

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2013

Unaudited

Heathrow Funding Limited

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Heathrow Funding Limited

Interim management report

Principal activities

The principal activity of Heathrow Funding Limited (the 'Company') is to act as the bond issuer for Heathrow (SP) Limited and its subsidiaries (together the 'SP Group'). The Company is a direct subsidiary of Heathrow (SP) Limited and forms part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'). The Company is incorporated in Jersey but is resident in the United Kingdom for taxation purposes.

The Company's primary purpose is to raise funding from external sources and provide funding to the SP Group. This is done through the issuance of external bonds and use of external derivatives. The proceeds raised are distributed to fellow subsidiaries of Heathrow (SP) Limited, under the terms of the Borrower Loan Agreements ('BLAs').

In the six months ended 30 June 2013 interest receivable from group undertakings was £339 million (six months ended 30 June 2012: £302 million, year ended 31 December 2012: £621 million) and interest payable on external borrowings was £309 million (six months ended 30 June 2012: £281 million, year ended 31 December 2012: £588 million). The increases from the corresponding six month period were due to the full period impact of the £3 billion raised in multiple capital markets transactions in 2012. No major capital market transactions took place during the six months ended 30 June 2013.

The non-cash fair value loss on financial instruments was £101 million (six months ended 30 June 2012: £73 million gain, year ended 31 December 2012: £63 million gain). The fair value loss was principally due to the impact on the mark-to-market value of index-linked swaps and cross-currency swaps. Index-linked swaps were negatively impacted by increased implied future inflation rates since December 2012, following the unexpected decision of the ONS not to alter the calculation methodology for the Retail Price Index. Cross-currency swaps were negatively impacted by increased implied future US\$ and Euro interest rates since 31 December 2012.

The movements above and changes in foreign exchange rates impacted the valuation of borrowings and derivatives on the balance sheet. Total borrowings increased from £10,148 million at 31 December 2012 to £10,375 million at 30 June 2013 and net derivative liabilities fell from £212 million at 31 December 2012 to £26 million at 30 June 2013.

With no major capital market transactions in the period, cash flows with group undertakings and proceeds from issuance of bonds were significantly lower than in previous periods.

A review of the Company's principal business risks is reported below.

Results and dividends

The loss after taxation for the six months ended 30 June 2013 was £107 million (six months ended 30 June 2012: £65 million profit, year ended 31 December 2012: £53 million profit). No ordinary dividends were proposed or paid during the period (2012: £nil).

Directors

The directors who served during the period and to the date of this report were as follows:

Andrew Efiang	
José Leo	
Neville Scott	Resigned 1 June 2013
Jason Bingham	Appointed 1 June 2013

Company secretary

The Company secretary changed from State Street Secretaries (Jersey) Limited to Sanne Secretaries Limited with effect from 1 June 2013.

Heathrow Funding Limited

Interim management report *continued*

Risk management

The principal risks and uncertainties that could have a material impact on the Company's performance over the remaining six months of the financial year have not changed from those reported in the annual report for the year ended 31 December 2012. The Company actively manages all identified risks following the risk management policies of Heathrow (SP) Limited and Heathrow Airport Holdings Limited. Details of the risk management policies have been disclosed in the SP Group and Heathrow Airport Holdings Group annual financial statements. Of the four members of the Heathrow Airport Holdings Limited audit committee all, including the Chair, are non-executive directors.

On behalf of the Board



José Leo
Director

27 August 2013

Company registration number: 99529 (Jersey)

Heathrow Funding Limited

Directors' responsibilities statement

The directors are responsible for preparing the interim report and condensed financial statements in accordance with applicable law and regulations.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Heathrow website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm to the best of their knowledge:

- the condensed financial statements have been prepared in accordance with the Accounting Standards Board Statement: 'Half-Yearly Financial Reports'; and
- the Interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R namely, an indication of important events that have occurred during the six months ended 30 June 2013 and their impact on the condensed financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

On behalf of the Board



José Leo
Director

27 August 2013

Heathrow Funding Limited

Condensed profit and loss account

		Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
	Note			
Interest receivable from group undertakings		339	302	621
Interest payable on external borrowings		(309)	(281)	(588)
Net interest payable on derivative financial instruments	1	(36)	(29)	(43)
Fair value (loss)/gain on financial instruments	2	(101)	73	63
Operating (loss)/profit on ordinary activities before taxation		(107)	65	53
Tax on (loss)/profit on ordinary activities	3	-	-	-
(Loss)/profit after taxation for the financial period		(107)	65	53

All profits and losses recognised during the current and prior periods are from continuing operations.

There are no recognised gains or losses for the current or preceding financial periods other than those stated in the Profit and loss account and accordingly no Statement of total recognised gains and losses is presented.

The Company has not presented a note of historical cost profits and losses because the effects of fair value accounting for derivative financial instruments are not required to be included in the reconciliation of the reported (loss)/profit on ordinary activities before taxation and the historical cost equivalents.

Heathrow Funding Limited

Condensed balance sheet

	<i>Note</i>	Unaudited 30 June 2013 £m	Audited 31 December 2012 £m
Current assets			
Debtors (due after more than one year £11,037m (31 December 2012: £10,915m))	4	11,655	11,547
Total current assets		11,655	11,547
Current liabilities			
Creditors: amounts falling due within one year	5	(663)	(697)
Net current assets		10,992	10,850
Creditors: amounts falling due after more than one year	6	(11,029)	(10,780)
Net (liabilities)/assets¹		(37)	70
Capital and reserves			
Stated capital		-	-
Profit and loss reserve		(37)	70
Total shareholder's (deficit)/funds		(37)	70

¹ Net (liabilities)/assets reflect the different measurement bases used for certain financial instruments: Borrower Loan Agreements and bonds are recorded at amortised cost but derivatives are remeasured to fair value at each balance sheet date.

The condensed financial statements of Heathrow Funding Limited (Company registration number: 99529 (Jersey)) were approved by the Board of Directors and authorised for issue on 27 August 2013. They were signed on its behalf by:


José Leo
Director


Andrew Efiog
Director

Heathrow Funding Limited

Condensed summary cash flow statement

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Operating (loss)/profit	(107)	65	53
<i>Adjustments for:</i>			
Fair value loss/(gain) on financial instruments	101	(73)	(63)
Derivative prepayment amortisation	-	28	38
Movement in accrued interest on derivative financial instruments	12	23	23
Amortisation of cost/premium on bonds	14	19	35
Amortisation of cost/premium on BLA advances ¹	(9)	(11)	(20)
Decrease/(increase) in interest receivable	25	(41)	(89)
(Decrease)/increase in interest payable on borrowings	(35)	19	62
Movement in amounts owed to group undertakings - non-interest bearing	(2)	(28)	(36)
Net decrease/(increase) in amounts owed by group undertakings	125	(2,164)	(2,370)
Net cash inflow/(outflow) from operating activities before financing	124	(2,163)	(2,367)
Financing			
Net proceeds from issuance of bonds ²	-	2,832	3,077
Repayment of bonds	-	(680)	(680)
Settlement of accretion on index-linked swaps	(136)	-	(72)
Restructuring and cancellation of derivatives	-	11	22
Other financing flows	12	-	20
Net movement in cash	-	-	-

¹ BLA represents the Borrower Loan Agreements between Heathrow Funding Limited and Heathrow Airport Limited.

² In the year ended 31 December 2012, the Company received proceeds of £3,077 million (net of transaction costs) through transactions across a range of currencies, rating levels and formats. This included: £1 billion in Class B issuance through two transactions (a £600 million twelve year bond and a £400 million eight year bond); offerings in both Swiss francs (CHF400 million five year Class A bond) and Canadian dollars (C\$400 million seven year Class A bond); a €700 million five year Class A bond; a £95 million tap of the existing 2039 index-linked bond; a £180 million ten year index-linked private placement; and a US\$500 million three year bond.

Reconciliation to net debt

		Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Net debt at 1 January	9	(10,148)	(7,963)	(7,963)
Movement in external borrowings		-	(2,152)	(2,397)
Fair value adjustments		(211)	228	235
Other non-cash changes		(16)	(8)	(23)
Net debt at end of period	9	(10,375)	(9,895)	(10,148)

Heathrow Funding Limited

Accounting policies

The financial information set out herein does not constitute the Company's statutory financial statements for the year ended 31 December 2012 or any other period. The balances for the six months ended 30 June 2013 and six months ended 30 June 2012 have not been audited or reviewed by the auditors. The financial information should be read in conjunction with the 2012 audited financial statements.

Basis of preparation

The condensed financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments in accordance with Companies (Jersey) Law 1991, applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Accounting Standards Board 'Statement: Half-Yearly Financial Reports'. The accounting policies adopted in the preparation of the condensed financial statements are consistent with those applied by the Company in its audited financial statements for the year ended 31 December 2012. The comparative information for the six months ended 30 June 2012 and the year ended 31 December 2012 has been re-presented in millions, instead of millions rounded to one decimal place. This has resulted in some immaterial rounding differences.

Going concern

The Directors have prepared the condensed financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow (SP) Limited group (the 'SP Group'), the primary level at which financial risks are managed for the Company.

Consequently the Directors have reviewed the cash flow projections of the SP Group taking into account:

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall SP Group liquidity position, remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets.

Whilst the Company is in a net liability position, as a result of the review, and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

Significant accounting judgements and estimates

In applying the Company's accounting policies management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated. The significant accounting judgements and estimates applied in the preparation of the condensed financial statements are consistent with those applied by the Company in its audited financial statements for the year ended 31 December 2012.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Net interest payable on derivative financial instruments

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Interest receivable on derivatives	203	193	400
Interest payable on derivatives	(239)	(222)	(443)
	(36)	(29)	(43)

2 Fair value (loss)/gain on financial instruments

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Index-linked swaps	(50)	65	50
Cross-currency swaps and retranslation of foreign currency debt	(51)	8	13
	(101)	73	63

3 Tax on (loss)/profit on ordinary activities

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Current tax			
UK corporation tax on (loss)/profit for the period	-	-	-

As the Company qualifies as a 'securitisation company' within the scope of Taxation of Securitisation Companies Regulations 2006, it is subject to UK corporation tax on a small margin rather than on the profit shown in the profit and loss account.

4 Debtors

	Unaudited 30 June 2013 £m	Audited 31 December 2012 £m
Due within one year		
Derivative financial instruments (Note 8)	1	-
Interest receivable from group undertakings ¹	156	181
Amount owed by group undertakings - interest bearing ²	460	450
Other debtors	1	1
	618	632
Due after more than one year		
Derivative financial instruments (Note 8)	1,047	849
Amount owed by group undertakings - interest bearing ²	9,990	10,066
	11,037	10,915
Total debtors	11,655	11,547

¹ Interest receivable from group undertakings relates to interest accrued on the Borrower Loan Agreements ('BLAs') receivable from Heathrow Airport Limited.

² Amounts owed by group undertakings - interest bearing largely represent the balance of the BLAs receivable from Heathrow Airport Limited. The advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration the related hedging instruments. Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited, Stansted Airport Limited (until its disposal on 28 February 2013) and Heathrow Express Operating Company Limited are joint guarantors in respect of principal, indexation, interest, fees and hedging arrangements in relation to the borrowings of Heathrow Airport Limited under the BLAs.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

5 Creditors: amounts falling due within one year

	Unaudited	Audited
	30 June 2013	31 December 2012
	£m	£m
Interest payable on borrowings	211	246
Amounts owed to group undertakings - non-interest bearing ¹	-	2
Borrowings (Note 7)	393	389
Other creditors	32	20
Derivative financial instruments (Note 8)	27	40
	663	697

¹ Amounts owed to group undertakings - non-interest bearing relate largely to the prepayment of interest and accretion received from Heathrow Airport Limited in relation to a number of BLA advances.

6 Creditors: amounts falling due after more than one year

	Unaudited	Audited
	30 June 2013	31 December 2012
	£m	£m
Borrowings (Note 7)	9,982	9,759
Derivative financial instruments (Note 8)	1,047	1,021
	11,029	10,780

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

7 Borrowings

	Unaudited 30 June 2013 £m	Audited 31 December 2012 £m
Current		
Secured		
Bonds		
5.850% £400 million due 2013	393	389
Total current	393	389
Non-current		
Secured		
Bonds		
4.600% €750 million due 2014	627	588
3.000% £300 million due 2015	299	299
2.500% US\$500 million due 2015	328	306
12.450% £300 million due 2016	338	345
4.125% €500 million due 2016	428	406
4.375% €700 million due 2017	597	566
2.500% CHF400 million due 2017	277	268
4.600% €750 million due 2018	589	552
6.250% £400 million due 2018	398	397
4.000% CAD400 million due 2019	248	245
6.000% £400 million due 2020	396	396
9.200% £250 million due 2021	277	278
4.875% US\$1,000 million due 2021	654	611
1.650% +RPI £180 million due 2022	187	184
5.225% £750 million due 2023	636	632
7.125% £600 million due 2024	588	588
6.750% £700 million due 2026	690	690
7.075% £200 million due 2028	198	198
6.450% £900 million due 2031	843	842
Zero-coupon €50 million due January 2032	45	42
Zero-coupon €50 million due April 2032	45	42
3.334%+RPI £460 million due 2039	557	547
5.875% £750 million due 2041	737	737
Total non-current	9,982	9,759
Total borrowings	10,375	10,148

The maturity dates of the bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and the Company. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.250% £400 million due 2018, 6.000% £400 million due 2020 and 7.125% £600 million due 2024 bonds, wherein the redemption dates coincide with their legal maturity dates.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

8 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
30 June 2013 - Unaudited				
Current				
Index-linked swaps	321	1	(27)	(26)
	321	1	(27)	(26)
Non-current				
Cross-currency swaps	3,503	415	(10)	405
Interest rate swaps ¹	2,026	212	(212)	-
Index-linked swaps ²	5,116	420	(825)	(405)
	10,645	1,047	(1,047)	-
	10,966	1,048	(1,074)	(26)
31 December 2012 - Audited				
Current				
Index-linked swaps	396	-	(40)	(40)
	396	-	(40)	(40)
Non-current				
Cross-currency swaps	3,503	291	(31)	260
Interest rate swaps ¹	2,026	322	(322)	-
Index-linked swaps ²	5,066	236	(668)	(432)
	10,595	849	(1,021)	(172)
	10,991	849	(1,061)	(212)

¹ £2,026 million (2012: £2,026 million) notional value of interest rate swaps relate to hedges with Heathrow Airport Limited.

² £3,173 million (2012: £3,173 million) notional value of index-linked swaps relate to hedges with Heathrow Airport Limited.

The Company does not apply hedge accounting in relation to any of its derivative financial instruments.

Cross-currency swaps

Cross-currency swaps have been entered into by the Company to hedge currency risk on interest and principal payments of foreign currency-denominated bond issues.

Index-linked swaps

Index-linked swaps have been entered into to mitigate the risk of mismatch between Heathrow Airport Limited's aeronautical income and regulatory asset base which are directly linked to changes in the Retail Price Index, and nominal debt and interest payments.

Interest rate swaps

Interest rate swaps have been entered into to hedge against variability in interest cash flows on current borrowings and future debt issuances within the SP Group.

9 Reconciliation in net debt

	1 January 2013 £m	Other non-cash changes ¹ £m	30 June 2013 £m
Debt due within one year	(389)	(4)	(393)
Debt due after more than one year	(9,759)	(223)	(9,982)
Net debt	(10,148)	(227)	(10,375)

¹ Relates to amortisation of issue costs, premiums and discounts, foreign exchange translations of foreign currency debt and accretion accruals.

Registered office

13 Castle Street, St Helier, Jersey, JE4 5UT Channel Islands
Company registration number: 99529 (Jersey)