

Heathrow Funding Limited

Interim report and condensed financial statements for the six months ended 30 June 2023

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 2023, net finance cost was £2 million (six months ended 30 June 2022: £4 million; year ended 31 December 2022: £3 million).

In the six months ended 30 June 2023, net interest receivable from group undertakings was £781 million (six months ended 30 June 2022: £584 million; year ended 31 December 2022: £1,424 million); and interest payable on external borrowings was £343 million (six months ended 30 June 2022: £384 million; year ended 31 December 2022: £793 million).

Net interest payable on derivative financial instruments amounted to £440 million (six months ended 30 June 2022: £204 million receivable; year ended 31 December 2022: £634 million payable).

The fair value gain on financial instruments was £199 million (six months ended 30 June 2022: £378 million loss; year ended 31 December 2022: £291 million loss). This was due to the fair value movement on the cross-currency swaps and some inflation-linked 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 2023 the company made early paydowns of accretion on inflation swaps totalling £159 million, as well as repaying a Class A bond of £750 million which matured in February 2023.

In June the SP Group published its Sustainability-Linked Bond Framework, where Key Performance Indicators ('KPIs') were selected that address 100% of our carbon footprint – including those from airlines, coherent with a science-based 1.5 degree carbon emissions reduction trajectory, which is a first for the broader airport sector. Ambitious Sustainability Performance Targets ('SPTs') were set for 2026 and 2030 that will help track our progress towards our sustainability objectives over the coming years. The framework received a second party opinion from DNV Business Assurance Services UK Limited, confirming the KPIs are robust, core and material to our business. In addition, the second party opinion confirmed the framework is aligned with the five core components of the International Capital Market Association Sustainability-Linked Bond Principles, June 2023 version.

Following the publication of our Framework, in July, the Company priced its debut Sustainability-Linked Bond ('SLB'), a €650 million 10 year trade using the 2030 SPTs. This transaction reinforces our commitment to sustainability by incorporating it into our funding strategy. The bond proceeds were swapped back to GBP and this included our first Sustainability-Linked Derivative ('SLD'). The SLD has the same 2030 SPTs as the SLB. If the targets are missed, the premium on the cost of the transaction will be paid to the swap counterparty's choice of charity.

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 2023 was £197 million (six months ended 30 June 2022: £382 million loss; year ended 31 December 2022: £294 million loss). No ordinary dividends were proposed or paid during the period (six months ended 30 June 2022: £nil; year ended 31 December 2022: £nil)

Heathrow Funding Limited

Interim management report *continued*

Directors

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

Yuanyuan Ding
Javier Echave
Martin Bailey

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 2022. 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

25 July 2023

Company registration number: 99529 (Jersey)

Heathrow Funding Limited

Statement of directors' responsibilities in respect of the interim condensed financial statement

The directors are responsible for preparing the Interim Management 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 set of 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 (indication of important events during the first six months ended 30 June 2023 and a description of the principal risks and uncertainties for the remaining six months of the year).

On behalf of the Board



Javier Echave

Director

25 July 2023

Heathrow Funding Limited

Statement of comprehensive income

	<i>Note</i>	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m	Audited Year ended 31 December 2022 £m
Financing				
Finance income	<i>1</i>	781	584	1,424
Finance costs	<i>1</i>	(783)	(588)	(1,427)
Fair value gain(loss) on financial instruments	<i>1</i>	199	(378)	(291)
Profit/(loss) before tax		197	(382)	(294)
Taxation	<i>2</i>	-	-	-
Profit/(loss) for the period	<i>8</i>	197	(382)	(294)
Total comprehensive income/(loss) for the period		197	(382)	(294)

Heathrow Funding Limited

Statement of financial position

	<i>Note</i>	Unaudited 30 June 2023 £m	Audited 31 December 2022 £m
Assets			
Non-current assets			
Trade and other receivables	<i>3</i>	12,466	13,223
Derivative financial instruments	<i>6</i>	3,489	3,220
		15,955	16,443
Current assets			
Trade and other receivables	<i>3</i>	1,053	1,076
Derivative financial instruments	<i>6</i>	72	21
		1,125	1,097
Total assets		17,080	17,540
Liabilities			
Non-current liabilities			
Borrowings	<i>5</i>	(12,607)	(13,634)
Derivative financial instruments	<i>6</i>	(3,442)	(3,214)
		(16,049)	(16,848)
Current liabilities			
Borrowings	<i>5</i>	(1,112)	(936)
Derivative financial instruments	<i>6</i>	(6)	(39)
Trade and other payables	<i>4</i>	-	(1)
		(1,118)	(976)
Total liabilities		(17,167)	(17,824)
Net liabilities¹		(87)	(284)
Capital and reserves			
Share capital		-	-
Accumulated losses	<i>8</i>	(87)	(284)
Total shareholder's deficit		(87)	(284)

¹ Net liabilities 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 25 July 2023. They were signed on its behalf by:



Javier Echave
Director



Martin Bailey
Director

Heathrow Funding Limited

Statement of cash flows

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m	Audited Year ended 31 December 2022 £m
Operating activities			
Profit/(loss) before tax	197	(382)	(294)
<i>Adjustments for:</i>			
Net finance costs	(197)	382	294
<i>Working capital changes:</i>			
Net decrease in amounts owed by group undertakings - interest bearing ¹	993	861	1,070
Net cash generated from operating activities	993	861	1,070
Cash flows from financing activities			
Proceeds from issuance of bonds	-	136	196
Repayment of bonds	(750)	(730)	(732)
Settlement of accretion on index-linked swaps	(84)	(17)	(44)
Early settlement of accretion on index-linked swaps	(159)	(250)	(490)
Net cash used in financing activities	(993)	(861)	(1,070)
Net change in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of period	-	-	-
Cash and cash equivalents at end of period	-	-	-

¹ This movement excludes non-cash movements in amounts owed by group undertakings - interest bearing.

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 2023 have been consistently applied to the comparative information for the six months ended 30 June 2022 and the year ended 31 December 2022.

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 2022 annual report and financial statements.

Going concern

The Directors have prepared the financial information presented within the interim 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.

Background

In considering the going concern assessment, the Directors have considered the wider Heathrow group given the corporate structure, which involves cash generation across the group and within the main operating company, Heathrow Airport Limited. Heathrow is economically regulated by the CAA which controls Heathrow’s maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026. Due to its delays in making a final decision, the CAA put in place an interim tariff (the “2023 Interim Tariff”) from 1 January 2023 to 31 December 2023 of £31.57 in nominal terms, ahead of a Final Decision which was subsequently published on 8th March 2023. This Final Decision provides an average H7 tariff of £23.06 in 2020 CPI real terms and this has been utilised in the modelling of going concern. Whilst the H7 Final decision contains a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they do not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time.

This critical relationship between H7 prices and forecast passenger numbers, as well as the potential resultant impact to liquidity and debt covenant compliance have been considered in assessing the appropriateness of preparing these interim consolidated financial statements on a going concern basis.

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio (“RAR”), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base (“RAB”); and Interest Cover Ratios (“ICR”), a measure of operating cashflows to debt interest charge. These covenants exist at different levels within the Group’s Class A and Class B debt.

Base case

In assessing the going concern position, the Directors have considered the regulatory uncertainty described above, as well as the potential impacts on cash flow, liquidity and debt covenant compliance over the next 12 months. This involves the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 traffic forecasts.
- Forecast level of capital expenditure based on the CAA’s H7 Final Decision.
- 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.
- The risk of high inflation and higher interest rates on consumer spending

In modelling passenger number recovery from COVID-19, there remains a degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Nevertheless, passenger numbers have increased significantly in the first six months of 2023; with total passengers to 30 June increasing by 42% versus 2022 to 37.1 million (96% of 2019 levels). Despite

Heathrow Funding Limited

Accounting policies continued

Going concern *continued*

a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong. This is represented by the base case traffic forecast increasing to 74 million for the full year (from 67.2 million previously).

The base case uses the CAA's Interim Tariff for the entirety of 2023, with a 2024 nominal tariff of £25.43 based on the tariff set out in the CAA's Final Decision. Under the base case, the Group will meet all covenants associated with its financial arrangements.

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Despite more challenging and volatile market conditions, in April this year, an £85 million private placement was completed with settlement of funds taking place in July. Also, in July 2023, the Group successfully raised €650 million through an inaugural Sustainability Linked Bond. These transactions complete over 86% of the Group's funding plan for 2023 and demonstrate continued support and confidence in the Group's credit. As at 30 June 2023, the Group had total liquidity available of £3.8 billion, comprising £1.2 billion of cash held at Heathrow SP, £1.2 billion of cash held at Heathrow Finance as well as a £1.38 billion undrawn revolving credit facility. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2023 is £0.9 billion. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios in the preparation of the interim consolidated financial statements. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers, particularly in a highly inflationary economic environment impacting the disposable income of passengers on cash flow generation, liquidity and debt covenant compliance.

Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2023 and 2024 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. For the remainder of 2023, the low range of passengers represents an 8% reduction against the base case. The tariff and capex assumptions remain the same as in the base case.

Under this scenario, the Group has sufficient liquidity to meet all forecast cash flow needs with no breach of its covenants in the going concern period.

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 the interim consolidated financial statements and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

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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 2022.

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Notes to the condensed financial statements

1 Financing

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m	Audited Year ended 31 December 2022 £m
Finance income			
Net interest receivable from group undertakings	781	584	1,424
Total finance income	781	584	1424
Finance costs			
Interest payable on external borrowings	(343)	(384)	(793)
Net interest payable on derivatives	(440)	(204)	(634)
Total finance costs	(783)	(588)	(1,427)
Net finance costs before certain re-measurements	(2)	(4)	(3)
Certain re-measurements			
Fair value gain/(loss) on financial instruments			
Index-linked swaps with external counterparties ¹	163	249	661
Index-linked swaps as back-to-back derivatives with Heathrow Airport Limited ¹	(87)	(282)	(658)
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ²	123	(346)	(294)
Interest rate swaps with external counterparties ³	120	107	267
Interest rate swaps as back-to-back derivatives with Heathrow Airport Limited ³	(120)	(106)	(267)
Fair value gain/(loss) on financial instruments	199	(378)	(291)
Net finance cost	197	(382)	(294)

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 2023 £m	Unaudited Six months ended 30 June 2022 £m	Audited Year ended 31 December 2022 £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.

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Notes to the condensed financial statements *continued*

3 Trade and other receivables

	Unaudited 30 June 2023 £m	Audited 31 December 2022 £m
Current		
Interest receivable from group undertakings ¹	177	180
Amounts owed by group undertakings – interest bearing ²	876	896
	1,053	1,076
Non-current		
Amount owed by group undertakings – interest bearing ²	12,466	13,223
	12,466	13,223
Trade and other receivables	13,519	14,299

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 2023 £m	Audited 31 December 2022 £m
Current		
Amounts owed to group undertakings – non-interest bearing	-	1
Trade and other payables	-	1

5 Borrowings

	Unaudited 30 June 2023 £m	Audited 31 December 2022 £m
Current		
Secured Bonds		
5.225% £750 million due 2023	-	747
7.125% £600 million due 2024	599	-
0.500% CHF400 million due 2024	352	-
	951	747
Interest payable on borrowings	161	189
	1,112	936
Non-current		
Secured Bonds		
7.125% £600 million due 2024	-	598
0.500% CHF400 million due 2024	-	358
3.250% C\$500 million due 2025	296	304
1.500% €750 million due 2025	641	660
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	696	696
0.450% CHF210 million due 2026	185	189
2.650% NOK1,000 million due 2027	73	84
2.694% C\$650 million due 2027	385	395
1.800% CHF165 million due 2027	145	147

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Notes to the condensed financial statements *continued*

5 Borrowings *continued*

	Unaudited 30 June 2023	Audited 31 December 2022
	£m	£m
2.625% £350 million due 2028	347	347
3.400% C\$400 million due 2028	237	243
7.075% £200 million due 2028	199	199
4.150% A\$175 million due 2028	92	98
2.500% NOK1,000 million due 2029	73	84
2.750% £450 million due 2029	446	446
3.782% C\$400 million due 2030	237	243
1.125% €500 million due 2030	425	438
1.500% €750 million due 2030	640	660
3.661% C\$500 million due 2031	296	304
6.450% £900 million due 2031	864	863
Zero-coupon €50 million due January 2032	69	70
1.366%+RPI £75 million due 2032	110	104
Zero-coupon €50 million due April 2032	68	68
0.101%+RPI £182 million due 2032	229	218
1.875% €500 million due 2032	428	441
3.726% C\$625 million due 2033	376	386
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	56	57
1.875% €650 million due 2034	551	567
0.347%+RPI £75 million due 2035	95	91
0.337%+RPI £75 million due 2036	95	91
1.061%+RPI £180 million due 2036	256	245
0.419%+RPI £51 million due 2038	64	61
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	73	69
3.334%+RPI £460 million due 2039	804	765
Zero-coupon €86 million due 2039	82	84
0.800% JPY10,000 million due 2039	56	64
1.238%+RPI £100 million due 2040	144	137
0.362%+RPI £75 million due 2041	95	91
3.500% A\$125 million due 2041	65	70
5.875% £750 million due 2041	740	739
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
4.702% £60 million due 2047	60	60
1.372%+RPI £75 million due 2049	110	104
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	205	197
Total non-current	12,607	13,634
Total borrowings	13,719	14,570
Total borrowings (excluding interest payable)	13,558	14,381

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, 0.101%+RPI £182 million due 2032, 0.347%+RPI £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.

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Notes to the condensed financial statements *continued*

6 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
30 June 2023				
Current				
Cross-currency swaps	277	66	-	66
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	100	-	(6)	(6)
with fellow subsidiary Heathrow Airport Limited	100	6	-	6
Total current	477	72	(6)	66
Non-current				
Cross-currency swaps	5,256	267	(253)	14
<i>Interest rate swaps:</i>				
with counter parties external to the SP Group	7,378	779	(1,017)	(238)
with fellow subsidiary Heathrow Airport Limited	7,378	1,017	(779)	238
<i>Index-linked swaps:</i>				
with counter parties external to the SP Group	5,547	135	(1,286)	(1,151)
with fellow subsidiary Heathrow Airport Limited	5,401	1,291	(107)	1,184
Total non-current	30,960	3,489	(3,442)	47
Total	31,437	3,561	(3,448)	113
	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2022				
Current				
Cross-currency swaps	-	-	-	-
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	160	-	(39)	(39)
with fellow subsidiary Heathrow Airport Limited	100	21	-	21
Total current	260	21	(39)	18
Non-current				
Cross currency swaps	5,533	336	(186)	150
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	7,378	662	(1,010)	(348)
with fellow subsidiary Heathrow Airport Limited	7,378	1,009	(662)	347
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	5,547	146	(1,241)	(1,095)
with fellow subsidiary Heathrow Airport Limited	5,401	1,067	(115)	952
Total non-current	31,237	3,220	(3,214)	6
Total	31,497	3,241	(3,253)	(12)

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.

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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 2023 £m	Issuance/re- payment of bonds £m	Transfers to within one year £m	Other non-cash changes ¹ £m	30 June 2023 £m
Debt due within one year	747	(750)	956	(2)	951
Debt due after more than one year	13,634	-	(956)	(71)	12,607
Net debt	14,381	(750)	-	(73)	13,558

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

8 Accumulated losses

	£m
1 January 2023	(284)
Profit for the period	197
30 June 2023	(87)

9 Subsequent events

In July 2023, the Company successfully priced its debut Sustainability-Linked bond, amounting to EUR 650 million and 10 years in tenor.

Registered office

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