

**Heathrow Funding Limited**  
**Interim report and condensed financial statements**  
**for the six months ended 30 June 2014**

**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 the subsidiaries of Heathrow (SP) Limited (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 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 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. A proportion of the Company's cross currency swaps are packaged with external non-sterling debt and passed through to Heathrow Airport Limited under BLAs. The remaining cross currency swaps are held by the Company.

In the six months ended 30 June 2014, net interest receivable from group undertakings was £346 million (six months ended 30 June 2013: £339 million; year ended 31 December 2013: £666 million). Gross interest receivable from group undertakings increased £8 million to £395 million (six months ended 30 June 2013: £386 million; year ended 31 December 2013: £764 million). Interest receivable relates to interest due from Heathrow Airport Limited on the BLAs. Interest receivable from group undertakings has not increased in proportion to the intercompany receivable balance due to the timing of the issuance of external bonds in 2014 as a large proportion of these were finalised from May 2014 onwards.

Interest payable to group undertakings increased £2 million to £49 million (six months ended 30 June 2013: £47 million; year ended 31 December 2013: £97 million). Interest payable to group undertakings relates to interest payable on back to back derivative financial instruments with Heathrow Airport Limited.

Interest payable on external borrowings was £308 million (six months ended 30 June 2013: £309 million; year ended 31 December 2013: £618 million). Interest payable has not moved in line with the increase in external debt as a large proportion of this debt was issued from May 2014 onwards. Additionally some debt has been repaid over the past year and replaced with debt at lower interest rates.

The non-cash fair value gain on financial instruments was £49 million (six months ended 30 June 2013: £101 million loss; year ended 31 December 2013: £101 million loss). The fair value gain was principally due to the impact on the mark-to-market value of index-linked swaps and cross-currency swaps. Index-linked swaps were positively impacted by lower implied future inflation rates since December 2013. Cross-currency swaps were positively impacted by lower implied future US\$ and Euro interest rates since 31 December 2013.

The current focus of the Company's financing activities is to take advantage of attractive financing market conditions to optimise the Company's long-term cost of debt and extend its debt maturity profile. Since the beginning of 2014, the Company has successfully closed eight debt financing transactions, all but one in Class A format and raising nearly £1 billion.

Two public offerings raised close to £750 million in the European and Canadian markets. This comprised a €600 million, 8 year bond with a fixed annual coupon of 1.875% in May and a C\$450 million, 7 year bond with a fixed semi-annual coupon of 3.0% in June. The Company also completed two private placements prior to 30 June 2014, raising an aggregate of £250 million. These included £200 million of index-linked bonds, with three tranches maturing in 2032, 2039 and 2049 at a weighted average cost of RPI+1.37%, and a £50 million private placement with a 4.17% annual coupon.

Due to the capital market transactions noted above and changes in foreign exchange rates, net borrowings increased from £10,565 million at 31 December 2013 to £11,422 million at 30 June 2014.

Net derivative liabilities increased from £186 million at 31 December 2013 to £339 million at 30 June 2014. This was mainly attributable to a fall in the net fair value asset of cross currency swaps and an increase in the net fair value liability relating to index-linked swaps.

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 2014 was £49 million (six months ended 30 June 2013: £107 million loss; year ended 31 December 2013: £116 million loss). No ordinary dividends were proposed or paid during the period (2013: £nil).

# Heathrow Funding Limited

## Interim management report *continued*

### Directors

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

Andrew Efiang  
José Leo  
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 for the year ended 31 December 2013. 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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

**José Leo**  
Director

27 August 2014

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.

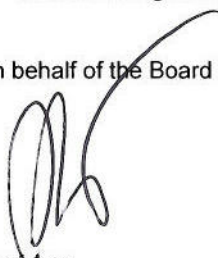
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding 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 Accounting Standards Board's Statement: 'Half-Yearly Financial Reports'; and
- the Interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R namely, an indication of important events that have occurred during the six months ended 30 June 2014 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



**Jose Leo**  
Director

27 August 2014

# Heathrow Funding Limited

## Condensed profit and loss account

		Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
	Note			
Net interest receivable from group undertakings		346	339	666
Net interest payable on external borrowings		(308)	(309)	(618)
Net interest payable on derivative financial instruments	1	(38)	(36)	(63)
Fair value gain/(loss) on financial instruments	2	49	(101)	(101)
<b>Operating profit/(loss) on ordinary activities before taxation</b>		<b>49</b>	<b>(107)</b>	<b>(116)</b>
Tax on profit/(loss) on ordinary activities	3	-	-	-
<b>Profit/(loss) after taxation for the financial period</b>		<b>49</b>	<b>(107)</b>	<b>(116)</b>

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

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

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

# Heathrow Funding Limited

## Condensed balance sheet

	Note	Unaudited 30 June 2014 £m	Audited 31 December 2013 £m
<b>Current assets</b>			
Debtors (due after more than one year £11,458m (31 December 2013: £11,057m))	4	12,871	11,868
<b>Total current assets</b>		<b>12,871</b>	<b>11,868</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	(1,433)	(866)
<b>Net current assets</b>		<b>11,438</b>	<b>11,002</b>
Creditors: amounts falling due after more than one year	6	(11,435)	(11,048)
<b>Net assets/(liabilities)<sup>1</sup></b>		<b>3</b>	<b>(46)</b>
<b>Capital and reserves</b>			
Stated capital		-	-
Profit and loss reserve		3	(46)
<b>Total shareholder's funds/(deficit)</b>		<b>3</b>	<b>(46)</b>

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

The condensed financial statements of Heathrow Funding Limited (Company registration number: 99529 (Jersey)) were approved by the Board of Directors and authorised for issue on 27 August 2014. They were signed on its behalf by:



**José Leo**  
Director



**Andrew Efiog**  
Director

# Heathrow Funding Limited

## Condensed summary cash flow statement

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Operating profit/(loss)	49	(107)	(116)
<i>Adjustments for:</i>			
Fair value (gain)/loss on financial instruments	(49)	101	101
Movement in accrued interest on derivative financial instruments	27	12	(2)
Amortisation of cost, discount and premium on bonds	13	14	29
Amortisation of cost, discount and premium on BLA advances <sup>1</sup>	(11)	(9)	(17)
Decrease in interest receivable	5	25	2
(Decrease)/increase in interest payable on borrowings	(34)	(35)	4
Decrease in other debtors	-	-	1
Decrease in amounts owed to group undertakings - non-interest bearing	-	(2)	(2)
Net (increase)/decrease in amounts owed by group undertakings – interest bearing	(976)	125	(149)
<b>Net cash (outflow)/inflow from operating activities before financing</b>	<b>(976)</b>	<b>124</b>	<b>(149)</b>
<b>Financing</b>			
Net proceeds from issuance of bonds <sup>2</sup>	976	-	742
Repayment of bonds	-	-	(396)
Net settlement of accretion on index-linked swaps	-	(136)	(177)
Other financing flows	-	12	(20)
<b>Net movement in cash</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 2014, the Company received proceeds of £976 million net of transaction costs. Two public offerings raised gross proceeds of close to £750 million in the European and Canadian markets. This comprised a €600 million eight year bond and a C\$450 million 7 year bond. Private placements raised gross proceeds of £250 million. This comprised £200 million of index-linked bonds, with three tranches maturing in 2032, 2039 and 2049, and a £50 million twenty year bond.

## Reconciliation to net debt

		Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
<b>Net debt at 1 January</b>	Note 9	<b>(10,565)</b>	<b>(10,147)</b>	<b>(10,147)</b>
Movement in external borrowings		(976)	-	(346)
Amortisation and fair value adjustments		132	(211)	(40)
Other non-cash changes		(13)	(17)	(32)
<b>Net debt at end of period</b>	9	<b>(11,422)</b>	<b>(10,375)</b>	<b>(10,565)</b>



# Heathrow Funding Limited

## Accounting policies

The financial information set out herein does not constitute the Company's statutory financial statements for the year ended 31 December 2013 or any other period. The balances for the six months ended 30 June 2014 and six months ended 30 June 2013 have not been audited or reviewed by the auditors. The financial information should be read in conjunction with the 2013 audited statutory financial statements.

### Basis of preparation

The condensed financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments in accordance with Companies (Jersey) Law 1991, applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the United Kingdom Accounting Standards Board's Statement: 'Half-Yearly Financial Reports'. The accounting policies adopted in the preparation of the condensed financial statements are consistent with those applied by the Company in its audited financial statements for the year ended 31 December 2013 with the exception of tax accounting which is in accordance with the United Kingdom Accounting Standards Board's Statement: 'Half-Yearly Financial Reports'.

### 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.

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

### Significant accounting judgements and estimates

In applying the Company's accounting policies management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated. The significant accounting judgements and estimates applied in the preparation of the condensed financial statements are consistent with those applied by the Company in its audited financial statements for the year ended 31 December 2013.

# Heathrow Funding Limited

## Notes to the condensed financial statements

### 1 Net interest payable on derivative financial instruments

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Interest receivable on derivatives	188	203	391
Interest payable on derivatives	(226)	(239)	(454)
	(38)	(36)	(63)

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

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
Index-linked swaps with external counterparties <sup>1</sup>	12	(185)	(148)
Index-linked swaps as back-to-back derivatives with Heathrow <sup>1</sup>	8	135	120
Cross-currency swaps and retranslation of foreign currency debt <sup>2</sup>	29	(51)	(73)
Interest rate swaps with external counterparties <sup>3</sup>	(36)	112	175
Interest rate swaps as back-to-back derivatives with Heathrow <sup>3</sup>	36	(112)	(175)
	49	(101)	(101)

<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 BLAs.

<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.

### 3 Tax on profit/(loss) on ordinary activities

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Audited Year ended 31 December 2013 £m
<b>Current tax</b>			
UK corporation tax on profit/(loss) for the period	-	-	-

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 profit/(loss) shown in the Profit and loss account.

# Heathrow Funding Limited

## Notes to the condensed financial statements *continued*

### 4 Debtors

	Unaudited 30 June 2014 £m	Audited 31 December 2013 £m
<b>Due within one year</b>		
Derivative financial instruments (Note 8)	114	137
Interest receivable from group undertakings <sup>1</sup>	174	179
Amount owed by group undertakings - interest bearing <sup>2</sup>	1,125	495
	<b>1,413</b>	<b>811</b>
<b>Due after more than one year</b>		
Derivative financial instruments (Note 8)	777	776
Amount owed by group undertakings - interest bearing <sup>2</sup>	10,681	10,281
	<b>11,458</b>	<b>11,057</b>
<b>Total debtors</b>	<b>12,871</b>	<b>11,868</b>

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

<sup>2</sup> Amounts owed by group undertakings - interest bearing largely represent the balance of the BLAs receivable from Heathrow Airport Limited. The advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration certain of 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 2014 £m	Audited 31 December 2013 £m
Interest payable on borrowings	216	250
Borrowings (Note 7)	1,188	614
Derivative financial instruments (Note 8)	29	2
	<b>1,433</b>	<b>866</b>

### 6 Creditors: amounts falling due after more than one year

	Unaudited 30 June 2014 £m	Audited 31 December 2013 £m
Borrowings (Note 7)	10,234	9,951
Derivative financial instruments (Note 8)	1,201	1,097
	<b>11,435</b>	<b>11,048</b>

# Heathrow Funding Limited

## Notes to the condensed financial statements *continued*

### 7 Borrowings

	Unaudited 30 June 2014 £m	Audited 31 December 2013 £m
<b>Current</b>		
<b>Secured</b>		
Bonds		
4.600% €750 million due 2014	597	614
3.000% £300 million due 2015	299	-
2.500% US\$500 million due 2015	292	-
<b>Total current</b>	<b>1,188</b>	<b>614</b>
<b>Non-current</b>		
<b>Secured</b>		
Bonds		
3.000% £300 million due 2015	-	299
2.500% US\$500 million due 2015	-	301
12.450% £300 million due 2016	325	332
4.125% €500 million due 2016	400	415
4.375% €700 million due 2017	559	581
2.500% CHF400 million due 2017	263	271
4.600% €750 million due 2018	557	576
6.250% £400 million due 2018	398	398
4.000% C\$400 million due 2019	217	225
6.000% £400 million due 2020	396	396
9.200% £250 million due 2021	274	276
3.000% C\$450 million due 2021	243	-
4.875% US\$1,000 million due 2021	580	599
1.650% + RPI £180 million due 2022	192	189
1.875% €600 million due 2022	474	-
5.225% £750 million due 2023	645	640
7.125% £600 million due 2024	589	588
6.750% £700 million due 2026	691	691
7.075% £200 million due 2028	198	198
6.450% £900 million due 2031	844	844
Zero-coupon €50 million due January 2032	44	45
1.366%+ RPI £75 million due 2032	76	-
Zero-coupon €50 million due April 2032	44	45
4.171% £50 million due 2034	50	-
1.382%+ RPI £50 million due 2039	50	-
3.334%+ RPI £460 million due 2039	569	562
5.875% £750 million due 2041	738	738
4.625% £750 million due 2046	742	742
1.372%+ RPI £75 million due 2049	76	-
<b>Total non-current</b>	<b>10,234</b>	<b>9,951</b>
<b>Total borrowings</b>	<b>11,422</b>	<b>10,565</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 the Company. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.250% £400 million due 2018, 6.000% £400 million due 2020 and 7.125% £600 million due 2024 bonds, wherein the redemption dates coincide with their legal maturity dates.

# Heathrow Funding Limited

## Notes to the condensed financial statements *continued*

### 8 Derivative financial instruments

	Notional <sup>1</sup> £m	Assets £m	Liabilities £m	Total £m
<b>30 June 2014 - unaudited</b>				
<b>Current</b>				
Cross-currency swaps	832	112	(27)	85
Interest rate swaps <sup>1</sup>	100	2	(2)	-
	<b>932</b>	<b>114</b>	<b>(29)</b>	<b>85</b>
<b>Non-current</b>				
Cross-currency swaps	3,447	91	(88)	3
Interest rate swaps <sup>1</sup>	1,803	189	(189)	-
Index-linked swaps <sup>2</sup>	5,266	497	(924)	(427)
	<b>10,516</b>	<b>777</b>	<b>(1,201)</b>	<b>(424)</b>
	<b>11,448</b>	<b>891</b>	<b>(1,230)</b>	<b>(339)</b>
<b>31 December 2013 - audited</b>				
<b>Current</b>				
Cross-currency swaps	513	135	-	135
Interest-rate swaps <sup>1</sup>	123	2	(2)	-
	<b>636</b>	<b>137</b>	<b>(2)</b>	<b>135</b>
<b>Non-current</b>				
Cross-currency swaps	2,990	146	(72)	74
Interest rate swaps <sup>1</sup>	1,903	162	(162)	-
Index-linked swaps <sup>2</sup>	5,266	468	(863)	(395)
	<b>10,159</b>	<b>776</b>	<b>(1,097)</b>	<b>(321)</b>
	<b>10,795</b>	<b>913</b>	<b>(1,099)</b>	<b>(186)</b>

<sup>1</sup> £1,903 million (2013: £2,026 million) notional value of interest rate swaps relate to back to back derivatives with Heathrow Airport Limited.

<sup>2</sup> £3,373 million (2013: £3,373 million) notional value of index-linked swaps relate to back to back derivatives with Heathrow Airport Limited.

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 bond issues.

#### **Interest rate swaps**

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

#### **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.

### 9 Reconciliation in net debt

	1 January 2014 £m	Issuance of bonds £m	Other non- cash changes <sup>1</sup> £m	30 June 2014 £m
Debt due within one year	(614)	-	(574)	(1,188)
Debt due after more than one year	(9,951)	(976)	693	(10,234)
<b>Net debt</b>	<b>(10,565)</b>	<b>(976)</b>	<b>119</b>	<b>(11,422)</b>

<sup>1</sup> Relates to the reclassifications between short-term and long-term debt, amortisation of issue costs, premiums and discounts, foreign exchange translations of foreign currency debt and accretion accruals.

#### **Registered office**

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