

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2015

Unaudited

Heathrow Funding Limited

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Heathrow Funding Limited

Interim management report

Principal activities

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

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.

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 Heathrow Airport Holdings 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.

Between 2012 and 2015 the Financial Reporting Council revised financial reporting standards for the United Kingdom and Republic of Ireland. The revision fundamentally reformed financial reporting, replacing almost all previous United Kingdom accounting standards. Under Financial Reporting Standard ('FRS') 100 'Application of Financial Reporting Requirements' the Company has elected to apply FRS 102 when it prepares its annual financial statements for the year ended 31 December 2015. The transition date from the previous United Kingdom accounting standards to FRS 102 was 1 January 2014. These condensed financial statements for the six months ended 30 June 2015 have been prepared under FRS 104 'Interim Financial Reporting'. An explanation of how the transition affected the previously reported financial position, financial performance and cash flows of the Company has been disclosed in Note 10 to the condensed financial statements.

In the six months ended 30 June 2015, net interest receivable from group undertakings was £267 million (six months ended 30 June 2014: £346 million; year ended 31 December 2014: £666 million). Gross interest receivable from group undertakings decreased £80 million to £315 million (six months ended 30 June 2014: £395 million; year ended 31 December 2014: £771 million). Interest receivable relates to interest due from Heathrow Airport Limited on the BLAs. The reduction in interest receivable from group undertakings is predominantly explained by a £72m decrease in accretion recognised on index linked swaps held by Heathrow Funding Limited, reducing the interest receivable on the BLAs with Heathrow Airport Limited.

Interest payable to group undertakings of £48 million (six months ended 30 June 2014: £49 million; year ended 31 December 2014: £105 million), relates to interest payable on back-to-back derivative financial instruments with Heathrow Airport Limited.

Interest payable on external borrowings was £292 million (six months ended 30 June 2014: £308 million; year ended 31 December 2014: £620 million). Interest payable has decreased due to the issuance of new debt at lower interest rates replacing higher rate debt which matured during the period, together with lower bond accretion expense incurred.

The fair value loss on financial instruments was £63 million (six months ended 30 June 2014: £49 million gain; year ended 31 December 2014: £97 million gain). The fair value loss was principally due to the impact on the mark-to-market value of cross-currency swaps and index-linked swaps. Cross-currency swaps were negatively impacted by higher implied future US\$ and Euro interest rates in the last six months. Index-linked swaps were negatively impacted by higher implied future inflation rates at 30 June 2015 compared with 31 December 2014.

The Company continues to focus on optimising the SP Group's long-term cost of debt as well as building further duration, diversification and resilience into its debt financing.

Since the start of 2015 the Company has raised over £0.9 billion in long-term debt. In February 2015, a €750 million, 15 year public bond with a fixed rate coupon of 1.5% was issued, significantly extending its maturity profile in the Euro market. In May 2015, a C\$500 million, 10 year public bond with a fixed rate coupon of 3.25% was issued, deepening the Company's presence in the Canadian market. A transaction for NOK1 billion with a 12.5 year maturity and a fixed coupon of 2.65% takes the number of currency markets the Company has accessed to six. In June 2015, a £300 million bond and a US\$500 million (£319 million) bond issued in 2012 matured and were repaid.

Due to the capital market transactions noted above and changes in foreign exchange rates, total borrowings decreased from £11,405 million at 31 December 2014 to £11,388 million at 30 June 2015.

Net derivative liabilities increased from £325 million at 31 December 2014 to £690 million at 30 June 2015. This was mainly attributable to a fall in the net fair value asset of cross-currency swaps, due mainly to the appreciation of sterling against the Euro and Canadian dollar.

Heathrow Funding Limited

Interim management report *continued*

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 2015 was £75 million (six months ended 30 June 2014: £49 million profit; year ended 31 December 2014: £82 million profit). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2014: £nil; year ended 31 December 2014: £nil).

Directors

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

Michael Uzielli	Appointed 9 June 2015
Jose Leo	Resigned 25 March 2015
Andrew Efiog	
David Williamson	Appointed 25 March 2015
Jason Bingham	

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 and financial statements for the year ended 31 December 2014. 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 Heathrow (SP) Limited and Heathrow Airport Holdings Limited consolidated 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



Michael Uzielli
Director

31 July 2015

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 United Kingdom Financial Reporting Standard 104 'Interim Financial Reporting' ('FRS 104'); 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 2015 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



Michael Uzielli

31 July 2015

Heathrow Funding Limited

Condensed statement of income and retained earnings

		Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Unaudited Year ended 31 December 2014 £m
	<i>Note</i>			
Net interest receivable from group undertakings		267	346	666
Interest payable on external borrowings		(292)	(308)	(620)
Net interest receivable/(payable) on derivative financial instruments	1	13	(38)	(61)
Fair value (loss)/gain on financial instruments	2	(63)	49	97
Operating (loss)/profit on ordinary activities before taxation		(75)	49	82
Tax on (loss)/profit on ordinary activities	3	-	-	-
(Loss)/profit after taxation for the financial period		(75)	49	82
Opening retained earnings		36	(46)	(46)
Closing retained earnings		(39)	3	36

Heathrow Funding Limited

Condensed balance sheet

	<i>Note</i>	Unaudited 30 June 2015 £m	Unaudited 31 December 2014 £m
Current assets			
Debtors (due after more than one year £12,308m (31 December 2014: £11,876m))	4	12,709	12,683
Total current assets		12,709	12,683
Current liabilities			
Creditors: amounts falling due within one year	5	(544)	(878)
Net current assets		12,165	11,805
Creditors: amounts falling due after more than one year	6	(12,204)	(11,769)
Net (liabilities)/assets¹		(39)	36
Capital and reserves			
Stated capital		-	-
Profit and loss reserve		(39)	36
Total shareholder's (deficit)/funds		(39)	36

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 re-measured 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 31 July 2015. They were signed on its behalf by:



Michael Uzielli
Director



Andrew Efiang
Director

Heathrow Funding Limited

Condensed summary cash flow statement

	Unaudited Six months ended 30 June 2015 £m	Restated ¹ Unaudited Six months ended 30 June 2014 £m	Restated ¹ Unaudited Year ended 31 December 2014 £m
(Loss)/profit before tax	(75)	49	82
<i>Adjustments for:</i>			
Fair value loss/(gain) on financial instruments	63	(49)	(97)
Movement in accrued interest on derivative financial instruments	13	27	2
Amortisation of cost, discount and premium on bonds	14	13	24
Amortisation of cost, discount and premium on BLA advances ²	5	(11)	(3)
Decrease/(increase) in interest receivable	-	5	(7)
Decrease in interest payable on borrowings	(48)	(34)	(1)
(Decrease)/increase in amounts owed to group undertakings - non-interest bearing	(4)	-	8
Net increase in amounts owed by group undertakings – interest bearing	(252)	(976)	(733)
Net cash used in operating activities	(284)	(976)	(725)
Financing			
Proceeds from issuance of bonds ³	907	980	1,276
Repayment of bonds	(619)	-	(513)
Net settlement of accretion on index-linked swaps	-	-	(31)
Other financing flows	(4)	(4)	(7)
Net cash from financing activities	284	976	725
Net change in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of period	-	-	-
Cash and cash equivalents at end of period	-	-	-

¹ The presentation of balances for the prior periods has been restated to be consistent with current period disclosures.

² BLA represents the Borrower Loan Agreements between the Company and Heathrow Airport Limited.

³ In the six months ended 30 June 2015, the Company received proceeds of £907 million from bond issuances. This comprised a €750 million 1.5% 15 year bond, a C\$500 million 3.25% 10 year bond and a NOK 1,000 million 2.65% 12.5 year bond.

Heathrow Funding Limited

Accounting policies

Basis of accounting

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 ('UK GAAP')) and the United Kingdom Financial Reporting Standard ('FRS') 104 'Interim Financial Reporting'.

Transition to FRS 102

Between 2012 and 2015 the Financial Reporting Council revised financial reporting standards for the United Kingdom and Republic of Ireland. The revision fundamentally reformed financial reporting, replacing almost all previous accounting standards with the following:

- FRS 100 'Application of Financial Reporting Requirements';
- FRS 101 'Reduced Disclosure Framework';
- FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland';
- FRS 103 'Insurance Contracts';
- FRS 104 'Interim Financial Reporting'; and
- FRS 105 'The Financial Reporting Standard applicable to the Micro-entities Regime'.

Under FRS 100, the Company has elected to apply FRS 102 when it prepares its annual financial statements for the year ended 31 December 2015. The transition date from the previous United Kingdom accounting standards to FRS 102 was 1 January 2014.

The accounting policies adopted in the preparation of these condensed financial statements for the six months ended 30 June 2015 have been consistently applied to the comparative information for the six months ended 30 June 2014 and the year ended 31 December 2014, and in the preparation of an opening FRS 102 balance sheet at 1 January 2014, with the exception of tax accounting for the interim periods which is in accordance with FRS 104.

Under FRS 102, the Company has chosen to apply the recognition and measurement provisions of International Accounting Standard ('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 in FRS 102.

An explanation of how the transition affected the previously reported financial position, financial performance and cash flows of the Company has been disclosed in Note 10 to the condensed financial statements. As the adjustments are unaudited, all balances presented in these condensed financial statements are unaudited except for those relating to the previous accounting standards as at 1 January 2014 and as at, and for the year ended, 31 December 2014.

Basis of preparation

The condensed financial statements do not comprise the Company's accounts for the year ended 31 December 2014. The condensed financial statements should be read in conjunction with the audited 2014 annual report and financial statements.

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.

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

Significant accounting judgements and estimates

In applying the Company's accounting policies management have made judgements and estimates 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 annual report and financial statements for the year ended 31 December 2014.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Net interest receivable/(payable) on derivative financial instruments

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Unaudited Year ended 31 December 2014 £m
Interest receivable on derivatives	184	188	380
Interest payable on derivatives	(171)	(226)	(441)
	13	(38)	(61)

2 Fair value (loss)/gain on financial instruments

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Unaudited Year ended 31 December 2014 £m
Index-linked swaps with external counterparties ¹	(52)	12	26
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	50	8	15
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	(59)	29	53
Interest rate swaps with external counterparties ³	45	(36)	(194)
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	(47)	36	197
	(63)	49	97

¹ A proportion of index-linked swaps entered into by the Company are passed on to Heathrow Airport Limited as back-to-back derivatives. The remaining index-linked swaps are packaged with external bonds and passed on to Heathrow Airport Limited under the Borrower Loan Agreements ('BLA').

² All cross-currency swaps are packaged with external foreign currency bonds and passed on to Heathrow Airport Limited under sterling denominated BLAs.

³ All interest rate swaps entered into by the Company are passed on to Heathrow Airport Limited as back-to-back derivatives.

3 Tax on (loss)/profit on ordinary activities

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Unaudited Year ended 31 December 2014 £m
UK corporation tax			
Current tax on (loss)/profit on ordinary activities	-	-	-

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 on the operating (loss)/profit shown in the condensed statement of income and retained earnings.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

4 Debtors

	Unaudited 30 June 2015 £m	Unaudited 31 December 2014 £m
Due within one year		
Derivative financial instruments (Note 8)	1	3
Interest receivable from group undertakings ¹	186	186
Amounts owed by group undertakings - interest bearing ²	214	618
	401	807
Due after more than one year		
Derivative financial instruments (Note 8)	665	906
Amount owed by group undertakings - interest bearing ²	11,643	10,970
	12,308	11,876
Total debtors	12,709	12,683

¹ Interest receivable from group undertakings relates to interest accrued on the BLAs receivable from Heathrow Airport Limited.

² Amounts owed by group undertakings - interest bearing largely represent 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 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.

5 Creditors: amounts falling due within one year

	Unaudited 30 June 2015 £m	Unaudited 31 December 2014 £m
Amounts owed to group undertakings – non-interest bearing ¹	4	8
Borrowings (Note 7)	512	869
Derivative financial instruments (Note 8)	28	1
	544	878

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

6 Creditors: amounts falling due after more than one year

	Unaudited 30 June 2015 £m	Unaudited 31 December 2014 £m
Borrowings (Note 7)	10,876	10,536
Derivative financial instruments (Note 8)	1,328	1,233
	12,204	11,769

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

7 Borrowings

	Unaudited 30 June 2015 £m	Unaudited 31 December 2014 £m
Amounts falling due within one year		
Secured		
Bonds		
3.000% £300 million due 2015	-	300
2.500% US\$500 million due 2015	-	320
12.450% £300 million due 2016	311	-
	311	620
Interest payable on borrowings	201	249
	512	869
Amounts falling due after more than one year		
Secured		
Bonds		
12.450% £300 million due 2016	-	318
4.125% €500 million due 2016	354	388
4.375% €700 million due 2017	495	542
2.500% CHF400 million due 2017	271	257
4.600% €750 million due 2018	500	545
6.250% £400 million due 2018	398	398
4.000% C\$400 million due 2019	202	219
6.000% £400 million due 2020	397	397
9.200% £250 million due 2021	272	273
3.000% C\$450 million due 2021	226	246
4.875% US\$1,000 million due 2021	632	638
1.650%+RPI £180 million due 2022	193	193
1.875% €600 million due 2022	420	460
5.225% £750 million due 2023	654	649
7.125% £600 million due 2024	590	589
3.250% C\$500 million due 2025	250	-
4.221% £155 million due 2026	154	155
6.750% £700 million due 2026	691	691
2.650% NOK1,000 million due 2027	80	-
7.075% £200 million due 2028	198	198
1.500% €750 million due 2030	523	-
6.450% £900 million due 2031	847	845
Zero-coupon €50 million due January 2032	42	44
1.366%+RPI £75 million due 2032	76	76
Zero-coupon €50 million due April 2032	41	44
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	37	39
1.382%+RPI £50 million due 2039	51	51
3.334%+RPI £460 million due 2039	574	575
1.238%+RPI £100 million due 2040	100	100
5.875% £750 million due 2041	739	738
4.625% £750 million due 2046	743	742
1.372%+RPI £75 million due 2049	76	76
	10,876	10,536
Total borrowings	11,388	11,405

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 dates. 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 and 4.221% £155 million due 2026 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 2015				
Within one year				
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	-	-	-	-
with counterparties external to the SP Group	-	-	-	-
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	-	-	-	-
with counterparties external to the SP Group	300	1	(28)	(27)
	300	1	(28)	(27)
After more than one year				
<i>Cross-currency swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	-	-	-	-
with counterparties external to the SP Group	4,364	65	(353)	(288)
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	1,803	305	-	305
with counterparties external to the SP Group	1,803	-	(305)	(305)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,373	293	-	293
with counterparties external to the SP Group	4,966	2	(670)	(668)
	16,309	665	(1,328)	(663)
	16,609	666	(1,356)	(690)

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2014				
Within one year				
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	100	1	-	1
with counterparties external to the SP Group	100	-	(1)	(1)
<i>Cross-currency swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	-	-	-	-
with counterparties external to the SP Group	319	2	-	2
	519	3	(1)	2
After more than one year				
<i>Cross-currency swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	-	-	-	-
with counterparties external to the SP Group	3,447	151	(101)	50
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	1,803	353	-	353
with counterparties external to the SP Group	1,803	-	(349)	(349)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,373	381	-	381
with counterparties external to the SP Group	5,267	21	(783)	(762)
	15,693	906	(1,233)	(327)
	16,212	909	(1,234)	(325)

The Company does not apply hedge accounting 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 bonds.

Interest rate swaps

Interest rate swaps have been entered into to hedge against variability in interest cash flows on existing and future borrowings, or fair value movements in fixed rate borrowings, within the SP Group.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

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 Prices Index, and nominal debt and interest payments.

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.

9 Reconciliation in net debt

Net debt comprises the Company's borrowings excluding interest accruals, net of cash and cash equivalents.

	1 January 2015 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2015 £m
Debt due within one year	620	(619)	311	(1)	311
Debt due after more than one year	10,536	903	(311)	(252)	10,876
Net debt	11,156	284	-	(253)	11,187

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

10 Transition to FRS 102

As stated in the Accounting policies section, the Company has elected to apply FRS 102 when it prepares its annual financial statements for the year ended 31 December 2015. The transition date from the previous United Kingdom accounting standards to FRS 102 was 1 January 2014.

The accounting policies adopted in the preparation of these condensed financial statements for the six months ended 30 June 2015 have been consistently applied to all comparative periods and in the preparation of an opening FRS 102 balance sheet at 1 January 2014, with the exception of tax accounting for the interim periods which is in accordance with FRS 104.

Under FRS 102, the Company has chosen to apply the recognition and measurement provisions of IAS 39, as endorsed by the EU. As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those in FRS 102.

In preparing its opening FRS 102 balance sheet as at 1 January 2014 the Company has adjusted amounts previously reported in its annual report and financial statements. An explanation of how the transition to FRS 102 has affected the Company's financial position, financial performance and cash flows has been provided below. As the adjustments are unaudited, all balances presented in these condensed financial statements are unaudited except for those relating to the previous accounting standards as at 1 January 2014 and as at, and for the year ended, 31 December 2014.

Reconciliation of equity

On transition to FRS 102, the Company has reclassified interest accruals. Under FRS 102, this is included within 'Borrowings: amounts falling due within one year', and not separately within 'Creditors: amounts falling due within one year' under the previous United Kingdom accounting standards. At 1 January 2014 this resulted in a reclassification of £250 million. The reclassification at 30 June 2014 and 31 December 2014 was £216 million and £249 million respectively. However, this did not impact the overall balance reported for 'Creditors: amounts falling due within one year'.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

10 Transition to FRS 102 *continued*

Reconciliation of equity *continued*

The balance sheet at 1 January 2014 under both FRS 102 and the previous United Kingdom accounting standards was as follows.

	Unaudited 1 January 2014 £m
Current assets	
Debtors (due after more than one year £11,057m)	11,868
Total current assets	11,868
Current liabilities	
Creditors: amounts falling due within one year	(866)
Net current assets	11,002
Creditors: amounts falling due after more than one year	(11,048)
Net liabilities	(46)
Capital and reserves	
Stated capital	-
Profit and loss reserve	(46)
Total shareholder's deficit	(46)

Reconciliation of profit and loss

For the six months ended 30 June 2014 and the year ended 31 December 2014 there was no difference between the profit reported in accordance with the previous United Kingdom accounting standards and the profit reported in accordance with FRS 102.

Statement of cash flows

The Company's underlying cash position has been unaffected by the transition to FRS 102.

Registered office

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