

# HEATHROW FUNDING LIMITED

(incorporated with limited liability in Jersey with registered number 99529)

## Multicurrency programme for the issuance of Bonds

This prospectus supplement (the *Supplement*) is supplemental to and must be read in conjunction with the base prospectus dated 16 October 2013 (the *Prospectus*), and constitutes a supplementary prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the *Prospectus Directive*) and relevant implementing measures in the United Kingdom and is prepared in connection with the £50,000,000,000 multicurrency programme for the issuance of Bonds (the *Programme*) established by Heathrow Funding Limited (the *Issuer*) as described in the Prospectus. Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement has been approved by the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended (*FSMA*) (the *UK Listing Authority* or *UKLA*), which is the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom, as a prospectus supplement issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom.

The purpose of this Supplement is to provide details of significant new factors relating to the information included in the Prospectus, including: (i) the CAA's final decision on the market power test for Heathrow and its decision on economic regulation for Heathrow for the next regulatory period commencing on 1 April 2014, (ii) changes to the shareholders of FGP Topco Limited, the ultimate holding company of Heathrow Airport Limited, (iii) the Airport Commission's interim report on UK airport capacity and (iv) changes to the Executive Committee and to the board of directors of certain Obligors.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus, and any other supplements to the Prospectus issued by the Issuer.

For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of this Supplement may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee.

To the extent that there is any inconsistency between any statement in, or incorporated by reference in, this Supplement and any other statement in, or incorporated by reference in, the Prospectus, the statements in, or incorporated by reference in, this Supplement will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

Supplement dated 23 January 2014

## RESPONSIBILITY STATEMENT

Each of the Issuer and the Obligors accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and the Obligors (each having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

No other person has been authorised to give any information or to make representations contained in this Supplement and no other person accepts any responsibility or liability in respect of information contained or incorporated by reference in this Supplement.

## SIGNIFICANT NEW FACTORS

### *Airport Regulation – The CAA’s Final Decision*

On 10 January 2014 the CAA formally confirmed that Heathrow meets the Market Power Test (which as described in the Base Prospectus is intended to identify those airports which are considered to have significant market power). As a result, Heathrow will be required to have a licence for the next regulatory period which commences on 1 April 2014. At the same time, the CAA published its decision notice on economic regulation for Heathrow for the next regulatory period (the “**Final Decision**”). The Final Decision aligns Heathrow’s regulatory year with the calendar year and therefore the first Q6 regulatory year will be a 9 month period ending on 31 December 2014 and Q6 will be a 4 year and 9 month period as opposed to a 5 year period as was proposed by the Final Proposals. The key terms in the Final Decision are calculated on the basis of a 4 year and 9 month period and/or 5 year period whereas the figures used in the Final Proposals are presented to reflect a 5 year regulatory period. The following are the key terms of the Final Decision for the economic regulation of Heathrow based on the shortened regulatory period with 5 year comparisons against the Final Proposals provided where the Final Decision differs from the Final Proposal described in the Base Prospectus (all financial numbers are in 2011/12 prices):

- maximum allowable yield increases based on RPI -1.5 per cent. for Q6. However, if the maximum allowable yield increases stated in the Final Decision were calculated on a 5 year basis (as in the Final Proposals) it would equate to RPI -1.2 per cent. This compares to RPI +0 per cent. in the CAA’s Final Proposals;
- a WACC (weighted average cost of capital, which is the CAA’s assessment, using a notional capital structure, of the allowed blended cost of debt and return on equity to satisfy the requirements of capital providers over the regulatory period) of 5.35 per cent. (pre-tax real). This compares to a WACC of 5.6 per cent. in the CAA’s Final Proposals;
- assumed capital expenditure of £2.816 billion over Q6. For comparison purposes, on a 5 year basis, the CAA’s forecast capital expenditure has increased from £2.885 billion in the Final Proposals to £2.953 billion in the Final Decision;
- projected operating costs of £4.731 billion over Q6. For comparison purposes, on a 5 year basis, the CAA proposes a marginally higher level of forecast operating costs in the Final Decision (£4.962 billion) when compared to that in the Final Proposals (£4.944 billion);
- confirmation of a proposed “write down” of £30 million to the RAB to reflect a suggestion of capital inefficiency during Q5. The CAA has also stated in the Final Decision that it will “write down” a further £35 million from the RAB for Q5 projects continuing into Q6 subject to further study to decide whether any of this amount may be added back;
- forecast aggregate passengers of 347.7 million over Q6. On a 5 year basis, the CAA’s forecast aggregate passengers has increased from 359.2 million in the Final Proposals to 364.9 million in the Final Decision. The CAA has confirmed the inclusion of an allowance for the impact of demand “shocks” (other than macro-economic related impacts) in the derivation of the passenger forecast;

- proposed total commercial income over Q6 of £2.790 billion. For comparison purposes, on a 5 year basis, the CAA's forecast aggregate commercial income has increased from £2.880 billion in the Final Proposals to £2.917 billion in the Final Decision, principally due to the increase in forecast aggregate passengers for Q6;
- confirmation of a service quality rebate (“**SQR**”) scheme (largely based on the Q5 SQR scheme) with defined service targets for a range of services relating to passengers' experience with maximum rebates of 7 per cent. and bonuses of 1.44 per cent. of airport charges; and
- confirmation of a split between “core” and “development” capital expenditure for Q6.

The Final Decision also confirms the final proposed licence conditions for Heathrow which include the key elements as described in the Base Prospectus in the section entitled “*Airport Regulation—Heathrow Price Regulation—Heathrow's licence*”. The draft licence contains a procurement condition requiring Heathrow to ensure its procurement of capital projects is efficient and economical, and that it must publish its policies and procedures on how it will achieve this. The Final Decision includes an additional requirement on Heathrow to review and update the policies and procedures as necessary, produce an annual report on instances where significant capital investment work has not been procured in line with the policies, providing in each case evidence and analysis as to why an alternative procurement method better met the objective and specifies that significant capital works are those projects with a value over £15 million.

The CAA's decision on the Market Power Test for Heathrow may be appealed within 60 days to the Competition Appeals Tribunal (“**CAT**”). The licence for Heathrow and final conditions will be published in February 2014 and stakeholders will have six weeks to decide whether or not to lodge an appeal with the Competition Commission (“**CC**”).

The Q6 price control will come into force on 1 April 2014. If an appeal is lodged then there is no automatic suspension of the licence pending the CC's (or Competition and Markets Authority (“**CMA**”), the CC's successor body from 1 April 2014) decision. The CC/CMA has ten weeks from the date of the licence grant to decide whether to give the stakeholders leave to present an appeal. The CC/CMA then has 24 weeks (from the date of the grant of the licence) to determine the appeal. The CC/CMA may request an eight-week extension to its deadline. If the Market Power Test is appealed along with the Final Decision then the CC/CMA may suspend the licence appeal until the CAT has determined the Market Power Assessment appeal.

#### ***Acquisition of 8.65% of FGP Topco Limited by Universities Superannuation Scheme***

On 24 October 2013 Ferrovial S.A sold 8.65% of FGP Topco Limited (“**FGP Topco**”) (Heathrow Airport Holding's ultimate holding company) to Universities Superannuation Scheme Limited (“**USS**”). USS is the principal pensions scheme provided by UK higher education institutions for their employees. Following the close of this deal FGP Topco is owned by entities controlled or managed by: Ferrovial S.A (25.00%), Qatar Holding LLC (20.00%), Caisse de dépôt et placement du Québec (13.29%), the Government of Singapore Investment Corporation (11.88%), Alinda Capital Partners (11.18%), China Investment Corporation (10.00%) and USS (8.65%).

#### ***Airports Commission publishes its Interim Report***

On 17 December 2013 the Airports Commission (the “**Commission**”) published its interim report on the steps needed to maintain the UK's global hub status. The Commission has stated that there is a clear case for at least one net additional runway in London and the South East by 2030. Heathrow's north-west runway proposal (a 3,500 metre runway at Heathrow located north-west of the existing site) has been shortlisted as one of the potential options. Also shortlisted as a potential site for further analysis and assessment is a separate proposal by Heathrow Hub Limited to lengthen Heathrow's existing northern runway to 6,000 metres. Heathrow will now begin work with local authorities, local communities and other stakeholders to develop the runway options further; including a first public consultation starting in February. The Commission will explore all the options on their shortlist in more detail ahead of their full report due by the summer of 2015. The recommendations will then need approval by the Government of the day. In addition, the Commission recommended short-term actions to improve the use of existing runway capacity in the next 5 years.

#### ***Changes to the Board of certain of the Obligors and the Executive Committee***

On 1 November 2013 Terry Morgan resigned as a director of Heathrow Airport Limited and LHR Airports Limited.

With effect from 10 December 2013, Ian Ballentine, Director of Procurement, joined Heathrow Airport Holdings' Executive Committee and was appointed a director of both Heathrow Airport Limited and LHR Airports Limited. He originally joined Heathrow in November 2012 and has previously worked at Network Rail and Thames Water.