

Heathrow Finance plc
Special purpose consolidated financial statements
for the six months ended 30 June 2019

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 (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 2019 and for the six months then ended.

The financial information for the six-month period ended 30 June 2019 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2019. The Group has adopted IFRS 16 'Leases' for the first time with effect from 1 January 2019. The impact of adopting IFRS 16 is a decrease in £88 million to the opening reserves as at 01 January 2019. Other than in this respect, the financial statements for the six-month period ended 30 June 2019 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2018.

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 2018 were approved by the Board of directors on 21 February 2018 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

September 2019

Company registration number: 06458635

Heathrow Finance plc

Consolidated income statement for the six months ended 30 June 2019

| | Unaudited Six months ended 30 June 2019 £m | Unaudited Six months ended 30 June 2018 £m | Audited Year ended 31 December 2018 £m |
|--|---|---|---|
| Revenue | 1,461 | 1,405 | 2,970 |
| Operating costs | (951) | (914) | (1,879) |
| Other operating items | | | |
| Fair value gain on investment properties | (7) | 39 | 117 |
| Operating profit | 503 | 530 | 1,208 |
| Financing | | | |
| Finance income ¹ | 16 | 14 | 27 |
| Finance costs ¹ | (449) | (217) | (744) |
| Net finance cost | (483) | (203) | (717) |
| Profit before tax | 20 | 327 | 491 |
| Taxation charge | (20) | (65) | (79) |
| Profit for the period | - | 262 | 412 |

¹30 June 2018 finance income and finance costs have been restated by (£84) million and £84 million respectively to present interest payable, interest receivable and fair value on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

Heathrow Finance plc

Consolidated statement of comprehensive income for the six months ended 30 June 2019

| | Unaudited Six months ended 30 June 2019 £m | Unaudited Six months ended 30 June 2018 £m | Audited Year ended 31 December 2018 £m |
|--|---|---|---|
| Profit for the period | - | 262 | 412 |
| Other comprehensive income: | | | |
| Items that will not be subsequently reclassified to the consolidated income statement | | | |
| Actuarial (loss)/gain on pensions net of tax: | | | |
| Gain/(loss) on plan assets | 327 | (87) | (192) |
| (Increase)/decrease in scheme liabilities | (391) | 269 | 310 |
| Items that may be subsequently reclassified to the consolidated income statement | | | |
| Cash flow hedges: | | | |
| Gain/(loss) taken to equity net of tax | 104 | (151) | (162) |
| Transfer to finance costs ² | (74) | 172 | 198 |
| Other comprehensive loss for the period net of tax | (34) | 203 | 154 |
| Total comprehensive (loss)/income for the period¹ | (34) | 465 | 566 |

¹ Attributable to equity holders of the parent.

² Items in the consolidated statement of comprehensive income above are disclosed net of tax.

Heathrow Finance plc

Consolidated statement of financial position as at 30 June 2019

| | Unaudited 30 June 2019 £m | Audited 31 December 2018 £m |
|----------------------------------|---------------------------------|-----------------------------------|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | 11,642 | 11,575 |
| Right of use asset | 334 | - |
| Investment properties | 2,468 | 2,472 |
| Intangible assets | 158 | 173 |
| Retirement benefit surplus | - | 28 |
| Derivative financial instruments | 806 | 543 |
| Trade and other receivables | 603 | 602 |
| | 16,011 | 15,393 |
| Current assets | | |
| Inventories | 12 | 13 |
| Trade and other receivables | 349 | 391 |
| Term deposits | 415 | 120 |
| Cash and cash equivalents | 438 | 595 |
| | 1,214 | 1,119 |
| Total assets | 17,225 | 16,512 |
| Liabilities | | |
| Non-current liabilities | | |
| Borrowings | (14,486) | (13,993) |
| Derivative financial instruments | (1,475) | (1,523) |
| Lease liabilities | (395) | - |
| Deferred income tax liabilities | (853) | (917) |
| Retirement benefit obligations | (71) | (32) |
| Provisions | (1) | (1) |
| Trade and other payables | (6) | (7) |
| | (17,287) | (16,473) |
| Current liabilities | | |
| Borrowings | (854) | (742) |
| Derivative financial instruments | (66) | (39) |
| Lease liabilities | (48) | - |
| Provisions | (9) | (13) |
| Current income tax liabilities | (72) | (54) |
| Trade and other payables | (438) | (433) |
| | (1,487) | (1,281) |
| Total liabilities | (18,774) | (17,754) |
| Net liabilities | (1,549) | (1,242) |
| Equity | | |
| Capital and reserves | | |
| Share capital | 3,109 | 3,109 |
| Merger reserve | (994) | (994) |
| Cash flow hedge reserve | (186) | (216) |
| Retained earnings | (3,478) | (3,141) |
| Total equity | (1,549) | (1,242) |

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 September 2019. 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 2019

| | Share capital £m | Merger reserve £m | Cash flow hedge reserve £m | Retained earnings £m | Total equity £m |
|--|---------------------|----------------------|-------------------------------|-------------------------|--------------------|
| 1 January 2018 (previously reported) | 3,109 | (994) | (252) | (3,171) | (1,440) |
| Adjustments in respect of: | | | | | |
| Transition to IFRS 15 | | | | (1) | (1) |
| Transition to IFRS 9 | | | | (2) | (2) |
| 1 January 2018 (re-stated) | 3,109 | (994) | (252) | (3,174) | (1,311) |
| Comprehensive income: | | | | | |
| Profit for the period | | | | 412 | 412 |
| Other comprehensive income: | | | | | |
| Cash flow hedges net of tax | | | 36 | | 36 |
| Actuarial gain on pensions net of tax: | | | | | |
| Loss on plan assets | | | | (192) | (192) |
| Decrease in scheme liabilities | | | | (310) | (310) |
| Total comprehensive profit | | | 36 | 530 | 566 |
| Transaction with owners: | | | | | |
| Dividends paid to Heathrow (DSH) Limited | | | | (497) | (497) |
| Total transaction with owners | | | | (497) | (497) |
| 31 December 2018 | 3,109 | (994) | (216) | (3,141) | (1,242) |
| 1 January 2019 | 3,109 | (994) | (216) | (3,141) | (1,242) |
| Adjustments in respect of: | | | | | |
| Transition to IFRS 16 | | - | - | (88) | (88) |
| | 3,109 | (994) | (216) | (3,229) | (1,330) |
| Comprehensive income: | | | | | |
| Result for the period | | | | - | - |
| Other comprehensive income: | | | | | |
| Cash flow hedges net of tax | | | 30 | | 30 |
| Actuarial loss on pensions net of tax: | | | | | |
| Gain on plan assets | | | | 327 | 327 |
| Increase in scheme liabilities | | | | (391) | (391) |
| Total comprehensive income | | | 30 | (64) | (34) |
| Transaction with owners: | | | | | |
| Dividends paid to Heathrow (DSH) Limited | | | | (185) | (185) |
| Total transaction with owners | | | | (185) | (185) |
| 30 June 2019 | 3,109 | (994) | (186) | (3,478) | (1,549) |

Heathrow Finance plc

Consolidated cash flow statement for the six months ended 30 June 2019

| | Unaudited Six months ended 30 June 2019 £m | Unaudited Six months ended 30 June 2018 £m | Audited Year ended 31 December 2018 £m |
|--|---|---|---|
| Operating activities | | | |
| Profit before tax | 20 | 327 | 491 |
| <i>Adjustments for:</i> | | | |
| Net finance costs | 345 | 358 | 755 |
| Fair value loss/(gain) on financial instruments | 139 | (155) | (38) |
| Depreciation, amortisation and impairment | 396 | 357 | 746 |
| Fair value loss/(gain) on investment properties | 7 | (39) | (117) |
| <i>Working capital changes:</i> | | | |
| Increase/(decrease) in inventories and trade and other receivables | 57 | 20 | (46) |
| (Decrease)/increase in trade and other payables | (44) | 4 | 14 |
| (Decrease)/increase in provisions | (4) | (5) | - |
| Difference between pension charge and cash contributions | (10) | (9) | (15) |
| Cash generated from continuing operations | 906 | 858 | 1,790 |
| Corporation tax paid | (41) | (24) | (70) |
| Taxation – group relief paid | - | - | (13) |
| Net cash from operating activities | 865 | 834 | 1,707 |
| Cash flows from investing activities | | | |
| Net capital expenditure | (365) | (354) | (792) |
| Increase in term deposits | (295) | - | (108) |
| Interest received | 3 | 1 | 2 |
| Net cash (used in) investing activities | (657) | (353) | (898) |
| Cash flows from financing activities | | | |
| Dividends paid to Heathrow (DSH) Limited | (185) | (224) | (497) |
| (Decrease)/increase in loan to Heathrow (DSH) Limited | (75) | 75 | 75 |
| Proceeds from issuance of bonds | 783 | 385 | 1,061 |
| Repayment of bonds | (692) | (510) | (910) |
| Proceeds from issuance of other term debt | - | 145 | 245 |
| Net drawdown/(repayment) of subordinated facilities | - | (435) | 65 |
| Repayment of facilities and other items | (7) | - | (132) |
| Settlement of accretion on index-linked swaps | (204) | (98) | (110) |
| Payment of lease liabilities | (28) | - | - |
| Increase in bank loan | 340 | - | - |
| Interest paid | (297) | (282) | (534) |
| Net cash used in financing activities | (365) | (944) | (737) |
| Net (decrease)/increase in cash and cash equivalents | (157) | (463) | 72 |
| Cash and cash equivalents at beginning of period | 595 | 523 | 523 |
| Cash and cash equivalents at end of period | 438 | 60 | 595 |
| <i>Represented by:</i> | | | |
| Cash and cash equivalents | 438 | 60 | 595 |
| Cash and cash equivalents at end of period | 438 | 60 | 595 |

Heathrow Finance plc

Consolidated cash flow statement for the six months ended 30 June 2019

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.

Revenue previously disclosed as Aeronautical, Retail, Other regulated charges, and Other have been further disaggregated and incorporates the new requirements of IFRS 15.

| Table (a) | Unaudited Six months ended 30 June 2019 £m | Unaudited Six months ended 30 June 2018 £m | Audited Year ended 31 December 2018 £m |
|--|---|---|---|
| Segment Revenue Under IFRS 15 | | | |
| Aeronautical | | | |
| Landing charges | 274 | 240 | 482 |
| Parking charges | 37 | 32 | 67 |
| Departing charges | 560 | 556 | 1,196 |
| Total Aeronautical revenue | 871 | 828 | 1,745 |
| Other regulated charges | 114 | 118 | 243 |
| Retail revenue | 63 | 63 | 147 |
| Property revenue | 75 | 65 | 129 |
| Rail Income | | | |
| Heathrow Express | 58 | 66 | 123 |
| Other | 4 | 1 | 14 |
| Revenue reported under IFRS 15 | 1,185 | 1,141 | 2,401 |
| Revenue recognised at a point in time | 1,124 | 1,079 | 2,275 |
| Revenue recognised over time | 61 | 62 | 126 |
| Total revenue reported under IFRS 15 | 1,185 | 1,141 | 2,401 |
| Under IFRS 16 / IAS 17 | | | |
| Retail (lease-related income) | 276 | 264 | 569 |
| Total revenue | 1,461 | 1,405 | 2,970 |
| Heathrow | 1,403 | 1,344 | 2,847 |
| Heathrow Express | 58 | 61 | 123 |
| Adjusted EBITDA | | | |
| Heathrow | 876 | 817 | 1,772 |
| Heathrow Express | 30 | 31 | 65 |
| Total adjusted EBITDA | 906 | 848 | 1,837 |
| Reconciliation to statutory information: | | | |
| Depreciation and amortisation | (396) | (357) | (746) |
| Operating profit (before certain re-measurements) | 510 | 491 | 1,091 |
| Fair value (loss)/gain on investments properties (certain re-measurements) | (7) | 39 | 117 |
| Operating profit | 503 | 530 | 1,208 |
| Finance income ¹ | 16 | 14 | 27 |
| Finance costs ¹ | (499) | (217) | (744) |
| Profit before tax | 20 | 327 | 491 |
| Taxation charge | (20) | (65) | (79) |
| Profit for the period | - | 262 | 412 |

¹ June 2018 finance income and finance costs have been restated by (£84) million and £84 million respectively to present interest payable, interest receivable and fair value on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

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Notes to the consolidated financial information for the six months ended 30 June 2019

1 Segment information *continued*

| Table (b) | Unaudited Six months ended 30 June 2019 | | Unaudited Six months ended 30 June 2018 | | Audited Year ended 31 December 2018 | |
|------------------|--|--------------------------------|--|------------------------------|--|------------------------------|
| | Depreciation & amortisation ¹ | Fair value (loss) ² | Depreciation & amortisation ¹ | Fair value gain ² | Depreciation & amortisation ¹ | Fair value gain ² |
| | £m | £m | £m | £m | £m | £m |
| Heathrow | (370) | (7) | (322) | 39 | (675) | 117 |
| Heathrow Express | (26) | - | (35) | - | (71) | - |
| Total | (396) | (7) | (357) | 39 | (746) | 117 |

⁽¹⁾ Includes intangible amortisation charge of £18 million (December 2018: £27 million; June 2018: £20 million).

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

| Table (c) | Unaudited Six months ended 30 June 2019 | | Unaudited Six months ended 30 June 2018 | | Audited Year ended 31 December 2018 | |
|---|---|-----------------|---|-----------------|-------------------------------------|-----------------|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Heathrow | 14,350 | (827) | 13,713 | (392) | 13,880 | (440) |
| Heathrow Express | 633 | (13) | 654 | (19) | 670 | (14) |
| Total operations | 14,983 | (840) | 14,367 | (411) | 14,550 | (454) |
| Unallocated assets and liabilities: | | | | | | |
| Cash, term deposits and external borrowings | 853 | (15,340) | 60 | (13,849) | 715 | (14,660) |
| Retirement benefit obligations | - | (71) | 103 | (34) | 28 | (32) |
| Derivative financial instruments | 806 | (1,541) | 422 | (1,311) | 543 | (1,562) |
| Deferred and current tax liabilities | - | (925) | - | (1,025) | - | (971) |
| Amounts owed from/(to) group undertakings | 583 | (57) | 664 | (56) | 676 | (75) |
| Total | 17,225 | (18,774) | 15,616 | (16,686) | 16,512 | (17,754) |

Heathrow Finance plc

Notes to the consolidated financial information for the six months ended 30 June 2019

2 Operating costs

| | Unaudited Six months ended 30 June 2019 £m | Unaudited Six months ended 30 June 2018 £m | Audited Year ended 31 December 2018 £m |
|---|---|---|---|
| Employment | 184 | 183 | 378 |
| Operational | 131 | 134 | 264 |
| Maintenance | 87 | 89 | 176 |
| Rates | 60 | 61 | 122 |
| Utilities | 35 | 45 | 90 |
| Other | 58 | 45 | 103 |
| Total operating costs before depreciation and amortisation | 555 | 557 | 1,133 |
| Depreciation and amortisation | | | |
| Property, plant and equipment | 361 | 337 | 719 |
| Intangible assets | 17 | 20 | 27 |
| Right of Use (ROU) assets | 18 | - | - |
| Total operating costs | 951 | 914 | 1,879 |

3 Net debt

| | Accounting value 30 June 2019 £m | Accounting value 30 June 2018 £m |
|---|--|--|
| Current borrowings – Issuer | 23 | 22 |
| Current borrowings – Security Parent and subsidiaries | 831 | 621 |
| Total current borrowing¹ | 854 | 643 |
| Non-current borrowings – Issuer | | |
| Bonds | 819 | 782 |
| Loans | 827 | 523 |
| Total | 1,646 | 1,305 |
| Non-current borrowings – Security Parent and subsidiaries | | |
| Bonds | 12,145 | 11,224 |
| Loans | 695 | 677 |
| Total | 12,840 | 11,901 |
| Total non-current borrowings | 14,486 | 13,206 |
| Total debt | 15,340 | 13,849 |
| Cash and cash equivalents and term deposits ² | (853) | (715) |
| Total net debt | 14,487 | 13,134 |

¹Current borrowings include interest accrued on debt

²Cash and cash equivalents include £240 million (June 2018: £120 million) in term deposits and £175 million (June 2018: £ nil) in repurchase agreements.

4 Regulatory Asset Base

Heathrow Airports's RAB was £16,420 million at 30 June 2019 (30 June 2018: £15,952 million; 31 December 2018: £16,200 million).