

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2020

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 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 ('Heathrow'), 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 '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 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 under the BLAs.

For the six months ended 30 June 2020, net finance cost was £35 million (six months ended 30 June 2019: £16 million; year ended 31 December 2019: £24 million).

In the six months ended 30 June 2020, interest receivable from group undertakings was £227 million (six months ended 30 June 2019: £277 million; year ended 31 December 2019: £609 million); and interest payable on external borrowings was £276 million (six months ended 30 June 2019: £280 million; year ended 31 December 2019: £558 million).

Net interest on derivative financial instruments amounted to £14 million receivable (six months ended 30 June 2019: £13 million payable; year ended 31 December 2019: £75 million payable).

The fair value gain on financial instruments was £125 million (six months ended 30 June 2019: £201 million; year ended 31 December 2019: £163 million). This was due to the fair value movement on index-linked swaps and cross-currency swaps.

Heathrow Funding Limited continues to focus on maintaining a strong liquidity position and optimising its long-term cost of debt as well as ensuring duration, diversification and resilience in its debt financing.

In the first six months of 2020, no new debt has been raised, only draw down of debt. This funding complements our robust liquidity position and provides additional duration and diversification to SP Group's £15 billion debt portfolio. Heathrow Funding Limited drew £381 million of debt signed prior to the reporting period. In addition, the Company repaid a £400m Class B bond in March.

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 2020 was £90 million (six months ended 30 June 2019: £185 million; year ended 31 December 2019: £139 million). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2019: £nil; year ended 31 December 2019: £nil).

Directors

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

Yuanyuan Ding
Javier Echave
Nicholas Golding
Beejadhursingh Surnam
Lisa Aune

Resigned on 4 June 2020
Appointed on 5 June 2020

Heathrow Funding Limited

Interim management report *continued*

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 2019. 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 five 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 'Javier Echave', with a stylized flourish at the end.

Javier Echave
Director

28 July 2020

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 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 2020 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



Javier Echave
Director

28 July 2020

Heathrow Funding Limited

Statement of comprehensive income

	<i>Note</i>	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
Financing				
Finance income	1	241	277	609
Finance costs	1	(276)	(293)	(633)
Fair value gain on financial instruments	1	125	201	163
Profit before tax		90	185	139
Taxation	2	-	-	-
Profit for the period		90	185	139

Heathrow Funding Limited

Statement of financial position

	<i>Note</i>	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Assets			
Non-current assets			
Trade and other receivables	3	11,596	11,741
Derivative financial instruments	3,6	2,080	1,623
Current assets			
Trade and other receivables	3	662	567
Derivative financial instruments	3,6	35	55
Total assets		14,373	13,986
Liabilities			
Non-current liabilities			
Borrowings	4,5	(12,088)	(11,903)
Derivative financial instruments	4,6	(1,329)	(1,251)
Current liabilities			
Borrowings	4,5	(689)	(609)
Derivative financial instruments	4,6	(9)	(55)
Total liabilities		(14,115)	(13,818)
Net assets¹		258	168
Capital and reserves			
Stated capital		-	-
Retained earnings	8	258	168
Total shareholder's equity		258	168

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 July 2020. They were signed on its behalf by:



Javier Echave
Director



Nicholas Golding
Director

Heathrow Funding Limited

Cash flow statement

	Unaudited Six months Ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Unaudited Year ended 31 December 2019 £m
Profit before tax	90	185	139
<i>Adjustments for:</i>			
Fair value gain on financial instruments	(125)	(201)	(163)
Movement in accrued interest on derivative financial instruments	17	24	-
Amortisation of cost, discount and premium on bonds	37	16	19
Amortisation of cost, discount and premium on BLA advances ¹	5	4	8
Decrease/(increase) in interest receivable	16	1	(2)
(Decrease)/increase in interest payable on borrowings	(40)	(29)	1
Decrease in BLA funding	-	-	(2)
Net decrease/(increase) in amounts owed by group undertakings – interest bearing	20	737	(557)
Net cash from/(used in) operating activities	20	737	(557)
Financing			
Proceeds from issuance of bonds	381	783	857
Repayment of bonds	(400)	-	(251)
Net settlement of accretion on index-linked swaps	-	(41)	(49)
Other financing flows	(1)	(5)	-
Net cash (used in)/from financing activities	(20)	737	557
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 and Financial Reporting Standard 104 – 'Interim Financial Reporting' (FRS 104).

The accounting policies adopted in the preparation of these condensed financial statements for the six months ended 30 June 2020 have been consistently applied to the comparative information for the six months ended 30 June 2019 and the year ended 31 December 2019.

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 (s.11 and s.12).

Basis of preparation

The condensed financial statements should be read in conjunction with the audited 2019 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 2019.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Finance income

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
Net interest receivable from group undertakings	227	277	609
Interest receivable on derivatives	14	-	-
Total finance income	241	277	609
Finance costs			
Interest payable on external borrowings	(276)	(280)	(558)
Interest payable on derivatives	-	(13)	(75)
Total finance costs	(276)	(293)	(633)
Net finance costs before certain re-measurements	(35)	(16)	(24)

Certain re-measurements

Fair value gain on financial instruments

Index-linked swaps with external counterparties ¹	(105)	(97)	172
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	114	123	(112)
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	113	177	106
Interest rate swaps with external counterparties ³	(68)	(39)	(18)
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	71	37	15
Fair value gain on financial instruments	125	201	163
Net finance income	90	185	139

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.

2 Taxation

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m	Audited Year ended 31 December 2019 £m
UK corporation tax			
Current tax on profit 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 shown in the condensed statement of income and retained earnings.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

3 Trade and other receivables

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Non-current		
Amount owed by group undertakings – interest bearing ²	11,596	11,740
Derivative financial instruments (Note 6)	2,080	1,623
Prepaid debt fees	-	1
	13,676	13,364
Current		
Interest receivable from group undertakings ¹	151	167
Amounts owed by group undertakings – interest bearing ²	511	400
Derivative financial instruments (Note 6)	35	55
	697	622
	14,373	13,986

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.

4 Trade and other payables

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Non-current liabilities		
Borrowings (Note 5)	12,088	11,903
Derivative financial instruments (Note 6)	1,329	1,251
	13,417	13,154
Current liabilities		
Borrowings (Note 5)	689	609
Derivative financial instruments (Note 6)	9	55
	698	664
	14,115	13,818

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

5 Borrowings

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Amounts falling due within one year		
Secured		
Bonds		
6.000% £400 million due 2020	-	400
9.200% £250 million due 2021	253	-
3.000% C\$450 million due 2021	267	-
	520	400
Interest payable on borrowings	169	209
	689	609
Amounts falling due after more than one year		
Secured		
Bonds		
9.200% £250 million due 2021	-	255
3.000% C\$450 million due 2021	-	261
4.875% US\$1,000 million due 2021	807	753
1.650%+RPI £180 million due 2022	220	218
1.875% €600 million due 2022	543	506
5.225% £750 million due 2023	710	704
7.125% £600 million due 2024	595	594
0.500% CHF400 million due 2024	342	312
3.250% C\$500 million due 2025	294	288
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	694	693
0.450% CHF210 million due 2026	180	164
2.650% NOK1,000 million due 2027	83	85
3.400% C\$400 million due 2028	236	231
7.075% £200 million due 2028	198	198
4.150% A\$175 million due 2028	97	92
2.500% NOK1,000 million due 2029	83	86
3.782% C\$400 million due 2030	236	231
1.500% €750 million due 2030	675	629
6.450% £900 million due 2031	856	855
Zero-coupon €50 million due January 2032	64	58
1.366%+RPI £75 million due 2032	87	86
Zero-coupon €50 million due April 2032	63	57
1.875% €500 million due 2032	452	421
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	54	49
1.875% €650 million due 2034	580	540
0.347%+RPI £50 million due 2035	75	-
0.337%+RPI £75 million due 2036	75	-
1.061%+RPI £180 million due 2036	203	201
0.419%+RPI £51 million due 2038	51	-
3.460% £105 million due 2038	105	-
1.382%+RPI £50 million due 2039	58	58
3.334%+RPI £460 million due 2039	642	639
Zero-coupon €86 million due 2039	82	75
0.800% JPY 10bn due 2039	76	70
1.238%+RPI £100 million due 2040	114	113
0.362%+RPI £75 million due 2041	75	-
5.875% £750 million due 2041	738	738
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	741	741
1.372%+RPI £75 million due 2049	87	86
2.750% £400 million due 2049	392	392
0.147%+RPI £160 million due 2058	166	165
	12,088	11,903
Total borrowings	12,777	12,512

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 7.125% £600 million due 2024, 4.221% £155 million due 2026, 0.347%+RPI

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

5 Borrowings *continued*

£75 million due 2035, 0.337%+RPI £75 million due 2036, 1.061%+RPI £180 million due 2036, 0.419%+RPI £51 million due 2038, 3.460% £105 million due 2038 and 0.362%+RPI £75 million due 2041, wherein the redemption dates coincide with their legal maturity dates.

6 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
30 June 2020				
Current				
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	314	2	(5)	(3)
with fellow subsidiary Heathrow Airport Limited	306	5	(2)	3
Cross-currency swaps	246	26	-	26
<i>Interest rate swaps</i>				
with counterparties external to the SP Group	400	-	(2)	(2)
with fellow subsidiary Heathrow Airport Limited	400	2	-	2
Total current	1,666	35	(9)	26
Non-current				
Cross-currency swaps	4,304	835	(3)	832
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	1,572	-	(460)	(460)
with fellow subsidiary Heathrow Airport Limited	1,665	467	-	467
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	5,962	89	(824)	(735)
with fellow subsidiary Heathrow Airport Limited	5,807	689	(42)	647
Total non-current	19,310	2,080	(1,329)	751
Total	20,976	2,115	(1,338)	777
	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2019				
Current				
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	313	-	(45)	(45)
with fellow subsidiary Heathrow Airport Limited	313	45	-	45
Cross-currency swaps	-	-	-	-
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	738	-	(10)	(10)
with fellow subsidiary Heathrow Airport Limited	738	10	-	10
Total current	2,102	55	(55)	(0)
Non-current				
Cross-currency swaps	4,551	482	(25)	457
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	1,572	-	(388)	(388)
with fellow subsidiary Heathrow Airport Limited	1,665	396	-	396
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	6,082	57	(814)	(757)
with fellow subsidiary Heathrow Airport Limited	5,919	688	(24)	664
Total non-current	19,789	1,623	(1,251)	372
Total	21,891	1,678	(1,306)	372

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.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

6 Derivative financial instruments *continued*

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.

7 Reconciliation in net debt

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

	1 January 2020 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2020 £m
Debt due within one year	400	(400)	516	4	520
Debt due after more than one year	11,903	380	(516)	321	12,088
Net debt	12,303	(20)	-	325	12,608

¹ Relates to the amortisation of issue costs, premiums and discounts, foreign exchange translations of foreign currency debt and accretion accruals.

8 Retained earnings

	£m
1 January 2020	168
Profit for the period	90
30 June 2020	258

9 Subsequent events

There were no subsequent events after the reporting date.

Registered office

IFC5, St Helier, Jersey, JE1 1ST Channel Islands
Company registration number: 99529 (Jersey)