

IMPORTANT NOTICE

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HEATHROW FUNDING LIMITED

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

Multicurrency programme for the issuance of Bonds

This prospectus supplement (the *Supplement*) is supplemental to and must be read in conjunction with the base prospectus dated 26 June 2017 (the *Prospectus*) and constitutes a supplementary prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the *Prospectus Directive*) and relevant implementing measures in the United Kingdom and is prepared in connection with the £50,000,000,000 multicurrency programme for the issuance of Bonds (the *Programme*) established by Heathrow Funding Limited (the *Issuer*) as described in the Prospectus. Terms defined in the Prospectus have the same meaning when used in this Supplement.

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

The purpose of this Supplement is to:

- a) incorporate by reference the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2017;
- b) include an updated risk factor in relation to the Group's ability to obtain deductions on interest incurred on external debt;
- c) provide an update regarding Heathrow's Chief Operating Officer, Director of Treasury and changes to the boards of some of the other Group companies;
- d) provide an update in relation to the expansion of Heathrow Airport;
- e) provide an update on Heathrow price regulation; and
- f) include additional legends and selling restrictions in the Prospectus and the Final Terms of any Bonds to address the revised Markets in Financial Instruments Directive (EU Directive 2014/65/EU) (*MiFID II*) and the Packaged Retail and Insurance Based Products Regulation (Regulation (EU) No 1286/2014) (*PRIIPS*).

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

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

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

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

Supplement dated 28 February 2018

RESPONSIBILITY STATEMENT

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

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

SIGNIFICANT NEW FACTORS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HEATHROW (SP) LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

On 22 February 2018, Heathrow (SP) Limited (*Heathrow (SP)*) announced the publication of its audited consolidated results for the year ended 31 December 2017 (the *Group Consolidated Financial Statements*). By virtue of this Supplement, the Group Consolidated Financial Statements are incorporated by reference in, and form part of, the Prospectus. For the avoidance of doubt, any further information or documents incorporated by reference in the Group Consolidated Financial Statements do not form part of the Prospectus. Information contained in the documents incorporated by reference into this Supplement, which is not itself incorporated by reference herein, is not relevant for investors.

Copies of the documents deemed to be incorporated by reference in the Prospectus and this Supplement 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 the Prospectus and this Supplement are also available at https://www.heathrow.com/company/investor-centre/offering_related_documents/other_documents/heathrow-funding-limited-information (the *Special Purpose Website*). The information contained on the Special Purpose Website must be considered together with all the information contained elsewhere in the Prospectus and this Supplement. The Special Purpose Website does not form part of Heathrow's website, and Heathrow's website does not form any part of the Prospectus and/or this Supplement. The Special Purpose Website is provided for convenience only, and its content does not form any part of the Prospectus and/or this Supplement for the purpose of the listing rules of the UK Listing Authority.

There has been no material adverse change in the prospects of Heathrow (SP) since 31 December 2017.

There has been no significant change in the financial or trading position of the Group since 31 December 2017.

UPDATED RISK FACTOR IN RELATION TO THE GROUP'S ABILITY TO OBTAIN DEDUCTIONS ON INTEREST INCURRED ON EXTERNAL DEBT

The Group's ability to obtain deductions on interest incurred on external debt could be restricted.

In November 2017, the Finance (No.2) Act 2017 received Royal Assent, giving effect to a new interest deductibility regime. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). The OECD reports include recommendations as to best practice concerning limits on the deductibility of interest expense for corporate tax payers, based on certain ratios of net interest expenditure to earnings before interest, tax, depreciation and amortisation (*EBITDA*).

As a result of the new legislation, from 1 April 2017, interest deductions are limited by a fixed ratio rule (*FRR*) which restricts a group's UK tax deductions for net interest expenditure to 30% of "tax based" EBITDA. The legislation also contains a group ratio rule (*GRR*) and a public infrastructure exemption (*PIE*). The GRR allows groups that are highly leveraged for commercial reasons to obtain a higher level of net interest deductions, up to a limit in line with the group's overall external gearing position. The PIE aims to ensure that any restrictions do not impede the provision of external finance used to fund taxable UK public infrastructure.

The Group expects to be largely protected from the 30% cap imposed by the FRR by virtue of the PIE and the GRR and is currently engaging with HM Treasury and HM Revenue & Customs to confirm this position. If, however, the new rules were to restrict the ability of the Group or the Issuer to claim deductions for all or part of their interest expenses, this could have an adverse effect on the financial position of the Group or the Issuer.

CHIEF OPERATING OFFICER AND CHANGES TO THE BOARD OF SOME OF THE GROUP COMPANIES

On 3 October 2017, Normand Boivin resigned as Heathrow's Chief Operating Officer and as a director of the following companies: Heathrow Airport Limited, Heathrow Express Operating Company Limited and LHR Airports Limited. Since October 2017, Derek Provan has been acting as Heathrow's interim Chief Operating Officer and has been a director of Heathrow Airport Limited and LHR Airports Limited. In the spring of 2018, Derek will be stepping down as interim Chief Operating Officer and as a director of Heathrow Airport Limited and LHR Airports Limited and will be replaced on a permanent basis by Chris Garton.

Chris Garton was previously Executive Vice President, Operations at Dubai Airports where he played a key role in growing annual passenger numbers threefold over a 9 year period. As part of that role, he led the operational readiness and successful entry into service of the new Dubai World Central Airport. Prior to Dubai Airports, he held several posts during a 5-year stint at Gatwick Airport, including Operational Solutions Director and Engineering General Manager. Before entering the world of aviation, Chris served as Business Engineering Manager with Ineos an international manufacturer of chemicals and held numerous operations and engineering management positions during a 20-year career at ICI plc. Chris' passion for the wellbeing of people drives his keen interest to improve safety, security and service for customers and colleagues.

Chris holds a BSc (Eng) in Electrical Engineering from Imperial College and is a Chartered Engineer.

On 5 July 2017, Andrew Macmillan and Stephen Chambers were appointed as directors of Heathrow Express Operating Company Limited.

Andrew Efiang, Director of Treasury, will be stepping down as Director of Treasury and as a director of the following relevant companies: the Issuer, Heathrow (SP) and Heathrow (AH) Limited. The recruitment process for a permanent Director of Treasury is underway.

EXPANSION OF HEATHROW AIRPORT

On 24 October 2017, the Government published a revised draft Airports National Policy Statement (*NPS*). The revised NPS sets out the impact of changes arising from: updated noise analysis; a new air quality plan; government policy changes and a consideration of the responses received to the first consultation on the NPA. This consultation has now closed and the final version of the NPS is expected to be submitted to a vote in the UK Parliament during the first half of 2018. Assuming the required vote in favour, the Secretary of State for Transport is expected to then "designate" the NPS.

Following the designation of the NPS, the expansion of Heathrow Airport will require consent in the form of a Development Consent Order (*DCO*). Heathrow is continuing to actively develop its DCO application and on 17 January 2018 launched a 10-week public planning consultation on expansion and future operations. The consultation is formed of two parts – the first on infrastructure design options for an expanded Heathrow Airport and the approach to managing and reducing environmental and community impacts, while the second is focused on the future design principles for the airspace around Heathrow.

HEATHROW PRICE REGULATION

Q6 Extension

Heathrow's current regulatory period, the Q6 regulatory period was initially for four years and nine months from 1 April 2014 to 31 December 2018 in order to align Heathrow's financial and regulatory years. In December 2016, the CAA published modifications to Heathrow's licence (which took effect from 1 February 2017) extending Heathrow's current regulatory period by one-year so that it will end on 31 December 2019, rolling over the current price control of RPI-1.5 per cent. for the additional year. In June 2017, the CAA published a consultation document entitled "Consultation on core elements of the regulatory framework to

support capacity expansion at Heathrow”. This consultation included a decision by the CAA to further extend the Q6 regulatory period by at least a year to 31 December 2020 with an option to extend the Q6 regulatory period further depending on the overall timeline for the expansion of Heathrow Airport. In a further consultation document published by the CAA in December 2017, it indicated that its preferred approach to the price control that will apply during 2020 and beyond is to combine a headline RPI-0.0 per cent. tariff with a likely increased regulatory depreciation charge to reflect recent and forecast outperformance across various regulatory building blocks. The CAA expects to make a final decision whether the Q6 price control should be extended beyond 31 December 2020 and whether the extension should be for 12-months or longer as soon as is practicable in 2018 with appropriate licence modifications implemented in 2019.

Capital expenditure for the initial one-year extension to the Q6 regulatory period through to 31 December 2019 is currently forecast to be £0.534 billion (in 2011/2012 prices). The proposed capital expenditure for the further extension of the Q6 regulatory period through to 31 December 2020 is under review with the airline community and the CAA.

H7

Heathrow’s next regulatory period (H7) will commence once the Q6 regulatory period expires. In December 2017, the CAA published a policy update and consultation entitled “Economic regulation of capacity expansion at Heathrow”. This discusses in more detail alternative delivery mechanisms, the cost of capital in a two or a three runway scenario, the use of RPI or CPI to calibrate the price control, financeability, financial resilience, the regulatory treatment of early construction costs which may be incurred in connection with the expansion of Heathrow Airport and the further extension of the Q6 regulatory period. The consultation closes on 2 March 2018 and the CAA expects to publish its views on these matters as soon as practicable thereafter. In light of this timing, Heathrow expects to publish its initial business plan for the H7 regulatory period in December 2018.

MIFID II AND PRIIPS LEGENDS AND SELLING RESTRICTIONS

The “*Notices to Investors*” section of the Prospectus shall include the following additional language:

MiFID Product Governance

The Final Terms in respect of any Bonds will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Bonds and which channels for distribution of the Bonds are appropriate. Any person subsequently offering, selling or recommending the Bonds (a *distributor*) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, *MiFID II*) is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of Bonds about whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the *MiFID Product Governance Rules*), any relevant Dealer subscribing for any Bonds is a manufacturer in respect of such Bonds, but otherwise none of the other Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS- If the Final Terms in respect of any Bonds includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently, no key information

document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The "*Subscription and Sale*" section of the Prospectus shall include the following additional language:

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Bonds specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each relevant Dealer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"); and

the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Bonds specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the ***Relevant Implementation Date***) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus as completed by the applicable Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

- (a) if the applicable Final Terms in relation to the Bonds specify that an offer of those Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the applicable Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or such Final Terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

The “*Pro Forma Final Terms of the Bonds*” shall include the following additional language:

[MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Bonds (a “distributor”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - If the Final Terms in respect of any Bonds includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (as amended, “MiFID II”)] [MiFID II]; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

(If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified.)