

Heathrow Finance plc
Special purpose consolidated financial statements
for the six months ended 30 June 2013

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 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, with the exception of the adoption of Amendments to International Accounting Standard 12 Deferred Tax: Recovery of Underlying Assets ('IAS 12A'). The effect of IAS 12A on the financial statements has been disclosed herein and has not been audited.

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', and consistent with the 2012 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, within assets and liabilities classified as held-for-sale in the consolidated statement of financial position and separately in each section of the consolidated summary statement of cash flows.

On behalf of the Board



José Leo
Director

24 July 2013

Company registration number: 06458635

Heathrow Finance plc

Consolidated income statement

	Unaudited Six months ended 30 June 2013 £m	Restated ^{1,2} Unaudited Six months ended 30 June 2012 £m	Restated ² Audited Year ended 31 December 2012 £m
Continuing operations			
Revenue	1,149	1,052	2,222
Operating costs	(783)	(882)	(1,679)
Fair value gain on investment properties	4	15	50
Operating profit	370	185	593
<i>Analysed as:</i>			
Operating profit before exceptional items	374	295	745
Exceptional items ³	(4)	(110)	(152)
Exceptional impairment of property, plant and equipment	-	-	(5)
Financing			
Finance income	120	123	250
Finance costs	(459)	(508)	(962)
Fair value (loss)/gain on financial instruments	(143)	149	108
Net finance cost	(482)	(236)	(604)
Loss before tax	(112)	(51)	(16)
Taxation credit ⁴	24	113	122
(Loss)/profit for the period from continuing operations	(88)	62	106
Net profit/(loss) from discontinued operations	435	(3)	10
Consolidated profit for the period	347	59	116

¹ The presentation of certain balances for the six months ended 30 June 2012 has been restated to reclassify Stansted airport as discontinued operations, consistent with the 2012 year end audited financial statements.

² 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 2012 this reduced deferred income tax liabilities by £40 million and increased the tax charge to the income statement for the six months ended 30 June 2012 by £2 million (year ended 31 December 2012: £nil).

³ 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 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 from 1 January 2013.

For the six months ended 30 June 2013 an exceptional pension charge of £4 million (six months ended 30 June 2012: £110 million; year ended 31 December 2012: £152 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 Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

⁴ Taxation credit
The tax credit for the six months ended 30 June 2013 on ordinary activities results in an effective tax credit rate of 21.4% (six months ended 30 June 2012: 113.7%; year ended 31 December 2012 : 50.0%). This 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 each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 23.25% due to seasonality. 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.

For the six months ended 30 June 2012 the effective tax credit rate was 221.6%, reflecting the tax credit arising on ordinary activities of £58 million and a tax credit of £55 million due to the reduction in the rate of corporation tax from 25% to 24% from 1 April 2012. This reduction in the corporation tax rate also resulted in a £2 million charge to equity.

For the year ended 31 December 2012 the effective tax credit rate was 762.5%, reflecting the tax credit arising on ordinary activities of £8 million and a tax credit of £114 million due to the reduction in the rate of corporation tax to 24% from 1 April 2012 and to 23% from 1 April 2013. This reduction in the corporation tax rate also resulted in a £5 million charge to equity.

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 Finance plc

Consolidated statement of comprehensive income

	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
Profit for the period	347	59	116
Other comprehensive income:			
Cash flow hedges			
Gain/(Loss) taken to equity ²	193	(226)	(287)
Transferred to income statement ²	(87)	196	239
Change in tax rate ³	-	(2)	(5)
Tax relating to indexation of operating land	-	-	-
Other comprehensive income/(loss) for the period net of tax	106	(32)	(53)
Total comprehensive income for the period⁴	453	27	63

Items in the statement above are disclosed net of tax.

¹ The adoption of IAS 12A has impacted the measurement of deferred tax on investment properties. Refer to page 2 for further details.

² Elements that may be recycled to the income statement in future periods were £106 million gain (six months ended 30 June 2012: £30 million loss; year ended 31 December 2012: £48 million loss).

³ Elements that may not be recycled to the income statement in future periods were £nil (six months ended 30 June 2012: £2 million loss; year ended 31 December 2012: £5 million loss).

⁴ Attributable to equity holders of the parent.

Heathrow Finance plc

Consolidated statement of financial position

	Unaudited 30 June 2013 £m	Restated ¹ Audited 31 December 2012 £m
Assets		
Non-current assets		
Property, plant and equipment	10,867	10,413
Investment properties	1,845	1,815
Intangible assets	89	77
Derivative financial instruments	429	306
Trade and other receivables	98	99
	13,328	12,710
Current assets		
Inventories	9	7
Trade and other receivables	292	258
Derivative financial instruments	2	-
Cash and cash equivalents	313	37
	616	302
Assets classified as held-for-sale	-	1,331
Total assets	13,944	14,343
Liabilities		
Non-current liabilities		
Borrowings	(11,079)	(11,159)
Derivative financial instruments	(1,097)	(1,094)
Deferred income tax liabilities	(1,174)	(1,170)
Provisions	(5)	(5)
Trade and other payables	(4)	(4)
	(13,359)	(13,432)
Current liabilities		
Borrowings	(659)	(711)
Derivative financial instruments	(27)	(39)
Provisions	(88)	(97)
Current income tax liabilities	(10)	(23)
Trade and other payables	(635)	(450)
	(1,419)	(1,320)
Liabilities associated with assets classified as held-for-sale	-	(273)
Total liabilities	(14,778)	(15,025)
Net liabilities	(834)	(682)
Equity		
Capital and reserves		
Share capital	3,109	3,109
Merger reserve	(994)	(1,771)
Fair value reserve	(349)	(455)
Retained earnings	(2,600)	(1,565)
Total equity	(834)	(682)

¹ The adoption of amendments to IAS 12 has impacted the measurement of deferred tax on investment properties. For the restated net assets at 31 December 2012 this reduced deferred income tax liabilities and increased retained earnings by £40 million.

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 2013. They were signed on its behalf by:



José Leo
Director



Andrew Efiong
Director

Heathrow Finance plc

Consolidated statement of changes in equity

	Attributable to owners of the Company (restated ¹)					Total equity £m
	Share capital £m	Revaluation reserve £m	Merger reserve £m	Fair value reserve £m	Retained earnings £m	
1 January 2012 as previously reported (audited)	3,109	365	(1,771)	(396)	(1,746)	(439)
Effect of change in accounting policy for IAS 12A	-	-	-	-	40	40
1 January 2012 (restated)	3,109	365	(1,771)	(396)	(1,706)	(399)
Comprehensive income:						
Profit for the period	-	-	-	-	59	59
Other comprehensive income:						
Loss on re-measurement of the following:						
Cash flow hedges net of tax	-	-	-	(30)	-	(30)
Change in tax rate	-	-	-	(5)	3	(2)
Total comprehensive income	-	-	-	(35)	62	27
Transaction with owners :						
Dividends	-	-	-	-	(214)	(214)
Total transaction with owners	-	-	-	-	(214)	(214)
Realisation of revaluation reserve	-	(365)	-	-	365	-
30 June 2012	3,109	-	(1,771)	(431)	(1,493)	(586)
1 January 2013 as previously reported (audited)	3,109	-	(1,771)	(455)	(1,605)	(722)
Effect of change in accounting policy for IAS 12A	-	-	-	-	40	40
1 January 2013 (restated)	3,109	-	(1,771)	(455)	(1,565)	(682)
Comprehensive income:						
Profit for the period	-	-	-	-	347	347
Other comprehensive income:						
Income on re-measurement of the following:						
Cash flow hedges net of tax	-	-	-	106	-	106
Total comprehensive income	-	-	-	106	347	453
Transaction with owners :						
Dividends	-	-	-	-	(605)	(605)
Total transaction with owners	-	-	-	-	(605)	(605)
Realisation of merger reserves	-	-	777	-	(777)	-
30 June 2013	3,109	-	(994)	(349)	(2,600)	(834)

¹ The adoption of IAS 12A has impacted the measurement of deferred tax on investment properties.

Heathrow Finance plc

Consolidated summary statement of cash flows

	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 activities			
Loss before tax	(112)	(51)	(16)
<i>Adjustments for:</i>			
Net finance costs	482	236	604
Depreciation, amortisation and impairment	228	237	479
Fair value gain on investment properties	(4)	(15)	(50)
<i>Working capital changes:</i>			
(Increase)/decrease in inventories and trade and other receivables	(8)	33	(18)
Decrease in trade and other payables	(4)	(27)	(18)
Release and utilisation of provisions	(1)	(4)	(3)
Difference between pension charge and cash contributions	(8)	(17)	(49)
Exceptional pension charge	4	110	152
Cash generated from continuing operations	577	502	1,081
Taxation – group relief paid	(17)	(10)	(31)
Cash generated from discontinued operations	11	32	82
Net cash from operating activities	571	524	1,132
Cash flows from investing activities			
Net capital expenditure	(606)	(545)	(1,141)
Investing activities of discontinued operations	1,445	(10)	(21)
Net cash used in investing activities	839	(555)	(1,162)
Cash flows from financing activities			
Dividends paid	(487)	(214)	(346)
(Repayment)/drawdown of revolving credit facility	(147)	-	307
Proceeds from issuance of bonds	-	2,835	3,357
Repayment of bonds	-	(680)	(680)
Repayment of Class B facility	(100)	(400)	(475)
Repayment of capital expenditure facility	-	(1,286)	(1,395)
Drawdown/(repayment) of subordinated facilities	35	28	(98)
Payment of facilities and other items	(11)	(51)	(57)
Settlement of accretion on index-linked swaps	(136)	-	(80)
Cancellation and restructuring of derivatives	(2)	(12)	(76)
Net interest paid	(288)	(204)	(401)
Financing activities of discontinued operations	-	(12)	(21)
Net cash from financing activities	(1,136)	4	35
Net increase/(decrease) in cash and cash equivalents	274	(27)	5
Cash and cash equivalents at beginning of period	39	34	34
Cash and cash equivalents at end of period/year	313	7	39
Represented by:			
Cash and cash equivalents – continuing operations	313	237	37
Cash and cash equivalents – discontinued operations	-	-	26
Overdrafts – continuing operations	-	-	(24)
Overdrafts – discontinued operations	-	(230)	-
Cash and cash equivalents at end of period/year	313	7	39

¹ The presentation of certain balances for the six months ended 30 June 2012 has been restated to reclassify Stansted airport as discontinued operations, consistent with the 2012 year end audited financial statements.