

Heathrow (SP) Limited

**Special purpose consolidated financial statements
for the six months ended 30 June 2013**

Unaudited

Heathrow (SP) Limited

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Heathrow (SP) Limited

Basis of preparation

The unaudited Special purpose consolidated financial statements of Heathrow (SP) Limited (the 'Group'), comprising the Consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Consolidated reconciliation of movements in shareholder's funds, Consolidated balance sheet and Consolidated summary cash flow statement have been prepared in order to comply with the requirements contained within the Heathrow Airport Holdings Limited group's various borrowing facilities' undertakings for half year reporting. They are considered to fairly present the financial condition and operations of the Group as at 30 June 2013 and for the six months then ended. The financial statements have been prepared applying consistent accounting principles to those applied for the year ended 31 December 2012.

Discontinued operations represent components of the Group where a sale has been completed and the operations disposed of that have a material effect on the nature and focus of the Group's operations. In accordance with FRS 3 "Reporting Financial Performance" the turnover, operating costs, operating profit and cash flows have been shown for Stansted airport separately from continuing operations and included within discontinued operations. There are no changes to the Group's balance sheet.

On behalf of the Board



José Leo
Director

24 July 2013

Company registration number: 06458621

Heathrow (SP) Limited

Consolidated profit and loss account for the six months ended 30 June 2013

	Unaudited Six months ended 30 June 2013 £m	Restated ¹ Unaudited Six months ended 30 June 2012 £m	Restated ¹ Audited Year ended 31 December 2012 £m
Turnover – continuing operations	1,149	1,052	2,222
Turnover – discontinued operations	32	112	242
Total turnover	1,181	1,164	2,464
Operating costs – ordinary: continuing operations	(767)	(770)	(1,522)
Operating costs – ordinary: discontinued operations	(32)	(93)	(188)
Total operating costs - ordinary	(799)	(863)	(1,710)
Operating costs – exceptional: pensions continuing operations	(9)	(110)	(152)
Operating income/(costs) – exceptional: pensions discontinued operations	15	(23)	(31)
Total operating income/(costs) – exceptional: pensions ²	6	(133)	(183)
Total operating costs	(793)	(996)	(1,893)
Operating profit – continuing operations	373	172	548
Operating profit/(loss) – discontinued operations	15	(4)	23
Total operating profit	388	168	571
Impairment of fixed assets ³	-	-	(5)
Gain/(loss) on disposal of Stansted ⁴	279	-	(4)
Interest receivable and similar income	124	123	250
Interest payable and similar charges	(462)	(494)	(957)
Fair value (loss)/gain on financial instruments	(143)	152	112
Net interest payable and similar charges	(481)	(219)	(595)
Profit/(loss) on ordinary activities before taxation	186	(51)	(33)
Tax credit/(charge) on profit/(loss) on ordinary activities ⁵	9	55	(8)
Profit/(loss) on ordinary activities after taxation	195	4	(41)

¹ The presentation of turnover and operating profit/(loss) has been restated following the completion of the disposal of Stansted airport on 28 February 2013.

² Operating costs – exceptional: pensions
Under the Shared Services Agreement ('SSA') the current period service cost for the Heathrow Airport Holdings Limited group ('Heathrow Group') pension schemes are recharged to Heathrow Airport Limited ('HAL') and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable salaries. This charge is included within Operating costs. Cash contributions are made directly by HAL and HEX to the LHR Airports Limited pension schemes.

Since August 2008, HAL and HEX have had an obligation under the SSA, to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities. 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 are recorded as exceptional items due to their size and nature with a share of the net return on the pension deficit or asset included within interest receivable or interest payable from 1 January 2013.

For the six months ended 30 June 2013 an exceptional pension charge of £9 million was incurred relating to continuing operations while £15 million credit related to discontinued operations (six months ended 30 June 2012: £110 million and £23 million charge; year ended 31 December 2012: £152 million and £31 million charge respectively). This includes the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

³ Impairment of fixed assets - exceptional
In the year ended 31 December 2012, an impairment of £5 million was recognised at Heathrow as a result of a change in the expected future use of automated immigration systems in advance of their sale which was completed in 2013.

⁴ Gain/(loss) on disposal of Stansted
On 28 February 2013 the Group sold Stansted for cash consideration of £1,500 million. Sale proceeds were used primarily to repay the Group's revolving credit facility and for general corporate purposes. At 30 June 2013, £39 million of the proceeds were being held in escrow to be used primarily to settle a commutation payment into the LHR Airports Limited defined benefit pension scheme once the final number of Stansted employees who choose to join their new employer's scheme is determined. Further sale proceeds will be used to meet transaction related costs including derivative restructuring costs, legal, other advisory fees and directly attributable separation costs.

⁵ Tax credit/(charge) on profit/(loss) on ordinary activities
The tax credit for the six months ended 30 June results in an effective tax rate of 4.8%, reflecting the tax credit arising on ordinary activities of £9 million. The credit is calculated by applying the forecast annual effective tax rate for each entity to the results for the six months ended 30 June 2013. For the six months ended 30 June 2012 the effective tax rate was 107.8%, reflecting the tax credit arising on ordinary activities of £45 million and a tax credit of £10 million due to the reduction in the rate of corporation tax from 25% to 24% from 1 April 2012. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 23.25% (2012: 24.5%) due to seasonality and permanent differences arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

The Group's disposal of Stansted Airport Limited has no associated tax charge as it qualifies for the Substantial Shareholding Exemption.

For the year ended 31 December 2012, the negative effective tax rate was 24.2%, reflecting the tax charge arising on ordinary activities of £28 million and a tax credit of £20 million due to the reduction in the rate of corporation tax from 25% to 24% from 1 April 2012 and from 24% to 23% from 1 April 2013. The tax charge for the year is more than the credit implied by the statutory tax rate of 24.5% primarily due to permanent differences arising from non-qualifying depreciation.

On 20 March 2013, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015. These reductions were enacted in the Finance Act 2013 on 17 July 2013. As a result, the Group's deferred tax balances, which are currently provided at 23%, will be re-measured for the year ended 31 December 2013.

Heathrow (SP) Limited

Consolidated statement of total recognised gains and losses for the six months ended 30 June 2013

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Profit/(loss) for the financial period	195	4	(41)
Unrealised gain on revaluation of investment properties	4	10	38
Gains/(losses) on cash flow hedges taken directly to equity	137	(39)	(63)
Deferred tax (charge)/credit arising on cash flow hedges taken directly to equity	(31)	4	4
	110	(25)	(21)
Total recognised gains/(losses) for the period	305	(21)	(62)

Consolidated reconciliation of movements in shareholder's funds for the six months ended 30 June 2013

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Profit/(loss) for the financial period	195	4	(41)
Other recognised gains/(losses) relating to the period (net)	110	(25)	(21)
Dividends paid ¹	(570)	(415)	(436)
Net movement in shareholder's funds	(265)	(436)	(498)
Opening shareholder's funds	(257)	241	241
Closing shareholder's funds	(522)	(195)	(257)

¹ For the six months ended 30 June 2013 includes £83 million dividend declared on 27 June 2013 and subsequently paid on 11 July 2013.

Heathrow (SP) Limited

Consolidated balance sheet as at 30 June 2013

	Unaudited 30 June 2013 £m	Unaudited 30 June 2012 £m	Audited 31 December 2012 £m
Fixed assets			
Tangible fixed assets	12,249	12,520	12,961
Financial assets – derivative financial instruments	429	330	306
Total fixed assets	12,678	12,850	13,267
Current assets			
Stocks	9	8	9
Debtors	315	290	313
Financial assets – derivative financial instruments	2	-	-
Current asset investments	232	-	32
Restricted cash	39	-	-
Cash at bank and in hand	7	4	6
Total current assets	604	302	360
Current liabilities			
Creditors: amounts falling due within one year	(1,300)	(731)	(1,232)
Net current liabilities	(696)	(429)	(872)
Total assets less current liabilities	11,982	12,421	12,395
Creditors: amounts falling due after more than one year	(12,317)	(12,444)	(12,427)
Deferred tax	(94)	(64)	(103)
Provisions for liabilities	(93)	(108)	(122)
Net liabilities	(522)	(195)	(257)
Capital and reserves			
Called up share capital	11	11	11
Share premium reserve	499	499	499
Revaluation reserve	433	807	835
Merger reserve	(3,759)	(4,536)	(4,536)
Fair value reserve	(349)	(431)	(455)
Profit and loss reserve	2,643	3,455	3,389
Total shareholder's deficit	(522)	(195)	(257)

The Special purpose consolidated financial statements of Heathrow (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 24 July 2013. They were signed on its behalf by:



José Leo
Director



Andrew Efiog
Director

Heathrow (SP) Limited

Consolidated summary cash flow statement for the six months ended 30 June 2013

	Unaudited Six months ended 30 June 2013 £m	Restated ¹ Unaudited Six months ended 30 June 2012 £m	Restated ¹ Audited Year ended 31 December 2012 £m
Operating profit – continuing operations	373	172	548
<i>Adjustments for:</i>			
Depreciation	228	235	470
Gain on disposal of fixed assets	(1)	-	-
<i>Working capital changes:</i>			
(Increase)/decrease in stock and debtors	(8)	22	(25)
Decrease in creditors	(4)	(15)	(10)
Net release of provisions	(1)	(4)	(4)
Difference between pension charge and cash contributions	(13)	(17)	(50)
Exceptional pension charge	9	110	151
Net cash inflow from operating activities - continuing	583	503	1,080
Net cash inflow from operating activities - discontinued	5	32	84
Total net cash inflow from operating activities	588	535	1,164
Net interest paid	(295)	(215)	(428)
Taxation – group relief paid	(13)	(10)	(28)
Net capital expenditure	(609)	(554)	(1,157)
Disposal of Stansted Airport Limited	1,409	(1)	(6)
Dividends paid	(487)	(415)	(436)
Net cash inflow/(outflow) before use of liquid resources and financing	593	(660)	(891)
Management of liquid resources	(200)	21	(12)
Issuance of bonds	-	2,835	3,082
Repayment of bonds	-	(680)	(680)
(Repayment)/drawdown of revolving credit facility	(147)	-	307
Repayment of capital expenditure facility	-	(1,286)	(1,395)
Repayment of facilities and other financing items	(110)	(454)	(532)
Increase in amount owed to Heathrow Finance plc	3	228	270
Settlement of accretion on index-linked swaps	(136)	-	(80)
Cancellation and restructuring of derivatives	(2)	(12)	(76)
Net cash (outflow)/inflow from financing	(392)	631	896
Increase/(decrease) in cash	1	(8)	(7)

¹ Operating cash flow has been re-presented for 2012 to separately reconcile from operating profit of continuing operations to net cash inflow from operating activities - continuing.