

Heathrow Funding Limited
Annual report and financial statements
for the year ended 31 December 2015

Heathrow Funding Limited

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Heathrow Funding Limited

Officers and professional advisers

Directors

Jason Bingham
Andrew Efiog
Michael Uzielli
David Williamson

Company secretary

Sanne Secretaries Limited

Registered office

13 Castle Street
St Helier
Jersey
JE4 5UT
Channel Islands

Independent auditor

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

Bankers

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

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 2015.

Change to accounting framework

The Financial Reporting Council ('FRC') developed a set of new Financial Reporting Standards ('FRS') applicable for periods beginning on or after 1 January 2015 that provide a number of options for all UK entities. These revised financial reporting standards fundamentally reform financial reporting and are implemented by FRS 100 'Application of Financial Reporting Requirements' ('FRS 100'). FRS 100 sets out the accounting framework options within FRS 101 'Reduced Disclosure Framework' ('FRS 101'), FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' ('FRS 102') or EU-adopted IFRS.

The Company assessed the options available and decided to adopt FRS 102 due to the low level of complexity in its disclosures and that transition to FRS 102 will result in no impact to profit, net assets or shareholder funds.

These are the Company's first financial statements prepared in accordance with FRS 102. The transition date to FRS 102 was 1 January 2014.

The accounting policies disclosed in the Accounting policies section have been applied in preparing these financial statements for the year ended 31 December 2015, the comparative information for the year ended 31 December 2014, and in the preparation of an opening FRS 102 balance sheet at 1 January 2014.

In preparing its opening FRS 102 balance sheet as at 1 January 2014 the Company has reviewed amounts previously reported in its statutory annual report and financial statements. As a result of this evaluation there were no transition amounts identified.

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 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 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 '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.

For the year ended 31 December 2015 interest receivable from group undertakings was £565 million (2014: £666 million) and interest payable on external borrowings was £597 million (2014: £620 million).

Net interest payable on derivative financial instruments decreased from £61 million in 2014 to £6 million receivable in 2015. This was in part due to accretion on index-linked swaps, which was affected by decreases in the inflation rate during 2015.

The non-cash fair value gain on financial instruments was £39 million (2014: £97 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 positively impacted during the period by the fall in inflation expectations compared to the end of 2014. Cross-currency swaps also contributed to the fair value gains in the period mainly due to lower EUR and USD Libor rates partially offset by the negative impact of the appreciation of Sterling against the hedged currencies.

The settlement of £213 million of accretion on index-linked swaps and depreciating GBP against the USD, offset by a decrease in derivative financial asset mainly due to GBP appreciating against the EUR, impacted the valuation of derivatives on the balance sheet, resulted in an increase in net derivative liabilities from £325 million at 31 December 2014 to £432 million at 31 December 2015.

The focus of the Company's financing activities through 2015 was to take advantage of attractive financing market conditions to optimise the Company's long-term cost of debt and extend its debt maturity profile. During 2015, the Company successfully closed four term debt financing transactions, raising £1.0 billion. Taking into account financing raised elsewhere in the Heathrow Airport Holdings Group, over £1.2 billion was raised for Heathrow. Through the year the Company also repaid £619 million of external debt, being a £300 million bond and a \$500 million bond both of which matured in June 2015.

Heathrow Funding Limited

Directors' report *continued*

Three public fixed rate bonds raised close to £900 million, the first of which was issued in February, a €750 million, 15 year bond with a coupon of 1.5% payable annually, successfully extending the Company's maturity profile in the Euro market. In March, a NOK1 billion, 12 year bond with a coupon of 2.65% payable annually. In May, a CAD500 million, 10 year bond was issued with a coupon of 3.25% payable semi-annually, establishing the Company as a repeat issuer in the Canadian bond market. Also a £115 million 21 year Class B index-linked transaction with a cost of RPI+1.061% was drawn in September 2015. Finally, an additional £65 million tap to the Class B index-linked transaction will be drawn in April 2016.

The SP Group has core revolving credit and liquidity facilities totalling £2.15 billion. These facilities will provide strong support over the next few years for Heathrow's investment programme and the Company's extensive capital markets issuance activities. The facilities total £2.15 billion, comprising £1.1 billion Class A, £300 million Class B revolving credit facilities and £750 million in standby liquidity facilities. The revolving credit facilities mature in November 2019 and were secured at substantially lower cost than the facilities they replace.

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

Results and dividends

The profit after taxation for the financial year amounted to £13 million (2014: £82 million profit). No ordinary dividends were proposed or paid during the year (2014: £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:

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

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 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 ('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 Heathrow Airport Holdings Limited are set out in Note 12 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 2015, fixed rate debt after hedging with derivatives represented 96% of the SP Group's total external nominal debt.

Heathrow Funding Limited

Directors' report *continued*

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 an established investment grade financing platform for Heathrow. This 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 Audit Committee, 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 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 March 2017. As at 31 December 2015, cash and cash equivalents and term deposits were £722 million, undrawn headroom under revolving credit facilities was £1,475 million and undrawn headroom under liquidity facilities was £705 million.

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/F2. The 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)/A- (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 87(4)', the auditor will be deemed to be re-appointed and Deloitte LLP will therefore continue in office.

Developments since beginning of 2016

Since the start of 2016, Heathrow has 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%.

On behalf of the Board



Michael Uzielli
Director
18 March 2016

Heathrow Funding Limited

Directors' responsibilities statement

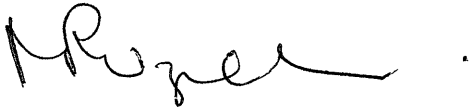
The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

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 Financial reporting standard 102 (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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; 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 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.

On behalf of the Board



Michael Uzielli

Director

18 March 2016

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 2015 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 14. 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 2015 and of its profit 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 and Statutory Auditor
London, UK

16 March 2016

Heathrow Funding Limited

Comprehensive statement of income for the year ended 31 December 2015

| | | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|------|--------------------------------|--------------------------------|
| | Note | £m | £m |
| Interest receivable from group undertakings | | 565 | 666 |
| Interest payable on external borrowings | | (597) | (620) |
| Net interest receivable/(payable) on derivative financial instruments | 2 | 6 | (61) |
| Fair value gain on financial instruments | 3 | 39 | 97 |
| Operating profit on ordinary activities before taxation | | 13 | 82 |
| Tax on profit on ordinary activities | 4 | - | - |
| Profit after taxation for the financial year | 11 | 13 | 82 |

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

Heathrow Funding Limited

Balance sheet as at 31 December 2015

| | Note | 31 December 2015 £m | 31 December 2014 £m |
|---|------|------------------------|------------------------|
| Current assets | | | |
| Debtors – due within one year | 5 | 926 | 807 |
| Debtors – due after one year | 5 | 12,007 | 11,876 |
| Total current assets | | 12,933 | 12,683 |
| Creditors: amounts falling due within one year | 6 | (1,024) | (878) |
| Net current assets | | 11,909 | 11,805 |
| Creditors: amounts falling due after more than one year | 7 | (11,860) | (11,769) |
| Net assets¹ | | 49 | 36 |
| Capital and reserves | | | |
| Share capital | 10 | - | - |
| Profit and loss reserve | 11 | 49 | 36 |
| Total shareholder's funds | | 49 | 36 |

¹ 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 financial statements of Heathrow Funding Limited (Company registration number: 99529 (Jersey)) were approved by the Board of Directors and authorised for issue on 18 March 2016. They were signed on its behalf by:



Michael Uzielli
Director



David Williamson
Director

Heathrow Funding Limited

Statement of changes in equity as at 31 December 2015

| | Profit and loss reserve £m | Total £m |
|-------------------------------|-------------------------------------|-------------|
| At 1 January 2014 | (46) | (46) |
| Profit for the financial year | 82 | 82 |
| Total comprehensive income | 82 | 82 |
| At 31 December 2014 | 36 | 36 |
| Profit for the financial year | 13 | 13 |
| Total comprehensive income | 13 | 13 |
| At 31 December 2015 | 49 | 49 |

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2015 *continued*

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

These financial statements have been prepared and approved by the directors in compliance with Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102) and with the Companies (Jersey) Law 1991. As a Jersey registered Company, Heathrow Funding Limited follows the "Statement of Channel Islands Accounts Practice". 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 FRS 100 and in accordance with FRS 100 has chosen to follow FRS 102.

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 consolidated financial statements are presented in Sterling, which is the Company's functional currency.

Transition to FRS 102

These financial statements were prepared by the directors in accordance with FRS 102 for the first time. The transition date from the previous financial reporting framework to FRS 102 was 1 January 2014. FRS 102 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to FRS 102.

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.

The Company has adopted the following standard and amendment effective for the Company from 1 January 2014 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

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.

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.

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 translated into Sterling 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 balance sheet date. Differences arising on translation are charged or credited to the profit and loss account.

Foreign exchange risk

The Company uses cross-currency swaps to economically hedge the related interest and principal payments of certain borrowings raised in foreign currencies. The exchange difference arising from the translation of borrowings are taken to the profit and loss account together with any changes in the fair value of the hedging instrument.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2015 *continued*

Debtors

Debtors are recognised at cost less any provision for impairment.

Cash

Cash, for the purpose of the summary cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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 rate 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 the Borrower Loan Agreement ('BLA'). The advances under the BLA 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 rate method. The nominal amount of the index-linked advances is accreted for the RPI component recognised within interest receivable 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. As a result, the Company is subject to UK corporation tax on a small margin of £20,000 (2014: £40,000) rather than on the profit or loss shown in the profit and loss account.

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.

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.

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 rate 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 recorded in the income statement.

The net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2015 *continued*

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 Group's derivatives is updated quarterly based on current market data. The back to back carry the same credit risk adjustment as the associated external derivatives.

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 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.

Under 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 2015. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2015 (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 2015. 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

Notes to the financial statements for the year ended 31 December 2015

1 Operating costs

Auditor's remuneration

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 £20,000 (2014: £19,000) as remuneration for the audit of the Company's financial statements.

Employee information

The Company has no employees (2014: 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 2015 (2014: £5,000). This payment is made annually for the services of 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 £7,000 (2014: £9,000) was paid to Sanne Fiduciary Services Limited (previously Sanne Corporate Services Limited) by various entities in the Heathrow Airport Holdings Group for registered office and company secretary services.

José Leo 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 2015 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. 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 (2014: none) had retirement benefits accruing to them under a defined benefit scheme and three of the directors (2014: one) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2014: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2014: none) were received or became receivable under long term incentive plans.

2 Net interest receivable/payable on derivative financial instruments

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|------------------------------------|--------------------------------|--------------------------------|
| | £m | £m |
| Interest receivable on derivatives | 389 | 380 |
| Interest payable on derivatives | (383) | (441) |
| | 6 | (61) |

3 Fair value gain on financial instruments

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|--|--------------------------------|--------------------------------|
| | £m | £m |
| Index-linked swaps with external counterparties | 87 | 26 |
| Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited | (43) | 15 |
| Cross-currency swaps with external counterparties and retranslation of foreign currency debt | 1 | 53 |
| Interest rate swaps with external counterparties | 35 | (194) |
| Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited | (41) | 197 |
| | 39 | 97 |

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

4 Tax on profit on ordinary activities

| | Year ended 31 December 2015 £m | Year ended 31 December 2014 £m |
|--|--------------------------------------|--------------------------------------|
| Current tax | | |
| 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 20.25% (2014: 21.5%). 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 2015 £m | Year ended 31 December 2014 £m |
|---|--------------------------------------|--------------------------------------|
| Profit on ordinary activities before tax | 13 | 82 |
| Tax charge on profit on ordinary activities at 20.25% (2014: 21.5%) | 3 | 18 |
| Effect of: | | |
| Income not assessable for tax purposes | (3) | (18) |
| 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 on the profit/ (loss) shown in the Profit and loss account.

For the year ended 31 December 2015, the profits subject to corporation tax were £20,000 (2014: £40,000) which gave rise to a tax liability of £4,050 (2014: £8,600). No prior year adjustment arose in the year (2014: £4,650).

5 Debtors

| | 31 December 2015 £m | 31 December 2014 £m |
|---|------------------------|------------------------|
| Due within one year: | | |
| Derivative financial instruments (Note 9) | - | 3 |
| Interest receivable from group undertakings ¹ | 187 | 186 |
| Amount owed by group undertakings - interest bearing ² | 739 | 618 |
| | 926 | 807 |
| Due after more than one year: | | |
| Derivative financial instruments (Note 9) | 767 | 906 |
| Amount owed by group undertakings - interest bearing ² | 11,240 | 10,970 |
| | 12,007 | 11,876 |
| Total debtors | 12,933 | 12,683 |

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

² "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 2015 *continued*

6 Creditors: amounts falling due within one year

| | 31 December 2015 | 31 December 2014 |
|--|------------------|------------------|
| | £m | £m |
| Amounts owed to group undertakings - non-interest bearing ¹ | 3 | 8 |
| Borrowings (Note 8) | 931 | 869 |
| Derivative financial instruments (Note 9) | 90 | 1 |
| | 1,024 | 878 |

¹ "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.

7 Creditors: amounts falling due after more than one year

| | 31 December 2015 | 31 December 2014 |
|---|------------------|------------------|
| | £m | £m |
| Borrowings (Note 8) | 10,751 | 10,536 |
| Derivative financial instruments (Note 9) | 1,109 | 1,233 |
| | 11,860 | 11,769 |

8 Borrowings

| | 31 December 2015 | 31 December 2014 |
|--|------------------|------------------|
| | £m | £m |
| Amounts falling due within one year | | |
| Secured | | |
| Bonds | | |
| 3.000% £300 million due 2015 | - | 300 |
| 2.500% US\$500 million due 2015 | - | 320 |
| 4.125% €500 million due 2016 | 368 | - |
| 12.450% £300 million due 2016 | 304 | - |
| Total current | 672 | 620 |
| Interest payable on borrowings | 259 | 249 |
| | 931 | 869 |

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

8 Borrowings *continued*

| | 31 December 2015 | 31 December 2014 |
|---|------------------|------------------|
| | £m | £m |
| Amounts falling due after more than one year | | |
| Secured | | |
| Bonds | | |
| 12.450% £300 million due 2016 | - | 318 |
| 4.125% €500 million due 2016 | - | 388 |
| 4.375% €700 million due 2017 | 515 | 542 |
| 2.500% CHF400 million due 2017 | 271 | 257 |
| 4.600% €750 million due 2018 | 527 | 545 |
| 6.250% £400 million due 2018 | 398 | 398 |
| 4.000% C\$400 million due 2019 | 195 | 219 |
| 6.000% £400 million due 2020 | 397 | 397 |
| 9.200% £250 million due 2021 | 270 | 273 |
| 3.000% C\$450 million due 2021 | 218 | 246 |
| 4.875% US\$1,000 million due 2021 | 675 | 638 |
| 1.650% + RPI £180 million due 2022 | 195 | 193 |
| 1.875% €600 million due 2022 | 437 | 460 |
| 5.225% £750 million due 2023 | 659 | 649 |
| 7.125% £600 million due 2024 | 590 | 589 |
| 3.25% C\$500 million due 2025 | 241 | - |
| 4.221% £155 million due 2026 | 155 | 155 |
| 6.750% £700 million due 2026 | 691 | 691 |
| 2.65% NOK1,000 million due 2027 | 76 | - |
| 7.075% £200 million due 2028 | 198 | 198 |
| 1.50% €750 million due 2030 | 545 | - |
| 6.450% £900 million due 2031 | 847 | 845 |
| Zero-coupon €50 million due January 2032 | 43 | 44 |
| 1.366% + RPI £75 million due 2032 | 77 | 76 |
| Zero-coupon €50 million due April 2032 | 43 | 44 |
| 4.171% £50 million due 2034 | 50 | 50 |
| Zero-coupon €50 million due 2034 | 39 | 39 |
| 1.061% + RPI £115 million due 2036 | 115 | - |
| 1.382% + RPI £50 million due 2039 | 51 | 51 |
| 3.334% + RPI £460 million due 2039 | 576 | 575 |
| 1.238% + RPI £100 million due 2040 | 101 | 100 |
| 5.875% £750 million due 2041 | 738 | 738 |
| 4.625% £750 million due 2046 | 741 | 742 |
| 1.372% + RPI £75 million due 2049 | 77 | 76 |
| | 10,751 | 10,536 |
| Total borrowings | 11,682 | 11,405 |

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

8 Borrowings *continued*

The maturity dates of the Heathrow Funding Limited 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 and 4.221% £155 million due 2026 bonds, wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings

| | 31 December 2015 | | 31 December 2014 | |
|--------------------|------------------|-------------------------------|------------------|-------------------------------|
| | Book value £m | Fair value ¹ £m | Book value £m | Fair value ¹ £m |
| Current | | | | |
| Short term Debt | 931 | 688 | 869 | 625 |
| Non-current | | | | |
| Bonds | 10,751 | 12,556 | 10,536 | 12,820 |
| | 11,682 | 13,244 | 11,405 | 13,445 |

1. Fair values of borrowings are for disclosure purposes only.

The fair values of listed borrowings are based on quoted prices at balance sheet 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 provided security to Deutsche Trustee Company Limited (as trustee for the Issuer Secured Creditors).

All borrowings issued by the Company are on-lent to Heathrow Airport Limited under the BLA. The advances under the BLA 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.

9 Derivative financial instruments

| | Notional £m | Assets £m | Liabilities £m | Total £m |
|---|----------------|--------------|-------------------|--------------|
| 31 December 2015 | | | | |
| Current | | | | |
| <i>Index linked swaps:</i> | | | | |
| 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) |
| | 19,129 | 767 | (1,199) | (432) |

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

9 Derivative financial instruments *continued*

| | Notional £m | Assets £m | Liabilities £m | Total £m |
|---|----------------|--------------|-------------------|-------------|
| 31 December 2014 | | | | |
| Current | | | | |
| <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 counterparties external to the SP Group | 319 | 2 | - | 2 |
| | 519 | 3 | (1) | 2 |
| Non-current | | | | |
| <i>Cross- currency swaps:</i> | | | | |
| 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 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 RAB.

Interest rate swaps

Interest rate swaps contracts 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.

10 Share capital

| | £ |
|--|---|
| Authorised | |
| At 1 January and 31 December 2015 | |
| 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 2015 | |
| 2 ordinary shares of £1 each | 2 |

11 Profit and loss reserve

| | £m |
|---------------------|----|
| 1 January 2015 | 36 |
| Profit for the year | 13 |
| 31 December 2015 | 49 |

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

12 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 2015, 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 FGP Topco Limited for the year ended 31 December 2015.

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

13 Post balance sheet events

On 17 February, the Group raised CHF400 million of debt through the issue of a bond in Switzerland. The bond carries a coupon of 0.500% with an 8.25 year tenor, maturing in May 2024.