

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2017

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.

For the six months ended 30 June 2017, net finance cost decreased to £14 million (six months ended 30 June 2016: £38 million; year ended 31 December 2016: £20 million).

In the six months ended 30 June 2017, net interest receivable from group undertakings was £352 million (six months ended 30 June 2016: £262 million; year ended 31 December 2016: £642 million).

Net interest on derivative financial instruments increased to £65 million payable (six months ended 30 June 2016: £4 million receivable; year ended 31 December 2016: £37 million payable). This was in part due to accretion on index-linked swaps which was impacted by inflation rate increases during 2017.

The fair value loss on financial instruments was £30 million (six months ended 30 June 2016: £113 million gain; year ended 31 December 2016: £52m million loss). The fair value loss was principally due to the impact of an increase in inflation expectations and an increase in EUR and USD Libor rates compared to 2016 on the mark-to-market value of cross-currency swaps and index-linked swaps.

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 terms of Class A debt, the highlight of the year to date has been the issue in June 2017 of a successful €500 million, 15 year public bond with a fixed rate coupon of 1.875% which further strengthens Heathrow's presence in this market. The transaction closed after the period end.

Since the start of 2017, the Company has repaid €700 million (£584 million) and CHF400 million (£272 million) Class A bonds in January and February 2017 respectively.

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

Results and dividends

The loss after taxation for the six months ended 30 June 2017 was £44 million (six months ended 30 June 2016: £75 million profit; year ended 31 December 2016: £72 million loss). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2016: £nil; year ended 31 December 2016: £nil).

Directors

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

Javier Echave
Andrew Efiog
David Williamson
Nicholas Golding

Resigned 9 January 2017
Appointed 17 January 2017

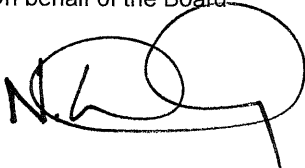
Heathrow Funding Limited

Interim management report

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 2016. 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, appearing to read 'N. Golding', written over a large, faint circular stamp or watermark.

Nicholas Golding
Director

24 September 2017

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 2017 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

A handwritten signature in black ink, appearing to be 'N. Golding', written over a circular stamp or seal.

Nicholas Golding

28 September 2017

Heathrow Funding Limited

Condensed income statement

		Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Financing				
Finance income	1	514	453	1,019
Finance cost	2	(528)	(491)	(1,039)
Fair value (loss)/gain on financial instruments	3	(30)	113	(52)
(Loss)/profit before tax		(44)	75	(72)
(Loss)/profit for the period		(44)	75	(72)
Opening retained earnings		(23)	49	49
Closing retained earnings		(67)	124	(23)

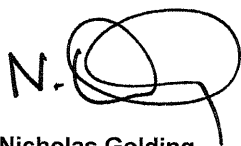
Heathrow Funding Limited

Condensed statement of financial position

	<i>Note</i>	Unaudited 30 June 2017 £m	Audited 31 December 2016 £m
Assets			
Non-current assets			
Trade and other receivables	5	12,161	12,913
Current assets			
Trade and other receivables	5	863	1,118
Total assets		13,024	14,031
Liabilities			
Non-current liabilities			
Trade and other payables	6	(12,249)	(12,876)
Current liabilities			
Trade and other payables	6	(842)	(1,178)
Total liabilities		(13,091)	(14,054)
Net assets¹		(67)	(23)
Capital and reserves			
Stated capital		-	-
Retained earnings		(67)	(23)
Total shareholder's equity		(67)	(23)

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 condensed financial statements of Heathrow Funding Limited (Company registration number: 99529 (Jersey)) were approved by the Board of Directors and authorised for issue on 28 September 2017. They were signed on its behalf by:



Nicholas Golding
Director



Andrew Efiog
Director

Heathrow Funding Limited

Condensed cash flow statement

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
(Loss)/profit before tax	(44)	75	(72)
<i>Adjustments for:</i>			
Fair value loss/(gain) on financial instruments	30	(113)	52
Movement in accrued interest on derivative financial instruments	56	35	(21)
Amortisation of cost, discount and premium on bonds	17	11	31
Amortisation of cost, discount and premium on BLA advances ¹	1	10	4
Decrease in interest receivable	12	35	3
(Decrease)/increase in interest payable on borrowings	(72)	(54)	3
Net decrease/(increase) in amounts owed by group undertakings – interest bearing	866	29	25
Net cash from operating activities	866	28	25
Financing			
Proceeds from issuance of bonds	-	344	829
Repayment of bonds	(856)	(300)	(734)
Net settlement of accretion on index-linked swaps	(10)	(71)	(116)
Swap restructuring	-	20	20
Back-back derivatives with HAL	-	(20)	(20)
Other financing flows	-	(1)	(4)
Net cash used in financing activities	(866)	(28)	(25)
Net change in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of period	-	-	-
Cash and cash equivalents at end of period	-	-	-

¹ BLA represents the Borrower Loan Agreements between the Company and Heathrow Airport Limited.

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 2017 have been consistently applied to the comparative information for the six months ended 30 June 2016 and the year ended 31 December 2016.

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 2016 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 2016.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Finance income

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Interest receivable on derivatives	162	191	377
Net interest receivable from group undertakings	352	262	642
	514	453	1,019

2 Finance cost

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Interest payable on external borrowings	(301)	(304)	(625)
Interest payable on derivatives	(227)	(187)	(414)
	(528)	(491)	(1,039)

3 Fair value (loss)/gain on financial instruments

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Index-linked swaps with external counterparties ¹	72	(112)	(436)
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	(51)	88	350
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	(49)	136	36
Interest rate swaps with external counterparties ³	53	(206)	(126)
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	(55)	207	124
	(30)	113	(52)

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

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

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

4 Taxation

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
UK corporation tax			
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.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

5 Trade and other receivables

	Unaudited 30 June 2017 £m	Audited 31 December 2016 £m
Non-current		
Derivative financial instruments (Note 8)	1,513	1,762
Amount owed by group undertakings – interest bearing ²	10,648	11,151
	12,161	12,913
Current		
Interest receivable from group undertakings ¹	172	184
Amounts owed by group undertakings – interest bearing ²	544	856
Derivative financial instruments (Note 8)	147	78
	863	1,118
	13,024	14,031

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

² Amounts owed by group undertakings – interest bearing largely represent the BLAs receivable from Heathrow Airport Limited. The advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration the related hedging instruments. Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited and Heathrow Express Operating Company Limited are joint guarantors in respect of principal, indexation, interest, fees and hedging arrangements in relation to the borrowings of Heathrow Airport Limited under the BLAs.

6 Trade and other payables

	Unaudited 30 June 2017 £m	Audited 31 December 2016 £m
Non-current liabilities		
Borrowings (Note 7)	10,840	11,457
Derivative financial instruments (Note 8)	1,409	1,419
	12,249	12,876
Current liabilities		
Borrowings (Note 7)	840	1,178
Derivative financial instruments (Note 8)	2	-
	842	1,178
	13,091	14,054

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

7 Borrowings

	Unaudited 30 June 2017 £m	Audited 31 December 2016 £m
Amounts falling due within one year		
Secured		
Bonds		
4.375% €700 million due 2017	-	598
2.500% CHF400 million due 2017		318
4.600% €750 million due 2018	650	-
	650	916
Interest payable on borrowings	190	262
	840	1,178
Amounts falling due after more than one year		
Secured		
Bonds		
4.600% €750 million due 2018	-	627
6.250% £400 million due 2018	399	399
4.000% C\$400 million due 2019	236	240
6.000% £400 million due 2020	398	398
9.200% £250 million due 2021	265	266
3.000% C\$450 million due 2021	265	269
4.875% US\$1,000 million due 2021	766	807
1.650%+RPI £180 million due 2022	203	199
1.875% €600 million due 2022	522	508
5.225% £750 million due 2023	674	669
7.125% £600 million due 2024	591	591
0.500% CHF400 million due 2024	320	318
3.250% C\$500 million due 2025	292	297
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	692	692
2.650% NOK1,000 million due 2027	91	93
7.075% £200 million due 2028	198	198
2.500% NOK1,000 million due 2029	91	93
1.500% €750 million due 2030	650	633
6.450% £900 million due 2031	850	849
Zero-coupon €50 million due January 2032	55	52
1.366%+RPI £75 million due 2032	80	79
Zero-coupon €50 million due April 2032	54	52
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	48	46
1.061%+RPI £180 million due 2036	187	183
1.382%+RPI £50 million due 2039	54	53
3.334%+RPI £460 million due 2039	597	587
1.238%+RPI £100 million due 2040	105	103
5.875% £750 million due 2041	738	738
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	80	79
2.750% £400 million due 2049	392	392
	10,840	11,457
Total borrowings	11,680	12,635

The maturity dates of the bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and the Company. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption dates. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.250% £400 million due 2018, 6.000% £400 million due 2020, 7.125% £600 million due 2024, 4.221% £155 million due 2026 and RPI+1.061% £180 million due 2036 wherein the redemption dates coincide with their legal maturity dates.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

8 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
30 June 2017				
Within one year				
<i>Cross-currency swaps</i>	510	147	(2)	145
	510	147	(2)	145
After more than one year				
<i>Cross-currency swaps</i>	3,374	448	(23)	425
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,006	546	-	546
with bank counterparties	2,913	-	(479)	(479)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,981	487	-	487
with bank counterparties	5,116	32	(907)	(875)
	18,390	1,513	(1,409)	104
	18,900	1,660	(1,411)	249

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2016				
Within one year				
<i>Cross-currency swaps:</i>				
with bank counterparties	856	78	-	78
	856	78	-	78
After more than one year				
<i>Cross-currency swaps:</i>				
with bank counterparties	3,442	658	(9)	649
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,006	552	-	552
with bank counterparties	2,913	-	(531)	(531)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,981	534	-	534
with bank counterparties	5,116	18	(879)	(861)
	18,458	1,762	(1,419)	343
	19,314	1,840	(1,419)	421

The Company does not apply hedge accounting to any of its derivative financial instruments.

Cross-currency swaps

Cross-currency swaps have been entered into by the Company to hedge currency risk on interest and principal payments of foreign currency-denominated bonds.

Interest rate swaps

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

Index-linked swaps

Index-linked swaps have been entered into to mitigate the risk of mismatch between Heathrow Airport Limited's aeronautical income and regulatory asset base, which are directly linked to changes in the Retail Prices Index, and nominal debt and interest payments.

Back-to-back derivatives

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

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

9 Reconciliation in net debt

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

	1 January 2017 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2017 £m
Debt due within one year	916	(856)	627	(37)	650
Debt due after more than one year	11,457	-	(627)	10	10,840
Net debt	12,373	(856)	-	(27)	11,490

¹ Relates to the 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)