

**Heathrow Funding Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2016**

# Heathrow Funding Limited

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# **Heathrow Funding Limited**

## **Officers and professional advisers**

### **Directors**

Javier Echave  
Andrew Efiog  
Nicholas Golding  
Beejadhursingh Surnam

### **Company secretary**

Sanne Secretaries Limited

### **Registered office**

13 Castle Street  
St Helier  
Jersey  
JE4 5UT  
Channel Islands

### **Independent auditor**

Deloitte LLP  
Chartered Accountants  
2 New Street Square  
London  
EC4A 3BZ

### **Bankers**

Lloyds Bank plc  
1st Floor  
10 Gresham Street  
London  
EC2V 7AE

# Heathrow Funding Limited

## Directors' report

The Directors present their annual report and the audited financial statements for Heathrow Funding Limited (the 'Company') for the year ended 31 December 2016.

### Principal activities

The Company's primary purpose is to raise funding from external sources and provide funding to Heathrow (SP) Limited and its subsidiaries (together the 'SP Group'). This is done through the issuance of external bonds and use of external derivatives. The proceeds raised are advanced to Heathrow Airport Limited, a fellow subsidiary of Heathrow (SP) Limited, under the terms of Borrower Loan Agreements ('BLAs'). The advances under BLAs are secured and are issued on substantially the same terms as the external bonds issued by the Company, taking into consideration any related hedging instruments.

The Company is a direct subsidiary of Heathrow (SP) Limited and forms part of the Heathrow Airport Holdings Limited group (the 'HAHL Group'). The Company is incorporated in Jersey but is resident in the United Kingdom for taxation purposes.

Cross-currency swaps, interest rate swaps and index-linked swaps are entered into by the Company to hedge the SP Group's and the wider HAHL Group's exposures. Interest rate and index-linked derivatives are mainly passed through to Heathrow Airport Limited as back-to-back derivatives, or otherwise incorporated into related BLAs. The Company's cross-currency swaps are packaged with their associated non-Sterling debt and passed through to Heathrow Airport Limited under the BLAs.

For the year ended 31 December 2016 net finance cost decreased to £20 million (2015: £26 million).

For the year ended 31 December 2016 interest receivable from group undertakings was £642 million (2015: £565 million) and interest payable on external borrowings was £625 million (2015: £597 million).

Net interest on derivative financial instruments decreased from £6 million receivable in 2015 to £37 million payable in 2016. This was in part due to accretion on index-linked swaps, which was affected by increase in the inflation rate during 2016.

The fair value loss on financial instruments was £52 million (2015: £39 million gain). This was due to index-linked swaps, cross-currency swaps, interest rate swaps and retranslation of foreign currency debt. The mark-to-market value of index-linked swaps was negatively impacted during the period by the increase in inflation expectations and decrease in interest rates compared to 2015. The loss was partially offset by the fair value gains in the period on cross-currency swaps mainly due to lower EUR and USD Libor rates.

The settlement of £188 million of accretion on index-linked swaps and the depreciation of Sterling against the hedged currencies, impacted the carrying value of derivatives which changed from a net liability of £432 million at 31 December 2015 to a net asset of £421 million at 31 December 2016 as shown in Note 7.

The Company continues to focus on maintaining a strong liquidity position and optimising its long-term cost of debt as well as ensuring duration, diversification and resilience in its debt financing. Heathrow's recent financing strategy has looked to balance certainty of term funding, particularly to meet significant £0.9 billion in debt maturities in the first quarter of 2017, with the cost of carrying substantial cash on balance sheet. This has been achieved partly by securing term debt with delays between commitment and drawing. During 2016, the Company successfully closed three term debt financing transactions, raising £0.8 billion. Taking into account financing raised elsewhere in the Heathrow Airport Holdings Group, over £1.6 billion was raised for Heathrow.

In January 2016, The Company consolidated its presence in the Swiss franc bond market, raising CHF400 million in an 8 year public bond with a fixed rate coupon of 0.5%. In July 2016, a £400 million 33 year public bond with a fixed rate coupon of 2.75% was issued, extending Heathrow maturity profile. In December 2016, a NOK1 billion private placement which was signed in July 2016 was drawn and matures in 2029.

Further, £130 million of its £750 million liquidity facilities have been cancelled as Heathrow continues to focus on the efficiency of its financing arrangements for itself and counterparties.

During 2016, the Company also repaid £300 million and €500 million (£434 million) bonds in March 2016 and October 2016, respectively. Since the start of 2017, the Company has also repaid €700 million (£584 million) and CHF400 million (£272 million) bonds in January 2017 and February 2017 respectively.

The Company currently expects to raise no more than £750 million in senior (Class A) term debt in 2017.

No significant changes to the activities of the Company are expected in the foreseeable future.

# Heathrow Funding Limited

## Directors' report *continued*

### Results and dividends

The loss after taxation for the financial year amounted to £72 million (2015: £13 million profit). No ordinary dividends were proposed or paid during the year (2015: £nil). The statutory results for the year are set out on page 7.

### Directors

The directors who served during the year and since the year end are as follows:

Javier Echave	Appointed 17 May 2016
Andrew Efiog	
Nicholas Golding	Appointed 17 January 2017
Beejadhursingh Surnam	Appointed 1 April 2016
Jason Bingham	Resigned 1 April 2016
Michael Uzielli	Resigned 17 May 2016
David Williamson	Resigned 9 January 2017

### Employment policies

The Company has no direct employees.

### Principal risks and uncertainties and risk management

The Company actively manages all identified risks following the risk management policies of SP Group and HAHL Group. Details of the risk management policies have been disclosed in the Heathrow (SP) Limited and HAHL Group consolidated annual financial statements. Of the four members of the HAHL Group audit committee ('AC') all, including the Chair, are non-executive directors. The Executive Committee, Board, AC and Finance Committee referred to below relate to the Executive Committee, Board (the 'Board'), AC and Finance Committee of Heathrow Airport Holdings Limited. Details of where to obtain copies of the financial statements of Heathrow (SP) Limited and HAHL Group are set out in Note 10 to the financial statements.

### Financial risk management objectives and policies

The Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the Heathrow Finance Committee. Senior management directly control day-to-day treasury operations on a centralised basis.

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Heathrow Airport Holdings Group's business operations and funding.

To achieve this, the Heathrow Airport Holdings Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

The primary treasury-related financial risks faced by the SP Group are:

#### *Interest rates*

The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2016, fixed rate debt after hedging with derivatives represented 99.8% of the SP Group's total external nominal debt.

#### *Inflation*

The SP Group mitigates the risk of mismatch between Heathrow's aeronautical income and regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments, by the issuance of index-linked instruments.

#### *Funding and liquidity*

The SP Group has established both investment grade (at the Heathrow (SP) level) and sub-investment grade (at the Heathrow Finance level) financing platforms for Heathrow. The Heathrow (SP) platform supports term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AC, the Board and Executive Committee.

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the SP Group is not exposed to excessive refinancing risk in any one year.

Heathrow Finance has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2018. As at 31 December 2016, cash and cash equivalents and term deposits were £666 million, undrawn headroom under revolving credit facilities was £1,150 million, committed term debt financing to be drawn after 31 December 2016 was £550 million and undrawn headroom under liquidity facilities was £620 million.

# Heathrow Funding Limited

## Directors' report *continued*

### Financial risk management objectives and policies *continued*

#### *Counterparty credit*

The SP Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

The SP Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The SP Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+ (S&P)/BBB+ (Fitch).

#### **Directors' indemnity**

The Company's Articles of Association provide that, subject to the provisions of the Companies (Jersey) Law 1991, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him by reason of being or having been such an officer.

#### **Auditor**

Pursuant to the provisions of the Companies (Jersey) Law 1991 'Article 113 (5)', the Company has dispensed with the requirement to hold an annual general meeting and the auditor will be deemed to be re-appointed and Deloitte LLP will therefore continue in office.

On behalf of the Board



Javier Echave  
Director

10 March 2017

# Heathrow Funding Limited

## Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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.

On behalf of the Board



**Javier Echave**  
Director

10 March 2017

# Heathrow Funding Limited

## Independent auditor's report to the members of Heathrow Funding Limited

We have audited the financial statements of Heathrow Funding Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Jacqueline Holden FCA  
for and on behalf of Deloitte LLP  
Chartered Accountants  
London, UK

10 March 2017



## Heathrow Funding Limited

Statement of comprehensive income for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
<b>Financing</b>			
Finance income	2	1,019	954
Finance cost	2	(1,039)	(980)
Fair value (loss)/gain on financial instruments	2	(52)	39
<b>Operating (loss)/profit on ordinary activities before taxation</b>		<b>(72)</b>	<b>13</b>
Taxation	3	-	-
<b>(Loss)/profit after taxation for the financial year</b>	<b>9</b>	<b>(72)</b>	<b>13</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(72)</b>	<b>13</b>


# Heathrow Funding Limited

Statement of financial position as at 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Trade and other receivables	4	12,913	12,007
<b>Current assets</b>			
Trade and other receivables	4	1,118	926
<b>Total assets</b>		<b>14,031</b>	<b>12,933</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	5	(12,876)	(11,860)
<b>Current liabilities</b>			
Trade and other payables	5	(1,178)	(1,024)
<b>Total liabilities</b>		<b>(14,054)</b>	<b>(12,884)</b>
<b>Net (liabilities)/assets<sup>1</sup></b>		<b>(23)</b>	<b>49</b>
<b>Capital and reserves</b>			
Stated capital	8	-	-
Retained Earnings	9	(23)	49
<b>Total shareholder's equity</b>		<b>(23)</b>	<b>49</b>

<sup>1</sup> 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 re-measured to fair value at each reporting date.

The financial statements of Heathrow Funding Limited were approved by the Board of Directors and authorised for issue on 10 March 2017. They were signed on its behalf by:

  
**Javier Echave**  
 Director

  
**Andrew Efiang**  
 Director

## Heathrow Funding Limited

Statement of changes in equity as at 31 December 2016

	Profit and loss reserve £m	Total £m
<b>At 1 January 2015</b>	<b>36</b>	<b>36</b>
Total comprehensive income for the financial year	13	13
<b>At 31 December 2015</b>	<b>49</b>	<b>49</b>
Total comprehensive loss for the financial year	(72)	(72)
<b>At 31 December 2016</b>	<b>(23)</b>	<b>(23)</b>

# Heathrow Funding Limited

**Accounting policies** for the year ended 31 December 2016

## Accounting policies

The principal accounting policies applied in the preparation of the financial statements of Heathrow Funding Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

## Basis of accounting and statement of compliance

Heathrow Funding Limited is company registered and incorporated in Jersey. These financial statements have been prepared in accordance with Financial Reporting Standards 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102) and with the Companies (Jersey) Law 1991. This provides for the Company to follow statements of accounting practice issued by the relevant accounting bodies in the United Kingdom. Consequently, the Company follows Financial Reporting Standard 100 ('FRS100') and in accordance with FRS 100 the Company has chosen to apply FRS 102.

The Company has adopted the following standard that is relevant to these financial statements:

IAS 39 'Financial Instruments: Recognition and Measurement', as endorsed by the European Union ('EU'). As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102.

The Company is not a financial institution and is therefore able to take advantage of exemption from all requirements of IFRS 7 'Financial Instruments: Disclosures' and from the disclosure requirements of IFRS 13 'Fair Value Measurement'.

The Company has taken advantage of certain disclosure exemptions in FRS 102 as its financial statements are included in the publicly available consolidated financial statements of Heathrow (SP) Limited, Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited. These disclosure exemptions relate to the statement of cash flows and financial instruments. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

## Going concern

The directors have prepared the 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'), which is the smallest group to consolidate these financial statements, and the level at which financial risks are managed for the Company.

Consequently the directors have reviewed the cash flow projections of the SP Group, of which the Company forms part, 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, including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and its ability to access the debt markets.

Whilst the Company is in a net liability and a net current 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 twelve months following the date when the Statement of financial position was signed.

Furthermore, Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. Consequently, the bond issuer under such financing agreements, the directors have a reasonable expectation that the Company will recover debts outstanding with Heathrow Airport Limited and be able to meet its liabilities due within one year.

## Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the profit and loss account.

# Heathrow Funding Limited

**Accounting policies** for the year ended 31 December 2016 *continued*

## Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

## Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. For index-linked borrowings, the nominal amount is adjusted for movements in the relevant price index. The accretion expense is recorded within net interest payable on derivative financial instruments in the profit and loss account.

All borrowings issued by the Company are on-lent to Heathrow Airport Limited under Borrower Loan Agreements ('BLAs'). The advances under the BLAs are issued on substantially the same terms as the new bonds issued by the Company, taking into consideration the related hedging instruments. The advances are carried at amortised cost with interest income recognised using the effective interest method. The nominal amount of the index-linked advances is accreted for the RPI component recognised within finance income in the profit and loss account.

## Taxation

Whilst the Company is incorporated outside the UK, it is treated as a UK resident company for tax purposes. The Company qualifies as a 'securitisation company' within the scope of the Taxation of Securitisation Companies Regulations 2006 under UK tax law.

## Amounts owed to group undertakings

Amounts owed to group undertakings are repayable on demand and are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost.

## Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve. Where a share capital reduction has taken place, shares are classified at their re nominalisation value.

## Issue costs and arrangement fees

Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instrument not been issued. These are accounted for as a deduction from the fair value of consideration received and amortised using the effective interest method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred.

## Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company does not currently designate the derivatives held by the Company in a hedge relationship, but rather they are hedge accounted for at the SP Group level. Derivatives are classified based on their maturity.

Changes in the fair value of derivatives not in a hedge relationship are recognised through profit or loss..

Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group') are transferred at fair value prevailing on that date.

## Accounting for changes in credit risk

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Company's derivatives is updated quarterly based on current market data. The back-to-back derivatives carry the same credit risk adjustment as the associated external derivatives.

## Heathrow Funding Limited

**Accounting policies** for the year ended 31 December 2016 *continued*

### **Classification of financial instruments issued by the Company**

In accordance with FRS 102, Section 22: *Liabilities and Equity*, financial instruments issued by the Company are treated as a liability only to the extent that they meet the following two conditions:

- (a) they include contractual obligation to deliver cash or another financial asset; or
- (b) they include a contract that will or may be settled in the entity's own equity instruments and:
  - under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

To the extent that this definition is met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for stated capital and share premium reserve exclude amounts in relation to those shares. Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

Finance payments associated with financial instruments that are classified as part of shareholder's funds are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

As permitted by FRS 102, the Company has chosen to apply the classification provisions of International Accounting Standard ('IAS') 39 'Financial Instruments: Classification of financial assets and Classification of financial liabilities', as endorsed by the European Union ('EU'). As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102.

### **Cash flow statement and related party transactions**

The ultimate parent entity is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2016. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2016 (immediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of Heathrow Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2016. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement and from disclosing related party transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group under the terms of accounting standard FRS 102 (1.12 (b) and (e)).

## **Heathrow Funding Limited**

**Significant estimates and judgments** for the year ended 31 December 2016

### **Key sources of estimation uncertainty**

#### **Fair value of derivative financial instruments**

The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives.

# Heathrow Funding Limited

## Notes to the financial statements for the year ended 31 December 2016

### 1 Operating costs

#### Auditor's fee

Audit fees are recharged in accordance with the Shared Service Agreement ('SSA') into the operating entities. The Company is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditor received £21,000 (2015: £20,000) as remuneration for the audit of the Company's financial statements.

#### Employee information

The Company has no employees (2015: nil).

#### Directors' remuneration

An amount was paid to Sanne Group (UK) Limited (a related party due to their ability to appoint a director), for directors' services totalling £5,000 for the year ended 31 December 2016 (2015: £5,000). This payment is made annually for the services of Beejadhursingh Surnam (2015: Jason Bingham), an independent UK-resident director provided by Sanne Group (UK) Limited as a director of Heathrow Funding Limited, in line with the existing Issuer Corporate Agreements between the companies. In addition to this, £6,450 (2015: £6,568) was paid to Sanne Fiduciary Services Limited by various entities in the Heathrow Airport Holdings Group for registered office and company secretary services.

Javier Echave and Michael Uzielli were directors of a number of companies within the Heathrow Airport Holdings Group during the year. Their remuneration for the year ended 31 December 2016 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided. Andrew Efiang and David Williamson were directors of a number of companies within the Heathrow Airport Holdings Group during the year. They were paid by, but are not directors of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies within the Heathrow Airport Holdings Group based on services provided.

During the year, none of the directors (2015: none) had retirement benefits accruing to them under a defined benefit scheme and three of the directors (2015: three) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2015: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2015: none) were received or became receivable under long term incentive plans.

### 2 Financing

#### (a) Net finance costs before certain re-measurements

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
<b>Finance income</b>		
Interest receivable from group undertakings	642	565
Interest receivable on derivatives	377	389
	<b>1,019</b>	<b>954</b>
<b>Finance costs</b>		
Interest payable on external borrowings	(625)	(597)
Interest payable on derivatives	(414)	(383)
	<b>(1,039)</b>	<b>(980)</b>
<b>Net finance costs before certain re-measurements</b>	<b>(20)</b>	<b>(26)</b>

#### (b) Fair value (loss)/gain on financial instruments

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Index-linked swaps with external counterparties	(436)	87
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited	350	(43)
Cross-currency swaps with external counterparties and retranslation of foreign currency debt	36	1
Interest rate swaps with external counterparties	(126)	35
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited	124	(41)
<b>Fair value (loss)/gain on financial instruments</b>	<b>(52)</b>	<b>39</b>
<b>Net finance (costs)/income</b>	<b>(72)</b>	<b>13</b>



# Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2016 *continued*

## 3 Taxation

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
<b>Current tax</b>		
UK corporation tax on profit/(loss) for the year	-	-
Tax charge for the year	-	-

### Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 20% (2015: 20.25%). The actual tax charge for the current and prior year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
(Loss)/profit on ordinary activities before tax	(72)	13
Tax (credit)/charge on (loss)/profit on ordinary activities at 20% (2015: 20.25%)	(14)	3
Effect of:		
Income not assessable for tax purposes	-	(3)
Expenses not deductible for tax purposes	14	-
Tax charge for the year	-	-

Whilst the Company is incorporated outside the UK, it is treated as a UK resident company for tax purposes. As the Company qualifies as a 'securitisation company' within the scope of the Taxation of Securitisation Companies Regulations 2006, it is subject to UK corporation tax on a small margin rather than the profit/(loss) shown in the statement of comprehensive income.

For the year ended 31 December 2016, the losses subject to corporation tax were £995 (2015: £20,000 profit), which did not give rise to a liability (2015: £4,050 liability). In line with the regulations on the taxation of securitisation companies, the shortfall of losses against expected profit has been carried forward to be taxed in a subsequent period. No prior year adjustment arose in the year (2015: £nil).

## 4 Trade and other receivables

	31 December 2016 £m	31 December 2015 £m
<b>Non-current</b>		
Derivative financial instruments (Note 7)	1,762	767
Amount owed by group undertakings – interest bearing <sup>2</sup>	11,151	11,240
	12,913	12,007
<b>Current</b>		
Interest receivable from group undertakings <sup>1</sup>	184	187
Amounts owed by group undertakings – interest bearing <sup>2</sup>	856	739
Derivative financial instruments (Note 7)	78	-
	1,118	926
	14,031	12,933

<sup>1</sup> "Interest receivable from group undertakings" relates to interest accrued on the BLAs receivable from Heathrow Airport Limited ("Heathrow").

<sup>2</sup> "Amounts owed by group undertakings - interest bearing" largely represent the balance of the BLAs receivable from Heathrow. 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 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 under the BLAs.

# Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2016 *continued*

## 5 Trade and other payables

	<i>Note</i>	31 December 2016 £m	31 December 2015 £m
<b>Non-current liabilities</b>			
Borrowings	6	11,457	10,751
Derivative financial instruments	7	1,419	1,109
		<b>12,876</b>	<b>11,860</b>
<b>Current liabilities</b>			
Amounts owed to group undertakings – non-interest bearing <sup>1</sup>		-	3
Borrowings	6	1,178	931
Derivative financial instruments	7	-	90
		<b>1,178</b>	<b>1,024</b>
		<b>14,054</b>	<b>12,884</b>

<sup>1</sup> "Amounts owed to group undertakings - non-interest bearing" relate largely to the prepayment of accretion received from Heathrow in relation to a number of BLAs.

# Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2016 *continued*

## 6 Borrowings

	31 December 2016 £m	31 December 2015 £m
<b>Current</b>		
<b>Secured</b>		
Bonds		
12.450% £300 million due 2016	-	304
4.125% €500 million due 2016	-	368
4.375% €700 million due 2017	598	-
2.500% CHF400 million due 2017	318	-
	916	672
Interest payable on borrowings	262	259
<b>Total current</b>	<b>1,178</b>	<b>931</b>
<b>Non-current</b>		
<b>Secured</b>		
Bonds		
4.375% €700 million due 2017	-	515
2.500% CHF400 million due 2017	-	271
4.600% €750 million due 2018	627	527
6.250% £400 million due 2018	399	398
4.000% C\$400 million due 2019	240	195
6.000% £400 million due 2020	398	397
9.200% £250 million due 2021	266	270
3.000% C\$450 million due 2021	269	218
4.875% US\$1,000 million due 2021	807	675
1.650%+RPI £180 million due 2022	199	195
1.875% €600 million due 2022	508	437
5.225% £750 million due 2023	669	659
7.125% £600 million due 2024	591	590
0.500% CHF400 million due 2024	318	-
3.250% C\$500 million due 2025	297	241
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	692	691
2.650% NOK1,000 million due 2027	93	76
7.075% £200 million due 2028	198	198
2.500% NOK1,000 million due 2029	93	-
1.500% €750 million due 2030	633	545
6.450% £900 million due 2031	849	847
Zero-coupon €50 million due January 2032	52	43
1.366%+RPI £75 million due 2032	79	77
Zero-coupon €50 million due April 2032	52	43
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	46	39
1.061%+RPI £180 million due 2036	183	115
1.382%+RPI £50 million due 2039	53	51
3.334%+RPI £460 million due 2039	587	576
1.238%+RPI £100 million due 2040	103	101
5.875% £750 million due 2041	738	738
4.625% £750 million due 2046	742	741
1.372%+RPI £75 million due 2049	79	77
2.750% £400 million due 2049	392	-
<b>Total non-current</b>	<b>11,457</b>	<b>10,751</b>
<b>Total borrowings</b>	<b>12,635</b>	<b>11,682</b>
<b>Total borrowings (excluding interest payable)</b>	<b>12,373</b>	<b>11,423</b>

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 Heathrow Funding Limited. 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, 7.125% £600 million due 2024, 4.221% £155 million due 2026 and 1.061%+RPI £180 million due 2036 bonds, wherein the redemption dates coincide with their legal maturity dates.

# Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2016 *continued*

## 6 Borrowings *continued*

### Fair value of borrowings

	31 December 2016		31 December 2015	
	Book value £m	Fair value <sup>1</sup> £m	Book value £m	Fair value <sup>1</sup> £m
<b>Current</b>				
Bonds	916	919	672	688
<b>Non-current</b>				
Bonds	11,457	14,260	10,751	12,556
	<b>12,373</b>	<b>15,179</b>	<b>11,423</b>	<b>13,244</b>

<sup>1</sup> Fair values of borrowings are for disclosure purposes only.

The fair values of listed borrowings are based on quoted prices at reporting date. For unlisted borrowings, the Company establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data.

The Company has given Deutsche Trustee Company Limited (the 'Bond Trustee') a covenant to pay and discharge, when due, to each of the Issuer Secured Creditors (including Bondholders) all Issuer Secured Liabilities (including all amounts due under the Bonds). The Bond Trustee holds the benefit of that covenant on trust for itself and the Issuer Secured Creditors. The Company has also granted security to the Bond Trustee (for itself and as trustee for the Issuer Secured Creditors) over its property, assets, undertakings and rights to secure the covenant to pay and discharge the Issuer Secured Liabilities.

All borrowings issued by the Company are on-lent to Heathrow Airport Limited under the BLAs. The advances under the BLAs are issued on substantially the same terms as the new bonds issued by the Company, taking into consideration the related hedging instruments. Foreign currency bonds and the related cross-currency swaps are packaged together and on-lent to Heathrow Airport Limited.

## 7 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
<b>31 December 2016</b>				
<b>Current</b>				
<i>Cross-currency swaps:</i>				
with counterparties external to the SP Group	856	78	-	78
	<b>856</b>	<b>78</b>	<b>-</b>	<b>78</b>
<b>Non-current</b>				
<i>Cross-currency swaps:</i>				
with counterparties external to the SP Group	3,442	658	(9)	649
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,006	552	-	552
with counterparties external to the SP Group	2,913	-	(531)	(531)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,981	534	-	534
with counterparties external to the SP Group	5,116	18	(879)	(861)
	<b>18,458</b>	<b>1,762</b>	<b>(1,419)</b>	<b>343</b>
<b>Total derivative financial instruments</b>	<b>19,314</b>	<b>1,840</b>	<b>(1,419)</b>	<b>421</b>

# Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2016 *continued*

## 7 Derivative financial instruments *continued*

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2015				
Current				
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited				
with counterparties external to the SP Group	300	-	(30)	(30)
<i>Cross-currency swaps:</i>				
with counterparties external to the SP Group	434	-	(60)	(60)
	734	-	(90)	(90)
Non-current				
<i>Cross-currency swaps:</i>				
With counterparties external to the SP Group	3,930	156	(190)	(34)
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	2,913	404	-	404
with counterparties external to the SP Group	2,913	-	(404)	(404)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,523	188	(8)	180
With counterparties external to the SP Group	5,116	19	(507)	(488)
	18,395	767	(1,109)	(342)
Total derivative financial instruments	19,129	767	(1,199)	(432)

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 on its foreign currency-denominated bond issues.

### Index-linked swaps

Index-linked swaps have been entered into to economically hedge RPI linked revenue and regulatory asset base of Heathrow Airport Limited.

### Interest rate swaps

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

### Back-to-back derivatives

All interest rate swaps and a large proportion of the index-linked swap portfolio are passed on to Heathrow Airport Limited as back-to-back derivatives.

## 8 Stated capital

	£
Authorised	
At 1 January and 31 December 2016	
Unlimited number of shares with no par value of one class, designated as ordinary shares	-
Called up, allotted and fully paid	
At 1 January and 31 December 2016	
2 no par value ordinary shares of £1 each	2

## 9 Retained earnings

	£m
1 January 2016	49
Loss for the year	(72)
31 December 2016	(23)

## Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2016 *continued*

### 10 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow (SP) Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of the Government of Singapore Investment Corporation), Alinda Airports UK L.P. and Alinda Airports L.P. (11.18%) (investment vehicles managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2016, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2016.

Copies of the financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited and Heathrow Airport Holdings Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.