

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2019

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 2019, net finance cost was £16 million (six months ended 30 June 2018: £11 million; year ended 31 December 2018: £30 million).

In the six months ended 30 June 2019, interest receivable from group undertakings was £277 million (six months ended 30 June 2018: £324 million; year ended 31 December 2018: £674 million); and interest payable on external borrowings was £280 million (six months ended 30 June 2018: £282 million; year ended 31 December 2018: £577 million).

Net interest on derivative financial instruments amounted to £13 million payable (six months ended 30 June 2018: £53 million payable; year ended 31 December 2018: £127 million payable).

The fair value gain on financial instruments was £201 million (six months ended 30 June 2018: £52 million; year ended 31 December 2018: £130 million). The fair value gain 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 of a €650 million 15-year public bond maturing in 2034, demonstrating high investor confidence in our credit throughout expansion. In addition, a €86 million 20-year zero coupon bond has been issued and a CHF210 million 7.5-year bond maturing in 2026, marking our third Swiss Franc issuance. Finally, there was a £140 million US PP priced in April 2019 which was drawn down post June 2019 close.

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 2019 was £185 million (six months ended 30 June 2018: £41 million; year ended 31 December 2018: £100 million). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2018: £nil; year ended 31 December 2018: £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

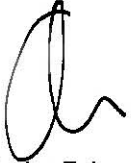
Heathrow Funding Limited

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 2018. 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



Javier Echave
Director

September 2019

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.

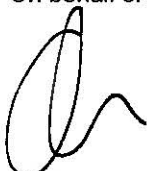
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding 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 2019 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

September 2019

Heathrow Funding Limited

Statement of comprehensive income

	<i>Note</i>	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Financing				
Finance income ¹	1	277	324	674
Finance costs ¹		(293)	(335)	(704)
Fair value gain on financial instruments		201	52	130
Profit before tax		185	41	100
Taxation	2	-	-	-
Profit for the period		185	41	100

¹30 June 2018 finance income and finance costs have been restated by (£154) million and £154 million respectively to present interest payable and interest receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

Heathrow Funding Limited

Statement of financial position

	Note	Unaudited 30 June 2019 £m	Audited 31 December 2018 £m
Assets			
Non-current assets			
Trade and other receivables	3	11,642	11,280
Derivative financial instruments	4	2,120	1,878
Current assets			
Trade and other receivables	3	813	413
Derivative financial instruments	4	47	20
Total assets		14,622	13,591
Liabilities			
Non-current liabilities			
Borrowings	5	(12,041)	(11,552)
Derivative financial instruments	6	(1,483)	(1,533)
Current liabilities			
Borrowings	5	(818)	(438)
Derivative financial instruments	6	(66)	(39)
Total liabilities		(14,408)	(13,562)
Net assets¹		214	29
Capital and reserves			
Stated capital		-	-
Retained earnings	8	214	29
Total shareholder's equity		214	29

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 September 2019. They were signed on its behalf by:



Javier Echave
Director



Yuanyuan Ding
Director

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 2019 have been consistently applied to the comparative information for the six months ended 30 June 2018 and the year ended 31 December 2018.

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 2018 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 2018.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Finance income

	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Net interest receivable from group undertakings	277	324	674
Total finance income	277	324	674
Finance costs			
Interest payable on external borrowings	(280)	(282)	(577)
Interest payable on derivatives	(13)	(53)	(127)
Total finance costs	(293)	(335)	(704)
Net finance costs before certain re-measurements	(16)	(11)	(30)
Certain re-measurements			
Fair value gain on financial instruments			
Index-linked swaps with external counterparties ¹	(97)	82	(90)
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	123	(5)	186
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	177	(23)	38
Interest rate swaps with external counterparties ³	(39)	67	84
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	37	(69)	(88)
Fair value gain on financial instruments	201	52	130
Net finance income	185	41	100

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 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £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*

3 Trade and other receivables

	Unaudited 30 June 2019 £m	Audited 31 December 2018 £m
Non-current		
Amount owed by group undertakings – interest bearing ²	11,642	11,280
Derivative financial instruments (Note 6)	2,120	1,878
	13,762	13,158
Current		
Interest receivable from group undertakings ¹	164	164
Amounts owed by group undertakings – interest bearing ²	649	249
Derivative financial instruments (Note 6)	47	20
	860	433
	14,622	13,591

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 2019 £m	Audited 31 December 2018 £m
Non-current liabilities		
Borrowings (Note 5)	12,041	11,552
Derivative financial instruments (Note 6)	1,483	1,533
	13,524	13,085
Current liabilities		
Borrowings (Note 5)	818	438
Derivative financial instruments (Note 6)	66	39
	884	477
	14,408	13,562

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

5 Borrowings

	Unaudited 30 June 2019 £m	Audited 31 December 2018 £m
Amounts falling due within one year		
Secured		
Bonds		
4.000% C\$400 million due 2019	241	230
6.000% £400 million due 2020	399	-
	640	230
Interest payable on borrowings	178	208
	818	438
Amounts falling due after more than one year		
Secured		
Bonds		
6.000% £400 million due 2020	-	399
9.200% £250 million due 2021	257	259
3.000% C\$450 million due 2021	270	258
4.875% US\$1,000 million due 2021	786	783
1.650%+RPI £180 million due 2022	215	213
1.875% €600 million due 2022	534	536
5.225% £750 million due 2023	697	691
7.125% £600 million due 2024	593	593
0.500% CHF400 million due 2024	323	320
3.250% C\$500 million due 2025	298	285
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	693	693
0.450% CHF210 million due 2026	170	-
2.650% NOK1,000 million due 2027	92	90
3.400% C\$400 million due 2028	239	229
7.075% £200 million due 2028	198	198
4.150% A\$175 million due 2028	96	96
2.500% NOK1,000 million due 2029	92	90
3.782% C\$400 million due 2030	239	229
1.500% €750 million due 2030	665	667
6.450% £900 million due 2031	853	853
Zero-coupon €50 million due January 2032	61	59
1.366%+RPI £75 million due 2032	85	85
Zero-coupon €50 million due April 2032	60	58
1.875% €500 million due 2032	445	447
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	52	50
1.875% €650 million due 2034	571	-
1.061%+RPI £180 million due 2036	199	197
1.382%+RPI £50 million due 2039	57	56
3.334%+RPI £460 million due 2039	629	626
Zero-coupon €86 million due 2039	79	-
1.238%+RPI £100 million due 2040	112	111
5.875% £750 million due 2041	738	738
2.926% £55 million due 2043	54	55
4.625% £750 million due 2046	741	742
1.372%+RPI £75 million due 2049	85	85
2.750% £400 million due 2049	392	392
0.147%+RPI £160 million due 2058	166	164
	12,041	11,552
Total borrowings	12,859	11,990

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*

6 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
30 June 2019				
Current				
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	243	-	(43)	(43)
with fellow subsidiary Heathrow Airport Limited	243	33	-	33
Cross-currency swaps	250	-	(9)	(9)
<i>Interest rate swaps</i>				
with counterparties external to the SP Group	338	-	(14)	(14)
with fellow subsidiary Heathrow Airport Limited	338	14	-	14
Total current	1,412	47	(66)	(19)
Non-current				
Cross-currency swaps	4,481	750	(1)	749
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	1,972	-	(403)	(403)
with fellow subsidiary Heathrow Airport Limited	2,065	413	-	413
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	6,276	55	(1,071)	(1,016)
with fellow subsidiary Heathrow Airport Limited	6,112	902	(8)	894
Total non-current	20,906	2,120	(1,483)	637
Total	22,318	2,167	(1,549)	618

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2018				
Current				
<i>Index rate swaps:</i>				
with counter parties external to the SP Group	124	-	(15)	(15)
with fellow subsidiary Heathrow Airport Limited	124	15	-	15
Cross-currency swaps	250	-	(19)	(19)
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	204	-	(5)	(5)
with fellow subsidiary Heathrow Airport Limited	204	5	-	5
Total current	906	20	(39)	(19)
Non-current				
Cross-currency swaps	3,685	502	(6)	496
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	2,309	-	(377)	(377)
with fellow subsidiary Heathrow Airport Limited	2,402	389	-	389
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	6,395	42	(1,141)	(1,099)
with fellow subsidiary Heathrow Airport Limited	6,231	945	(9)	938
Total non-current	21,022	1,878	(1,533)	345
Total	21,928	1,898	(1,572)	326

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.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

6 Derivative financial instruments *continued*

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 2019 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2019 £m
Debt due within one year	230	-	400	10	640
Debt due after more than one year	11,552	787	(400)	102	12,041
Net debt	11,782	787	-	112	12,681

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 2019	29
Profit for the period	185
30 June 2019	214

Registered office

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