

Heathrow Funding Limited
Interim report and condensed financial statements
for the six months ended 30 June 2021

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 2021, net finance cost was £19 million (six months ended 30 June 2020: £35 million; year ended 31 December 2020: £34 million).

In the six months ended 30 June 2021, interest receivable from group undertakings was £202 million (six months ended 30 June 2020: £227 million; year ended 31 December 2020: £600 million); and interest payable on external borrowings was £309 million (six months ended 30 June 2020: £276 million; year ended 31 December 2020: £554 million).

Net interest receivable on derivative financial instruments amounted to £88 million (six months ended 30 June 2020: £14 million receivable; year ended 31 December 2020: £80 million payable).

The fair value loss on financial instruments was £81 million (six months ended 30 June 2020: £125 million gain; year ended 31 December 2020: £53 million gain). 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 2021 £1.4 billion of new debt has been raised. This funding complements our robust liquidity position and provides additional duration and diversification to SP Group's £15 billion bond debt portfolio. Heathrow Funding Limited drew £1.4 billion of debt signed within the reporting period. In addition, the Company repaid a £250 million Class A bond in March 2021 and a C\$450 million Class A bond in June 2021.

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 2021 was £100 million (six months ended 30 June 2020: £90 million profit; year ended 31 December 2020: £19 million profit). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2020: £nil; year ended 31 December 2020: £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
Lisa Aune

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 2020. 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



Javier Echave
Director

23 July 2021

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 2021 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

23 July 2021

Heathrow Funding Limited**Statement of comprehensive income**

	<i>Note</i>	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months Ended 30 June 2020 £m	Audited Year ended 31 December 2020 £m
Financing				
Finance income	<i>1</i>	290	241	600
Finance costs	<i>1</i>	(309)	(276)	(634)
Fair value (loss)/gain on financial instruments	<i>1</i>	(81)	125	53
(Loss)/profit before tax		(100)	90	19
Taxation	<i>2</i>	-	-	-
(Loss)/profit for the period		(100)	90	19

Heathrow Funding Limited

Statement of financial position

	<i>Note</i>	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Assets			
Non-current assets			
Trade and other receivables	3	13,292	12,582
Derivative financial instruments	3,6	1,812	1,653
Current assets			
Trade and other receivables	3	1,501	1,279
Derivative financial instruments	3,6	172	166
Total assets		16,777	15,680
Liabilities			
Non-current liabilities			
Borrowings	4,5	(13,357)	(12,812)
Derivative financial instruments	4,6	(1,655)	(1,216)
Current liabilities			
Borrowings	4,5	(1,654)	(1,441)
Derivative financial instruments	4,6	(23)	(23)
Trade and other payables	4	(1)	(1)
Total liabilities		(16,690)	(15,493)
Net assets¹		87	187
Capital and reserves			
Stated capital		-	-
Retained earnings	8	87	187
Total shareholder's equity		87	187

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 2021. 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 2021 £m	Unaudited Six months ended 30 June 2020 £m	Unaudited Year ended 31 December 2020 £m
(Loss)/profit before tax	(100)	90	19
<i>Adjustments for:</i>			
Fair value loss/(gain) on financial instruments	81	(125)	(53)
Movement in accrued interest on derivative financial instruments	(10)	17	-
Amortisation of cost, discount and premium on bonds	(8)	37	13
Amortisation of cost, discount and premium on BLA advances ¹	(5)	5	18
Decrease/(increase) in interest receivable	51	16	(9)
(Decrease)/increase in interest payable on borrowings	(9)	(40)	9
Decrease in BLA funding	-	-	3
Net decrease/(increase) in amounts owed by group undertakings – interest bearing	883	20	(1,572)
Net cash from/(used in) operating activities	883	20	(1,572)
Financing			
Proceeds from issuance of bonds	1,379	381	1,977
Repayment of bonds	(496)	(400)	(402)
Net settlement of accretion on index-linked swaps	-	-	(3)
Other financing flows	-	(1)	-
Net cash (used in)/from financing activities	(883)	(20)	1,572
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 2021 have been consistently applied to the comparative information for the six months ended 30 June 2020 and the year ended 31 December 2020.

The Company has chosen to apply the recognition and measurement provisions of International Accounting Standard ('IAS') 39 'Financial Instruments: Recognition and Measurement', in compliance with FRS 102. 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 2020 annual report and financial statements.

Going concern

The Directors have prepared the financial information presented within these interim consolidated financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance Plc ('Heathrow Finance'). The Directors have considered the wider group when assessing going concern. In assessing the going concern position, the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months. The Directors have also considered the period beyond 12 months to December 2022.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.4 billion of debt to the approval date of these interim consolidated financial statements across the capital structure in bond format. New €500 million, C\$650 million, C\$300 million and AUD125 million Class A transactions and a £350 million Class B transaction were successfully executed during the first half of 2021. Consequently, Heathrow SP held cash of circa. £4.5 billion as at 30 June 2021. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2021 is £1.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £4.8 billion available. No debt matures outside of Heathrow SP for the next 12 months from 30 June 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the base case cash flow forecast or until at least October 2022 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Nevertheless, continued low levels of traffic and cash flows have put covenants at Heathrow Finance under strain and the corresponding impact on the covenants associated with financing arrangements has been carefully considered when modelling the impacts of COVID-19.

Modelling the impact of COVID-19

The Directors have modelled future cash flows for the period beyond 12 months to December 2022 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations,
- forecast level of capital expenditure, and
- the overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

In their assessment, Directors have included the impacts of several important actions implemented in 2020 to reduce operating expenditure including temporarily consolidating our operations in fewer terminals, multiple contract renegotiations, permanent changes in terms and conditions, freezing recruitment, removing all non-essential costs and adjusting our capital expenditure. Directors have also included the impacts of actions implemented in 2021 to reprofile interest payments, which has created interest savings of £358 million, in their assessment.

In modelling the impact of COVID-19, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of our forecasting is therefore inherently subjective. As reported in the June 2021 Investor Report, the Group has recently updated its financial modelling under the base case scenario to assume passenger traffic for 2021 will decline 2.7% compared to 2020 actual passenger numbers of 22.1 million, to 21.5 million passengers (a decrease of 73.4% compared

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Accounting policies *continued*

Going concern *continued*

to 2019). Despite the decline in passengers compared to 2020, Group EBITDA is expected to increase 23% to £332 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

To build the base case forecast of 21.5 million passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, roll-out of a vaccine and reopening of key travel corridors. The level of demand at each stage of recovery is overlaid using data on actual passenger numbers. This is done at a granular level splitting into geographical markets and purpose of travel. Thereon, a timeline for moving between stages using latest information on testing and vaccine roll out and adjusting this for each of the geographical regions was taken into account. This approach is calibrated against information from airlines on planned schedules. The base case of passenger numbers for 2022 forecasts an improvement in passenger numbers with a graduated return to pre-pandemic levels, however the forecasted 2022 passengers remain significantly below 2019.

Under the base case scenario, the Group will meet all covenants associated with its financial arrangements.

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least October 2022.

Directors have stress tested the base case, focusing in particular on the next annual covenant compliance date of 31 December 2021, by elongating the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through the stages of recovery. This is reflected in further decreases in passenger numbers and a resulting drop in EBITDA and operating cash flow. Although no covenant breach is forecast under our base case scenario, the headroom to our ICR covenant is expected to be limited given ongoing pressures on our cash flow generation, with a reduction of £66m in EBITDA likely to lead to a breach of the Heathrow Finance ICR.

The stress test scenario representing a 'severe but plausible' downside models 13.0 million passengers in 2021 and a 71% fall in EBITDA in 2021 compared to the base case, arising from further COVID-19 related disruption due to uncertainty associated with reopening of travel corridors. This 'severe but plausible' scenario is expected to cause the Group to breach minimum levels required for ICR covenant compliance at Heathrow Finance.

In 2020, management agreed a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. On 19 July 2021, the Group launched a public consent process to seek approval from Noteholders for a waiver of the Heathrow Finance ICR for the period ending 31 December 2021. The Group has also commenced discussions with its private lenders and investors over the same request to waive the Heathrow Finance ICR for the period ending 31 December 2021. The process for seeking approval from all creditors is expected to complete in August 2021, therefore after the approval date of these interim consolidated financial statements. Whilst directors are confident that they will receive support from creditors, there is no certainty that a further covenant waiver will be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Conclusion

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds available to meet the Group and Company's funding requirements for at least 12 months from the date of these interim consolidated financial statements, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these interim consolidated financial statements.

The Directors consider that the underlying credit quality of the business means that it can secure, if necessary and in the event of a severe but plausible downside, the timely support of its Noteholders as it successfully secured in 2020.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern.

The interim consolidated financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

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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 2020.

Heathrow Funding Limited

Notes to the condensed financial statements

1 Finance income

	Unaudited Six months ended 30 June 2021	Unaudited Six months ended 30 June 2020	Audited Year ended 31 December 2020
	£m	£m	£m
Net interest receivable from group undertakings	202	227	600
Interest receivable on derivatives	88	14	-
Total finance income	290	241	600
Finance costs			
Interest payable on external borrowings	(309)	(276)	(554)
Interest payable on derivatives	-	-	(80)
Total finance costs	(309)	(276)	(634)
Net finance costs before certain re-measurements	(19)	(35)	(34)

Certain re-measurements

Fair value (loss)/gain on financial instruments

Index-linked swaps with external counterparties ¹	(71)	(105)	(75)
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	119	114	82
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	(104)	113	51
Interest rate swaps with external counterparties ³	(11)	(68)	(70)
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	(14)	71	65
Fair value (loss)/gain on financial instruments	(81)	125	53
Net finance (cost)/income	(100)	90	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.

2 Taxation

	Unaudited Six months ended 30 June 2021	Unaudited Six months ended 30 June 2020	Audited Year ended 31 December 2020
	£m	£m	£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 2021 £m	Audited 31 December 2020 £m
Non-current		
Amount owed by group undertakings – interest bearing ²	13,292	12,582
Derivative financial instruments (Note 6)	1,812	1,653
	15,104	14,235
Current		
Interest receivable from group undertakings ¹	167	151
Amounts owed by group undertakings – interest bearing ²	1,334	1,128
Derivative financial instruments (Note 6)	172	166
	1,673	1,445
	16,777	15,680

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 2021 £m	Audited 31 December 2020 £m
Non-current liabilities		
Borrowings (Note 5)	13,357	12,812
Derivative financial instruments (Note 6)	1,655	1,216
	15,012	14,028
Current liabilities		
Borrowings (Note 5)	1,654	1,441
Derivative financial instruments (Note 6)	23	23
Amounts owed to group undertakings – non-interest bearing	1	1
	1,678	1,465
	16,690	15,493

5 Borrowings

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Amounts falling due within one year		
Secured Bonds		
3.000% CAD450 million due 2021	-	258
8.500% £250 million due 2021	-	251
4.875% US\$1,000 million due 2021	725	732
1.650%+RPI £180 million due 2022	224	-
1.875% €600 million due 2022	514	-
	1,463	1,241
Interest payable on borrowings	191	200
	1,654	1,441
Amounts falling due after more than one year		
Secured Bonds		
1.650%+RPI £180 million due 2022	-	222
1.875% €600 million due 2022	-	536
5.225% £750 million due 2023	724	717
7.125% £600 million due 2024	596	595
0.500% CHF400 million due 2024	314	331
3.250% CAD500 million due 2025	290	285
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	694	694
0.450% CHF210 million due 2026	165	175
2.650% NOK1,000 million due 2027	84	85
3.400% CAD400 million due 2028	232	228
7.075% £200 million due 2028	198	198

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Notes to the condensed financial statements *continued*

5 Borrowings *continued*

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
4.150% AUD175 million due 2028	95	98
2.500% NOK1,000 million due 2029	84	85
3.782% CAD400 million due 2030	232	228
1.500% €750 million due 2030	639	666
6.450% £900 million due 2031	859	857
Zero-coupon €50 million due January 2032	63	65
1.366%+RPI £75 million due 2032	89	88
Zero-coupon €50 million due April 2032	62	64
1.875% €500 million due 2032	427	446
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	53	54
1.875% €650 million due 2034	549	572
1.061%+RPI £180 million due 2036	208	204
1.382%+RPI £50 million due 2039	59	58
3.334%+RPI £460 million due 2039	654	646
Zero-coupon €86 million due 2039	79	81
0.800% JPY10bn due 2039	66	72
1.238%+RPI £100 million due 2040	116	115
5.875% £750 million due 2041	739	739
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	88	87
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	170	166
0.347%+RPI £50 million due 2035	77	76
0.337%+RPI £75 million due 2035	77	76
0.419%+RPI £51 million due 2038	52	51
3.460% £105 million due 2038	105	105
0.362%+RPI £75 million due 2041	77	76
3.661% CAD500 million due 2031	290	285
2.850%+RPI £181.75 million due 2032	185	182
2.75% £450 million due 2029	445	445
1.50% €750 million due 2025	638	665
3.500% AUD125 million due 2041	68	-
2.625% £350 million due 2028	346	-
3.726% CAD300 million due 2033	174	-
1.125% €500 million due 2030	423	-
2.694% CAD650 million due 2027	378	-
Total non-current	13,357	12,812
Total borrowings	15,011	14,253
Total borrowings (excluding interest payable)	14,820	14,053

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, 2.625% £350 million due 2028, 0.347%+RPI £75 million due 2035, 0.337%+RPI £75 million due 2035, 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.

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

6 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
30 June 2021				
Current				
Cross-currency swaps	1,111	147	-	147
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	206	-	(23)	(23)
with fellow subsidiary Heathrow Airport Limited	206	23	-	23
<i>Interest rate swaps</i>				
with counterparties external to the SP Group	-	-	-	-
with fellow subsidiary Heathrow Airport Limited	93	2	-	2
Total current	1,616	172	(23)	149
Non-current				
Cross-currency swaps	5,208	299	(71)	228
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	7,594	82	(560)	(478)
with fellow subsidiary Heathrow Airport Limited	7,594	561	(82)	479
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	5,807	80	(831)	(751)
with fellow subsidiary Heathrow Airport Limited	5,601	790	(111)	679
Total non-current	31,804	1,812	(1,655)	157
Total	33,420	1,984	(1,678)	306
	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2020				
Current				
Cross-currency swaps	868	144	-	144
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	-	-	-	-
with fellow subsidiary Heathrow Airport Limited	93	4	-	4
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	326	1	(21)	(20)
with fellow subsidiary Heathrow Airport Limited	306	17	(2)	15
Total current	1,593	166	(23)	143
Non-current				
Cross currency swaps	4,656	547	(47)	500
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	6,844	33	(431)	(398)
with fellow subsidiary Heathrow Airport Limited	6,844	431	(33)	398
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	5,756	76	(653)	(577)
with fellow subsidiary Heathrow Airport Limited	5,613	566	(52)	514
Total non-current	29,713	1,653	(1,216)	437
Total	31,306	1,819	(1,239)	580

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

Heathrow Funding Limited

Notes to the condensed financial statements *continued*

6 Derivative financial instruments *continued*

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.

7 Reconciliation in net debt

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

	1 January 2021 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2021 £m
Debt due within one year	1,241	(496)	738	(20)	1,463
Debt due after more than one year	12,812	1,379	(738)	(96)	13,357
Net debt	14,053	883	-	(116)	14,820

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 2021	187
Loss for the period	(100)
30 June 2021	87

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)