

Heathrow Funding Limited
Annual report and financial statements
for the year ended 31 December 2021

Heathrow Funding Limited

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Heathrow Funding Limited

Officers and professional advisers

Directors

Yuanyuan Ding
Javier Echave
Nicholas Golding
Lisa Aune

Company secretary

Sanne Secretaries Limited

Registered office

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Independent auditors

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Bankers

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Heathrow Funding Limited

Directors' report

The directors present their annual report and the audited financial statements for Heathrow Funding Limited (the 'Company') for the year ended 31 December 2021.

Principal activities

The Company's primary purpose is to raise funding through the issuance of bonds and to provide funding to Heathrow (SP) Limited and its subsidiaries (together the 'SP Group'). FX and interest rate risks are managed by the 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 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 'HAHL 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 HAML 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 year ended 31 December 2021, net finance expense was £177 million (2020: Net finance income of £19 million). The movement was predominantly driven by the fair value loss on financial instruments of £140 million (2020: £53 million gain). This in turn was driven by a fair value loss of £132 million (2020: £51 million gain) on our cross-currency swap portfolio resulting from increasing interest rates. Our cross-currency swap portfolio economically hedges the SP Group's currency debt portfolio. Other net finance expense movements included interest receivable from group undertakings increased to £813 million (2020: £600 million), interest payable on external borrowings increased to £642 million (2020: £554 million) and net interest on derivative financial instruments increased to £208 million (2020: £80 million). The increase in net interest on derivative financial instruments was in part due to accretion on index-linked swaps, which was affected by the increase in inflation of 7.1% during 2021 (as the company pays RPI on its inflation-linked swaps).

The mark-to-market value of cross-currency swaps was negatively impacted during the period mainly due to higher EUR and CHF Libor rates.

The settlement of £69 million (2020: £285 million) of accretion on index-linked swaps and the appreciation of Sterling against the hedged currencies, impacted the carrying value of all derivatives which changed from a net asset of £580 million at 31 December 2020 to a net asset of £71 million at 31 December 2021 as shown in Note 6.

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. Heathrow's recent financing strategy has looked to balance certainty of term funding with the cost of carrying substantial cash in the statement of financial position.

During the year the Company raised £1.6 billion of new debt.

Class A financing activities included:

- a. A new €500 million public bond maturing in 2030;
- b. A new Canadian Dollar dual tranche transaction comprising a C\$650 million public bond maturing in 2027 and a C\$300 million public bond maturing in 2033;
- c. A new C\$325 million tap of the 2033 public bond;
- d. A new A\$125 million private placement maturing in 2041;
- e. The scheduled repayment of a £250 million public bond in March;
- f. The scheduled repayment of a C\$450 million public bond in June;
- g. The scheduled repayment of a USD\$1,000 million public bond in July;

Class B financing activities included:

- a. A new £350 million public bond maturing in 2028.

No significant changes to the activities of the Company are expected in the foreseeable future.

Heathrow Funding Limited

Directors' report *continued*

Results and dividends

The loss after taxation for the financial year amounted to £177 million (2020: profit after taxation of £19 million). The Company's net assets as at 31 December 2021 were £10 million (2020: £187 million). No ordinary dividends were proposed or paid during the year (2020: £nil). The statutory results for the year are set out on page 18.

Directors

The directors who served during the year and since the year end, are as follows:

Yuanyuan Ding
 Javier Echave
 Nicholas Golding
 Lisa Aune

Employment policies

The Company has no direct employees (2020: none).

Key performance indicators

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the financial performance and financial position of the Company.

Going Concern

The financial information presented within these financial statements has been prepared on a going concern basis. The Company, as part of the H AHL Group, has a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. Nevertheless, the impact of COVID-19 continues to create considerable uncertainty with regard to forecast passenger numbers and the corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period. These uncertainties may result in the Group needing to take further action, including seeking further covenant waivers or amendments from creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Company's ability to continue as a going concern. More detail can be found in the going concern statement on page 21.

Internal controls and risk management

Internal controls and risk management are key elements of the Company's corporate operations.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company and for reviewing the effectiveness of the system. This is implemented by applying the H AHL Group internal control procedures, supported by a Code of Professional Conduct Policy, appropriate segregation of duties controls, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the Company's internal control and risk management systems in relation to the financial reporting process include:

- a company-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- Audit Committee review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items;
 - compliance with accounting, legal, regulatory and lending requirements;
 - critical accounting policies and the going concern assumption;
 - significant areas of judgement and estimates;
 - key financial statement risk areas;
- independent review of controls by the Internal Audit function, reporting to the Audit Committee; and
- a confidential whistleblowing process.

Heathrow Funding Limited

Directors' report *continued*

Risk management

The Heathrow Risk and Assurance Management framework is an enterprise risk management system that is embedded Group-wide with the principal aim of providing oversight and governance of the key risks that HAHL Group faces, and to monitor upcoming and emerging risks.

The framework provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow. During 2021, we have continued to improve our risk processes, building on the current risk-management structure, to enhance the data quality, completeness of risk information and control measurement in addition to improving the overall reporting integrity.

The HAHL Board has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two HAHL Board sub-committees which are responsible for risk: the Audit Committee, which reviews the effectiveness of systems for internal financial and operational control, and the Sustainability and Operational Risk Committee, which reviews the effectiveness of operational reporting and performs an oversight review of the performance against sustainability goals and operational targets.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets every six weeks. The risks are then reviewed by the Executive Committee before being submitted to the Audit Committee and Sustainability and Operational Risk Committee for independent review and challenge. The final Heathrow Risk Outlook Report is then reviewed and approved by the HAHL Board on a quarterly basis.

Principal risks have been identified at an Executive level ensuring a comprehensive top-down approach to risk identification. A Principal Risk is a risk that has been identified by the HAHL Board, its formal committees, the Executive Committee, or the Risk and Assurance Committee, as an important risk that fundamentally affects the business's ability to deliver on its overarching objectives. A Principal Risk is assessed according to the likelihood, consequence and velocity by which the risk may impact Heathrow.

Our principal risks are aligned to our 4 strategic priorities as follows:

- **Mojo.** To be a great place to work, we will help our people fulfil their potential and work together to lead change across Heathrow with energy and pride;
- **Transform customer service.** To give passengers the best airport service in the world we'll work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience;
- **Beat the plan.** To secure future investment we will beat the Q6 business plan and deliver a competitive return to our shareholders by growing our revenue, reducing costs and delivering investments more efficiently; and
- **Sustainable Growth.** To grow and operate our airport sustainably, now and in the future.

The risks outlined below are the principal strategic, corporate and operational risks identified. This is a current point-in-time assessment of the risk profile that the HAHL Group faces, as the risk environment evolves these risks are being constantly reviewed and updated.

Principal risks

A Safe and Secure Operating Environment

Keeping people safe and well is one of our core values and a non-negotiable priority. We have a legal and moral responsibility to ensure that we safeguard the wellbeing of our people, and also our business partners and the public who may be affected by our activities, from the risks relating to fire, health, and safety. An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks. Since 2020 COVID-19 added to those risks and the complexity of their management and continues to be an area of specific focus. Failure to operate a safe and healthy environment risks: damaging the health and wellbeing of stakeholders, impacting colleague engagement, operational disruption and costs, inconvenience to passengers and long-term damage to our reputation. The UK security threat level is substantial. We are responsible for ensuring that our assets, infrastructure, human and electronic systems and processes meet requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers.

Risk mitigation

Our fire, health and safety ('FHS') management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. We set FHS standards for our own operations and companies that work at our airport. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles.

Heathrow Funding Limited

Directors' report *continued*

Principal risks *continued*

A Safe and Secure Operating Environment *continued*

Governance, led by our senior management teams, and assurance processes are used to ensure that controls around health-and-safety risks remain effective and continuous improvement is encouraged. In the current year our safety improvement team has initiated a new '4 pillar' safety plan which is designed to improve the fundamental building blocks of a safe operating environment and safety culture. Colleagues' health and wellbeing is promoted and supported by a range of products and services including our Employee Assistance Programme, online GP service and information and tools for managers and colleagues.

COVID-19 specific risks have been addressed within our Fly Safe programme. We have invested in UK aviation's most extensive array of COVID-19-secure technologies. New rapid testing technologies are already helping to open up overseas markets safely. We also have a confidential reporting line through which concerns of wrongdoing at work can be reported (Safecall). We continue to manage COVID-19 related risks and have been awarded a 4* Skytrax rating and COVID Excellence Award for our related controls. We work with government agencies to ensure security procedures are appropriate and mitigate evolving threats. Procedures are subject to review through the internal controls mechanism and via independent scrutiny from the CAA, and other domestic/international agencies.

Information Security

Information security, which refers primarily to our systems and information and the data contained in them, continues to be a risk for Heathrow. Malicious cyber-attack is a continued risk given the size and breadth of our network and operating environment. Attacks continue to be more sophisticated, especially around phishing and ransomware which are now a persistent challenge for all industries. In addition, new ways of working following the COVID-19 crisis have also resulted in an increased risk profile.

Risk mitigation

Through a Technology and Cyber Security Directorate led cyber improvement programme, we are implementing strong technical and operational measures to enable us to comply with our regulatory and legal requirements. Annual mandatory training has been successfully rolled out along with regular awareness campaigns with emphasis on phishing emails, the use of social media and implementing good cyber security practices. The cyber security programme will introduce a revised training programme in 2022 and oversee the management of cyber risks at Heathrow within the wider business. The Heathrow Acceptable Use Policy has been amended to reflect our information security risks and the organisation's working practices.

Regulation Requirements

We are subject to economic regulatory review. Changes to economic regulation could materially impact the performance of the business. Failure to comply with laws and regulations could result in loss of licence, penalties, claims and litigation, reputational damage and loss of stakeholder confidence.

Risk mitigation

The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team. This team ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHL Board on regulatory matters. The regulatory framework requires formal engagement with airline customers. All airlines are invited to be represented on engagement forums – for example joint steering groups.

In addition, key stakeholders are engaged on a joint planning basis which provides the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood. We worked closely with airlines, the CAA and other stakeholders as we developed Heathrow's Revised Business Plan for the H7 regulatory period which was published in December 2020, and our Update 1 of this plan that was published in June 2021. In parallel we are engaging on our application for an adjustment to the RAB to recover an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. Both the H7 settlement and the enactment of any further RAB adjustment are highly uncertain at this stage. There is a material risk for both that, based on regulatory publications to date, the regulator could fail in practice to enact established regulatory principles such as a fair balance of risk and return or the return of regulatory depreciation. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority.

Heathrow Funding Limited

Directors' report *continued*

Principal risks *continued*

Regulation Requirements *continued*

The CAA set out its initial proposals in October 2021, which set out a range of potential charges for H7 and a range of assumptions on traffic, costs, capex, return and commercial revenues alongside a proposed regulatory framework for H7. There is a substantial gap between the CAA proposals and the estimates included in our H7 RBP Update 1. We submitted our response to the CAA's Initial Proposals in Mid-December setting out numerous errors in their proposals. Alongside our response we also submitted the second update to our Revised Business Plan (RBP Update 2).

The CAA completed its review of expansion costs as part of its initial proposals. It has allowed the vast majority of expansion costs to be recovered from 2022 in line with our request. The CAA has identified up to £5 million of expenditure that might be disallowed for being potentially inefficient. These costs have been incurred by Heathrow and will be removed from the Opening RAB for H7 by the CAA.

In addition, we engage closely with internal and external legal advisors to ensure that relevant and appropriate advice is received and that our response to reviews and our actions to ensure compliance with regulatory requirements reflect such advice.

Legal status of Airports National Policy Statement ('ANPS')

In June 2018 the Secretary of State for Transport designated the ANPS providing policy support for Heathrow expansion. In February 2020, the Court of Appeal held that the ANPS was not lawfully made because the Secretary of State was required but failed to take into account the Paris Agreement and other climate change matters. The Court of Appeal declared that the ANPS has no legal effect unless and until it is reviewed by the Government under statutory procedures. We appealed this decision. Our appeal was heard by the Supreme Court in October 2020 and judgement issued on 16 December 2020. The Supreme Court unanimously allowed our appeal meaning the ANPS has been reinstated. In September 2021, in response to several requests to review the ANPS, the Government decided that it is not appropriate to review the ANPS at this time. The ANPS is therefore current Government policy and has full effect.

Risk mitigation

In 2020 we appealed the Court of Appeal's judgement on legal grounds with a view to reinstating the ANPS. Having won the appeal and restored the ANPS, we have positively reiterated the case for expanding Heathrow in line with Government policy and we are continuing to engage with the Government, the CAA and other stakeholders on the next steps to progress our plans.

Heathrow remains committed to a long-term sustainable expansion. When demand returns to pre COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions.

Reduction in global demand and revenues

COVID-19 has led to an unprecedented decline in passenger volumes and revenues. These circumstances have been exacerbated by the regulatory and policy environment – Government has imposed quarantines, delayed the introduction of testing solutions, removed VAT Free shopping and excluded Heathrow from full business rates alleviation. Retail has been the largest non-aeronautical income stream impacted.

Limited revenue growth is currently driven by the lack of certainty over consumer demand recovery in 2022, COVID-19 testing regimes and a continuation of restrictive travel policies in different countries and markets; with dependency on optimal slot outcomes potentially constraining the environment for growth.

Risk mitigation

Our strategic response to protect revenues and drive passenger volumes has been:

1. Slot strategy in place to secure desired slot recommendation for S22 and for the future, with advocacy plan also in place to influence DfT, ACI (World and Europe), IATA and other stakeholders to align to Heathrow's position.
2. Senior engagement Plan in place with key airlines.
3. Network strategy in place to target, grow and protect vulnerable routes and new entrants.
4. Continuous focus on optimising revenues from Aviation's 4 Strategic Initiatives: Incumbent Build Back, London Consolidation, New Entrants and Cargo Growth.
5. Work with ACL (our coordinator) and Ops Planning on pre-season schedule optimisation.
6. Industry monitoring via daily updates from CAPA, media cuts and other industry events, as well as attendance at Routes (Network) and IATA (slots and cargo) conferences.

Heathrow Funding Limited

Directors' report *continued*

Principal risks *continued*

Reduction in global demand and revenues *continued*

Retail

Key measures implemented to contain the impact on retail income include:

1. Close monitoring and balance of assessed debt and contractual fixed income guarantees in order to maximise overall retail revenue.
2. Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deed with minimal level of disruption and delays (e.g., lending locations to businesses that could make immediate use of the structure 'as is').
3. Continued dialogue with officials in HMT around the impact and pitching alternative solution for the reintroduction of VAT free shopping for departing passengers and the opportunity to introduce duty free shopping for arriving passengers.

We have legally challenged the Government where we feel that Government decisions have over-reached their powers and will continue to ensure that we vigorously protect our revenue position.

Liquidity and ability to access finance

We need to continue to be able to access finance to fund our current operations.

Risk mitigation

We produce long-term forecasts which include consideration of significant downside risk to enable our management to conclude that covenant terms are likely to be met, and that we have the ability to access additional future finance as required.

We have invested in a suitably skilled Treasury and Investment Finance team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed. Realisation of Principal and other risks, mainly regulatory uncertainty, could deteriorate the quality of our credit rating and increase this risk. These uncertainties may result in the Group needing to take further action, including seeking future further covenant waivers or amendments from 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.

Resilience of Team Heathrow

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as more widely on the other key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that a sustained lack of resilience across the wider Team Heathrow has an impact on our ability to provide the service levels and passenger experience our passengers and airlines expect. Ramp-up resource forecasts coupled with current UK labour market conditions appear to suggest a further potential exacerbation of the scenario.

Risk mitigation

We continue to work closely with our airline customers, retailers and wider stakeholders. We monitor the financial health of our key Team Heathrow partners to ensure we have early warning of any concerns so that where possible we can work together to find a solution or provide alternative facilities where this proves to be the more viable option. Regular engagement takes place at both management and operative level across key members of Team Heathrow to discuss future plans and strategies.

Across our supply chain, our Supplier Management function monitors the real-time financial risks associated with our critical suppliers (e.g., financial strength, likelihood of insolvency, liquidity, credit worthiness, compliance with payment terms, etc.). This monitoring enables early sight of potential insolvency risks, which are initially investigated by Supplier Management and highlighted immediately to relevant Commercial Managers, allowing risks to be managed by all relevant stakeholders and mitigated.

Ineffective Organisation – Systems and People

Systems – Technology is evolving rapidly. In order to meet the needs of our business we must constantly adapt to our internal and external requirements. Existing systems and processes become unsuitable, outdated and need to evolve so that we can remain competitive, effective and efficient.

People – Our people ensure that we operate effectively and efficiently. External and internal requirements put pressure on colleagues. This pressure has increased as a result of the COVID-19 pandemic, risk of a threat of industrial action and the challenging external resourcing market (i.e.: the "great resignation" plus the impact of Brexit on the labour market). Recruitment demand has sharply increased with vacancies in the UK peaking at 1.2 million (Sept 2021) however the labour market supply is low.

Heathrow Funding Limited

Directors' report *continued*

Principal risks *continued*

Ineffective Organisation – Systems and People *continued*

Risk mitigation

Systems – We continuously review systems and processes to ensure they meet the needs of our business. Where benefits exceed the cost, we invest in new systems. In 2019 we launched a project to upgrade our financial and people ERP system to enable working in a simpler, more agile and cost-effective way. Now that the cloud-based system has successfully launched, it will be upgraded quarterly to ensure it remains modern and relevant and provides the opportunity for continuous improvement and benefits.

People – We continue to invest in our people and have a strategy to ensure the development of talent and careers at Heathrow. Policies are in place to engage and motivate our colleagues; as well as maintain accountability and compliance with internal governance, policies and procedures. We provide career opportunities, development and training. Talent and criticality of roles and individuals are reviewed regularly. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

Political environment

Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. The implementation of Brexit and COVID-19 related restrictions has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply chain, and our people.

Risk mitigation

We continue to make a strong case for our place in aviation and the wider economy and the part we play in Global Britain, and we explain the benefits that our ability to meet the UK's demand for long-haul travel brings. Whilst a change in the Government's focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAML Board, which has implemented a structured approach to the identification and management of all risks related to Brexit and Government COVID-19 policy.

Competition

We compete against other airports both within the UK and across the world for passengers; some make marginal choices, particularly connecting passengers, about which route to fly. The impact of COVID-19 has closed many global aviation markets as governments seek to control the spread of the virus and led many airlines to materially reduce their flying schedules or even cease flying to some airports altogether. As a result, there is currently spare capacity across all of the airports in the 'London system' including Heathrow, and also across our European Hub competitors.

Risk mitigation

Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users, with no degradation to the experience of our passengers and colleagues despite the impact of COVID-19. Maintaining commercial strategies that enable us not only to remain affordable but will actually make us more competitive is also important to retain key passenger groups and partners.

Climate change and net zero carbon

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry, must set firmly on a path to net zero and demonstrate real progress in this decade. Heathrow follows the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and climate related risk is therefore considered under the following categories:

- Transitional risks – Transitional risks relate to the decarbonisation of Heathrow and the aviation sector to achieve net zero carbon emissions. Political, consumer and investor attitudes to aviation's climate impacts will become more negative without tangible progress to cut emissions and confidence in the sector's net zero plan, threatening our ability to recover, operate and grow.
- Physical risks – Physical risks relate to the resilience of our assets, operations and network to the negative impacts of climate change including more extreme weather events.

These risks are presented in greater detail in the HAML Group annual report and financial statements within the TCFD section. These can be found on the www.heathrow.com website.

Heathrow Funding Limited

Directors' report *continued*

Principal risks *continued*

Climate change and net zero carbon *continued*

Risk mitigation

In 2020, the UK aviation sector, including Heathrow, committed to net zero carbon and published a joint roadmap to get there. The aviation sector roadmap sets a clear industry goal for tackling climate change and focuses attention on the actions that will be needed to meet it. In October 2021, IATA, the international industry airline body also committed to net zero emissions by 2050.

We published our Net Zero Plan in February 2022 to guide our approach to decarbonisation. Our plan is aligned to the broader aviation sector roadmap and sets clear goals and targets to cut emissions by 2030 and beyond. The significant priority is accelerating net zero flying in the 2020s by securing the right policies for Sustainable Aviation Fuel (SAF) production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. To ensure and support the delivery of our Net Zero Plan, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 140001 and 50001 management systems which commit us to continuous improvement.

Financial stability

The H AHL Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the H AHL Group Finance Committee. Senior management directly control day-to-day treasury operations on a centralised basis. The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the H AHL Group's business operations and funding. To achieve this, the Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

The primary treasury-related financial risks faced by the H AHL Group are:

- a. Interest rates
The Group maintains a mix of fixed and floating rate debt. Interest rate swaps are entered into by the Group to mitigate the interest rate risk for the Group.
- b. Inflation
The Group mitigates the risk of mismatch between Heathrow's aeronautical income and regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments, by the issuance of index-linked instruments.
- c. Foreign currency
The Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.
- d. Funding and liquidity
The Group has established both investment grade and sub-investment grade financing platforms for Heathrow. The platforms support term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior or junior format. Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the H AHL Group Audit Committee, the Board and Executive Committee. Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

H AHL Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, until at least February 2023. As at 31 December 2021, the H AHL Group had cash and cash equivalents and term deposits of £2,901 million.
- e. Counterparty credit
The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

Heathrow Funding Limited

Directors' report *continued*

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies (Jersey) Law 1991, but without prejudice to any protection from liability which might otherwise apply, every

Director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by them in defending any proceedings in which judgement is given in their favour, or in which they are acquitted or in connection with any application in which relief is granted to them by the court for any negligence, default, breach of duty or breach of trust by them in relation to the Company or otherwise in connection with their duties or powers or office. This indemnity also applies to the Directors who are Directors of other companies within the Group. The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies (Jersey) Law 1991) are in place during the 2021 financial year and at the date of approving the Financial Statements.

Auditor

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed within the period set out in section 485 of the Companies Act 2006.

Statement of disclosure of information to the Auditor

Each of the persons who is a director at the date of approval of this Annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the Companies (Jersey) Law 1991.

Subsequent events

Subsequent events are disclosed in note 12.

The Directors' report was approved and authorised by the Board and issued on behalf of the Board by:



Javier Echave

Director

29 March 2022

Heathrow Funding Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable Jersey law and United Kingdom Accounting Standards.

The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are responsible for:

- selecting suitable accounting policies and then applying them consistently;
- stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- making judgements and accounting estimates that are reasonable and prudent; and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring that the financial statements comply with The Companies (Jersey) Law, 1991 and safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company.

The Directors' report was approved and authorised by the Board and issued on behalf of the Board by:



Javier Echave
Director

29 March 2022

Heathrow Funding Limited

Independent auditors' report to the members of Heathrow Funding Limited

Report on the audit of the financial statements

Opinion

In our opinion, Heathrow Funding Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the statement of comprehensive income and the statement of changes in equity for the year then ended; the accounting policies; the significant estimates and judgements; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the going concern section of the accounting policies to the financial statements concerning the company's ability to continue as a going concern. Heathrow continues to be significantly impacted by the COVID-19 pandemic which has resulted in a deterioration in passenger traffic and cash flows. The ability of the company to continue as a going concern is underpinned by the performance of the wider Heathrow group of companies (the "group"). The group's forecast and projections assume the regulatory tariffs as described in the basis of preparation section on page 21 and a gradual recovery in the passenger number forecast in the going concern period which still represents a significant reduction to historical revenue levels. In addition, the group has been impacted by uncertainties in relation to the confirmation of their regulatory pricing from the Civil Aviation Authority (CAA) for the upcoming regulatory period (H7). In the event there are further waves of the pandemic or implementation of lockdowns, leading to further travel restrictions being imposed worldwide, the group, whilst having sufficient liquidity, may require covenant waivers in respect to the interest cover ratio (ICR) measured as at 31 December 2022. These conditions, along with the other matters explained in the going concern section of the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Heathrow Funding Limited

Independent auditor's report to the members of Heathrow Funding Limited *continued*

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's models supporting the going concern assessment, including the assumptions adopted in relation to the published CAA tariff range, and ensuring appropriate severe but plausible scenarios were considered. We challenged management's key cash flow assumptions by performing our own sensitivity analysis;
- Evaluating management's assumptions in light of both historical and post year end performance and assessing consistency with other evidence obtained during the course of our audit work;
- Understanding the covenants and assessing the forecast covenant calculations; and
- Assessing the adequacy of management's disclosures in relation to the material uncertainty in respect of the going concern basis of preparation.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Context

This is our second year as auditors of the company and COVID-19 has again had a significant impact on the wider Heathrow group ('Heathrow'), which includes the company. The impact has, therefore, been relevant both in relation to our assessment of the audit risks, as well as the way we have planned to execute our work in what has been a largely remote working environment. The pandemic continues to present significant trading challenges, as described in the Directors' report, with travel restrictions having remained in place for much of the year. The uncertainty around travel restrictions and further new COVID-19 variants continues to impact the ability of Heathrow to accurately forecast future cash flows for a business that, pre-pandemic, was relatively stable and predictable.

The company has also implemented a new cloud-based enterprise resource planning (ERP) system in the year. Our audit was, therefore, performed on the legacy system for nine months of the year and on the new system for three months. Together with our IT audit specialists, we assessed the impact of the design and implementation of the new system on the audit and performed audit procedures to respond to any additional risks arising as a result.

This year we also, for the first time in our audit opinion, set out our consideration of the impact of and the audit response to climate change which has been identified by the directors as one of the principal risks faced by the business (described in the Directors' report). Climate change risk is expected to continue to have a significant impact on the aviation industry. As part of our audit risk assessment, we again explicitly considered the impact of climate change on the financial statements, understood and challenged management's climate risk assessment, together with our climate expert, by reviewing the Heathrow 2.0 Sustainability Strategy and holding discussions with management's climate experts, and considered the consistency of climate related disclosures with the financial statements and knowledge obtained from our audit.

Overview

Audit scope

- Our audit scope includes a full scope audit of the company.

Key audit matters

- Material uncertainty related to going concern
- Valuation of derivative financial instruments - inflation linked swaps including day 1 fair valuation and credit risk adjustment
- Impact of COVID-19

Materiality

- Overall materiality: £73m (2020: £71m) which reflects approximately 0.5% of external borrowings.
- Performance materiality: £55m (2020: £53m).

Heathrow Funding Limited

Independent auditor's report to the members of Heathrow Funding Limited *continued*

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of derivative financial instruments - inflation linked swaps including day 1 fair valuation and credit risk adjustment</i></p> <p>Refer to the Accounting Policies, significant estimates and judgements and to note 6 in the financial statements.</p> <p>As at 31 December 2021, the company held derivative assets of £2,426m and derivative liabilities of £2,355m on the balance sheet. Included in these derivative balances were inflation linked swaps totalling £1,369m assets and £1,479m liabilities.</p> <p>IAS 39 "Financial Instruments" requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship.</p> <p>Due to the nature and complexity in the valuation involved, we identified a significant risk that the fair value of inflation linked swaps may be misstated. The risk is mainly driven by:</p> <ul style="list-style-type: none"> ● the treatment (being manual in nature) of valuation differences between the consideration paid or received and the system derived fair value on inception or restructuring; and ● the application of credit risk (in particular the assumed loss given default percentage) to the valuation due to these derivatives ranking as super senior in the priority of payments. 	<p>We, with the support of our Treasury experts, performed the following audit procedures:</p> <ul style="list-style-type: none"> ● Assessed the design and implementation of key controls relating to the valuation of derivatives; ● On a sample basis, performed independent valuation testing on the derivatives, including the credit risk adjustment and the new day-1 fair value at 31 December 2021; ● Recalculated and assessed the accounting treatment for the day-1 fair value of derivatives in line with IAS 39 - Financial Instruments; ● Inspected the documentation supporting the super senior nature of interest rate swaps and inflation linked swaps where a higher recovery rate is used in the valuation and evaluated whether the rate used is in line with the expected market rate; ● Obtained third party confirmations from the financial institutions with which the company holds derivative instruments to assess the completeness and valuation of the instruments; ● Tested the application and quantum of the recovery rate applied to the super senior derivatives; and ● Assessed management's derivative fair value disclosures in the financial statements. <p>The results of our procedures above did not identify any exceptions.</p> <p>We consider management's derivative fair value disclosures in the financial statements to be adequate.</p>
<p><i>Impact of COVID-19</i></p> <p>Refer to the Directors' report on page 3 and Going Concern section within the Accounting Policies on page 21.</p> <p>COVID-19 has continued to have a pervasive impact on the business and the wider aviation industry. The most recent government guidance and our hybrid working models has meant that the year end financial close process and external audit has had to take place remotely.</p>	<p>Our audit focused on those areas where management identified potential financial impacts arising as a result of the pandemic, which, based on our independent risk assessment, could have given rise to a risk of material misstatement.</p> <p>Despite undertaking most of our year end work remotely, we did not encounter any significant</p>

Heathrow Funding Limited

Independent auditor's report to the members of Heathrow Funding Limited *continued*

<p>The Directors have considered the impact of COVID-19 on the financial statements. Primarily, these considerations related to the material uncertainty in respect of the going concern basis of preparation</p> <p>There was a risk that the financial impact due to COVID-19 which had been recorded by management is inaccurate or that we may have been unable to obtain sufficient appropriate audit evidence in order to support our conclusions in respect of the going concern assessment.</p>	<p>difficulties in performing our audit testing or in obtaining the required evidence to support our audit conclusions.</p> <p>We noted the key material impact on the financial statements arising from COVID-19 to be in relation to the material uncertainty related to the going concern section disclosed above. Our response to the risk identified included the following:</p> <ul style="list-style-type: none"> • We tested cash flow forecasts used to support the going concern basis of preparation. We evaluated management's assumptions in these forecasts in light of both historical and post year end performance. • Where relevant, downside scenarios, including a severe but plausible downside scenario for the going concern assessment, were modelled by management which we assessed using our independent sensitivities. • In relation to going concern, we have understood the debt covenants, assessed the forecast covenant calculations and the adequacy of management's disclosure in relation to the material uncertainty in respect of the going concern basis of preparation. <p>Based on the work performed, we found that management's conclusions in respect of the impact of COVID-19 on the company are appropriate.</p>
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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Our audit effort included substantive testing of material financial statement line items.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£73m (2020: £71m).
<i>How we determined it</i>	Materiality reflects approximately 0.5% of external borrowings
<i>Rationale for benchmark applied</i>	The primary purpose of the Company is to raise debt instruments from external sources and provide funding to Heathrow (SP) Limited and its subsidiaries. We have therefore used total external borrowings as the benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £55m (2020: £53m) for the company financial statements.

Heathrow Funding Limited

Independent auditor's report to the members of Heathrow Funding Limited *continued*

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.8m (2020: £1.4m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Heathrow Airport's CAA operating licence being revoked, breaches of environmental regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies (Jersey) Law 1991. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with; management, including representatives outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations
- Challenging assumptions and judgements made by management in its significant accounting estimates in relation to the valuation of derivative financial instruments (see related key audit matter above).
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or those posted by unexpected users.

Heathrow Funding Limited

Independent auditor's report to the members of Heathrow Funding Limited *continued*

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the company, or proper returns for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 22 January 2019 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2020 to 31 December 2021.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Sotiris Kroustis
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Watford
29 March 2022

Heathrow Funding Limited

Statement of comprehensive income for the year ended 31 December 2021

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Financing			
Finance income	2	813	600
Finance cost	2	(850)	(634)
Fair value (loss)/gain on financial instruments	2	(140)	53
Operating (loss)/profit before taxation	1	(177)	19
Taxation	3	-	-
(Loss)/profit after taxation for the financial year	10	(177)	19
Total comprehensive (loss)/income for the year		(177)	19

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The notes on pages 28 to 38 form part of these financial statements.

Heathrow Funding Limited

Statement of financial position as at 31 December 2021

	Note	31 December 2021 £m	31 December 2020 £m
Assets			
Non-current assets			
Trade and other receivables	4	13,583	12,582
Derivative financial instruments	6	2,385	1,653
		15,968	14,235
Current assets			
Trade and other receivables	4	886	1,279
Derivative financial instruments	6	41	166
		927	1,445
Total assets		16,895	15,680
Liabilities			
Non-current liabilities			
Borrowings	5	(13,596)	(12,812)
Derivative financial instruments	6	(2,338)	(1,216)
		(15,934)	(14,028)
Current liabilities			
Borrowings	5	(933)	(1,441)
Derivative financial instruments	6	(17)	(23)
Trade and other payables	8	(1)	(1)
		(951)	(1,465)
Total liabilities		(16,885)	(15,493)
Net assets¹		10	187
Capital and reserves			
Share capital	9	-	-
Retained earnings	10	10	187
Total shareholders' funds		10	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 reporting date.

The notes on pages 28 to 38 form part of these financial statements.

The financial statements on pages 18 to 20 were approved by the Board of Directors on 29 March 2022 and signed on its behalf by



Javier Echave
Director



Nicholas Golding
Director

Heathrow Funding Limited**Statement of changes in equity** for the year ended 31 December 2021

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2020	-	168	168
Total comprehensive income for the financial year	-	19	19
At 31 December 2020	-	187	187
Total comprehensive loss for the financial year	-	(177)	(177)
At 31 December 2021	-	10	10

The notes on pages 28 to 38 form part of these financial statements.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2021

The principal accounting policies applied in the preparation of the financial statements of Heathrow Funding Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements have been prepared in accordance with Financial Reporting Standards 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102) and with the Companies (Jersey) Law 1991. This provides for the Company to follow statements of accounting practice issued by the relevant accounting bodies in the United Kingdom. Consequently, the Company follows Financial Reporting Standard 100 ('FRS100') and in accordance with FRS 100 the Company has chosen to apply FRS 102.

The Company

The Company is a limited liability company registered and incorporated in Jersey. The registered office is IFC 5, St Helier, Jersey, JE1 1ST.

Basis of accounting

The Company financial statements are prepared in accordance with FRS 102 and are presented on the basis of the historical cost convention, except for derivative financial instruments under fair value hedge accounting. These exceptions to the historical cost convention have been measured at fair value in accordance with FRS 102 and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

The financial statements are presented in Sterling and are rounded to the nearest million pounds (£m), except when otherwise noted.

The Company has adopted the following standard that is relevant to these financial statements:

- 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 of FRS 102 (s.11 and s.12)

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of FGP Topco Limited and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2021. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The financial statements present information about the Company as an individual entity only and not as a group.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions, therefore, the company has taken advantage of the following exemptions in its individual financial statements:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:
 - categories of financial instruments,
 - items of income, expenses, gains or losses relating to financial instruments, and
 - exposure to and management of financial risks.
- the requirement from disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited Group
- from providing certain other disclosures regarding key management personnel

Going concern

The Directors have prepared the financial information presented within these 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.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2021 *continued*

Going concern *continued*

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 Company's primary purpose is to raise funding from external sources and provide funding to the SP Group, therefore the ability of the Company to continue as a going concern is underpinned by the performance of the wider Heathrow group of companies (the "group"). As such, 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, together with the mitigations that regulation could provide as Heathrow enters the next regulatory period (H7). The Directors have also considered the period beyond 12 months to December 2023.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.6 billion of debt in the year to 31 December 2021 with new €500 million, C\$1,275 million and A\$125 million Class A transactions and £400 million of Class B transactions being successfully executed. Consequently, Heathrow SP held cash of circa. £2.6 billion as at 31 December 2021. Total debt maturity within Heathrow SP for the next 12 months from 31 December 2021 is £0.7 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £2.9 billion available. No debt matures outside of Heathrow SP for the next 12 months from 31 December 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the current regulatory business plan cash flow forecast or until at least February 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Heathrow's regulatory business plan

The Directors have modelled future cash flows for the period beyond 12 months to December 2023 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations, based initially on a 2022 traffic forecast of 45.5 million passengers;
- 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 modelling the impact of COVID-19, there remains a significant degree of uncertainty given the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. Therefore, there is inherent subjectivity in our forecasting. For the year ended 31 December 2021, passenger traffic for the Group declined 12.2% to 19.4 million when compared with 22.1 million in 2020, and by 76.0% compared to 2019. Despite this decline in passengers compared to 2020, Adjusted Group EBITDA increased 42.2% to £384 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

In addition to the inherent passenger forecast uncertainties described above, we do not yet have certainty over passenger tariffs for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026), which is set by the Civil Aviation Authority (the "CAA"). As described on page 17 of the Heathrow (SP) Limited Annual Report and Financial Statements, a range of potential tariffs have been provided by the CAA in their "Initial Proposals" with a final decision expected later in 2022. Until the H7 tariff is finalised, the CAA has put in place an interim tariff (the "interim tariff") from 1 January 2022.

The cash flows in Heathrow's current regulatory business plan (Revised Business Plan Update 2 – "RBP Update 2") reflect the Director's view of the expected CAA passenger tariff for the H7 regulatory period, as outlined on page 17 of the Heathrow (SP) Limited Annual Report and Financial Statements. RBP Update 2 assumes the interim tariff will remain in place for the entirety of 2022 and that the overall tariff for the H7 period will be £41.95 (in 2018 prices). This is above the CAA's high charge as set out in their Initial Proposals. It is the Director's view that its own RBP Update 2 is devoid of the errors made in the CAA's Initial Proposals and is therefore a realistic tariff supported by a detailed assessment of each individual building block which form part of the tariff calculation. Under RBP Update 2, the Group will meet all covenants associated with its financial arrangements.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2021 *continued*

Going concern *continued*

Heathrow's regulatory business plan *continued*

The Directors acknowledge that this is a critical judgement and has therefore considered two further sensitivity scenarios for financial reporting purposes, described below.

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 February 2023.

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the range of CAA H7 tariffs and further decreases in passenger numbers and a resulting drop in EBITDA.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff at the lowest end of the range from the CAA's Initial Proposals (£22.94 in 2018 prices). This scenario assumes no further RAB adjustment. Given the continued uncertainty over potential future travel restrictions in the UK and those markets which Heathrow services caused by any new COVID-19 variants, and a resultant impact on consumer confidence, the Directors have modelled downside passenger forecasts in 2022. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of over 8 million (18% reduction versus RBP Update 2) under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADIF2 in December 2022.

Should there be a covenant breach, the Directors would need to undertake additional actions including identifying additional cashflow mitigations as well as seeking a further covenant waiver or amendment from creditors. During Q3 2021, the Group successfully agreed a further ICR covenant waiver at Heathrow Finance for the period ended 31 December 2021 which follows the agreement of 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. Whilst the Directors are confident it would continue to receive support from its creditors if required, there is no certainty a further covenant waiver would be agreed particularly since unfavourable passenger tariffs may impact access to liquidity due to weaker access to debt capital markets at affordable prices. These factors indicate the existence of a material uncertainty which could cast significant doubt upon the Group and therefore 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 signing the Annual Report and Financial Statements, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

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 debtholders as it successfully secured in 2020 and 2021.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty with regard to forecast passenger numbers and the corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period. Specifically, if passenger pricing was such that the Group were unable to secure minimum cash flow generation to protect an investment grade credit rating, access to liquidity at affordable prices beyond 2023 may be compromised. These uncertainties may result in the Group needing to take further action, including seeking future further covenant waivers or amendments from creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and therefore the Company's ability to continue as a going concern.

The Annual Report and Financial Statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2021 *continued*

Foreign currency

The Company financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency applying the spot exchange rate using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Taxation

Whilst the Company is incorporated outside the UK, it is treated as a UK resident company for tax purposes. The Company qualifies as a 'securitisation company' within the scope of the Taxation of Securitisation Companies Regulations 2006 under UK tax law. Therefore its annual results are not subject to Corporation tax and instead a nominal fixed amount of £20,000 is taxed every year.

IBOR Reform Phase 2

The SP Group early-adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting with effect from 1 January 2020, and Phase II with effect from 1 January 2021. The amendments impact our fair value hedging relationships where derivative cash flows will be transitioned from paying LIBOR to paying an alternative reference rate. The Phase I amendments will be applied until the earliest point in time of the Group's contracts that reference LIBOR being amended, the hedging relationship being formally discontinued or formal market conventions ending uncertainty being published and widely adopted. When the transition takes place, on the hedge relationships where Phase 2 amendments are applicable, the hedged risk must be re-documented to reflect this and allow the existing hedge designations to continue. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IAS 39. The notional values of hedging instruments, for all fair value hedging relationships impacted by the Phase 2 amendments, are shown in the relevant tables in notes 5 and 6. There is no impact on cash flow hedging relationships. These amounts also correspond to the exposures designated as fair value hedges.

The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. Interest rate basis swaps will follow ISDA fallback rates (ISDA, 2020) unless the contracts are re-negotiated to reference the alternate reference rates (ARRs).

During 2021, the Directors reviewed the Group's exposures to IBOR, including an assessment of the impact on the following:

- A review of all outstanding derivative financial instruments including cross currency swaps, interest rate swaps and inflation linked swaps;
- A review of all intercompany loan agreements; and
- An update of the Treasury systems and processes to reflect the update from LIBOR discounting to ARR discounting.

The assessment highlighted the need to amend language in the revolving credit facilities and derivative contracts which all reference IBOR, in order that they reference alternative risk-free rates (ARFR) once the relevant IBOR is discontinued. The need to update systems and processes to be able to use the ARFR, including day-count and compounding conventions was also identified. Accordingly, the Group has engaged with its banking partners and external advisors during the period to amend IBOR language within revolving credit facilities, term loans, intercompany loan agreements and derivative contracts; and has completed implementation of system changes. The assessment identified no impact relating to other contracts.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2021 *continued*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the statement of comprehensive income.

Borrowings from Company undertakings include the balance of the Borrower Loan Agreements ('BLAs') payable by the Company to Heathrow Funding Limited. Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited. The advances are carried at amortised cost with the interest expense recognised using the effective interest method. The nominal amount of the index-linked borrowings is accreted for the RPI component recognised within interest payable in the statement of comprehensive income.

Debt issue costs

Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the statement of comprehensive income.

Derivative financial instruments

Derivative instruments not designated in hedge accounting relationships and are accounted for at fair value and recognised immediately in the (statement of comprehensive income) profit and loss.

Derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the statement of comprehensive income. The interest payable and receivable on those derivatives are recorded at their net amount in finance costs in the statement of comprehensive income.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period. The Company does not designate derivatives held by the Company in a hedge relationship.

Certain derivatives, as indicated by their fair value at inception or immediately prior to the restructuring, could not be supported by observable inputs alone. These "Day1" fair values are supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IAS 39 and will be recognised in the statement of comprehensive income on a straight-line basis over the life of the underlying derivative instrument.

Accounting for changes in credit risk

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Company's derivatives is updated monthly based on current market data.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2021 *continued*

Classification of financial instruments issued by the Company

In accordance with FRS 102, Section 22: *Liabilities and Equity*, financial instruments issued by the Company are treated as a liability only to the extent that they meet the following two conditions:

- they include contractual obligation to deliver cash or another financial asset; or
- they include a contract that will or may be settled in the entity's own equity instruments and:
 - under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

To the extent that this definition is met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for share capital and share premium reserve exclude amounts in relation to those shares. Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

As permitted by FRS 102, the Company has chosen to apply the classification provisions of International Accounting Standard ('IAS') 39 'Financial Instruments: Classification of financial assets and Classification of financial liabilities'. As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102.

Amounts owed to/by group undertakings

Amounts owed to/by Group undertakings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs allowing for any reductions in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Issue costs and arrangement fees

Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instrument not been issued. These are accounted for as a deduction from the fair value of consideration received and amortised using the effective interest method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred.

Heathrow Funding Limited

Significant estimates and judgements for the year ended 31 December 2021

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 and management believe that the following areas present the greatest level of uncertainty.

Critical judgements in applying the Company's accounting policies

Going concern

The impact of COVID-19 on going concern was considered in some detail. Further information can be found within the 'accounting policies' section.

Key sources of estimation uncertainty

Loss given default and assumed recovery rates

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also the assumed recovery rate which then implies a loss given default rate. The credit risk associated with the Company's derivatives is updated monthly based on current market data, and industry standard default rates. However certain derivatives are ranked higher in the waterfall priority payments schedule such as interest rate swaps and inflation-linked swaps and therefore apply a super senior recovery rate.

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used.

As all derivative and associated risks are passed to Heathrow Airport Limited there is no sensitivity applicable to the Company's super senior derivatives.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021

1 Operating (loss)/profit before taxation

Auditor's fee

Audit fees are recharged in accordance with the Shared Service Agreement ('SSA') into the operating entities. The Company is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditor received £165,000 (2020: £108,000) as remuneration for the audit of the Company's financial statements the cost of which is borne by Heathrow Airport Limited.

Employee information

The Company has no employees (2020: nil).

Directors' remuneration

An amount was paid to Sanne Group (UK) Limited, for directors' services totalling £5,000 for the year ended 31 December 2021 (2020: £5,000). This payment is made annually for the services of Lisa Aune, an independent UK-resident director provided by Sanne Group (UK) Limited as a director of Heathrow Funding Limited, in line with the existing directorship corporate administration agreement between the companies. In addition to this £33,334 (2020: £31,000) was paid to Sanne Fiduciary Services Limited by various entities in the Heathrow Airport Holdings Group for registered office and company secretary services in line with the existing corporate HAH administration agreement between the companies.

Javier Echave is a director of a number of companies within the Heathrow Airport Holdings Group during the year. His remuneration for the year ended 31 December 2021 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided. Yuanyuan Ding and Nicholas Golding were directors of a number of companies within the HAH Group during the year. They were paid by, but are not directors of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies within the HAH Group based on services provided.

During the year, one of the directors (2020: two) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2020: one) had retirement benefits accruing to them under a defined contribution scheme.

2 Financing

Net finance (expense)/income before certain re-measurements

	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
Finance income		
Interest receivable from group undertakings	813	600
Total finance income	813	600
Finance costs		
Interest payable on external borrowings	(642)	(554)
Net interest payable on derivatives	(208)	(80)
Total finance costs	(850)	(634)
Net finance costs before certain re-measurements	(37)	(34)

Certain re-measurements

Fair value (loss)/gain on financial instruments		
Index-linked swaps with external counterparties	(529)	(75)
Index-linked swaps as internal derivatives with Heathrow Airport Limited	527	82
Cross-currency swaps with external counterparties and retranslation of foreign currency debt ¹	(132)	51
Interest rate swaps with external counterparties	(102)	(70)
Interest rate swaps as internal derivatives with Heathrow Airport Limited	96	65
Fair value (loss)/gain on financial instruments	(140)	53
Net finance (expense)/income including certain re-measurements	(177)	19

¹ Includes foreign exchange retranslation on the currency bonds of £318 million (2020: £122 million) which has moved systematically in the opposite direction to that of the cross currency swaps which economically hedge the related currency bonds.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

2 Financing *continued*

Certain re-measurements relates to the derivative financial instruments, which are subject to external financial market fluctuations.

3 Taxation

	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
UK corporation tax		
Current tax at 19% (2020: 19%)	-	-
Group relief payable	-	-
(Under)/Over provision in respect of prior years	-	-
Taxation charge for the year	-	-

Reconciliation of tax charge

The actual tax charge for the current and prior year differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the company for the reasons set out in the following reconciliation:

	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
(Loss)/Profit on ordinary activities before tax	(177)	19
Tax credit /(charge) on ordinary activities at 19% (2020: 19%)	34	(4)
Effect of:		
Non-taxable income	(34)	4
Taxation charge for the year	-	-

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 the profit shown in the statement of comprehensive income.

For the year ended 31 December 2021, the profits subject to corporation tax were £20,000 (2020: £20,000) which gave rise to a tax liability of £3,800 (2020: £3,800).

Finance Act 2021 substantively enacted the increase in corporation tax from 19% to 25% to take effect from 1 April 2023.

Other than these changes, there are no items which would materially affect the future tax charge.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

4 Trade and other receivables

	31 December 2021	31 December 2020
	£m	£m
Current		
Interest receivable from group undertakings ¹	163	151
Amounts owed by group undertakings – interest bearing ²	723	1,128
	886	1,279
Non-current		
Amount owed by group undertakings – interest bearing ²	13,583	12,582
	13,583	12,582
Trade and other receivables	14,469	13,861

¹ 'Interest receivable from group undertakings' relates to interest accrued on the BLAs receivable from Heathrow Airport Limited ('Heathrow').

² 'Amounts owed by group undertakings - interest bearing' largely represent the balance of the BLAs receivable from Heathrow. 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 under the BLAs.

5 Borrowings

	31 December 2021	31 December 2020
	£m	£m
Current		
Secured		
Bonds		
8.500% £250 million due 2021	-	251
3.000% C\$450 million due 2021	-	258
4.875% US\$1,000 million due 2021	-	732
1.650%+RPI £180 million due 2022	234	-
1.875% €600 million due 2022	504	-
	738	1,241
Interest payable on borrowings	195	200
Total current	933	1,441
Non-current		
Secured		
Bonds		
1.650%+RPI £180 million due 2022	-	222
1.875% €600 million due 2022	-	536
5.225% £750 million due 2023	732	717
7.125% £600 million due 2024	597	595
0.500% CHF400 million due 2024	325	331
3.250% C\$500 million due 2025	290	285
1.500% €750 million due 2025	625	665
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	695	694
0.450% CHF210 million due 2026	171	175
2.650% NOK1,000 million due 2027	84	85
2.694% C\$650 million due 2027	379	-
2.625% £350 million due 2028	346	-
3.400% C\$400 million due 2028	233	228
7.075% £200 million due 2028	199	198
4.150% A\$175 million due 2028	93	98
2.500% NOK1,000 million due 2029	84	85
2.750% £450 million due 2029	445	445

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

5 Borrowings *continued*

	31 December 2021	31 December 2020
	£m	£m
Non-current <i>continued</i>		
Secured <i>continued</i>		
3.782% C\$400 million due 2030	233	228
1.125% €500 million due 2030	415	-
1.500% €750 million due 2030	625	666
3.661% C\$500 million due 2031	291	285
6.450% £900 million due 2031	860	857
Zero-coupon €50 million due January 2032	63	65
1.366%+RPI £75 million due 2032	92	88
Zero-coupon €50 million due April 2032	62	64
0.101%+RPI £181.75 million due 2032	192	182
1.875% €500 million due 2032	418	446
3.726% C\$625 million due 2033	371	-
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	52	54
1.875% €650 million due 2034	538	572
0.347%+RPI £50 million due 2035	80	76
0.337%+RPI £75 million due 2036	80	76
1.061%+RPI £180 million due 2036	216	204
0.419%+RPI £51 million due 2038	54	51
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	61	58
3.334%+RPI £460 million due 2039	679	646
Zero coupon €86 million due 2039	78	81
0.800% JPY10 billion due 2039	65	72
1.238%+RPI £100 million due 2040	121	115
0.362%+RPI £75 million due 2041	80	76
3.500% A\$125 million due 2041	67	-
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	92	87
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	175	166
Total non-current	13,596	12,812
Total borrowings	14,529	14,253
Total borrowings (excluding interest payable)	14,334	14,053

The maturity dates of the Heathrow Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. 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, 3.460% £105 million due 2038, 0.419%+RPI £51 million due 2038 and 0.362%+RPI £75 million due 2041 bonds wherein the redemption dates coincide with their legal maturity dates.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

5 Borrowings *continued*

Fair value of borrowings

	31 December 2021		31 December 2020	
	Book value £m	Fair value ¹ £m	Book value £m	Fair value ¹ £m
Current				
Bonds	738	691	1,241	1,263
Non-current				
Bonds	13,596	15,397	12,812	15,334
	14,334	16,088	14,053	16,597

¹ Fair values of borrowings are for disclosure purposes only.

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair value of listed borrowings are based on quoted prices (thereby classified as Level 1) at balance sheet date. For unlisted borrowings, the Company establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data, which are adjusted to allow for any relevant credit risk (Level 2). The fair value of borrowings which have floating rate interest are assumed to materially equate to their nominal value. At 31 December 2021, the fair value of debt classified as Level 1 and Level 2 was £15,137 million and £951 million respectively (2020: £15,467 million and £1,130 million respectively). The RPI growth rate in the period reflected by a 12-month annualised increase of 7.1% in 2021 compared to an annualised increase of 1.2% in 2020.

Securities and guarantees

The Company has given Deutsche Trustee Company Limited (the 'Bond Trustee') a covenant to pay and discharge, when due, to each of the Issuer Secured Creditors (including Bondholders) all Issuer Secured Liabilities (including all amounts due under the Bonds). The Bond Trustee holds the benefit of that covenant on trust for itself and the Issuer Secured Creditors. The Company has also granted security to the Bond Trustee (for itself and as trustee for the Issuer Secured Creditors) over its property, assets, undertakings and rights to secure the covenant to pay and discharge the Issuer Secured Liabilities.

All borrowings issued by the Company are on-lent to Heathrow Airport Limited under the BLA. The advances under the BLA are issued on substantially the same terms as the new bonds issued by the Company, taking into consideration the related hedging instruments. Foreign currency bonds and the related cross-currency swaps are packaged together and on-lent to Heathrow Airport Limited.

6 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2021				
Current				
Cross-currency swaps	490	24	-	24
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	-	-	-	-
with fellow subsidiary Heathrow Airport Limited	-	-	-	-
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	100	-	(17)	(17)
with fellow subsidiary Heathrow Airport Limited	100	17	-	17
Total current	690	41	(17)	24

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

6 Derivative financial instruments *continued*

	Notional £m	Assets £m	Liabilities £m	Total £m
Non-current				
Cross currency swaps	5,398	255	(98)	157
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	7,500	113	(665)	(552)
with fellow subsidiary Heathrow Airport Limited	7,500	665	(113)	552
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	5,707	53	(1,462)	(1,409)
with fellow subsidiary Heathrow Airport Limited	5,501	1,299	-	1,299
Total non-current	31,606	2,385	(2,338)	47
Total	32,296	2,426	(2,355)	71

	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

A full disclosure of derivative financial instruments can be found in the consolidated financial statements of Heathrow (SP) Limited (external derivative financial instruments) and in the financial statements of Heathrow Airport Limited (internal derivative financial instruments).

The Company does not apply hedge accounting in relation 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 on its foreign currency-denominated bond issues.

Index-linked swaps

Index-linked swaps have been entered into by the Company to economically hedge RPI linked revenue and regulatory asset base of Heathrow Airport Limited.

Interest rate swaps

Interest rate swaps have been entered into by the Company to hedge against variability in interest cash flows on current and future debt issuances.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

6 Derivative financial instruments *continued*

During the year, new interest rate swaps with a notional of £0.8 billion were executed in continuation of the theme where the SP Group will receive fixed coupon and pay SONIA with a spread close to zero for 2021 and 2022, where possible and an additional £0.4 billion executed to maintain hedging ratio compliance.

This resulted in a fair value of £6 million (cost) at initial recognition and deferred on the balance sheet.

As at 31 December 2021, £276 million (31 December 2020: £300 million) remained deferred on the balance sheet and £30 million had been recognised in the statement of comprehensive income for the period (2020: £29 million).

In relation to the internal swaps with Heathrow Airport Limited, £261 million remained deferred on the balance sheet as at 31 December 2021 (31 December 2020: £283 million) and £30 million had been recognised in the statement of comprehensive income for the period (2020: £28 million).

7 Financial instruments

Financial risk management objectives and policies

The SP Group's principal financial instruments (other than derivatives) comprise of loans, term notes, listed bonds, cash and short-term deposits; the main purpose of these instruments is to raise finance for the SP Group's operations; and additionally include trade and other receivables, trade and other payables and lease liabilities.

The SP Group also enters into derivative transactions, principally interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the SP Group's operations and its sources of finance.

The SP Group mitigates the risk of mismatch between Heathrow's aeronautical income and its regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the use of index-linked instruments.

The SP Group's policy does not permit use of derivatives for speculative purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the SP Group's statement of comprehensive income. These instruments include index-linked contracts and foreign exchange forward contracts. The treasury function operates on a centralised basis, where Derivatives are only used for economic hedging purposes and not as speculative investments and are classified as 'held for trading', other than designated and effective hedging instruments, and are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period, otherwise they are classified as non-current.

The main risks arising from the SP Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing each of the risks which are summarised below.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

7 Financial instruments *continued*

Interest rate benchmark reform

The following table contains details of all of the financial instruments the SP Group holds at 31 December 2021 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark. As set out within the accounting policies, the amendments have been applied prospectively and therefore no comparatives are presented for 31 December 2020.

	Carrying amount at 31 December 2021			Impact of transition on fair value £m	Notional amount directly impacted by IBOR reform £m
	Notional £m	Assets £m	Liabilities £m		
Summary derivatives underpinned by iBOR floating rates					
Cross-currency interest rate swap derivative designated hedge relationships at SP Group	2,243	181	-	(7)	2,243
Cross-currency interest rate swap derivative not in designated hedge accounting relationships	75	7	-	(1)	75
Interest rate swap derivative not in designated hedge accounting relationships ¹	3,795	-	(218)	(2)	3,795
Inflation linked swap derivative not in designated hedge accounting relationships ¹	1,801	-	(496)	(14)	1,801

¹ These derivatives with external counterparties are also passed on to HAL as back-to-back derivatives.

Each of the categories above are included within the Derivative financial asset and Derivative financial liability categories on the statement of financial position.

Heathrow is also aware that transition to potential development of RFR-based term rates is at different stages depending on the jurisdiction. The SP Group also expects that the timing of any transition away from relevant interbank offered rates to take into account liquidity of the development of robust RFR-based term rates, changes in relevant industry conventions and the speed with which market participants transition away from LIBOR. As a part of our treasury risk management strategy, the SP Group intends to follow milestones set out by the ICE Benchmark Administration ('IBA') with respect to providing LIBOR-linked products maturing after the end of 2021 and will also explore solutions to reduce our footprint in relation to LIBOR-linked products, under Phase 2 of the 'Interest rate benchmark reform'.

Interest rate risk

The HAML Group's policy is to maintain a mix of fixed and floating rate debt within Board approved parameters such that a minimum of 75% of existing and forecast debt is at a fixed rate. It manages its cash flow interest rate risk by using floating or fixed interest rate swaps, where at three or six-month intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts are exchanged.

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Notes to the financial statements for the year ended 31 December 2021 *continued*

7 Financial instruments *continued*

Financial instruments by category

The company's financial instruments as classified in the financial statements can be analysed under the following categories:

31 December 2021	Financial assets at amortised cost and cash equivalents £m	Assets at fair value through statement of comprehensive income £m	Total £m
Derivative financial instruments	-	2,426	2,426
BLA Intercompany receivables	14,469	-	14,469
Total financial assets	14,469	2,426	16,895

31 December 2021	Liabilities at fair value through statement of comprehensive income £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	(14,529)	(14,529)
Derivative financial instruments	(2,355)	-	(2,355)
Trade payables	-	(1)	(1)
Total financial liabilities	(2,355)	(14,530)	(16,885)

31 December 2020	Financial assets at amortised cost and cash equivalents £m	Assets at fair value through statement of comprehensive income £m	Total £m
Derivative financial instruments	-	1,819	1,819
BLA Intercompany receivables	13,861	-	13,861
Total financial assets	13,861	1,819	15,680

31 December 2020	Liabilities at fair value through statement of comprehensive income £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	(14,253)	(14,253)
Derivative financial instruments	(1,239)	-	(1,239)
Trade payables	-	(1)	(1)
Total financial liabilities	(1,239)	(14,254)	(15,493)

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 31 December 2021 and 2020, all fair value estimates on derivative financial instruments are included in level 2.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the SP Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

7 Financial instruments *continued*

Fair value estimation continued

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques and inputs used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- applicable market-quoted swap yield curves adjusted for relevant basis and credit default spreads;
- the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps);
- the fair value of derivatives and certain financial instruments are calculated as the present value of the estimated future cash flows based on observable market inputs such as RPI and CDS curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

At the restructuring date or initial date of recognition of index-linked swaps, the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring or at initial recognition, could not be supported by observable inputs alone. These fair values are supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS.

As at 31 December 2021, £15 million (2020: £17 million) remained capitalised and £2 million (2020: £2 million) had been recognised in the statement of comprehensive income for the period.

On a semi-annual basis, the SP Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the year there were no transfers between the levels in the fair value hierarchy.

The tables below present the company's assets and liabilities that are measured at fair value as at 31 December:

31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through statement of comprehensive income	-	2,426	-	2,426
Total assets	-	2,426	-	2,426

Liabilities				
Liabilities at fair value through statement of comprehensive income	-	(2,355)	-	(2,355)
Total liabilities	-	(2,355)	-	(2,355)

31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through statement of comprehensive income	-	1,819	-	1,819
Total assets	-	1,819	-	1,819
Liabilities				
Liabilities at fair value through statement of comprehensive income	-	(1,239)	-	(1,239)
Total liabilities	-	(1,239)	-	(1,239)

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2021 *continued*

8 Trade and other payables

	31 December 2021	31 December 2020
	£m	£m
Current		
Amounts owed to group undertakings – non interest bearing	1	1
Trade and other payables	1	1

9 Share capital

	£
Authorised	
At 1 January and 31 December 2021	
Unlimited number of shares with no par value of one class, designated as ordinary shares	-
Called up, allotted and fully paid	
At 1 January and 31 December 2021	
2 no par value ordinary shares of £1 each	2

10 Retained earnings

	£m
1 January 2020	168
Total comprehensive income for the year	19
31 December 2020	187
Total comprehensive loss for the year	(177)
31 December 2021	10

11 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow (SP) Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK,L.P (11.18%) (an investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2021, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2021.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. This is the registered office for the smallest and the largest undertaking to consolidate these financial statements.

12 Subsequent events

In February 2022, Standard and Poor ('S&P') put Heathrow Funding Limited's Class A and B debt on CreditWatch, pending the CAA's final decision on H7 this summer.