

Heathrow Finance plc
Special purpose consolidated financial statements
for the six months ended 30 June 2020

Unaudited

Heathrow Finance plc

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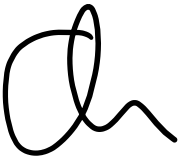
Basis of preparation

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 (the 'HAH Group') 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 2020 and for the six months then ended.

The financial information for the six-month period ended 30 June 2020 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2020. The financial statements for the six-month period ended 30 June 2020 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2019.

The financial information set out herein does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 were approved by the Board of directors on 25 February 2020 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

On behalf of the Board



Javier Echave
Director

28 July 2020

Company registration number: 06458635

Heathrow Finance plc**Consolidated income statement** for the six months ended 30 June 2020

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
Revenue	712	1,461	3,070
Operating costs	(971)	(951)	(1,924)
Other operating items			
Fair value (loss)/gain on investment properties	(252)	(7)	43
Operating (loss)/profit	(511)	503	1,189
Financing			
Finance income	20	16	35
Finance costs	(548)	(499)	(646)
Net finance cost	(528)	(483)	(611)
(Loss)/profit before tax	(1,039)	20	578
Taxation credit/(charge)	57	(20)	(140)
(Loss)/profit for the period	(982)	-	438

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Consolidated statement of comprehensive income for the six months ended 30 June 2020

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
(Loss)/profit for the period	(982)	-	438
Other comprehensive income:			
Items that will not be subsequently reclassified to the consolidated income statement			
Actuarial (loss)/gain on pensions net of tax:			
Gain on plan assets ¹	296	327	498
Increase in scheme liabilities ¹	(376)	(391)	(509)
Change in tax rate	(1)	-	-
Items that may be subsequently reclassified to the consolidated income statement			
Cash flow hedges:			
Gain/(loss) taken to equity net of tax ¹	31	104	(3)
Transfer to finance costs ¹	(19)	(74)	32
Change in tax rate	4	-	-
Other comprehensive (loss)/income for the period net of tax	(65)	(34)	18
Total comprehensive (loss)/income for the period ²	(1,047)	(34)	456

¹ Items in the consolidated statement of comprehensive income above are disclosed net of tax.

² Attributable to equity holders of the parent.

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Consolidated statement of financial position as at 30 June 2020

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Assets		
Non-current assets		
Property, plant and equipment	11,600	11,728
Right of use asset	266	276
Investment properties	2,270	2,522
Intangible assets	197	176
Retirement benefit surplus	-	33
Derivative financial instruments	926	539
Trade and other receivables	599	601
	15,858	15,875
Current assets		
Inventories	14	13
Trade and other receivables	244	361
Current income tax assets	8	-
Derivative financial instruments	29	-
Term deposits	2,200	725
Cash and cash equivalents	392	845
	2,887	1,944
Total assets	18,745	17,819
Liabilities		
Non-current liabilities		
Borrowings	(17,490)	(15,396)
Derivative financial instruments	(1,290)	(1,227)
Lease liabilities	(333)	(346)
Deferred income tax liabilities	(909)	(943)
Retirement benefit obligations	(85)	(29)
Provisions	(1)	(1)
Trade and other payables	(6)	(6)
	(20,114)	(17,948)
Current liabilities		
Borrowings	(736)	(644)
Derivative financial instruments	(7)	(55)
Lease liabilities	(40)	(38)
Provisions	(20)	(8)
Current income tax liabilities	-	(39)
Trade and other payables	(325)	(430)
	(1,128)	(1,214)
Total liabilities	(21,242)	(19,162)
Net liabilities	(2,497)	(1,343)
Equity		
Capital and reserves		
Share capital	3,109	3,109
Merger reserve	(994)	(994)
Cash flow hedge reserve	(171)	(187)
Retained earnings	(4,441)	(3,271)
Total equity	(2,497)	(1,343)

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 28 July 2020. They were signed on its behalf by:



Yuanyuan Ding
Director



Javier Echave
Director

Heathrow Finance plc

Consolidated statement of changes in equity for the six months ended 30 June 2020

	Share capital £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2019 (previously reported)	3,109	(994)	(216)	(3,141)	(1,242)
Adjustments in respect of:					
Transition to IFRS 16				(89)	(89)
1 January 2019 (re-stated)	3,109	(994)	(216)	(3,230)	(1,331)
Comprehensive income:					
Profit for the period				438	438
Other comprehensive income:					
Cash flow hedges net of tax			29		29
Actuarial gain on pensions net of tax:					
Gain on plan assets				498	498
Increase in scheme liabilities				(509)	(509)
Total comprehensive profit			29	427	456
Transaction with owners:					
Dividends paid to Heathrow (DSH) Limited				(468)	(468)
Total transaction with owners				(468)	(468)
31 December 2019	3,109	(994)	(187)	(3,271)	(1,343)
1 January 2020	3,109	(994)	(187)	(3,271)	(1,343)
Comprehensive income:					
Loss for the period				(982)	(982)
Other comprehensive income:					
Cash flow hedges net of tax			12		12
Change in tax rate			4		4
Actuarial loss on pensions net of tax:					
Gain on plan assets				296	296
Increase in scheme liabilities				(376)	(376)
Change in tax rate				(1)	(1)
Total comprehensive loss			16	(1,063)	(1,047)
Transaction with owners:					
Dividends paid to Heathrow (DSH) Limited				(107)	(107)
Total transaction with owners				(107)	(107)
30 June 2020	3,109	(994)	(171)	(4,441)	(2,497)

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Consolidated cash flow statement for the six months ended 30 June 2020

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
Operating activities			
(Loss)/profit before tax	(1,039)	20	578
Exceptional items	122	-	-
(Loss)/profit before tax and exceptional items	(917)	20	578
<i>Adjustments for:</i>			
Net finance costs	314	345	739
Fair value loss/(gain) on financial instruments	214	139	(128)
Depreciation, amortisation and impairment	360	396	774
Fair value loss/(gain) on investment properties	252	7	(43)
<i>Working capital changes:</i>			
Decrease in inventories and trade and other receivables	131	57	56
Decrease in trade and other payables	(24)	(44)	(5)
Decrease in provisions	(5)	(4)	(8)
Difference between pension charge and cash contributions	(10)	(10)	(22)
Cash generated from operations before exceptional items	315	906	1,941
Cash payments in respect of exceptional items	(20)	-	-
Cash generated from continuing operations	295	906	1,941
Corporation tax paid	(5)	(41)	(98)
Taxation – group relief paid	-	-	(15)
Net cash from operating activities	290	865	1,828
Cash flows from investing activities			
Net capital expenditure	(376)	(365)	(855)
Increase in term deposits	(1,475)	(295)	(605)
Interest received	6	3	8
Net cash used in investing activities	(1,845)	(657)	(1,452)
Cash flows from financing activities			
Dividends paid to Heathrow (DSH) Limited	(107)	(185)	(468)
Decrease in loan to Heathrow (DSH) Limited	-	(75)	(75)
Proceeds from issuance of bonds	381	783	1,157
Repayment of bonds	(400)	(692)	(513)
Net drawdown of subordinated facilities	-	-	364
Repayment of facilities and other items	(5)	(7)	(27)
Settlement of accretion on index-linked swaps	(193)	(204)	(295)
Payment of lease liabilities	(19)	(19)	(33)
Proceeds from drawdown of revolving credit facilities	1,050	-	-
Proceeds from issuance of other term debt	710	340	340
Interest paid ¹	(315)	(306)	(569)
Consent fee payment	-	-	(7)
Net cash from/(used in) financing activities	1,102	(365)	(126)
Net (decrease)/increase in cash and cash equivalents	(453)	(157)	250
Cash and cash equivalents at beginning of period	845	595	595
Cash and cash equivalents at end of period	392	438	845
Represented by:			
Cash and cash equivalents	392	438	845
Cash and cash equivalents at end of period	392	438	845

¹ Included within interest paid is £8 million of lease interest paid (June 2019: £9 million and December 2019: £17 million).

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Notes to the consolidated financial information for the six months ended 30 June 2020

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the relevant Board for allocating resources and assessing performance. These segments relate to the operations of Heathrow and Heathrow Express.

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis, before certain re-measurements and exceptional items. The reportable segments derive their revenues from a number of sources including aeronautical, retail, other regulated charges and other products and services (including rail income), and this information is also provided to the Board on a monthly basis.

The comparative financial information for retail and property revenue has been re-presented. The prior year revenue for retail concession fee was classified within *Property (lease-related income)*, this has been reclassified to retail revenue.

Table (a)	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
Segment Revenue Under IFRS 15			
Aeronautical			
Movement charges	148	274	549
Parking charges	28	37	74
Passenger charges	222	560	1,208
Total Aeronautical revenue	398	871	1,831
Other regulated charges	74	114	244
Retail revenue ¹	150	339	722
Property revenue ¹	10	11	25
Rail Income			
Heathrow Express	21	58	117
Other	8	12	23
<i>Revenue reported under IFRS 15</i>	661	1,405	2,962
Revenue recognised at a point in time	635	1,344	2,837
Revenue recognised over time	26	61	125
Total revenue reported under IFRS 15	661	1,405	2,962
Under IFRS 16			
Property (lease-related income) ¹	51	56	108
Total revenue	712	1,461	3,070
Heathrow	691	1,403	2,953
Heathrow Express	21	58	117
Adjusted EBITDA			
Heathrow	107	876	1,859
Heathrow Express	(6)	30	61
Total adjusted EBITDA	101	906	1,920
Reconciliation to statutory information:			
Depreciation and amortisation	(360)	(396)	(774)
Operating (loss)/profit (before certain re-measurements)	(259)	510	1,146
Fair value (loss)/gain on investments properties (certain re-measurements)	(252)	(7)	43
Operating (loss)/profit	(511)	503	1,189
Finance income	20	16	35
Finance costs	(548)	(499)	(646)
(Loss)/profit before tax	(1,039)	20	578
Taxation credit/(charge)	57	(20)	(140)
(Loss)/profit for the period	(982)	-	438

¹ 2019 comparatives for the six months ended June 2020 have been restated for the reclassification of lease related income under IAS 17 – Leases to retail service income under IFRS 15 – Revenue from contracts with customers. The impact of this is that £220 million was transferred from retail (lease-related income) under IFRS 16 to Retail services under IFRS 15, £56 million was transferred from property revenue under IFRS 15 to Retail services under IFRS 15 and £8 million was transferred from property revenue under IFRS 15 to other under IFRS 15.

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Notes to the consolidated financial information for the six months ended 30 June 2020
continued

1 Segment information continued

Table (b)	Unaudited Six months ended 30 June 2020		Unaudited Six months ended 30 June 2019		Audited Year ended 31 December 2019	
	Depreciation & amortisation ¹	Fair value loss ²	Depreciation & amortisation ¹	Fair value loss ²	Depreciation & amortisation ¹	Fair value gain ²
	£m	£m	£m	£m	£m	£m
Heathrow	(343)	(252)	(370)	(7)	(719)	43
Heathrow Express	(17)	-	(26)	-	(55)	-
Total	(360)	(252)	(396)	(7)	(774)	43

¹ Includes intangible amortisation charge of £15 million (December 2019: £44 million; June 2019: £18 million).

² Reflects fair value (loss)/gain on investment properties only.

Table (c)	Unaudited Six months ended 30 June 2020		Audited Year ended 31 December 2019	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Heathrow	13,616	(334)	14,102	(430)
Heathrow Express	648	(18)	652	(15)
Total operations	14,264	(352)	14,754	(445)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	2,592	(18,226)	1,570	(16,040)
Retirement benefit obligations	-	(85)	33	(29)
Derivative financial instruments	955	(1,297)	539	(1,282)
Deferred and current tax assets and (liabilities)	8	(909)	-	(982)
Amounts owed from group undertakings	660	-	647	-
Right of use assets and lease liabilities	266	(373)	276	(384)
Total	18,745	(21,242)	17,819	(19,162)

2 Operating costs

	Unaudited Six months ended 30 June 2020	Unaudited Six months ended 30 June 2019	Audited Year ended 31 December 2019
	£m	£m	£m
Employment	149	184	378
Operational	119	131	279
Maintenance	75	87	173
Rates	59	60	118
Utilities	33	35	71
Other	54	58	131
Total operating costs before depreciation and amortisation	489	555	1,150
Depreciation and amortisation			
Property, plant and equipment	326	361	696
Intangible assets	15	17	43
Right of Use (RoU) assets	19	18	35
Total operating costs before exceptional items	849	951	1,924
Exceptional items	122	-	-
Total operating costs	971	951	1,924

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Notes to the consolidated financial information for the six months ended 30 June 2020
*continued***3 Net debt**

	Accounting value 30 June 2020	Accounting value 31 December 2019
	£m	£m
Current borrowings – Security Parent and subsidiaries	736	644
Current lease liabilities	40	38
Total current borrowings¹	776	682
Non-current borrowings – Issuer		
Bonds	1,119	1,120
Loans	1,383	849
Non-current lease liabilities	333	346
Total	2,835	2,315
Non-current borrowings – Security Parent and subsidiaries		
Bonds	12,317	11,978
Loans	2,671	1,449
Total	14,988	13,427
Total non-current borrowings	17,823	15,742
Total debt	18,599	16,424
Cash and cash equivalents and term deposits²	(2,592)	(1,570)
Total net debt	16,007	14,854

¹ Current borrowings include interest accrued on debt

² Cash and cash equivalents include £2,200 million (December 2019: £725 million) in term deposits.

4 Regulatory Asset Base and Nominal Net Debt

Heathrow Airports's RAB was £16,516 million at 30 June 2020 (30 June 2019: £16,420 million; 31 December 2019: £16,598 million).

As at 30 June 2020, nominal Group debt was £17,524 million (30 June 2019: £14,999 million; 31 December 2019: £15,931 million), comprising nominal senior debt of £13,344 million (30 June 2019: £11,989 million; 31 December 2019: £12,595 million), nominal junior debt of £1,666 million (30 June 2019: £1,355 million; 31 December 2019: £1,357 million) and nominal Issuer debt of £2,514 million (30 June 2019: £1,655 million; 31 December 2019: £1,979 million).

As at 30 June 2020, nominal Group net debt was £14,932 million (30 June 2019: £14,145 million; 31 December 2019: £14,361 million), comprising nominal senior and junior net debt of £12,860 million (30 June 2019: £12,520 million; 31 December 2019: £12,412 million) and nominal Issuer net debt of £2,072 million (30 June 2019: £1,625 million; 31 December 2019: £1,949 million).