

Heathrow (SP) Limited
Special purpose consolidated financial statements
for the six months ended 30 June 2014

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 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 the United Kingdom Accounting Standards Board's Statement: 'Half-Yearly Financial Reports'.

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 2014

Company registration number: 06458621

Heathrow (SP) Limited

Consolidated profit and loss account for the six months ended 30 June 2014

	Unaudited Six months ended 30 June 2014	Restated ¹ Unaudited Six months ended 30 June 2013	Audited Year ended 31 December 2013
	£m	£m	£m
Turnover – continuing operations	1,234	1,149	2,474
Turnover – discontinued operations	-	32	32
Total turnover	1,234	1,181	2,506
Operating costs – ordinary: continuing operations	(772)	(767)	(1,501)
Operating costs – ordinary: discontinued operations	-	(32)	(32)
Total operating costs - ordinary	(772)	(799)	(1,533)
Operating costs – exceptional: other continuing operations ²	(18)	-	(38)
Operating costs – exceptional: pensions continuing operations ²	(64)	(9)	(76)
Total operating costs – exceptional	(82)	(9)	(114)
Total operating costs	(854)	(808)	(1,647)
Operating profit – continuing operations	380	373	859
Operating profit/(loss) – discontinued operations	-	-	-
Total operating profit	380	373	859
Gain on disposal of Stansted ³	-	294	292
Interest receivable and similar income	120	124	236
Interest payable and similar charges	(458)	(462)	(880)
Fair value gain/(loss) on financial instruments	5	(143)	(81)
Net interest payable and similar charges	(333)	(481)	(725)
Profit on ordinary activities before taxation	47	186	426
Tax (charge)/credit on profit on ordinary activities ⁴	(24)	9	(37)
Profit on ordinary activities after taxation	23	195	389

¹ The presentation of operating costs - exceptional in discontinued operations and the profit on disposal of Stansted have been restated to be consistent with the year ended 31 December 2013.

² Operating costs – exceptional
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.

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 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 asset included within interest receivable or interest payable.

For the six months ended 30 June 2014 an exceptional pension charge of £64 million was incurred (six months ended 30 June 2013: £9 million charge; year ended 31 December 2013: £76 million charge). 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.

³ Gain 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. Further sale proceeds were used to meet transaction related costs including derivative restructuring costs, legal, other advisory fees and directly attributable separation costs.

⁴ Tax (charge)/credit on profit on ordinary activities
The tax charge for the six months ended 30 June 2014 results in an effective tax rate of 51.5%, reflecting the tax charge arising on ordinary activities of £24 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 4.8% negative, reflecting the tax credit arising on ordinary activities of £9 million. The effective tax rate for the period differed from the statutory rate of corporation tax of 23.25% due to seasonality, permanent differences mainly arising from non-qualifying depreciation and the fact that the Group's disposal of Stansted Airport Limited had no corporation tax charge as it qualified for the Substantial Shareholding Exemption.

For the year ended 31 December 2013, the effective tax rate was 8.7%, reflecting the tax charge arising on ordinary activities of £65 million and a tax credit of £28 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%. As above, the disposal of Stansted Airport Limited had no corporation tax charge as it qualified for the Substantial Shareholding Exemption.

Heathrow (SP) Limited

Consolidated statement of total recognised gains and losses for the six months ended 30 June 2014

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Profit for the financial period	23	195	389
Unrealised gain on revaluation of investment properties	10	4	32
Gains on cash flow hedges taken directly to equity	27	137	203
Deferred tax charge arising on cash flow hedges taken directly to equity	(5)	(31)	(58)
	32	110	177
Total recognised gains for the period	55	305	565

Consolidated reconciliation of movements in shareholder's funds for the six months ended 30 June 2014

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Profit for the financial period	23	195	389
Other recognised gains relating to the period (net)	32	110	177
Dividends paid ¹	(144)	(570)	(661)
Net movement in shareholder's funds	(89)	(265)	(95)
Opening shareholder's funds	(352)	(257)	(257)
Closing shareholder's funds	(441)	(522)	(352)

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 2014

	Unaudited 30 June 2014 £m	Unaudited 30 June 2013 £m	Audited 31 December 2013 £m
Fixed assets			
Tangible fixed assets	13,142	12,249	12,830
Financial assets – derivative financial instruments	108	429	165
Total fixed assets	13,250	12,678	12,995
Current assets			
Stocks	9	9	9
Debtors	339	315	352
Financial assets – derivative financial instruments	112	2	135
Current asset investments	525	232	75
Restricted cash	-	39	-
Cash at bank and in hand	198	7	19
Total current assets	1,183	604	590
Current liabilities			
Creditors: amounts falling due within one year	(1,946)	(1,300)	(1,449)
Net current liabilities	(763)	(696)	(859)
Total assets less current liabilities	12,487	11,982	12,136
Creditors: amounts falling due after more than one year	(12,581)	(12,317)	(12,213)
Deferred tax	(177)	(94)	(148)
Provisions for liabilities	(170)	(93)	(127)
Net liabilities	(441)	(522)	(352)
Capital and reserves			
Called up share capital	11	11	11
Share premium reserve	499	499	499
Revaluation reserve	470	433	461
Merger reserve	(3,758)	(3,758)	(3,758)
Fair value reserve	(288)	(350)	(310)
Profit and loss reserve	2,625	2,643	2,745
Total shareholder's deficit	(441)	(522)	(352)

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 2014. 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 2014

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Operating profit – continuing operations	380	373	859
<i>Adjustments for:</i>			
Depreciation	242	228	448
Gain on disposal of fixed assets	-	(1)	-
<i>Working capital changes:</i>			
Decrease/(increase) in stock and debtors	11	(8)	(19)
(Decrease)/increase in creditors	(28)	(4)	72
Net utilisation of provisions	(1)	(1)	(4)
Difference between pension charge and cash contributions	(9)	(13)	(29)
Exceptional pension charge	64	9	76
Net cash inflow from operating activities - continuing	659	583	1,403
Net cash inflow from operating activities - discontinued	-	5	5
Total net cash inflow from operating activities	659	588	1,408
Net interest paid	(305)	(295)	(521)
Taxation – group relief paid	(8)	(13)	(28)
Net capital expenditure	(496)	(609)	(1,285)
Disposal of Stansted Airport Limited	(2)	1,409	1,410
Dividends paid ¹	(144)	(487)	(661)
Net cash (outflow)/inflow before use of liquid resources and financing	(296)	593	323
Management of liquid resources	(450)	(200)	(43)
Issuance of bonds	980	-	745
Repayment of bonds	-	-	(396)
Net repayment of revolving credit facilities	(30)	(147)	(227)
Repayment of facilities and other financing items	(25)	(110)	(214)
Increase in amount owed to Heathrow Finance plc	-	3	4
Settlement of accretion on index-linked swaps	-	(136)	(177)
Cancellation and restructuring of derivatives	-	(2)	(2)
Net cash inflow/(outflow) from financing	925	(392)	(267)
Increase in cash	179	1	13

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.