

Birmingham Airport (Finance) PLC

INTERIM FINANCIAL REPORT For the six months ended 30 September 2020

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The directors present their unaudited interim report for the period ended 30 September 2020.

Review of the business and principal activity

From the commencement of trading on 1 February 2001, the principal activity of the company has been the provision of financing facilities to Birmingham Airport Holdings Limited (the ultimate holding company of Birmingham Airport (Finance) plc) and group companies. The company has a 20 year £105 million corporate bond issued in 2001 and Private Placement Senior Notes, issued in 2013, for £30 million and £45 million with terms of 10 years and 15 years respectively. The net proceeds for this transaction have been lent to Birmingham Airport Holdings Limited (£32.2 million) and Birmingham Airport Limited (£41.8 million), both at a commercial rate of interest. During March 2016 the company entered into Private Placement Senior Notes agreements for £76 million with a term of 25 years. The proceeds for this transaction have been lent to Birmingham Airport Operations Limited on 6 April 2016 at a commercial rate of interest. During January 2019, the company entered into Private Placement Senior Notes agreements for £90 million with a term of 30 years. The proceeds for this transaction have been lent to Birmingham Airport Limited on 24 January at a commercial rate of interest. During January 2020, the company entered into Private Placement Senior Notes agreements for £85 million with a term of 30 years. The proceeds of this transaction have been lent to Birmingham Airport Limited on 23 January at a commercial rate of interest. During May 2020, the company entered into Private Placement Senior Notes agreements for £45 million with a term of 30 years. The proceeds of this transaction have been lent to Birmingham Airport Limited on 21 May at a commercial rate of interest.

Principal risks and uncertainties

The company is risk averse in its principal activities as detailed above. The principal risk for the company is interest rates. The company has limited exposure, as both the corporate bond and private placement senior notes have fixed interest rates. The amount owed by group undertakings attracts interest at a rate composed of current interest rate payable on the company's bond plus 0.5 per cent.

The Covid-19 pandemic has had a devastating impact on global aviation and it is unclear how quickly the industry will recover from the crisis. As a result there is additional covenant risk in 2020/21. A prolonged period of traffic disruption from Covid-19 could cause future covenant breach and agreement was reached with lenders to waive the covenants at the testing dates of 30 September 2020 and 31 March 2021. The first covenant testing date after the waiver period is 30 June 2021. In addition, a six month forward liquidity covenant was introduced which is reported monthly.

Interim financial report

The profit for the six months to 30 September 2020 after tax amounted to £0.514 million (2019: £0.726 million). The Directors' recommended that no final dividend payment is made in respect of the financial year ended 31 March 2020 due to the uncertainty facing the Airport as a result of the Coronavirus pandemic (2019: £13.34 per ordinary share amounting to £0.667 million).

Directors' Responsibility Statement

This report has been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the United Kingdom Financial Services Authority. The directors responsible for preparing the interim financial report are:-

N Barton	Chief Executive Officer
T Clarke	Chairman
S L C Richards	Director

The condensed set of financial statements included in this Interim Report has been prepared in accordance with 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' 102 (FRS 102) and applicable law and give a true and fair view of the state of affairs of the Company and of the profit of the Company.

The Directors regularly review management accounts, cash balances, forecasts and the annual budget together, with covenant reporting.

The Company has external debt facilities in the form of a £105 million corporate bond and £371 million of private placement loan notes. The Group of companies to which the Company belongs also has a bank loan of £25 million, for which the Company has cross guarantees.

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The Directors have reviewed the prospects for the Group and Company to September 2022 (twenty-four months from the balance sheet date) in the context of the ongoing Covid-19 pandemic and the insolvency of Flybe in March 2020. At the 30 September 2020 the Group had very strong liquidity, with a cash balance of £218 million. Actions taken to reduce expenditure have led to cash outflows for the six months ended 30 September 2020 averaging £6.5 million per month. Further restructuring of the cost base is expected to reduce this further and, after taking into account the maturity of the £105 million bond in February 2021, the Group has sufficient cash to operate for more than 18 months from the date of signing these financial statements.

The Directors have also considered the significant uncertainties facing the Group over the next two years and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response.

After due consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis. However, the impact of the Coronavirus pandemic on the ability of the Group to meet its covenant tests and to take corrective measures should it not be able to do so, represent material uncertainties that may cast significant doubt on the Group's and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustment that would arise if the financial statements were not drawn up on a going concern basis.

Approved by the Board on 18 November 2020 and signed on its behalf by:



S L C Richards
Director

Registered Number: 04061664

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Comprehensive Income Statement for the six months ended 30 September 2020 (unaudited)

	Note	2020 £000	2019 £000
Turnover		-	-
Administration expenses		(201)	(5)
Operating loss		(201)	(5)
Interest receivable and similar income		10,383	8,924
Interest payable and similar charges	2	(9,547)	(8,023)
Profit on ordinary activities before taxation		635	896
Tax charge on profit on ordinary activities	3	(121)	(170)
Profit for the period		514	726


The above results were derived from continuing operations.

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Statement of Financial Position as at 30 September 2020 (unaudited)

	Note	30/09/20 £000	31/03/20 £000
Current assets			
Debtors		484,580	433,125
Cash at bank and in hand	2	2	7
		<u>484,582</u>	<u>433,132</u>
Creditors			
Amounts falling due within one year		(113,700)	(107,826)
Net current assets		<u>370,882</u>	<u>325,306</u>
Total assets less current liabilities		<u>370,882</u>	<u>325,306</u>
Creditors			
Amounts falling due after more than one year	5	(369,517)	(324,455)
Provisions for liabilities		(26)	(26)
Net assets		<u>1,339</u>	<u>825</u>
Capital and reserves			
Called up share capital	8	50	50
Retained earnings		1,289	775
Total equity		<u>1,339</u>	<u>825</u>

The interim financial statements on pages 3 to 10 were approved and authorised by the Board of Directors on 18 November 2020 and signed on its behalf by:


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S L C Richards
Director

Registration number: 04061664

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Statement of changes in equity for the six months ended 30 September 2020 (unaudited)

	Share Capital	Profit and Loss Account	Total
	£000	£000	£000
At 31 March 2019	50	1,371	1,421
Profit for the financial year	-	726	726
Dividends paid	-	(667)	(667)
At 30 September 2019	50	1,430	1,480
Profit for the financial year	-	103	103
Dividends paid	-	(758)	(758)
At 31 March 2020	50	775	825
Profit for the financial year	-	514	514
Dividends paid	-	-	-
At 30 September 2020	50	1,289	1,339

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Notes to the unaudited interim financial report for the period ending 30 September 2020

1. Accounting Policies

Basis of Preparation

The interim financial report has been prepared on a going concern basis under the historical cost convention and in accordance with 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' 102 (FRS 102) and with the Companies Act 2006. The principal accounting policies, which have been applied consistently throughout the period are set out below.

These condensed interim financial statements for the six months ended 30 September 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2020, which have been prepared in accordance with UK GAAP in force at that time.

Summary of disclosure exemptions

FRS 102 allows a qualifying entity certain disclosure exemptions; these disclosures are included in the 2019/20 consolidated financial statements of Birmingham Airport Holdings Limited. The company has taken advantage of the following exemptions;

- the requirement to prepare a statement of cash flows (FRS 102 para 1.12(b));
- the non-disclosure of key management personnel compensation in total (FRS 102 para 33.7); and
- the requirement to complete a reconciliation of the number of shares outstanding at the beginning and end of the period (FRS 102 para 4.12(a)(iv)).

The company notified and did not receive any objections to the use of the above exemptions by its shareholders.

Related parties

The company is exempt under the terms of FRS102 from disclosing related party transactions with entities that are wholly owned by Birmingham Airport Holdings Limited.

Taxation

The tax expense for the period comprises current tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income. Current tax assets and liabilities are not discounted.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are approved by the company's shareholders.

Financial instruments

Basic financial assets including accounts receivable are initially recognised at transaction price then subsequently carried at amortised cost using the effective interest method.

Basic financial liabilities, including trade and other payables and loans that are classified as debt, are initially recognised at transaction price.

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs.

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Notes to the unaudited interim financial report for the period ending 30 September 2020 (continued)

1. Accounting Policies (continued)

Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Income Statement over the period of the relevant borrowing.

The company assesses at the end of each period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

2. Interest payable and similar charges

	2020 £000	2019 £000
Corporate bond (note 6)	3,371	3,371
Other similar charges	6,176	4,652
	<u>9,547</u>	<u>8,023</u>

Other similar charges includes the amortisation of the debt issue costs and launch discount over the life of the debt.

3. Taxation

Current tax

	2020 £000	2019 £000
Corporation tax charge	<u>121</u>	<u>170</u>

Factors affecting the tax charge for the year

Tax on profit on ordinary activities for the six months to 30 September is the same as the standard rate of corporation tax in the UK of 19% (2019: 19%)

4. Dividends

	2020 £000	2019 £000
Prior period final dividend paid at £nil per share (2019: £13.34)	<u>-</u>	<u>667</u>

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Notes to the unaudited interim financial report for the period ending 30 September 2020 (continued)

5. Creditors

Amounts falling due within one year

	30/09/20 £000	31/03/20 £000
Corporate bond (note 6)	104,933	104,852
Corporation tax	321	200
Accruals and deferred income	8,446	2,774
	113,700	107,826

Amounts falling due after more than one year

	30/09/20 £000	31/03/20 £000
Loans (note 6)	369,517	324,455

6. Loans and borrowings

Current loans and borrowings

	30/09/20 £000	31/03/20 £000
Corporate Bond	104,933	104,852

Non-current loans and borrowings

	30/09/20 £000	31/03/20 £000
Private Placement Senior Notes May 2020	45,000	-
Private Placement Senior Notes January 2020	85,000	85,000
Private Placement Senior Notes 2019	90,000	90,000
Private Placement Senior Notes 2016	76,000	76,000
Private Placement Series A Senior Notes 2013	30,000	30,000
Private Placement Series B Senior Notes 2013	45,000	45,000
Less: issue costs and discount	(1,483)	(1,545)
	369,517	324,455

The corporate bond is repayable within one year and the private placement series A notes are repayable within four years. The other non-current loans are payable after five years.

The corporate bonds will mature, unless previously redeemed or purchased or cancelled, on 22 February 2021. Interest on the bonds is payable annually on 22 February at a fixed rate of 6.25 per cent on the par value. The bonds are listed on the London Stock Exchange. The bonds were issued at a discount of 1.102 per cent, which, if amortised into the cashflow, gives an effective interest rate of 6.349 per cent.

The private placement senior notes May 2020 will mature, unless previously redeemed or purchased or cancelled on 21 May 2050. Interest on the private placement senior notes May 2020 is payable on 24 January and 24 July at a fixed rate of 2.49 per cent. The private placement senior notes January 2020 will mature, unless previously redeemed or purchased or cancelled on 24 January 2050. Interest on the private placement senior notes January 2020 is payable on 24 January and 24 July at a fixed rate of 2.44 per cent. The private placement senior notes 2019 will mature, unless previously redeemed or purchased or cancelled on 24 January 2049. Interest on the private placement senior notes 2019 is payable on 24 January and 24 July at a fixed rate of 3.21 per cent. The private placement senior notes 2016 will mature, unless previously redeemed or purchased or cancelled on 30 March 2041. Interest on the private placement senior notes 2016 is payable

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Notes to the unaudited interim financial report for the period ending 30 September 2020 (continued)

6. Loans and borrowings (continued)

on 30 March and 30 September at a fixed rate of 3.8 per cent. The private placement senior notes 2013 series A and senior notes series B will mature, unless previously redeemed or purchased or cancelled on 3 December 2023 and 3 December 2028 respectively. Interest on the senior notes is payable on 3 June and 3 December at a fixed rate of 4.472 per cent for the senior A notes and 4.557 per cent for the senior B notes.

7. Financial Instruments

The company's principal financial instruments comprise bonds, private placement senior notes and inter-company loans. The main purpose of these financial instruments is to raise and provide finance for the parent's and its subsidiaries operations. The company does not enter into any form of derivative financial instruments.

Funding

The company's funding is provided by its £105 million 6.25 per cent, guaranteed bond issue, due for redemption on 22 February 2021, £30 million 4.472 per cent Series A Senior Note private placement maturing on 3 December 2023, £45 million 4.557 per cent Series B Senior Note private placement maturing on 3 December 2028, £76 million 3.8 per cent Senior Notes private placement maturing on 30 March 2041, £90 million 3.21 per cent Senior Notes private placement maturing on 24 January 2049, £85 million 2.44 per cent Senior Notes private placement maturing on 24 January 2050 and £45 million 2.49 per cent Senior Notes private placement maturing on 21 May 2050. The funding provided financing to the parent undertaking and its subsidiary operations via interest bearing inter-company loans. The company has no further funding.

Interest Rate Risk

The company's borrowing is fixed at an interest rate of 6.25 per cent through its £105 million sterling bond issue. This equates to a rate of 6.349 per cent if the launch discount of 1.102 per cent is amortised back into the cashflow. The interest rates on both Series A and Series B senior notes 2013 are fixed at 4.472 per cent and 4.557 per cent respectively. The interest rate on the £76 million senior notes 2016 is fixed at 3.8 per cent. The interest rate on the £90 million senior notes 2019 is fixed at 3.21 per cent. The interest rate on the £85 million senior notes January 2020 is fixed at 2.44 per cent. The interest rate on the £45 million senior notes May 2020 is fixed at 2.49 per cent.

The company charges an interest rate composed of current interest rates payable plus 0.5 per cent on all funds which it lends to its ultimate parent undertaking (Birmingham Airport Holdings Limited), parent undertaking (Birmingham Airport Operations Limited) and a group subsidiary (Birmingham Airport Limited) via inter-company loan accounts.

All financial assets and liabilities have been classified as basic financial instruments under Section 11 of FRS102, therefore no further disclosures are required.

Fixed Rate Financial Liabilities

	30/09/20 Years remaining	31/03/20 Years remaining
Sterling Bond	0.4	0.9
Sterling Private Placement Senior Notes Series A 2013	3.2	3.7
Sterling Private Placement Senior Notes Series B 2013	8.2	8.7
Sterling Private Placement Senior Notes 2016	20.5	21.0
Sterling Private Placement Senior Notes 2019	28.3	28.8
Sterling Private Placement Senior Notes January 2020	29.3	29.8
Sterling Private Placement Senior Notes May 2020	29.7	-

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Notes to the unaudited interim financial report for the period ending 30 September 2020 *(continued)*

8. Share Capital

Allotted, called up and fully paid shares

	30/09/20		31/03/20	
	No. 000	£000	No. 000	£000
Ordinary Shares of £1 each	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

There is a single class of allotted, called up and fully paid ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

9. Contingent liabilities

The financial statements for the year ended 31 March 2020 include details of the contingent liabilities and to date there has been no changes.