

## IMPORTANT NOTICE

**IMPORTANT:** You must read the following before continuing. The following applies to the preliminary prospectus following this page (the “Preliminary Prospectus”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Preliminary Prospectus. In accessing the Preliminary Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them at any time you receive any information from us as a result of such access.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE PRELIMINARY PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. IN ORDER TO BE ELIGIBLE TO READ THE PRELIMINARY PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST NOT BE A “U.S. PERSON” AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A “U.S. PERSON”).**

**THE PRELIMINARY PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**Confirmation of your representation:** The Preliminary Prospectus is being sent at your request and by accepting the e-mail and accessing the Preliminary Prospectus, you shall be deemed to have represented to us that you are not a U.S. Person and that you consent to delivery of the Preliminary Prospectus by electronic transmission.

**You are reminded that the Preliminary Prospectus has been delivered to you on the basis that you are a person into whose possession the Preliminary Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Preliminary Prospectus to any other person.**

**The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Bookrunner (as defined below) or any affiliate of a Joint Bookrunner is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Bookrunner or such affiliate on behalf of the issuer in such jurisdiction.**

**The Preliminary Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Deutsche Bank AG, London Branch, J.P. Morgan Securities plc and The Royal Bank of Scotland plc (the “Joint Global Coordinators and Joint Bookrunners”) and Barclays Bank PLC, ING Bank N.V., London Branch, Merrill Lynch International and Morgan Stanley & Co. International plc (together with the Joint Global Coordinators and Joint Bookrunners, the “Joint Bookrunners”), nor any person who controls any Joint Bookrunner, nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Preliminary Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from a Joint Global Coordinator and Joint Bookrunner.**

**SUBJECT TO COMPLETION AND AMENDMENT**  
**PRELIMINARY PROSPECTUS DATED 5 DECEMBER 2012**

(Dated [·] 2012)

**Heathrow Finance plc**

*(formerly BAA (SH) plc incorporated with limited liability in England and Wales with registered number 6458635)*

£[·] million [·] per cent. Senior Secured Notes due [·]

Issue price: [·] per cent.

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Heathrow Finance plc, a public limited company incorporated under the laws of England and Wales (the “**Issuer**”), will issue £[·] million aggregate principal amount of [·] per cent. Senior Secured Notes due [·] (the “**Notes**”). Interest on the Notes will be payable on [·] and [·] of each year, beginning on [·]. The Notes will mature on [·]. If the Issuer undergoes a change of control, it may be required to offer to purchase the Notes from investors.

The Notes will be general secured senior obligations of the Issuer. The Notes will be secured by fixed and floating security interests over substantially all of the assets of the Issuer and Heathrow (DSH) Limited, including first priority security interests in the share capital of the Issuer and its wholly-owned subsidiary, Heathrow (SP) Limited, which is an intermediate holding company of the Group (as defined below).

This Prospectus includes information on the terms of the Notes, including redemption and repurchase prices and covenants.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended (“**FSMA**”) (the “**UK Listing Authority**” or “**UKLA**”) for the Notes to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

The Notes will initially be represented by a temporary global note (the “**Temporary Global Note**”), without interest coupons, which will be deposited on or about [·] 2012 (the “**Closing Date**”) with a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, societe anonyme (“**Clearstream, Luxembourg**”). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the “**Permanent Global Note**” and, together with the Temporary Global Note, the “**Global Notes**”), without interest coupons, on or after [·] 2012, upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see “*Summary of Provisions relating to the Notes while represented by the Global Notes*”.

**The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may be offered, sold or delivered only outside the United States to persons who are not “U.S. persons” as defined in Regulation S under the Securities Act (“Regulation S”) (each, a “U.S. person”) in offshore transactions in reliance on Regulation S. See “Subscription and Sale” in this Prospectus.**

**Please see “Risk Factors” to read about certain factors you should consider before buying any Notes.**

The Notes are expected to be rated on issue Ba3 by Moody’s Investors Service, Ltd. (“**Moody’s**”) and BB+ by Fitch Ratings Ltd. (“**Fitch**” and, together with Moody’s, the “**Rating Agencies**”). Ratings ascribed to all of the Notes reflect only the views of Moody’s and Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Notes may adversely affect the market price of such Notes. Moody’s and Fitch are established in the European Community and are registered under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”).

*Joint Global Coordinators and Joint Bookrunners*

**Deutsche Bank**

**J.P. Morgan**

**The Royal Bank of Scotland**

*Joint Bookrunners*

**Barclays**

**BofA Merrill Lynch**

**ING**

**Morgan Stanley**

This Preliminary Prospectus is being distributed for information only and is subject to completion and amendment. This Preliminary Prospectus shall not, and is not intended to, constitute an offer or invitation to sell or the solicitation of an offer to buy, and may not be used as, or in connection with, an offer or invitation to sell or a solicitation to buy any of the Notes. It is an advertisement and does not comprise a prospectus for the purposes of the Prospectus Rules of the UK Financial Services Authority or otherwise. The definitive terms of the transactions described herein will be described in the final version of this document. Investors should not subscribe for any securities referred to herein except on the basis of information contained in the final form of the Prospectus. When available, the final Prospectus will be made available to the public in accordance with the Prospectus Rules of the UK Financial Services Authority and investors may obtain a copy from the link set out in the RNS announcement which corresponds to the Issuer’s information page on the website of the London Stock Exchange.

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## GLOSSARY OF KEY DEFINED TERMS

Certain key terms which are used in this Prospectus are defined below.

For a description of how certain industry terminology is used in this Prospectus, please see “*Industry Sources and Terminology*”.

**Airport Operators** means Heathrow Airport Limited and Stansted Airport Limited;

**Airports** means Heathrow Airport (**Heathrow**) and Stansted Airport (**Stansted**);

**ATMs** means air transport movements;

**CAA** means the Civil Aviation Authority;

**CAD or CA\$** means the lawful currency of Canada;

**CC** means the Competition Commission;

**CHF** means the lawful currency of Switzerland;

**EMIR** means the European Market Infrastructure Regulation (Regulation (EU) 648/2012);

**EUR or €** means the lawful currency of the Member States of the European Union who have agreed to share a common currency in accordance with the provisions of the Treaty establishing the European Community, as amended;

**GBP or £** means the lawful currency of the United Kingdom of Great Britain and Northern Ireland;

**Group** means the Issuer and its subsidiaries;

**Heathrow** means Heathrow Airport Limited the operator of Heathrow Airport;

**Heathrow Airport Holdings** means Heathrow Airport Holdings Limited (formerly BAA Limited);

**Heathrow Express** means Heathrow Express Operating Company Limited;

**Heathrow Airport Holdings Group** means Heathrow Airport Holdings and its subsidiaries;

**Intercreditor Agreement** means the Intercreditor Agreement dated 26 October 2010 between, amongst others the Issuer and Deutsche Trustee Company Limited, in its capacity as note trustee for the 2017 Notes and acceded to by the Trustee on or around the issue date of the Notes;

**Issuer** means Heathrow Finance plc;

**LHR Airports** means LHR Airports Limited (formerly BAA Airports Limited);

**RAB** means Regulatory Asset Base. For a description of the RAB, see “*Airport Regulation—Principles of Economic Regulation—Regulatory Asset Base (RAB)*”;

**Regulated Airports Group** means Heathrow Airport and Stansted Airport, together with Heathrow Express;

**RPI** means the UK retail price index;

**Security Parent** means Heathrow (SP) Limited;

**Senior Borrower Group** means the Security Parent and its subsidiaries other than Heathrow Funding Limited;

**Senior Borrowers** means Heathrow Airport Limited and Stansted Airport Limited in their capacity as borrowers under the Senior Borrower Group Indebtedness, as defined in “*Description of Other Indebtedness-Senior Borrower Group Indebtedness*”;

***Shared Services Agreement*** means the shared services agreement entered into by the Airport Operators and LHR Airports under which LHR Airports provides services at each of the Airports as well as central support services;

***Trust Deed*** means the trust deed entered into by the Issuer and the Trustee dated [●] 2012; and

***USD or \$*** means the lawful currency of the United States of America.

## NOTICE TO INVESTORS

This Prospectus constitutes a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Issuer, the Managers (as defined below in “*Subscription and Sale*”), Deutsche Trustee Company Limited (the “**Trustee**”) and any of their respective representatives is making any representation to investors regarding the legality of an investment in the Notes, and investors should not construe anything in this Prospectus as legal, business, financial, tax or other advice. Investors should consult their own advisors as to the legal, tax, business, financial and related aspects of an investment in the Notes. In making an investment decision regarding the Notes, investors must rely on their own examination of the Issuer and the terms of the offering and the Notes, including the merits and risks involved. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Managers or the Trustee to any person to subscribe for or to purchase any Notes.

This Prospectus is based on information provided by the Issuer and other sources that the Issuer believes are reliable. Neither the Managers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Manager or the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. In this Prospectus, the Issuer has summarised certain documents and other information in a manner it believes to be accurate, but it refers investors to the actual documents for a more complete understanding of the discussions.

No person is or has been authorised by the Issuer, the Managers or the Trustee to give any information or to make any representation not contained in this Prospectus and, if given or made, any other information or representation must not be relied upon as having been authorised by the Issuer, the Managers or the Trustee.

The information contained in this Prospectus is given as of the date hereof. Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this Prospectus or in the Group's business since the date of this Prospectus. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. Investors should be aware that they may be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom. See “*Subscription and Sale*”.

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Prospectus, may only do so in circumstances in which no obligation arises for the Issuer or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any of the Managers has authorised, nor do any of them authorise, the making

of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, [-] AS STABILISING MANAGERS (EACH A “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## **FORWARD-LOOKING STATEMENTS**

This Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer to differ materially from the information presented herein. When used in this Prospectus, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they relate to the Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Issuer does not undertake any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the documents specified in the cross reference list below, which documents shall be deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any further information or documents incorporated by reference in the documents incorporated by reference above does not form part of this Prospectus. Information contained in the documents incorporated by reference into the Prospectus, which is not itself incorporated by reference herein, is not relevant for investors.

The Issuer will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the registered office of the Issuer.

Copies of the documents deemed to be incorporated by reference in this Prospectus may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. For convenience, copies of the documents deemed to be incorporated by reference in this Prospectus are also available at <http://www.baa.com/global/financial-information> (the “**Special Purpose Website**”). The information contained on the Special Purpose Website must be considered together with all the information contained elsewhere in this Prospectus. The Special Purpose Website does not form part of the Heathrow Airport Holdings Group’s website, and the Heathrow Airport Holdings Group’s website does not form any part of this Prospectus. The Special Purpose Website is provided for convenience only, and its content does not form any part of this Prospectus for the purpose of the listing rules of the UK Listing Authority. The information incorporated by reference into this Prospectus is an important part of this Prospectus.

The list below sets out the details of each of the documents incorporated by reference in this Prospectus.

### Cross Reference List

- Audited annual consolidated financial statements of the Issuer for the financial year ended December 2010 (pages 17 – 61 inclusive).
- Audited annual consolidated financial statements of the Issuer for the financial year ended December 2011 (pages 21 – 70 inclusive).
- Unaudited consolidated financial statements of the Issuer for the nine months ended 30 September 2012 (all pages).
- Common Terms Agreement dated 18 August 2008 between, among others, the Senior Borrower Group and Heathrow Funding Limited (all pages).
- Intercreditor Agreement dated 26 October 2010 between, amongst others, the Issuer and the Trustee (all pages).
- Master Definitions Agreement entered into in connection with the Common Terms Agreement and dated 18 August 2008, as amended and as in effect on the date of the Trust Deed (all pages).

## INDUSTRY SOURCES AND TERMINOLOGY

This Prospectus contains certain statistical and other information regarding Heathrow Airport and the markets it serves.

Unless otherwise indicated, the information contained in this Prospectus relating to Heathrow Airport's market share and the size of the relevant market sectors is based on Heathrow Airport's own internal estimates based on regulatory and analyst reports, special surveys and information published or provided by airlines and other companies, as well as Heathrow Airport's own knowledge of the market.

References in this Prospectus to a number of "**passengers**" refer to the sum of all arriving and departing passengers, other than in-transit passengers.

Information in this Prospectus relating to a percentage of "**international**" passengers is based on the number of that airport's passengers arriving from and departing to destinations that are not in the United Kingdom, Channel Islands or the Isle of Man (or such other domestic market of the relevant airport), relative to the total number of passengers served. Information in this Prospectus relating to a percentage of "**domestic**" passengers is based on the number of that airport's passengers arriving from and departing to destinations that are in the United Kingdom, Channel Islands or the Isle of Man (or such other domestic market of the relevant airport), relative to the total number of passengers served by that airport. Accordingly, the information reflects the place of origin or destination of passengers as opposed to their residence.

All information in this Prospectus relating to the percentage of "**business**" passengers is based on the number of passengers who are travelling for reasons related to such passengers' employment, based on surveyed information, relative to the total number of passengers served by that airport. All information relating to the percentage of "**leisure**" passengers is based on the number of that airport's passengers who are not business passengers, relative to the total number of passengers served by that airport.

"**European**" flights are flights arriving from or departing to other destinations in Europe (other than domestic flights but including North African charter flights). International "**long haul**" flights are all flights other than European flights and domestic flights.

"**Hub airport**" refers to an airport where a significant proportion of passengers transfer between flights in being transported to their final destination.

"**Transfer**" traffic relates to passengers who use an airport for the sole purpose of connecting from one aircraft to another. They are counted as both arriving and departing passengers. "**Transit**" or "**In-transit**" traffic refers to passengers who arrive and depart on the same aircraft within 24 hours. "**Point-to-point**" or "**origin and destination**" traffic refers to any traffic that is not transfer or transit traffic and originates from or terminates at a particular airport.

"**Pier**" refers to an airport passenger building which is connected to a terminal and which houses gate rooms where passengers wait to board and disembark from their aircraft. "**Satellite**" refers to an airport passenger building which is connected to a terminal and which houses not only gate rooms but also other passenger handling facilities (for example, retail facilities) and serves as an extension to the departure lounge.

"**Gate room**" refers to the area where passengers board and disembark from their aircraft.

"**Apron**" means an area of airfield infrastructure which is typically adjacent to an airport terminal and is used for aircraft manoeuvring and parking but is separate from the runway and taxiway system.

"**Stand**" means an aircraft parking stand; these can be "**pier-served**", which means they are adjacent to the terminal, enabling passengers to walk directly on and off aircraft parked on the stand via an airbridge, or they can be "**remote**", which requires passengers to either be transported by coach or walk between the stand and the terminal.

"**Air transport movement**" means a flight carried out for commercial purposes and includes scheduled flights operating according to a published timetable, charter flights and all-cargo flights. Air transport movement does not include empty positioning flights and private non-commercial flights.

"**Maximum allowable yield**" refers to the maximum amount of aeronautical income per passenger that an Airport Operator may charge in each regulatory year for services subject to price regulation by the CAA.

References to the "**Heathrow Express rail service**" refer to both the express (non-stop) service and the stopping service, Heathrow Connect, unless specifically stated otherwise.

Where reference is made to CAA publications or data, efforts have been made to ensure data is reproduced and presented in a similar style to aid comparison and cross-reference but may not be identical as a result of modifications made for presentational purposes.

## OVERVIEW

*This overview highlights certain information contained in this Prospectus. This overview does not contain all of the information prospective investors should consider before investing in the Notes. Prospective investors should read this entire Prospectus carefully, including the sections entitled “Risk Factors”, “Forward-Looking Statements” and the financial information and the notes included or incorporated by reference elsewhere in this Prospectus.*

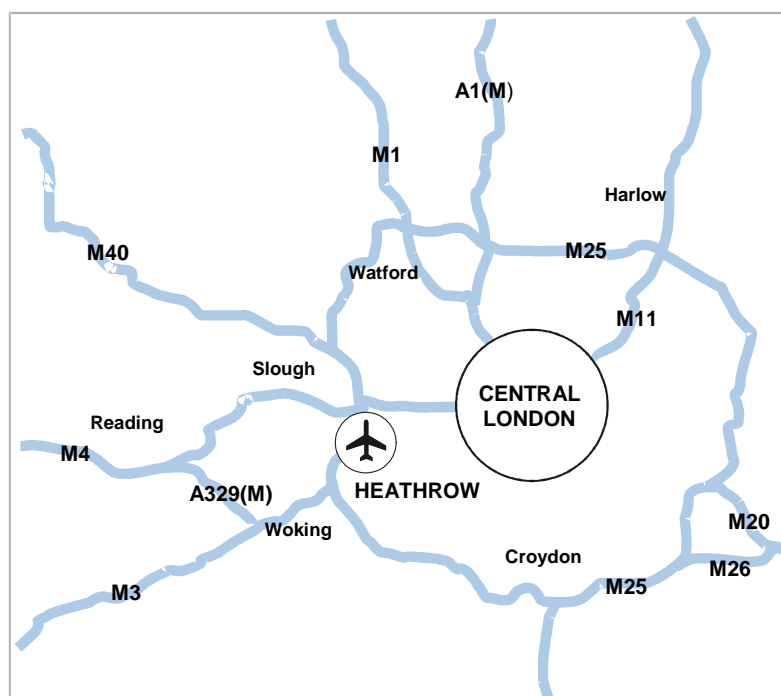
### HEATHROW AND STANSTED AIRPORTS

Heathrow Finance plc (the “**Issuer**”) is the holding company for two of London’s largest airports, Heathrow and Stansted, and for the Heathrow Express rail service which together form the Regulated Airports Group.

Heathrow is the world’s busiest airport in terms of international passengers. It is also Europe’s busiest airport in terms of total passengers handling 69.4 million passengers in 2011. In 2011, Heathrow handled over 15 per cent. more international passengers than its nearest rival, Paris Charles de Gaulle, and it handles approximately 80 per cent. of all the UK’s scheduled long-haul air traffic. Its critical role in the global aviation industry is underlined by the fact that seven of the top ten long haul intercontinental routes globally pass through Heathrow (source: OAG).

Heathrow accounts for approximately 80 per cent. of the Group’s total passengers and over 90 per cent. of its revenue, Adjusted EBITDA and Regulatory Asset Base (or “**RAB**”). It forms, as a result, the foundation of the Group’s credit strength.

Heathrow has maintained a strong focus over recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. As a result, Heathrow has risen to become one of the top performing major European hubs in terms of overall passenger satisfaction. In the third quarter of 2012, 75 per cent. of passengers rated their Heathrow experience as either “very good” or “excellent” up from 39 per cent. in 2006. Heathrow is implementing a £5.6 billion investment programme over the six years to 31 March 2014. The new Terminal 5 at Heathrow has provided additional terminal passenger capacity for up to 30 million passengers per year and has enabled Heathrow to begin rebuilding and renovating its other terminals. Construction of a new Terminal 2 is under way, which will have an initial capacity of up to 20 million passengers per year when it becomes operational in 2014, by which time all Heathrow’s terminals will be either new or recently refurbished.



Heathrow is owned and operated by Heathrow Airport Limited, an indirect subsidiary of the Issuer (the Issuer, together with Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited and Heathrow Express Operating Company Limited (“**Heathrow Express**”) and, until its sale is completed, Stansted Airport Limited constitute the “**Group**”).

The Group companies are indirect subsidiaries of Heathrow Airport Holdings Limited (“**Heathrow Airport Holdings**”), which currently owns and operates five airports in the United Kingdom.

Subject to obtaining EU merger control approval for the investment by Qatar Holding LLC, Heathrow Airport Holdings will be indirectly owned by investment vehicles controlled or managed by Ferrovial S.A. (33.65%), 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%) and China Investment Corporation (10.00%).

Heathrow generates two primary types of income:

- aeronautical income, which is generated from fees charged to airlines for use of its facilities for flight and passenger activities (56 per cent. of total income in 2011) and is subject to the CAA's price caps; and
- non-aeronautical income, which is taken into account by the CAA in setting maximum aeronautical yields and is generated mainly from retail concession fees, car parking income and other services supplied by Heathrow. The Group also generates income from the Heathrow Express rail operations.

Heathrow is subject to economic regulation by the Civil Aviation Authority (the "CAA"). The CAA sets caps on the amount that Heathrow can charge airlines for using its facilities.

The price caps are set for a five-year period or quinquennium, which can be extended by one year. This price setting mechanism provides significant cash flow predictability within each quinquennium and provides substantial explicit protection against costs resulting from new security regulations.

The price caps take into account Heathrow's forecast revenues (both aeronautical and non-aeronautical) and costs as well as allowing recovery of capital costs and a return on capital. The return on capital for the Airports, and in particular for Heathrow, is based on its opening RAB and its forecast capital expenditure for the quinquennium. The Heathrow tariff profile up to March 2014 allows maximum allowable yield per passenger to increase annually at 7.5 per cent. above the rate of inflation (based on increases in the retail prices index or "RPI"). As for other regulated utilities in the UK, the RAB acts as a unit of regulatory value and does not correspond to statutory asset values. The RAB is adjusted each year principally for capital expenditure, RPI inflation, regulatory depreciation and proceeds of disposals.

The regulated price-setting mechanism provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer-term cost and revenue risks. The current quinquennium for Heathrow, Q5, lasts from 1 April 2008 to 31 March 2014.

### *Sale of Stansted*

The Group also currently owns Stansted, the UK's fourth busiest airport in terms of total passengers which handled 18.0 million passengers in 2011. On 20 August 2012, the Heathrow Airport Holdings Group announced its decision not to appeal to the Supreme Court against the ruling of the Competition Commission of 19 July 2011 that required the Heathrow Airport Holdings Group to sell Stansted. As a result, the Heathrow Airport Holdings Group is now proceeding with the disposal of Stansted which is currently expected to occur in early 2013. Net proceeds from the disposal will be applied in repayment of the Senior Borrower Group's debt as required by its financing agreements.

Stansted generated revenue of £234 million and Adjusted EBITDA of £87 million for the 12 months ended 31 December 2011. As of 30 September 2012, Stansted's RAB was £1,345 million. Stansted accounts for less than 10 per cent. of the Group's revenue, Adjusted EBITDA and RAB.

In view of the impending sale of Stansted by the Heathrow Airport Holdings Group, this prospectus does not, unless otherwise stated, include information relating to Stansted.

## **FINANCIAL PERFORMANCE**

The Group has continued to deliver a strong financial performance despite a challenging macro-economic background. This has been due to a combination of:

- Heathrow delivering record traffic and improvement in service standards;
- Strong retail performance reflecting in particular enhancements to the passenger experience such as refurbishment of Terminal 3, extension of retail facilities in Terminal 5 and a further shift in passenger mix from domestic to international passengers;
- Heathrow's tariff profile up to March 2014 allowing maximum allowable yield per passenger to increase at RPI +7.5 per cent.; and
- a continuing focus on operational improvement and cost control.

As a result, in 2011 the Group saw revenue and Adjusted EBITDA from continuing operations increase 9.9 per cent. and 17.1 per cent. respectively.

This strong underlying performance has continued into 2012 with Heathrow's annual rolling traffic exceeding 70 million passengers for the first time in March 2012, monthly traffic records in January, April, June and September, ongoing strong retail performance and cost control.

The financial information presented below treats Stansted as a continuing operation for all periods.

## Revenue

The table below details the Group's revenue for the years ended 31 December 2010 and 2011 as well as for the nine months ended 30 September 2011 and 2012 ("**9M 2011**" and "**9M 2012**").

	<i>Nine months ended</i>		<i>Year ended 31 December</i>	
	<i>30 September</i>		<i>2010</i>	<i>2011</i>
	<i>2011</i>	<i>2012</i>	<i>2010</i>	<i>2011</i>
	<i>(£ millions)</i>		<i>(£ millions)</i>	
	<i>(unaudited)</i>		<i>(audited)</i>	
Aeronautical income.....	957	1,057	1,115	1,276
Retail income.....	385	402	476	519
Other income.....	361	385	483	485
<b>Total .....</b>	<b>1,703</b>	<b>1,844</b>	<b>2,074</b>	<b>2,280</b>

## Aeronautical income

Aeronautical income includes airport fees and other traffic charges paid by airlines to the Airport Operators. Aeronautical income is subject to a maximum allowable yield per passenger determined by the CAA.

Aeronautical income increased by £161 million (14.5 per cent.) from £1,115 million in 2010 to £1,276 million in 2011 and increased by £100 million (10.5 per cent.) from £957 million in 9M 2011 to £1,057 million in 9M 2012. The increase was driven principally by the tariff formula at Heathrow under which the maximum allowable yield per passenger is permitted to increase by up to RPI + 7.5 per cent. per annum until 31 March 2014.

<i>Aeronautical income by Airport</i>	<i>Nine months ended</i>		<i>Year ended 31 December</i>	
	<i>30 September</i>		<i>2010</i>	<i>2011</i>
	<i>2011</i>	<i>2012</i>	<i>2010</i>	<i>2011</i>
	<i>(£ millions)</i>		<i>(£ millions)</i>	
	<i>(unaudited)</i>		<i>(audited)</i>	
Heathrow.....	859	955	991	1,149
Stansted.....	98	102	124	127
<b>Total.....</b>	<b>957</b>	<b>1,057</b>	<b>1,115</b>	<b>1,276</b>

## Retail income

The Airport Operators generate retail income primarily from retail concession fees and car parking income. Third parties operate all bars, restaurants, specialist shops, duty-free and tax-free outlets and other paid merchant services at the Airports under concessions granted by the Airport Operators. The Airport Operators also generate retail income or fees from other services such as advertising, car rental and bureaux de change.

The Group's retail business has performed strongly in recent years with the key performance indicator for the business, net retail income per passenger, increasing by £0.29 (5.5 per cent.) from £5.29 in 2010 to £5.58 in 2011. It also increased by £0.26 (4.7 per cent.) from £5.42 in 9M 2011 to £5.68 in 9M 2012. This performance has reflected in particular growth in income from duty-free and tax-free and airside specialist shops. The strength in these areas was driven by factors such as an increased proportion of higher spending non-EU passengers, the refurbishment of the airside retail facilities in Terminal 3 and recent enhancements to and an increase in size of World Duty Free stores in Terminal 3 and Terminal 5.

<i>Net retail income per passenger by Airport</i>	<i>Nine months ended</i>		<i>Year ended 31 December</i>	
	<i>30 September</i>			
	<i>2011</i>	<i>2012</i>	<i>2010</i>	<i>2011</i>
Heathrow .....	£5.76	£6.04	£5.64	£5.95
Stansted.....	£4.17	£4.27	£4.02	£4.16
<b>Total.....</b>	<b>£5.42</b>	<b>£5.68</b>	<b>£5.29</b>	<b>£5.58</b>

### Other income

The Airport Operators generate other income from the provision of operational facilities and utilities to airlines and other businesses operating at the Airports. This income includes rental of systems such as check-in and baggage-handling facilities and charges for providing electricity, telecommunications and water services. The Airport Operators also generate rental income from property such as cargo storage, aircraft hangars, maintenance facilities and office premises. Heathrow also generates income from the Heathrow Express rail service.

### Adjusted operating costs – ordinary excluding depreciation and amortisation

The Group's adjusted operating costs – ordinary excluding depreciation, amortisation and exceptional items increased by £41 million (3.7 per cent.) from £1,107 million in 2010 to £1,148 million in 2011 and by £60 million (6.9 per cent.) from £861 million in 9M 2011 to £921 million in 9M 2012. Costs in 9M 2012 included £14 million related to the London 2012 Olympic and Paralympic Games.

In 2011, these increases reflected primarily the higher employment costs and rents and rates. Higher costs in 9M 2012 versus 2011 relate to higher employment costs, maintenance expenditure, rents and rates and general expenses.

	<i>Nine months ended</i>		<i>Year ended 31 December</i>	
	<i>30 September</i>			
	<i>2011</i>	<i>2012</i>	<i>2010</i>	<i>2011</i>
	<i>(£ millions)</i>		<i>(£ millions)</i>	
	<i>(unaudited)</i>		<i>(audited)</i>	
Employment costs.....	249	279	316	339
Maintenance expenditure.....	100	115	135	137
Utility costs.....	85	83	115	111
Rents and rates.....	99	108	117	129
General expenses .....	176	192	233	233
Retail expenditure.....	23	24	31	31
Intra-group and other charges.....	129	120	160	168
<b>Total.....</b>	<b>861</b>	<b>921</b>	<b>1,107</b>	<b>1,148</b>

### Financing of the Group

#### Overview

The Group maintains a diversified multi-product, multi-currency funding platform which currently incorporates bond and bank debt in Sterling, Euros, Dollars, Swiss Francs and Canadian Dollars. As at 30 September 2012, the Group had consolidated nominal net debt of £11,849 million of which £11,283 million was within the Issuer's subsidiaries and £566 million was at the Issuer.

Debt within the Issuer's subsidiaries comprised £9,658 million in Class A net debt (Class A bonds are rated A- by S&P and Fitch) and an additional £1,625 million in Class B debt (Class B bonds are rated BBB by S&P and Fitch) which ranks behind the Class A debt. As at 30 September 2012, the Issuer itself had £566 million in net debt which is serviced from its subsidiaries' cashflows but is structurally subordinated to the Class A and B debt within its subsidiaries.

### ***Financing at Heathrow Finance plc***

The Issuer has a combination of loan and bond financing in place which comprises:

- a £175 million loan facility with a final maturity of 2015 (the “**2010 Issuer Facility**”);
- a £77.5 million loan facility with a final maturity of 2019 (the “**2011 Issuer Facility**” and, together with the 2010 Issuer Facility, the “**Issuer Facilities**”); and
- £325 million notes due 2017 (the “**2017 Notes**”).

The issuance of Notes described in this Prospectus will rank pari passu with the Issuer Facilities and the 2017 Notes and will benefit from the same security package.

### ***Rationale for the issue of the Notes***

The Group currently expects to maintain gross debt at the Issuer of approximately 5 per cent. of the Group’s RAB over the medium term. As at 30 September 2012, gross debt at the Issuer was £578 million, equivalent to approximately 4 per cent. of the combined RAB of Heathrow and Stansted at that date. Excluding Stansted’s RAB, given its expected sale in the coming months, gross debt was approximately 4.4 per cent. of Heathrow’s RAB at the same date. The issuance of the Notes together with the expected use of proceeds outlined below is intended to increase the amount of gross debt at the Issuer to around 5 per cent. of Heathrow’s expected RAB at the end of 2013.

The net proceeds of the issue of the Notes will be applied by the Issuer to repay part or all of the 2010 Issuer Facility, to pay related fees and expenses and to the extent any proceeds remain to be injected into the Regulated Airports Group for general corporate purposes.

### ***Financing at the Senior Borrower Group***

The Senior Borrower Group’s finances its activities through a mix of senior (Class A) and junior (Class B) bank and bond debt in a variety of tenors, formats and currencies. It hedges a significant proportion of its interest rate, inflation and currency exposures under an agreed hedging policy.

Bonds are issued by Heathrow Funding Limited under its bond issuance programme, which was established in 2008.

The Senior Borrower Group also has access to various loan facilities, including revolving and liquidity facilities which have significant undrawn balances.

The Senior Borrower Group uses the proceeds of bond issues and of loan drawings for its general corporate purposes, including to fund operating and capital expenditure, to pay interest and principal on its bonds and loans and, subject to the terms of its financing agreements, to make distributions to enable the servicing of other parts of the Heathrow Airport Holdings Group’s capital structure including payments of interest and principal related to the Issuer’s debt and to enable the payment of dividends to the Heathrow Airport Holdings Group’s ultimate shareholders. Over the last three years the Group has been actively refinancing its loan facilities and significantly extending its debt maturity profile particularly through issuance in the debt capital markets. Since November 2009, it has raised approximately £7.0 billion across five currencies and in both Class A and Class B formats.

As at 30 September 2012, the Issuer’s subsidiaries had outstanding £10.2 billion in nominal debt under 24 separate bond issues with scheduled maturities between 2013 and 2041. At the same date, the Issuer’s subsidiaries had in place:

- a £1,900 million revolving credit facility with a final maturity of June 2017 of which £140 million was drawn;
- a £100.0 million working capital facility with a final maturity of June 2017 (fully undrawn);
- a £225.0 million term loan facility with a final maturity of September 2014; and
- £265.4 million in amortising loans from the European Investment Bank (final maturity 2022).



The Group's debt maturity profile (determined on a nominal basis and excluding £484 million in index-linked derivative accretion), as at 30 September 2012, is as shown in the table below.

	<i>Less than 1 year</i>	<i>1 – 2 Years</i>	<i>2 – 5 Years</i>	<i>5 – 10 Years</i>	<i>Over 10 Years</i>	<i>Total</i>
	<i>(£ millions) (unaudited)</i>					
Heathrow Funding Limited Class A Bonds...	-	909	2,209	1,814	3,901	8,833
Heathrow Funding Limited Class B Bonds...	-	-	-	800	600	1,400
Revolving credit facility (Class A).....	-	-	-	140	-	140
Term loan facility (Class B).....	-	225	-	-	-	225
EIB loans.....	39	39	116	71	-	265
Issuer Facilities.....	-	-	175	78	-	253
2017 Notes.....	-	-	325	-	-	325
<b>Total.....</b>	<b>39</b>	<b>1,173</b>	<b>2,825</b>	<b>2,903</b>	<b>4,501</b>	<b>11,441</b>

### **Liquidity**

The Group has no significant debt maturities until a £396 million Sterling denominated Class A bond issued by Heathrow Funding Limited becomes due in November 2013. The Group is cash positive with £682 million of surplus cash flow (before capital expenditure but after payment of interest) in 2011.

At 30 September 2012, the Group had £1,936 million in cash resources and undrawn loan facilities. These included £1,860 million available under revolving credit and working capital facilities and £76 million in cash and cash equivalents.

The Group expects this headroom to be sufficient, when combined with its expected operating cash flows, to meet all its liquidity requirements, including refinancing maturing bonds and loans, until the second half of 2014. This liquidity horizon will extend further on receipt of the proceeds from the sale of Stansted airport as the Group's financing specifically requires proceeds to be used to repay debt. Under the Senior Borrower Group Indebtedness common terms agreement (the "CTA"), it is required that projected cashflow from operations after deducting finance charges together with cash at hand and any undrawn balances under committed facilities exceeds 12 months' projected capital expenditure.

### **Ring-fencing of the Regulated Airports Group**

Heathrow Airport Holdings has put in place a ring-fenced long-term financing platform for the Regulated Airports Group. This financing platform has been designed to support senior, junior and holding company bank and bond debt and associated hedging.

The Noteholders will, like the Class A and Class B bondholders, benefit from a range of structural enhancements, including the following:

- the Group is insulated from Heathrow Airport Holdings insolvency:
  - creditors have full security over both the Issuer and its parent Heathrow (DSH) Limited including a pledge of shares in both the Issuer and Security Parent;
  - subject to the Intercreditor Agreement, the Noteholders have the power to appoint an administrative receiver to Heathrow (DSH) Limited and so prevent insolvency of the Issuer;
- there are no legal, economic or cash flow dependencies between the Issuer and Heathrow Airport Holdings companies higher up the corporate structure:
  - the Issuer is required to act solely as a holding company for the Regulated Airports Group, and its parent, Heathrow (DSH) Limited, is required to act solely as a holding company for the Issuer;
  - the Issuer has no other assets and no recourse or liability to other parts of the Heathrow Airport Holdings Group;
  - restrictions on transactions with the wider Heathrow Airport Holdings Group to avoid value transfer;
- an operational and financial covenant package including:
  - restrictions on the Issuer's ability to distribute cash outside the Group, including restrictions on distributions where:

- *pro forma* RAR is greater than 82 per cent. for Class A and Class B debt at Security Parent (compared with 85 per cent. under the CTA). This is designed to provide headroom within the Class B debt trigger levels at Security Parent and so provide a liquidity buffer at the Issuer;
- *pro forma* RAR is greater than 90 per cent. for debt at the Issuer;
- Noteholders benefit indirectly from the covenants (e.g. hedging policy, restrictions on activities of the Airports and sale of key assets) which bind the Senior Borrower Group under the CTA; and
- a covenant that prevents the Senior Borrower Group agreeing to any tighter restrictions on distributions than are currently in the CTA, so protecting the distributions which the Issuer requires to service its indebtedness, including the Notes.

For more details on the financing arrangements described above, see “*Description of Other Indebtedness*” and “*Terms and Conditions of the Notes*” in this Prospectus.

## **KEY STRENGTHS OF THE REGULATED AIRPORTS GROUP**

The Regulated Airports Group has a number of key strengths, deriving both from the commercial strength of the Airports themselves, and in particular Heathrow, and from their status as regulated infrastructure:

- A strong position in the South East of England, one of the world's busiest air traffic markets and a market with growing demand for air travel and limited airport capacity.
- Heathrow is the world's busiest airport in terms of international passengers and the busiest airport in Europe in terms of total passengers. It enjoys a unique market position in the United Kingdom, being the country's only hub airport and handling approximately 80 per cent. of all the UK's scheduled long-haul air traffic.
- Price regulation by the CAA, which provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer term cost and revenue risks.
- Heathrow's high exposure to the fastest growing long-haul segment of the global aviation industry and the fact that it has been operating close to its permitted capacity for a number of years provides the Group with resilience to shocks and economic downturns.
- Income generation from a variety of sources, including aeronautical charges to airlines, concession fees from retail operators, direct income from car parks, Heathrow Express and from various ancillary services such as baggage handling, passenger check-in and the rental of airport premises.
- Service of a range of market segments, including business and leisure travellers, origin and destination and transfer passengers, long- and short-haul routes, and a diversified range of major airlines.

## **COMMERCIAL STRATEGY**

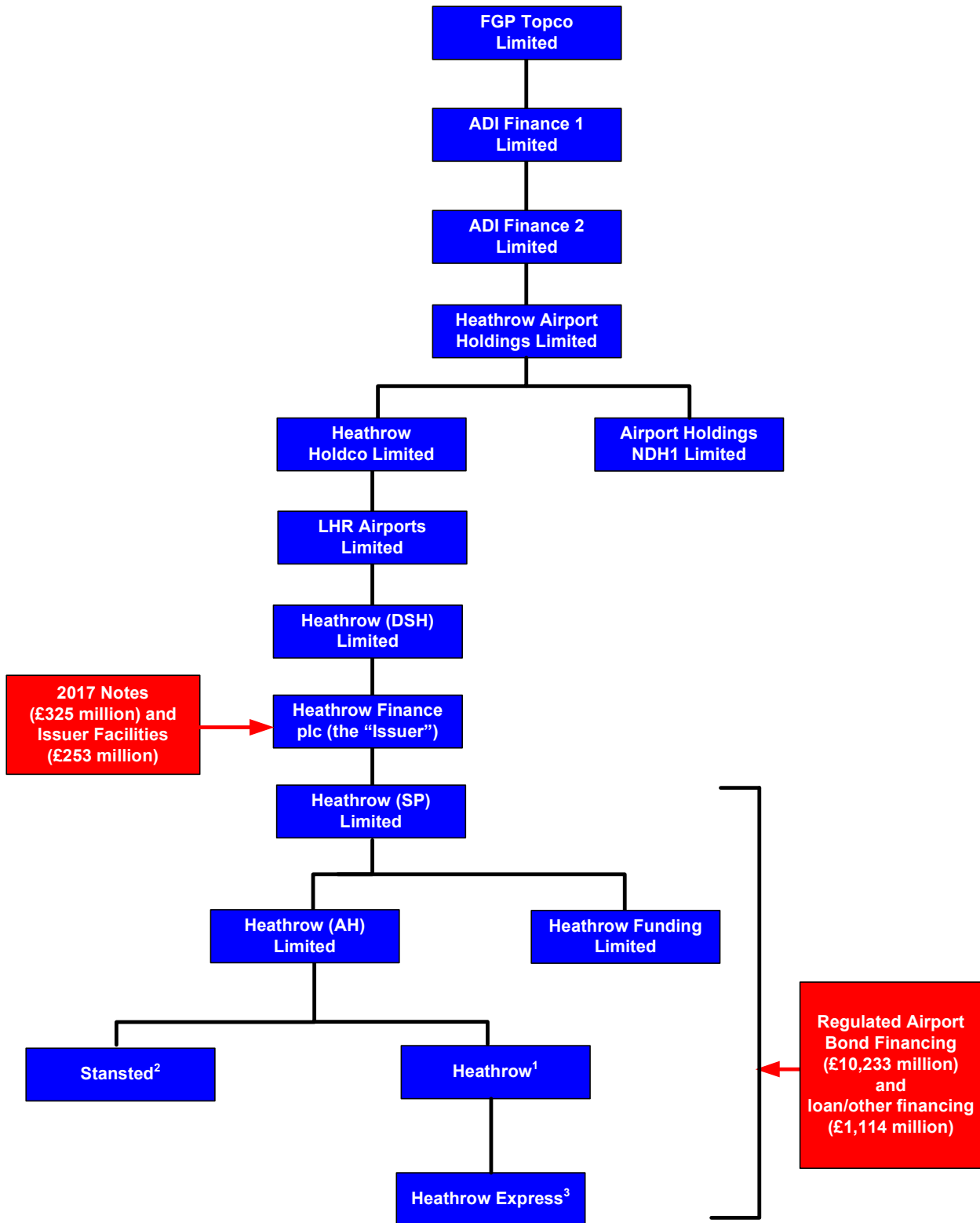
Heathrow's strategy is focused on developing its position as the UK's direct connection to the world and Europe's hub airport of choice.

To support and develop Heathrow's role as a hub, the Group will continue enabling the success of the major network airlines operating at Heathrow by investing in further capacity, operational flexibility and resilience at sustainable charges for airline customers.

Heathrow offers a compelling, competitive range of routes and frequencies for the large London origin and destination aviation market. For both local and transfer passengers, Heathrow is working continuously to make every journey better through improved service standards to ensure it remains passengers' preferred airport. Improving the passenger experience is supported by ongoing investment in modern airport facilities and operating processes.

## CORPORATE AND FINANCING STRUCTURE

The following chart summarises the Group's corporate and financing structure as at the date of this Prospectus. All of the entities are wholly owned. Debt amounts are as at 30 September 2012.



Heathrow = Heathrow Airport Limited  
 Stansted = Stansted Airport Limited  
 Heathrow Express = Heathrow Express Operating Company Limited

## THE NOTES

The overview below describes the principal terms of the Notes and is qualified in its entirety by the detailed information appearing elsewhere in this Prospectus and, in particular, the “Terms and Conditions of the Notes”. Potential purchasers of the Notes are urged to read this Prospectus in its entirety. Terms used in this overview and not otherwise defined shall have the meanings given to them in the Terms and Conditions of the Notes.

<b>Issuer</b>	Heathrow Finance plc
<b>Notes to be Issued</b>	[·] million aggregate principal amount of [·] per cent. Senior Secured Notes due [·] (the “Notes”).
<b>Issue Date</b>	The Notes will be issued on [·] 2012.
<b>Maturity Date</b>	The Notes will mature on [·].
<b>Interest Rate</b>	The Notes will bear interest at a rate of [·] per cent. per annum.
<b>Interest Payment Dates</b>	[·] and [·] of each year, commencing on [·].
<b>Denominations</b>	The Notes will have a minimum denomination of £100,000 and any integral multiple of £1,000 in excess thereof up to £199,000. Notes in denominations of less than £100,000 will not be available.
<b>Ranking</b>	The Notes will be general obligations of the Issuer and will be senior obligations of the Issuer, rank <i>pari passu</i> with the 2017 Notes and the Issuer Facilities and will be structurally subordinated to all existing and future indebtedness of the Senior Borrower Group, including the borrower loan agreements between Heathrow Airport Limited and Heathrow Funding Limited in respect of the outstanding bonds of Heathrow Funding Limited.
<b>Security</b>	The obligations of the Issuer under the Notes and the Trust Deed will be secured by fixed and floating security interest over substantially all tangible and intangible assets and undertaking of the Issuer and Heathrow (DSH) Limited, including first priority security interests in the share capital of Heathrow Finance plc and Heathrow (SP) Limited (the “ <b>Transaction Security</b> ”).
<b>Redemption Upon Changes in Withholding Taxes</b>	The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest in the event of certain tax changes, as described under Condition 7.2(b) ( <i>Redemption Upon Changes in Withholding Taxes</i> ).
<b>Optional Redemption</b>	The Issuer may, at its option, redeem all, or some only, of the Notes at any time after the Issue Date at the relevant redemption amount described under Condition 7.2(a) ( <i>Optional Redemption</i> ).
<b>Additional Amounts</b>	The Issuer will pay such additional amounts as may be necessary in order that the net amounts received by each Noteholder in respect of the Notes, after withholding for any taxes imposed by tax authorities in the United Kingdom upon payments in respect of the Notes made by or on behalf of the Issuer will equal the respective amounts which would have been received in the absence of any such withholding taxes, subject to customary exceptions, as described in Condition 10 ( <i>Taxation</i> ).
<b>Change of Control</b>	If the Issuer experiences a change of control, it will be required to offer to repurchase the Notes at 101 per cent. of their principal amount plus accrued interest. See Condition 7.3 ( <i>Purchase of Notes Upon a Change of Control</i> ).
<b>Events of Default</b>	Events of Default under the Notes include: non-payment of principal, premium or interest under the Notes; breach of the covenants and other terms contained in the Conditions; insolvency events relating to the Issuer or its subsidiary group companies; suspension of payments by the Issuer or its subsidiary group companies; certain insolvency events; impairment of the Transaction Security; enforcement of execution proceedings; and cross-default, in each case, subject to the provisions described in Condition 11 ( <i>Events of Default</i> ).

<p><b><i>Certain Covenants</i></b></p>	<p>Subject to certain cure rights, the Notes will require Group RAR not to exceed 90 per cent. at the relevant testing date and Group ICR not to be less than 1.0 in respect of any relevant testing period. The Notes also contain covenants that will limit, among other things, the ability of the Issuer and, in certain cases, its subsidiary group companies to:</p> <ul style="list-style-type: none"> <li>• incur, guarantee or provide indemnities for additional indebtedness;</li> <li>• pay dividends, redeem capital shares, pay management, advisory or other fees to shareholders of the Issuer, make payments in respect of certain subordinated debt or make certain other restricted payments;</li> <li>• issue and sell capital shares or indebtedness of Heathrow (SP) Limited;</li> <li>• enter into certain transactions with affiliates;</li> <li>• create or permit to exist certain security;</li> <li>• transfer, lease or sell certain assets;</li> <li>• restrict subsidiaries of the Issuer to pay dividends or make other payments to the Issuer; and</li> <li>• merge or consolidate with other entities.</li> </ul> <p>Each of these covenants is subject to significant exceptions and qualifications. See Condition 4 (<i>Covenants</i>) and the related definitions.</p>
<p><b><i>Intercreditor Arrangements</i></b></p>	<p>The Issuer and the other obligors have entered into an intercreditor agreement (the “<b>Intercreditor Agreement</b>”) with, among others, the security agent, the agent under the Issuer Facilities, the trustee for the 2017 Notes and any hedging creditors. The Trustee will accede as an additional bond creditor to the Intercreditor Agreement on or about the issue date of the Notes. The Intercreditor Agreement provides that the debt held by the secured creditors that are secured by the Transaction Security, including the holders of the Notes, will rank <i>pari passu</i> without any preference between any class of such secured debt. The Intercreditor Agreement also sets out, among other things, the circumstances under which the security documents may be enforced by the security agent on behalf of secured creditors, the application of enforcement proceeds and the circumstances under which the Transaction Security may be shared on a <i>pari passu</i> basis with additional third-party creditors. See “<i>Description of Other Indebtedness—Intercreditor Agreement</i>”.</p>
<p><b><i>Modification, Waiver and Substitution</i></b></p>	<p>The Trustee may, without the consent of holders of the Notes, agree to (i) any modification of (subject to certain exceptions), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Trust Deed or the Agency Agreement or (ii) the substitution in place of the Issuer as principal debtor under the Notes, in each case in the circumstances and subject to the conditions described in Conditions 17 (<i>Waiver, Authorisation and Determination</i>) and 19 (<i>Substitution</i>).</p>
<p><b><i>Use of Proceeds</i></b></p>	<p>The net proceeds of the issue of the Notes will be applied by the Issuer to repay part or all of the 2010 Issuer Facility, to pay related fees and expenses and to the extent any proceeds remain to be injected into the Regulated Airports Group for general corporate purposes.</p>
<p><b><i>Principal Paying Agent</i></b></p>	<p>Deutsche Bank AG, London Branch</p>
<p><b><i>Trustee</i></b></p>	<p>Deutsche Trustee Company Limited</p>
<p><b><i>Joint Global Coordinators and Joint Bookrunners</i></b></p>	<p>Deutsche Bank AG, London Branch, J.P. Morgan Securities plc and The Royal Bank of Scotland plc</p>
<p><b><i>Joint Bookrunners</i></b></p>	<p>Barclays Bank PLC, ING Bank N.V., London Branch, Merrill Lynch International and Morgan Stanley &amp; Co. International plc</p>

<b><i>Listing and Trading</i></b>	Application has been made to the Financial Services Authority for the Notes to be admitted to listing on the Official List and to trading on the Market. There are no assurances that the Notes will be admitted to the Market.
<b><i>Governing Law</i></b>	The Notes and the Trust Deed will be governed by the laws of England and Wales.
<b><i>Form</i></b>	The Notes will be in bearer form.
<b><i>Credit Ratings</i></b>	The Notes are expected to be rated on issue Ba3 by Moody's and BB+ by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Moody's and Fitch are established in the European Community and are registered under the CRA Regulation.
<b><i>Selling Restrictions</i></b>	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom) only in compliance with applicable laws and regulations. See " <i>Subscription and Sale</i> " below.
<b><i>ISIN</i></b>	[·]
<b><i>Common Code</i></b>	[·]

## SELECTED HISTORICAL FINANCIAL INFORMATION

The tables below present consolidated income statement, consolidated statement of financial position and consolidated cash flow data for the Issuer for and as at the years ended 31 December 2011 and 2010 and for and as at the nine months ended 30 September 2012 and 2011. The information below should be read together with the consolidated financial statements and the notes to those statements.

### Consolidated Income Statement Data

	<i>Nine months ended</i>	
	<i>30 September*</i>	
	<u>2012</u>	<u>2011</u>
	<i>(unaudited)</i>	
	<i>(£ millions)</i>	
<b>Continuing operations</b>		
<b>Revenue</b> .....	1,658	1,522
<b>Adjusted EBITDA</b> .....	848	770
<b>Operating profit</b> .....	405	496
Analysed as:		
Operating profit before exceptional items .....	526	477
Exceptional items.....	(121)	19
<b>Profit/(loss) before tax</b> .....	107	(155)
<b>Profit for the period from continuing operations</b> .....	245	12
Net profit from discontinued operations .....	18	47
<b>Consolidated profit for the period</b> .....	<u>263</u>	<u>59</u>
Interim dividends paid during the period.....	<u>(295)</u>	<u>—</u>

\* The information included in the above table treats Stansted Airport as a discontinued operation.

	<i>Year ended</i>	
	<i>31 December*</i>	
	<u>2011</u>	<u>2010</u>
	<i>(audited)</i>	
	<i>(£ millions)</i>	
<b>Continuing operations</b>		
<b>Revenue</b> .....	2,280	2,074
<b>Adjusted EBITDA</b> .....	1,132	967
<b>Operating profit</b> .....	614	575
Analysed as:		
Operating profit before exceptional items .....	665	517
Exceptional items.....	(51)	58
<b>(Loss) before tax</b> .....	(234)	(343)
<b>(Loss) for the period from continuing operations</b> .....	(44)	(220)
Net profit from discontinued operations .....	8	16
<b>Consolidated (loss) for the period</b> .....	<u>(36)</u>	<u>(204)</u>
Interim dividends paid during the year .....	<u>—</u>	<u>—</u>

\* The information included in the above table treats Stansted Airport as a continuing operation.

### Consolidated Statement of Financial Position Data

	<i>As at 30 September</i>		<i>As at 31 December</i>	
	<u>2012</u>		<u>2011</u>	<u>2010</u>
	<i>(£ millions)</i>		<i>(£ millions)</i>	
	<i>(unaudited)</i>		<i>(audited)</i>	
<b>Assets</b>				
<b>Non-current assets</b> .....	12,422		13,142	12,862
<b>Current assets</b> .....	419		602	433
Of which cash and cash equivalents (1).....	69		34	67
Asset classified as held-for-sale (1).....	<u>1,317</u>		<u>-</u>	<u>-</u>
<b>Total Assets</b> .....	<b><u>14,158</u></b>		<b><u>13,744</u></b>	<b><u>13,295</u></b>
<b>Liabilities</b>				
<b>Non-current liabilities</b> .....	(13,469)		(12,594)	(12,820)
<b>Current liabilities</b> .....	(899)		(1,589)	(665)
Liabilities associated with assets classified as held-for-sale.....	<u>(335)</u>		<u>-</u>	<u>-</u>
<b>Total liabilities</b> .....	<b><u>(14,703)</u></b>		<b><u>(14,183)</u></b>	<b><u>(13,485)</u></b>
<b>Net liabilities</b> .....	<b><u>(545)</u></b>		<b><u>(439)</u></b>	<b><u>(190)</u></b>

(1) Excludes £8m of cash balances relating to Stansted Airport Limited which is included under 'Assets classified as held-for-sale'.

### Consolidated Cash Flow Data

	<i>Nine months ended 30 September*</i>	
	<u>2012</u>	<u>2011</u>
	<i>(unaudited)</i>	
	<i>(£ millions)</i>	
<b>Cash generated from continuing operations</b> .....	772	716
<b>Net cash from operating activities</b> .....	761	692
<b>Net cash used in investing activities</b> .....	(822)	(647)
<b>Net cash used in financing activities</b> .....	74	(52)
<b>Cash flows from discontinued operations</b> .....	30	8
<b>Net increase in cash and cash equivalents</b> .....	43	1
<b>Cash and cash equivalents at beginning of period</b> .....	34	67
<b>Cash and cash equivalents at end of period</b> .....	77	68

\* The information included in the above table treats Stansted Airport as a discontinued operation.



	<i>Year ended 31 December*</i>	
	<u>2011</u>	<u>2010</u>
	<i>(audited)</i>	
	<i>(£ millions)</i>	
<b>Cash generated from continuing operations.....</b>	1,057	918
<b>Net cash from operating activities.....</b>	1,030	901
<b>Net cash used in investing activities.....</b>	(870)	(966)
<b>Net cash used in financing activities.....</b>	(193)	(108)
<b>Net decrease in cash and cash equivalents.....</b>	(33)	(173)
<b>Cash and cash equivalents at beginning of period.....</b>	67	240
<b>Cash and cash equivalents at end of period.....</b>	34	67

\* The information included in the above table treats Stansted Airport as a continuing operation.

### Debt, gearing and interest cover statistics

	<i>As at 30 September</i>		<i>As at 31 December</i>	
	<u>2012</u>		<u>2011</u>	<u>2010</u>
	<i>(£ millions, unless otherwise stated) (actual)</i>			
Senior debt.....	9,722		9,445	8,840
Senior net debt.....	9,658		9,418	8,793
Senior and Junior net debt.....	11,283		10,443	9,921
Issuer debt.....	578		550	500
Issuer net debt.....	566		550	480
Group debt.....	11,925		11,020	10,468
Group net debt.....	11,849		10,992	10,401
<hr/>				
Heathrow RAB.....	13,174		12,490	11,449
Stansted RAB.....	1,345		1,360	1,327
<b>Total RAB.....</b>	<b><u>14,519</u></b>		<b><u>13,850</u></b>	<b><u>12,776</u></b>
<hr/>				
Senior RAR.....	66.5%		68.0%	68.8%
Junior RAR.....	77.7%		75.4%	77.7%
Group RAR.....	81.6%		79.4%	81.4%
<hr/>				
Senior ICR.....	N/A		2.76x	2.08x
Junior ICR.....	N/A		2.34x	1.85x
Group ICR.....	N/A		2.17x	1.55x

Notes

1. Debt figures are determined using nominal debt and include index-linked accretion.

### Key operating statistics

<b>Group</b>	<i>Nine months ended</i>		<i>Year ended 31</i>	
	<i>30 September</i>		<i>December</i>	
	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>
	<i>(unaudited)</i>			
Number of passengers.....	66.4m	66.7m	87.4m	84.3m
Aeronautical income per passenger.....	£15.92	£14.33	£14.60	£13.22
Net retail income per passenger.....	£5.68	£5.42	£5.58	£5.29
<hr/>				
<b>Heathrow only</b>	<i>Nine months ended</i>		<i>Year ended 31</i>	
	<i>30 September</i>		<i>December</i>	
	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>
	<i>(unaudited)</i>			
Number of passengers.....	53.0m	52.6m	69.4m	65.7m
Aeronautical income per passenger.....	£18.03	£16.32	£16.57	£15.08
Net retail income per passenger.....	£6.04	£5.76	£5.95	£5.64

## RISK FACTORS

*The following sets out certain aspects of the Group's financing documentation and the activities of the Group about which prospective holders of the Notes should be aware. The occurrence of any of the events described below could have a material adverse effect on the business, financial condition or results of operations of the Issuer or the Group and could lead to, among other things, non-payment of amounts under the Notes.*

*This section of the Prospectus describes all material risks that are known to the Group as at the date of this Prospectus. This section of the Prospectus is not intended to be exhaustive and prospective holders of the Notes should read the detailed information set out elsewhere in this document, including the documents incorporated by reference, prior to making any investment decision. Further, prospective holders of the Notes should take their own legal, financial, accounting, tax and other relevant advice as to the structure and viability of an investment in the Notes.*

*In addition, whilst the various structural elements described in this document are intended to lessen some of the risks discussed below for holders of the Notes, there can be no assurance that these measures will ensure that the holders of the Notes receive payment of interest or repayment of principal from the Issuer in respect of such Notes on a timely basis or at all.*

### COMMERCIAL RISKS

#### **The Group's aeronautical income could decline as a result of a reduction in flights, passengers or other factors outside the Group's control.**

The Group generates aeronautical income from airport fees and traffic charges. These charges are regulated and principally levied on the basis of passenger numbers, maximum total aircraft weight and the length of time for which an aircraft is parked at the airport. The charges are also linked to the rate of inflation, which is liable to change. There are no specific operating contracts with the airlines operating at the Airports. There can therefore be no assurance as to the level of the Group's future aeronautical income from any one or more airline operators. Decisions by, legal disputes with, financial difficulties at, or the failure of, a significant airline customer, or the withdrawal of their landing rights, could lead to a reduction in flights and passenger numbers and/or failure or delay in recovering airport fees or landing charges. The effect of decisions by or events at airlines that have a major presence at Heathrow (such as British Airways which in 2011 accounted for approximately 40 per cent. of Heathrow's aeronautical income) could have a particularly material adverse effect on the Group.

The number of passengers using the Airports may be affected by a number of other factors, including:

- macroeconomic events (including changes in fuel prices and currency exchange rates) whether affecting the global economy, the UK economy or the Greater London economy in which the Airports are based (which have for instance caused a decrease in demand during the recent financial crisis and recession);
- competition from UK and non-UK airports;
- wars; riots or political action;
- industrial action (for instance the strikes that affected British Airways in 2010);
- an increase in airfares due to increased airline costs;
- decisions by airlines regarding the number, type and capacity of aircraft (including the mix of premium and economy seats), as well as the routes on which particular aircraft are utilised;
- health scares;
- disruptions caused by natural disasters such as the volcanic eruption in Iceland in 2010;
- bad weather at the Airports or other airports, such as the unusual weather conditions experienced at Heathrow and other airports in the northern hemisphere in December 2010, which caused over 4,000 flights to be cancelled and caused significant impact to airline schedules globally;
- acts of terrorism or cybersecurity threats;

- changes in domestic or international regulation, including for instance international trade liberalisation developments such as Open Skies;
- the quality of services and facilities, including the impact of construction projects; and
- the development of efficient and viable alternatives to air travel, including the improvement or expansion of existing surface transport systems, the introduction of new transport links or technology and the increased use of communications technology.

A decrease in the number of passengers using the Airports as a result of the factors noted above could have a material adverse effect on the Group's business, financial condition and results of operations.

**A decrease in passenger numbers or other factors outside the Group's control could reduce non-aeronautical income.**

The Group's principal sources of non-aeronautical income include retail concession fees and car parking income, property rental income and income from the provision of operational facilities and utilities.

Retail concession fees are driven by passenger numbers and propensity of passengers to spend in the shops at the Airports. As noted above, there is a variety of factors which could adversely affect the number of passengers using the Airports. Levels of retail income at Heathrow may also be affected by changes in the mix of long- and short-haul and transfer and origin and destination passengers; economic factors, including exchange rates and changes in duty free regimes; retail tenant failures; lower retail yields on lease re-negotiations; redevelopments or reconfiguration of retail facilities at the Airports, which can lead to a temporary or permanent decline in retail concession fees; reduced competitiveness of the airport retail offering; stricter hand luggage and other carry on restrictions; and reduced shopping time as a result of more rigorous and time consuming security procedures. Car parking income could be reduced as a result of increased competition from other modes of transport to the Airports, such as buses and trains, as well as increased competition from off-site car parks. Other non-aeronautical income could be reduced as a result of a decrease in demand from airport users, such as car rental operators and airlines leasing check-in counters. Any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group could be subject to terrorism and/or increased security requirements.**

The UK Government currently assesses the terrorism threat to aviation as "Substantial". Airports continue to operate heightened security measures and were required to introduce additional security measures following the discovery of terrorist plots in August 2006 and December 2009. An incident in 2010 involving cargo aircraft led to additional measures for the cargo industry only. The consequences of any future terrorist action or threat may include cancellation or delay of flights, fewer airlines and passengers using the Airports, liability for damage or loss and the costs of repairing damage.

The implementation of additional security measures at the Airports in the future could lead to additional limitations on airport capacity or retail space, overcrowding, increases in operating costs and delays to passenger movement through the Airports, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The successful implementation of the Group's capital investment programme could be affected by unanticipated construction and planning issues.**

The Group's capital investment programme includes major construction projects at Heathrow and is subject to a number of risks. For example, if the Group is not able to achieve a consensus amongst its airline customers in support of capital investment projects, this could affect the willingness of the CAA to include the costs of such projects in the RAB. Difficulties in obtaining any requisite permits, consents, including environmental consents, licences, planning permissions, compulsory purchase orders or easements could adversely affect the design or increase the cost of the capital expenditure projects or delay or prevent the completion of a project or the commencement of its commercial operation. Although contractors typically share in cost and schedule risks, the Group may face higher than expected construction costs and delays, not all of which may be permitted by the CAA to be included in the relevant Airport's RAB, and possible shortages of equipment, materials and labour due to the number of major construction projects in the London area.

The commencement of commercial operation of a newly constructed facility may also give rise to start up problems, such as the breakdown or failure of equipment or processes or lack of readiness of operators, closure of facilities and disruptions of operations. The Group's construction contracts may contain restricted remedies or limitations on liability such that any such sums claimed or amounts paid may be insufficient to cover the financial impact of breach of contract. The ability of contractors to meet their financial or other liabilities cannot be assured.

The failure of the Group to recognise, plan for and manage the extent of the impact of construction projects could result in projects overrunning budgets, operational disruptions, capital expenditure trigger rebates to airlines, unsatisfactory facilities at Heathrow, safety and security performance deficiencies and higher than expected operating costs. Any of these could affect Heathrow's day-to-day operations and, consequently, have a material adverse effect on the Group's business, financial condition and results of operations.

**The Borrowers face potential secondary liabilities as members of the Heathrow Airport Holdings Group.**

The Group is part of the larger Heathrow Airport Holdings Group. The Group could, in certain circumstances, face secondary liabilities in respect of tax or pension obligations of other Heathrow Airport Holdings Group entities which could have a material adverse effect on the Group's business, financial condition and results of operations.

**Incidents could occur at the Airports.**

Airports are exposed to the risk of incidents, including accidents, as a result of a number of factors, including extreme weather conditions, equipment failure, human error and terrorist activities. These incidents could result in injury or loss of human life, damage to airport infrastructure and short or long term closure of an Airport's facilities and may have an impact on passenger traffic levels, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group's insurance coverage might not be adequate or available in all circumstances.**

The Group benefits from insurance cover to protect against key insurable risks including terrorism and business interruption. Cover may not be adequate to cover lost income, reinstatement costs, increased expenses or other liabilities. Moreover, there can be no assurance that if insurance cover is cancelled or not renewed, replacement cover will be available at commercially reasonable rates or at all.

The Group may not have, or may cease to have, insurance cover if the loss is not covered under, or is excluded from, an insurance policy including by virtue of a deductible applying, exhaustion of applicable cover limits or a policy operating as an excess policy or if the relevant insurer successfully avails itself of defences available to it, such as breach of disclosure duties, breach of policy condition or misrepresentation.

Insurance cover for the Group is currently, and may in the future be, provided by a combination of insurance market entities and captive insurance companies owned by, or affiliated with, Heathrow Airport Holdings or its ultimate shareholders. Any of these insurers could cease to offer current insurance cover, become insolvent or lose their licences or authorisations. Any failure to obtain insurance or to collect under relevant insurance policies could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Operating Companies could be subject to periodic increase in pension cash contributions in the future.**

Under the Shared Services Agreement, LHR Airports is entitled to pass a proportional amount of its pension costs on to Heathrow, Stansted and Heathrow Express. The costs of the pension schemes may vary from time to time (for instance as a result of fluctuation in investment values or as a result of changes to actuarial assumptions). The Group expects pension costs, including the costs of reducing any deficit, to be treated by the CAA as operating costs in setting price caps, but there is no guarantee that the CAA will do so.

As at 30 September 2012, the Heathrow Airport Holdings Group defined benefit pension scheme showed an accounting deficit of £92.1 million, of which £82.1 million, or approximately 0.6 per cent. of the Airports' combined RAB at that date, was attributable to the Group. The Heathrow Airport Holdings Group Pension Trustee is a Borrower Secured Creditor pursuant to the STID and ranks equally in an amount up to approximately £289 million with senior (Class A) debt. The extent of any deficit or surplus to the Heathrow Airport Holdings Group defined benefit pension scheme, which may vary significantly from one accounting period to another, results from factors outside the control of the Group.

The Group's pension cash contributions have increased by approximately £15 million per annum from the beginning of 2012 as a result of the most recent triennial valuation of the Heathrow Airport Holdings Group's defined benefit pension scheme. Increases in the Group's pension cash contributions could, either because they take effect mid-quinquennium or because they are not fully taken into account by the CAA in setting price caps, have a material adverse effect on the Group's business, financial condition and results of operations.

### **The Group faces a number of operational risks outside its control.**

The operation of an airport is a complex undertaking that is subject to a number of factors outside the control of the Group. These factors include weather conditions, variable aircraft movements and traffic congestion. In addition, the Secretary of State for Transport has powers under the Airports Act to give directions to airport operators in the interests of national security, including closure of airports. Given the nature of these factors, it is not possible to accurately predict their future impact on airport operations from past performance, and any impact from such factors could have a material adverse effect on the Group's business, financial condition and results of operations.

### **Operations at the Airports depend upon third parties, whose performance the Group is unable to control.**

The Group depends on the co-operation of a large number of third parties, including government agencies and business partners, to provide essential functions, such as air traffic control, border control, re-fuelling, rescue and firefighting services, utilities provision and catering. The Group's business operations may be affected if these service providers do not adequately perform the services they are required to provide. In particular, a failure by these third parties to appropriately respond to passenger volumes, accidents, fire, technical defects, failures in IT or data processing, may cause flight delays, damage to facilities, and the cancellation of airport services. Any of these events or a combination of events related to the performance of third parties could have a material adverse effect on the Group's business, financial condition and results of operations.

### **The Borrowers enter into contracts with third parties which require the Borrowers to give representations, covenants and indemnities, which could expose the Borrowers to litigation.**

The Group companies enter into contracts with third parties under which they have given or will give representations, covenants and indemnities as part of the transactions to which the contracts relate. In connection with sales of assets or shares, Heathrow (AH) Limited as seller has been, and is likely in the future to be, required to provide various warranties. Entry into such contracts gives rise to a risk of litigation relating to the representations, covenants and indemnities which, if significant, could have a material adverse effect on the Group's business, financial condition and results of operations.

### **The Group is dependent on LHR Airports as Shared Services Provider to operate its businesses.**

LHR Airports employs the staff assigned to the Airports and also to the other airports owned and operated by the Heathrow Airport Holdings Group. Pursuant to the Shared Services Agreement, LHR Airports also provides various management services (including senior management and strategic direction), administration, cash management and operational services, including the provision of IT services and staff, to the Operating Companies as described in more detail in "*Business – Shared Services*". Whilst the Shared Services Agreement contains provisions that are designed to assist with the transfer of employees and services to the Operating Companies or a replacement services provider if the Shared Services Agreement were terminated, there can be no assurance that transfers will be effected in a manner that does not have a material adverse effect on the Group's business, financial condition or results of operations.

A significant number of contracts for third party IT systems and IT support important to the Group's operations are in the name of LHR Airports and would be terminable by the contract counterparties if LHR Airports were to become insolvent. Whilst steps may be taken to seek to minimise the impact of such termination provisions, and there may be commercial reasons why the contract counterparties would not elect to terminate if they are being paid for the continued use of the relevant IT system or IT support, there is a risk that the Group's access to IT systems and IT support may be negatively affected by an insolvency of LHR Airports, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

## **REGULATORY RISKS**

### **The legal framework of regulation for the Airports is liable to change.**

Legislation to introduce changes to the framework for the economic regulation of UK airports has been introduced to Parliament. For more information on the UK Government's proposals, see "*Airport Regulation—Airport Regulation Generally—Potential Future Changes to the Regulatory Framework*".

The reforms resulting from the legislation are expected to be implemented through a new licensing regime for airports similar to licences in place in certain other regulated sectors such as water and energy. Heathrow and Stansted are expected to require licences which will be set by the CAA and to be subject to some form of price control arrangements and a possible sanctions regime. The reforms include potential measures to promote the financial resilience of licensed airports including a supplementary duty on the CAA to ensure that airports can finance their licensed activities. The new licence is expected to include ring-fencing provisions that would broadly prohibit the granting or subsistence of security over airport assets but with derogations in respect of those elements that cut across existing financing

arrangements. The CAA is expected to be required to apply agreed tests when considering the removal of an airport's derogations and there will be an appeals process that is aligned with the wider licence modification process. It is likely that a licence may prescribe a minimum credit rating requirement for licensed airports and a requirement for airports to put in place continuity of service plans. The UK Government has previously confirmed that it will not be proceeding with earlier proposals for the introduction of a special administration regime.

If the CAA does not include the expected derogations on ring-fencing restrictions or derogations are removed on appeal by an airline or other interested party in a way that adversely affected the ability of the Group to finance its businesses at reasonable rates, this could be adverse to holders of the Bonds.

There can be no certainty that the proposals will be implemented in a way which reflects published statements to date or at all and so no assurance can be given as to the effect such changes may have on the Group's business.

### **Sale of Stansted**

On 20 August 2012, the Heathrow Airport Holdings Group announced its decision not to appeal to the Supreme Court against the ruling of the Competition Commission of 19 July 2011 that required the Heathrow Airport Holdings Group to sell Stansted. As a result, the Heathrow Airport Holdings Group is now proceeding with the disposal of Stansted.

As part of the disposal of Stansted, the Group is required under the terms of its Senior Borrower Group Indebtedness to apply the net disposal proceeds to the repayment of debt. There can be no assurance that Stansted will be sold for a price that will ensure a reduction in leverage after application of the net disposal proceeds. In addition, certain fixed costs of the Heathrow Airport Holdings Group, which are currently allocated to Stansted, will be largely re-allocated to Heathrow. Furthermore, the Airports have differing airline customer profiles: mainly full-service airlines at Heathrow and low-cost carriers at Stansted. Although Heathrow has performed considerably better financially since 2009, divestiture of Stansted will mean the Group will service a less diversified customer base, which could increase the risk that future events at an airline could have a material adverse effect on the Group's business, financial condition and results of operations.

### **The Airports are subject to economic regulation by the Civil Aviation Authority, which is subject to change.**

The Group's operations at the Airports are subject to regulatory review that results in, amongst other things, the setting of the price caps on certain of the Airports' charges by the CAA. This regulatory review generally takes place every five years; see "*Airport Regulation – Principles of Economic Regulation*". There can be no assurance that the current or future price caps set by the CAA will be sufficient to allow the Airports to operate at a profit; nor that the present price caps will be increased or at least maintained at current levels; nor that the methodology of the review process at subsequent reviews would not have a material adverse effect on the income of the Group.

The CAA has established performance-linked requirements which can negatively impact aeronautical income. For instance, the CAA reduces certain permitted airport charges at Heathrow if prescribed milestones are not met on certain capital investment projects. Under a service quality rebate scheme at Heathrow, failure to meet specified targets relating to, among other things, airport cleanliness, security queuing times and stand and jetty availability can result in rebates to airline customers of up to 7 per cent. of airport charges. See "*Airport Regulation – Heathrow Price Regulation – SQR Scheme*".

### **The Group could face other regulatory and public policy changes.**

Income and/or operations at the Airports could be adversely affected by changes in policies regarding route licensing, the "use it or lose it" rule under which airlines are required to fly 80 per cent. of their slots or sacrifice them to other airlines, changes to the conditions for the maintenance of the aerodrome licences of the Airports, security and safety, immigration and border controls, airport development, environmental policy, tax, air passenger duty or the provision of airport capacity.

The UK Government has announced an independent commission, the Airports Commission, tasked with identifying and recommending options for meeting the UK's aviation hub capacity requirements. In the event that this recommends developing a new hub airport, the approval and subsequent construction of such an airport could have a material adverse effect on the Group's business, financial condition and results of operations.

### **The Group faces costs related to environmental, health and safety and planning considerations.**

The Group's business is affected by a wide variety of EU and UK environmental, health and safety and planning laws and requirements. The Group's existing operations may be impacted by a number of environmental and planning factors, including those involving aircraft movements; air quality (including emissions standards); noise; soil and water pollution arising from airport operations; discharges and surface water drainage; land and groundwater contamination;

flooding; asbestos in premises and exposure to asbestos; waste handling, management and disposal; and energy use and efficiency.

Compliance with present or future environmental, health and safety and planning requirements may be costly and time-consuming and interfere with the Group's existing activities and operations. The CAA has to date taken environmental costs incurred by the Group into account in determining the RAB and in setting price caps. The CAA has not indicated that it intends to change its policy in this regard in the future but, if it were to do so, this could have a material adverse effect on the Group's business, financial condition or results of operations.

**Future regulatory settlements may not allow for increased operating costs.**

Operating costs may differ from projections. There can be no assurance that future price caps set by the CAA will be sufficient to allow the Airports to cover their operating costs which could have a material adverse effect on the Group.

## **FINANCING RISKS**

**The Group is subject to exposure on its hedging arrangements.**

Whilst the Group operates a hedging programme in accordance with the hedging policy under the terms of the Senior Borrower Group Indebtedness, it is not required to fully or perfectly hedge its present or future interest rate or inflation exposure and may not in practice do so. The Group is subject to the creditworthiness of, and in certain circumstances early termination of the hedging arrangements by, hedge counterparties.

In addition, LHR Airports has entered into hedging transactions in relation to an employee share option plan under which employees have the potential right to acquire Ferrovial shares. Under the Shared Services Agreement, LHR Airports may recharge to Heathrow costs incurred in relation to the hedging transactions. As at 30 September 2012, LHR Airports had a potential liability of £45 million as a result of these arrangements, the majority of which would be attributable to the Group. The amount that the Group may ultimately be required to pay will depend on various factors including the number of options vested or exercised and the Ferrovial share price either on the option exercise dates or when the hedging transactions are terminated or reach maturity.

Changes in interest, foreign currency and inflation rates, and exposure to hedge counterparty risk, could have a material adverse effect on the Group's business, financial condition and results of operations.

### **Risks of High Leverage**

**A significant portion of the Group's cash flow from operations is dedicated to debt payments.**

Because of the secured nature of its borrowings and the structure that applies to them, the Group has been able to raise more debt than would typically be the case for an unsecured borrower. As a result, a greater portion of the Group's cash flow from operations is dedicated to payments on its debt obligations, thus reducing its flexibility to deal with significant financial underperformance. This may increase the Group's vulnerability to any economic downturn in its business or to adverse industry conditions, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

**Given its leverage position, the Group will need to raise further debt from time to time.**

The Group will need to raise further debt from time to time in order, among other things, to:

- (a) finance future capital expenditure; and
- (b) enable it to refinance indebtedness, including the Notes, as such indebtedness comes due.

There can be no assurance that the Group will be able to raise future finance on terms that are economically viable or at all. For instance, events in the credit markets in 2007 and 2008 and regulatory uncertainty in 2009 significantly restricted the Group's ability to raise finance. An inability to refinance its indebtedness could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, under the terms of the Senior Borrower Group Indebtedness, if the Airport Operators are unable to replace a liquidity facility under certain circumstances, they will not be permitted to incur any further indebtedness, including issuing bonds under the multicurrency bond programme of Heathrow Funding Limited.

### **Ability to incur more debt.**

The Group may be able to incur additional indebtedness in the future. Neither the terms of the Notes nor the Issuer Facilities prohibit the Group from incurring more indebtedness. If new debt is added to the Group's current debt levels, the related risks that the Group now faces could intensify.



## OTHER LEGAL RISKS

### **General risk of change of law.**

It is possible that, whether as a result of case law or through statute, changes in law or regulations, or their interpretation or application (see, for example, “—*The legal framework of regulation for the Airports is liable to change*” above), may result in the Group’s debt financing arrangements as originally structured no longer having the effect anticipated or could have a material adverse effect on the Group’s business, financial condition and results of operations and / or could adversely affect the rights, priorities of payments and / or treatment of holdings in the Notes for Noteholders.

### **The Group faces potential secondary tax liabilities.**

Where a company fails to discharge certain tax liabilities within a specified time period, UK tax law imposes, in certain circumstances, secondary liability for those overdue taxes on other companies that are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its tax liabilities.

If any secondary tax liabilities arise in the Issuer or other members of the Group, which are not discharged by other members of the wider Heathrow Airport Holdings Group, and are of significant amounts, the Issuer or other members of the Group could be adversely affected.

The Issuer and the members of the Group have been members of a value added tax (“VAT”) group, of which Heathrow Airport Holdings was the representative member, that also includes members of the wider corporate group. Although the Issuer and the members of the Group ceased to be grouped for VAT purposes with members of the Heathrow Airport Holdings Group, they may continue to have exposure to certain VAT liabilities of other members of the wider Heathrow Airport Holdings Group.

### **UK insolvency law may impact the rights of creditors including the Noteholders in certain circumstances.**

The English insolvency statutes empower English courts to make an administration order in respect of an English company. An administration order can be made if the court is satisfied that the relevant company is or is likely to become “unable to pay its debts” and that the administration order is reasonably likely to achieve the purpose of administration. In addition, the holder of a “qualifying floating charge” over the assets of an English company may appoint an administrator out of court, provided such floating charge has become enforceable. In this case the prospective administrator must be satisfied that the purpose of administration is reasonably likely to be achieved. An English company or the directors of such company may also appoint an administrator out of court. The purpose of an administration comprises three parts which must be looked at successively: rescuing the company as a going concern or, if that is not reasonably practicable, achieving a better result for the company’s creditors as a whole or, if neither of those objectives are reasonably practicable, and the interests of the creditors as a whole are not unnecessarily harmed thereby, realising property to make a distribution to secured or preferred creditors.

The rights of creditors, including secured creditors, are particularly curtailed in an administration. Upon the appointment of an administrator, no step may be taken to enforce security over the company’s property, except with the consent of the administrator or leave of the court. The same requirements for consent or leave apply to the commencement or institution of legal process (including legal proceedings, execution, distress or diligence) against the company or property of the company. In either case, a court will consider discretionary factors in determining any application for leave, in light of the hierarchy of statutory objectives of administration described above.

Accordingly, if the Issuer was to enter into administration proceedings, the Notes and the related security from the Issuer could not be enforced while the relevant company was in administration, without the leave of the court or consent of the administrator. There can be no assurance that the security agent would obtain this leave of the court or consent of the administrator.

In addition, an administrator is given wide powers to conduct the business and, subject to certain requirements under the Insolvency Act 1986, dispose of the property of a company in administration. However, the general prohibition against enforcement by secured creditors without consent of the administrator or leave of the Court, and the administrators’ powers with respect to floating and other security, do not apply to any security interest created or arising under a financial collateral arrangement within the meaning of the Financial Collateral Agreements (No. 2) Regulations 2003 (UK). A financial collateral arrangement includes (subject to certain other conditions) a pledge over shares in a company, where both the collateral provider and collateral taker are non-natural persons.

Under English insolvency law, the liquidator or administrator of a company may, among other things, apply to the court to unwind a transaction entered into by such company, if such company was unable to pay its debts (as defined in section 123 of the Insolvency Act 1986) at the time of, or as a result of, the transaction and enters into liquidation or administration proceedings within two years of the completion of the transaction. A transaction might be subject to a challenge if it was entered into by a company “at an undervalue”, that is, it involved a gift by the company or the company received consideration of less value than the benefit given by such company. However, a court generally will not intervene if a company entered into the transaction in good faith for the purpose of carrying on its business and at

the time it did so there were reasonable grounds for believing the transaction would benefit such company. The Issuer believes that the Notes will not be issued on terms which would amount to a transaction at an undervalue, that the offering is in good faith for the purposes of carrying on the Group's business and that there are reasonable grounds for believing that the transaction will benefit the Group. However, there can be no assurance that the issuance of the Notes will not be challenged by a liquidator or administrator or that a court would support this analysis.

In addition, if it can be shown that a transaction entered into by an English company was made for less than fair value and was made to shield assets from creditors, then the transaction may be set aside as a transaction defrauding creditors. Any person who is a "victim" of the transaction, and not just liquidators or administrators, may assert such a claim. There is no statutory time limit within which a claim must be made and the company need not be insolvent at the time of the transaction.

If the Issuer was to commence administration proceedings, the Notes and the related security could not be enforced while the relevant company was in administration.

The holder of a qualifying floating charge that has been created since 15 September 2003 over all or substantially all of the assets of an English company can generally no longer appoint an administrative receiver of that company. There is, however, an exception to this rule that applies to certain capital markets transactions that are expected to incur at least £50 million of debt.

Any interest accruing under or in respect of the Notes for any period from the date of commencement of administration or liquidation proceedings, to the extent not fully covered by the assets securing the Notes, could be recovered by holders of the Notes only from any surplus remaining after payment of all other debts provided in the proceeding and interest accrued but unpaid up to the date of the commencement of the proceeding.

Under English insolvency law, certain preferential claims, including unpaid contributions to occupational pension schemes in respect of the twelve-month period prior to insolvency and unpaid employees' remuneration in respect of the four-month period prior to insolvency, will, while ranking behind the claims of holders of fixed security, rank ahead of floating charges. In addition, a prescribed part of floating charge realisations (being 50 per cent. of the first £10,000 of net realisations and 20 per cent. of the net realisations thereafter, up to a maximum of £600,000) is required to be set aside for the benefit of unsecured creditors and, as such, ranks ahead of the relevant floating charge.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such person for, an individual resident, or certain limited types of entity established, in that other Member State. Similar income for this purpose includes payments on redemption of Notes representing any discount on the issue of Notes or any premium payable on redemption. However, for a transitional period, Austria and Luxembourg may instead impose a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of other countries and territories have adopted similar measures to the EC Directive.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, no additional amounts would be required to be paid to Noteholders as a result of the imposition of such withholding tax (see Condition 10 (*Taxation*) of the Terms and Conditions of the Notes). The Issuer is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EC Directive.

## **RISKS RELATING TO THE NOTES**

### **The Issuer depends on subsidiaries for payments.**

The Issuer is a holding company with no material assets other than the shares of its subsidiary, Heathrow (SP) Limited. All of the Issuer's revenue is generated by the Operating Companies. Accordingly, almost all of the Issuer's cash flow is generated by the Operating Companies. Therefore, the Issuer's ability to make payments on its indebtedness and to fund its other obligations is dependent not only on the ability of its subsidiaries to generate cash, but also on the ability of its subsidiaries to distribute cash to it in the form of dividends, fees, interest, loans or otherwise.

However, the Issuer's subsidiaries face various restrictions in their ability to distribute cash to the Issuer. The Senior Borrower Group must satisfy certain restricted payment covenants and other conditions before it may make distributions to the Issuer. Business performance and local accounting and tax rules may limit the amount of retained earnings, which is in many cases the basis of dividend payments.

**The Notes are subordinated to liabilities of the Issuer's subsidiaries.**

The Issuer's subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to any debt incurred by the Issuer to make any funds available whether by dividends, fees, loans or other payments. Any right of the Issuer to receive any assets of any of its subsidiaries upon liquidation, dissolution, winding up, receivership, reorganisation, assignment for the benefit of creditors, marshalling of assets and liabilities or any bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of the Issuer's indebtedness to participate in the distribution of, or to realise proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's creditors (including trade creditors and holders of debt issued by such subsidiary). Accordingly, the Notes will be effectively subordinated to all liabilities of the Issuer's subsidiaries. As at 30 September 2012, the Issuer's subsidiaries had £13.6 billion of outstanding liabilities, including outstanding indebtedness. The terms and conditions of the Notes do not prohibit the Issuer's subsidiaries from incurring additional indebtedness.

**The Issuer may not be able to repurchase Notes on change of control.**

Upon a Change of Control (as defined under "*Terms and Conditions of the Notes—Definitions*"), the Issuer will be required to offer to repurchase all outstanding Notes at 101 per cent. of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the Notes will be the Issuer's available cash or cash generated from the Operating Companies' operations or other sources, including borrowings, sales of assets or sales of equity. The Issuer may not be able to satisfy its obligations to repurchase the Notes upon a change of control because it may not have sufficient financial resources to purchase all of the Notes that are tendered upon a change of control.

**Liquidity of the Notes could be limited and there could be an absence of a secondary market for the Notes.**

There can be no assurance that a secondary market for the Notes will develop, or, if a secondary market does develop for any of the Notes issued after the date of this Prospectus, that it will provide any holder of Notes with liquidity or that any such liquidity will continue for the life of the Notes. Consequently, any purchaser of the Notes must be prepared to hold such Notes for an indefinite period of time or until final redemption or maturity of the Notes.

The liquidity and market value at any time of the Notes are affected by, among other things, the market view of the credit risk of such Notes and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events and the performance and financial condition of the Group.

**Rating of the Notes.**

The ratings assigned by the rating agencies to the Notes reflect only the views of the rating agencies and in assigning the ratings the rating agencies take into consideration the credit quality of the Group and structural features and other aspects of the transaction. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the rating agencies as a result of changes in, or unavailability of, information or if, in the rating agencies' judgment, circumstances so warrant. If any rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced. Future events, including events affecting the Group and/or circumstances relating to the airport industry generally, could have an adverse impact on the ratings of the Notes.

**Compliance with covenants may be affected by events beyond the Issuer's control.**

The terms and conditions of the Notes, the 2017 Notes and the Issuer Facilities limit the Group's ability to, among other things, incur additional indebtedness; pay dividends or make other distributions; make investments; sell assets; enter into agreements restricting the ability of the Issuer's subsidiaries to pay dividends; consolidate, merge, sell or otherwise dispose of all or substantially all of the Group's assets; enter into sale and leaseback transactions; and provide security. In addition, the terms and conditions of the Notes, the 2017 Notes and the Issuer Facilities require that, subject to certain cure rights, Group RAR may not be greater than 90 per cent. as at any Relevant Testing Date and Group ICR may not be less than 1.0 in respect of any Relevant Testing Period.

The ability of the Issuer to comply with these covenants and restrictions may be affected by events beyond the Issuer's control. If the Issuer breaches any of these covenants or restrictions, it could be in default under the Notes, the 2017 Notes and the Issuer Facilities. This would permit the lending banks under the Issuer Facilities to take certain actions, including declaring all amounts that the Issuer has borrowed under the Issuer Facilities and other indebtedness to be due and payable, together with accrued and unpaid interest. This would also result in an event of default under the Notes and the 2017 Notes. The lending banks could also refuse to extend further credit under the Issuer Facilities. If the debt under the Issuer Facilities, the Notes, the 2017 Notes or any other material financing arrangement that the Issuer enters into were to be accelerated, the Issuer's assets may be insufficient to repay in full the Notes and the Issuer's other indebtedness.

**The interests of ultimate shareholders may be inconsistent with interests of holders of Notes.**

Subsidiary entities of Ferrovial S.A., Caisse de dépôt et placement du Québec, the Government of Singapore Investment Corporation, Alinda Capital Partners, China Investment Corporation and, subject to obtaining EU merger control approval, Qatar Holding LLC indirectly own all of the shares of the Issuer. As a result, these shareholders have, and will continue to have, directly or indirectly, the power, among other things, to affect the Group's legal and capital structure and its day-to-day operations, as well as the ability to elect and change management and to approve other changes to the Group's operations. The interests of the Group's ultimate shareholders could conflict with interests of investors in the Notes, particularly if the Group encounters financial difficulties or is unable to pay its debts when due. In addition, the Group's ultimate shareholders may, in the future, own businesses that directly compete with the Group in certain respects or do business with the Group.

**Security may be insufficient to repay the Notes.**

If there is an event of default under the Notes, the holders of the Notes will be secured only by the property and assets of Heathrow (DSH) Limited and the Issuer, which primarily consist of the share capital of the Issuer held by Heathrow (DSH) Limited and of the share capital of Heathrow (SP) Limited held by the Issuer. To the extent that the claims of the holders of the Notes, the claims of lenders under the Issuer Facilities and the claims of any other third party creditor that shares in the Transaction Security in accordance with the terms of the Intercreditor Agreement exceed the value of the Transaction Security securing the Notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior unsecured indebtedness ranking *pari passu* with the Notes.

To the extent that other first-priority security interests, pre-existing liens, liens permitted under the terms and conditions of the Notes and other rights encumber the Transaction Security securing the Notes, those parties may have or may exercise rights and remedies with respect to the Transaction Security that could adversely affect the value of the security and the ability of the security agent to realise or foreclose on the security.

**Payments in relation to the Notes are subject to the Intercreditor Agreement.**

The Trustee has acceded to an intercreditor agreement with, among others, the agents and representatives of the other indebtedness secured by the Transaction Security, including the Issuer Facilities and the 2017 Notes and counterparties to certain hedging obligations. Other creditors may become parties to the Intercreditor Agreement in the future and share in the Transaction Security. Among other things, the Intercreditor Agreement governs the enforcement of the security documents, the sharing in any recoveries from such enforcement and the release of the Transaction Security by the security agent.

The Intercreditor Agreement provides that the security agent shall act upon the instructions of the secured creditors representing more than 50 per cent. of the aggregate principal amount outstanding under the 2017 Notes, the Notes, any additional notes, the Issuer Facilities, any new credit facilities and certain hedging creditors. The Intercreditor Agreement further provides that, if the Trustee or holders of the Notes do not respond to a Request (as defined in the Intercreditor Agreement) within 20 business days, the votes of holders of the Notes will not be counted for, amongst other things, the purposes of instructing the security agent. These arrangements could be disadvantageous to the holders of the Notes in a number of respects. For example, other creditors not subject to the Intercreditor Agreement could commence enforcement action against the Issuer or its subsidiaries during such consultation period, the Issuer or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain collateral could otherwise be impaired or reduced.

The Intercreditor Agreement provides that the security agent may release certain collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the Trust Deed and the Issuer Facilities. Therefore, such collateral available to secure the Notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Trust Deed.

The Trust Deed and the Issuer Facilities permit the Issuer, in compliance with the covenants in those agreements, to incur additional indebtedness secured by liens on the Transaction Security. The Issuer's ability to incur additional debt in the future secured on the collateral may have the effect of diluting the ratio of the value of such Transaction Security to the aggregate amount of the obligations secured by the Transaction Security.

**Book-entry form of Notes.**

The Notes will initially only be issued in global form and deposited with a common depository for Euroclear and Clearstream, Luxembourg. Interests in the Notes will trade in book-entry form only. The common depository for Euroclear and Clearstream, Luxembourg will be the sole holder of the Global Notes representing the Notes. Accordingly, owners of book-entry interests must rely on the procedures of Euroclear and Clearstream, Luxembourg, and non-participants in Euroclear or Clearstream, Luxembourg must rely on the procedures of the participant through which they own their interests, to exercise any rights and obligations of a holder of Notes.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes.

**Modification, waivers and substitution.**

The terms and conditions of the Notes contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes including holders of the Notes who did not attend and vote at the relevant meeting and holders of the Notes who voted in a manner contrary to the majority.

The terms and condition of the Notes also provide that the Trustee may, without the consent of holders of the Notes, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, (ii) determine without the consent of the holders of the Notes that any event of default or potential event of default shall not be treated as such or (iii) the substitution in place of the Issuer in respect of the Notes of a new group holding company, in each case in the circumstances and subject to the conditions described in "*Terms and Conditions of the Notes*".

## **USE OF PROCEEDS**

The Group currently expects to maintain gross debt at the Issuer of approximately 5 per cent. of the Group's RAB over the medium term. As at 30 September 2012, gross debt at the Issuer was £578 million, equivalent to approximately 4 per cent. of the combined RAB of Heathrow and Stansted at that date. Excluding Stansted's RAB, given its expected sale in the coming months, gross debt was approximately 4.4 per cent. of Heathrow's RAB at the same date. The issuance of the Notes together with the expected use of proceeds outlined below is intended to increase the amount of gross debt at the Issuer to around 5 per cent. of Heathrow's forecast RAB at the end of 2013.

The net proceeds of the issue of the Notes will be applied by the Issuer to repay part or all of the 2010 Issuer Facility, to pay related fees and expenses and, to the extent any proceeds remain, to be injected into the Regulated Airports Group for general corporate purposes.

## CAPITALISATION

The following table sets out the actual consolidated cash and cash equivalents and debt of the Issuer at 30 September 2012 (as included within the Issuer's consolidated statement of financial position on that date).

	<i>Accounting value</i>
	(£ millions)
Current borrowings – Security Parent and subsidiaries .....	340
Total current borrowing .....	340
Non-current borrowings – Issuer	
Bonds .....	318
Loans .....	248
Total .....	566
Non-current borrowings – Security Parent and subsidiaries	
Bonds .....	10,137
Loans .....	570
Total .....	10,707
Total debt .....	11,613
Cash and cash equivalents .....	(69)
Total net debt .....	11,544

## BUSINESS

### OVERVIEW OF HEATHROW AIRPORT

#### *Heathrow*

London is the world's leading global financial centre and the leading worldwide centre of commerce (sources: Z/Yen 2012; MasterCard Worldwide 2008). As London's largest airport, and its only international hub, Heathrow is a critical infrastructure asset not only for the UK but for global finance and commerce.

Heathrow is the world's busiest airport in terms of international passengers and Europe's busiest airport in terms of total passengers. In 2011, Heathrow handled over 15 per cent. more international passengers than its nearest rival, Paris Charles de Gaulle, and it handles approximately 80 per cent. of all the UK's scheduled long-haul air traffic. In 2011, 69.4 million passengers travelled through Heathrow Airport, of which approximately 7 per cent. were domestic passengers, 52 per cent. were international long haul passengers and 41 per cent. were European passengers. Its critical role in the global aviation industry is underlined by the fact that seven of the top ten long haul intercontinental routes globally pass through Heathrow (source: OAG).

Heathrow Airport hosts most of the world's major international airlines and is the worldwide hub of British Airways and the main European hub of the **oneworld** airline alliance. It also hosts the other two principal airline alliances of SkyTeam and Star Alliance. In 2011, British Airways accounted for approximately 43 per cent. of Heathrow's ATMs, **oneworld** 49 per cent. and Star Alliance 29 per cent. In 2011, approximately 65 per cent. of Heathrow's passenger traffic was origin and destination traffic and 35 per cent. was transfer traffic.

Heathrow Airport is served by two parallel runways which together have maximum permitted air transport movements of 480,000 per year. In 2011, actual passenger air transport movements totalled 476,197.

Heathrow Airport provides a wide range of passenger services, including passenger-handling facilities, shops, bars, restaurants and over 20,000 public car park spaces. Heathrow Airport is served by extensive bus services, London Underground services and the dedicated Heathrow Express rail link to and from London Paddington Station.

Heathrow has maintained a strong focus in recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. As a result, Heathrow has risen to become one of the top performing major European hubs in terms of overall passenger satisfaction. In the third quarter of 2012, 75 per cent. of passengers rated their Heathrow experience as either "very good" or "excellent" up from 39 per cent. in 2006.

Heathrow is implementing a £5.6 billion investment programme over the six years to 31 March 2014. The new Terminal 5 at Heathrow has provided additional terminal passenger capacity for up to 30 million passengers per year and has enabled Heathrow to begin rebuilding and renovating its other terminals. Construction of a new Terminal 2 is under way, which will have an initial capacity of up to 20 million passengers per year when it becomes operational in 2014, by which time all Heathrow's terminals will be either new or recently refurbished.

Heathrow generated turnover of £2,045.6 million and, including Heathrow Express, Adjusted EBITDA of £1,045.1 million for the 12 months ended 31 December 2011.

#### *General Description of Heathrow Airport<sup>(1)</sup>*

Opened in.....	1946
Location.....	15 miles west of Central London
Number of runways.....	2 (currently operated under segregated mode)
Runway length (metres).....	Northern: 3,902; Southern: 3,658
Number of terminals <sup>(2)</sup> .....	4
Total land area.....	1,227 hectares
Closing RAB at 31 March 2012 <sup>(3)</sup>	£12,705.3 million

#### **Passenger and air transport movement statistics**

##### **Passenger profile**

International/domestic.....	93% (long haul: 52%; European: 41%)/7%
Business/leisure.....	31%/69%
Full-cost carriers	100%
<b>Airlines</b> .....	86 (main airlines: British Airways and Virgin Atlantic Airways)



<b>Destinations .....</b>	193
<b>Air transport movement allowed annual capacity .....</b>	480,000
<b>Air transport movements .....</b>	476,197
<b>Passengers.....</b>	69.4 million

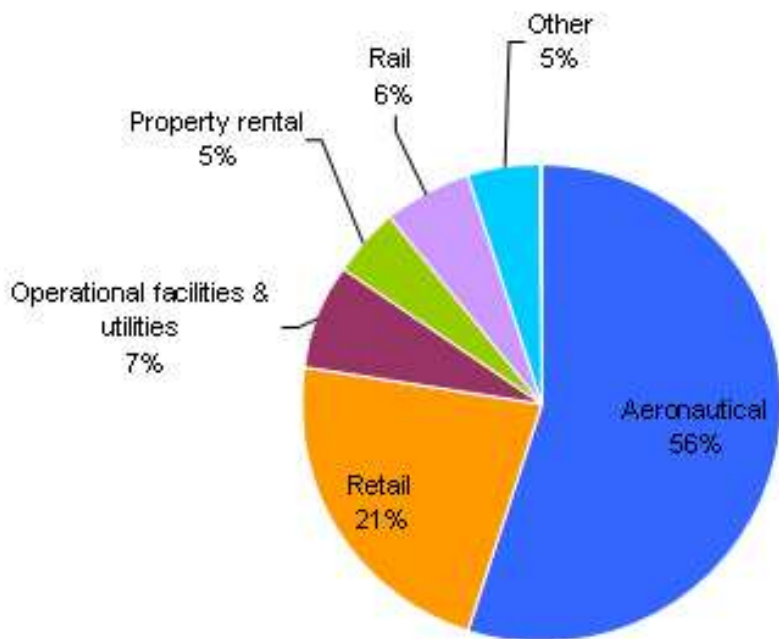
Source: Heathrow.

- (1) Except as otherwise indicated, data as of 31 December 2011 or for the year ended 31 December 2011.
- (2) Heathrow Terminal 2 closed in November 2009 and a new Terminal 2 is currently under construction.
- (3) Source: Heathrow regulatory accounts, 31 March 2012.

**REVENUE GENERATION AND ECONOMIC REGULATION**

Heathrow is subject to economic regulation by the Civil Aviation Authority. The regulatory system is designed to allow airports to generate revenues which are sufficient to finance their operating and capital expenditure requirements and provide a regulated rate of return on their Regulatory Asset Base. The CAA sets price caps on the charges Heathrow can levy on airlines for using its facilities. The caps take into account Heathrow’s forecast revenues (both aeronautical and non-aeronautical) and costs as well as allowing depreciation, recovery of capital costs and a return on capital. Details of the regulatory regime and how the CAA determines price caps are set out in “*Airport Regulation*”.

Heathrow generates two primary types of income: aeronautical income, which is generated from fees charged to airlines for use of the Airports’ facilities, and non-aeronautical income from a variety of sources. The chart below represents the total revenue of Heathrow by source for 2011.



Source: Heathrow.

***Aeronautical income***

Heathrow levies three types of airport fees and traffic charges:

***Passenger fees***

- Fees per passenger are based on the number of passengers on board an aircraft, and are levied in respect of all departing passengers. There is no charge in respect of crew members working on flights.
- Two levels of charge based on route area: European (including domestic) and rest of world. Transfer and transit passengers benefit from a discount.

### Landing charges

- Landing charges are levied for substantially all aircraft (with certain diplomatic and other flights being exempted). These are calculated in accordance with the certified maximum take-off weight of the aircraft and are banded into categories for aircraft weighing less than and those weighing more than sixteen tonnes, which includes nearly all commercial aircraft. These charges are adjusted, where applicable, in accordance with each aircraft's noise-rating, its emissions and the time of day, with landing charges at Heathrow being higher during peak traffic times than off-peak traffic times.

### Parking charges

- A new aircraft parking structure was introduced at Heathrow from 1 April 2012 which changed the structure from a time and weight based charge to two different free parking periods for narrow bodied and wide bodied aircraft, of 30 minutes and 90 minutes respectively. Thereafter a parking charge starts for each 15 minute slot which differs between narrow and wide bodied aircraft.

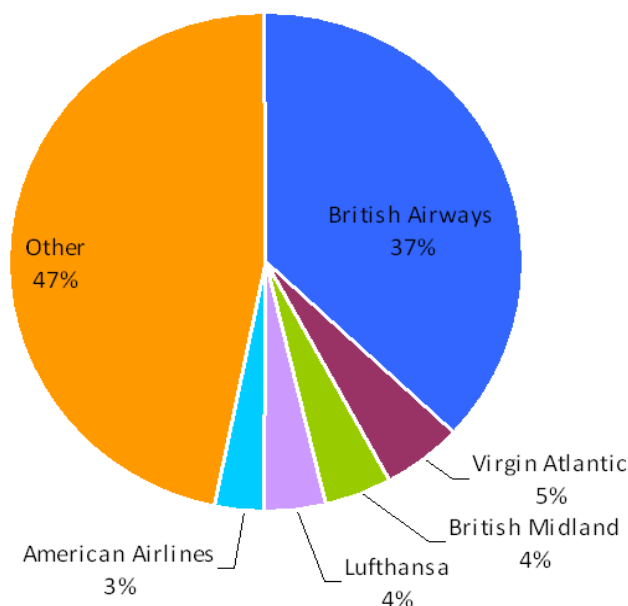
The maximum allowable yields set by the CAA apply to passenger flights only; they do not apply to non-passenger flights, for example, dedicated cargo flights. However, the price control conditions set by the CAA stipulate that the airports must charge non-passenger flights at the same rates as passenger flights. These flights incur the minimum departure charge which applies when the departing passenger charge falls below this minimum level. In the year ended 31 December 2011, there were 2,484 all-cargo air transport movements at Heathrow.

Heathrow is less reliant on its main customer and airline alliance (2011: British Airways, 43 per cent. of ATMs; oneworld, 49 per cent. of ATMs or 49 per cent. and 55 per cent. after taking into account the acquisition of bmi by International Airlines Group, British Airways' parent company (including reflecting disposal of the slots that have to be divested to other airlines)) than other European hub airports e.g. Amsterdam Schiphol (2011: Air France KLM, 53 per cent. of ATMs; SkyTeam, at least 58 per cent. of ATMs) and Frankfurt (2011: Star Alliance, 77 per cent. of passengers).

Heathrow serves a range of market segments, including:

- business and leisure travellers;
- origin and destination and transfer passengers;
- long and short haul routes; and
- full-cost carriers.

The chart below represents the total aeronautical income<sup>(1)</sup> for Heathrow by airline for 2011:



Source: Heathrow.

- (1) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.
- (2) bmi has since been sold to International Airlines Group, which owns British Airways.

### ***Non-aeronautical income***

Heathrow generates non-aeronautical income from a variety of sources. These include:

- concession fees from retail operators;
- direct income from car parks and advertising revenue;
- the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices;
- the provision of facilities such as baggage handling and passenger check-in; and
- fare revenue from the operation of the Heathrow Express rail service.

### **COMPETITION COMMISSION INVESTIGATION INTO THE UK AIRPORT MARKET AND STANSTED AIRPORT**

The Group also currently owns Stansted, the UK's fourth busiest airport in terms of total passengers which handled 18.0 million passengers in 2011. On 20 August 2012, the Heathrow Airport Holdings Group announced its decision not to appeal to the Supreme Court against the ruling of the Competition Commission of 19 July 2011 that required the Heathrow Airport Holdings Group to sell Stansted. As a result, the Heathrow Airport Holdings Group is now proceeding with the disposal of Stansted which is currently expected to be completed in early 2013. Net proceeds from the disposal will be applied in repayment of the Senior Borrower Group's debt as required by its financing agreements. The majority of the net proceeds are expected to be utilised to repay Class A debt within the Senior Borrower Group with a proportion of the Class B £225 million term loan facility also expected to be repaid.

### **THE GROUP AND ITS OWNERSHIP**

Subject to obtaining EU merger control approval for the investment by Qatar Holding LLC, the Group will be indirectly owned by investment vehicles controlled or managed by Ferrovial S.A. (33.65%), 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%) and China Investment Corporation (10.00%). The Group companies are indirect subsidiaries of LHR Airports. LHR Airports is itself a subsidiary of Heathrow Airport Holdings.

The Heathrow Airport Holdings Group currently owns and operates five airports in the United Kingdom. In addition to Heathrow and Stansted, it owns two airports in Scotland (Glasgow and Aberdeen) and Southampton Airport.

### **KEY STRENGTHS**

**Heathrow has a strong position in the South East of England, one of the world's busiest air traffic markets and a market with growing demand for air travel and limited airport capacity.**

- Airports are critical to domestic and international travel, trade and communication. London is the world's leading global financial centre and the leading worldwide centre of commerce (sources: Z/Yen 2012; MasterCard Worldwide 2008). London's position as the world's leading financial and commercial centre drives significant global business travel into and out of the region. In 2010, the United Kingdom was ranked sixth globally for international arrivals and seventh for international tourism earnings (Source: Visit Britain).
- As London's largest airport, and its only international hub, Heathrow is a critical infrastructure asset not only for the UK but for global finance and commerce.
- Aviation has demonstrated resilience as a long-term growth industry. Over the ten years to 2011, passenger traffic through Heathrow increased at a compound annual rate of 1.4 per cent. despite the effects of both the 2001 terrorist attacks in the United States and the major economic downturn in 2008 and 2009. Growth in air travel in the South East of England is expected to continue. Total traffic through the five major airports in the Greater London area was approximately 134 million passengers in 2011 (Source: Heathrow/CAA). Heathrow accounted for approximately 52 per cent. of this traffic.

- The scale of infrastructure and geographical requirements necessary to develop a competing airport provide for high barriers to entry. These barriers to entry are even more marked for hub airports such as Heathrow.

**The Group benefits from the unique scale, market position and resilience of Heathrow.**

- Heathrow is the world's busiest airport in terms of international passengers and Europe's busiest airport in terms of total passengers. Heathrow accounts for approximately 90 per cent. of the Group's turnover, Adjusted EBITDA and RAB.
- Heathrow enjoys a unique market position in the United Kingdom, being the country's only hub airport and acting as the gateway to approximately 80 per cent. of all scheduled long haul air traffic entering and leaving the United Kingdom in 2011 (Source: Heathrow/CAA). In 2011, approximately 35 per cent. of its traffic comprised transfer passengers with approximately 78 per cent. of this traffic connecting between international flights.
- Over half of Heathrow's passengers are non-UK resident and it has an even split between business, visiting friends and family and leisure traffic. Further, it has a balanced mix of European, North Atlantic and other long haul traffic. As a result, there is a greater diversity of economic and demographic factors affecting Heathrow's passenger demand compared to other UK and international airports.
- A substantial proportion of its passenger traffic relates to the fastest growing long haul segment of the global aviation industry; at 52 per cent. in 2011, this is a significantly higher proportion than other UK, European and US airports. It has also been operating close to its permitted capacity for a number of years reflecting airline demand to use the airport. These two factors provide Heathrow with substantial resilience in its passenger traffic.

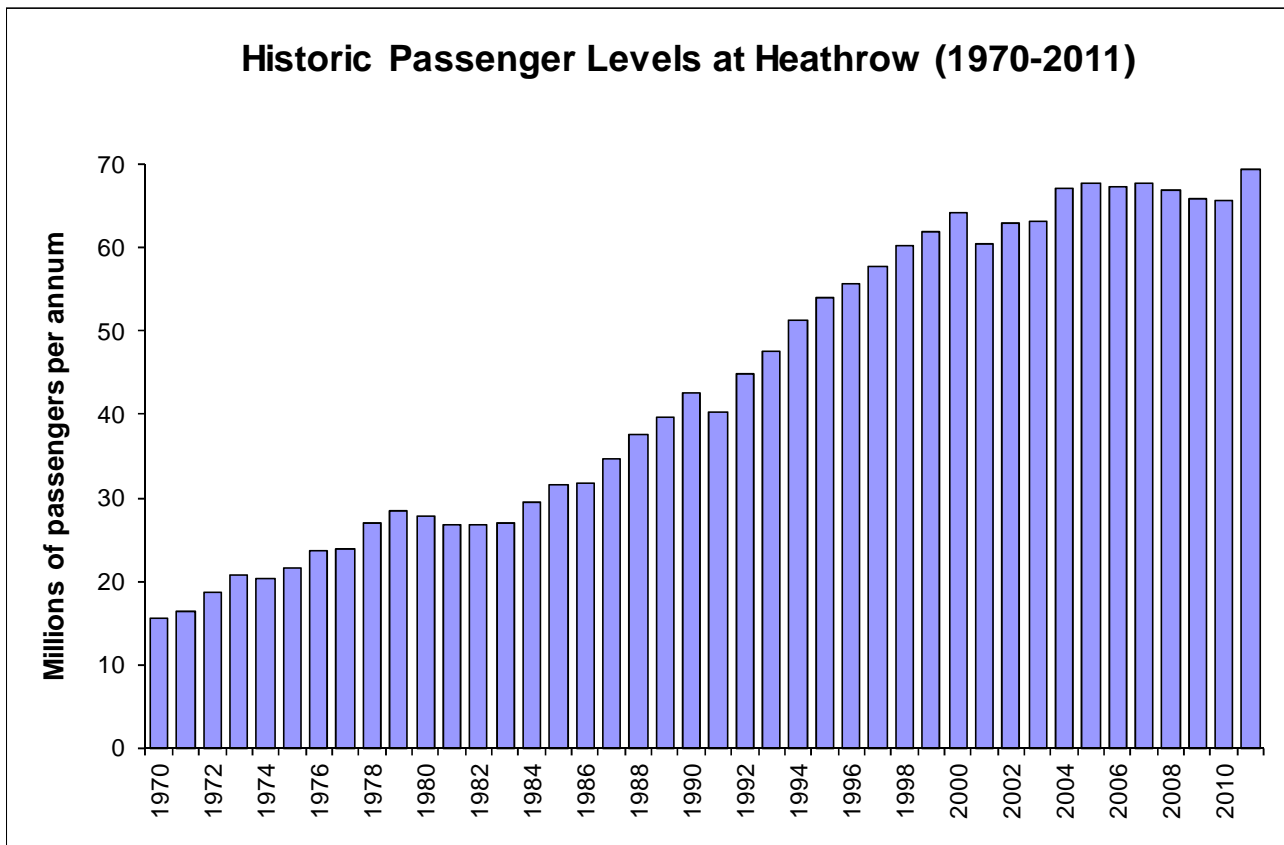
**Regulation provides cash flow visibility and mitigates market risk.**

- Heathrow is subject to price regulation by the CAA. This involves the CAA setting caps every five (or at most six) years on the amount that Heathrow can charge airlines for using their facilities. The price caps are set taking into account forecast passenger traffic, operating costs and other revenues for Heathrow as well as allowing recovery of capital costs and a return on capital. In making its determination, the CAA takes into account the actual historic experience of Heathrow which materially mitigates the market risk faced by Heathrow. This price setting mechanism provides significant income predictability and cash flow visibility within each regulatory period as well as protection against longer term cost and revenue risks.

**Proven resilience to shocks and economic downturns.**

- Heathrow has been resilient to economic downturns and other changes in the air travel market seen in recent years such as wars, acts of terrorism and the threat of pandemic illnesses. In recent years, demand for air travel in the United Kingdom has tended to return relatively quickly to historic levels following external shocks. The graph below shows that demand shocks in the United Kingdom, such as those caused by the terrorist attacks of 11 September 2001, oil crises and the first Gulf war, have been followed by periods of renewed growth bringing passenger numbers back to the pre-shock trend.

## Historic Passenger Levels at Heathrow (1970-2011)



Source: Heathrow.

### **Heathrow benefits from diversified income sources and serve a variety of market segments.**

Heathrow earns income from a variety of sources, including charges to airlines, concession fees from retail operators, income from car parks, advertising revenue, the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices, the provision of facilities such as baggage handling and passenger check-in and revenues from Heathrow Express.

Heathrow serves a diversified range of major airlines, including British Airways and Virgin Atlantic Airways. Heathrow is less reliant on its main customer and airline alliance than other European hub airports.

Heathrow serves a range of market segments, including business and leisure travellers, origin and destination and transfer passengers and long and short haul routes.

### **STRATEGY**

Heathrow's strategy is focused on developing its position as the UK's direct connection to the world and Europe's hub airport of choice.

To support and develop Heathrow's role as a hub, the Group will continue enabling the success of the major network airlines operating at Heathrow by investing in further capacity, operational flexibility and resilience at sustainable charges for airline customers.

Heathrow offers a compelling, competitive range of routes and frequencies for the large London origin and destination aviation market. For both local and transfer passengers, Heathrow is working continuously to make every journey better through improved service standards to ensure it remains passengers' preferred airport. Improving the passenger experience is supported by ongoing investment in modern airport facilities and operating processes.

### **THE ROLE OF THE AIRPORT OPERATOR**

Heathrow co-ordinates the activities of the numerous organisations involved in the provision of airport services to passengers, airlines and other airport users which include:

- providing passengers, airlines and other service providers with the infrastructure and facilities (such as check-in desks, concourses, gate rooms, baggage handling facilities and office facilities) needed to optimise operations and maximise passenger and flight traffic within existing capacity constraints;
- implementing, under government supervision, air transport security measures, including passenger and baggage inspections. The UK Government has the power to give any airport operator “such directions of a general character as appear to the Secretary of State to be necessary or expedient in the interests of national security or of relations with a country or territory outside the UK”;
- developing commercial areas (such as shops, restaurants and car parks) and determining the optimal mix and location of retail services;
- maintaining and developing airport infrastructure to meet evolving airline and passenger demands;
- ensuring that Heathrow is served by appropriate and adequate ground transport services;
- maximising capacity at Heathrow and setting airport capacity constraints in consultation with National Air Traffic Services Limited (“NATS”), the airlines and Airport Co-ordination Limited (“ACL”), an organisation owned and managed by several major UK airlines, which allocates take-off and landing slots; and
- assigning airlines to terminals in consultation with the airlines, ACL and NATS.

## **HEATHROW’S INFRASTRUCTURE, FACILITIES AND ACCESS**

### *Overview*

Heathrow commenced operations as London’s principal commercial airport in 1946. Heathrow’s first permanent terminal opened in 1955 and the substantial growth in demand for air transport throughout the 1960s and 1970s saw much of the core infrastructure at Heathrow’s Central Terminal Area developed, including the opening of what is now Terminal 3 in 1961 and Terminal 1 in 1968 and the construction of car parks, public transport and other operational and administration facilities. Terminal 4 was added in 1986.

The new Terminal 5 has provided additional terminal passenger capacity for up to 30 million passengers per year and has enabled Heathrow to begin rebuilding and renovating its other terminals.

The first key phase in transforming Heathrow’s existing terminals is the construction of a new Terminal 2. The original Terminal 2 was closed in late 2009 with demolition of the old terminal infrastructure enabling construction of the new terminal to commence in mid-2010. The project involves a number of key components including:

- the main terminal building;
- extension of an existing satellite building already in use as part of Terminal 1;
- substantial underground works including to connect the satellite to the main terminal; and
- a new multi-storey car park connected to the main terminal building.

Good progress has been made to date on the various parts of the project. The main terminal building was made weather-tight in February 2012 and fit out of the terminal’s systems and interior is in progress and is currently approximately 30 per cent. complete. The second phase of the satellite Terminal 2B was made weather-tight during the third quarter of 2012 and fit-out activities are under way. Excavation of the extensive basement and tunnel structures to house the tracked transit train and baggage systems, that will connect the satellite to the main building once the main terminal’s second phase is constructed, was completed in March 2012. Construction of Terminal 2’s multi-storey car park is in progress with the main access ramp leading up to the car park’s upper level being well on the way to completion, forming the connection between the new car park and the existing road network.

The new Terminal 2 will have an initial capacity of up to 20 million passengers per year when it becomes operational in 2014. The new terminal may be extended beyond the first phase currently under construction including to occupy the current footprint of Terminal 1, necessitating the closure of this terminal and increasing the terminal’s capacity to up to 30 million passengers per year.

These projects are expected to expand Heathrow's terminal capacity to approximately 90 million passengers per year. Without additional runway capacity, these levels of passenger throughput are dependent on increasing the average number of passengers carried on each aircraft through a combination of use of larger aircraft and higher load factors.

In parallel with the work on Heathrow's terminals, extensive investment is also being made in the airport's baggage systems in order to strengthen Heathrow's competitiveness as a hub by improving baggage connectivity between terminals and reduce airline operating costs. Recent and current baggage projects (excluding that related to Terminal 2) include an underground automated baggage system for passengers transferring between Terminals 3 and 5 and a new integrated baggage system for Terminal 3.

#### *Runways*

Heathrow's two parallel runways generally operate in "segregated mode", with arriving aircraft allocated to one runway and departing aircraft to the other. To mitigate noise impact to residents living below the approach and departure routes, the allocation of runways to arriving and departing aircraft is normally swapped at around 3:00 p.m. each day or as weather conditions necessitate.

Heathrow is permitted to schedule up to 480,000 air transport movements per year and in 2011 its runways operated at over 99 per cent. of their permitted capacity.

#### *Retail Facilities*

Heathrow has a total of approximately 53,000 square metres of retail space served by over 120 retail clients operating almost 500 retail outlets. Terminal 5, with over 24,000 square metres of retail space, has significantly increased the Airport's overall retail portfolio. Heathrow owns over 20,000 public car park spaces that are available to travellers and the general public. All terminals at Heathrow are served by car rental operators. Heathrow's terminals and their approaches provide advertising space, which yields further income.

#### *Access to Heathrow*

Heathrow's extensive ground transport links facilitate access to the airport for passengers, cargo transporters and airport personnel:

- Heathrow is located just off the M4 motorway to London and the west of England and London's orbital motorway, the M25.
- Heathrow Express offers a frequent non-stop rail service to and from London Paddington Station. This service is supplemented by the Heathrow Connect "stopping service", which provides connections with train services on the UK's western main line as well as local access to the airport.
- Additional direct rail connections to Heathrow are expected in the future following the completion of the cross London rail service Crossrail. In addition, the UK Government has confirmed its support for a western rail link to Heathrow from the western main line forecast for completion in 2021 and the proposed high speed rail link between London and Birmingham together with direct connection to Heathrow that is currently scheduled to be developed in the second phase of the project that is forecast to become operational by 2033.
- The London Underground Piccadilly Line has stations serving each of the terminals at Heathrow.
- Long distance coach services operated by National Express provide fast services from Heathrow to various parts of the United Kingdom, including Victoria Coach Station in Central London. Many of the local bus services in the nearby London suburbs also run to Heathrow.

#### *Future investment at Heathrow*

Heathrow is implementing a £5.6 billion investment programme (in projected outturn cost) over the six years to 31 March 2014. It is expected that by 2014 around 70 per cent. of passengers will be using new or recently constructed terminals and the remaining 30 per cent. of passengers will be using extensively refurbished terminals. The investment programme will also facilitate the co-location of members of each of the three main global airline alliances and will include developing the largest integrated baggage handling system in the world.

The major steps in Heathrow's investment programme through to 2014 currently include:

- completing the construction of phase one of the new Terminal 2 during 2013, enabling it to become operational in 2014;
- re-locating airlines into the new Terminal 2;
- developing baggage systems and improved connectivity within and between the Airport's terminals;
- refurbishing parts of Terminals 3 and 4 to improve the passenger experience; and
- work to improve Heathrow's winter resilience.

The investment programme is regularly reviewed by Heathrow and airline stakeholders to ensure alignment with business and operational priorities. This process can lead to changes in the timing of delivery of specific elements in the programme. However, such changes are not expected to give rise to material variance in the total level of capital expenditure over the six years to 31 March 2014.

Over the four years to 31 March 2012, Heathrow has invested approximately £3.3 billion (in outturn cost) in its capital programme with an additional £2.3 billion forecast to be invested in the two years to 31 March 2014.

An initial business plan prepared as part of the work in relation to the next regulatory period, Q6, commencing in April 2014 assumes capital spend over the period of approximately £3 billion (in 2011/12 prices). Specific developments are expected to include opening of Terminal 2, completion of the Terminal 3 integrated baggage system, the planning of the next phase of the Terminal 2 development, improving the efficiency of immigration processing and transfer passenger security procedures and installing the latest baggage screening technology.

## TRAFFIC

### *Historic Growth in Heathrow's Passenger Traffic at the Airports*

Heathrow has seen passenger traffic grow over the last 10 years. Historic trends in passenger traffic and air transport movements between 2001 and 2011 are set out below.

#### Number of Passengers and Air Transport Movements, Heathrow

	<i>Year ended 31 December</i>			
	<i>Number of Passengers</i> <i>(millions)</i>	<i>Percentage Growth on Previous Year<sup>(1)</sup></i> <i>(%)</i>	<i>Number of Air Transport Movements</i> <i>(thousands)</i>	<i>Percentage Growth on Previous Year</i> <i>(1)</i> <i>(%)</i>
2001 .....	60.4	—	457.6	—
2002 .....	63.0	4.3	460.3	0.6
2003 .....	63.2	0.3	457.0	(0.7)
2004 .....	67.1	6.2	469.8	2.8
2005 .....	67.7	0.9	472.0	0.5
2006 .....	67.3	(0.5)	470.8	(0.3)
2007 .....	67.9	0.8	475.7	1.0
2008 .....	66.9	(1.4)	473.1	(0.5)
2009 .....	65.9	(1.5)	460.0	(2.8)
2010 .....	65.7	(0.2)	449.2	(2.3)
2011 .....	69.4	5.5	476.2	6.0
<b>Compound Annual Growth Rate, 2001-2011 .....</b>		<b>1.4</b>		<b>0.4</b>

Source: Heathrow.

(1) Percentage growth on previous year is based on unrounded passenger and air transport movement numbers.

Over the ten years from 2001 to 2011, passenger traffic at Heathrow increased at an annual compound rate of 1.4 per cent. A significant part of this growth occurred in 2002 and 2004. The growth in 2002 reflected a partial recovery in passenger traffic towards pre-2001 levels following the terrorist attacks on the United States in 2001. The further significant increase in passenger traffic in 2004 reflected a combination of a more sustained recovery in transatlantic traffic following the 2001 terrorist attacks as well as a return to growth in Far East traffic following the SARS outbreak in 2003. Between 2004 and 2007 traffic only increased marginally. In 2008 and 2009, there were modest declines in traffic as a result of the global financial crisis. In 2010, whilst reported traffic declined a further 0.2 per cent. due to



disruption from a number of exceptional events, underlying traffic returned to growth. Partly driven by the 2010 disruptions, there was a strong recovery in traffic in 2011 with an all-time record in traffic for a calendar year of 69.4 million passengers. This growth has continued into 2012 with annual rolling traffic exceeding 70 million passengers for the first time in March 2012 and monthly traffic records for each of January, April, June and September.

From 2004 onwards, but excluding reductions in 2009 and 2010 related to the global financial crisis and disruptions referred to above, the airport has been operating close to its limit of 480,000 air transport movements per year. In 2011, Heathrow operated at 99.2 per cent. of this limit. As a result, overall passenger growth at the airport is increasingly dependent on factors such as increased passenger numbers per aircraft, including through higher load factors and the introduction of larger aircraft, and one off factors such as the recent acquisition of bmi by International Airlines Group (parent company of British Airways). This development may provide opportunities to increase passenger numbers given that, for example in 2011, bmi accounted for 8.0 per cent. of Heathrow's total air transport movements but only 4.4 per cent. of passengers.

Over the last ten years there has also been a significant shift in traffic mix with substantial growth in emerging market long haul routes such as the Far East, Middle East and India. Long haul traffic to destinations other than North Atlantic has increased from 23 per cent. of Heathrow's total traffic in 2001 to close to 30 per cent. in 2011, equivalent to nearly seven million additional passengers per annum. North Atlantic traffic has also grown over the period from 19 per cent. of total traffic to 23 per cent. In contrast, domestic traffic has declined from 11 per cent. of total traffic in 2001 to 7 per cent. in 2011. European traffic was virtually identical in terms of absolute passenger numbers at the beginning and end of this period although its share of Heathrow's total traffic declined from 47 per cent. of total traffic in 2001 to 41 per cent. in 2011.

This shift in mix has been driven by a number of factors including the strong economic development of emerging markets. North Atlantic traffic growth has been driven by three distinct factors since 2001, namely recovery from the terrorist attacks on the United States in 2001, the first phase of Open Skies becoming effective from March 2008 and the success of joint transatlantic services launched by British Airways and American Airlines from March 2011. The relative underperformance of domestic and European traffic has reflected increased use of alternative transport on domestic routes as well as other short haul routes such as Paris and Brussels (such as Eurostar train services); and airlines rotating their scarce slots to the more lucrative long haul market. Since 2008, Heathrow's passenger traffic has been affected by the aviation industry's need to adjust to high fuel prices and by the impact of the difficult global economic environment. Nevertheless, Heathrow has remained resilient with passenger traffic declining only 1.4 per cent. to 66.9 million in 2008 and 1.5 per cent. to 65.9 million in 2009 with a cumulative reduction in rolling annual traffic from peak to trough in this period of 3.4 per cent. This was amongst the most resilient performances of major airports in Europe and North America, thought to be influenced by two factors discussed above namely operating at full capacity, which implies a certain level of unfulfilled demand, and Heathrow's high exposure to long haul traffic, the faster growing segment of the global aviation market.

In 2010, Heathrow's passenger traffic was impacted by a number of exceptional events including closure of UK and European airspace primarily in April due to ash from an Icelandic volcano, industrial action affecting British Airways' operations between March and June and severe winter weather in December. These factors are estimated to have resulted in the loss of up to 2.4 million passengers. As a result, whilst Heathrow's reported traffic declined 0.2 per cent. to 65.7 million in 2010, adjusting for the disruptions, and whilst recognising that some passengers whose journeys were interrupted by the disruptions would have completed their journeys later in the year underlying traffic is estimated to have increased by up to 3.4 per cent. This continued a recovery in traffic from the global economic crisis that commenced in the second half of 2009 and has continued since 2010 through to the second quarter of 2012.

Passenger numbers at Heathrow in July and August 2012 were more than 400,000 lower than the corresponding period of 2011 reflecting a temporary lower propensity to travel during the London 2012 Olympic and Paralympic Games. Traffic trends have normalised since September. However, reflecting performance in July and August, passenger numbers at Heathrow for the 2012 full year are now expected to be closer to 70 million than the 71 million expected earlier in the year.

## CUSTOMERS

The following table provides details of the main airline customers at Heathrow in the 12 months ended 31 December 2011:

### Main Airline Customers for Heathrow

	<i>Year ended 31 December 2011</i>			<i>Percentage of airport's aeronautical income<sup>(1)</sup></i>
	<i>Passengers (millions)</i>	<i>Air transport movements (thousands)</i>	<i>Aeronautical income<sup>(1)</sup> (£ millions)</i>	
British Airways.....	28.9	204.3	428.9	38.8%
Virgin Atlantic Airways .....	3.5	14.5	63.0	5.7%
bmi.....	3.0	38.7	47.4	4.3%

Source: Heathrow.

(1) Excludes other charges, related primarily to the provision of fixed electrical ground power and pre-conditioned air to aircraft.

The largest airline customer at Heathrow is British Airways, which has its global hub there. British Airways is a full-service airline operating a wide range of domestic, European and international long haul services. British Airways together with its sister airline Iberia (both owned by International Airlines Group (“IAG”)), are currently the sole airline occupants at Terminal 5. Heathrow has an agreed joint framework with British Airways for future cooperation.

Virgin Atlantic Airways operates multi-class flights to long haul destinations from Heathrow’s Terminal 3. bmi has recently been acquired by IAG and is in the process of being integrated with British Airways’ operations.

### Air service agreements

The allocation of airlines between Heathrow, Stansted and Gatwick airports is subject to agreements between the UK Government, the European Union and other countries. In April 2007, the European Community, its Member States and the United States signed the first stage of the Open Skies Agreement, which came into effect on 30 March 2008 and liberalised air services between the EU and the United States providing access to Heathrow for a greater number of airlines.

For more information on air service agreements, see “*Risk Factors—Regulatory Risks—The Group could face other regulatory and public policy changes*”.

## OTHER OPERATIONS

### Cargo and Mail Carriers

Heathrow handles cargo and mail traffic although this forms a small part of air transport movements. The bulk of cargo and mail at Heathrow is carried in the cargo holds of passenger flights rather than by dedicated cargo flights. In the year ended 31 December 2011, there were 2,484 all-cargo air transport movements at Heathrow.

Cargo and mail carriers are responsible for handling merchandise and packages at Heathrow, including delivery to cargo warehouses, customs procedures and clearance, aircraft loading and unloading, sorting and transport to the final destination.

Heathrow provides cargo sheds and other accommodation and facilities which are leased, or separately billed on a use basis, to cargo-service providers.

## ROLE OF GOVERNMENT SERVICES AND AGENCIES IN AIRPORT OPERATIONS

The UK Government is responsible for a number of essential services at Heathrow, which it discharges through governmental and non-governmental agencies, notably:

- Security operations: The UK Government is responsible for setting aviation security regulations, issues directions to airport operators, airlines and cargo operators and monitors compliance with these directions through a programme of regular inspections and audits;

- Public order and policing services: Policing operations at Heathrow is the responsibility of the Metropolitan Police Authority which Heathrow pays for the provision of these services. These public safety services should be distinguished from security operations, which are designed to prevent illicit acts that risk endangering the security of aircraft and passengers; and
- Border controls: The UK Home Office's Border Force is responsible for the control of persons and goods.

Air traffic control, including aerodrome navigation services, are provided by NATS, a privately held entity which is responsible for the arrival and departure of aircraft to and from the aircraft parking areas at Heathrow. NATS also works closely with Heathrow and airlines in determining the declaration of scheduling capacity.

## **SUPPLIERS**

Heathrow works with numerous external suppliers for the delivery of services relating to the day-to-day operation of the Airports, as well as for the construction of capital projects.

### **Utilities**

The electrical power distribution infrastructure at Heathrow is owned, managed, maintained and developed by UK Power Networks Services Limited under a contract that expires in 2083. Heathrow has arrangements in place with E.ON and Gaz de France for the supply of electricity and gas, with Three Valleys Water for the supply of water and with Thames Water for sewerage and trade effluent services.

### **IT**

IT services for Heathrow have been outsourced to be managed by Capgemini UK plc under a five year contract that commenced in 2011.

### **Other services**

There are a large number of services required for the operation of Heathrow which are arranged on a separate basis with external suppliers, including security screening, baggage and ground handling, terminal cleaning and passenger transportation services.

## **COMPETITION**

Heathrow competes for transfer traffic with the other major European hub airports such as Paris Charles de Gaulle, Amsterdam Schiphol, Frankfurt and Madrid Barajas. In the future, Heathrow could experience increasing competition for transfer traffic from hub airports in the Middle East, such as the current and planned future airports in Dubai.

To a more limited extent, Heathrow, faces competition from London Gatwick Airport, Stansted, London Luton Airport and London City Airport in the air travel market in the South East of England and other forms of travel (including the Eurostar high-speed train service connecting London with Paris and Brussels).

## **UK AIRPORT CAPACITY**

The South East of England is one of the busiest air travel catchment areas in the world, with Heathrow being the world's busiest two runway airport in terms of passenger traffic. Heathrow is capacity constrained, illustrated by the fact that in 2011 99.2 per cent. of the maximum permitted flight arrivals and departures were operated (480,000 air transport movements).

The capacity shortage has arisen principally due to a lack of consistent sustained government support for capacity expansion. For example the current UK Government explicitly ruled out the construction of any additional runway capacity in the London area in its coalition agreement when it assumed office in May 2010.

Whilst there has been some free capacity at Stansted for many years, this has not been seen as a substitute for operating from Heathrow for network airlines given the importance of the transfer traffic dynamic of a hub airport such as Heathrow in supporting these airlines' business models. As a result, there are very limited examples of network airlines choosing to operate from Stansted rather than Heathrow.

Reflecting increasing concern around how to maintain the UK's status as an international hub for aviation, the government has recently established the Airports Commission, chaired by Sir Howard Davies. The Commission has been tasked with assessing the options for meeting the UK's international connectivity needs and recommending the

optimum approach for meeting these needs and for ensuring any need is met as expeditiously as practicable. The Commission is expected to produce an interim report by the end of 2013 which will set out its assessment of the evidence on the nature, scale and timing of the steps needed to maintain the UK's global hub status; and its recommendation(s) for immediate action(s) to improve the use of existing runway capacity in the next five years – consistent with credible long term options. A final report is expected by the summer of 2015 which will set out its assessment of the options for meeting the UK's international connectivity needs, including their economic, social and environmental impact; its recommendation(s) for the optimum approach to meeting any need; and its recommendation(s) for ensuring that the need is met as expeditiously as practicable within the required timescale. However, the lead times to implement any recommendations in terms of new runways are expected to be significant even if immediate political consensus in support of the recommendations is achieved.

## **ENVIRONMENTAL REGULATION**

A wide variety of EU and UK environmental policies and regulations affect Heathrow, focusing in particular on energy use; noise; air quality; soil and water pollution arising from airport operations; surface water drainage and flooding; waste handling, management and disposal.

The main framework for noise management at Heathrow is provided by the European Environmental Noise Directive action planning process. This includes, for example: pricing regimes that penalise noisier aircraft; airfield operation protocols relating to engine noise; the provision of fixed electrical ground power and pre-conditioned air; investments in systems to monitor and track noise levels of aircraft and local noise insulation schemes. The UK Government also has direct responsibility for regulating aircraft noise at Heathrow including restrictions on night flights. The existing night flights regime is expected to operate until October 2014. The process for replacing the existing regime is expected to involve an initial consultation in 2012 addressing the effectiveness of the current regime and airlines' fleet replacement plans and a further consultation in 2013 to develop specific proposals for the new regime taking into account expected developments in aviation policy.

The local authority for Heathrow also imposes noise controls as part of the planning system, including annual air transport movement limits and noise contour area limits. They also implement policies for the development of dwellings in areas exposed to transportation noise or poor air quality as set out in the UK Government's Planning Policy Guidance Notes.

The UK Government's Air Quality Strategy implements the requirements of European legislation for air quality and provides a framework to identify air quality improvement measures and sets out a coordinated approach to achieve them. The local authority for Heathrow has declared an "air quality management area" to manage nitrogen dioxide levels in the vicinity of the airport.

Heathrow is also subject to regulation of energy and related CO<sub>2</sub> emissions. Under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme from 2011 Heathrow is required to pay a fee to the UK Government for each tonne of carbon dioxide emitted from fixed asset energy use. Additionally Heathrow is subject to the EU Emissions Trading System (EU ETS) due to the size of power, heat and hot water generating combustion plant on site. The EU ETS requires allowances for emissions from fossil fuel consumption on site to be surrendered on an annual basis. The next phase of the scheme starts in 2013 and, in line with the overall goal of reducing emissions, will result in reduced emissions allowances being available, with an increasing requirement over the phase to purchase EU emissions allowances by auction.

Heathrow has adopted a strategy to reduce emissions from energy use in airport buildings by 34 per cent. by 2020 from 1990 levels. Heathrow also has strategies in respect of water and land quality, waste and biodiversity.

See "*Risk Factors – Regulatory Risks – The Group faces costs related to environmental, health and safety and planning considerations*".

## **RELATED PARTY TRANSACTIONS**

Heathrow has entered and may from time to time in the future enter into transactions with certain affiliates of Heathrow Airport Holdings and its shareholders, including Ferrovial, S.A. and its affiliates. All such contracts are and will be negotiated on an arm's-length basis and, where applicable, are subject to the requirements of EU legislation.

## **SHARED SERVICES**

Pursuant to a Shared Services Agreement, LHR Airports provides or procures third parties to provide central support services to the Group to assist with the running and management of Heathrow.

### ***Services provided by LHR Airports***

The services provided by LHR Airports include IT, health and safety, security, research, airport planning and marketing, finance, human resources, property management, regulatory services, corporate and public affairs and legal support. LHR Airports has sub-contracted certain of the cash management and accounting services to LHR Business Support Centre Limited.

All of the staff working for Heathrow are employed and provided by LHR Airports, although Heathrow Express employs its staff directly with the exception of a small number of senior management who are employed by LHR Airports.

The terms on which services and staff are provided to the Group are set out in the Shared Services Agreement. There is a similar agreement between LHR Airports and the other airports in the Heathrow Airport Holdings Group.

### ***Fees payable to LHR Airports***

Heathrow pays a fee to LHR Airports which comprises:

- (a) the cost to LHR Airports of providing the services; and
- (b) in respect of centralised airport services, administrative and business support services and corporate services, a margin of 7.5 per cent.

The majority of costs for employees provided under the Shared Services Agreement are included in the charges for airport services and capital project services, to which the margin does not apply. The margin payable to LHR Airports in relation to services to the Group (including Stansted) was £9.4 million in the 12 months ended 31 December 2011.

### ***Termination of Shared Services Agreement***

Subject to the prior written consent of the Borrower Security Trustee, the Operating Companies have the right to terminate the Shared Services Agreement in the case of a breach by LHR Airports with a material adverse effect not remedied within 30 days, certain insolvency related events in relation to LHR Airports or if it becomes illegal for either LHR Airports or the Obligors to perform their obligations under the Shared Services Agreement.

LHR Airports may terminate the Shared Services Agreement only where:

- (a) another suitable and properly resourced member of the Heathrow Airport Holdings Group (excluding any members of the Group) is appointed to act as replacement Shared Services Provider on substantially the same terms;
- (b) a replacement Shared Services Provider is appointed with the consent of and approved by the Borrower Security Trustee and, unless otherwise agreed as an Extraordinary Voting Matter, a Ratings Confirmation is provided; or
- (c) the Operating Companies fail to pay any amounts of £50,000 or more to LHR Airports under the Shared Services Agreement, subject to a 30 Business Day grace period.

The Shared Services Agreement will terminate in respect of an Operating Company which ceases to be controlled by LHR Airports. Unless otherwise agreed, termination will take effect 6 months from the date that the Operating Company ceases to be controlled by LHR Airports.

LHR Airports is entitled to pass pensions costs on to the Group. These relate principally to LHR Airports' obligation to fund the Heathrow Airport Holdings Group defined benefit pension scheme and are calculated on a basis linked to pensionable payroll in respect of those employees that LHR Airports makes available to the Operating Companies under the agreement. In certain circumstances, the obligation of the Operating Companies to meet pension costs will survive termination of the agreement.

In the event of termination of the Shared Services Agreement, LHR Airports is required to use its reasonable endeavours to facilitate the transfer of the terminated services to the Operating Companies (or to any replacement service provider appointed by the Operating Companies) with a view to ensuring an orderly and efficient transfer with minimal disruption to the ongoing business of the Operating Companies. The employment of relevant airport level staff is expected to pass to the relevant Operating Company or to a replacement service provider.

## INSURANCE

LHR Airports provides insurance and claims handling services to the Operating Companies. LHR Airports arranges both annual and multi-year insurance programmes on a group-wide basis for the Heathrow Airport Holdings Group. Heathrow Express has separate public liability insurance cover and the Airport Operators, through LHR Airports, have separate policies to protect against specific risks. The Heathrow Airport Holdings Group insurance programmes, which are required under the CTA, include the following insurance cover:

- ***property damage and business interruption insurance*** which covers all risks (including terrorism) of sudden accidental direct physical loss or destruction of, or damage to, insured property and resultant loss of revenue and/or increased costs of maintaining normal business activities. There is also a separate policy covering specified tenanted properties, which provides cover on the basis of individual property sums insured;
- ***general liability insurance***, including aviation liability, aviation war/terrorism, public/product liability; public liability with respect to the Heathrow Express rail service; and construction third-party liability;
- ***construction all-risks insurance*** (including terrorism), which is provided up to the full value of all projects commenced during the remainder of Q5 (+1);
- ***third-party financial loss and professional indemnity insurance***; and
- ***employers' liability insurance***.

Insurance cover for the Group is provided by a combination of insurance market entities and captive insurance companies owned by or affiliated with LHR Airports or its ultimate shareholders.

The financing agreements (within the CTA) require Heathrow Airport Holdings to effect and maintain insurance policies in relation to liabilities, undertakings and assets in accordance with good industry insurance practice. Details of these insurance policies are provided annually to an insurance adviser acting on behalf of certain secured creditors. Some insurance cover for the Group is provided by Heathrow Airport Holdings own captive insurance company, LHR Insurance Services Ltd (the "**Captive**"). The Captive enables the Heathrow Airport Holdings Group to access reinsurance markets (including Pool Re for property terrorism risks), to leverage the Heathrow Airport Holdings Group's combined position on the conventional insurance market and to offer funding options for the Group's self-insured retention. The Captive underwrites some group-wide risks and also funds some of the Heathrow Airport Holdings Group's self-insured retention.

For more information on insurance, see "*Risk Factors – Commercial Risks – The Group's insurance coverage might not be adequate or available in all circumstances*".

## PENSIONS

The Heathrow Airport Holdings Group operates a number of pension schemes for its employees. The main schemes, which are operated by LHR Airports, the employing company within the Heathrow Airport Holdings Group and sponsor of the related pension schemes, comprise a defined benefit pension scheme (that closed to employees joining LHR Airports after 15 June 2008) (the "**Pension Scheme**") and a defined contribution pension scheme (that employees joining LHR Airports since 16 June 2008 are eligible to join). There is also a separate defined contribution pension scheme for Heathrow Express employees.

Under the terms of the Shared Services Agreement, the Borrowers make monthly cash payments into the Pension Scheme determined by reference to the pensionable salaries of employees engaged in the operation of the relevant Airport and such that the total payments made into the scheme are consistent with the latest agreement made with the trustees of the Pension Scheme. Employer contributions into the defined contribution pension scheme are determined simply as a percentage of pensionable salary. Under the terms of the Shared Services Agreement, the Borrowers are also liable to fund their share of any deficit in the Pension Scheme, if requested by LHR Airports. The Pension Scheme also has a right to receive up to approximately £289 million out of the proceeds of an enforcement of the security granted by the Senior Borrower Group, to rank *pari passu* with the Class A bonds.

The Pension Scheme is administered by a board of trustees comprising three employee representatives, one pensioner representative and four LHR Airports nominated trustees. In addition, the Law Debenture Trust Company provides an independent trustee. As at 30 September 2012, the Pension Scheme had 6,585 current members, 8,355 pensioners (including pensions paid to surviving partners and dependents) and 4,875 deferred pensioners.

In relation to the Pension Scheme, the most recent triennial valuation was undertaken by the Heathrow Airport Holdings Group Pension Trustee as at 30 September 2010 and indicated a scheme deficit at that date of £275 million calculated using the trustees' actuarial assumptions. As part of the triennial valuation process, agreement was reached between LHR Airports and the Heathrow Airport Holdings Group Pension Trustee that the level of employer contribution commencing 1 January 2012 would be £97 million per year. This compares with a total contribution of £80 million per year paid from 2009 to 2011. The annual employer contribution includes £24 million which is aimed to eliminate the Pension Scheme's deficit by 31 December 2020. All but approximately £15 million of the new annual amount is expected to be met by the Airports. LHR Airports also agreed to continue funding any pension costs associated with redundancies on a pay-as-you-go basis. In addition, the cost to the Group of contributions to the LHR Airports and Heathrow Express defined contribution pension schemes in 2011 was approximately £2.2 million.

In any sale of a Group company, a payment can be made to the Pension Scheme in an amount not exceeding the amount specified in the Shared Services Agreement in order to bring an end to the relevant company's pension funding obligations.

For additional information, see "*Risk Factors – Commercial Risks – The Operating Companies could be subject to periodic increase in pension costs in the future*".

## AIRPORT REGULATION

### AIRPORT REGULATION GENERALLY

#### *Regulatory Framework*

The Airports Act 1986 (the “**Airports Act**”) sets out the regulatory framework for airports in the UK. The CAA, as the economic regulator for UK airports, is required to set price controls for the airport charges levied by price regulated (“designated”) airports. Whether or not an airport is designated is a matter for the UK Government. Heathrow is a designated airport.

Legislation (the “**Civil Aviation Bill**”) to introduce changes to the framework for the economic regulation of UK airports has been introduced to Parliament. This is described further in “ – *Potential Future Changes to the Regulatory Framework*” below.

The CAA sets the maximum level of airport charges for five year periods, known as quinquennia. The CAA has the right to extend quinquennia for up to one year and has done so for Heathrow (extending the current quinquennium, Q5, to 2014 to allow the regulatory review for the next quinquennium, Q6, to take place after implementation of the Civil Aviation Bill – see “ – *Potential Future Changes to the Regulatory Framework*” below).

As with other UK regulated utilities, Heathrow’s price cap has been set on an RPI +/- X per cent. basis based on an allowed return on the RAB. Changes in costs and revenues and changes in assumed traffic volumes are addressed going forward when tariffs are re-set for the following regulatory period. However, there is not a retrospective adjustment for shortfalls in lost income or additional costs (except where airports incur additional security costs, above an established threshold, when implementing new security directives imposed by the EU or the UK Government).

#### *The CAA and its Statutory Powers and Objectives*

The CAA is the independent aviation regulator in the UK, with responsibility for economic regulation, airspace policy, safety regulation and consumer protection. The CAA currently has a statutory duty to perform its functions in setting price controls in a manner which it considers is best calculated to:

- further the reasonable interests of users of airports within the UK;
- promote the efficient, economic and profitable operation of such airports;
- encourage investment in new facilities at airports in time to satisfy anticipated demands by the users of such airports; and
- impose the minimum restrictions that are consistent with the performance by the CAA of its functions.

The Airports Act does not provide guidance on how the CAA should weigh its various statutory duties. The CAA has stated that where two or more of its statutory duties pull in different directions it will base its decisions on its overall assessment of how the combination of regulatory policy decisions are together best calculated to meet its statutory duties taken as a whole. The CAA’s statutory duties are subject to change as set out below.

In carrying out its statutory functions, the CAA also has to take account of the UK’s international obligations. Amongst other things, these provide that airport charges for non-national aircraft are not higher than those paid by national aircraft engaged in similar operations.

The International Civil Aviation Organisation publishes guidance on charges for airport services. It considers that where an airport is provided for international use, the users shall ultimately bear their full and fair share of the cost of providing the airport including a reasonable rate of return on assets. It also provides guidance on charging systems suggesting, among other things, that charges should be simple and non-discriminatory and that increases should be introduced on a gradual basis where possible.

#### *Future Changes to the Regulatory Framework*

The Civil Aviation Bill is being brought forward following the UK Government’s decision announced in December 2009 which followed extensive consultation with the industry regarding changes to the economic regulation of UK airports. The legislation may be subject to change prior to its implementation.



The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition. There will also be supplementary duties for the CAA to:

- have regard for airport operators' legal obligations to comply with applicable environmental and planning law;
- secure, so far as it is economical to meet them, that all reasonable demands for airport services are met efficiently;
- ensure that licence holders are able to finance the activities which are subject to the relevant licence obligations;
- have regard to guidance issued by the Secretary of State, as well as any National Policy Statement on airports;
- have regard to the principles of Better Regulation and to consult with stakeholders, including airlines; and
- secure that licence holders are able to take reasonable measures to mitigate the adverse environmental effects of the licensed airport, its associated facilities and aircraft using that airport.

The proposed reforms will also bring into effect an economic licensing regime for airports similar to the regulatory framework in place in certain other regulated sectors such as water and energy; as a regulated airport. Heathrow will require a licence (in addition to its existing aerodrome licence as described in '*Aerodrome Licences*' below). Licensed airports are expected to be subject to a form of price control and a sanctions regime. The licensing regime is to be developed but could include scope for financial penalties, for example, in the event of a breach of certain licence conditions. Licensed airports are also expected to be obliged to consult stakeholders on future plans for investment and the operation of an airport, to report on environmental performance, to comply with service standards and other conditions and measures designed to ensure the effective economic regulation of the airport. The CAA will issue the initial licence. The licensing regime will also include conditions relating to the financial resilience of licensed airports. For example, this may include requirements in respect of:

- a minimum credit rating requirement for licensed airports;
- ring-fencing provisions similar to those in place in other regulated sectors but with initial derogations from some of those provisions where the costs of implementation would exceed their benefits;
- a requirement on the CAA to apply agreed tests when considering the removal of an airport's derogations and an appeals process that is aligned with the wider licence modification process; and
- a requirement for airports to put in place continuity of service plans.

The UK Government has confirmed:

- that it will not bring in a special administration regime; and
- that it will not be making changes to the basis on which the current price cap at Heathrow is set.

## **PRINCIPLES OF ECONOMIC REGULATION**

The CAA imposes conditions on the operators of designated airports to regulate the maximum amount they may levy in airport charges during a quinquennium. The following description sets out how these conditions are currently determined. It is anticipated that following the changes to the regulatory framework these principles will be built into the initial licence for Heathrow.

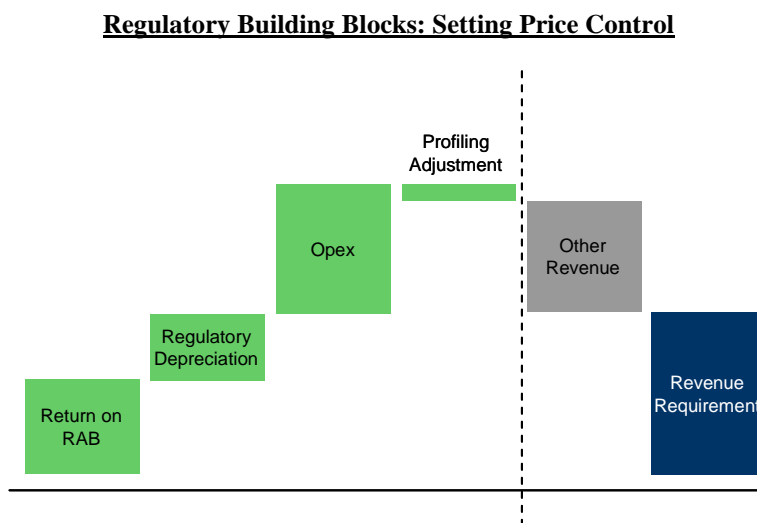
### ***The Price Cap***

The CAA uses a "single till" building block approach in setting the price caps. The single till takes into account revenue and costs from both aeronautical and non-aeronautical activities when setting the price caps for a quinquennium.

In setting the price cap, the CAA determines the regulated revenue requirement which is calculated as the sum of forecast operating expenditure less other revenue plus the required return (using the cost of capital determined by the CAA) on the forecast RAB (taking into account forecast capital expenditure), plus regulatory depreciation and plus or minus any profiling adjustment. The profiling adjustment is a mechanism for transferring revenue between quinquennia

to smooth charges that would otherwise have occurred due to major investments. The resultant regulated revenue requirement is the total airport charges income.

This methodology for deriving the regulated revenue requirement can be represented by a simplified diagram:



The regulated revenue requirement is divided by forecast passenger numbers which, subject to a price profiling adjustment to smooth charges across the five years of a regulatory period, establishes the price cap expressed as a maximum allowable yield per passenger.

During each quinquennium, the maximum allowable yield changes from each 1 April by RPI +/- X per cent. based on RPI from the previous August.

When setting the price cap the CAA will take its own view of the scope for future efficiency savings, the appropriate level of capital expenditure and the rate of growth in demand for airport services.

While the price cap places a limit on the increase in the airport charges yield, the airport operator has the discretion on whether to price to the maximum permitted level. Therefore, the Airport Operators can choose to price charges below the cap. For example, if there is unused capacity, an Airport Operator may choose to set prices below the cap in order to stimulate demand.

The price control conditions set by the CAA include the following components for the maximum allowable yield:

- The “**S factor**” is an adjustment designed to recover in subsequent regulatory years within the relevant quinquennium additional security costs incurred as a result of new UK or European Commission security directives issued by or through the UK Government. For Q5, the Airport Operators are permitted to recover 90 per cent. of any such additional security costs incurred above thresholds of £16.5 million at Heathrow (nominal prices).
- The “**K factor**” is designed to correct for any under recovery (dilution) or over recovery (concentration) in airport charges compared to the annual maximum allowable yield per passenger. Under or over recoveries generally arise due to changes in traffic mix or average loads compared to those forecast at the time prices were set. For example, an increase in international departing passengers would result in yield concentration leading to an over recovery. Conversely, an increase in average loads would cause yield dilution. The K factor adjustment is applied to the maximum allowable yield calculation two years after the year in which it is incurred and therefore can be carried forward to the following quinquennium.
- There is also a capital expenditure “trigger” term built into the formula for Heathrow, with provision for the maximum allowable yield to be reduced if specified projects are not delivered on time. At the start of Q5 there were 24 trigger projects at Heathrow, which relate to approximately 60 per cent. of its capital investment plan during Q5. The projects that could give rise to the most significant reductions in aeronautical income, if they did not meet the relevant milestones, include the Terminal 3 integrated baggage system and Phase 1 of the new Terminal 2. The maximum amount at risk at the beginning of Q5 was approximately £259 million with the majority of the amount at risk relating to the last two years of Q5.

- At 31 October 2012, 17 of the 27 capital investment trigger projects (3 new capital triggers have been introduced in the last year) at Heathrow during the current regulatory period (including the additional year to 31 March 2014 added to the period) had been completed. Based on forecast project completion dates for all trigger projects as at 31 October 2012, it is expected that aeronautical income would be adjusted at Heathrow by approximately £88 million (in 2007/08 prices) over the regulatory period to reflect re-phasing of investment compared to that anticipated by the CAA at the time of the March 2008 settlement. Of this amount, £1 million relates to the 17 completed projects and approximately £7 million had been incurred in the five years to 31 March 2012.
- There are service quality rebate schemes at each of the Airports which set defined service standards for a range of passenger facilities, such as piers, lifts, escalators and people movers, as well as for airfield congestion and security queuing times. To the extent the Airport Operators do not meet the defined standards, they are required to provide rebates to airlines on the per-passenger charges, which in Q5 could amount to as much as 7 per cent. of airport charges. For Heathrow only, the scheme includes a bonus element whereby Heathrow is permitted to levy up to 2.24 per cent. higher airport charges to the extent it exceeds certain of the service quality standards. In the four years ended 31 March 2012, Heathrow incurred total rebates of £18 million.
- In addition, Heathrow's maximum allowable yield for the current quinquennium took into account forecast capital expenditure on the Project for Sustainable Development of Heathrow ('PSDH') which included expenditure related to the proposed third runway. Given the uncertainty over the scale and timing of capital expenditure on PSDH and consistent with CAA guidance in the Q5 settlement, following consultation with airlines Heathrow agreed that remuneration for PSDH would be determined on an ex-post basis, i.e. recovery of the capital expenditure would commence the year after it is incurred. In the year to 31 March 2012, aeronautical income was reduced by £20.9 million to reflect this principle due to lower PSDH expenditure than reflected in the regulatory settlement. Given that the current UK Government has ruled out the development of a third runway at Heathrow the level of annual adjustment to aeronautical income is likely to increase over the remainder of the current quinquennium although the level of adjustment will also depend partly on the extent to which it is agreed with airlines that funds allocated to PSDH expenditure can be utilised on other projects.

From 1 April 2008, aerodrome navigation service costs have been included within airport charges.

### ***Regulatory Asset Base (RAB)***

As with other regulated utilities in the UK, the RAB acts as a unit of regulatory value and does not correspond to statutory asset values. The CAA has historically calculated a forecast of the value of the RAB at each airport over each year of the quinquennium. This has been included in the CAA's RAB forecasts made at the time of the quinquennial decisions. The closing RAB at each Airport for each year is taken to be the sum of the opening RAB, plus capital expenditure (unless disallowed by the CAA) plus an adjustment for RPI inflation less regulatory depreciation (including the pricing profile adjustment—see “—*The Price Cap*” above) and less proceeds of disposals at the Airport.

The CAA does not update the value of the RAB within each quinquennium. Each Airport has been required to submit regulatory accounts to the CAA at 31 March of each year, identifying, among other things, the value of the RAB. A decision as to whether the current period RAB has been appropriately updated during the current regulatory period is not made until the CAA sets the opening RAB for the next quinquennium as part of the price control review.

The RAB is independently verified by the Airports' statutory auditors and included in the regulatory accounts which are provided annually to (but not approved by) the CAA.

### ***Quinquennia***

The CAA sets price caps for designated airports for a five year period, each known as a quinquennium, with provision for these to be extended by one year. The current quinquennium, Q5, lasts from 1 April 2008 to 31 March 2014 for Heathrow.

### ***Constructive Engagement***

For the Q5 review, the CAA proposed a process of constructive engagement. This required airports and airlines to seek to agree some of the main inputs of the price control calculation. Discussions were held on airport vision, airport strategy, capital expenditure, traffic forecasts, capital expenditure efficiency, opportunities for operating cost efficiencies and non-regulated charges.

### ***Statutory Reference to Competition Commission***

Previously, before the CAA could set new price controls, it was required under the Airports Act to make a statutory reference to the Competition Commission with regard to: (a) the maximum amount of airport charges capable of being levied by the relevant airport during the next quinquennium and (b) whether the airport has pursued a course of conduct which has operated or might be expected to operate against the public interest in relation to specific matters.

As a result of the new legislation (see “*Potential Future Changes to the Regulatory Framework*”), it is expected that the Competition Commission will no longer have this role during the review of price controls by the CAA and instead will act as the body of appeal for airport operators and airlines against the CAA’s decisions. In May 2012, the Secretary of State for Transport confirmed that, given the new legislation is not expected to be effective until the first half of 2013, the reference to the Competition Commission will not be required in relation to the process of setting the price control for the next quinquennium due to commence on 1 April 2014 for both Airport Operators.

### ***Interim Reviews***

The price cap is typically set for a quinquennium and cannot be changed during this period without the Airport Operator’s consent. In other words, airlines and the CAA cannot force a reopening of the price cap determination during a regulatory period.

The CAA has indicated that it does not consider that financial distress, per se, would justify re-opening price controls, nor a scaling back or deferral of the investment programme that users effectively pay for through their charges. This means that in extreme circumstances the CAA would not necessarily increase the level of airport charges to assist an airport that was experiencing financial difficulties. The CAA has stated that to do otherwise would transfer risk from equity and debt investors to users, contrary to the CAA’s policy approach. This was reaffirmed in the CAA’s decision in respect of Heathrow for Q5 published on 11 March 2008.

## **HEATHROW PRICE REGULATION**

### ***Key elements of CAA’s Q5 Decision***

The CAA’s decision in respect of Heathrow for Q5 was published on 11 March 2008. The key elements of the CAA’s decision included:

- maximum allowable yield increases based on RPI + 7.5 per cent. for each regulatory year during Q5;
- “single till” approach and continuity with current price control in terms of recognising commercial revenues and costs of the airport, the definition of airport charges and the principal design of the price cap;
- WACC (weighted average cost of capital, which is the CAA’s assessment, using a notional capital structure, of the appropriate allowed blended cost of debt and return on equity to satisfy the requirements of capital providers over the quinquennium) of 6.2 per cent. pre-tax real;
- lower projected operating costs than had been forecast by Heathrow;
- confirmation of regulatory intent that risks associated with specific financial arrangements adopted by the airports fall on the owners and their investors rather than users;
- the ability of Heathrow to earn a return on the forecast Q5 expenditure of £639.0 million (in 2007/08 prices) associated with a third runway or mixed mode at Heathrow and a mechanism to provide a degree of certainty that such expenditure would be ultimately included in the RAB; and
- a cross-period revenue profile adjustment (i.e. bringing revenues forward from Q5 to Q4) which was included in the Q4 regulatory settlement to avoid significant changes in prices that would otherwise have occurred due to major investments (in particular Terminal 5). The CAA has unwound this profile adjustment in the Q5 regulatory statement.

### ***SQR Scheme***

The CAA also introduced a service quality rebate (“**SQR**”) scheme with defined service targets for a range of services relating to passengers’ experience such as security queuing times, departure lounge seat availability, cleanliness, way-finding, flight information, arrivals baggage reclaim availability, the availability of equipment such as lifts, escalators and people movers and the availability of and access to infrastructure such as piers, jetties and stands. The service standards cover other areas such as airfield congestion.

Service standards include that

- departing passengers should pass through security within 5 minutes 95 per cent. of the time and within 10 minutes 99 per cent. of the time and transfer passengers should pass through security within 10 minutes 95 per cent. of the time; and
- arrivals baggage reclaim and other equipment shall be available at least 99 per cent. of the time.

To the extent that Heathrow does not achieve the defined standards, rebates to airlines are required. The maximum total revenue at risk during the quinquennium is 7 per cent. of the total airport charges. Heathrow can achieve a 2.24 per cent. revenue upside in the form of a bonus if it exceeds certain SQR targets.

As a proportion of total airport charges, rebates are up to a total of approximately 2.6 per cent. for departure lounge seat availability, cleanliness, way-finding, flight information, arrivals baggage reclaim and equipment availability, 1.2 per cent. for infrastructure availability and access, 1.1 per cent. for passenger security queuing times and 1.0 per cent. for airfield congestion.

In the four years since the current SQR scheme was introduced up to 31 March 2012, Heathrow incurred total rebates of £18 million (approximately 0.5 per cent. of aeronautical income over the period).

#### ***Other Relevant Points coming out of the Q5 Settlement***

The CAA provided for an independent mid-Q5 assessment of progress in achieving capital expenditure efficiency at Heathrow and its performance in consulting with users on airport development and investment. The assessment commenced in April 2010 and the CAA produced a report in February 2011. Overall, the report considers that progress has been made in the first two years of Q5 but there is still room for further improvement in the way that Heathrow plans, implements, measures and evaluates capital expenditure projects. The CAA has stated that it expects Heathrow to take account of the report in preparing and implementing capital investment plans for the remainder of Q5, and for the capital expenditure plans that will underpin regulatory submissions for the next regulatory settlement.

#### ***Extension of Heathrow's current regulatory period***

On 31 March 2011 the CAA announced its formal decision to extend Heathrow's current regulatory period by one year to 31 March 2014. The key elements of the CAA's decision include:

- a maximum allowable yield increase in 2013/14 based on RPI + 7.5 per cent. (a continuation of the current price control formula);
- an agreed cap on the capital expenditure programme at Heathrow for 2013/14 of £735 million (in 2007/08 prices); and
- all existing Q5 capital expenditure triggers will continue, but are subject to on-going negotiation with the airline community.

#### ***Progress towards the next regulatory settlement***

The next regulatory period for Heathrow will begin in April 2014 and work is commencing on setting the regulatory settlement with the CAA. In May 2012, the CAA launched a consultation, setting out proposed options for the regulatory arrangements for Heathrow during the next regulatory period. The consultation document set out a variety of options for industry comment. The CAA has made clear that regulation should be tailored to the different market positions, passenger priorities and business models of the regulated airports and that there is a robust case for continued economic regulation of Heathrow beyond April 2014. The consultation closed in July 2012.

On 30 July 2012, Heathrow published an initial business plan for the next regulatory period and will also publish a final business plan in January 2013, which will further help inform the regulatory process.

Heathrow and its airline community are currently engaged in a constructive engagement process relating to various key aspects of Heathrow's development in the next regulatory period. Once this is completed and the CAA has completed its own research and analysis, formal consultation by the CAA on the review of price regulation is expected to begin in April or May 2013. It is currently expected that the CAA's final proposals will be published later in 2013 and the CAA's decision on licence conditions will be published in January 2014.

## **AERODROME LICENCES**

Heathrow is subject to aerodrome licensing, which requires the operator to demonstrate that it is competent to conduct aerodrome operations safely.

The CAA must grant a licence in respect of any aerodrome in the United Kingdom if it is satisfied that:

- the applicant is competent, having regard to its previous conduct and experience, equipment, organisation, staffing, maintenance and other arrangements, to secure that the aerodrome and the airspace within which its visual traffic pattern is normally contained are safe for use by aircraft; and
- the aerodrome is safe for use by aircraft, having regard in particular to the physical characteristics of the aerodrome and of its surroundings.

Heathrow has an aerodrome licence for Heathrow Airport.

## **DIRECTORS AND SENIOR MANAGEMENT OF HEATHROW AIRPORT HOLDINGS**

### **BOARD OF DIRECTORS OF HEATHROW AIRPORT HOLDINGS**

The Board of Directors of Heathrow Airport Holdings determines the Group's long-term strategy (as well as that of the wider Heathrow Airport Holdings Group), to ensure that the Group acts ethically and has the necessary resources to meet its objectives, to monitor performance, and to ensure the Group meets its responsibilities as a leading airport company.

#### **Colin Matthews, Chief Executive Officer**

Colin was appointed Chief Executive Officer in April 2008. Prior to this he was Chief Executive of Severn Trent, the FTSE 100 listed regulated UK water group. He previously headed the business services group Hays as chief executive and is a former director of technical operations at British Airways.

#### **José Leo, Chief Financial Officer**

José was appointed Chief Financial Officer in September 2006. He was previously Group Finance Director of Amey plc, a provider of integrated business and infrastructure services to the public and private sector in the United Kingdom and a subsidiary of Ferrovial. José was also formerly Managing Director of Ferrovial Telecomunicaciones, and responsible for managing Ferrovial's investments in the telecommunication sector. He was also a Director of the Spanish telecommunication operators ONO and UNI2. Prior to that, he was Chief Finance Officer and Business Development Manager at the Spanish construction company Agroman.

#### **Non-Executive Directors**

The Non-Executive Directors of Heathrow Airport Holdings are:

Sir Nigel Rudd, Chairman

Nicolás Villén, Ferrovial S.A. appointee

Stuart Baldwin, Government of Singapore Investment Corporation appointee

Christopher Beale, Alinda Capital Partners appointee

David Begg, independent non-executive director

Richard Drouin, Caisse de dépôt et placement du Québec appointee

Renaud Faucher, Caisse de dépôt et placement du Québec appointee

Wilfried E. Kaffenberger, Government of Singapore Investment Corporation appointee

Rachel Lomax, independent non-executive director

Ernesto Lopez Mozo, Ferrovial S.A. appointee

Santiago Olivares, Ferrovial S.A. appointee

Bing Hu, China Investment Corporation appointee

The business address of the directors listed above is The Compass Centre, Nelson Road, Hounslow TW6 2GW.

#### **Company Secretary**

Heathrow Airport Holdings' company secretary is Carol Hui.

#### **Directors— Heathrow Finance plc**

The directors of Heathrow Finance plc are José Leo and Andrew Efiog. The business address of the directors is The Compass Centre, Nelson Road, Hounslow TW6 2GW.

#### **No conflicts of interest**

As at the date of this Prospectus, there are no potential conflicts of interest between any duties owed to the Issuer and the private interests or any other duties of any of the directors of the Issuer.

## DESCRIPTION OF OTHER INDEBTEDNESS

### £325 MILLION NOTES DUE 2017

On 9 November 2010 the Issuer issued £325 million 7.125 per cent. Senior Secured Notes due 2017 (the “**2017 Notes**”). The 2017 Notes are governed by terms and conditions which are identical in all material respects to the terms and conditions of the Notes except as to interest, maturity and the definition of Permitted Holders. The 2017 Notes are secured by fixed and floating security over substantially all of the assets of the Issuer and of Heathrow (DSH) Limited (including the issued share capital of the Issuer and Security Parent) as described below under “—*Security*”.

### ISSUER FACILITIES

The Issuer currently has in place two loan facilities, a £175 million facility repayable by 9 November 2015 and a £77.5 million facility repayable by 19 December 2019 (the “**Issuer Facilities**”). The Royal Bank of Scotland plc and Deutsche Trustee Company Limited act as agent and as security agent respectively in relation to the Issuer Facilities.

The Issuer Facilities are secured by fixed and floating security over substantially all of the assets of the Issuer and of Heathrow (DSH) Limited (including the issued share capital of the Issuer and Security Parent) as described below under “—*Security*”.

### Repayments and Prepayments

Subject to certain conditions, the Issuer may voluntarily prepay and/or permanently cancel all or part (being a minimum amount of £10,000,000) of the loans or available commitments (as appropriate) under the Issuer Facilities by giving three business days' prior notice to the agent. Amounts prepaid may not be reborrowed.

In addition to voluntary prepayments, the Issuer Facilities require mandatory cancellation and, if applicable, prepayment (or, as the case may be, an offer to do so) in full or in part in certain circumstances, including:

- with respect to any lender, if it is or will become unlawful for such lender to perform any of its obligations under the Issuer Facilities; and
- upon the occurrence of a sale of the whole or substantially all of the Group's business and assets.

Upon a change of control, the Issuer must notify the agent of such change of control. If there is a change of control, each lender may elect to cancel its commitments immediately and declare all amounts owing to it under the Issuer Facilities due and payable immediately.

### Interest and Commitment Fees

Loans under the Issuer Facilities bear interest at a rate per annum equal to LIBOR plus the applicable margin and any mandatory cost.

The applicable margin for the facility repayable by 9 November 2015 is 5.00 per cent. per annum and for the facility repayable by 19 December 2019 is 5.75 per cent. per annum.

### Security

Both the Issuer and Heathrow (DSH) Limited have entered into debentures granting fixed and floating security over substantially all of their assets and undertaking (including, without limitation, a first ranking charge of all the issued share capital of Security Parent and the Issuer, respectively) to secure the obligations of the Issuer under the Issuer Facilities. The holders of the Notes, the holders of the 2017 Notes and any hedge counterparties also benefit from this security package as will any additional third party creditor which becomes a Secured Party in accordance with the terms of the Intercreditor Agreement. The security securing the Issuer Facilities rank and secure the Issuer Facilities, the Notes, the 2017 Notes, any other Bond Liabilities, any other Credit Facilities Liabilities and any Hedging Liabilities (as those terms are defined in “*Terms and Conditions of the Notes*”) *pari passu* pursuant to the terms of the Intercreditor Agreement (see “—*Intercreditor Agreement*”).

### Representations

The Issuer Facilities include standard representations and warranties, which include, amongst others, valid power and authority to enter into the agreement, no default under the new revolving credit agreement, compliance with applicable laws, no misleading information and that the Issuer has good title to its assets.



## Financial Covenants

In addition to the general covenants described below, the Issuer Facilities each contain a financial covenant requiring the Group to maintain (i) a Group RAR (as defined in “*Terms and Conditions of the Notes*”) not greater than 90 per cent. in respect of each 31 December after the Issuer Facilities were entered into; and (ii) a Group ICR (as defined in “*Terms and Conditions of the Notes*”) not less than 1.0 in respect of each period of 12 months ended 31 December after the Issuer Facilities are entered into. The Issuer will be able to cure any breaches of these financial covenants up to twice (in non-consecutive years) during the life of each of the Issuer Facilities.

## General Covenants

The Issuer Facilities contain positive and negative covenants. The restrictions on investments, negative pledge, disposals, affiliate transactions, indebtedness, dividends and share capital (save for certain agreed deviations) follow the relevant provisions of the Notes, as described in more detail in “*Terms and Conditions of the Notes*”.

## Events of Default

In addition, the Issuer Facilities provide events of default, including, among others, the following:

- non payment, subject to a 3 business day grace period for administrative and technical errors;
- breach of financial covenants with no grace period;
- breach of other obligations, subject to a 20 business day grace period;
- misrepresentation, subject to a 20 business day grace period;
- cross default;
- insolvency, insolvency proceedings and creditor process, subject (where relevant) to a 28 day grace period;
- unlawfulness and invalidity;
- cessation of business;
- termination of licence;
- audit qualification;
- repudiation and rescission of agreement; and
- litigation and creditor's process.

Upon the occurrence of an event of default under either of the Issuer Facilities, the relevant agent may, among other things, declare all part of the loans and all other amounts payable thereunder to be immediately due and payable or to be payable on demand.

## INTERCREDITOR AGREEMENT

### General

The Issuer and Heathrow (DSH) Limited have entered into an intercreditor agreement (the “**Intercreditor Agreement**”) with, among others, the security agent, the agent under the Issuer Facilities, the trustee for the 2017 Notes and any hedging creditors. The Trustee will accede to the Intercreditor Agreement on or about the issue date of the Notes.

Under the Intercreditor Agreement, the term “Secured Parties” is defined to mean the security agent, the agent, arrangers and lenders under the Issuer Facilities, the Trustee in its capacity as trustee for the holders of the Notes and the holders of the 2017 Notes, any hedging creditor, any future secured creditor which has acceded as a party to the Intercreditor Agreement in the relevant capacity and any receiver or delegate appointed by the security agent pursuant to any of the security documents.

The Intercreditor Agreement is governed by English law.

The Intercreditor Agreement includes terms that establish:

- the ranking and priority of the liabilities owed to the lenders under the Issuer Facilities, to the Trustee in its capacity as the trustee for the holders of the Notes and the holders of the 2017 Notes, to the hedging creditors and to Heathrow (DSH) Limited with respect to liabilities owed by the Issuer to Heathrow (DSH) Limited (“**Parent Liabilities**”);
- the basis on which the security agent is appointed to hold the collateral created by the security documents;

- under what circumstances the security documents may be enforced;
- the application of proceeds from an enforcement in respect of the collateral; and
- under which circumstances the collateral may be shared on a *pari passu* basis with additional third party creditors.

### **Priority of Secured Obligations**

The Intercreditor Agreement purports to rank (in right and priority of payment) the debt held by the Secured Parties under the Issuer Facilities, the trust deed for the 2017 Notes, the Trust Deed and the hedging agreements (the “**Secured Obligations**”), together with the collateral that secures such Secured Obligations, *pari passu* without any preference between any such class of Secured Obligations.

### **Incremental and Refinancing Debt**

The Intercreditor Agreement permits certain additional secured debt, including any debt which is raised pursuant to additional credit facilities and additional bonds or notes issued by the Issuer and which are permitted under the terms of the Issuer Facilities, the trust deed for the 2017 Notes and the Trust Deed to share in the collateral and rank *pari passu* alongside the other Secured Obligations.

### **Prohibited Actions**

The Intercreditor Agreement does not limit the making of:

- payments, distributions or other actions in respect of the Secured Obligations under the Issuer Facilities;
- payments (including in respect of scheduled interest and principal) in respect of the Secured Obligations under the Trust Deed; and
- payments in respect of the Secured Obligations under the hedging agreements (subject to certain restrictions as set out in the Intercreditor Agreement),

in each case, in accordance with terms of the documents governing the relevant class of Secured Obligations.

Following the occurrence of certain acceleration and/or insolvency events all payments in respect of Secured Obligations must be applied in accordance with the payment waterfall set out in the Intercreditor Agreement.

The Intercreditor Agreement prohibits Parent Liabilities from receiving the benefit of any security, guarantee, indemnity or other assurance against loss and, prior to the final discharge of all obligations under the Secured Obligations or an insolvency event, prohibits the taking of any enforcement action by the Parent with respect to Parent Liabilities.

### **Enforcement of Security Documents**

The Intercreditor Agreement provides that only the security agent will have the right to enforce the security documents.

Under the Intercreditor Agreement and subject to the security having become enforceable in accordance with its terms, the security agent shall determine the nature, management, timing and control of any enforcement of the security documents on the instructions of the Secured Parties who, in the aggregate, hold more than 50 per cent. of the amounts under the Issuer Facilities (and certain additional credit facilities), any hedging arrangements and the Notes then outstanding (including certain additional notes) (the “**Majority Primary Creditors**”). In the absence of such instructions, the security agent shall act as it sees fit.

The security agent will not be liable in any respect to any Secured Party or any other person for exercising (or failing to exercise) any of its rights, powers or discretions in relation to the security documents. The security agent may disregard any instructions to enforce any security if those instructions are inconsistent with the Intercreditor Agreement.

### **Snooze/Lose**

The Intercreditor Agreement provides that if in relation to a request for a consent to participate in a vote or to approve any other action or provide any confirmation or notification under the Intercreditor Agreement, the agent under the Issuer Facilities, the Trustee (in its capacity as trustee for the holders of the Notes or the holders of the 2017 Notes) or a hedge counterparty (each, for itself and on behalf of the creditors it represents) fails to respond to that request within 20 business days of the request being made, the consent or vote of such party (and the aggregate principal amount of indebtedness represented by such party) shall be disregarded for the purposes of ascertaining whether an agreement has been obtained, a vote carried or another action approved, and, in the case of any confirmation or notification, that confirmation or notification will be deemed to have been given.

## **Enforcement Proceeds**

The Intercreditor Agreement regulates the order in which amounts received by the security agent (including upon enforcement of the collateral) are distributed to the Secured Parties.

Under the Intercreditor Agreement, the parties agree that, following any enforcement of the security documents, the claims of the security agent, any receiver or delegate appointed by the security agent pursuant to any of the security documents will have first ranking claims (without any priority between themselves), followed by the costs and expenses of any Secured Party (including the Trustee and the agents) incurred in realisation or enforcement of the security documents, and then followed by claims in respect of the obligations under the Issuer Facilities, the obligations under the trust deed for the 2017 Notes, the Trust Deed, the obligations of any hedging creditor and the obligations under any other additional bonds or additional credit facilities permitted under the Trust Deed and the Intercreditor Agreement ranking *pari passu* and *pro rata* according to the respective amounts among themselves, and finally followed by any claim which the security agent is obliged to pay in priority to the Issuer or Heathrow (DSH) Limited. The balance (if any) will be paid to the Issuer and Heathrow (DSH) Limited. The security agent will apply amounts received following enforcement, including recoveries from enforcement, in accordance with this priority.

The Intercreditor Agreement contains customary turnover provisions.

## **Appointment of Security Agent**

The Intercreditor Agreement sets out the terms on which the security agent holds the benefit of the security documents.

The security agent shall not be obliged to take any action (including with respect to taking enforcement proceedings or enforcing the security documents) unless indemnified, secured or prepaid to its satisfaction. The security agent shall be entitled to accept deposits from, lend money to and generally engage in any kind of banking or other business with either the Issuer or Heathrow (DSH) Limited.

Unless acting on the instruction of the Majority Primary Creditors, or exercising certain specific discretions granted to it under the Intercreditor Agreement, in exercising any discretion to exercise a right, power or authority under the Intercreditor Agreement, the security agent shall do so having regard to the interests of all the Secured Parties.

The security agent is not obliged to insure any collateral, or require any other person to maintain such insurance, and will not be responsible for any loss, expense or liability which may be suffered as a result of the lack of, or inadequacy of, such insurance. Each Secured Party (other than the security agent) is responsible for undertaking its own independent appraisal and investigation of all risks arising under or in connection with the Intercreditor Agreement and related documents, including in respect of the financial condition, status and nature of each member of the Group and the title of any security provider to the collateral. Neither the security agent nor any receiver or delegate shall be liable for (among other things) validity, effectiveness, adequacy or enforceability of the collateral.

## **Release of Transaction Security**

The Intercreditor Agreement provides that the security agent may release the collateral (and the obligations of the obligors) under certain conditions, including in connection with the enforcement of the security documents or in connection with the sale or disposal of assets permitted by each relevant financing document.

## **Common Security**

None of the lenders under the Issuer Facilities, the Trustee on behalf of the holders of the Notes and the 2017 Notes or the hedging creditors may take the benefit of any security or guarantees in respect of their respective Secured Obligations other than under the relevant financing documents and the security documents.

## **Amendments**

The security agent, the Issuer and Heathrow (DSH) Limited each has the right to make amendments which are minor or of a technical nature to the Intercreditor Agreement without any further consent from the Secured Parties. Other amendments or waivers of the Intercreditor Agreement may be made only with the consent of the agent under each Issuer Facility, the Trustee as representative of the holders of the Notes and the 2017 Notes, the trustee or agent under any additional bonds or additional credit facilities permitted by the Trust Deed and the Intercreditor Agreement, the security agent and Heathrow (DSH) Limited, except that any amendment, waiver or consent that only affects the rights and obligations of certain parties (and which could not reasonably be expected to be adverse to the interests of the other parties) requires the consent only of the parties so affected. Under the Intercreditor Agreement, the security agent may—if so instructed by the Majority Primary Creditors, and if Heathrow (DSH) Limited consents—amend the terms of, waive requirements of or grant consents under any of the relevant security documents, provided that for releases of security, claims or liabilities or any consents given by the security agent in accordance with the Intercreditor Agreement, any amendment, waiver or consent related to the security documents which affects the nature or scope of the security or the manner in which the proceeds of enforcement of the security are distributed requires the prior consent of the Secured Parties.

## SENIOR BORROWER GROUP INDEBTEDNESS

As at 30 September 2012, the Senior Borrower Group had indebtedness totalling £140 million under a revolving credit facility (the “**RCF**”), a Class B term loan facility (the “**Term Loan Facility**”), a revolving working capital facility, a liquidity facility (the “**Senior Borrower Liquidity Facility**”), term loans from the European Investment Bank (the “**EIB Facilities**”) (together, the “**Authorised Senior Credit Facilities**” and each an “**Authorised Senior Credit Facility**”) and borrower loan agreements between the Airport Operators and Heathrow Funding Limited, which correspond in their terms to each series of bonds (the “**Senior Bonds**”) issued by Heathrow Funding Limited (the “**Borrower Loan Agreements**” and, together with the Authorised Senior Credit Facilities, the “**Senior Borrower Group Indebtedness**”). The Senior Borrower Group can issue senior ranking debt (“**Senior Debt**”) and junior ranking debt (“**Junior Debt**”).

The Senior Borrower Group Indebtedness is secured by substantially all the assets of each of the members of the Senior Borrower Group (the “**Senior Obligors**” and each a “**Senior Obligor**”) and guarantees by each Senior Obligor in respect of each other's obligations, in favour of the lenders under the Senior Borrower Group Indebtedness (the “**Senior Borrower Secured Creditors**”). In addition, Heathrow Funding Limited as issuer of the Senior Bonds provided security over substantially all of its assets in favour of the trustee under the Senior Bonds and holders of the Senior Bonds.

A common terms agreement (the “**CTA**”) sets out the common warranties, covenants, trigger events or loan events of default applicable to the Senior Borrower Group Indebtedness. The Senior Borrower Secured Creditors have also entered into intercreditor arrangements, contained in a security trust and intercreditor deed (the “**STID**”). These are described below.

If the Senior Borrower Group fails to make payments or comply with the covenants in respect of its financing, this may result in a default under the Senior Borrower Group financing and the insolvency of the Senior Borrower Group. The Notes will be subordinated to all liabilities of the Senior Borrower Group and so in such circumstances the Issuer's ability to make payments under the Notes would be severely restricted and there might be no returns in relation to the Notes.

## CTA

### *General*

The CTA sets out certain representations, covenants, Trigger Events and Loan Events of Default which apply to each Authorised Senior Credit Facility including the Borrower Loan Agreements. A copy of the CTA is available on the Heathrow Airport Holdings Group's website and is incorporated by reference in this Prospectus.

### *Covenants*

The covenants are positive, negative, informational and financial in nature. They include an undertaking by LHR Airports Limited as the agent of the Senior Borrower Group (the “**Senior Borrower Group Agent**”) to provide consolidated audited financial statements of the Senior Borrower Group and Heathrow Funding Limited for each financial year and consolidated, unaudited financial information for the financial half-year.

The Senior Borrower Group Agent must also supply an Investor Report by 30 June and 31 December each year which includes a general update on the Senior Borrower Group, regulatory and business developments and capital expenditure.

Each Senior Obligor has undertaken not to incur any Financial Indebtedness other than Permitted Financial Indebtedness. The incurrence of additional Senior Debt or Junior Debt is subject to certain conditions including that the Senior RAR, the ratio of Senior Debt to the total RAB must be less than 0.725 and the Junior RAR, the ratio of Junior Debt to the total RAB must be less than 0.90, in each case calculated taking account of the proposed additional Financial Indebtedness. In addition, there are provisions which restrict the amount of Financial Indebtedness which can fall due (a) within any 24-month period to 30 per cent. of total RAB and (b) within any Five Year Period to 50 per cent. of total RAB.

The Senior Borrowers are able to sell all or part of an Airport subject to the application of proceeds to stay within prescribed financial ratios. Heathrow Airport cannot be sold without approval from the requisite majority of qualifying Senior Borrower Secured Creditors. If a Senior Borrower is forced to sell an Airport, and the net proceeds are less than required to comply with the financial ratios, a Trigger Event will occur, the consequences of which are set out below.

In addition to the restrictions on financial indebtedness and disposals, the CTA also contains a number of covenants which regulate the Senior Obligors' activities including, among others:

- (1) limitations on non-permitted business;
- (2) limitations on joint ventures;
- (3) a negative pledge; and

- (4) a requirement to comply with specified insurance and outsourcing policies.

### ***Trigger Events***

The CTA sets out certain trigger events including:

- (1) any breach of the following financial ratios:
  - (A) the Senior RAR as at any Relevant Date prior to 1 April 2018 is, or is estimated to be, more than 0.70 and thereafter is, or is estimated to be, more than 0.725;
  - (B) the Junior RAR as at any Relevant Date is, or is estimated to be, more than 0.85;
  - (C) the Senior ICR for each Relevant Period is, or is estimated to be, less than 1.40; or
  - (D) the Junior ICR for each Relevant Period is, or is estimated to be, less than 1.20;
- (2) credit rating downgrades on the Senior Bonds;
- (4) the commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) relating to the business of any Senior Obligor if such legislation could (if enacted) reasonably be expected to have a Material Adverse Effect;
- (5) forecast Capital Expenditure over the 12 month period following a Calculation Date exceeds the aggregate of undrawn RCF, cash and Projected Excess Cashflow Before Capex over such 12-month period;
- (6) the amount available under the Issuer's Liquidity Facilities/any cash liquidity reserve is less than the estimated interest and equivalent finance charges for (a) the 12-month period following a Calculation Date in respect of Issuer Senior Debt and (b) the six-month period following a Calculation Date in respect of Issuer Junior Debt;
- (7) the issue of any compliance or enforcement order by any Regulator which would reasonably be expected to have a Material Adverse Effect; or
- (8) the issue of a termination notice or a notice of any proposed or actual modification in respect of any licence by a Regulator which, if implemented, would reasonably be expected to have a Material Adverse Effect.

The occurrence of a Trigger Event gives rise to various consequences including a block on Restricted Payments, the preparation of remedial plans and a termination plan in respect of the Shared Services Agreement, and a right for the security trustee under the Senior Borrower Group Indebtedness to request to participate in discussions with the Regulator.

### ***Loan Events of Default***

The CTA contains a number of Loan Events of Default (subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods) including:

- (1) non-payment by a Senior Obligor of amounts payable under the Finance Documents;
- (2) a breach of the following financial ratios:
  - (A) if the Senior RAR as stated in the compliance certificate produced in respect of the reporting date falling in June in respect of 31 December of the preceding financial year is more than 0.925; and/or
  - (B) if the Average Senior ICR as stated in the compliance certificate produced in respect of the reporting date falling in June on or after the reporting date in June 2012 is less than 1.05;
- (3) non-compliance with any term of any covenant or undertaking in any Finance Document;
- (4) a representation made or repeated by a Senior Obligor in any Finance Document being incorrect or misleading in any material respect when made or deemed to be repeated;
- (5) the insolvency of a Senior Obligor;
- (6) it becoming unlawful for any Senior Obligor to perform its obligations under any transaction document;
- (7) certain changes in law; or
- (8) the occurrence of an event of default under the Senior Bonds.

In respect of each Loan Event of Default requiring any action or discretion on the part of the relevant creditor, the security trustee under the Senior Borrower Group Indebtedness will act in accordance with the relevant provisions of the STID.

### ***Hedging Policy***

The Senior Borrowers are subject to a Hedging Policy which is set out at Schedule 5 of the CTA. The Senior Borrowers have entered into and in the future may enter into various interest rate, inflation-linked and currency hedging transactions in conformity with the Hedging Policy.

### **Security Trust And Intercreditor Deed (“STID”)**

The intercreditor arrangements among the Senior Borrower Secured Creditors of the Senior Borrower Group (the “**Senior Intercreditor Arrangements**”) are contained in the STID. Creditors of debt not secured by the collateral securing the liabilities under the CTA are not and will not become parties to the Senior Intercreditor Arrangements and will not be subject to their terms. However, the aggregate amount of such Financial Indebtedness is restricted under the CTA.

The purpose of the Senior Intercreditor Arrangements is to regulate, among other things: (i) the claims of the Senior Borrower Secured Creditors and their ranking in point of payment after the delivery of a Loan Enforcement Notice; (ii) the exercise, acceleration and enforcement of rights by the Senior Borrower Secured Creditors; (iii) the rights of the Senior Borrower Secured Creditors to instruct the security trustee under the Senior Borrower Group Indebtedness; and (iv) the giving of consents and waivers and the making of modifications to the CTA, the Security Documents, the Shared Services Agreement, the STID, the Master Definitions Agreement and the Tax Deed of Covenant (the “**Common Documents**”). The Senior Intercreditor Arrangements provide for the subordination and postponement of all claims in respect of Financial Indebtedness of any Heathrow Airport Holdings Group company or Affiliate thereof that is not a member of the Senior Borrower Group and following delivery of a Loan Acceleration Notice, payments under the Shared Services Agreement and certain other contracts otherwise entered into in accordance with the CTA.

As regards the giving of consents and waivers and the making of modifications in relation to the Common Documents, the STID contains provisions which enable the security trustee under the Senior Borrower Group Indebtedness to give or permit the making thereof in certain circumstances (principally where it determines that the consent, waiver or modification will not be materially prejudicial to Senior Borrower Secured Creditors). Where the security trustee under the Senior Borrower Group Indebtedness is not willing or able to exercise its discretion, approval from relevant qualifying Senior Borrower Secured Creditors is required. Consents, waivers or modifications may, depending on their nature, constitute Ordinary Voting Matters or Extraordinary Voting Matters. In addition, they may constitute an Entrenched Right in respect of one or more Senior Borrower Secured Creditors, with the result that the consent of such Senior Borrower Secured Creditors will need to be obtained. Voting is effected on a “one pound equals one vote” basis, except that, in the case of bank debt, the entirety of the relevant outstanding bank debt will vote in accordance with the instructions given by the relevant majority of the bank lenders in respect of such debt.

There are also provisions which enable instructions to be given to the security trustee under the Senior Borrower Group Indebtedness by the required percentage of Qualifying Senior Borrower Secured Creditors in relation to a number of matters, including whether to enforce the security following a Loan Event of Default and whether to deliver a Loan Acceleration Notice.

With exceptions, the Senior Borrowers are generally free to pay debts as they fall due, whether they be in respect of Senior Debt or Junior Debt, or in respect of unsecured claims. There are, however, priorities of payments which regulate payments made after the delivery of a Loan Enforcement Notice and after the delivery of a Loan Acceleration Notice. In addition, the making of certain payments following a Loan Event of Default is regulated.

## TERMS AND CONDITIONS OF THE NOTES

Some of the definitions in the terms and conditions of the Notes refer to definitions in the Common Terms Agreement and the Master Definitions Agreement (each as defined below). The Common Terms Agreement and the Master Definitions Agreement are incorporated by reference in this Prospectus.

The following are the terms and conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):

The [·] million [·] per cent. Senior Secured Notes due [·] (the “Notes”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 19 (*Further Issues*) and forming a single series with the Notes) of Heathrow Finance plc (the “Issuer”) are constituted by a Trust Deed dated [·] (the “Trust Deed”) made between the Issuer, Heathrow (DSH) Limited (the “Parent”) and Deutsche Trustee Company Limited (the “Trustee”) as trustee for the holders of the Notes (the “Noteholders”) and the holders of the interest coupons appertaining to the Notes (the “Couponholders” and the “Coupons”, respectively). The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on [·]. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Agency Agreement dated [·] (the “Agency Agreement”) made between the Issuer, Deutsche Bank AG, London Branch, as principal paying agent (the “Principal Paying Agent” and any other paying agents appointed from time to time pursuant to the terms of the Agency Agreement, the “Paying Agents”, which expression shall include the Principal Paying Agent) and the Trustee, the Intercreditor Agreement (as defined below), the Common Terms Agreement (as defined below) and the Master Definitions Agreement (as defined below) are available for inspection during normal business hours by the Noteholders and the Couponholders at the principal office of the Principal Paying Agent, being at the time of issue of the Notes at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Intercreditor Agreement applicable to them.

Terms used in these Conditions but not defined in the Condition in which they first appear shall have the meanings attributed to them in Condition 21 (*Definitions*), unless otherwise stated.

### 1. FORM, DENOMINATION AND TITLE

- (a) The Notes are in bearer form, serially numbered, in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000, each with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination.
- (b) Title to the Notes and to the Coupons will pass by delivery.
- (c) The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note and the bearer of any Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### 2. STATUS

The Notes and the Coupons constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

### 3. SECURITY

- (a) *Security.* Under the Transaction Security Documents, the Transaction Security has been granted by the Parent and the Issuer to secure the payment when due of the Issuer's payment obligations under the Notes and the Trust Deed. On the date of the Trust Deed, the Transaction Security consists of (a) on a first-priority basis, charges over all of the share capital of the Issuer held by the Parent and the Issuer's holding of shares in the share capital of Heathrow (SP) Limited, and (b) on a first-priority basis, charges over substantially all the other tangible and intangible assets of the Parent and the Issuer.

The Transaction Security securing the Notes ranks and secures the Notes, any other Bond Liabilities, the Credit Facilities Liabilities and the Hedging Liabilities *pari passu* pursuant to the terms of the Intercreditor Agreement.

Subject to the terms of the Intercreditor Agreement and compliance with these Conditions, including compliance with Conditions 4.6 (*Negative Pledge*) and 4.9 (*Further Assurances*) and the provisions of the Trust Deed, the Issuer is permitted to extend the benefit of the Transaction Security to holders of certain future Financial Indebtedness that may be incurred, including any Additional Notes permitted under these Conditions and the Trust Deed.

The Intercreditor Agreement also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security will be shared equally and rateably in satisfaction of the Credit Facilities Liabilities, the Hedging Liabilities and the Bond Liabilities.

Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, shall be deemed (i) to have authorised the Trustee and the Security Agent to enter into the Transaction Security Documents and the Intercreditor Agreement and (ii) to be bound thereby.

Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Transaction Security Documents. The Noteholders may only act through the Trustee or the Security Agent, as applicable. Subject to Conditions 12 (*Enforcement of Security*) and 13 (*Noteholder Action*) and the terms of the Intercreditor Agreement, the Security Agent will agree to any release of the security interests created by the Transaction Security Documents that is in accordance with the these Conditions and the Trust Deed without requiring any consent of the Noteholders. The Trustee has the ability to direct the Security Agent to commence enforcement action under the Transaction Security Documents, subject to the terms of the Intercreditor Agreement. The enforcement of the Transaction Security provided for under the Transaction Security Documents is subject to the Intercreditor Agreement.

Subject to the terms of the Transaction Security Documents and the Intercreditor Agreement, the Issuer is entitled (without consent of the Trustee or the Noteholders) to exercise any and all voting rights and to receive and retain any and all cash dividends, share dividends, liquidating dividends, non-cash dividends, shares resulting from share splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Transaction Security.

The rights under the Transaction Security Documents with respect to the Notes and the Trust Deed must be exercised by the Security Agent in respect of all of the Notes outstanding and in accordance with the terms of the Intercreditor Agreement.

- (b) *Release of the Transaction Security.* All Security granted to the Security Agent on behalf of the Noteholders and the Trustee under the Transaction Security Documents will be automatically and unconditionally released if all obligations under these Conditions and the Trust Deed are discharged, in each case in accordance with the terms and conditions in the Trust Deed and the Intercreditor Agreement.

## **4. COVENANTS**

### **4.1 Financial Covenants**

- (a) The Issuer shall ensure that in respect of each Compliance Reporting Date:
- (i) Group RAR shall not be greater than 90 per cent. as at the Relevant Testing Date; and
  - (ii) Group ICR in respect of the Relevant Testing Period shall not be less than 1.0.
- (b) For the purposes of this Condition 4.1, Group RAR and Group ICR shall be as stated in the Compliance Certificate for the Relevant Testing Date and Relevant Testing Period.
- (c) No Event of Default shall occur as a result of a breach of paragraph (a)(i) above if, within 30 days after delivery of a Compliance Certificate to the Trustee pursuant to paragraph (b) of Condition 4.11 (*Information and Reports; Certificates; Notification of Defaults and Events of Default*), the Issuer:
- (i) receives a Permitted Equity Cure Amount;
  - (ii) uses, or procures that any member of the Group uses, the Permitted Equity Cure Amount to repay, repurchase or defease Senior Debt, Junior Debt or Borrowings; and
  - (iii) delivers a revised Compliance Certificate to the Trustee indicating that, after taking into account the Permitted Equity Cure Amount used to remedy the breach, Group RAR is not greater than 90 per cent. and Group ICR is not less than 1.0.
- (d) For the purpose of remedying any breach of paragraph (a) above, the Permitted Equity Cure Amount shall be treated as though it had been received and applied in reduction of Senior Debt, Junior Debt or Borrowings on (i) the Relevant Testing Date for the purposes of calculating Group RAR and (ii) the first day of the Relevant Testing Period for the purpose of calculating Group ICR.
- (e) If, after delivering a revised Compliance Certificate to the Trustee pursuant to paragraph (c)(iii) above, the requirements of paragraph (a) above have been complied with, such requirements shall be deemed to have been



satisfied as of the relevant date of determination and the applicable breach or default of paragraph (a) above which had occurred shall be deemed cured.

#### 4.2 *Limitation on Financial Indebtedness*

##### (a) ***Restrictions on the Issuer***

- (i) The Issuer shall not incur or allow to remain outstanding any Financial Indebtedness except Permitted Financial Indebtedness.
- (ii) The Issuer will not incur or allow to remain outstanding any Parent Liabilities:
  - (A) which are repayable prior to the Maturity Date; or
  - (B) which provide for the payment of interest prior to the Maturity Date other than on a capitalised basis.

(b) ***Restrictions on the Parent.*** Under the Trust Deed, the Parent has agreed that it shall not incur or allow to remain outstanding any Financial Indebtedness except Permitted Financial Indebtedness.

##### (c) ***Restrictions on Subsidiary Group Companies.***

The Issuer shall ensure that no Subsidiary Group Company will incur or allow to remain outstanding any loan facilities with financial institutions or any bonds pursuant to the terms of Senior Finance Documents that rank in point of payment and security subordinate to Junior Debt.

#### 4.3 *Limitation on dividends, share redemption and restricted payments*

(a) ***Restrictions on the Issuer.*** Except on a date when the Controlled Payment Conditions are satisfied in respect of the applicable payment, the Issuer shall not:

- (i) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
- (ii) repay or distribute any dividend or share premium reserve;
- (iii) pay any management, advisory or other fee to or to the order of any direct or indirect shareholders of the Issuer;
- (iv) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so; or
- (v) make any payment under or in respect of Parent Debt.

##### (b) ***Restrictions on the Subsidiary Group Companies***

- (i) Except as permitted by paragraph (b)(ii) below, the Issuer shall ensure that no Subsidiary Group Company makes any Restricted Payment.
- (ii) Paragraph (b)(i) above does not apply to any Restricted Payment:
  - (A) made to the Issuer; or
  - (B) made on a date when the Controlled Payment Conditions are satisfied in respect of that Restricted Payment.

#### 4.4 *Limitation on Transactions with Affiliates*

##### (a) ***Restrictions on the Issuer***

- (i) Except as permitted by paragraph (a)(ii) below, the Issuer shall not enter into any transaction with any Affiliate otherwise than on an arm's-length basis or on terms no less favourable to the Issuer than would reasonably be expected to be obtained in a reasonable arm's-length transaction with a person who is not an Affiliate.
- (ii) Intra-Group loans permitted under Condition 4.5 (*Limitation on loans, credit or guarantee*) shall not be a breach of paragraph (a)(i) above.
- (iii) With respect to any transaction or series of related transactions (other than transactions in the ordinary course of business or an intra-Group loan referred to in clause (a)(ii) above) involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £100 million (or its equivalent in any other currency or currencies), the Issuer will deliver to the Trustee a written opinion of an accounting, appraisal, investment banking or advisory firm of international standing

stating that the transaction or series of related transactions is fair to the Issuer from a financial point of view.

(b) ***Restrictions on the Subsidiary Group Companies***

- (i) Except as permitted by paragraph (b)(iii) below, the Issuer shall ensure that no Subsidiary Group Company will enter into any transaction with an Affiliate to the extent prohibited by paragraph 25 (Arm's length terms) of Part 3 (General covenants) of Schedule 2 (Covenants) of the Common Terms Agreement.
- (ii) With respect to any transaction or series of related transactions (other than transactions in the ordinary course of business) involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £100 million (or its equivalent in any other currency or currencies), the Issuer will deliver to the Trustee a written opinion of an accounting, appraisal, investment banking or advisory firm of international standing stating that the transaction or series of related transactions is fair to such Subsidiary Group Company from a financial point of view.
- (iii) Intra-Group loans permitted under Condition 4.5 (*Limitation on loans, credit or guarantee*) shall not be a breach of paragraph (b)(i) above and shall not be subject to the requirements specified in paragraph (b)(ii) above.

4.5 *Limitation on Loans, Credit or Guarantee*

(a) ***Restrictions on the Issuer***

- (i) Except as permitted under paragraph (a)(ii) below, the Issuer shall not make or grant any loan or extend any other credit or give any guarantee or indemnity that constitutes Financial Indebtedness.
- (ii) Paragraph (a)(i) above does not apply to:
  - (A) any loan made by the Issuer to a Subsidiary Group Company; or
  - (B) any loan made to the Parent on a date when the Controlled Payment Conditions are satisfied in respect of that loan.

(b) ***Restrictions on Subsidiary Group Companies***

- (i) Except (A) as permitted under paragraph (b)(ii) below or (B) in compliance with paragraph (b)(iii) below, the Issuer shall ensure that no Subsidiary Group Company shall make or grant any loan or give any guarantee or indemnity that constitutes Financial Indebtedness.
- (ii) Paragraph (b)(i) above does not apply to:
  - (A) any transaction, other than a Restricted Payment Loan, that is permitted by paragraph 16 (Loans and Credit) of Part 3 (General covenants) of Schedule 2 (Covenants) of the Common Terms Agreement;
  - (B) any loan made to the Issuer; or
  - (C) any Restricted Payment Loan made to a third party other than the Issuer on a date when the Controlled Payment Conditions are satisfied in respect of that Restricted Payment Loan.
- (iii) The Issuer will not permit any Subsidiary Group Company, directly or indirectly, to guarantee, assume or in any other manner become liable for the payment of any Financial Indebtedness of the Issuer (other than the Notes), unless such Subsidiary Group Company simultaneously executes a deed supplemental to the Trust Deed providing for a guarantee of payment of the Notes by such Subsidiary Group Company on the same terms as the guarantee of such Financial Indebtedness.

4.6 *Negative Pledge*

(a) Except as permitted under paragraph (b) below:

- (i) the Issuer shall not, and the Parent has agreed under the Trust Deed that the Parent shall not, create or permit to subsist any Security over any of the assets of the Issuer or the Parent, respectively; and
- (ii) the Issuer shall not, and the Parent has agreed under the Trust Deed that the Parent shall not:
  - (A) sell, transfer or otherwise dispose of any of the assets of the Issuer or the Parent, respectively, on terms whereby they are or may be leased to or re-acquired by the Issuer;
  - (B) sell, transfer or otherwise dispose of any of the receivables of the Issuer or the Parent, respectively, on recourse terms;
  - (C) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(D) enter into any other preferential arrangement having a similar effect

(clauses (A) through (D) (inclusive), “**Quasi Security**”),

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

(b) Clauses (a)(i) and (a)(ii) above do not apply to any Security or (as the case may be) Quasi Security that:

(i) is Permitted Security; or

(ii) equally and rateably secures the Issuer's obligations in respect of the Notes and all other amounts due under the Trust Deed to the satisfaction of the Trustee.

#### 4.7 *Limitation on Sale of Certain Assets*

(a) The Issuer shall not enter into a transaction or series of transactions (whether related or not) and whether voluntary or involuntary to dispose of any shares in, or indebtedness owed by, Heathrow (SP) Limited except in accordance with Condition 4.12 (*Merger, Consolidation and Sale of Substantially All Assets*).

(b) The Issuer shall procure that Heathrow Airport Limited (which for this purpose includes any other Subsidiary Group Company that acquires any interest in Heathrow Airport) does not enter into a transaction or series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of the whole or substantially the whole of Heathrow Airport, and the Issuer shall procure that no Holding Company of Heathrow Airport Limited which is the Issuer, the Parent or a Subsidiary Group Company enters into a transaction or series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any shares in Heathrow Airport Limited or in a Holding Company of Heathrow Airport Limited which is the Issuer, the Parent or a Subsidiary Group Company, except:

(i) to another Subsidiary Group Company; or

(ii) for cash payable on completion of the sale and where the proceeds of the disposal or sale after deducting:

(A) any expenses which are incurred by any Subsidiary Group Company with respect to that disposal to persons who are not members of the Group;

(B) any Tax incurred and required to be paid by the seller in connection with that disposal (as reasonably determined by the seller, on the basis of existing rates and taking account of any available credit, deduction or allowance); and

(C) any payments required to be paid from the proceeds to any other party, whether by Heathrow Funding Limited or a Subsidiary Group Company in priority to amounts outstanding under the Notes,

are sufficient to repay in full all amounts outstanding under the Notes and any Permitted Borrower Debt ranking *pari passu* with the Notes and a Change of Control Offer in accordance with Condition 7.3 (*Purchase of Notes on a Change of Control*) is made for the Notes.

#### 4.8 *Restricted Payment Conditions*

The Issuer will not (and the Issuer will ensure that no member of the Group will) enter into or permit to exist any agreement binding on the Parent or a member of the Group which:

(a) restricts the ability of a Subsidiary of the Issuer in a manner that is more restrictive than the Restricted Payment Condition to pay dividends, make loans, move money or make any other distribution to any of its direct or indirect shareholders (including the Issuer); or

(b) results in a default (however described) or mandatory prepayment obligation (whether upon the giving of notice by a creditor or otherwise) in respect of any Financial Indebtedness of the Issuer or the Parent if such a payment or distribution referred to in paragraph (a) above is made by a Subsidiary of the Issuer on a basis permitted by the Restricted Payment Condition.

#### 4.9 *Further Assurances*

The Issuer shall, and the Parent has agreed under the Trust Deed that the Parent shall, take all such action as is available to it (including making all filings and registrations) as may be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on the Security Agent or the Trustee by or pursuant to the Transaction Security Documents.

#### 4.10 *Holding Companies*

- (a) **Restrictions on the Parent.** Under the Trust Deed, the Parent has agreed that it shall not trade or carry on any business other than any business which is in the ordinary course of business as a holding company.
- (b) **Restrictions on the Issuer.** The Issuer shall not trade, carry on any business, own any material assets or incur any material liabilities except for:
  - (i) ownership of shares in Heathrow (SP) Limited, intra-Group debit balances, intra-Group credit balances that are permitted under these Conditions and other credit balances in bank accounts and Cash and Cash Equivalent Investments but only if those shares, credit balances and Cash and Cash Equivalent Investments are subject to the Transaction Security; or
  - (ii) the Credit Facilities Liabilities, the Hedging Liabilities and any liabilities in respect of Financial Indebtedness permitted by these Conditions and professional fees and administration costs incurred in the ordinary course of business as a holding company.

#### 4.11 *Information and Reports; Certificates; Notification of Defaults and Events of Default*

- (a) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:
  - (i) within 180 days after the end of the Issuer's financial year, its audited consolidated financial statements for such financial year;
  - (ii) within 180 days after the end of the first financial half year of each financial year, its unaudited consolidated financial statements for such financial half year; and
  - (iii) as soon as it is available, but in any event no later than each Reporting Date, the Investor Report.
- (b) On or before each Compliance Reporting Date, the Issuer will deliver a certificate substantially in the form set out in Schedule 6 to the Trust Deed (a "**Compliance Certificate**") to the Trustee, signed by a director of the Issuer:
  - (i) certifying compliance with the financial covenants in paragraph (a) of Condition 4.1 (*Financial Covenants*) and providing calculations for the financial covenants as at the Relevant Testing Date or for the Relevant Testing Period, as the case may be, in reasonable detail; and
  - (ii) certifying as at the date of the certificate that no Event of Default is continuing.
- (c) At the same time as providing any of the documents set forth in paragraph (a) above of this Condition to the Trustee, the Issuer will also make the relevant documents available via the Regulatory News Service of the London Stock Exchange, subject to any distribution and offering restrictions and subject to compliance with applicable laws and regulations.
- (d) The Issuer shall notify the Trustee within 15 Business Days of it becoming aware of the occurrence of any Event of Default or Default stating what action, if any, the Issuer is taking with respect to that Event of Default or Default.

#### 4.12 *Merger, Consolidation and Sale of Substantially All Assets*

The Issuer will not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries) to another person unless such consolidation, merger, amalgamation or sale or disposal of all or substantially all assets qualifies as a Permitted Transaction or the provisions of Condition 7.3 (*Purchase of Notes upon a Change of Control*) are complied with.

#### 4.13 *Listing*

So long as any of the Notes remains outstanding, the Issuer shall use all reasonable endeavours to maintain a listing of the Notes.

### 5. **THE INTERCREDITOR AGREEMENT**

- (a) The Trustee has acceded to the Intercreditor Agreement with, amongst others, the agent under the Facility Agreements and the Security Agent. Under the terms of the Intercreditor Agreement, the Transaction Security securing the Notes will rank and secure any other Bond Liabilities, the Credit Facilities Liabilities and the Hedging Liabilities *pari passu*. The Intercreditor Agreement also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security Documents will be shared equally and rateably between the Credit Facilities Liabilities, the Hedging Liabilities and the Bond Liabilities.

- (b) Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, will be deemed to have:
- (i) agreed to be bound by such provisions of the Intercreditor Agreement (whether entered into as of the date of the Trust Deed or thereafter); and
  - (ii) irrevocably appointed the Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Agreement as set forth under Condition 16 (*Meetings of Noteholders, Modification, Waiver and Authorisation*).

## 6. INTEREST

- (a) The Notes bear interest from, and including, [·] at the rate of [·] per cent. per annum, payable semi-annually in arrear on [·] and [·] in each year (each an “**Interest Payment Date**”). The first payment of interest, to be made on [·], will be in respect of the period from and including [·] to but excluding [·] and will amount to £[·] per principal amount of £1,000 per Note. Each payment of interest thereafter, in respect of each Interest Period from and including [·] to but excluding [·], will amount to £[·] per principal amount of £1,000 per Note. Each Note will cease to bear interest from, and including, its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest shall continue to accrue as provided in the Trust Deed.
- (b) Where interest is required to be calculated (or paid in respect of overdue principal and other overdue amounts) in respect of a period that is shorter than an Interest Period, the day count shall be computed on the basis of a 360-day year of 12 months.

## 7. REDEMPTION AND PURCHASE

### 7.1 Final Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date.

### 7.2 Optional Redemption

- (a) *Optional Redemption.* At any time, upon not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), the Issuer may redeem all or some only of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest, if any, to but excluding the redemption date.

The Issuer will publish a notice of any optional redemption of the Notes under this Condition in accordance with the provisions of Condition 20 (*Notices*).

If fewer than all the Notes are to be redeemed at any time pursuant to this paragraph (a) the Issuer will select the Notes by a method that complies with the requirements of the principal securities exchange, if any, on which the Notes are listed at such time or, if the Notes are not listed on a securities exchange, by such method as the Trustee in its sole discretion shall deem fair and appropriate; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than £100,000. The Trustee shall not be liable for any selections made in accordance with this paragraph.

- (b) *Redemption Upon Changes in Withholding Taxes.* The Notes may be redeemed at their principal amount, together with interest accrued to but excluding the date of redemption at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 20 (*Notices*) (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately prior to giving such notice that:
- (i) it has or will on the occasion of the next payment due in respect of the Notes become obliged to pay Additional Amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction, or any change in the published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of the Trust Deed; and
  - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this paragraph (b):

- (A) the Issuer shall deliver to the Trustee an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment; and
- (B) the Issuer shall deliver to the Trustee an Officer's Certificate stating that the obligation referred to in clause (b)(i) above cannot be avoided by the Issuer taking reasonable measures available to it,

and the Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the condition precedent set out in clause (b)(i) above, and such certificate as sufficient evidence of the satisfaction of the condition precedent set out in clause (b)(ii) above and such opinion and certificate (if accepted) shall be conclusive and binding on the Noteholders and the Couponholders.

### 7.3 *Purchase of Notes Upon a Change of Control*

- (a) If a Change of Control occurs at any time, then the Issuer must make an offer (a “**Change of Control Offer**”) to each Noteholder to purchase such holder's Notes, at a purchase price (the “**Change of Control Purchase Price**”) in cash in an amount equal to 101 per cent. of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase described in paragraph (b) below (the “**Change of Control Purchase Date**”).
- (b) Within 30 days following any Change of Control, the Issuer will publish a notice of the Change of Control Offer in accordance with Condition 20 (*Notices*) (the date of publication of such notice being the “**Publication Date**”), specifying the nature of the Change of Control and the procedure for exercising the option contained in this Condition 7.3, including (i) the Change of Control Purchase Price and (ii) the Change of Control Purchase Date, which will be a Business Day no earlier than 30 days nor later than 60 days from the Publication Date, or such later date as is necessary to comply with requirements under any applicable securities laws or regulations.

To exercise the option to require purchase of a Note under this Condition, a Noteholder must deliver such Note, on any banking business day in the place of delivery prior to the Change of Control Purchase Date (the “**Put Period**”) at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a “**Put Notice**”) and in which the Noteholder may specify a bank account complying with the requirements of Condition 8 (*Payments*) to which payment is to be made under this Condition. Notes should be delivered together with all Coupons appertaining thereto maturing after the date (the “**Put Date**”), which is seven days after the expiration of the Put Period, failing which deduction in respect of such missing unmatured Coupons shall be made in accordance with Condition 8 (*Payments*) and any amount so deducted will be reimbursed in the manner specified in Condition 8 (*Payments*). The Paying Agent to which such Note and Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. If the Put Date is an Interest Payment Date, payment of the accrued interest in respect of any Note so delivered will be made in the manner provided in Condition 8 (*Payments*) against presentation and surrender of the relevant Coupon. If the Put Date is not an Interest Payment Date, payment of the accrued interest, and in all cases, payment of principal in respect of any Note so delivered will be made, if the Noteholder duly specified a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and in every other case on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent in accordance with Condition 8 (*Payments*). A Put Notice, once given, shall be irrevocable. For all relevant purposes of these Conditions, receipts issued pursuant to this Condition shall be treated as if they were Notes. The Issuer shall purchase (or procure the purchase of) the relevant Notes on the Put Date unless previously redeemed or purchased and cancelled.

- (c) The Issuer will not be required to make a Change of Control Offer if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in these Conditions applicable to a Change of Control Offer made by the Issuer and offers to purchase all Notes validly tendered and not withdrawn under such Change of Control Offer. The Change of Control provisions of this Condition will be applicable whether or not any other provisions of the Trust Deed are applicable.
- (d) To the extent the Issuer complies with applicable tender offer rules and any other applicable securities laws and regulations and such rules, laws and regulations conflict with provisions of this Condition 7.3, the Issuer will not be deemed to have breached its obligations under this Condition and the Trust Deed by virtue of such conflict.

### 7.4 *Sinking Fund; Offers to Purchase; Open Market Purchases; Cancellation of Notes*

- (a) The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes.
- (b) The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price (*provided* that they are purchased together with all unmatured Coupons relating to them).

- (c) All Notes so redeemed or purchased and any unmatured Coupons attached to or surrendered with them may, but need not, be cancelled at the election of the Issuer. Any Notes or Coupons so cancelled will not be re-issued or resold.
- (d) Where Notes redeemed pursuant to this Condition 7 (*Redemption and Purchase*) are cancelled upon redemption, any unmatured Coupons appertaining to such Notes, whether or not attached thereto or surrendered therewith, shall also be cancelled and may not be resold or re-issued.

## 8. PAYMENTS

- (a) Payments of principal and premium (if any) and payments of interest due on each Interest Payment Date will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by Sterling cheque drawn on, or by transfer to a Sterling account maintained by the payee with, a bank in London. Payments of interest due in respect of any Note other than on an Interest Payment Date shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.
- (b) All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (c) Each Note should be presented for payment together with all unmatured Coupons relating to it, failing which the full amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of such missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of ten years after the relevant payment date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.
- (d) A Note or Coupon may only be presented for payment on a day which is a banking business day in the relevant place of presentation (and, in the case of payment by transfer to a Sterling account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this paragraph (d) falling after the due date.
- (e) The initial Paying Agent and its initial specified offices are listed below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents; *provided* that they will at all times maintain:
  - (i) a Principal Paying Agent;
  - (ii) a Paying Agent with a specified office in a European Union member state (a “**Member State**”) that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; and
  - (iii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority.

The initial specified office of the initial Paying Agent is:

Winchester House, 1 Great Winchester Street, London EC2N 2DB.

Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders by the Issuer in accordance with Condition 20 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain limited circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, the Noteholders or the Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 9. PRESCRIPTION

- (a) Claims in respect of principal and premium will become void unless the relevant Notes are presented for payment within a period of ten years from the appropriate payment date.

- (b) Claims for interest in respect of Notes shall become void unless the relevant Coupons are presented for payment within five years of the relevant Interest Payment Date, subject to the provisions of paragraph (c) of Condition 8 (*Payments*).

## 10. TAXATION

All payments by or on behalf of the Issuer under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future Tax imposed or levied on such payments by or within the United Kingdom or by or within any department, political subdivision or governmental authority of or in the United Kingdom having power to tax (each, a “**Relevant Taxing Jurisdiction**”), unless the Issuer is required to withhold or deduct Taxes by law. In that event, the Issuer will pay additional amounts (“**Additional Amounts**”) as may be necessary to ensure that the net amount received by each Noteholder and Couponholder after such withholding or deduction (including any withholding or deduction in respect of any Additional Amounts) will not be less than the amount the Noteholder or Couponholder, as the case may be, would have received if such Taxes had not been withheld or deducted.

The Issuer will not, however, pay Additional Amounts in respect of any Note or Coupon:

- (a) held by or on behalf of a holder who is liable to such Taxes, to the extent such Taxes are imposed or levied by a Relevant Taxing Jurisdiction by reason of the holder's present or former connection with such Relevant Taxing Jurisdiction (other than the mere receipt, ownership, holding or disposition of Notes or Coupons, or by reason of the receipt of any payments in respect of any Note or Coupon, or the exercise or enforcement of rights under any Notes or Coupons);
- (b) held by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting any form or certificate, or by making a declaration of non-residence or other claim for exemption to the relevant tax authority;
- (c) presented for payment by or on behalf of a person who would have been able to avoid such withholding or deduction by presenting the relevant Notes or Coupons, as the case may be, to another Paying Agent in a member state of the European Union;
- (d) presented for payment more than 30 days after the relevant payment is first made available to the Noteholder or Couponholder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30-day period); or
- (e) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any directive implementing the conclusions of the of the ECOFIN Council meeting of 26-27 November 2000 or any law of the European Union or a non-member state implementing or complying with, or introduced in order to conform to, such directive.

The Issuer will (i) make such withholding or deduction as is required by applicable law and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions, in respect of payments by the Issuer to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

## 11. EVENTS OF DEFAULT

- (a) Each of the following will be an “**Event of Default**”:
- (i) default for 30 days in the payment when due of any interest or any Additional Amounts on any Note;
- (ii) default in the payment of the principal of or premium, if any, on any Note at its Maturity (upon acceleration, optional or mandatory redemption, if any, required repurchase or otherwise);
- (iii) failure to comply with the provisions of Condition 4.12 (*Merger, Consolidation and Sale of Substantially All Assets*);
- (iv) failure to make or consummate a Change of Control Offer in accordance with the provisions of Condition 7.3 (*Purchase of Notes upon a Change of Control*);
- (v) failure to comply with any covenant or agreement of the Issuer or the Parent that is contained in these Conditions or the Trust Deed (other than specified in clause (i), (ii), (iii) or (iv) above) and such failure continues for a period of 30 days or more after written notice thereof is given to the Issuer by the Trustee;
- (vi) any Financial Indebtedness of any member of the Group:



- (A) is not paid when due nor within any originally applicable grace period other than a non-payment of interest in respect of Junior Debt; or
- (B) is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

No Event of Default will occur under clause (A) or (B) above in respect of Financial Indebtedness if the aggregate amount of all Financial Indebtedness falling within clauses (A) and (B) above is less than £50,000,000 (or its equivalent in any other currency or currencies);

- (vii) the Transaction Security ceases to be legal, valid, binding, enforceable or effective for any reason other than as permitted by these Conditions or is alleged by the Issuer or the Parent to be invalid or unenforceable;
- (viii) any execution proceedings in an aggregate amount in excess of £50,000,000 (or its equivalent in any other currency or currencies) are enforced in relation to any assets of the Issuer or any Subsidiary Group Company;
- (ix) a moratorium is declared in respect of any Financial Indebtedness in an amount in excess of £50,000,000 (or its equivalent in any other currency or currencies) of the Issuer or any Subsidiary Group Company; and
- (x) any corporate action, legal proceedings or other legal procedure or formal step is taken in relation to:
  - (A) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Issuer or a Subsidiary Group Company other than a solvent liquidation or reorganisation of any Subsidiary Group Company;
  - (B) a composition, compromise, assignment or arrangement with any creditor of the Issuer or any Subsidiary Group Company; or
  - (C) the appointment of a liquidator (other than in respect of a solvent liquidation of a Subsidiary Group Company), receiver, administrative receiver, administrator, special administrator, compulsory manager or other similar officer in respect of the Issuer or a Subsidiary Group Company or any of their respective material assets,

or, in the opinion of the Trustee, any analogous procedure or step is taken in any jurisdiction; *provided, however,* that this clause (a)(x) shall not apply to: (X) any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 28 days of commencement or, if earlier, the date on which it is advertised; or (Y) an application for the appointment of a receiver, administrative receiver, administrator, compulsory manager or other similar officer that is discharged at least five days prior to the first hearing of that application.

- (b) If an Event of Default occurs and is continuing, and, in the case of the Events of Default described under clause (a)(v) (other than in respect of a failure to comply with the covenants set out in Condition 4.1 (*Financial Covenants*), Condition 4.2 (*Limitation on Financial Indebtedness*), Condition 4.3(a) (*Limitation on dividends, share redemption and restricted payments — Restrictions on the Issuer*), Condition 4.5(a) (*Limitation on Loans, Credit or Guarantee — Restrictions on the Issuer*), Condition 4.6(a) (*Negative Pledge*), Condition 4.7 (*Limitation on Sale of Certain Assets*), Condition 4.8 (*Restricted Payment Conditions*), Condition 4.10 (*Holding Companies*), Condition 4.11(d) (*Notification of Defaults and Events of Default*) and Condition 4.12 (*Merger, Consolidation and Sale of Substantially All Assets*)), (a)(vii) or (a)(x) above or any Event of Default of the Parent, the Trustee has certified in writing that, in its opinion, the happening of such event is materially prejudicial to the interests of the Noteholders, the Trustee:
  - (i) may in its absolute discretion; and
  - (ii) shall if it has been directed to do so:
    - (A) in writing by the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding; or
    - (B) by an Extraordinary Resolution of the Noteholders,

subject, in each case, to being indemnified and/or pre-funded and/or secured to its satisfaction, give a notice (a “**Note Acceleration Notice**”) to the Issuer and the Security Agent declaring the principal of, premium, if any, and any Additional Amounts and accrued interest on all the outstanding Notes immediately due and payable. The ability of the Trustee and the Noteholders to declare, and of the Noteholders to direct the Trustee to declare, the Notes due and payable is subject to the terms of the Intercreditor Agreement.

## 12. ENFORCEMENT OF SECURITY

- (a) At any time after a Note Acceleration Notice has been given to the Issuer, the Trustee:
- (i) may in its absolute discretion; and
  - (ii) shall if it has been directed to do so:
    - (A) in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Notes outstanding; or
    - (B) by an Extraordinary Resolution of the holders of the Notes,
- subject in each case to being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, instruct the Security Agent to make a Request for voting in relation to enforcing the Transaction Security pursuant to the terms of the Intercreditor Agreement (each, a “**Request Instruction**”).
- (b) The Trustee shall, subject to being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, promptly after receiving any Request in relation to enforcement of the Transaction Security, give a notice to Noteholders in accordance with Condition 20 (*Notices*) soliciting the direction from holders of the Notes then outstanding (each, a “**Noteholder Direction**”) to the Trustee as to whether to instruct the Security Agent to take enforcement action in relation to the Transaction Security pursuant to the Intercreditor Agreement (such instruction, an “**Enforcement Instruction**”). Upon the conclusion of the solicitation of Noteholder Directions, the Trustee shall inform the Issuer and the Security Agent promptly in writing of the aggregate principal amount of Notes represented by the holders of Notes voting in favour of the Enforcement Instruction, if any.
- (c) Any enforcement of the Transaction Security will be undertaken by the Security Agent, subject to, and in accordance with, the provisions of the Intercreditor Agreement.

## 13. NOTEHOLDER ACTION

- (a) Subject to Condition 12 (*Enforcement of Security*) above and paragraphs (b) and (c) below, no Noteholder or Couponholder shall be entitled to take any proceedings or other action directly against the Issuer or to enforce the Transaction Security, including:
- (i) directing the Trustee to give Request Instructions or Enforcement Instructions;
  - (ii) taking or joining any person in taking steps against the Issuer or to enforce the Transaction Security for the purpose of obtaining payment of any amount due from the Issuer to it; and
  - (iii) initiating or joining any person in initiating any Insolvency Proceedings in relation to the Issuer or the appointment of an Insolvency Official in relation to the Issuer or in relation to the whole or any part of the undertakings or assets of the Issuer.
- (b) If the Trustee having become bound to give a Note Acceleration Notice to the Issuer fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may, as applicable, sign and give a Note Acceleration Notice to the Issuer in accordance with Condition 11 (*Events of Default*).
- (c) If the Trustee having become bound to give a Request Instruction to the Security Agent fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may, as applicable, give a Request Instruction in writing directly to the Security Agent.
- (d) If the Trustee having become bound to inform the Issuer and the Security Agent of the aggregate principal amount of Notes represented by the holders of Notes voting in favour of the Enforcement Instruction fails to do so and that failure is continuing, the Noteholders may provide their Noteholder Direction in writing in relation to the taking of enforcement action in relation to the Transaction Security pursuant to the Intercreditor Agreement directly to the Security Agent.

## 14. SUBSTITUTION

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed, of any Subsidiary of the Issuer, any successor in business of the Issuer or any Holding Company of the Issuer, as more fully set forth in the Trust Deed, subject to (i) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (ii) certain other conditions set out in the Trust Deed being complied with. As more fully set forth in the Trust Deed (and subject to the conditions and qualifications therein), the Trustee may, without the consent of the Noteholders, also agree with the Issuer as to the substitution of another corporation in place of the Issuer as principal debtor under the Notes, the Coupons and the Trust Deed.

## 15. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided* that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## 16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

- (a) The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed, the Notes, the Coupons, the Agency Agreement, the Intercreditor Agreement or the Transaction Security Documents. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer at the request of Noteholders holding not less than ten per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. The matters (the “**Basic Terms Modifications**”) that require such a quorum are:
- (i) changing any date fixed for payment of principal, premium (if any) or interest in respect of the Notes, reducing or cancelling the amount of principal, premium (if any) or interest payable on any date in respect of the Notes, altering the method of calculating the amount of any payment in respect of the Notes on redemption, maturity or following the occurrence of a Change of Control or altering the method of calculating the date for any such payment;
  - (ii) alteration of the currency in which payments under the Notes and Coupons are to be made;
  - (iii) impairing the right to institute suit for the enforcement of any payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date);
  - (iv) except as provided under Condition 4.6 (*Negative Pledge*), Condition 5 (*The Intercreditor Agreement*) or paragraph (c) of this Condition, make any change to any Intercreditor Agreement (or any amended Intercreditor Agreement or replacement thereof) or any provisions of the Trust Deed affecting the ranking of the Notes and the ranking of the payment obligations under the Notes, in each case in a manner that adversely affects the rights of the Noteholders or directly or indirectly releases the Transaction Security under the Transaction Security Documents, except as permitted by these Conditions, the Trust Deed, any Intercreditor Agreement and the Transaction Security Documents;
  - (v) alteration of the quorum or majority required to pass an Extraordinary Resolution; and
  - (vi) alteration of (A) the definition of “Basic Terms Modifications” or (B) the quorum requirements for any meeting convened to vote on any Basic Terms Modifications.

An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three quarters of the votes cast on such a resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in principal amount of the Notes for the time being outstanding or (iii) consents given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of not less than three quarters in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) The Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the Notes, the Coupons, the Agency Agreement, the Intercreditor Agreement or the Transaction Security Documents (save to the extent such modification, waiver or authorisation relates to any Basic Terms Modification) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven, or to any modification which is requested by the Issuer in order to allow the Issuer to comply with any requirements which apply to it under EMIR subject to the Trustee receiving a certificate from the Issuer certifying to the Trustee that the amendments are to be made

solely for the purpose of enabling the Issuer to satisfy its requirements under EMIR, unless the Trustee is of the opinion that such modification would have the effect of exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or the effect of increasing the obligations or duties or decreasing the protections of the Trustee in any of these Conditions or any of the provisions of the Trust Deed, the Notes, the Coupons, the Agency Agreement, the Intercreditor Agreement or the Transaction Security Documents or (ii) to determine that any Event of Default or Default shall not be treated as such, subject to instructions to the contrary from the Noteholders in the form of an Extraordinary Resolution (as further provided in the Trust Deed).

- (c) The Trust Deed also provides that at the request and expense of the Issuer and without the consent of the Noteholders:
- (i) at the time of, or prior to, the incurrence of any Financial Indebtedness that is permitted to share the Transaction Security, the Issuer, the Trustee and the Security Agent shall enter into an additional intercreditor agreement on terms substantially similar to the Intercreditor Agreement or an amendment to the Intercreditor Agreement to (1) cure any ambiguity, omission, defect or inconsistency of the Intercreditor Agreement, (2) increase the amount or types of Financial Indebtedness covered by any such agreement that may be incurred by the Issuer that is subject to any such agreement (*provided* that such Financial Indebtedness is incurred in compliance with these Conditions and the terms of the Trust Deed), (3) further secure the Notes (including Additional Notes), (4) make provision for equal and rateable pledges of the Transaction Security to secure Additional Notes or to implement any Security permitted under these Conditions or the Intercreditor Agreement or (5) make any other change to any such agreement that is not in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; *provided* that any amendment to the Intercreditor Agreement will not impose or extend any personal obligations on the Trustee or the Security Agent or adversely affect the rights, duties, liabilities, protections or immunities of the Trustee and/or the Security Agent under these Conditions, the Trust Deed, the Intercreditor Agreement or any Security Document; and
  - (ii) the Trustee and the Security Agent may from time to time enter into one or more amendments to the Transaction Security Documents to: (1) cure any ambiguity, omission, defect or inconsistency therein or reflect changes of a minor, technical or administrative nature, (2) provide for any Security permitted under these Conditions, (3) add to the Transaction Security or (4) make any other change thereto that is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.
- (d) Subject to the Intercreditor Agreement, in connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 10 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 10 (*Taxation*) pursuant to the Trust Deed.
- (e) Any modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders, and any modification, unless the Trustee agrees otherwise, or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 20 (*Notices*).

## 17. THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

Subject to the terms of the Intercreditor Agreement, the Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer or the Parent as it may think fit to enforce the provisions of these Conditions, the Trust Deed, the Notes and the Coupons, the Intercreditor Agreement or any Transaction Security Documents (as applicable), but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Coupons, the Intercreditor Agreement or any Transaction Security Documents unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding and shall not have received any contrary direction by an Extraordinary Resolution of the Noteholders or in writing by the holders of at least 50 per cent. in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

The Trustee may rely on any certificate or report of the Issuer's auditors or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed, the Intercreditor Agreement or any Transaction Security Documents notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors of the Issuer or such other person in respect thereof.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Parent and/or the Parent's other Subsidiaries (including the Issuer) and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Parent and/or any of the Parent's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee shall not be required to review or check any accounts or other information provided to it by the Issuer pursuant to the Trust Deed and shall have no liability to any person as a result of any failure to do so.

## **18. NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND SHAREHOLDERS**

No director, officer, employee, incorporator, member or shareholder of the Issuer will have any liability for any obligations of the Issuer under the Notes, the Coupons or the Trust Deed or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Noteholder by accepting a Note and each Couponholder by accepting a coupon waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the US federal securities laws.

## **19. FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Noteholders (but subject to compliance with the provisions of Condition 4.1 (*Limitation on Financial Indebtedness*)) to create and issue further bonds or notes ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Notes) constituted by the Trust Deed or any deed supplemental thereto (the "**Additional Notes**"). Any Additional Notes shall be constituted by a deed supplemental to the Trust Deed.

## **20. NOTICES**

Notices to Noteholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

## **21. DEFINITIONS**

"**2017 Notes**" means £325 million notes due 2017.

"**Acceptable Bank**" means:

- (a) a bank or financial institution which has a rating for its short-term unsecured and non credit-enhanced debt obligations of A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's or a comparable rating from an internationally recognised credit rating agency; or
- (b) any other bank or financial institution approved by the Trustee.

"**Accounting Principles**" means generally accepted accounting principles in the United Kingdom, including International Financial Reporting Standards (IFRS).

"**Additional Notes**" has the meaning given to that term in Condition 19 (*Further Issues*).

"**Affiliate**" means

- (a) for purposes of Condition 4.4 (*Limitation on Transactions with Affiliates*) and the definition of "Permitted Holders": in relation to a person, a person who is his associate and the question of whether a person is an associate of another will be determined in accordance with section 435 of the Insolvency Act 1986; and
- (b) for purposes of the definition of "Permitted Financial Indebtedness": in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

**“Applicable Redemption Premium”** means, with respect to a Note on any redemption date prior to [·], the greater of (a) one per cent. of the principal amount of such Note on such redemption date and (b) the excess of:

- (a) the present value at such redemption date of the redemption price of such Note at [·], plus all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and [·], excluding accrued but unpaid interest, computed using a discount rate equal to the Gilt Rate at such redemption date plus 50 basis points, over
- (b) the principal amount of such Note on such redemption date.

**“Bond Liabilities”** has the meaning given to the term “Pari Passu Bond Liabilities” in the Intercreditor Agreement.

**“Borrowings”** means, at any time, without double counting, the outstanding principal or capital amount of any indebtedness of the Issuer for or in respect of:

- (a) moneys borrowed;
- (b) acceptance credits;
- (c) moneys raised under or pursuant to bonds, notes, debentures, loan stock or any similar instrument;
- (d) any finance or capital lease or hire purchase contract which would, in accordance with the Accounting Principles, be treated as a finance or capital lease but only to the extent of such treatment;
- (e) receivables sold or discounted;
- (f) (without double counting) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of a payment obligation;
- (g) any sale and leaseback arrangement entered into primarily as a method of raising finance;
- (h) any amount raised under any other transaction which would be treated as a borrowing in accordance with the Accounting Principles; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in clause (a) to (h) above.

**“Business Day”** means a day (other than a Saturday or Sunday) on which banks are open for general business in London.

**“CAA”** or **“Civil Aviation Authority”** means the UK Civil Aviation Authority.

**“Cash”** means, at any time, cash denominated in Sterling, U.S. dollars or euro in hand or at bank and (in the latter case) credited to an account in the name of the Issuer with an Acceptable Bank and to which the Issuer is beneficially entitled and for so long as:

- (a) that cash is repayable within 180 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security over that cash except for Transaction Security or any Permitted Security constituted by a netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements; and
- (d) the cash is freely and immediately available to be applied in repayment or prepayment of the Facilities.

**“Cash Equivalent Investments”** means at any time any of the following which are denominated in Sterling, US dollars or euro:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations:
  - (i) issued or guaranteed by the government of:
    - (A) the United States of America;
    - (B) the United Kingdom;
    - (C) any member state of the European Economic Area or any Participating Member State which has a credit rating of either A- or higher by S&P, A- or higher by Fitch or A3 or higher by Moody's; or
    - (D) by an instrumentality or agency of any party set out in (A) to (C) having an equivalent credit rating; and

- (ii) maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
  - (i) for which a recognised trading market exists;
  - (ii) issued by an issuer incorporated in the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State;
  - (iii) which matures within one year after the relevant date of calculation; and
  - (iv) which has a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) bills of exchange issued in the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent);
- (e) any investment accessible within 30 days in money market funds which (i) have a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, and (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; or
- (f) any other debt security approved by the Trustee,

in each case, to which the Issuer is beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security (other than Security arising under the Transaction Security Documents).

“**Cashflow From Operations**” has the meaning given to that term in the Master Definitions Agreement.

“**Change of Control**” means the occurrence of any of the following events:

- (a) prior to the consummation of an initial Public Equity Offering, the consummation of any transaction (including a merger or consolidation) the result of which is that any person or any persons acting in concert, other than one or more Permitted Holders, are or as a result of such transaction become interested in more than 50 per cent. of the total voting power of the Voting Shares of the Issuer;
- (b) on and after the consummation of an initial Public Equity Offering, any person or any persons acting in concert, other than one or more Permitted Holders, are or as a result of such transaction become interested in more than 35 per cent. of the total voting power of the Voting Shares of the Issuer and the Permitted Holders, individually or in the aggregate, are not interested in a larger percentage of the total voting power of such Voting Shares than such other person or persons acting in concert;
- (c) the sale, transfer, conveyance or other disposition of all or substantially all the assets (other than Shares, debt or other securities of any Subsidiary that is not a Subsidiary Group Company) of the Issuer and the Subsidiary Group, on a consolidated basis, (i) if following such sale, transfer, conveyance or other disposition, the transferee entity is not listed on a stock exchange or automated quotation system and any persons or persons acting in concert, other than one or more Permitted Holders, are or as a result of such sale, transfer, conveyance or other disposition become interested in a larger percentage of the total voting power of the Voting Shares of the transferee entity than the Permitted Holders, individually or in the aggregate or (ii) if the transferee entity is and is expected to continue to be listed on a stock exchange or automated quotation system following such sale, transfer, conveyance or other disposition (A) any person or any persons acting in concert, other than one or more Permitted Holders, are or as a result of such transaction become interested in more than 35 per cent. of the total voting power of the Voting Shares of the transferee entity and (B) the Permitted Holders, individually or in the aggregate, are not interested in a larger percentage of the total voting power of such Voting Shares than such other person or persons acting in concert;
- (d) the Parent or the Issuer is liquidated or dissolved or adopts a plan of liquidation or dissolution other than in a Permitted Transaction;
- (e) the Parent or any Surviving Entity ceases to beneficially own, directly, 100 per cent. of the Voting Shares of the Issuer, other than director's qualifying shares and other shares required to be issued by law; or
- (f) (i) the Issuer ceases to beneficially own, directly or indirectly, 100 per cent. of the Voting Shares of Heathrow Airport Limited or any Holding Company of Heathrow Airport Limited that is a direct or indirect Subsidiary of the Issuer, other than director's qualifying shares and other shares required to be issued by law, or (ii) the sale, transfer, conveyance or other disposition of all or substantially all the assets of Heathrow Airport Limited, other than in the case of (i) and (ii), to another Subsidiary Group Company or in a Permitted Transaction.

For the purposes of this definition, (i) “**persons acting in concert**” has the meaning given this term in the City Code on Takeovers and Mergers; (ii) “**interested**” has the meaning given this term in Part 22 of the Companies Act; and (iii) a person or persons acting in concert will be deemed to be interested in all Voting Shares of an entity held by a parent entity, if such person or persons acting in concert are or become interested, prior to the consummation of an initial Public Equity Offering, in more than 50 per cent. of the total voting power of the Voting Shares of such parent entity or on and after the consummation of an initial Public Equity Offering in more than 35 per cent. of the total voting power of the Voting Shares of such parent entity.

“**Common Terms Agreement**” means the common terms agreement between, among others, the Subsidiary Group Companies and Heathrow Funding Limited dated 18 August 2008, as in effect on the date of the Trust Deed.

“**Compliance Certificate**” has the meaning given to that term in paragraph (b) of Condition 4.11 (*Information and Reports; Certificates; Notification of Defaults and Events of Default*).

“**Compliance Reporting Date**” means 30 June.

“**Companies Act**” means the Companies Act 2006 (as amended, restated or re-enacted from time to time).

“**Controlled Payment**” means any payment, loan or other transaction restricted by the provisions of Conditions 4.3 (*Limitation on dividends, share redemption and restricted payment*) or 4.5 (*Limitation on loans, credit or guarantee*).

“**Controlled Payment Certificate**” means a certificate in the form set out in Schedule 5 to the Trust Deed.

“**Controlled Payment Conditions**” mean the following:

- (a) no Default is continuing or would result from such Controlled Payment;
- (b) at the time such Controlled Payment is made:
  - (i) (A) Pro Forma Junior RAR is not greater than 82 per cent.; and
  - (B) Pro Forma Group RAR is not greater than 90 per cent.;in each case, after giving pro forma effect to the Controlled Payment;
- (ii) the Regulator has not issued a notice to terminate any licence required for carrying on the business of any member of the Group or of any proposed or actual modification to any such licence which, if implemented, would reasonably be expected to have a Material Adverse Effect unless the licence is replaced or reinstated or the relevant authority or Regulator has directed that the Group's business can continue without such licence or such licence is no longer required; and
- (iii) the Issuer has delivered a Controlled Payment Certificate to the Trustee.

“**Credit Facilities Liabilities**” has the meaning given to that term in Intercreditor Agreement.

“**Default**” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“**Enforcement Instruction**” has the meaning given to that term in paragraph (a) of Condition 12 (*Enforcement of Security*).

“**Event of Default**” has the meaning given to that term in paragraph (a) of Condition 11 (*Events of Default*).

“**Extraordinary Resolution**” means a resolution of a meeting of Noteholders satisfying the relevant requirements set forth in Condition 16 (*Meetings of Noteholders, Modification, Waiver and Authorisation*).

“**Facility Agreements**” means the facility agreement dated 26 October 2010 (as amended, waived, restated, novated, replaced and/or supplemented from time to time) among the Issuer, the Parent, Morgan Stanley Bank International Ltd, The Royal Bank of Scotland and the other parties referenced therein (as amended, restated, novated, replaced and/or supplemented from time to time) and the facility provided on the terms of a subordinated facility agreement dated 6 December 2011 between, among others, the Issuer, the Parent and The Royal Bank of Scotland plc as Agent.

“**Facilities**” means the term loan facilities being made available under the Facility Agreements.

“**Financial Indebtedness**” means, without double counting, any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds (other than performance and similar bonds), notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with the Accounting Principles, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);



- (f) for the purposes of clause (a)(vi) of Condition 11 (*Events of Default*) only (and not for any other purpose), any Treasury Transaction (and, when calculating the value of that Treasury Transaction, only the marked to market value shall be taken into account);
- (g) any counter-indemnity obligation in respect of a guarantee, bond (other than performance or similar bonds), standby or documentary letter of credit or any other instrument issued by a bank or financial institution where the underlying liability otherwise constitutes Financial Indebtedness;
- (h) any amount raised by the issue of redeemable shares which are capable of being redeemed on or before the Maturity Date other than those held by a member of the Group;
- (i) any amount of any liability under an advance or deferred purchase agreement if (i) the primary reason behind entering into the agreement is to raise finance or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 180 days after the date of supply;
- (j) any arrangement entered into primarily as a method of raising finance pursuant to which an asset sold or otherwise disposed of by that person is contemplated or intended to be re-acquired by a member of the Group (whether following the exercise of an option or otherwise);
- (k) any amount raised under any other transaction (including any forward sale or purchase agreement) to the extent treated as a borrowing under the Accounting Principles but excluding, for the avoidance of doubt, (except for the purposes of clause (a)(vi) of Condition 11 (*Events of Default*)) any amount in respect of any pension deficit of any member of the Group); and
- (l) the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (a) to (k) above.

“**Fitch**” means Fitch Ratings Limited and any successor to the rating agency business of Fitch Ratings Limited.

“**Gilt Rate**” means the yield to maturity at the time of computation of direct obligations of the United Kingdom with a constant maturity (as compiled by the Office of National Statistics and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to [-]; *provided, however*, that if the period from the redemption date to [-] is not equal to the constant maturity of a direct obligation of the United Kingdom for which a weekly average yield is given, the Gilt Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the United Kingdom for which such yields are given, except that if the period from such redemption date to [-] is less than one year, the weekly average yield on actually traded direct obligations of the United Kingdom adjusted to a constant maturity of one year shall be used.

“**Group**” means the Issuer and the Subsidiary Group Companies.

“**Group ICR**” means for any Relevant Testing Period, the ratio (expressed as a ratio of 1) of:

- (a) the sum of Cashflow from Operations of the Subsidiary Group Companies (after adding back any cashflows of a one-off, non-recurring, extraordinary or exceptional nature in respect of the Subsidiary Group Companies), less corporation tax paid to HM Revenue and Customs, less two per cent. multiplied by the Total RAB; to
- (b) interest and equivalent recurring finance charges paid on:
  - (i) Senior Debt and Junior Debt and any Permitted Financial Indebtedness (as defined in the Master Definitions Agreement) that is not pursuant to the STID subordinated to such Senior Debt and Junior Debt; and
  - (ii) Borrowings (other than any Parent Liabilities),
 less all interest received by any member of the Security Group from any third party other than pursuant to a Permitted Inter-Company Loan.

“**Group Net Indebtedness**” means, as at any date, the sum of Senior Net Indebtedness, Junior Indebtedness and Issuer Net Indebtedness.

“**Group RAR**” means Group Net Indebtedness expressed as a percentage of Total RAB.

“**Hedge Counterparty**” means any person that has become a party to the Intercreditor Agreement as a hedge counterparty in accordance with the provisions of the Intercreditor Agreement.

“**Hedging Agreement**” means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Issuer and a Hedge Counterparty in accordance with the Intercreditor Agreement for the purpose of hedging interest rate risk in respect of Notes or interest rate or currency risk in respect of any Permitted Borrower Debt.

“**Hedging Liabilities**” has the meaning given to that term in the Intercreditor Agreement.

“**Holding Company**” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“**Insolvency Official**” means, in respect of any company, a liquidator, provisional liquidator, administrator (whether appointed by the court or otherwise), administrative receiver, receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian or other similar official in respect of such company or in respect of the whole or any part of the company's assets or in respect of any arrangement or composition with creditors.

“**Insolvency Proceedings**” means the winding-up, dissolution, company voluntary arrangement or administration of a company or corporation and shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief from creditors or the appointment of an Insolvency Official.

“**Intercreditor Agreement**” means the Intercreditor Agreement dated 26 October 2012 (as amended, waived, restated, novated, replaced and/or supplemented from time to time) between, amongst others, the Parent, the Issuer, the Trustee, the Security Agent and the other parties to the Facility Agreements; and the Hedge Counterparties.

“**Interest Period**” means the period beginning on and including the date of the Trust Deed and ending on but excluding the first Interest Payment Date, and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

“**Investor Report**” has the meaning given to that term in the Master Definitions Agreement; *provided, however*, that the Investor Report furnished to the Trustee pursuant to clause (a)(iii) of Condition 4.11 (*Information and Reports; Certificates; Notification of Defaults and Events of Default*) shall also include a supplement setting out the amendments to, and recalculations of, the financial covenants set out in the Investor Report to incorporate the Borrowings of the Issuer.

“**Issuer Net Indebtedness**” means, at any time, the aggregate amount of all indebtedness of the Issuer for or in respect of Borrowings (other than any Parent Liabilities) but deducting the aggregate amount of Cash and Cash Equivalent Investments held by the Issuer.

“**Junior Debt**” has the meaning given to that term in the Master Definitions Agreement.

“**Junior Indebtedness**” has the meaning given to that term in the Master Definitions Agreement.

“**Junior RAR**” has the meaning given to that term in the Master Definitions Agreement.

“**London Stock Exchange**” means London Stock Exchange plc.

“**Master Definitions Agreement**” means the master definitions agreement entered into in connection with the Common Terms Agreement and dated 18 August 2008, as in effect on the date of the Trust Deed.

“**Material Adverse Effect**” means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole; or
- (b) the ability of the Issuer (taking into account the resources available to the Issuer from other members of the Group) to perform its payment obligations under the Notes.

“**Maturity**” means, with respect to any indebtedness, the date on which any principal of such indebtedness becomes due and payable as therein or herein provided, whether at the stated maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

“**Maturity Date**” means [·].

“**Moody's**” means Moody's Investor Services Limited and any successor to the ratings business of Moody's Investor Services Limited.

“**Note Acceleration Notice**” has the meaning given to that term in paragraph (b) of Condition 11 (*Events of Default*).

“**Noteholder Direction**” has the meaning given to that term in paragraph (a) of Condition 12 (*Enforcement of Security*).

“**Officer's Certificate**” means a certificate signed by one director of the Issuer or a Surviving Entity, as the case may be, addressed and delivered to the Trustee.

“**Original Credit Facilities Documents**” has the meaning given to that term in the Intercreditor Agreement.

“**Parent**” means Heathrow (DSH) Limited.

“**Participating Member State**” means any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

**“Parent Debt”** means Financial Indebtedness owed by the Issuer to the Parent and which constitutes Parent Liabilities.

**“Parent Liabilities”** has the meaning given to that term in the Intercreditor Agreement.

**“Permitted Borrower Debt”** means any Financial Indebtedness incurred by the Issuer where:

- (a) the Issuer is the only borrower of that Financial Indebtedness;
- (b) that Financial Indebtedness is not guaranteed by the Parent or any Subsidiary of the Issuer;
- (c) the only Security for that Financial Indebtedness is Transaction Security;
- (d) when that Financial Indebtedness is incurred, Pro Forma Group RAR is not greater than 90 per cent after giving *pro forma* effect to (i) the incurrence of the Financial Indebtedness and (ii) the application of the proceeds thereof;
- (e) when that Financial Indebtedness is incurred, Pro Forma Group ICR is not less than 1.0 after giving *pro forma* effect to (i) the incurrence of the Financial Indebtedness and (ii) the application of the proceeds thereof;
- (f) no Event of Default is continuing when that Financial Indebtedness is incurred; and
- (g) that Financial Indebtedness:
  - (i) is permitted by the Intercreditor Agreement to be designated as Primary Creditor Liabilities; and
  - (ii) (A) is designated Primary Creditor Liabilities before any such Financial Indebtedness is incurred by the Issuer and (B) the creditors or, if applicable, their representatives in respect of that Financial Indebtedness have acceded to the Intercreditor Agreement in accordance with its terms.

**“Permitted Equity Cure Amount”** means an amount:

- (a) subscribed for in cash by the Parent for ordinary shares in the Issuer; or
- (b) lent by the Parent to the Issuer in cash by way of Parent Liabilities.

**“Permitted Financial Indebtedness”** means Financial Indebtedness:

- (a) arising under the Facility Agreements;
- (b) arising under the 2017 Notes;
- (c) arising in respect of any Permitted Borrower Debt;
- (d) which are Hedging Liabilities or Parent Liabilities; or
- (e) which is owed by the Parent to:
  - (i) any of its Affiliates (other than members of the Group); or
  - (ii) the Issuer in accordance with (a)(ii)(B) of Condition 4.5 (*Limitation on Loans, Credit or Guarantee*).

**“Permitted Holders”** means (a) Ferroviol S.A., Caisse de dépôt et placement du Québec, The Government of Singapore Investment Corporation, Alinda Capital Partners, China Investment Corporation and Qatar Holding LLC and any of their respective Affiliates, and (b) any person who is acting as an underwriter in connection with any public or private offering of Shares of the Issuer, acting in such capacity.

**“Permitted Inter-Company Loan”** has the meaning given to that term in the Master Definitions Agreement.

**“Permitted Security”** means:

- (a) any liens arising by operation of law and in the ordinary course of the Issuer's or the Parent's business as a holding company and not as a result of any default or omission by the Issuer or the Parent;
- (b) any payment or close-out netting or set-off arrangement pursuant to any Treasury Transaction or foreign exchange transaction entered into by the Issuer or the Parent that constitutes Permitted Financial Indebtedness, excluding any Security or Quasi-Security under a credit support arrangement;
- (c) Security arising under the Transaction Security Documents; and
- (d) Security incurred in the ordinary course of business of the Issuer with respect to obligations that do not exceed £5 million (or the equivalent thereof in any other currency or currencies) at any one time outstanding.

**“Permitted Transaction”** means the consolidation, merger or amalgamation with or into (whether or not the Issuer is the surviving corporation), or sale, assignment or conveyance, transfer, lease, or other disposal of, in one transaction or a series of transactions, all or substantially all of the Issuer's assets (determined on a consolidated basis for it and its Subsidiaries) to, another person, when:

- (a) the resulting, surviving or transferee person, if other than the Issuer (the **“Surviving Entity”**), (A) is a person organised and existing under the laws of England and Wales, any member state of the European Union, the

European Economic Area, the United States of America, any state thereof, the District of Columbia or Canada and (B) expressly assumes, pursuant to a deed supplemental to the Trust Deed, executed and delivered to the Trustee, in a form satisfactory to the Trustee, the Issuer's obligations under the Notes and the Trust Deed and assumes the Issuer's obligations under the Transaction Security Documents and the Notes, with the Trust Deed and the Security Documents (including the Transaction Security) remaining in full force and effect as so supplemented;

- (b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any obligation of the Issuer or any Subsidiary Group Company incurred in connection with or as a result of such transaction or series of transactions as having been incurred by the Issuer or such Subsidiary Group Company at the time of such transaction), no Default or Event of Default will have occurred and be continuing;
- (c) immediately before and immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (on the assumption that the transaction or series of transactions occurred on the first day of the four-quarter financial period immediately prior to the consummation of such transaction or series of transactions with the appropriate adjustments with respect to the transaction or series of transactions being included in such *pro forma* calculation), the Issuer (or the Surviving Entity if the Issuer is not the continuing obligor under the Trust Deed) could incur at least £1.00 of additional Financial Indebtedness under the provisions of Condition 4.1 (*Limitation on Financial Indebtedness*);
- (d) any of the Issuer's or the Surviving Entity's property or assets would thereupon become subject to any Security, the provisions of the Condition 4.6 (*Negative Pledge*) are complied with and enforceable in accordance with their terms;
- (e) the Issuer or the Surviving Entity will have delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officer's Certificate (attaching the computations to demonstrate compliance with clauses (b) and (c) above) and an opinion of independent counsel, each stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental deed to the Trust Deed is required in connection with such transaction, such supplemental deed complies with the requirements of these Conditions and the Trust Deed and that all conditions precedent in these Conditions and the Trust Deed relating to such transaction have been satisfied and that the Trust Deed and the Notes constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms; and
- (f) immediately thereafter, Surviving Entity shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Trust Deed. Upon such succession and substitution, the Issuer shall be relieved of all obligations and covenants under the Trust Deed and the Notes.

“**person**” means any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality).

“**Primary Creditor Liabilities**” has the meaning given to that term in the Intercreditor Agreement.

“**Pro Forma Group ICR**” means Group ICR for the year in which the Financial Indebtedness is incurred as set out in the latest Investor Report supplied by the Issuer, adjusted as though the relevant Financial Indebtedness (and all other Permitted Borrower Debt previously incurred in that financial year and not reflected in the Investor Report) had been incurred on the first day of the relevant year and, to the extent that the relevant Financial Indebtedness is to be used to repay or prepay existing Financial Indebtedness, such Financial Indebtedness had been repaid on the first day of the relevant year.

“**Pro Forma Junior RAR and Pro Forma Group RAR**” shall be determined using Senior Net Indebtedness, Junior Indebtedness and Issuer Net Indebtedness (as applicable) and Total RAB set out in the most recent monthly management accounts available to the Issuer, adjusted to take into account the relevant transaction and any other such transactions since the date to which those accounts were prepared.

“**Public Equity Offering**” means an underwritten public offer and sale of Shares (which are Shares other than redeemable shares) of the Issuer, the Parent or any other Holding Company of the Issuer up to and including Heathrow Airport Holdings, with gross proceeds of at least £20 million (including any sale of Shares purchased upon the exercise of any over-allotment option granted in connection therewith) to the company whose Shares are the subject of such public offer and sale.

“**Quasi Security**” has the meaning given to that term in paragraph (a) of Condition 4.6 (*Negative Pledge*).

“**RAB**” or “**Regulatory Asset Base**” has the meaning given to that term in the Master Definitions Agreement.

“**Regulators**” means the CAA and the UK Competition Commission, and any other additional or replacement governmental authority which may from time to time regulate any of the businesses of the Issuer, the Parent or any Subsidiary Group Company or in respect of which the Issuer, the Parent or any Subsidiary Group Company is required to comply.

“**Relevant Taxing Jurisdiction**” has the meaning given to that term in Condition 10 (*Taxation*).

**“Relevant Testing Date”** means, in respect of any Compliance Reporting Date, 31 December in the year immediately preceding such Compliance Reporting Date.

**“Relevant Testing Period”** means, in respect of any Compliance Reporting Date, the period of 12 months ending on the last day of the financial year in the year preceding such Compliance Reporting Date.

**“Reporting Date”** means 30 June and 31 December in each year starting on 31 December 2010 or any other date as may be agreed between the Issuer and the Trustee as a result of a change in the financial year and or regulatory year end date of any Subsidiary Group Company.

**“Request”** has the meaning given to that term in the Intercreditor Agreement.

**“Request Instruction”** has the meaning given to that term in paragraph (a) of Condition 12 (*Enforcement of Security*).

**“Restricted Payment”** has the meaning given to that term in the Master Definitions Agreement.

**“Restricted Payment Loan”** means any loan by way of a Restricted Payment.

**“Restricted Payment Condition”** has the meaning given to that term in the Master Definitions Agreement.

**“S&P”** means Standard & Poor's Ratings Service and any successor to the ratings business of Standard and Poor's Ratings Service.

**“Security”** means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

**“Security Agent”** means Deutsche Trustee Company Limited, and its successors, as security agent for the Transaction Security under the Intercreditor Agreement and the Transaction Security Documents.

**“Security Group”** has the meaning given to that term in the Master Definitions Agreement,

**“Senior Debt”** has the meaning given to that term in the Master Definitions Agreement.

**“Senior Finance Documents”** means the “Finance Documents” as defined in the Master Definitions Agreement.

**“Senior Net Indebtedness”** has the meaning given to that term in the Master Definitions Agreement.

**“Shares”** means, with respect to any person, any and all shares, interests, partnership interests (whether general or limited), participations, rights in or other equivalents (however designated) of such person's equity, any other interest or participation that confers the right to receive a share of the profits and losses, or distributions of assets of, such person and any rights (other than debt securities convertible into or exchangeable for shares), warrants or options exchangeable for or convertible into such shares, whether now outstanding or issued after the date of the Trust Deed.

**“Sterling”** or **“£”** means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

**“STID”** has the meaning given to that term in the Master Definitions Agreement.

**“Subsidiary”** means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

**“Subsidiary Group Company”** has the meaning given to the term “Obligor” in the Master Definitions Agreement.

**“Surviving Entity”** has the meaning given to that term in clause (a) of the definition of “Permitted Transaction”.

**“Tax”** means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

**“Total RAB”** has the meaning given to that term in the Master Definitions Agreement.

**“Transaction Security”** means the Security created or expressed to be created in favour of the Security Agent pursuant to the Transaction Security Documents.

**“Transaction Security Documents”** means:

- (a) the debenture of the Issuer (including a first-ranking charge of all the issued share capital of Heathrow (SP) Limited);
- (b) the debenture of the Parent (including a first-ranking charge of all the issued share capital of the Issuer); and
- (c) any other document entered into by any the Issuer or the Parent creating or expressed to create any Security over all or any part of the Parent's or the Issuer's assets in respect of the obligations under the Permitted Borrower Debt,

in each case, as amended, waived, restated, novated, replaced and/or supplemented from time to time.

**“transactions in the ordinary course of business”** includes contracts for the development, construction and operation of airport facilities.

**“Treasury Transaction”** means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price.

**“Voting Shares”** means any class or classes of Shares pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees (or persons performing similar functions) of any person (irrespective of whether or not, at the time, shares of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

## **22. GOVERNING LAW**

The Trust Deed, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

## **23. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

**PROVISIONS RELATING TO THE NOTES  
WHILE REPRESENTED BY THE GLOBAL NOTES**

The following is an overview of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

**1. Exchange**

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (a) upon the happening of any of the events defined in the Terms and Conditions of the Notes (“**Conditions**” ) as “Events of Default”;
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

**2. Payments**

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, premium and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be prima facie evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

**3. Notices**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders (including any notices to be delivered to the Noteholders pursuant to Condition 12 (*Enforcement of Security*)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 20 (*Notices*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder (including any Noteholder Direction pursuant to Condition 12 (*Enforcement of Security*)) may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

#### **4. Accountholders**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer or, as the case may be, the Trustee pursuant to Condition 11 (*Events of Default*), Condition 12 (*Enforcement of Security*) and Condition 7.3 (*Purchase of Notes Upon a Change of Control*)) other than with respect to the payment of principal, premium and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

#### **5. Prescription**

Claims against the Issuer in respect of principal, premium and interest on the Notes represented by a Global Note will be prescribed after ten years from the appropriate payment date (in the case of principal and premium) and five years from the relevant Interest Payment Date (in the case of interest).

#### **6. Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

#### **7. Put Option**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 7.3 (*Purchase of Notes Upon a Change of Control*) may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depository for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

#### **8. Redemption at the Option of the Issuer**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, in the event that the Issuer exercises its call option pursuant to Condition 7.2(a) (*Optional Redemption*) in respect of less than the aggregate principal amount of the Notes outstanding at such time, the Notes shall be redeemed on a *pro rata* basis or, if redemption on a *pro rata* basis is not permitted by Euroclear and/or Clearstream, Luxembourg at such time, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Note(s) are to be subject to such option.

#### **9. Euroclear and Clearstream, Luxembourg**

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.



## TAX CONSIDERATIONS

### UNITED KINGDOM TAXATION

The following is a general description of certain UK taxation considerations in relation to the Notes based on current law and practice in the UK as at the date of this Prospectus. It does not purport to be a complete analysis of all tax considerations relating to the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and some aspects do not apply to certain classes of taxpayer (such as dealers, trustees and Noteholders who are connected or associated with the Issuer for relevant tax purposes). The summary set out below is a general guide and should be treated with appropriate caution. Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisors. In particular, holders of the Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

#### UK Withholding Tax on UK source interest

The Notes issued by the Issuer will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange has been designated as a recognised stock exchange for these purposes. The Notes will be treated as listed on the London Stock Exchange if they are admitted to the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange.

Interest on the Notes may also be paid without withholding or deduction for or on account of UK income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer (and any person by or through whom interest on the Notes is paid) reasonably believes that the beneficial owner is within the charge to UK corporation tax as regards the payment of interest or the payment is made to one of the classes of exempt bodies or persons set out in sections 935 to 937 of the Income Tax Act 2007, provided that HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In cases falling outside the exemptions described above, an amount must generally be withheld from payments of interest on the Notes on account of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

#### Provision of Information by UK Paying and Collecting Agents

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual (whether resident in the United Kingdom or elsewhere), or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual (whether resident in the United Kingdom or elsewhere), may be required to provide certain information to HM Revenue & Customs regarding the payment and the identity of the payee or person entitled to the interest and, in certain circumstances such information may be exchanged with tax authorities in other countries. However, in practice no information will be required to be provided in respect of redemption amounts for the year 2012—2013.

#### Further United Kingdom Income Tax issues

Interest on the Notes constitutes UK source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or for holders who are companies through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The attention of Noteholders is drawn to Condition 10 (*Taxation*) of the Notes. The provisions relating to additional payments referred to in Condition 10 (*Taxation*) of the Notes would not apply if HM Revenue & Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Note directly to UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double taxation treaty.

The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 14 (*Substitution*) of the Notes and does not consider the tax consequences of any such substitution.

The references to “interest” above mean “interest” as understood in UK tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

### **United Kingdom Corporation Tax Payers**

In general Noteholders which are within the charge to UK corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open ended investment companies) will be treated for tax purposes as realising profits, gains or losses (including exchange gains and losses) in respect of the Notes on a basis which is broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes. Such profits, gains and losses (or where the Noteholder's functional currency is not sterling, then the sterling equivalent of such profits, gains and losses as computed in the Noteholder's functional currency) will be taken into account in computing taxable income for corporation tax purposes.

### **Other UK taxpayers**

#### ***Taxation of Chargeable Gains***

The Notes should constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. If they are “qualifying corporate bonds”, a disposal by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains. If the Notes are deeply discounted securities within Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005, they will constitute “qualifying corporate bonds”.

#### ***Accrued Income Scheme***

The provisions of the accrued income scheme (the Scheme) may apply to certain Noteholders who are not subject to corporation tax, in relation to a transfer of the Notes. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount. Generally, persons who are neither resident nor ordinarily resident in the UK and who do not carry on a trade in the UK through a branch or agency to which the Notes are attributable will not be subject to the provisions of these rules. The Scheme will not apply in relation to Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005.

#### ***Taxation of Discount***

Depending on the issue price and redemption amount, the Notes may constitute “deeply discounted securities” for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and other Income) Act 2005. If the Notes are “deeply discounted securities”, any gain realised on disposal (including redemption or transfer) of the Notes by a Noteholder who is within the charge to United Kingdom tax in respect of the Notes will generally be taxable as income but such Noteholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition or disposal of the Notes.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such person for, an individual resident, or certain limited types of entity established, in that other Member State. Similar income for this purpose includes payments on redemption of Notes representing any discount on the issue of Notes or any premium payable on redemption. However, for a transitional period, Austria and Luxembourg may instead impose a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of other countries and territories have adopted similar measures to the EC Directive.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

**Stamp Duty and SDRT**

It is expected that no stamp duty or stamp duty reserve tax will be payable on issue of the Notes or on a transfer of Notes by delivery.

## SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, The Royal Bank of Scotland plc, Barclays Bank PLC, ING Bank N.V., London Branch, Merrill Lynch International and Morgan Stanley & Co. International plc (together, the “**Managers**”) have, pursuant to a subscription agreement (the “**Subscription Agreement**”) dated [-], jointly and severally agreed to subscribe the Notes at the issue price of [-] per cent. of the principal amount of Notes, less a combined management and underwriting commission and selling concession. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer. The Managers and certain of their affiliates from time to time have performed, and in the future will perform, banking, investment banking, advisory, consulting and other financial services for the Group, for which they have received and may in the future receive customary advisory and transaction fees and expense reimbursement.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each Manager has represented and agreed that:

- (A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **General**

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

### **Interest of persons involved in the offer of Notes**

Except as described in this “*Subscription and Sale*” section, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer, other than certain of the Managers acting as lenders under the Issuer Facilities.

## GENERAL INFORMATION

### Authorisation

The creation and issuance of the Notes has been authorised by a resolution of the Issuer's board of directors, dated [·].

### Listing

Application has been made to the UKLA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market. The Issuer estimates the expenses relating to the admission of the Notes to trading to be approximately £17,750.

### Clearing Information

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate ISIN for this issue is XS[·] and the Common Code is [·].

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

### Legal information

The Issuer (registered number 6458635), with its registered office at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW, was incorporated in England on 20 December 2007. The Issuer can be contacted by calling +44 (0)20 8745 9800.

As of the date of this Prospectus, the Issuer's authorised ordinary share capital of £9,000,000,000 is divided into ordinary shares with a par value of £1 each and its issued ordinary share capital is 3,109,350,689 ordinary shares of a par value of £1 each, held by Heathrow (DSH) Limited.

The rights of the holders of the common shares in the Issuer are contained in the Articles of Association of the Issuer, and the Issuer will be managed by its directors in accordance with those articles and in accordance with the laws of England and Wales.

### No Significant Change or Litigation

There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2011, and no significant change in the financial or trading position of the Issuer or the Group since 30 September 2012.

There are no governmental, legal or arbitration proceedings that may have or had in the 12 months before the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Group. The Issuer is not aware that any such proceedings are pending or threatened.

### Auditors

The financial statements as at and for the year ended 31 December 2010 and 31 December 2011 incorporated by reference in this Prospectus have been audited by Deloitte LLP, chartered accountants of 2 New Street Square, London, EC4A 3BZ to the Issuer.

### Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) the audited consolidated financial statements of the Issuer for the years ended 31 December 2010 and 31 December 2011;
- (c) a copy of this Prospectus; and
- (d) the Trust Deed, the Agency Agreement, the Intercreditor Agreement and the Security Agreement.

**Yield**

The yield of the Notes is [·] per cent. per annum calculated on the basis of the Issue Price and as at the date of this Prospectus.

**Third party information**

Third party information referred to in the sections entitled “*Overview*” and “*Business*” has been accurately reproduced and as far as the Issuer is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has not independently verified the information included herein from third parties and such information may not be up to date.

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