

**Heathrow Funding Limited**  
**Interim report and condensed financial statements**  
**for the six months ended 30 June 2016**

**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 in sterling under the BLAs.

In the six months ended 30 June 2016, net interest receivable from group undertakings was £262 million (six months ended 30 June 2015: £267 million; year ended 31 December 2015: £565 million). Gross interest receivable from group undertakings increased £12 million to £327 million (six months ended 30 June 2015: £315 million; year ended 31 December 2015: £649 million). Interest receivable relates to interest due from Heathrow Airport Limited on the BLAs and back-to-back derivatives. The increase in interest receivable from group undertakings is predominantly due to £23m increase in accretion recognised on index linked swaps held by Heathrow Funding Limited, increasing the interest receivable on the BLAs with Heathrow Airport Limited. Gross interest payable to group undertakings of £65 million (six months ended 30 June 2015: £48 million; year ended 31 December 2015: £84 million), relates to interest payable on back-to-back derivative financial instruments with Heathrow Airport Limited.

Interest payable on external borrowings was £304 million (six months ended 30 June 2015: £292 million; year ended 31 December 2015: £597 million). Interest payable has increased due to higher level of debt at lower interest rates replacing higher rate debt which matured during the period, together with slightly higher bond accretion expense incurred.

The fair value gain on financial instruments was £113 million (six months ended 30 June 2015: £63 million loss; year ended 31 December 2015: £39 million gain). The fair value gain was principally due to the impact on the mark-to-market value of cross-currency swaps and index-linked swaps. Cross-currency swaps were positively impacted by lower 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 2016 compared with 31 December 2015.

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.

In the first half of 2016 the Company raised nearly £350 million in long-term debt principally through a CHF400 million, 8 year Class A public bond with a fixed rate coupon of 0.5% that was issued in January 2016 and consolidates Heathrow's position in the Swiss franc bond market after an absence of 4 years. The other financing completed in the first half of 2016 was a £65 million tap of a Class B index-linked bond maturing in 2036. Since the end of June, a £400 million long dated public bond with a fixed rate coupon of 2.75% was issued, due to mature August 2049. A transaction for NOK1 billion Class A private placement has also been issued which will be drawn in December 2016, has a fixed coupon of 2.50% and matures in 2029. In March 2016 and October 2016, £300 million and €500 million (£434 million) bonds matured and were repaid.

Due to the capital market transactions noted above and changes in foreign exchange rates, total borrowings increased from £11,682 million at 31 December 2015 to £12,307 million at 30 June 2016.

The valuation of derivatives has shifted from a net derivative liability of £432 million at 31 December 2015 to a net derivative asset of £316 million at 30 June 2016. This positive movement was mainly attributable to an increase in the fair value of cross currency swaps, impacted by a 10-15% devaluation of sterling against each of the issuance currencies not being offset by a change to the amortised carrying value of the related debt.

# Heathrow Funding Limited

## Interim management report *continued*

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

### Results and dividends

The profit after taxation for the six months ended 30 June 2016 was £75 million (six months ended 30 June 2015: £75 million loss; year ended 31 December 2015: £13 million profit). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2015: £nil; year ended 31 December 2015: £nil).

### Directors


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

Javier Echave	Appointed 17 May 2016
Andrew Eflong	
Jason Bingham	Resigned 1 April 2016
Beejadhursingh Surnam	Appointed 1 April 2016
Michael Uzielli	Resigned 17 May 2016
David Williamson	

### 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 2015. 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



**David Williamson**  
Director

30 November 2016

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 2016 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



**David Williamson**

30 November 2016

# Heathrow Funding Limited

## Condensed income statement

		Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Unaudited Year ended 31 December 2015 £m
<b>Financing</b>				
Finance income	1	453	451	954
Finance cost	2	(491)	(463)	(980)
Fair value gain/(loss) on financial instruments	3	113	(63)	39
<b>Profit/(loss) before tax</b>		<b>75</b>	<b>(75)</b>	<b>13</b>
<b>Profit/(loss) for the period</b>		<b>75</b>	<b>(75)</b>	<b>13</b>
Opening retained earnings		49	36	36
<b>Closing retained earnings</b>		<b>124</b>	<b>(39)</b>	<b>49</b>

# Heathrow Funding Limited

## Condensed statement of financial position

	Note	Unaudited 30 June 2016 £m	Unaudited 31 December 2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Trade and other receivables	5	12,177	12,007
<b>Current assets</b>			
Trade and other receivables	5	1,484	926
<b>Total assets</b>		<b>13,661</b>	<b>12,933</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	6	(12,018)	(11,860)
<b>Current liabilities</b>			
Trade and other payables	6	(1,519)	(1,024)
<b>Total liabilities</b>		<b>(13,547)</b>	<b>(12,884)</b>
<b>Net assets<sup>1</sup></b>		<b>124</b>	<b>49</b>
<b>Capital and reserves</b>			
Shared capital		-	-
Retained earnings		124	49
<b>Total shareholder's equity</b>		<b>124</b>	<b>49</b>

<sup>1</sup> Net 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 30 November 2016. They were signed on its behalf by:



David Williamson  
Director



Andrew Efiog  
Director

# Heathrow Funding Limited

## Condensed cash flow statement

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Unaudited Year ended 31 December 2015 £m
Profit/(loss) before tax	75	(75)	13
<i>Adjustments for:</i>			
Fair value (gain)/loss on financial instruments	(113)	63	(39)
Movement in accrued interest on derivative financial instruments	35	13	(18)
Amortisation of cost, discount and premium on bonds	11	14	13
Amortisation of cost, discount and premium on BLA advances <sup>1</sup>	10	5	17
Decrease/(increase) in interest receivable	35	-	(1)
(Decrease)/increase in interest payable on borrowings	(54)	(48)	10
(Decrease)/increase in amounts owed to group undertakings - non-interest bearing	-	(4)	5
Net decrease/(increase) in amounts owed by group undertakings – interest bearing	29	(252)	(379)
<b>Net cash from/(used in) operating activities</b>	<b>28</b>	<b>(284)</b>	<b>(379)</b>
<b>Financing</b>			
Proceeds from issuance of bonds <sup>2</sup>	344	907	1,022
Repayment of bonds	(300)	(619)	(619)
Net settlement of accretion on index-linked swaps	(71)	-	(19)
Swap restructuring	20	-	-
Back-back derivatives with HAL	(20)	-	-
Other financing flows	(1)	(4)	(5)
<b>Net cash (used in)/from financing activities</b>	<b>(28)</b>	<b>284</b>	<b>379</b>
<b>Net change in cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> BLA represents the Borrower Loan Agreements between the Company and Heathrow Airport Limited.

<sup>2</sup> In the six months ended 30 June 2016, the Company received proceeds of £344 million from bond issuances. This comprised a CHF400 million 0.5% 8 year Class A bond and a £65 million tap of the existing RPI+1.061% 21 year Class B 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'.

The accounting policies adopted in the preparation of these condensed financial statements for the six months ended 30 June 2016 have been consistently applied to the comparative information for the six months ended 30 June 2015 and the year ended 31 December 2015, 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.

### Basis of preparation

The condensed financial statements should be read in conjunction with the audited 2015 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

## **Heathrow Funding Limited**

### **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 2015.

# Heathrow Funding Limited

## Notes to the condensed financial statements

### 1 Finance income

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Unaudited Year ended 31 December 2015 £m
Interest receivable on derivatives	191	184	389
Net interest receivable from group undertakings	262	267	565
	453	451	954

### 2 Finance cost

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Unaudited Year ended 31 December 2015 £m
Interest payable on external borrowings	(304)	(292)	(597)
Interest payable on derivatives	(187)	(171)	(383)
	(491)	(463)	(980)

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

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Unaudited Year ended 31 December 2015 £m
Index-linked swaps with external counterparties <sup>1</sup>	(112)	(52)	87
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited <sup>1</sup>	88	50	(43)
Cross-currency swaps with external counterparties and retranslation of foreign currency debt <sup>2</sup>	136	(59)	1
Interest rate swaps with external counterparties <sup>3</sup>	(206)	45	35
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited <sup>3</sup>	207	(47)	(41)
	113	(63)	39

<sup>1</sup> 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').

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

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

### 4 Taxation

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Unaudited Year ended 31 December 2015 £m
<b>UK corporation tax</b>			
Current tax on profit/(loss) 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 profit/(loss) shown in the condensed statement of income and retained earnings.