

Heathrow Express Operating Company Limited
Annual report and financial statements
for the year ended 31 December 2014

Heathrow Express Operating Company Limited

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Heathrow Express Operating Company Limited

Officers and professional advisers

Directors

Normand Boivin
Christopher Green
Robert Smallwood
Brian Woodhead

Registered office

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

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

Heathrow Express Operating Company Limited

Strategic report

Strategic report

Heathrow Express Operating Company Limited (the 'Company') operates the rail service between Heathrow airport and Paddington station, London. The Company is an indirect subsidiary of Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited. The Company's direct parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the operations of the Company but the day-to-day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow. In return for providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs.

Review of business and future developments

Key events occurring during the year and developments since the beginning of 2015 are detailed below.

During the year the Heathrow Express service carried a total of 5.83 million passengers and Heathrow Connect carried 0.46 million passengers driving a market share of 10.9% (2013: 11.1%). The combined passenger number for both services decreased by 0.9% from 6.35 million in 2013 to 6.29 million in 2014. Total Heathrow passenger growth was 1.4% and the through ticket transfer rate (i.e. passengers who have purchased a 'through-ticket' with the airline, therefore never leaving the airport) increased 0.3ppts to 27.2% (2013: to 26.9%), this measure does not take into account passengers who transfer through the airport without buying a through ticket from an airline and this is estimated to represent between 7% and 9% of total passengers. Passenger growth for Heathrow Express was flat year on year and market share reduced slightly as Crossrail works increased resulting in 2,845 planned train cancellations, an increase of 29% (2013: 2,204) and there were several days of industrial action which also impacted passenger numbers. Connect passenger numbers decreased as the service felt the knock-on effect of Crossrail.

Heathrow Express operational performance dropped slightly with the Heathrow Express Public Performance Measure ('PPM') 93.62% (2013: 93.75%) and punctuality 89.48% (2013: 90.0%) PPM represents the percentage of trains 'on time' compared to the total number of trains planned.

The PPM for Heathrow Connect was 92.05% (2013: 92.8%). The Crossrail engineering works were a key driver of this small reduction in performance causing unplanned disruptions to the timetable through frequent possession overruns.

Once again Heathrow Express topped the National Rail Passenger Survey (Autumn 2014) with an overall score of 94% (Autumn 2013: 96%, 1st position).

In 2015 key objectives will include a strong commercial focus to increase passenger numbers which will remain a challenge as planned Crossrail works continue to escalate towards its opening in 2018 which will impact the customer decision to travel on our trains; continuous improvements to safety with the introduction of train dispatch by the driver; transforming the business operation from a train management company to a train operating company mirroring the structure of all other train operating companies in the UK.

Principal Risks and Uncertainties and Risk management

Risk management is key element of the Heathrow Airport Holdings Limited Group's (the 'Heathrow Airport Holdings Group') corporate operations. Risk is centrally managed from Heathrow Airport Holdings Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to Accounting policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely. The Executive Committee, Board, Audit Committee ('AC') referred to below relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited.

The Heathrow Airport Holdings Group's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the Heathrow Airport Holdings Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that day-to-day activities are managed effectively and all significant business decisions are risk-informed.

The risk management process is evidenced in risk registers which are used as the basis for regular review of risks and their management, up to Executive Committee level. The risk registers are also used to inform decisions relating to the procurement of insurance cover. The risk management process also supports clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the risk management process and the individual risk registers are subject to periodic review by the Internal Audit function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

Assurance is provided through the management reporting processes and reports to the AC including the Sustainability and Operational Risk Committee.

The principal corporate and reputational risks as identified by the Executive Committee are:

Heathrow Express Operating Company Limited

Strategic report continued

Safety risks

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

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

Security risks

Security risks are regarded as critical risks to manage throughout the Heathrow Airport Holdings Group. The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Heathrow Airport Holdings Group works closely with government agencies including the police and Border Force building a framework to establish joint accountabilities for security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

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

Environmental risks

Environmental risk is managed throughout the Heathrow Airport Holdings Group as it has the potential to impact negatively upon the Company's reputation and jeopardise its licence to operate and to grow. The Company controls and mitigates these risks at a number of levels. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established. The Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. Heathrow Express has negotiated a two year deal with their unions RMT and ASLEF. The 2015 and 2016 pay settlement is basic RPI based on November 2014 and November 2015 respectively.

Treasury

The Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited, and also with Heathrow (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed. The treasury policies of the Heathrow (SP) Limited group (the 'SP Group') are set out below.

The Board of the Heathrow Airport Holdings Group 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 Heathrow 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 Heathrow Airport Holdings Group's business operations and funding. To achieve this, the Heathrow Airport Holdings Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate and currency risks.

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

(a) Interest rates

The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2014, fixed rate debt after hedging with derivatives represented 97% of the SP Group's total external nominal debt.

(b) Inflation

The SP Group mitigates the risk of mismatch between Heathrow airport'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 use of inflation linked instruments.

Heathrow Express Operating Company Limited

Strategic report continued

Principal Risks and Uncertainties and Risk management *continued*

Commercial and financial risks continued

Treasury continued

(c) Foreign currency

The SP Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The SP 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 SP Group has established both investment grade (at the Heathrow (SP) level) and sub-investment grade (at Heathrow Finance level) financing platforms for Heathrow. The Heathrow (SP) platform supports 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 (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AC, 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.

The SP Group has positive cash flows after capital expenditure and interest and maintains at least 12 months' headroom under its revolving credit facilities. As at 31 December 2014, cash and cash equivalents and term deposits were £436 million, undrawn headroom under revolving credit facilities was £1,595 million and undrawn headroom under liquidity facilities was £750 million

(e) Counterparty credit

The SP 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.

The SP Group maintains a prudent split of cash and current asset investments across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or current asset investments are placed with counterparties with short-term credit ratings lower than A-2/F1. The SP Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long credit rating below BBB+ (S&P)/A (Fitch).

On behalf of the Board



Brian Woodhead

Director

19 March 2015

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' report

Principal activities

The Company operates the rail service between Heathrow airport and Paddington station, London. The Company's parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the Company but the day-to-day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow. In return for providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs.

Results and dividends

The profit after taxation for the financial year amounted to £4.98 million (2013: £4.98 million). No dividends were proposed or paid during the year (2013: £nil). The statutory results for the year are set out on page 9.

Directors

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

Normand Boivin	Appointed 1 September 2014
Christopher Green	
Robert Smallwood	Appointed 1 September 2014
Brian Woodhead	
Fidel López	Resigned 1 September 2014
Keith Greenfield	Resigned 31 January 2015

Employment policies

The Company's employment policies are designed to balance the needs of the business, the customer and the employee and to enable it to attract, recruit and retain high performing individuals from the diverse communities that it provides services to. The Company remains committed to encouraging diversity and fair and consistent practices in all stages of the employee life cycle, from recruitment onwards. The Company's Diversity policy takes account of relevant legislation and full consideration and support is given to employees who become disabled or require flexible working arrangements in order to remain employed.

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

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

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

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

Supplier payment policy

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

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

Heathrow Express Operating Company Limited

Directors' report continued

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

Auditor

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

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board



Brian Woodhead
Director

19 March 2015

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

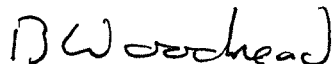
In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Brian Woodhead
Director

19 March 2015

Heathrow Express Operating Company Limited

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

We have audited the financial statements of Heathrow Express Operating Company Limited for the year ended 31 December 2014 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Jacqueline Holden, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

19 March 2015

Heathrow Express Operating Company Limited

Profit and loss account for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Turnover		70,708	67,413
Operating costs - ordinary	1	(64,286)	(61,287)
Operating (costs)/gains – exceptional: pensions	2	(462)	209
Total operating costs		(64,748)	(61,078)
Operating profit		5,960	6,335
Net interest receivable and similar income	3	395	258
Profit on ordinary activities before taxation		6,355	6,593
Tax charge on profit on ordinary activities	4	(1,379)	(1,612)
Profit on ordinary activities after taxation	11	4,976	4,981

All profits and losses recognised during the current and prior year are from continuing operations.

There are no recognised gains or losses for the current or prior year other than those stated in the Profit and Loss Account and accordingly no Statement of Total Recognised Gains and Losses is presented.

Heathrow Express Operating Company Limited

Reconciliation of movements in shareholder's funds for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit for the financial year	<i>111</i>	4,976	4,981
Net movement in shareholder's funds		4,976	4,981
Deferred tax on retirements		(12)	-
Opening shareholder's funds		26,663	21,682
Closing shareholder's funds		31,627	26,663

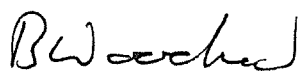
There is no material difference between the historical cost profits and losses and the Profit and Loss Account.

Heathrow Express Operating Company Limited

Balance sheet as at 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Fixed assets			
Tangible fixed assets	5	191	115
Total fixed assets		191	115
Current assets			
Debtors	6	43,776	32,272
Cash at bank and in hand	7	449	1,593
Total current assets		44,225	33,865
Current liabilities			
Creditors: amounts falling due within one year	8	(11,756)	(7,131)
Net current assets		32,469	26,734
Total assets less current liabilities		32,660	26,849
Provisions for liabilities and charges	9	(1,033)	(186)
Net assets		31,627	26,663
Capital and reserves			
Called up share capital	10	-	-
Profit and loss reserve	11	31,627	26,663
Total shareholder's funds		31,627	26,663

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) were approved by the Board of Directors and authorised for issue on 19 March 2015. They were signed on its behalf by:



Brian Woodhead
Director



Normand Boivin
Director

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2014

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 otherwise stated.

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')).

Going concern

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

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

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

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

Turnover

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

All revenue was received from Heathrow Airport Limited and represents the costs incurred providing the rail service on behalf of Heathrow Airport Limited plus a 10% management fee, net of VAT.

All fare and commercial revenue is collected on behalf of Heathrow Airport Limited by the Company and transferred directly to Heathrow Airport Limited.

Exceptional items

The Company separately presents certain items as exceptional on the face of the Profit and Loss Account. Exceptional items are material items of income or expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Company's financial performance.

Provisions to recognise the Company's liability to fund the LHR Airports Limited defined benefit pension scheme deficit and the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the Shared Services Agreement are also treated as exceptional. Refer to the Shared Services Agreement accounting policy.

Interest

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

Tangible fixed assets

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

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

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

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

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2014 *continued*

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 depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Leases

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

Company as a lessee

Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Company as a lessor

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

Debtors

Debtors 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.

Creditors

Creditors are recognised at cost.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Amounts owed to group undertakings

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the Profit and Loss Account over the period of the borrowings using the effective interest rate method.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2014 *continued*

Pension costs – defined contribution pension scheme

The main pension fund for the Company is a defined contribution group personal pension plan. Pension costs are based on a fixed percentage of salary, up to a maximum of 9.6% for employees, which is agreed at the commencement of their contract and continues to be paid whilst employed by the Company. The costs are charged to the Profit and Loss Account on the basis of costs incurred during the year. This charge is included within ordinary staff pension costs.

As detailed under the Shared Services Agreement, certain employees are members of the LHR Airports Limited defined benefit pension scheme. Full details of this scheme are disclosed in the financial statements of LHR Airports Limited for the year ended 31 December 2014.

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.

Corporate and centralised services

The Company is charged for centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the Company.

Pension costs – defined benefit pension scheme

LHR Airports Limited sponsors part of the Company's employees under the LHR Airports Limited defined pension scheme while the defined contribution scheme is made available to the remaining employees.

The Company has had an obligation since August 2008 to fund or benefit from its share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and the Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical Benefits pension related liabilities under the SSA. These provisions or assets are based on the relevant share of the actuarial deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets are recorded as exceptional items due to their size and nature.

As more than one employer participates in the LHR Airports Limited defined benefit pension scheme and each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the Company accounts for the scheme in accordance with the SSA. Additionally the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group') discloses information about the total scheme surplus or deficit.

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except to the extent that it relates to items recognised directly in reserves. In this case, the tax is also recognised in reserves.

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the 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 19, *Deferred Tax*, 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, at rates expected to apply when they crystallise based on current tax rates and law. 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 is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

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

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

Share capital

Ordinary shares are classified as equity and are recorded at the fair value of proceeds received, net of direct issue costs. Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2014 *continued*

Cash flow statement and related party transactions

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2014. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014 (parent entity 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 2014. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements (Revised 1996)*.

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are wholly owned subsidiaries of FGP Topco Limited.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2014

1 Operating costs – ordinary

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Wages and salaries	19,599	19,303
Social security	2,156	2,075
Pensions ¹	873	687
Other staff related costs	1,417	1,603
Employment costs	24,045	23,668
Maintenance expenditure	17,835	16,493
Utility costs	2,011	2,186
Rents and rates	2,301	2,208
General expenses ²	15,638	14,235
Intra-group charges/other ³	2,390	2,453
Depreciation	66	44
	64,286	61,287

¹ Pension costs include £715,000 (2013: £608,000) of pension costs related to the Company's defined contribution pension scheme and £158,000 (2013: £79,000) which are recharges from LHR Airports Limited in relation to the LHR Airports Limited defined benefit pension scheme. Refer to the Accounting policies.

² General expenses include the costs for track access to Network Rail, police, insurance and marketing expenditure.

³ Intra-group charges were for electricity, corporate management fee, IT, car parking, telephones and lift maintenance.

Rentals under operating leases

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
<i>Operating costs include:</i>		
Plant and machinery	197	239
Land and building	516	516
Other operating leases	8,748	8,714

Auditors' remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by LHR Airports Limited and recharged in accordance with the SSA as described within the Accounting policies.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Audit of the Company pursuant to legislation	12	23

Employee information

The average number of employees of the Company during the year was 439 (2013: 444).

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

1 Operating costs – ordinary *continued*

Directors' remuneration

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Directors' remuneration		
Aggregate emoluments ¹	337	313
Value of Company pension contributions to pension schemes	21	20
	358	333

¹ For the year ended 31 December 2014 aggregate emoluments include accrued salaries, allowances, director fees, pension contributions, bonuses and amounts payable under Long Term Incentive Plans ('LTIP').

Keith Greenfield was paid by, but is not a director of, Heathrow Airport Limited. Fidel López, Brian Woodhead and Normand Boivin were directors of a number of companies within the Heathrow Airport Holdings Group, during the year. The remuneration of Fidel López and Normand Boivin for the year ended 31 December 2014 was disclosed in the financial statements of Heathrow Airport Limited, the directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided. Brian Woodhead was paid by, but is not a director of Heathrow Airport Limited. The director does not believe it is possible to accurately apportion his remuneration to individual companies based on services provided. Robert Smallwood and Christopher Edward Wastie Green were paid by and are directors of the Company.

The directors participate in various Long Term Incentive Performance Cash Plans (the 'Plans') operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on equity and other operational targets over a three year period. For the year ended 31 December 2014, the director's remuneration includes £54,000 payable in 2015 (2013: £28,000 paid in 2014) in respect of the 2012 Plans after certain targets were met over the three year period from 2012 to 2014. As the financial performance in respect of the 2013 and 2014 Plans is uncertain at this stage, no value in relation to these awards is included above.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Number of directors who:		
- are members of a defined benefit scheme	1	-
- are members of a defined contribution scheme	2	1

None of the directors (2013: none) exercised any share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2013: none) were received or became receivable under long term incentive plans.

2 Exceptional items

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Pension charge / (credit)	462	(209)

During 2014 there was a net exceptional pension charge of £461,601 (2013 £208,620 credit). This includes the Company's share of the movement in the LHR Airports Limited defined benefit pension scheme, the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

3 Net interest receivable and similar income

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interest receivable from group undertaking	382	256
Interest receivable on bank deposits	3	2
Net pensions income	10	-
Net interest receivable and similar income	395	258

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

4 Tax charge on profit on ordinary activities

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Current tax			
Group relief payable		1,528	1,604
Adjustments in respect of prior periods		(31)	30
Total current tax charge		1,497	1,634
Deferred tax			
Origination and reversal of timing differences		(134)	(33)
Adjustments in respect of prior periods		16	(13)
Change in tax rate		-	24
Total deferred tax credit	6	(118)	(22)
Tax charge on profit on ordinary activities		1,379	1,612

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 21.5% (2013: 23.25%). The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit on ordinary activities before tax	6,355	6,593
Tax on profit on ordinary activities at 21.5% (2013: 23.25%)	1,366	1,533
Effect of:		
Permanent differences	28	23
Capital allowances for the year in excess of depreciation	-	(3)
Other short-term timing differences	134	51
Adjustments to tax charge in respect of prior periods	(31)	30
Current tax charge for the year	1,497	1,634

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. These changes have been reflected above. Other than this change there are no items which would materially affect the future tax charge.

5 Tangible fixed assets

	Plant, equipment & other assets £'000
Cost	
1 January 2014	379
Additions at cost	142
31 December 2014	521
Depreciation	
1 January 2014	264
Charge for the year	66
31 December 2014	330
Net book value 31 December 2014	191
Net book value 31 December 2013	115

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

6 Debtors

	31 December 2014 £'000	31 December 2013 £'000
Due within one year		
Trade debtors	17,878	9,181
Amounts owed by group undertakings ¹	22,744	19,974
Other debtors	2,847	2,908
	43,469	32,063
Due after more than one year		
Deferred tax asset	307	209
Total debtors	43,776	32,272

1. 'Amounts owed by group undertakings' are repayable on demand and accrue interest at Bank of England base rate +1.5%. £19,004,914 (2013: £16,234,000) is owed by Heathrow Airport Limited and primarily represents reimbursement of cost plus management fee. The remaining amount of £3,740,000 (2013: £3,740,000) is owed by LHR Airports Limited due to VAT payments and other miscellaneous charges and is interest fee.

Deferred tax

	£'000
1 January 2014	209
Credited to profit and loss account	118
Charged to reserves	(12)
Balance sheet reclassification	(8)
31 December 2014	307

Analysis of the deferred tax asset balances is as follows:

	31 December 2014 £'000	31 December 2013 £'000
Excess of capital allowances over depreciation	49	47
Other timing differences	258	162
	307	209

Provision has been made for deferred taxation in accordance with FRS 19, *Deferred Tax*.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. These changes have been reflected above. Other than this change there are no items which would materially affect the future tax charge.

7 Cash at bank and in hand

	31 December 2014 £'000	31 December 2013 £'000
Cash at bank and in hand	449	1,593

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

8 Creditors: amounts falling due within one year

	31 December 2014 £'000	31 December 2013 £'000
Bank overdraft	1,577	12
Trade creditors	293	260
Amounts owed to group undertakings – interest free	159	-
Accruals and deferred income	7,711	5,335
Group relief payable	811	844
Other tax and social security	543	555
Other creditors	662	125
	11,756	7,131

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

9 Provisions for liabilities and charges

	Pension costs £'000
1 January 2014	186
Movement in pensions	847
31 December 2014	1,033

Pension costs

The closing provision is the share of the net deficit of the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities allocated to the Company.

At 31 December 2014, £943,000 represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2013: deficit of £142,000). The remaining deficit of £90,000 (2013: £44,000 deficit) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

10 Called up share capital

	£
Authorised	
At 1 January 2014 and 31 December 2014: 100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2014 and 31 December 2014: 2 ordinary shares of £1 each	2

11 Reserves

	Profit and loss reserve £'000
1 January 2014	26,663
Deferred tax on retirement benefits	(12)
Profit for the financial year	4,976
31 December 2014	31,627

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

12 Commitments and contingent liabilities

Commitments under operating leases

At 31 December 2014, the Company was committed to making the following payments during the next year in respect of operating leases.

	31 December 2014		31 December 2013	
	Land & buildings £'000	Other leases £'000	Land & buildings £'000	Other leases £'000
<i>Leases which expire:</i>				
within one year	135	-	-	-
within two to five years	232	75	516	63
after five years	-	8,747	-	8,714
	367	8,822	516	8,777

Contingent liabilities

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

The Company, together with Heathrow Airport Limited, have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of their liabilities under the Borrower Account Bank Agreement.

13 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Airport Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of the Government of Singapore Investment Corporation), Alinda Airports UK L.P. and Alinda Airports L.P. (11.18%) (investment vehicles managed by Alinda Capital Partners) and 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 2014, which is the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2014.

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.