Heathrow Funding Limited

Annual report and financial statements for the year ended 31 December 2023

Company registration number: 99529 (Jersey)

Heathrow Funding Limited

Contents

Heathrow Funding Limited

Officers and professional advisers

Directors
Yuanyuan (Sally) Ding
Javier Echave
Martin Bailey

Company secretary
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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 2023.

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, 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 HAHL 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 2023, net finance income was £191 million (2022: net finance expense of £294 million). The movement was driven by the non-cash fair value gain on financial instruments of £191 million (2022: £291 million loss), the decrease was driven by an average 69bps decrease in forward inflations, thereby reducing the overall liability value of index-linked swaps, as well as an average decrease in forward interest rates of 45bps, as markets price in UK base rates cuts by the Bank of England through 2024 and beyond.

Net finance costs before certain re-measurements were £nil million (2022: £3 million) and included interest receivable from group undertakings which decreased to £1,366 million (2022: £1,424 million), interest payable on external borrowings which decreased to £642 million (2022: £793 million) and net interest payable on derivatives which increased to £724 million (2022: £634 million).

The Company's net liabilities as at 31 December 2023 were £93 million (2022: net liabilities £284 million). The movement is predominantly due to the overall net value of derivatives financial instruments which changed from a net liability of £12 million at 31 December 2022 to a net asset of £174 million at 31 December 2023 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. In the year ended 31 December 2023, the Company raised £695 million of new debt and financing activities included:

- The scheduled repayment of a £750 million public bond in February 2023.
- The issuance of our debut Sustainability-Linked Bond in July 2023, a €650 million 10-year trade using the 2030 Sustainability Performance Targets as set out in our Sustainability-Linked Bond Framework.
- The issuance of a dual tranche £140 million wrapped bond in November 2023, with maturities in 2056 and 2057.

During the year, we made early paydowns of accretion on our inflation swaps totalling £484 million.

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

Directors' report *continued*

Results and dividends

The profit after taxation for the financial year amounted to £191 million (2022: £294 million loss). The Company's net liabilities as at 31 December 2023 were £93 million (2022: £284 million). No ordinary dividends were proposed or paid during the year (2022: £nil). The statutory results for the year are set out from page 20.

Directors

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

Yuanyuan Ding
Javier Echave
Martin Bailey

Employment policies

The Company has no direct employees (2022: 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 statements have been prepared on a going concern basis as detailed in the going concern statement on page 24.

Internal controls and risk management

Internal controls and risk management are key elements of the Company's corporate operations. The functions of the Heathrow Airport Holdings Limited Board (the 'HAHL Board') and its committees are applied equally to all subsidiaries of the HAHL Group, including the Company, further information on the governance structure and composition of the HAHL Board and its committees can be found in the HAHL Group annual report and financial statements at www.heathrow.com/company/investor-centre.

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 HAHL 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 HAHL Group'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.
- A confidential whistleblowing process.

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 Heathrow faces, and to monitor current, upcoming and emerging risks.

The framework provides guidance on how risks should be identified, mitigated, reviewed, and reported within Heathrow. During the year we continued the evolution of 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 Heathrow Airport Holdings Limited Board (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.

To achieve a balanced view of our risk landscape in line with wider group objectives, all of our risks are evaluated against defined risk appetite levels, which are captured in a formal risk appetite statement that is consolidated and reviewed on an annual basis.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets quarterly. 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 and management. 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. Key controls and mitigations are documented, and every Principal Risk has clear management oversight.

Emerging and Short-Term Risks are also analysed on a quarterly basis as part of our bottom-up functional risk management reviews. They are assessed in line with the Heathrow Risk and Assurance Management Framework and managed through functional risk registers.

Principal risks
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.

A Safe and Secure Operating Environment
Context:
Our focus on fire, health, safety and wellbeing is driven by our values. It's not only the right thing to do; if we don't set and strive for the highest standards, we risk causing harm to our colleagues and stakeholders, compromising our service to passengers, and damaging our reputation. Ultimately this will affect our business performance.

The UK security threat level is substantial, meaning an attack is likely. 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.

Directors' report *continued*

Principal risks *continued*

A Safe and Secure Operating Environment *continued*

Causes:

Fire, Health, Safety and Wellbeing

- Our occupational health and safety risks reflect working in a complex operational environment. Driving airside and other high-risk activities, such as working at height, are mainly undertaken by third parties, hence the importance of the Safety Culture Programme and local and senior level safety networks.
- Our understanding of the risks from fire of alternative fuelled vehicles to safety and operation is evolving as the technology and widespread use increases. A sub-group of the Airport Safety Committee has been setup to keep pace with the change and learn from other airports and incidents e.g., the Luton car park fire.
- Mental Health and musculoskeletal ('MSK') are the top two reported reasons for sickness absence, at 23% and 12% of working days lost respectively in 2023. We are committed to preventative interventions including risk assessing work design and providing line manager mental fitness training, whilst further increasing awareness and utilisation of the tools and services available to support colleagues.
- H7 will deliver the fifth largest capital spend in the UK. Competing for labour in a depleting national workforce increases the risk of inexperienced operatives delivering works in a complex operational environment.

Security

- Security threats can emanate from a variety of sources. Aviation will always be an attractive, high-profile target for groups seeking to disrupt. Heathrow has a mature and comprehensive way of risk identification and, working with law enforcement and other agencies, designs appropriate mitigation to counteract potential risks.
- The number and variety of customers utilising the security product and the airside landscape within which we operate, contribute to the safety risk profile and therefore the hazards and injuries sustained. Verbal and physical abuse from customers, along with the manual handling of cabin baggage remain key contributors within Terminals and on our Campus. Occupational driving and working at height when screening high-sided vehicles are high consequence risks. Security has integrated competent safety resource within its organisation to identify and mitigate risk under its safety improvement plan.

Key controls and mitigations:

- Championing a Just Culture where everyone feels they are supported to be psychologically safe.
- Embedding clear Fire, Health and Safety standards, supported by second and third line of defence assurance.
- Embedding and assuring the Management of Third-Party Standards.
- Measurement of Heathrow and Team Heathrow's Safety Culture against a baseline and monitoring improvement against KPI's (e.g., Lost Time Injuries).
- Ensuring hierarchy of controls are applied in design, build, maintenance and change control.
- Heathrow operates to the Aviation Security baseline, as defined by Department for Transport in the National Aviation Security Plan ('NASP'). Heathrow's compliance with the NASP is assessed throughout the year through Civil Aviation Authority ('CAA') observations, testing, inspection, and audit mechanisms.

Information Security

Context:

Information security continues to be a significant risk for Heathrow, primarily concerning our systems, information, and the data they contain. There has been an escalation in the risk level due to an increase in malicious activities, motivated both geopolitically and criminally.

Causes:

The year 2023 marked a continued rise in incidents affecting Critical National Infrastructure, including Distributed Denial of Service attacks targeting transportation services and associated third-party suppliers. Phishing and ransomware persist as the prevalent attack vectors in the majority of incidents impacting the aviation industry.

Directors' report *continued*

Principal risks *continued*
Information Security *continued*
Key controls and mitigations:
- Heathrow has adopted the 'Cyber Security Oversight Process for Aviation' (CAP 1753), as outlined by the CAA, which is based on the National Cyber Security Centre's 'Cyber Assessment Framework'. A strategic, incremental improvement program has been established to enable compliance with CAP1753 via the ASSURE audit process. Confidence in the security of technology, personnel, and processes relevant to essential functions has been bolstered through rigorous assurance activities.
- Information and Cyber Security is a regular item on the Executive Committee's agenda, with frequent updates on the Cyber Delivery Programme, current security posture, and upcoming initiatives. Furthermore, discussions include emerging cyber risks and measures for enhancement. A robust cyber security risk management framework has been instituted to ensure comprehensive understanding and management of system, supplier, and departmental risks.
- Promoting a culture of cyber security is a top priority for Heathrow. This is achieved through mandatory annual training for all colleagues and privileged users, alongside regular campaigns to enhance cyber hygiene and inform about policy updates. Innovative and realistic phishing simulations are also employed.
- Heathrow maintains a resilient process for managing and responding to threats through regular threat intelligence, robust vulnerability management, and a dedicated Security Operating Centre. This is complemented by close collaboration with business resilience teams. To maintain cutting-edge knowledge and expertise, we collaborate with governing bodies to safeguard the Critical National Infrastructure status of the airport.

Regulation Requirements
Context:
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.

Causes:
- Inadequate submissions by Heathrow to the CAA.
- Unfavourable CAA decisions on price limits.
- Unfavourable CAA decisions on regulatory framework.
- Failure to comply with licence requirements including compliance and reporting.

Key controls and mitigations:
- The risk of an adverse outcome from economic regulatory review is mitigated as far as possible by a dedicated regulatory team together with governance and oversight by the Executive Committee and the Board.
- The Regulatory team acts to ensure that all submissions to the CAA are accurate and consistent with the wider Heathrow strategy. The team engages regularly with the CAA to ensure good understanding and to be able to provide the CAA with the right form of information.
- The Regulatory team is currently focusing on the right form of regulation for H8 and beyond and preparing for an H8 business plan submission within the next two years.
- The Regulatory team ensures full compliance with regulatory requirements, establishes a sound relationship with the CAA and advises the Executive Committee and HAHL Board on regulatory matters.
- 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.

Directors' report *continued*

Principal risks *continued*

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

Context:

In June 2018 Parliament approved the Airports National Policy Statement ('ANPS') which sets out the policy framework for expansion at Heathrow Airport and is the primary basis for decision-making on any development consent application for a new north-west runway.

Heathrow was making considerable progress towards developing its Development Consent Order ('DCO') application to deliver a sustainable, affordable and financeable expanded Heathrow, including holding multiple consultations to seek feedback on its proposals. However, on 27 February 2020, the Court of Appeal concluded that the UK Government was required but had failed to take into account the Paris Climate Agreement when preparing the ANPS. The Court declared that the ANPS had no legal effect unless and until the UK Government carried out a review of the policy.

Heathrow appealed against this decision and in December 2020, the Supreme Court unanimously held that the UK Government had acted lawfully when making the ANPS, overturning the Court of Appeal's decision. The judgement confirmed that the UK Government had properly exercised its discretion and had taken into account the Paris Climate agreement by having regard to the Climate Change Act 2008 in the ANPS.

On 6 September 2021, the Secretary of State for Transport decided that it was not appropriate to review the ANPS at this time. Further confirmation of the status of the ANPS has been made through the May 2022 publication of 'Flightpath to the Future' and the July 2022 publication of 'Jet Zero Strategy'. The Government's ANPS continues to provide policy support for Heathrow's plans for a third runway and the related infrastructure required to support an expanded airport.

Causes:

- The ANPS, put in place in June 2018, may in due course be subject to review.
- A possible change in UK Government in 2024 could mean a different approach is taken in regard to airport expansion policy.

Key controls and mitigations:

- Since the Supreme Court overturned the Court of Appeal's decision and the ANPS was restored, we have positively reiterated the case for expanding Heathrow in line with Government policy.
- We continue 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.

Volatility in global demand and revenues

Context:

Revenue growth may be inhibited by the lack of certainty over global consumer demand recovery in 2024, driven by high inflation, potential slowdowns in economic growth and pressure on consumer spending. A limited capacity for growth dependent on slot trading, combined with the highest aviation taxes in Europe ('Air Passenger Duty'), continue to put pressure on airports and hub airlines.

There is significant revenue risk relating to the continued absence of VAT Free shopping and lack of competitive parity with EU airports.

Causes:

- Market volatility.
- Cost inflation.

Directors' report *continued*

Principal risks *continued*

Volatility in global demand and revenues *continued*

Key controls and mitigations:

Aviation

- A Network Strategy is in place to target new routes, grow market share and increase competition in key markets.
- An Aviation Strategy is in place to optimise revenues generated from aviation with the goal of delivering sustainable growth, increased hub connectivity, both globally and domestically, and diversifying revenue.
- Industry monitoring via daily updates from CAPA – Centre for Aviation (market intelligence for the aviation and travel industry), media cuts and other industry events, as well as attendance at Routes (network) and International Air Transport Association ('IATA') (slots and cargo) conferences.
- Senior engagement and account plans are in place with key airlines to continue collaboration in order to drive passenger growth.
- There is close alignment internally with the Space, Retail and Property teams to optimise commercial opportunities.

Retail

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

Ability to access financial markets

Context:

We need to maintain access to sources of finance to fund our current operations.

Causes:

A more challenging H7 regulatory settlement and the realisation of principal risks such as volatility in global demand and revenues, could impact financial performance and a lead to a deterioration in our credit rating.

Key controls and mitigations:

- Long-term forecasting including downside sensitivity analysis, to enable management to assess credit metrics against covenant levels and rating agency thresholds, identifying mitigating actions as necessary, and ensuring protection against minimum thresholds and continued access to financial markets.
- We have invested in a suitably skilled Business Planning and Treasury team who have robust procedures in place to ensure that the best quality investment decisions are made and can be appropriately financed.

Organisational resilience

Context:

The operating of an airport on the scale of Heathrow presents both known and unforeseen challenges. The purpose of organisational resilience is to ensure a level of preparedness to disruptive events. Following a cycle of activities (Prevent, Mitigate, Prepare, Respond, Recover) Operational and Business Resilience teams develop Heathrow's incident response and business continuity capability.

Causes:

A major critical event, leading to significant operational and business impact, and resulting in significant disruption and potential closure of the airport. This could be as a result of one or many internal causes, including critical infrastructure or asset failures, loss of resource, and mass congestion due to inadequate planning, or external causes, including extreme adverse weather, terrorism or security threat, and loss of a critical supplier or service.

Directors' report *continued*

Principal risks *continued*
Organisational resilience *continued*
Key controls and mitigations:

- Adherence to CAA licence requirement: to secure the availability and continuity of airport operations services, particularly in times of disruption, and to further the interests of users of air transport services in accordance with best practice and in a timely, efficient and economical manner.
- Risk identification and avoidance with systematic reviews of operational and non-operational risks and associated control measures and their efficacy.
- Asset management lifecycle, certified to ISO55001, to mitigate the likelihood of asset failures and to support longer term capital replacement programmes.
- Mitigation and contingency planning with development of a series of plans that can be deployed in the event of a disruption.
- Exercising and post incident review which supports increased preparedness and continuous improvement of our incident response.
- Command and Control aligned to the UK standard of Integrated Emergency Management for disruptive events and aligns with industry best practice by adopting the UK Joint Emergency Services Interoperability Principles ('JESIP').
- Collaboration with key partners to develop joint contingency plans.
- The Airport Operations Centre ('APOC') is a 24/7 facility which brings together the operational planning, monitoring and day-to-day oversight of Heathrow with our service partners. Providing support to front line teams to steer smooth running of the airport and is the foundation for command and control structures in times of a disruption.
- End to end understanding by taking a holistic approach to resilience, considering the upstream and downstream impacts of a disruption to support wider organisational resilience.

Resource and talent
Context:
Our people ensure that we can operate the airport effectively and efficiently. Strong progress has been made over the past 12 months to stabilise Heathrow's resource position back to around pre-pandemic levels, enhancing operational resilience. With a significant proportion of colleagues relatively new to the organisation, it is critical that we continue to deliver effective induction and talent development, as well as retaining longer-serving colleagues through upskilling and offering career opportunities. These activities ensure that the airport can provide great passenger service and deliver across key capital portfolios.

Causes:
Throughout 2023, Heathrow experienced significant growth at a fast pace and in a highly competitive recruitment market and reward landscape, influenced by external economic factors. The outlook for 2024 is positive. External labour market demand is slowing and current resource levels are optimised. Despite this, attrition levels will continue to be carefully monitored.

Key controls and mitigations:

- A Dedicated Resourcing Taskforce delivered focused activity to drive down vacancy volumes through 2022-23.
- Launch of the 'No Place Like Heathrow' campaign, which coherently communicates the Heathrow colleague proposition.
- Resourcing process efficiencies and automation have been introduced to improve delivery capability across candidate selection and onboarding.
- Career and Talent strategy plans have been endorsed to include the:
    - Introduction of new integrated performance and talent frameworks, focused on colleague engagement through wellbeing, capability, aligning opportunities to aspirations and readiness to progress careers.
    - Regular review of talent and attrition data to ensure stretch opportunities are provided and less conservative career moves are facilitated.
    - Introduction of an internal careers' advice service in 2023 (Careers Champions).
    - Re-introduction of early careers programmes in 2022 and 2023.
    - Design and implementation of a range of new colleague development and upskilling programmes through 2023 and into 2024.

Directors' report *continued*

Principal risks *continued*

Political environment
Context:
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. Political stability has become more uncertain, with any change in either the current Prime Minister and Cabinet, or a new Government, having the potential to impact the environment in which Heathrow operates.

Causes:
- The 2024 UK General Election.
- Increased frequency of ministerial changes.

Key controls and mitigations:
- We continue to make a strong case for our place in the wider economy and the part we play in a successful Global Britain.
- We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAHL Board, which has implemented a structured approach to the identification and management of all risks related to changing Government policy.

Competition
Context:
We compete against other airports both within the UK and across the world for passengers, some of which make marginal choices, particularly connecting passengers, about which route they will fly.

Heathrow's aeronautical charges will decrease from 2023, but they are still higher than other London airports and European Hub competitors; this potentially reduces our competitive advantage. We will need to continue to deliver great value and service quality to our airlines and passengers to retain them.

Causes:
Regulated framework and pricing.

Key controls and mitigations:
- Ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users.
- Maintain commercial strategies to deliver great value to airlines and consumers.

Climate change and net zero carbon
Context:
Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow. Working with the wider aviation industry, we must demonstrate tangible progress towards achieving the sector's net zero goal in this decade.

In November 2022, the International Civil Aviation Organisation ('ICAO'), formed by 193 member states, committed to net zero carbon emissions for international civil aviation by 2050. By 2021, the entire aviation industry had already committed to the same goal, including the International Air Transport Association ('IATA'), the international industry airline body. Heathrow has committed to net zero carbon and, in February 2022, we published our Net Zero Plan which guides our approach to decarbonisation. Our plan is aligned to the broader UK sector roadmap and sets clear goals and targets to cut emissions by 2030 and beyond.

Causes:
Heathrow considers climate related risks 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 deliver the sector's Net Zero Plan, threatening our ability to 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.

Directors' report *continued*

Principal risks *continued*
Climate change and net zero carbon *continued*
Key controls and mitigations:

- The significant priority is accelerating net zero flying this decade 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. We work with the broader aviation sector and the UK Government as part of the Jet Zero Council to progress net zero aviation. We have also established a SAF incentive as part of our aeronautical charges to encourage airlines to uplift SAF at Heathrow and provide a market demand signal.
- We have established a strategic carbon delivery programme in our H7 regulatory settlement period which ends in 2026. The programme, which includes £250 million of capital investment, will deliver the carbon emissions reductions we included in our Net Zero Plan, during this regulatory settlement period. Capital investment projects include works at Heathrow to enable airspace modernisation and improve the efficiency of aircraft movements on the ground, replacing and expanding the provision of pre-conditioned air to heat and cool aircraft on the ground, avoiding engine use, delivering electric vehicle charging and design work on our future zero carbon heating and cooling solution.
- To guide 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.
- We complete a climate adaptation risk assessment every five years which informs our overall approach to adapting our airport to future climate conditions which is incorporated into our overall risk management framework. The risk assessment guides our approach to understanding the nature of impacts and the effectiveness of our mitigation measures, as well as informing improvements including updating our asset standards and identifying infrastructure improvements.

Financial stability
The HAHL 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 HAHL 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 HAHL 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 HAHL Group are:

a. Interest rates
The HAHL Group maintains a mix of fixed and floating rate debt. Interest rate swaps are entered by the Group to mitigate to interest rate risk for the Group.

b. Inflation
The HAHL 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 HAHL Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The HAHL 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 HAHL 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.

Directors' report *continued*

Financial stability *continued*

HAHL Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, for at least 12 months from the approved date of these consolidated financial statements. As at 31 December 2023, the HAHL Group had cash and cash equivalents and term deposits of £2,392 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.

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 2023 financial year and at the date of approving the Financial Statements.

Independent Auditors

The independent 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 Auditors

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.
- 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:

Yuanyuan (Sally) Ding
Director

13 June 2024

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.
- 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:

Yuanyuan (Sally) Ding
Director

13 June 2024

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 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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, which comprise: statement of financial position as at 31 December 2023; statement of comprehensive income, statement of changes in equity, and statement of cash flows 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 of Heathrow Airport Holdings Limited.

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.

As detailed in note 1 in the financial statements, we have provided permissible non-audit services in relation to financial assurance connected with bond issuances by the Company which are relevant to the wider Heathrow Group. No other non-audit services to the company in the period under audit were provided.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of derivative financial instruments - Credit risk adjustment on super senior derivatives (inflation linked swaps and interest rate swaps)

Independent auditor's report to the members of Heathrow Funding Limited for the year ended 31 December 2023 *continued*

Materiality

- Overall materiality: £72.8m (2022: £72.9m) based on 0.5% of external borrowings.
- Performance materiality: £54m (2022: £54m).

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.

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
Valuation of derivative financial instruments - Credit risk adjustment on super senior derivatives (inflation linked swaps and interest rate swaps) Refer to: ● the Accounting Policies; ● Significant accounting judgements and estimates; and ● note 6 in the financial statements. As at 31 December 2023, the company held derivative assets of £2,881m and derivative liabilities of £2,707m on the balance sheet. These are held to mitigate interest rate and foreign exchange risk arising on debts of £5,975m. Included in these derivative balances were inflation linked swaps totalling £178m assets and £1,141m liabilities and interest rate swaps totalling £1,367m assets and £1,366m liabilities. IAS 39 " Financial Instruments: Recognition and Measurement" requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship. Due to the nature and complexity in the valuations involved, we identified a significant risk that the fair value of inflation linked and interest rate swaps ranking as super senior in the priority of payments may be misstated. The risk is mainly driven by the estimation of the valuation of credit risk of the swaps, in particular the assumed loss given default percentage applied to the valuation of these derivatives.	We, with the support of our Treasury specialists, performed the following audit procedures: ● 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 at 31 December 2023; ● Inspected the documentation supporting the super senior nature of interest rate swaps and inflation linked swaps where a higher recovery rate than the currency swaps 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 group holds derivative instruments to assess the completeness and valuation of the instruments; ● Tested the estimation of the credit risk and quantum of the recovery rate applied to the super senior derivatives; and ● Assessed management's derivative fair value disclosures in the financial statements, including the sensitivity analysis set out in notes to the financial statements. The results of our procedures above did not identify any material exceptions. We consider management's derivative fair value disclosures in the financial statements to be reasonable.

Independent auditor's report to the members of Heathrow Funding Limited for the year ended 31 December 2023 *continued*

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.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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:

Overall company materiality	£72.8m (2022: £72.9m).
How we determined it	Based on 0.5% of external borrowings
Rationale for benchmark applied	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% (2022: 75%) of overall materiality, amounting to £54m (2022: £54m) for the company financial statements.

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 of Heathrow Airport Holdings Limited that we would report to them misstatements identified during our audit above £3.6m (2022: £3.6m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- The wider Heathrow Group has experienced strong passenger number growth in 2023, achieving 98% of pre-covid levels and continues to do so in 2024. It is with this growth and the reduced uncertainly in future passenger forecasts that the Directors prepared the 2023 Heathrow Funding accounts on a going concern basis with the absence of material uncertainty. In assessing the going concern position, the Directors have considered the cash flow, liquidity and debt covenant compliance over the next 12 months of the group and also considered the period beyond 12 months to December 2025, as well as on an entity only basis reviewed the net asset position and cash flows of the company.
- We performed the following audit procedures:
    - Assessed management's forecasts including consideration of the impact of the cost of living on cash flows;
    - Reviewed the group's compliance with bank covenants;
    - Ensured the forecasts and calculations are mathematically accurate;
    - Assessed the reasonableness of assumptions used in management's base case forecasts, and challenged the judgements underpinning those forecasts, for example by obtaining independent third-party evidence of market forecasts for passenger forecast of 82.4 million for 2024 and assessing the extent to which these assumptions are consistent with those used to support other financial statement estimates;

- Assessed the reasonableness of management's severe but plausible downside case, and challenged the judgements regarding the low end of Heathrow's passenger forecast for 2024;
- Tested the underlying data in management's going concern model;
- Assessed the entity only net asset position and cash flows in understanding the standalone basis;
- Assessed the adequacy of disclosures in relation to going concern in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

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.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

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, 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.

Independent auditor's report to the members of Heathrow Funding Limited for the year ended 31 December 2023 *continued*

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, 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 certain journal entries posted with unusual account combinations or those posted with unexpected words.

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 of Heathrow Airport Holdings Limited, 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 3 years, covering the years ended 31 December 2020 to 31 December 2023.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Sotiris Kroustis
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Watford
13 June 2024

Heathrow Funding Limited

Statement of comprehensive income for the year ended 31 December 2023

	Note	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Financing			
Finance income	*2*	**1,366**	1,424
Finance cost	*2*	**(1,366)**	(1,427)
Fair value profit/(loss) on financial instruments	*2*	**191**	(291)
Profit/(loss) before tax	*1*	**191**	(294)
Taxation	*3*	**-**	-
Profit/(loss) for the financial year		**191**	(294)
Total comprehensive profit/(loss) for the year		**191**	(294)

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

The notes on pages 30 to 39 form part of these financial statements.

Heathrow Funding Limited

Statement of financial position as at 31 December 2023

	Note	**31 December 2023**	31 December 2022
		£m	£m
Assets			
Non-current assets			
Trade and other receivables	*4*	**13,216**	13,223
Derivative financial instruments	*6*	**2,763**	3,220
		15,979	16,443
Current assets			
Trade and other receivables	*4*	**1,074**	1,076
Derivative financial instruments	*6*	**118**	21
		1,192	1,097
Total assets		**17,171**	17,540
Liabilities			
Non-current liabilities			
Borrowings	*5*	**(13,416)**	(13,634)
Derivative financial instruments	*6*	**(2,681)**	(3,214)
		(16,097)	(16,848)
Current liabilities			
Borrowings	*5*	**(1,141)**	(936)
Derivative financial instruments	*6*	**(26)**	(39)
Trade and other payables	*8*	**-**	(1)
		(1,167)	(976)
Total liabilities		**(17,264)**	(17,824)
Net liabilities[(1)]		**(93)**	(284)
Capital and reserves			
Called up share capital	*9*	**-**	-
Accumulated losses		**(93)**	(284)
Total shareholders' deficit		**(93)**	(284)

(1) Net liabilities reflect the different measurement bases used for certain financial instruments: Borrower Loan Agreements and bonds are recorded at amortised cost but derivatives are re-measured to fair value at each reporting date.

The notes on pages 30 to 39 form part of these financial statements.

The financial statements on pages 20 to 39 were approved by the Board of Directors on 13 June 2024 and signed on its behalf by:

Martin Bailey

Yuanyuan (Sally) Ding
Director

Martin Bailey
Director

Heathrow Funding Limited

Statement of changes in equity for the year ended 31 December 2023

	Called up share capital £m	Accumulated losses £m	Total £m
At 1 January 2022	-	10	10
Total comprehensive loss for the year			
Loss for the financial year	-	(294)	(294)
At 31 December 2022	**-**	**(284)**	**(284)**
Total comprehensive profit for the year			
Profit for the financial year	**-**	**191**	**191**
At 31 December 2023	**-**	**(93)**	**(93)**

The notes on pages 30 to 39 form part of these financial statements.

Heathrow Funding Limited

Statement of cash flows for the year ended 31 December 2023

	Note	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Operating activities			
Profit/(loss) before tax		**191**	(294)
Adjustments for:			
Net finance (income)/costs	*2*	**(191)**	294
Working capital changes:			
Net decrease in amounts owed by group undertakings – interest bearing[(1)]		**637**	1,070
Net cash generated from operating activities		**637**	1,070
Cash flows from financing activities			
Proceeds from issuance of bonds		**695**	196
Repayment of bonds		**(751)**	(732)
Settlement of accretion on index-linked swaps		**(93)**	(44)
Fees and other financing items		**(4)**	-
Early settlement of accretion on index-linked swaps		**(484)**	(490)
Net cash used in financing activities		**(637)**	(1,070)
Net change in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year		**-**	-

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

Accounting policies for the year ended 31 December 2023

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 preparation
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.

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 (Jersey) Law 1991.

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 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 the annual report and financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Background
Heathrow Funding Limited is within the Heathrow (SP) Limited independent securitised group. In considering the going concern assessment, the Directors have considered both the individual circumstances of the company but also the wider Group given the corporate structure, which involves activities and cash generation across the Group and within the main operating company, Heathrow Airport Limited, including any covenants as described below in assessing the liquidity. Heathrow Funding Limited acts as the key funding vehicle for the primary trading company and passes cash through to the securitised group via BLA's and back-to-back derivatives.

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. The H7 price control period commenced on 1 January 2022 and during 2023 the CAA published their Final Decision of tariffs to cover the period from 1 January 2022 to 31 December 2026 with an average H7 tariff of £23.06 in 2020 CPI real terms.

Through the course of 2023 and heading into 2024, the macro-economic environment has changed, and passengers are now impacted by high inflation and high interest rates. Passenger forecasts are fundamental to the going concern analysis, and the Directors have considered trends in future expected passenger numbers. Through 2023 and the first quarter of 2024, there has been strong passenger demand for travel which gives confidence in our future expected passenger numbers.

Accounting policies for the year ended 31 December 2023 *continued*

Going concern *continued*

Background continued

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio ("RAR"), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base ("RAB"); and Interest Cover Ratios ("ICR"), a measure of operating cashflows to debt interest charge. These covenants exist at different levels within the Group's Class A and Class B debt. On that basis the Directors have assessed going concern for the period to December 2025.

Base case

In determining an appropriate base case, the Directors have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2024 traffic forecasts of 82.4 million passengers.
- Forecast level of capital expenditure based on the CAA's H7 Final Decision.
- The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and projected covenant requirements.
- The assumption of no future funding or access to capital markets.

Base case passenger forecast

There is inherent subjectivity in modelling future passenger numbers, nevertheless, passenger numbers have improved significantly in 2023 with total passengers for the year being 79.2 million (98% of 2019 levels). Furthermore, total passengers in the first quarter of 2024 were 18.5 million (10% increase from the first quarter of 2023). Despite a high-inflationary economic environment impacting the cost-of-living of passengers, demand has remained strong which signals that passengers are prioritising travel spend.

Base case tariffs

The base case uses a 2024 nominal tariff of £26.74 and 2025 nominal tariff of £24.70 based on the tariff methodology set out in the CAA's Final Decision. The tariff also includes the conservative downwards adjustment as part of the CMA appeals and determination. Under the base case, the Group will meet all covenants associated with its financial arrangements.

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow (SP) Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Continued support for the Group's credit enabled Heathrow to successfully raise £750 million of debt in the first quarter of 2024: a Class B GBP sustainability-linked bond of £350 million and £400 million of Heathrow Finance public debt. As at 31 March 2024, the wider group has total liquidity available of £3.8 billion, comprising of £2.4 billion of cash held at FGP Topco group and a £1.4 billion undrawn revolving credit facility. Total debt maturity for the period to December 2025 is £1.3 billion at Heathrow SP and £0.3 billion at Heathrow Finance. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios as part of the going concern assessment. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers – particularly in a highly inflationary economic environment impacting the disposable income of passengers – on cash flow generation, liquidity, and debt covenant compliance. Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2024 and 2025 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. The low range of passengers represents a 5.5% reduction against the base case for 2024 and 4.5% for 2025. The tariff assumptions remain the same as in the base case since these are now fixed subject to inflation. While deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding should there be any risk of credit downgrade in this scenario. Under the severe but plausible scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until at least December 2025, with no breach of its covenants in the same period.

Reverse stress test

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test which determines the earliest point of failure for the group, which would be a covenant breach in the next tested period in December 2024, where sufficient liquidity will remain intact. This involved modelling the breakeven level of passengers which would result in a covenant breach as at 31 December 2024. The model is based on a reduction in passenger numbers with no impact on costs.

Accounting policies for the year ended 31 December 2023 *continued*

Going concern *continued*

Reverse stress test continued

The Heathrow Finance plc ICR covenant is the most restrictive to operating performance, and for there to be a breach at this level, forecast passenger numbers would need to decrease by over 26.3% versus the base case for 2024, and 24.9% for 2025. An even greater passenger number decrease would be required for the Group to breach its RAR covenants. These passenger levels are below the low end of the Group's passenger forecast and are not considered plausible by the Directors. Should circumstances arise that require Management to take corrective action, the majority of previously utilised tactical actions could be available, including cost reduction, deferral of investment or temporary reprofiling of interest payments.

Conclusion

Heathrow Funding Limited is within the Heathrow (SP) Limited independent securitised group and under the security agreement each Obligor, that has entered into the security agreement, guarantees the obligations of each other Obligor. Having had regard to both liquidity and debt covenants, net asset position of the entity and considering a severe but plausible downside and reverse stress testing, the Directors have concluded that there is sufficient liquidity available to meet the Group and Company's funding requirements for at least 12 months from the date of the annual report and financial statements and that the nature of operations for the entity are not expected to change. On this basis, the Directors have continued to adopt the going concern basis in preparing the Company financial statements.

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.

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 inflation 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 IFRS 9 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.

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.

Accounting policies for the year ended 31 December 2023 *continued*

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 income statement as incurred.

Significant estimates and judgements for the year ended 31 December 2023

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

There are no critical judgements in applying the Company's accounting policies.

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.

Notes to the financial statements for the year ended 31 December 2023

1 Operating profit/(loss) before taxation

Auditors' 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 £194,000 (2022: £173,000) as remuneration for the audit of the Company's financial statements and £104,000 (2022: £138,000) as remuneration for non-audit fees related to services provided in connection with bond issuances, the costs of which are borne by Heathrow Airport Limited.

Employee information
The Company has no employees (2022: nil).

Directors' remuneration
A total of £43,848 (2022: £40,829) was paid to Apex Group Fiduciary Services Limited by various entities in the HAHL Group for registered office and company secretarial services in line with the Letter of Engagement between the Companies dated 29 September 2021.

Javier Echave is a director of a number of companies within the HAHL Group during the year. His remuneration for the year ended 31 December 2023 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 Martin Bailey were directors of a number of companies within the HAHL 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 HAHL Group based on services provided.

During the year, one of the directors (2022: one) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2022: one) had retirement benefits accruing to them under a defined contribution scheme.

2 Financing

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Net finance costs before certain re-measurements		
Finance income		
Interest receivable from group undertakings	**1,366**	1,424
Total finance income	**1,366**	1,424
Finance costs		
Interest payable on external borrowings	**(642)**	(793)
Net interest payable on derivatives	**(724)**	(634)
Total finance costs	**(1,366)**	(1,427)
Net finance income/(costs) before certain re-measurements	**-**	(3)
Certain re-measurements		
Fair value gain/(loss) on financial instruments		
Index-linked swaps with external counterparties	**370**	661
Index-linked swaps as internal derivatives with Heathrow Airport Limited	**(291)**	(658)
Cross-currency swaps with external counterparties and retranslation of foreign currency debt(1)	**112**	(294)
Interest rate swaps with external counterparties	**83**	267
Interest rate swaps as internal derivatives with Heathrow Airport Limited	**(83)**	(267)
Fair value gain/(loss) on financial instruments	**191**	(291)
Net finance income/(costs) including certain re-measurements	**191**	(294)

(1) Includes foreign exchange retranslation gain on the currency bonds of £108 million (2022: £285 million loss) which has moved systematically in the opposite direction to that of the -cross-currency swaps which economically hedge the related currency.

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

Notes to the financial statements for the year ended 31 December 2023 *continued*

3 Taxation

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
UK corporation tax		
Current tax at 23.5% (2022: 19%)	**-**	-
Group relief payable	**-**	-
(Under)/Over provision in respect of prior years	**-**	-
Taxation 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 2023 £m	Year ended 31 December 2022 £m
Profit / (loss) before tax	**191**	(294)
Tax credit on ordinary activities at 23.5% (2022: 19%)	**(45)**	56
Effect of:		
Non-taxable income	**45**	(56)
Taxation 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 2023, the profits subject to corporation tax were £20,000 (2022: £20,000) which gave rise to a tax liability of £4,704 (2022: £3,800).

The 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.

4 Trade and other receivables

	31 December 2023 £m	31 December 2022 £m
Current		
Interest receivable from group undertakings[(1)]	**197**	180
Amounts owed by group undertakings – interest bearing[(2)]	**877**	896
	1,074	1,076
Non-current		
Amount owed by group undertakings – interest bearing[(2)]	**13,216**	13,223
	13,216	13,223
Total trade and other receivables	**14,290**	14,299

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

(2) Amounts owed by group undertakings - interest bearing' largely represent the balance of the BLAs receivable from Heathrow Airport Limited. The advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration the related hedging instruments. Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited and Heathrow Express Operating Company Limited are joint guarantors in respect of principal, indexation, interest, fees and hedging arrangements in relation to the borrowings of Heathrow Airport Limited under the BLAs.

Notes to the financial statements for the year ended 31 December 2023 *continued*

5 Borrowings

	31 December 2023	31 December 2022
	£m	£m
Current		
Secured		
Bonds		
5.225% £750 million due 2023	**-**	747
0.500% CHF400 million due 2024	**373**	-
7.125%+RPI £600 million due 2024	**600**	-
	973	747
Interest payable on borrowings	**168**	189
Total current	**1,141**	936
Non-current		
Secured		
Bonds		
7.125% £600 million due 2024	**-**	598
0.500% CHF400 million due 2024	**-**	358
3.250% C$500 million due 2025	**296**	304
1.500% €750 million due 2025	**648**	660
4.221% £155 million due 2026	**155**	155
6.750% £700 million due 2026	**697**	696
0.450% CHF210 million due 2026	**197**	189
2.650% NOK1,000 million due 2027	**77**	84
2.694% C$650 million due 2027	**385**	395
1.800% CHF165 million due 2027	**154**	147
2.625% £350 million due 2028	**347**	347
3.400% C$400 million due 2028	**236**	243
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**93**	98
2.500% NOK1,000 million due 2029	**77**	84
2.750% £450 million due 2029	**446**	446
3.782% C$400 million due 2030	**236**	243
1.125% €500 million due 2030	**429**	438
1.500% €750 million due 2030	**646**	660
3.661% C$500 million due 2031	**295**	304
6.450% £900 million due 2031	**866**	863
Zero-coupon €50 million due January 2032	**71**	70
1.366%+RPI £75 million due 2032	**113**	104
Zero-coupon €50 million due April 2032	**69**	68
0.101%+RPI £182 million due 2032	**234**	218
1.875% €500 million due 2032	**432**	441
3.726% C$625 million due 2033	**375**	386
4.500% €650 million sustainability-linked bond due 2033[1]	**558**	-
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**57**	57
1.875% €650 million due 2034	**556**	567
0.347%+RPI £75 million due 2035	**96**	91
0.337%+RPI £75 million due 2036	**97**	91
1.061%+RPI £180 million due 2036	**262**	245
0.419%+RPI £51 million due 2038	**66**	61
3.460% £105 million due 2038	**105**	105
1.382%+RPI £50 million due 2039	**75**	69
3.334%+RPI £460 million due 2039	**822**	765
Zero coupon €86 million due 2039	**84**	84
0.800% JPY1,000 million due 2039	**57**	64

Notes to the financial statements for the year ended 31 December 2023 *continued*

5 Borrowings *continued*

	31 December 2023 £m	31 December 2022 £m
Non-current *continued*		
Secured *continued*		
1.238%+RPI £100 million due 2040	**147**	137
0.362%+RPI £75 million due 2041	**97**	91
3.500% A$125 million due 2041	**67**	70
5.875% £750 million due 2041	**740**	739
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
4.702% £60 million due 2047	**60**	60
1.372%+RPI £75 million due 2049	**112**	104
2.750% £400 million due 2049	**393**	393
6.070% £70 million due 2056	**70**	-
6.070% £70 million due 2057	**70**	-
0.147%+RPI £160 million due 2058	**206**	197
Total non-current	**13,416**	13,634
Total borrowings	**14,557**	14,570
Total borrowings (excluding interest payable)	**14,389**	14,381

(1) Further details on the Sustainability Performance Targets can be found in our Sustainability- Linked Bond Framework at the Heathrow Investor Centre website.

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.

Interest rate benchmark reform

At 01 January 2022, all debt has transitioned across to the alternative risk-free-rates as part of the iBOR change, with Sterling Overnight Index Average (SONIA) replacing GBP LIBOR rate.

Fair value of borrowings

	31 December 2023		31 December 2022	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
Current				
Bonds	**973**	**972**	747	749
Non-current				
Bonds	**13,416**	**12,704**	13,634	12,040
	14,389	**13,676**	14,381	12,789

(2) 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 2023, the fair value of debt classified as Level 1 and Level 2 was £12,974 million and £702 million respectively (2022: £12,171 million and £618 million respectively). The RPI growth rate in the period reflected by a 12-month annualised increase of 5.3% in 2023 compared to an annualised increase of 14.0% in 2022.

Notes to the financial statements for the year ended 31 December 2023 *continued*

5 Borrowings *continued*

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 2023				
Current				
Cross-currency swaps	**277**	**92**	**-**	**92**
Index-linked swaps:				
with counterparties external to the SP Group	**100**	**-**	**(26)**	**(26)**
with fellow subsidiary Heathrow Airport Limited	**100**	**26**	**-**	**26**
Total current	**477**	**118**	**(26)**	**92**
Non-current				
Cross currency swaps	**5,813**	**245**	**(200)**	**45**
Interest rate swaps:				
with counterparties external to the SP Group	**7,378**	**555**	**(811)**	**(256)**
with fellow subsidiary Heathrow Airport Limited	**7,378**	**812**	**(555)**	**257**
Index-linked swaps:				
with counterparties external to the SP Group	**5,447**	**152**	**(999)**	**(847)**
with fellow subsidiary Heathrow Airport Limited	**5,301**	**999**	**(116)**	**883**
Total non-current	**31,317**	**2,763**	**(2,681)**	**82**
Total	**31,794**	**2,881**	**(2,707)**	**174**

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2022				
Current				
Index-linked swaps:				
with counterparties external to the SP Group	160	-	(39)	(39)
with fellow subsidiary Heathrow Airport Limited	100	21	-	21
Total current	260	21	(39)	(18)
Non-current				
Cross currency swaps	5,533	336	(186)	150
Interest rate swaps:				
with counterparties external to the SP Group	7,378	662	(1,010)	(348)
with fellow subsidiary Heathrow Airport Limited	7,378	1,009	(662)	347
Index-linked swaps:				
with counterparties external to the SP Group	5,547	146	(1,241)	(1,095)
with fellow subsidiary Heathrow Airport Limited	5,401	1,067	(115)	952
Total non-current	31,237	3,220	(3,214)	6
Total	31,497	3,241	(3,253)	(12)

6 Derivative financial instruments *continued*

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.

As at 31 December 2023, £214 million (2022: £246 million) remained deferred on the balance sheet and £32 million (2022: £32 million) had been recognised in the statement of comprehensive income for the period.

In relation to the internal swaps with Heathrow Airport Limited, £202 million remained deferred on the balance sheet as at 31 December 2023 (2022: £232 million) and £30 million (2022: £31 million) had been recognised in the statement of comprehensive income for the period.

The Company has index-linked derivative financial instruments where changes in RPI are capitalised to the carrying value of the instrument over its life, with scheduled payments every 5 years. The Company has paid scheduled accretion payments of £93 million (2022: £44 million) and also elected to make £484 million (2022: £490 million) of early cash repayments of its accrued accretion in advance of the schedule repayment dates, which has had the effect of reducing future accretion payments by £527 million (2022: £541 million)

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.

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.

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.

Notes to the financial statements for the year ended 31 December 2023 *continued*

7 Financial instruments *continued*

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.

Interest rate risk
The SP 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.

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

31 December 2023	**Financial assets at amortised cost and cash equivalents £m**	**Assets at fair value through statement of comprehensive income £m**	**Total £m**
Derivative financial instruments	**-**	**2,881**	**2,881**
BLA Intercompany receivables	**14,290**	**-**	**14,290**
Total financial assets	**14,290**	**2,881**	**17,171**

31 December 2023	**Liabilities at fair value through statement of comprehensive income £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings	**-**	**(14,557)**	**(14,557)**
Derivative financial instruments	**(2,707)**	**-**	**(2,707)**
Total financial liabilities	**(2,707)**	**(14,557)**	**(17,264)**

31 December 2022	Financial assets at amortised cost and cash equivalents £m	Assets at fair value through statement of comprehensive income £m	Total £m
Derivative financial instruments	-	3,241	3,241
BLA Intercompany receivables	14,299	-	14,299
Total financial assets	14,299	3,241	17,540

31 December 2022	Liabilities at fair value through statement of comprehensive income £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	(14,570)	(14,570)
Derivative financial instruments	(3,253)	-	(3,253)
Trade payables	-	(1)	(1)
Total financial liabilities	(3,253)	(14,571)	(17,824)

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 2023 and 2022, all fair value estimates on derivative financial instruments are included in level 2.

Notes to the financial statements for the year ended 31 December 2023 *continued*

7 Financial instruments *continued*

Fair value estimation continued

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.

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 2023, £182 million (2022: £208 million) remained capitalised and £26 million (2022: £26 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 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Assets at fair value through statement of comprehensive income	**-**	**2,881**	**-**	**2,881**
Total assets	**-**	**2,881**	**-**	**2,881**
Liabilities				
Liabilities at fair value through statement of comprehensive income	**-**	**(2,707)**	**-**	**(2,707)**
Total liabilities	**-**	**(2,707)**	**-**	**(2,707)**

31 December 2022	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Assets at fair value through statement of comprehensive income	-	3,241	-	3,241
Total assets	-	3,241	-	3,241
Liabilities				
Liabilities at fair value through statement of comprehensive income	-	(3,253)	-	(3,253)
Total liabilities	-	(3,253)	-	(3,253)

Notes to the financial statements for the year ended 31 December 2023 *continued*

8 Trade and other payables

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

9 Share capital

	£
Authorised	
At 1 January and 31 December 2023	
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 2023	
2 no par value ordinary shares of £1 each	**2**

10 Note to the statement of cash flows

Reconciliation in net debt

Net debt comprised the Company's consolidated borrowings excluding interest accruals, net of cash and cash equivalents, term deposits and lease liabilities.

	1 January 2023	**Cash flow**	**Transfers from non-current to current**	**Other non-cash changes**	**31 December 2023**
	£m	**£m**	**£m**	**£m**	**£m**
Current debt	**(747)**	**750**	**(956)**	**(20)[1]**	**(973)**
Non-current debt	**(13,634)**	**(689)**	**956**	**(49)[2]**	**(13,416)**
Net debt	**(14,381)**	**61**	**-**	**(69)**	**(14,389)**

(1) Comprises of movements on foreign exchange translations of foreign debt of (£16) million and amortisation of issue costs, premiums and discounts of (£4) million.

(2) Comprises of amortisation of issue costs, premiums and discounts of (£9) million, foreign exchange translations of foreign debt of £124 million, accretion accruals of (£157) million and zero-coupon accruals of (£7) million.

	1 January 2022	Cash flow	Transfers from non-current to current	Other non-cash changes	31 December 2022
	£m	£m	£m	£m	£m
Current debt	(738)	732	(732)	(9)[1]	(747)
Non-current debt	(13,596)	(196)	732	(574)[2]	(13,634)
Net debt	(14,334)	536	-	(583)	(14,381)

(1) Comprises of movements on foreign exchange translations of foreign debt of (£14) million, amortisation of issue costs, premiums and discounts of (£4) million and other movements of £9 million.

(2) Comprises of amortisation of issue costs, premiums and discounts of (£23) million, foreign exchange translations of foreign debt of (£270) million, accretion accruals of (£260) million, zero-coupon accruals of (£12) million and other movements of (£9) million.

Notes to the financial statements for the year ended 31 December 2023 *continued*

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.E., 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, LP (11.18%) (an investment vehicle of Australian Retirement Trust), 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 2023, 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 2023.

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.

Ultimate shareholder update

On 28 November 2023, Ferrovial announced that an agreement has been reached for the sale of its entire stake (c.25%) in FGP Topco Limited, the parent company of Heathrow Airport Holdings Limited, for £2,368 million. The agreement has been reached with two different buyers, Ardian and The Public Investment Fund (PIF), who would acquire Ferrovial's shareholding in c.15% and c.10% stakes respectively, through separate vehicles. On 16 January 2024, Ferrovial announced that, pursuant to the FGP Topco Shareholders Agreement, certain other FGP Topco shareholders have exercised their tag-along rights which resulted in 60% of the total issued share capital of FGP Topco being available for sale. The parties are currently investigating options to satisfy the exercised rights. While we acknowledge the existence of a change of control clause in the bonds issued by Heathrow Finance plc (a company outside of the independent securitised group) and the continuing nature of the negotiations, we are not at this time privy to any information that would lead us to believe that the change of control clause would be triggered.

12 Subsequent events

There are no subsequent events to disclose.