectively) under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADIF2 in December 2023. A reduction in passenger numbers of over 16 million in 2022 or over 12 million in 2023 (30% and 20% reduction versus RBP Update 2, respectively) is forecast to result in an ICR covenant breach at Heathrow Finance. The Directors consider these reductions to be severe but plausible due to the continued uncertainty over passenger demand for the reasons outlined above.

Should there be a covenant breach, the Directors would need to undertake additional actions including identifying additional cashflow mitigations as well as seeking a further covenant waiver or amendment from creditors. During Q3 2021, the Group successfully agreed a further ICR covenant waiver at Heathrow Finance for the period ended 31 December 2021 which follows the agreement of 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. Whilst the Directors are confident it would continue to receive support from its creditors if required, there is no certainty a further covenant waiver would be agreed particularly since unfavourable passenger tariffs may impact access to liquidity due to weaker access to debt capital markets at affordable prices. These factors indicate 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.

## ***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 signing these financial statements, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

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 debtholders as it successfully secured in 2020 and 2021.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty with regard to forecast passenger numbers and the corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period. Specifically, if passenger pricing was such that the Group were unable to secure minimum cashflow generation to protect an investment grade credit rating, access to liquidity at affordable prices beyond 2023 may be compromised. These uncertainties may result in the Group needing to take further action, including seeking future further covenant waivers or amendments from creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and therefore the Company's ability to continue as a going concern.

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

# Heathrow Express Operating Company Limited

**Accounting policies** for the year ended 31 December 2021 *continued*

## COVID-19

The COVID-19 outbreak developed rapidly during 2020 and continued to significantly impact the Group in 2021. 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, 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.

## Tangible fixed assets

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

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

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

# Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2021 *continued*

## Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation:

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

## 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.

# Heathrow Express Operating Company Limited

**Accounting policies** for the year ended 31 December 2021 *continued*

## **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 HAHB 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 taxation credit for the period comprises current and deferred tax recognised in the statement of comprehensive income.

Current tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

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

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. 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.

## **Interest Rate Benchmark Reform**

During 2021, the Directors reviewed the Group's exposures to IBOR, including an assessment of the impact on the following:

- A review of all intercompany loan agreements, and
- An update of the Treasury systems and processes to reflect the update from LIBOR discounting to ARR discounting.

The need to update systems and processes to be able to use the ARFR, including day-count and compounding conventions was also identified.

Accordingly, the Group has engaged with its banking partners and external advisors during the period to amend IBOR language within loan facilities, term loans, intercompany loan agreements and has completed implementation of system changes. The assessment identified no impact relating to other contracts.

## **Heathrow Express Operating Company Limited**

### **Significant accounting judgements and estimates for the year ended 31 December 2021**

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

#### **Critical judgements in applying the Company's accounting policies**

##### **Going concern**

The impact of COVID-19 on going concern was considered in some detail. Further information can be found within the 'Basis of preparation' 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 terminate in June 2023 at the end of the current track access agreement, the impact on the financial statements for the year ended 31 December 2021 would be to increase the amortisation charge by £4.2 million.

# Heathrow Express Operating Company Limited

## Notes to the financial statements for the year ended 31 December 2021

### 1 Revenue

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

|                                        | Year ended<br>31 December 2021 | Year ended<br>31 December 2020 |
|----------------------------------------|--------------------------------|--------------------------------|
|                                        | £'000                          | £'000                          |
| Fare Revenue                           | 23,275                         | 25,150                         |
| Other Income <sup>1</sup>              | 2,421                          | 2,587                          |
| Provision of Rail Services to Heathrow | 1,822                          | 1,822                          |
|                                        | <b>27,518</b>                  | <b>29,559</b>                  |

<sup>1</sup> Other income includes Furlough receipts (Job Retention Scheme) £682,000 (2020: £1,843,000), Crossrail engineering works compensation £422,000 (2020: £144,000) and HS2 engineering works compensation/ other revenue £1,317,000 (2020: £600,000), revenue is earned in the United Kingdom.

### 2 Operating costs

Operating costs, comprise the following:

|                                                                   | Year ended<br>31 December 2021 | Year ended<br>31 December 2020 |
|-------------------------------------------------------------------|--------------------------------|--------------------------------|
|                                                                   | £'000                          | £'000                          |
| <b>Employment</b>                                                 |                                |                                |
| Wages and salaries                                                | 3,825                          | 4,962                          |
| Social security costs                                             | 435                            | 660                            |
| Other pension costs <sup>1</sup>                                  | 197                            | 252                            |
| Other staff related costs                                         | 285                            | 363                            |
|                                                                   | <b>4,742</b>                   | <b>6,237</b>                   |
| Operational                                                       | 11,277                         | 7,353                          |
| Maintenance                                                       | 4,737                          | 10,715                         |
| Rates                                                             | 2,455                          | 2,299                          |
| Utilities                                                         | 480                            | 1,963                          |
| Intra-group charges <sup>2</sup>                                  | 14,787                         | 25,957                         |
| Other <sup>3</sup>                                                | 13,403                         | 13,191                         |
| <b>Total operating costs before depreciation and amortisation</b> | <b>51,881</b>                  | <b>67,715</b>                  |
| <b>Depreciation and amortisation</b>                              |                                |                                |
| Property, plant and equipment                                     | 66                             | 101                            |
| Intangible assets                                                 | 2,165                          | 2,163                          |
|                                                                   | <b>2,231</b>                   | <b>2,264</b>                   |
| <b>Total operating costs before exceptional items</b>             | <b>54,112</b>                  | <b>69,979</b>                  |

<sup>1</sup> Pension costs comprise £197,000 (2020: £252,000) of pension costs related to the Company's defined contribution pension scheme.

<sup>2</sup> 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.

<sup>3</sup> Other includes GWR/ DfT agreement costs of £12,444,000 (2020: £10,448,000).

### Rentals under operating leases

|                                     | Year ended<br>31 December 2021 | Year ended<br>31 December 2020 |
|-------------------------------------|--------------------------------|--------------------------------|
|                                     | £'000                          | £'000                          |
| <b>Operating costs include:</b>     |                                |                                |
| Plant and machinery <sup>1</sup>    | 8,633                          | 10,326                         |
| Land and Buildings <sup>2</sup>     | 302                            | 2,155                          |
| Other operating leases <sup>3</sup> | 23,213                         | 17,314                         |

<sup>1</sup> Plant and machinery includes £1,454,000 for rolling stock leasing charges from Heathrow Airport Limited (2020: £10,209,000) and £7,179,000 of rolling stock lease charges from GWR (2020: £nil).

<sup>2</sup> Land and Buildings includes £302,000 for train depot lease charges from Heathrow Airport Limited (2020: £2,122,000).

<sup>3</sup> Other Operating Leases includes £12,819,000 for track access charges payable to Heathrow Airport Limited (2020: £12,445,000) 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 £10,250,000 (2020: £4,726,000 after COVID-19 relief of £5,298,000) for track access charges payable to Network Rail for the full year for the right to use the 18km route from Paddington station to the Heathrow tunnel entrance at Hayes & Harlington.

## Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

### 2 Operating costs *continued*

#### Auditors' remuneration

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

|                                                                                                          | Year ended<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'000 |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| <b>Fees payable to the Company's auditors for the audit of the Company's annual financial statements</b> |                                         |                                         |
| Audit of the Company pursuant to legislation                                                             | 61                                      | 23                                      |

#### Employee information

The monthly average number of employees of the Company during the year was 109 (2020: 163).

##### By activity

|                  | Year ended<br>31 December 2021 | Year ended<br>31 December 2020 |
|------------------|--------------------------------|--------------------------------|
| Operations       | 91                             | 111                            |
| Support services | 18                             | 52                             |
| <b>Total</b>     | <b>109</b>                     | <b>163</b>                     |

#### Directors' remuneration

|                                                           | Year ended<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'000 |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Salaries and employee benefits <sup>1</sup>               | 356                                     | 381                                     |
| Value of Company pension contributions to pension schemes | 23                                      | 25                                      |
|                                                           | <b>379</b>                              | <b>406</b>                              |

<sup>1</sup> For the year ended 31 December 2021 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP'), and termination benefits.

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

|                                                           | Year ended<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'000 |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Highest paid director's remuneration                      |                                         |                                         |
| Salaries and employee benefits <sup>1</sup>               | 211                                     | 169                                     |
| Value of Company pension contributions to pension schemes | 18                                      | 16                                      |
|                                                           | <b>229</b>                              | <b>185</b>                              |

<sup>1</sup> For the year ended 31 December 2021 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses, amounts payable under long term incentive plans ('LTIP'), and termination benefits.

|                                                        | Year ended<br>31 December 2021<br>Number | Year ended<br>31 December 2020<br>Number |
|--------------------------------------------------------|------------------------------------------|------------------------------------------|
| Number of directors who:                               |                                          |                                          |
| - are members of a defined benefit pension scheme      | -                                        | -                                        |
| - are members of a defined contribution pension scheme | 2                                        | 4                                        |

# Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

## 3 Exceptional Items

|                                           | Year ended<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'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

There are no exceptional items for the year ended 31 December 2021. For the year-ended 31 December 2020, 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 had 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<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'000 |
|--------------------------------------------|-----------------------------------------|-----------------------------------------|
| Interest receivable from group undertaking | 1,015                                   | 2,142                                   |

## 5 Taxation credit

|                                           | Note | Year ended<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'000 |
|-------------------------------------------|------|-----------------------------------------|-----------------------------------------|
| UK corporation tax                        |      |                                         |                                         |
| Under provision in respect of prior years |      | -                                       | (6)                                     |
| Deferred tax                              |      |                                         |                                         |
| Current year credit                       | 9    | 5,838                                   | 7,246                                   |
| Prior year credit                         | 9    | 12                                      | 9                                       |
| Change in tax rate                        | 9    | 2,308                                   | 6                                       |
| <b>Taxation credit for the year</b>       |      | <b>8,158</b>                            | <b>7,255</b>                            |

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

|                                                            | Year ended<br>31 December 2021<br>£'000 | Year ended<br>31 December 2020<br>£'000 |
|------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| <b>Loss before tax</b>                                     | <b>(25,579)</b>                         | <b>(40,366)</b>                         |
| <b>Reconciliation of the tax credit</b>                    |                                         |                                         |
| Tax calculated at the UK statutory rate of 19% (2020: 19%) | 4,860                                   | 7,670                                   |
| Expenses not deductible for tax purposes                   | (423)                                   | (424)                                   |
| Adjustments in respect of prior periods - current tax      | -                                       | (6)                                     |
| Adjustments in respect of prior periods - deferred tax     | 12                                      | 9                                       |
| Change in tax rate                                         | 3,709                                   | 6                                       |
| <b>Taxation credit for the year</b>                        | <b>8,158</b>                            | <b>7,255</b>                            |

## Heathrow Express Operating Company Limited

### Notes to the financial statements for the year ended 31 December 2021 *continued*

#### 5 Taxation credit *continued*

The tax credit recognised for the year ended 31 December 2021 was £8,158,000 (2020: £7,255,000). Based on a loss before tax for the year ended 31 December 2021 of £25,579,000 (2020: £40,366,000), this results in an effective tax rate of 31.9% (2020: 18.0%). The tax credit for 2021 is more than implied by the statutory rate of 19% (2020: 19%) primarily due to the re-measurement of opening deferred tax balances to 25% and some of the current year deferred tax movements being therefore measured at the 25% tax rate, offset by non-deductible expenses reducing the tax credit for the year (2020: the tax credit was less than implied by the statutory rate of 19% primarily due to non-deductible expenses in respect of the intangible amortisation).

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

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

#### 6 Property, plant and equipment

|                                        | Office equipment<br>£'000 | Computer equipment<br>£'000 | Total<br>£'000 |
|----------------------------------------|---------------------------|-----------------------------|----------------|
| <b>Cost</b>                            |                           |                             |                |
| 1 January 2020                         | 155                       | 421                         | 576            |
| <b>31 December 2020</b>                | <b>155</b>                | <b>421</b>                  | <b>576</b>     |
| <b>31 December 2021</b>                | <b>155</b>                | <b>421</b>                  | <b>576</b>     |
| <b>Depreciation</b>                    |                           |                             |                |
| 1 January 2020                         | 119                       | 286                         | 405            |
| Charge for the year                    | 24                        | 77                          | 101            |
| <b>31 December 2020</b>                | <b>143</b>                | <b>363</b>                  | <b>506</b>     |
| <b>Charge for the year</b>             | <b>10</b>                 | <b>56</b>                   | <b>66</b>      |
| <b>31 December 2021</b>                | <b>153</b>                | <b>419</b>                  | <b>572</b>     |
| <b>Net book value 31 December 2021</b> | <b>2</b>                  | <b>2</b>                    | <b>4</b>       |
| Net book value 31 December 2020        | 12                        | 58                          | 70             |

## Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

### 7 Intangible assets

|                                        | Rights to Operate<br>£'000 | Software<br>£'000 | Total<br>£'000 |
|----------------------------------------|----------------------------|-------------------|----------------|
| <b>Cost</b>                            |                            |                   |                |
| 1 January 2020                         | 38,000                     | 118               | 38,118         |
| Additions                              | -                          | 62                | 62             |
| <b>31 December 2020</b>                | <b>38,000</b>              | <b>180</b>        | <b>38,180</b>  |
| <b>Additions</b>                       | <b>-</b>                   | <b>-</b>          | <b>-</b>       |
| <b>31 December 2021</b>                | <b>38,000</b>              | <b>180</b>        | <b>38,180</b>  |
| <b>Amortisation</b>                    |                            |                   |                |
| 1 January 2020                         | 20,058                     | 43                | 20,101         |
| Charge for the year                    | 2,111                      | 52                | 2,163          |
| <b>31 December 2020</b>                | <b>22,169</b>              | <b>95</b>         | <b>22,264</b>  |
| <b>Charge for the year</b>             | <b>2,111</b>               | <b>54</b>         | <b>2,165</b>   |
| <b>31 December 2021</b>                | <b>24,280</b>              | <b>149</b>        | <b>24,429</b>  |
| <b>Net book value 31 December 2021</b> | <b>13,720</b>              | <b>31</b>         | <b>13,751</b>  |
| Net book value 31 December 2020        | 15,831                     | 85                | 15,916         |

#### Rights to Operate

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

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

The original track access agreement with Network Rail dated 16 August 1993 allows the Company to operate its services until June 2023. The Secretary of State for Transport has, through the Heathrow Express Overarching Agreement dated 17 April 2018 with the Company and Heathrow, committed to providing reasonable assistance in obtaining extended track access rights beyond 2028. At 31 December 2021, formal negotiations with Network Rail are underway with terms expected to be agreed and finalised by December 2023. At the end of the existing agreement in June 2023, the Company will move onto a 6-month rolling contract with Network Rail which will be superseded by the new agreement signed.

At 31 December 2021, 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 (2020: £nil). The Intangible asset will be fully amortised as at 30 June 2028.

### 8 Trade and other receivables

|                                                             | 31 December 2021<br>£'000 | 31 December 2020<br>£'000 |
|-------------------------------------------------------------|---------------------------|---------------------------|
| <b>Current</b>                                              |                           |                           |
| Trade debtors                                               | 2,483                     | 3,419                     |
| Amounts owed by group undertakings <sup>1</sup>             | 67,616                    | 79,204                    |
| Other debtors <sup>2</sup>                                  | 1,924                     | 1,658                     |
| Prepayment of 6 months of track access and OHLE Maintenance | 3,680                     | 5,244                     |
| Accrued income                                              | 3,740                     | 2,596                     |
|                                                             | <b>79,443</b>             | <b>92,121</b>             |

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

<sup>2</sup> Other debtors predominantly consists of VAT and prepayments.

## Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

### 9 Deferred tax asset

|                                                 | £'000         |
|-------------------------------------------------|---------------|
| 1 January 2021                                  | 7,310         |
| Credit to income statement                      | 5,850         |
| Credit to income statement - change in tax rate | 2,308         |
| <b>31 December 2021</b>                         | <b>15,468</b> |

Analysis of the deferred tax asset balances is as follows:

|                                                | 31 December 2021<br>£'000 | 31 December 2020<br>£'000 |
|------------------------------------------------|---------------------------|---------------------------|
| Losses carried forward                         | 15,343                    | 7,240                     |
| Excess of depreciation over capital allowances | 111                       | 63                        |
| Other timing differences                       | 14                        | 7                         |
|                                                | <b>15,468</b>             | <b>7,310</b>              |

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

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

The net deferred tax asset expected to reverse in 2022 is £nil.

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

### 10 Cash and cash equivalents

|                                              | 31 December 2021<br>£'000 | 31 December 2020<br>£'000 |
|----------------------------------------------|---------------------------|---------------------------|
| Bank overdraft                               | -                         | (316)                     |
| Cash at bank                                 | 64                        | -                         |
| Cash at bank and in hand and cash equivalent | <b>64</b>                 | <b>(316)</b>              |

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

### 11 Trade and Other Payables

|                              | 31 December 2021<br>£'000 | 31 December 2020<br>£'000 |
|------------------------------|---------------------------|---------------------------|
| <b>Current</b>               |                           |                           |
| Trade Creditors              | 3,139                     | 66                        |
| Taxation and social security | 99                        | 98                        |
| Other creditors              | 31                        | 3                         |
| Accruals                     | 2,517                     | 4,153                     |
| Deferred income <sup>1</sup> | 19,593                    | 10,009                    |
|                              | <b>25,379</b>             | <b>14,329</b>             |

<sup>1</sup> Deferred income includes £19.5 million (2020 £10.0 million) of compensation received from the Department for Transport as part of the Heathrow Express Overarching Agreement. 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.

# Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

## 12 Called up share capital

|                                           | £   |
|-------------------------------------------|-----|
| <b>Authorised</b>                         |     |
| At 1 January 2021 and 31 December 2021    |     |
| 100 ordinary shares of £1 each            | 100 |
| <b>Called up, allotted and fully paid</b> |     |
| At 1 January 2021 and 31 December 2021    | 4   |

## 13 Commitments and contingent liabilities

### Non-cancellable operating lease commitments

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

|                                                          | 31 December 2021 |                | 31 December 2020 |                |
|----------------------------------------------------------|------------------|----------------|------------------|----------------|
|                                                          | Land & buildings | Other leases   | Land & buildings | Other leases   |
|                                                          | £'000            | £'000          | £'000            | £'000          |
| <b>Within one year</b>                                   | 284              | 31,226         | 586              | 31,779         |
| <b>Later than one year and not later than five years</b> | 375              | 141,068        | 1,135            | 123,505        |
| <b>After five years</b>                                  | 100              | 56,943         | 709              | 80,525         |
|                                                          | <b>759</b>       | <b>229,237</b> | <b>2,430</b>     | <b>235,809</b> |

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 agreements with Heathrow Airport Limited and with Network Rail and rolling stock agreements with GWR.

### Securities and guarantees

The Company, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. The total value secured is £15,958 million, equal to the gross value of Heathrow (SP) gross debt.

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

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

## Heathrow Express Operating Company Limited

**Notes to the financial statements** for the year ended 31 December 2021 *continued*

### 14 Ultimate parent undertaking

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

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (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 2021, 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 2021.

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.

### 15 Subsequent events

There are no subsequent events to disclose.