

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2018

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 2018, net finance cost was £11 million (six months ended 30 June 2017: £14 million; year ended 31 December 2017: £29 million).

In the six months ended 30 June 2018, interest receivable from group undertakings was £324 million (six months ended 30 June 2017: £352 million; year ended 31 December 2017: £733 million); and interest payable on external borrowings was £282 million (six months ended 30 June 2018: £301 million; year ended 31 December 2017: £610 million).

Net interest on derivative financial instruments amounted to £53 million payable (six months ended 30 June 2017: £65 million payable; year ended 31 December 2017: £152 million payable).

The fair value gain on financial instruments was £52 million (six months ended 30 June 2017: £30 million loss; year ended 31 December 2017: £19 million loss). The fair value loss was principally due to the impact 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 March 2018 of a C\$400 million, 10-year public bond with a fixed rate coupon of 3.4%; and a £160 million, 40-year inflation-linked bond in May 2018 which further strengthens Heathrow's presence in this market.

In February 2018, the Company repaid a €750 million (£510 million) bond.

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 2018 was £41 million (six months ended 30 June 2017: £44 million loss; year ended 31 December 2016: £48 million loss). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2017: £nil; year ended 31 December 2017: £nil).

Directors

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

Yuanyuan Ding	Appointed 23 March 2018
Javier Echave	
Andrew Efiog	Resigned 23 March 2018
Nicholas Golding	
Beejadhursingh Surnam	

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 2017. 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', with a stylized flourish at the end.

Nicholas Golding
Director

23 July 2018

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 2018 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 read 'N. Golding', with a stylized flourish at the end.

Nicholas Golding

23 July 2018

Heathrow Funding Limited

Condensed income statement

		Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Financing				
Finance income	1	478	514	1,064
Finance costs	2	(489)	(528)	(1,093)
Fair value gain/(loss) on financial instruments	3	52	(30)	(19)
Profit/(loss) profit before tax		41	(44)	(48)
Profit/(loss) for the period		41	(44)	(48)
Opening retained earnings		(71)	(23)	(23)
Closing retained earnings		(30)	(67)	(71)

Heathrow Funding Limited

Condensed statement of financial position

	<i>Note</i>	Unaudited 30 June 2018 £m	Audited 31 December 2017 £m
Assets			
Non-current assets			
Trade and other receivables	5	12,592	12,272
Current assets			
Trade and other receivables	5	581	1,304
Total assets		13,173	13,576
Liabilities			
Non-current liabilities			
Trade and other payables	6	(12,603)	(12,342)
Current liabilities			
Trade and other payables	6	(600)	(1,305)
Total liabilities		(13,203)	(13,647)
Net assets¹		(30)	(71)
Capital and reserves			
Stated capital		-	-
Retained earnings		(30)	(71)
Total shareholder's equity		(30)	(71)

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 23 July 2018. They were signed on its behalf by:



Nicholas Golding
Director



Javier Echave
Director

Heathrow Funding Limited

Condensed cash flow statement

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Profit/(loss) before tax	41	(44)	(48)
<i>Adjustments for:</i>			
Fair value (gain)/loss on financial instruments	(52)	30	19
Movement in accrued interest on derivative financial instruments	(59)	56	17
Amortisation of cost, discount and premium on bonds	9	17	24
Amortisation of cost, discount and premium on BLA advances ¹	14	1	5
Decrease in interest receivable	3	12	11
(Decrease)/increase in interest payable on borrowings	44	(72)	(28)
Net decrease/(increase) in amounts owed by group undertakings – interest bearing	223	866	425
Net cash from operating activities	223	866	425
Financing			
Proceeds from issuance of bonds	385	-	443
Repayment of bonds	(510)	(856)	(856)
Net settlement of accretion on index-linked swaps	(98)	(10)	(10)
Other financing flows	-	-	(2)
Net cash used in financing activities	(223)	(866)	(425)
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 2018 have been consistently applied to the comparative information for the six months ended 30 June 2017 and the year ended 31 December 2017.

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 2017 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 2017.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Finance income

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Interest receivable on derivatives	154	162	331
Net interest receivable from group undertakings	324	352	733
	478	514	1,064

2 Finance costs

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Interest payable on external borrowings	(282)	(301)	(610)
Interest payable on derivatives	(207)	(227)	(483)
	(489)	(528)	(1,093)

3 Fair value gain/(loss) on financial instruments

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Index-linked swaps with external counterparties ¹	82	72	134
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	(5)	(51)	(81)
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	(23)	(49)	(67)
Interest rate swaps with external counterparties ³	67	53	62
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	(69)	(55)	(67)
	52	(30)	(19)

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 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £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 2018 £m	Audited 31 December 2017 £m
Non-current		
Derivative financial instruments (Note 8)	1,498	1,536
Amount owed by group undertakings – interest bearing ²	11,094	10,736
	12,592	12,272
Current		
Interest receivable from group undertakings ¹	171	174
Amounts owed by group undertakings – interest bearing ²	400	957
Derivative financial instruments (Note 8)	10	173
	581	1,304
	13,173	13,576

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 2018 £m	Audited 31 December 2017 £m
Non-current liabilities		
Borrowings (Note 7)	11,301	10,883
Derivative financial instruments (Note 8)	1,302	1,459
	12,603	12,342
Current liabilities		
Borrowings (Note 7)	590	1,298
Derivative financial instruments (Note 8)	10	7
	600	1,305
	13,203	13,647

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

7 Borrowings

	Unaudited 30 June 2018 £m	Audited 31 December 2017 £m
Amounts falling due within one year		
Secured		
Bonds		
4.600% €750 million due 2018	-	665
6.250% £400 million due 2018	400	399
	400	1,064
Interest payable on borrowings	190	234
	590	1,298
Amounts falling due after more than one year		
Secured		
Bonds		
4.000% C\$400 million due 2019	230	235
6.000% £400 million due 2020	399	398
9.200% £250 million due 2021	261	263
3.000% C\$450 million due 2021	258	263
4.875% US\$1,000 million due 2021	756	738
1.650%+RPI £180 million due 2022	209	206
1.875% €600 million due 2022	527	529
5.225% £750 million due 2023	685	679
7.125% £600 million due 2024	592	592
0.500% CHF400 million due 2024	306	303
3.250% C\$500 million due 2025	285	290
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	693	693
2.650% NOK1,000 million due 2027	92	90
3.40% C\$400million due 2028	230	-
7.075% £200 million due 2028	199	198
2.500% NOK1,000 million due 2029	93	90
1.500% €750 million due 2030	657	659
6.450% £900 million due 2031	852	851
Zero-coupon €50 million due January 2032	57	57
1.366%+RPI £75 million due 2032	83	82
Zero-coupon €50 million due April 2032	56	56
1.875% €500 million due 2032	440	442
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	49	49
1.061%+RPI £180 million due 2036	193	191
1.382%+RPI £50 million due 2039	55	55
3.334%+RPI £460 million due 2039	615	608
1.238%+RPI £100 million due 2040	109	107
5.875% £750 million due 2041	738	738
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	83	82
2.750% £400 million due 2049	392	392
0.147% +RPI £160 million due 2058	160	-
	11,301	10,883
Total borrowings	11,891	12,181

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 2018				
Current				
<i>Cross-currency swaps</i>	-	-	-	-
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	104	10	-	10
with bank counterparties	104	-	(10)	(10)
<i>Index-linked swaps:</i>				
with bank counter parties	-	-	-	-
Total current	208	10	(10)	-
Non-current				
<i>Cross-currency swaps</i>	3,601	382	(22)	360
<i>Interest rate swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	2,902	404	-	404
with bank counterparties	2,809	-	(390)	(390)
<i>Index-linked swaps:</i>				
with fellow subsidiary Heathrow Airport Limited	3,981	671	-	671
with bank counterparties	5,819	41	(890)	(849)
Total non-current	19,112	1,498	(1,302)	196
Total	19,320	1,508	(1,312)	196

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2017				
Current				
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	400	-	(3)	(3)
with fellow subsidiary Heathrow Airport Limited	400	3	-	3
<i>Cross-currency swaps</i>	510	170	-	170
with counterparties external to the SP Group	97	-	(4)	(4)
Total current	1,407	173	(7)	166
Non-current				
<i>Cross-currency swaps:</i>	3,374	408	(29)	379
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	2,513	-	(466)	(466)
with fellow subsidiary Heathrow Airport Limited	2,606	482	-	482
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	5,119	36	(964)	(928)
with fellow subsidiary Heathrow Airport Limited	4,081	610	-	610
Total non-current	17,693	1,536	(1,459)	77
Total	19,100	1,709	(1,466)	243

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 2018 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2018 £m
Debt due within one year	1,064	(510)	-	(154)	400
Debt due after more than one year	10,883	385	-	33	11,301
Net debt	11,947	(125)	-	(121)	11,701

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)