

Heathrow Finance plc
Special purpose consolidated financial statements
for the six months ended 30 June 2014

Unaudited

Heathrow Finance plc

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Heathrow Finance plc

Basis of preparation

The unaudited Special purpose consolidated financial statements of Heathrow Finance plc (the 'Group'), comprising the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity and Consolidated summary statement of cash flows 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 2014 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 2013 with the exception of tax accounting which is in accordance with IAS 34 'Interim Financial Reporting'.

Discontinued operations represent components of the Group that have been disposed of. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', and consistent with the 2013 financial statements, the results and cash flows of Stansted airport have been reported separately from continuing operations and included within discontinued operations at the end of the Group's consolidated income statement and separately in each section of the consolidated summary statement of cash flows. Assets and liabilities were classified as held-for-sale in 2012 in the consolidated statement of financial position.

On behalf of the Board

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

José Leo
Director

24 July 2014

Company registration number: 06458635

Heathrow Finance plc

Consolidated income statement

	Unaudited Six months ended 30 June 2014 £m	Restated ¹ Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Continuing operations			
Revenue	1,234	1,149	2,474
Operating costs	(852)	(783)	(1,618)
Fair value (loss)/gain on investment properties	(26)	4	62
Operating profit	356	370	918
<i>Analysed as:</i>			
Operating profit before exceptional items	435	374	1,022
Exceptional items ²	(79)	(4)	(104)
Financing			
Finance income	117	120	229
Finance costs	(457)	(459)	(875)
Fair value gain/(loss) on financial instruments	5	(143)	(81)
Net finance cost	(335)	(482)	(727)
Profit/(loss) before tax	21	(112)	191
Taxation (charge)/credit ³	(9)	24	123
Profit/(loss) for the period from continuing operations	12	(88)	314
Net profit from discontinued operations	-	425	422
Consolidated profit for the period	12	337	736

¹ The presentation of certain balances for the six months ended 30 June 2013 has been restated to be consistent with the year ended 31 December 2013.

² Exceptional items
Under the Shared Services Agreement ('SSA') the current period service cost for the Heathrow Airport Holdings Limited 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 on behalf of LHR Airports Limited.

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 Unapproved 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 surplus included within finance income.

For the six months ended 30 June 2014 an exceptional pension charge of £61 million (six months ended 30 June 2013: £4 million; year ended 31 December 2013: £66 million) was incurred. This includes the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

Operational readiness costs of £18 million (six months ended 30 June 2013: £nil; year ended 31 December 2013: £16 million) are associated with managing the opening of Terminal 2 and were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its operational phase opening on 4 June 2014.

Costs associated with the Group's change programmes amounting to £22 million were charged in the year ended 31 December 2013. The charge related to severance and pension payments associated with a restructuring programme.

³ Taxation (charge)/credit
The tax charge for the six months ended 30 June 2014 results in an effective tax rate of 39.8%, reflecting the tax charge arising on ordinary activities of £9 million. The tax charge has been calculated by applying the forecast annual effective tax rate for each entity to the results for the six months ended 30 June 2014. The effective tax rate for the period differs from the UK statutory rate of corporation tax of 21.5% due to seasonality and permanent differences mainly 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 where those proportions change.

For the six months ended 30 June 2013, the effective tax rate was 21.4%, reflecting the tax credit arising on ordinary activities of £24 million. The effective tax rate for the period differed from the statutory rate of corporation tax of 23.25% again due to seasonality and permanent differences mainly arising from non-qualifying depreciation.

For the year ended 31 December 2013, the effective tax rate was 64% negative, reflecting the tax charge arising on ordinary activities of £38 million and a tax credit of £161 million due to the reductions in the rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These reductions were enacted in the Finance Act 2013 on 17 July 2013 and as a result the Group's deferred tax balances were re-measured during the year ended 31 December 2013 at a rate of 20%.

Heathrow Finance plc

Consolidated statement of comprehensive income

	Unaudited Six months ended 30 June 2014 £m	Restated ¹ Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Profit for the period	12	337	736
Other comprehensive income:			
Cash flow hedges			
(Loss)/gain taken to equity ²	(93)	193	173
Transferred to income statement ²	115	(87)	(10)
Change in tax rate ³	-	-	(11)
Tax relating to indexation of operating land	-	-	(1)
Other comprehensive income for the period net of tax	22	106	151
Total comprehensive income for the period⁴	34	443	887

Items in the statement above are disclosed net of tax.

¹ The presentation of certain balances for the six months ended 30 June 2013 has been restated to be consistent with the year ended 31 December 2013.

² Elements that may be recycled to the income statement in future periods were £22 million gain (six months ended 30 June 2013: £106 million; year ended 31 December 2013: £163 million).

³ Elements that may not be recycled to the income statement in future periods were £nil (six months ended 30 June 2013: £nil; year ended 31 December 2013: £12 million loss).

⁴ Attributable to equity holders of the parent.

Heathrow Finance plc

Consolidated statement of financial position

	Unaudited 30 June 2014 £m	Audited 31 December 2013 £m
Assets		
Non-current assets		
Property, plant and equipment	11,647	11,387
Investment properties	1,945	1,918
Intangible assets	96	107
Derivative financial instruments	108	165
Trade and other receivables	108	112
	13,904	13,689
Current assets		
Inventories	9	9
Trade and other receivables	624	314
Derivative financial instruments	112	135
Cash and cash equivalents	407	96
	1,152	554
Total assets	15,056	14,243
Liabilities		
Non-current liabilities		
Borrowings	(11,186)	(10,938)
Derivative financial instruments	(1,259)	(1,137)
Deferred income tax liabilities	(1,086)	(1,073)
Provisions	(13)	(12)
Trade and other payables	(3)	(3)
	(13,547)	(13,163)
Current liabilities		
Borrowings	(1,395)	(869)
Derivative financial instruments	(29)	(2)
Provisions	(157)	(115)
Current income tax liabilities	(10)	(17)
Trade and other payables	(513)	(562)
	(2,104)	(1,565)
Total liabilities	(15,651)	(14,728)
Net liabilities	(595)	(485)
Equity		
Capital and reserves		
Share capital	3,109	3,109
Merger reserve	(994)	(994)
Fair value reserve	(288)	(310)
Retained earnings	(2,422)	(2,290)
Total equity	(595)	(485)

The Special purpose consolidated financial statements of Heathrow Finance plc (Company registration number: 06458635) were approved by the Board of Directors and authorised for issue on 24 July 2014. They were signed on its behalf by:



José Leo
Director



Andrew Efiang
Director

Heathrow Finance plc

Consolidated statement of changes in equity

	Attributable to owners of the Company					Total equity £m
	Share capital £m	Revaluation reserve £m	Merger reserve £m	Fair value reserve £m	Retained earnings £m	
1 January 2013 as previously reported (audited)	3,109	-	(1,771)	(455)	(1,605)	(722)
Effect of change in accounting policy for IAS 12A	-	-	-	-	50	50
1 January 2013 (restated ¹)	3,109	-	(1,771)	(455)	(1,555)	(672)
Comprehensive income:						
Profit for the period	-	-	-	-	337	337
Other comprehensive income:						
Income on re-measurement of the following:						
Cash flow hedges net of tax	-	-	-	106	-	106
Total comprehensive income	-	-	-	106	337	443
Transaction with owners :						
Dividends	-	-	-	-	(605)	(605)
Total transaction with owners	-	-	-	-	(605)	(605)
Realisation of merger reserve	-	-	777	-	(777)	-
30 June 2013	3,109	-	(994)	(349)	(2,600)	(834)
1 January 2014	3,109	-	(994)	(310)	(2,290)	(485)
Comprehensive income:						
Profit for the period	-	-	-	-	12	12
Other comprehensive income:						
Income on re-measurement of the following:						
Cash flow hedges net of tax	-	-	-	22	-	22
Total comprehensive income	-	-	-	22	12	34
Transaction with owners :						
Dividends	-	-	-	-	(146)	(146)
Total transaction with owners	-	-	-	-	(146)	(146)
30 June 2014	3,109	-	(994)	(288)	(2,422)	(595)

¹ The adoption of Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets ('IAS 12A') has impacted the measurement of deferred tax on investment properties. For the restated net assets at 1 January 2013 this reduced deferred income tax liabilities and increased retained earnings by £50 million.

Heathrow Finance plc

Consolidated summary statement of cash flows

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Operating activities			
Profit/(loss) before tax	21	(112)	191
<i>Adjustments for:</i>			
Net finance costs	335	482	727
Depreciation, amortisation and impairment	244	228	450
Fair value loss/(gain) on investment properties	26	(4)	(62)
<i>Working capital changes:</i>			
Decrease/(increase) in inventories and trade and other receivables	14	(8)	15
(Decrease)/increase in trade and other payables	(28)	(4)	-
Release and utilisation of provisions	(1)	(1)	(4)
Increase in intercompany payable	-	-	51
Difference between pension charge and cash contributions	(10)	(8)	(27)
Exceptional pension charge	61	4	66
Cash generated from continuing operations	662	577	1,407
Taxation – group relief paid	(8)	(17)	(32)
Cash generated from discontinued operations	-	11	7
Net cash from operating activities	654	571	1,382
Cash flows from investing activities			
Net capital expenditure	(498)	(606)	(1,288)
Increase in deposits	(320)	-	-
Disposal of Stansted Airport Limited	(2)	1,445	1,410
Net cash (used in)/from investing activities	(820)	839	122
Cash flows from financing activities			
Dividends paid ¹	(146)	(487)	(700)
Proceeds from issuance of bonds	980	-	745
Repayment of revolving credit facility	(30)	(147)	(227)
Repayment of bonds	-	-	(396)
Drawdown/(repayment) of Class B facility	-	(100)	(150)
Drawdown of subordinated facilities	-	35	35
Payment of facilities and other items	(25)	(11)	(66)
Settlement of accretion on index-linked swaps	-	(136)	(177)
Cancellation and restructuring of derivatives	-	(2)	(2)
Net interest paid	(302)	(288)	(509)
Net cash from/(used in) financing activities	477	(1,136)	(1,447)
Net increase in cash and cash equivalents	311	274	57
Cash and cash equivalents at beginning of period	96	39	39
Cash and cash equivalents at end of period/year	407	313	96

¹ Both the six months ended 30 June 2013 and year ended 31 December 2013 contain a £300 million dividend which was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal.