

Heathrow Funding Limited
Annual report and financial statements
for the year ended 31 December 2019

Heathrow Funding Limited

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Heathrow Funding Limited

Officers and professional advisers

Directors

Yuanyuan Ding
Javier Echave
Nicholas Golding
Beejadhursingh Surnam

Company secretary

Sanne Secretaries Limited

Registered office

IFC 5
St Helier
Jersey
JE1 1ST
Channel Islands

Independent auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London, United Kingdom
EC4A 3HQ

Bankers

Lloyds Bank plc
10 Gresham Street
London
EC2V 7AE

Heathrow Funding Limited

Directors' report

The directors present their annual report and the audited financial statements for Heathrow Funding Limited (the 'Company') for the year ended 31 December 2019.

Principal activities

The Company's primary purpose is to raise funding from external sources and provide funding to Heathrow (SP) Limited and its subsidiaries (together the 'SP Group'). This is done through the issuance of external bonds and use of external derivatives. The proceeds raised are distributed to Heathrow Airport Limited ('Heathrow'), a fellow subsidiary of Heathrow (SP) Limited, under the terms of Borrower Loan Agreements ('BLAs'). The advances under BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration any related hedging instruments.

The Company is a direct subsidiary of Heathrow (SP) Limited and forms part of the Heathrow Airport Holdings Limited group (the 'Group'). The Company is incorporated in Jersey but is resident in the United Kingdom for taxation purposes.

Cross-currency swaps, interest rate swaps and index-linked swaps are entered into by the Company to hedge the SP Group's and the wider Heathrow Airport Holdings Group's exposures. Interest rate and index-linked derivatives are mainly passed through to Heathrow as back-to-back derivatives, or otherwise incorporated into related BLAs. The Company's cross-currency swaps are packaged with their associated non-Sterling debt and passed through to Heathrow under the BLAs.

For the year ended 31 December 2019, the net finance income has increased to £139 million (2018: Net finance income of £100 million).

For the year ended 31 December 2019 interest receivable from group undertakings was £609 million (2018: £674 million) and interest payable on external borrowings was £558 million (2018: £577 million).

Net interest on derivative financial instruments decreased from £127 million payable in 2018 to £75 million payable in 2019. This was in part due to accretion on index-linked swaps, which was affected by the decrease in the inflation growth during 2019.

The fair value gain on financial instruments was £163 million (2018: £130 million). This was due to the fair value movement on index-linked swaps and cross-currency swaps.

The mark-to-market value of index-linked swaps was positively impacted during the period by the decrease in inflation expectations. The gain also included the fair value gains in the period on cross-currency swaps mainly due to lower EUR and CHF Libor rates.

The settlement of £295 million of accretion on index-linked swaps and the depreciation of Sterling against the hedged currencies, impacted the carrying value of all derivatives which changed from a net asset of £326 million at 31 December 2018 to a net asset of £372 million at 31 December 2019 as shown in Note 6.

Heathrow Funding Limited continues to focus on maintaining a strong liquidity position and optimising its long-term cost of debt as well as ensuring duration, diversification and resilience in its debt financing. Heathrow's recent financing strategy has looked to balance certainty of term funding with the cost of carrying substantial cash on the statement of financial position. This has been achieved partly by securing term debt with delays between commitment and drawing.

During the year the Company raised £2.1 billion of debt financing, with just over £850 million raised in Class A debt, excluding extensions to existing facilities and £75 million in Class B debt.

Class A financing activities included:

- a. a €650 million 15-year Class A bond maturing in 2034,
- b. a €86 million 20.5-year Class A zero coupon bond maturing in 2039,
- c. a CHF210 million 7.5-year Class A bond maturing in 2026, marking our 3rd Swiss Franc issuance,
- d. redemption of our \$400m CAD bond, and
- e. an inaugural JPY10 billion 20-year Class A note maturing in 2039.

Class B financing activities included:

- a. a £75 million 15-year Class B private placement maturing in 2035 which remains undrawn.

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

Heathrow Funding Limited

Directors' report *continued*

Results and dividends

The profit after taxation for the financial year amounted to £139 million (2018: £100 million). No ordinary dividends were proposed or paid during the year (2018: £nil). The statutory results for the year are set out on page 11.

Directors

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

Yuanyuan Ding
Javier Echave
Nicholas Golding
Beejadhursingh Surnam

Employment policies

The Company has no direct employees (2018: 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 position of the Company's activity.

Going Concern

The financial statements have been prepared on the going concern basis, which requires the directors to have a reasonable expectation that the Company, as part of the Heathrow Airport Holdings Group (the 'HAH Group'), has adequate resources to continue in operational existence for the foreseeable future. The going concern accounting policy on page 14 provides more detail.

Internal controls and risk management

Internal controls and risk management are key elements of the HAH Group's corporate operations. Risk is centrally managed within the HAH Group as part of Corporate Services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team. The Corporate risk management function, sets the strategy for risk management to provide the necessary framework to ensure that key risks are managed and embeds a sustainable risk management culture that views the execution of risk management processes and practices across Heathrow as a key enabler to Heathrow achieving its business objectives.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the HAH Group and for reviewing the effectiveness of the system. This is implemented by applying the HAH Group internal control procedures, supported by 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 HAH Group's internal control and risk management systems in relation to the financial reporting process include:

- a group-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 directors of Heathrow Airport Holdings Limited (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 as reported further below in the report;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

Risk management

Post year end the emergence and spread of the COVID-19 is a new principal risk. The pandemic is having a material impact on our operations and financial performance and management are still in the process of assessing and responding to its impact. The additional identified Covid-19 risks include significant financial loss from a material reduction in passengers, restrictions on access to finance including a higher risk of a covenant breach, failure of key customers and suppliers and operational risk from remote working and organisational restructuring.

Heathrow Funding Limited

Directors' report *continued*

Internal controls and risk management *continued*

Risk Management *continued*

We have taken immediate action to respond to these risks including safeguarding Heathrow's financial resilience by reducing cost and capital expenditure, liaising with financiers and credit rating agencies, supporting our customers such as providing free aircraft parking and reviewing our supplier portfolio to better understand our reliance and mitigate risk from failures, we have engaged with and implemented advice from Public Health England to protect our stakeholders and continue to seek new ways to protect our stakeholders. We will continue to monitor and respond to an evolving and fast changing situation over the coming months and will provide updates in our next set of results.

Financial stability

The 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 Heathrow 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 HAH Group's business operations and funding. To achieve this, the HAH 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 HAH Group are:

(a) Interest rates

The HAH Group maintains a mix of fixed and floating rate debt. As at 31 December 2019, fixed rate debt after hedging with derivatives represented 88.0% of the HAH Group's total external nominal debt.

(b) Inflation

The HAH 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 HAH Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The HAH 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 HAH Group has established both investment grade (at the Heathrow (SP) level) and sub-investment grade (at the Heathrow Finance Plc's level) financing platforms for Heathrow. The Heathrow Limited's financing platform supports 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 (A-/A-) or junior (BBB/BBB) format. The Heathrow Finance plc's financing platform is rated BB+/Ba3 and supports both loan and bond debt. Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Audit Committee of Heathrow Airport Holdings Limited, 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 HAH Group is not exposed to excessive refinancing risk in any one year.

Heathrow Finance plc has positive cash flows of £250m after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to October 2021.

As at 31 December 2019, the HAH Group had cash and cash equivalents, restricted cash and term deposits of £1,593 million, undrawn headroom under revolving credit facilities of £1,150 million, committed debt financing to be drawn after 31 December 2019 of £1,013 million and undrawn headroom under liquidity facilities of £595 million.

(e) Counterparty credit

The HAH 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.

The HAH Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short and long-term credit ratings. Investment activity is reviewed on a regular basis and generally no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The HAH Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB- (S&P)/BBB- (Fitch).

Heathrow Funding Limited

Directors' report *continued*

Internal controls and risk management *continued*

Risk Management *continued*

Political environment

Heathrow, particularly expansion of the airport, is reliant on political support. Changes to the government, and therefore government's priorities can impact material decisions that are taken by us. The UK referendum decision on Brexit has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply chain, and our people.

Risk mitigation

We continue to make a strong case for Heathrow's place in aviation and the wider economy and the part it plays in Global Britain, and we explain the benefits that expansion will bring. Whilst a change in the government's focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have established a cross-functional Brexit team, reporting to the Executive Committee and Heathrow Airport Holdings Limited Board, which has implemented a structured approach to the identification and management of all risks related to Brexit.

At midnight on 31 January 2020, the UK formally left the EU and the withdrawal agreement came into force. From 1 February 2020, the UK entered a transition period until the 31 December 2020 to negotiate trade and other areas with the EU. During this transition period, travel arrangements will continue as normal.

We have made preparations to ensure the continued safe and secure operation for passengers with a plan jointly created with stakeholders to deliver a predictable and appropriate passenger experience which minimises the pre and post Brexit impacts.

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 him by reason of being or having been such an officer.

Auditor

After a comprehensive tender process, and recommendation made by the Audit Committee, the Board has appointed PricewaterhouseCoopers (PwC) as auditor of the Group for the financial year ending 31 December 2020.

Pursuant to the provisions of the Companies (Jersey) Law 1991 'Article 87 (4)', the Company has dispensed with the requirement to hold an annual general meeting and PwC will be deemed to be appointed.

Statement of disclosure of information to the Auditor

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

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

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

Subsequent events

Subsequent events are disclosed in note 10.

On behalf of the Board



Javier Echave
Director

19 May 2020

Heathrow Funding Limited

Directors' responsibilities statement

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The financial statements are required by law to 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEATHROW FUNDING LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Heathrow Funding Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been properly prepared in accordance with Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of accounting policies;
- the significant accounting judgements and estimates; and
- the related notes to the financial statements 1 to 10.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).





2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was Financial instruments: derivative valuation for new, restructured or amended trades.</p> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	<p>The materiality that we used was £48.2 million which was determined on the basis of 0.4% of total borrowings.</p>
Scoping	<p>We performed full scope audit procedures, which accounted for 100% of the net assets and 100% of EBITDA.</p>

Significant changes in our approach There have been no significant changes in our approach for the current year.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included 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 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.

5.1. Financial Instruments: derivative valuations for new, restructured or amended trades

Key audit matter description

At 31 December 2019 the company has total borrowings of £12,512 million (2018: £11,990 million). The company has a net external derivative liability of £743 million (2018: £1,019 million liability).

The company holds a substantial derivative portfolio comprising interest rate swaps, cross currency swaps and retail price index swaps, which are recorded at fair value.

IFRS 9 "Financial Instruments" requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship, see note 6. We have identified the following significant risk:

- Derivative valuations of new, restructured or amended financial instruments - when entering into a new trade, or a restructuring or amendment occurs, the correct configuration of the derivative in the treasury management system is critical to ensure the valuation is accurate. Amendments can give rise to the de-recognition of the existing asset or liability and recognition of a new instrument. The risk of material misstatement is increased due to the notional value of the derivatives and the volume of restructures or amendments each year.

How the scope of our audit responded to the key audit matter We, with the involvement of our financial instruments specialists performed the following audit procedures:

- Assessed the design and implementation and tested the operating effectiveness of key controls relating to valuation of derivatives; and
- Performed an independent recalculation on all new, restructured or amended swaps, including the credit risk adjustment, in order to assess the appropriateness of the valuation and considered de-recognition, where applicable.

Key observations

We are satisfied that the valuation of new, restructured and amended swaps is reasonable.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£48.2 million (2018: £54.3 million)
Basis for determining materiality	0.4% (2018: 0.5%) of total borrowings
Rationale for the benchmark applied	The primary purpose of the Company is to raise funding from external sources and provide funding to Heathrow (SP) Limited and its subsidiaries. We have therefore used total borrowings as the benchmark. The applied materiality is capped at the component materiality determined as part of the FGP Topco Limited group audit.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered factors including our ability to rely on internal controls across a number of areas of the audit, the stability of the business, the outcome of our risk assessment process, the level of errors identified in prior years, management's willingness to correct errors identified and the stability of the finance team.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.4 million (2018: £2.7 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit for the current and prior year was scoped by obtaining an understanding of the entity and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement were performed directly by the audit team.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

10. Auditor's 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 auditor's 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.

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 auditor's report.

Report on other legal and regulatory requirements

11. Matters on which we are required to report by exception

11.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept, or proper returns adequate 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 nothing to report in respect of these matters.

12. Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Simon Cleveland FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

19 May 2020

Heathrow Funding Limited**Statement of comprehensive income** for the year ended 3 December 2019

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Financing			
Finance income	2	609	674
Finance cost	2	(633)	(704)
Fair value gain on financial instruments	2	163	130
Operating profit on ordinary activities before taxation		139	100
Taxation	3	-	-
Profit after taxation for the financial year	8	139	100
Total comprehensive income for the year		139	100

Heathrow Funding Limited

Statement of financial position for the year ended 31 December 2019

	Note	31 December 2019 £m	31 December 2018 £m
Assets			
Non-current assets			
Trade and other receivables	4	11,741	11,280
Derivative financial instruments	6	1,623	1,878
		13,364	13,158
Current assets			
Trade and other receivables	4	567	413
Derivative financial instruments	6	55	20
		622	433
Total assets		13,986	13,591
Liabilities			
Non-current liabilities			
Borrowings	5	(11,903)	(11,552)
Derivative financial instruments	6	(1,251)	(1,533)
		(13,154)	(13,085)
Current liabilities			
Borrowings	5	(609)	(438)
Derivative financial instruments	6	(55)	(39)
		(664)	(477)
Total liabilities		(13,818)	(13,562)
Net assets¹		168	29
Capital and reserves			
Share capital	7	-	-
Retained earnings	8	168	29
Total shareholder's funds		168	29

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

The financial statements of Heathrow Funding Limited were approved by the Board of Directors and authorised for issue on 19 May 2020. They were signed on its behalf by:



Javier Echave
Director



Nicholas Golding
Director

Heathrow Funding Limited**Statement of changes in equity** as at 31 December 2019

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2018	-	(71)	(71)
Total comprehensive profit for the financial year	-	100	100
At 31 December 2018	-	29	29
Total comprehensive profit for the financial year	-	139	139
At 31 December 2019	-	168	168

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2019

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 financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The Company has applied the amendments to FRS 102 issued by the FRC in December 2017 with effect from 1 January 2019. The transitional provisions relating to the triennial review amendments have not resulted in any restatements of comparative information by the Company.

The Company has elected to adapt the statutory formats prescribed in the Accounting Regulations for the primary financial statements as permitted by FRS 102/101 and the Accounting Regulations, allowing for a consistent format to be applied in line with the presentation of the consolidated accounts.

These financial statements are presented in pound Sterling, which is the Company's functional currency, and in millions (£m), except where noted.

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

IAS 39 'Financial Instruments: Recognition and Measurement', as endorsed by the European Union ('EU'). As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102 (s.11 and s.12).

Exemption for qualifying entities under FRS 102

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its parent, Heathrow (SP) Limited and FGP Topco Limited, which may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement, transactions with other wholly owned Group companies.

Going concern

The directors have prepared the 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.

The ultimate parent of the Company is FGP Topco Limited. The Heathrow group of entities raises finance within a consolidated securitised group Heathrow SP Limited ('Heathrow SP') and its parent company Heathrow Finance Plc ('Heathrow Finance').

The Company is a subsidiary of Heathrow SP Limited and therefore part of the securitised group. In concluding on the going concern of the Company the directors have considered the ability of Heathrow SP to continue to have access to finance for a period of 12 months.

The directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months and the corresponding impact on the covenants associated with Heathrow SP's financing arrangements. During Q1 steps have been taken to access significant additional liquidity and Heathrow SP has drawn down an additional £1,531 million of pre-agreed facilities, and raised an additional £80 million in Class A debt. Consequently, Heathrow SP held cash and cash equivalents of £2,486 million as at 31 March 2020. Total debt maturity within Heathrow SP for the next 12 months is £250 million. The wider Heathrow Group (which includes Heathrow Finance and Heathrow SP) has cash and committed facilities of circa. £3.2 billion available. No debt matures outside of Heathrow SP for the next 12 months. The directors have modelled revised cash flow projections for Heathrow SP, in the context of the significant impact of COVID-19 on the aviation industry, reflecting the additional operational and financial risks and have considered the following:

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2019 *continued*

Going concern *continued*

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

The models have included the impacts of several important steps to reduce operating expenditure including temporarily shrinking our operation, cancelling executive pay, a companywide pay reduction and bonus cancellation, freezing recruitment and removing all non-essential costs. Steps have also been taken to adjust Heathrow's capital expenditure which we anticipated being around £500 million in the current year. In modelling the impact of COVID-19, notably the rate at which passenger numbers will return from the around 97% reduction expected in April, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of the forecasting is therefore inherently subjective.

In reaching our going concern conclusion the directors have therefore considered several potential downside scenarios. These scenarios were prepared by internal experts and challenged by our governance committees. Our stress test was considered to represent a downside scenario which was worse than forecasts provided by others in the market. We continue to monitor available evidence and will update our forecasts as more information becomes available.

Having modelled various scenarios, and the corresponding impact on various debt covenants, the directors have a reasonable expectation that there will be no default event triggering a repayment of external debt within the Heathrow SP group of companies within the going concern period.

We have also considered the potential impact of Covid-19 on other entities within the group above Heathrow SP notably Heathrow Finance. We noted that the directors of the entity have confirmed there is appropriate cash held within Heathrow Finance Plc to meet forecast commitments for the next 12 months and no capital repayments were due until 2024. The directors continue to assess the longer-term impact of Covid-19 on default covenants and the possible mitigating actions that would be implemented if necessary. Default covenants within Heathrow Finance are assessed based on the financial year ended 31 December 2020 and compliance certificates are not due for submission until June 2021.

In conclusion, having had regard to both liquidity and debt covenants for the Company and the wider securitised group that the Company is part of, the directors have concluded that there will be sufficient funds available for at least twelve months from the date of these accounts.

Furthermore, Heathrow, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. Consequently, as an Issuer under the common terms platform, the directors have a reasonable expectation that the Company will recover debts outstanding with Heathrow and be able to meet its liabilities due within one year.

Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Pound Sterling, which is the Company's functional currency. Transactions denominated in foreign currencies are initially recorded in the entity's functional currency 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.

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.

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 profit and loss account over the period of the borrowings using the effective interest method. For index-linked borrowings, the nominal amount is adjusted for movements in the relevant price index. The accretion expense is recorded within net interest payable on derivative financial instruments in the profit and loss account.

All borrowings issued by the Company are on-lent to Heathrow under Borrower Loan Agreements ('BLAs'). The advances under the BLAs are issued on substantially the same terms as the new bonds issued by the Company, taking into consideration the related hedging instruments. The advances are carried at amortised cost with interest income recognised

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2019 *continued*

Borrowings *continued*

using the effective interest method. The nominal amount of the index-linked advances is accreted for the RPI component recognised within finance income in the profit and loss account.

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.

Amounts owed to group undertakings

Amounts owed to group undertakings are repayable on demand and are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost.

Share capital

Stated shares are classified as equity. External costs directly attributable to the issue of new shares are deducted from the proceeds of issue and shown as a deduction to the reserve. Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve. Where a share capital reduction has taken place, shares are classified at their re nominalisation value.

Issue costs and arrangement fees

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

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into. The Company does not designate derivatives held by the Company in a hedge relationship. The fair value change on these derivatives is recognised within fair value gain/(loss) on financial instruments in the income statement. The interest payable and receivable on these derivatives are recorded at their net amount in finance costs in the statement of comprehensive income.

Derivative financial instruments novated from other companies within the Group are transferred at fair value prevailing on that date.

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 quarterly based on current market data. The back-to-back derivatives carry the same credit risk adjustment as the associated external derivatives.

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:

- (a) they include contractual obligation to deliver cash or another financial asset; or
- (b) 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.

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.

Heathrow Funding Limited

Accounting policies for the year ended 31 December 2019 *continued*

Derivative financial instruments *continued*

Classification of financial instruments issued by the Company *continued*

Finance payments associated with financial instruments that are classified as part of shareholder's funds are dealt with as appropriations in the reconciliation of movements in shareholder's 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 endorsed by the European Union ('EU'). As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102.

Financial instruments

Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Heathrow Funding Limited

Significant estimates and judgments for the year ended 31 December 2019

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 judgments for the Company.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty for the Company.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2019

1 Operating costs

Auditor's fee

Audit fees are recharged in accordance with the Shared Service Agreement ('SSA') into the operating entities. The Company is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditor received £25,000 (2018: £24,000) as remuneration for the audit of the Company's financial statements the cost of which is borne by Heathrow.

Employee information

The Company has no employees (2018: nil).

Directors' remuneration

An amount was paid to Sanne Group (UK) Limited (a related party due to their ability to appoint a director), for directors' services totalling £5,000 for the year ended 31 December 2019 (2018: £5,000). This payment is made annually for the services of Beejadhursingh Surnam, an independent UK-resident director provided by Sanne Group (UK) Limited as a director of Heathrow Funding Limited, in line with the existing directorship corporate administration agreement between the companies. In addition to this £17,000 (2018: £17,000) was paid to Sanne Fiduciary Services Limited by various entities in the Heathrow Airport Holdings Group for registered office and company secretary services in line with the existing corporate HAH administration agreement between the companies.

Javier Echave is a director of a number of companies within the Heathrow Airport Holdings Group during the year. His remuneration for the year ended 31 December 2019 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. Andrew Efiog, Yuanyuan Ding and Nicholas Golding were directors of a number of companies within the HAH Group during the year. They were paid by, but are not directors of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies within the HAH Group based on services provided.

During the year, two of the directors (2018: two) had retirement benefits accruing to them under a defined benefit scheme and two of the directors (2018: two) had retirement benefits accruing to them under a defined contribution scheme.

2 Financing

Net finance income before certain re-measurements

	Year ended 31 December 2019	Year ended 31 December 2018
	£m	£m
Finance income		
Interest receivable from group undertakings	609	674
Total finance income	609	674
Finance costs		
Interest payable on external borrowings	(558)	(577)
Net interest payable on derivatives	(75)	(127)
Total finance costs	(633)	(704)
Net finance costs before certain re-measurements	(24)	(30)
Certain re-measurements		
Fair value gain on financial instruments		
Index-linked swaps with external counterparties	172	(90)
Index-linked swaps as internal derivatives with Heathrow Airport Limited	(112)	186
Cross-currency swaps with external counterparties and retranslation of foreign currency debt	106	38
Interest rate swaps with external counterparties	(18)	84
Interest rate swaps as internal derivatives with Heathrow Airport Limited	15	(88)
Fair value gain on financial instruments	163	130
Net finance income including certain re-measurements	139	100

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

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2019 *continued*

3 Taxation

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
UK corporation tax		
Current tax at 19% (2018: 19%)	-	-
Group relief payable	-	-
(Under)/Over provision in respect of prior years	-	-
Tax charge on profit on ordinary activities	-	-

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2018: 19%). The actual tax charge for the current and prior year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit on ordinary activities before tax	139	100
Tax charge on ordinary activities at 19% (2018: 19%)	(26)	(19)
Effect of:		
Expenses not deductible for tax purposes	26	19
Tax charge for the year	-	-

Whilst the Company is incorporated outside the UK, it is treated as a UK resident company for tax purposes. As the Company qualifies as a 'securitisation company' within the scope of the Taxation of Securitisation Companies Regulations 2006, it is subject to UK corporation tax on a small margin rather than the loss shown in the statement of comprehensive income.

For the year ended 31 December 2019, the profits subject to corporation tax were £20,000 (2018: £20,000) which gave rise to a tax liability of £3,800 (2018: £3,800).

Under legislation enacted by the balance sheet date, the headline UK corporation tax rate is 19% up to 31 March 2020 and reduces to 17% with effect from 1 April 2020. Subsequently, draft legislation in Finance Bill 2020 repeals the rate reduction and maintains the rate at 19%.

4 Trade and other receivables

	31 December 2019 £m	31 December 2018 £m
Current		
Interest receivable from group undertakings ¹	167	164
Amounts owed by group undertakings – interest bearing ²	400	249
	567	413
Non-current		
Amount owed by group undertakings – interest bearing ²	11,740	11,280
Prepaid Debt Fees	1	-
	11,741	11,280
Trade and other receivables	12,308	11,693

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

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

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2019 *continued*

5 Borrowings

	31 December 2019 £m	31 December 2018 £m
Current		
Secured		
Bonds		
4.000% C\$400 million due 2019	-	230
6.000% £400 million due 2020	400	-
	400	230
Interest payable on borrowings	209	208
Total current	609	438
Non-current		
Secured		
Bonds		
6.000% £400 million due 2020	-	399
9.200% £250 million due 2021	255	259
3.000% C\$450 million due 2021	261	258
4.875% US\$1,000 million due 2021	753	783
1.650%+RPI £180 million due 2022	218	213
1.875% €600 million due 2022	506	536
5.225% £750 million due 2023	704	691
7.125% £600 million due 2024	594	593
0.500% CHF400 million due 2024	312	320
3.250% C\$500 million due 2025	288	285
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	693	693
0.450% CHF210 million due 2026	164	-
2.650% NOK1,000 million due 2027	85	90
3.400% C\$400 million due 2028	231	229
7.075% £200 million due 2028	198	198
4.150% A\$175 million due 2028	92	96
2.500% NOK1,000 million due 2029	86	90
3.782% C\$400 million due 2030	231	229
1.500% €750 million due 2030	629	667
6.450% £900 million due 2031	855	853
Zero-coupon €50 million due January 2032	58	59
1.366%+RPI £75 million due 2032	86	85
Zero-coupon €50 million due April 2032	57	58
1.875% €500 million due 2032	421	447
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	49	50
1.875% €650 million due 2034	540	-
1.061%+RPI £180 million due 2036	201	197
1.382%+RPI £50 million due 2039	58	56
3.334%+RPI £460 million due 2039	639	626
Zero coupon €86 million due 2039	75	-
0.800% JPY10bn due 2039	70	-
1.238%+RPI £100 million due 2040	113	111
5.875% £750 million due 2041	738	738
2.926% £55 million due 2043	54	55
4.625% £750 million due 2046	741	742
1.372%+RPI £75 million due 2049	86	85
2.750% £400 million due 2049	392	392
0.147%+RPI £160 million due 2058	165	164
Total non-current	11,903	11,552
Total borrowings	12,512	11,990
Total borrowings (excluding interest payable)	12,303	11,782

The maturity dates of the bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and the Company. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.000% £400 million due 2020, 7.125% £600 million due 2024, 4.221% £155 million due 2026 and 1.061%+RPI £180 million due 2036 bonds, wherein the redemption dates coincide with their legal maturity dates.

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2019 *continued*

5 Borrowings *continued*

Fair value of borrowings

	31 December 2019		31 December 2018	
	Book value £m	Fair value ¹ £m	Book value £m	Fair value ¹ £m
Current				
Bonds	400	404	230	232
Non-current				
Bonds	11,903	15,862	11,552	13,856
	12,303	16,266	11,782	14,088

¹ Fair values of borrowings are for disclosure purposes only.

The fair values of listed borrowings are based on quoted prices at reporting date. For unlisted borrowings, the Company establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data.

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 BLAs. The advances under the BLAs 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 2019				
Current				
Cross-currency swaps	-	-	-	-
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	738	-	(10)	(10)
with fellow subsidiary Heathrow Airport Limited	738	10	-	10
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	313	-	(45)	(45)
with fellow subsidiary Heathrow Airport Limited	313	45	-	45
Total current	2,102	55	(55)	(0)
Non-current				
Cross currency swaps	4,551	482	(25)	457
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	1,572	-	(388)	(388)
with fellow subsidiary Heathrow Airport Limited	1,665	396	-	396
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	6,082	57	(814)	(757)
with fellow subsidiary Heathrow Airport Limited	5,919	688	(24)	664
Total non-current	19,789	1,623	(1,251)	372
Total	21,891	1,678	(1,306)	372

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2019 *continued*

6 Derivative financial instruments *continued*

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2018				
Current				
Cross-currency swaps	250	-	(19)	(19)
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	204	-	(5)	(5)
with fellow subsidiary Heathrow Airport Limited	204	5	-	5
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	124	-	(15)	(15)
with fellow subsidiary Heathrow Airport Limited	124	15	-	15
Total current	906	20	(39)	(19)
Non-current				
Cross- currency swaps	3,685	502	(6)	496
<i>Interest rate swaps:</i>				
with counterparties external to the SP Group	2,309	-	(377)	(377)
with fellow subsidiary Heathrow Airport Limited	2,402	389	-	389
<i>Index-linked swaps:</i>				
with counterparties external to the SP Group	6,395	42	(1,141)	(1,099)
with fellow subsidiary Heathrow Airport Limited	6,231	945	(9)	936
Total non-current	21,022	1,878	(1,533)	345
Total	21,928	1,898	(1,572)	326

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

Cross-currency swaps

Cross-currency swaps have been entered into by the Company to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues.

Index-linked swaps

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

Interest rate swaps

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

7 Share capital

	£
Authorised	
At 1 January and 31 December 2019	
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 2019	
2 no par value ordinary shares of £1 each	2

8 Retained earnings

	£m
1 January 2018	
Profit for the financial year	(71)
	100
31 December 2018	29
Profit for the financial year	139
31 December 2019	168

Heathrow Funding Limited

Notes to the financial statements for the year ended 31 December 2019 *continued*

9 Ultimate parent undertaking

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

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

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2019, 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 2019.

Copies of the financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited and Heathrow Airport Holdings 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.

10 Subsequent events

All subsequent events are considered to represent non-adjusting events under FRS 102.

Airport expansion

On 27 February 2020, the Court of Appeal concluded that the Government was required but failed to take account the Paris Climate Agreement when preparing the Airports National Policy Statement ('ANPS'). The Court declared that the ANPS has no legal effect unless and until the Government carries out a review of the policy.

The Government declined to appeal to the Supreme Court directly, but Heathrow and other interested parties intend to appeal the Court of Appeal ruling. The Supreme Court has given permission for an appeal to go ahead.

Covid-19

The spread of COVID-19 represents a material challenge for the global aviation industry. The pandemic has had a material impact on our operations and Heathrow's financial performance 2020 will be significantly impacted. In response to COVID-19 we have taken immediate action to safeguard Heathrow's financial resilience including temporarily shrinking our operation to a single runway in Terminals 2 and 5, cancelling executive pay, a companywide pay reduction and bonus cancellation, freezing recruitment and removing all non-essential costs

From March 2020 COVID-19 has materially impacted our trading results, passenger numbers were down by 52% in March 2020 and by 97% in April. Management have considered the impact that COVID-19 will have on our 2020 trading results. However, uncertainty around how long the pandemic will last and its medium to long term effect on the aviation industry, means that the financial impact cannot be estimated with any degree of accuracy in the long term at this time.

The macroeconomic impact of COVID-19 may have an impact on the carrying values of our assets and liabilities, however the uncertainty regarding the duration of impact means it is difficult to estimate the financial impact at this point. In regard to our trade receivable position at 31 December 2019, we recognise that a number of airlines are in financial difficulty as a result of the COVID-19 pandemic, however, we have collected the majority of trade debtor balances that existed at 31 December 2019.

As reported in Heathrow's Q1 results, COVID-19 and the delay to expansion (following the Court of Appeal's ruling to suspend the Airports National Policy Statement) have had an impact in Q1 of 2020, this includes a reduction in the non-cash fair value of our investment properties of £184 million, an exceptional charge of £82 million and an £218 million increase in the surplus of the defined benefit pension scheme. The Group carried out a detailed review of its organisational design to simplify operations and reduce costs. As a result, the Group made a provision in Q1 for £30 million of exceptional costs relating to this transformation programme. The Group has also reviewed their investment projects. As a result of the impact of the COVID-19, certain projects have been placed on hold while some projects are unlikely to be restarted in the foreseeable future. This resulted in an exceptional write-off of previously capitalised costs of £52 million in the period. These costs remain on the RAB and continue to generate a return.

We will continue to monitor the situation over the coming months and will provide updates as required.