

YOUR LONDON AIRPORT



GATWICK AIRPORT LIMITED INVESTOR REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

20 November 2014

Restated 22 December 2014

This investor report is prepared in accordance with the requirements of the Common Terms Agreement dated 15 February 2011 between, among others, the Issuer, the Obligors and Deutsche Trustee Borrower Limited (“the Borrower Security Trustee”) (“the Common Terms Agreement”). It summarises certain information contained in the Gatwick Airport Limited Directors’ report and financial statements for the six months ended 30 September 2014, and the Compliance Certificate for the period then ended.

Overview of the period ended 30 September 2014

During the six months ended 30 September 2014 a total of 22.5 million passengers travelled through Gatwick Airport (“Gatwick”) (“the Airport”), an increase of 1.7 million or 8.0%.

This was the busiest six months in Gatwick’s history. August in particular was the busiest single month the Airport has seen, with nearly 4.4 million passengers; on one day in August there were 906 air traffic movements (ATMs) – a world record for a single-runway airport.

There was a 4.7% increase in the number of ATMs compared to the same period in the prior year. This accounted for 59% (or 1.0 million) of the growth in passenger numbers. The remaining growth was achieved by a combination of larger aircraft – with an average of 4 seats more per ATM – and increased load factors.

In May 2013, easyJet plc completed an agreement with Flybe Group plc to acquire 25 pairs of arrival and departure slots at Gatwick. This has allowed easyJet to provide additional frequencies on popular existing routes from Gatwick as well as add new destinations across the UK and Europe. A number of other airlines have also increased frequencies on European routes and introduced new destinations. As a result, there were 10k more ATMs on European routes than in the prior year, carrying an additional 1.6 million passengers. 1.1 million of these were to southern European destinations such as Spain and Italy, and in addition new business routes such as Paris, Strasbourg and Brussels contributed to the growth.

Conversely, there were fewer flights to UK destinations, with passengers on domestic routes down 2.9%. This was partly due to the transfer of Flybe’s slots to easyJet, with the withdrawal of virtually all of Flybe’s Gatwick domestic services.

Norwegian Air Shuttle introduced new services to the USA, using the new Boeing 787 Dreamliner; this contributed to the 4.8% increase in passengers on North American routes. Other key areas of growth included the Middle East, with increased frequencies on existing routes such as Dubai and Istanbul.

The Borrower made an operating profit of £162.5 million for the six months ended 30 September 2013 compared to £141.0 million in the six months ended 30 September 2013.

Further information is available at www.gatwickairport.com/investor and in the Borrower’s Directors’ report and financial statements for the period ended 30 September 2014.

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Regulatory and business update

On 1 April 2014 the new regulatory framework based on Commitments backed by a licence, supplemented by a monitoring regime, came into operation at Gatwick. The commitments are a set of legally enforceable undertakings, made by GAL to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The Commitments also enable GAL to enter into a series of bilateral contracts incorporating, for example, price, service and duration, agreed on a contractual basis between the Company and individual airlines. The CAA published its Decision and Notice granting a licence to Gatwick in February 2014. The CAA's Decision incorporates the Commitments proposed by the Airport within a licence. It is therefore a requirement of the licence that GAL complies with its obligations in the Commitments. This includes that GAL complies with its commitment to incorporate a maximum average revenue yield over the next seven years, based on published prices at RPI+1.0% per year, and average prices (taking into account bilateral contracts) at RPI+0.0% per year (i.e. the "blended price"). It also includes that GAL complies with its Commitment to undertake capital investment expenditure of at least £100.0 million per annum over the next seven years. Obligations on third parties, contained in the Commitments do not form part of the licence.

In the Decision, the CAA set out, amongst other things, its view of the "fair price" in the five years from 1 April 2014 of RPI-1.6% per year. The CAA also considered that GAL should undertake capital investment expenditure of at least £160.0 million per annum on average. The CAA stated that it intends to monitor GAL's pricing and other behaviours (such as capital investment expenditure), on an annual basis to assess the extent to which the out-turn average prices (taking into account bilateral contracts) is consistent with its assessment of the "fair price" at RPI-1.6% and capital investment expenditure is at least £160.0 million per annum on average. If, as part of the CAA's monitoring of the Commitments, the CAA considers that the introduction of further licence conditions, or modifications to existing licence conditions is in the passenger interest, then the CAA can propose such modifications at that time. This could be for example, to introduce a requirement for GAL to set its charges consistent with the CAA's view of its "fair price" or its view of minimum capital investment expenditure. Such licence modifications could be appealed by the Airport or airlines, to the Competition and Markets Authority. The CAA will also undertake a review of Commitments in the second half of 2016 to assess whether they are operating in the passenger interest.

The CAA's decision also includes a financial resilience condition. This requires GAL to produce a certificate of adequacy of resources and submit this to the CAA on an annual basis. This condition also restricts the business of GAL to the businesses undertaken on 1 April 2014, including the owning and operation of the Airport. Any other business will require the written consent of the CAA. Finally, the financial resilience condition requires undertakings from the ultimate holding company to not take action that would likely cause a breach of the licence and provide information requested by the CAA to enable GAL to comply with the licence.

Requirements as to operational resilience are included within GAL's Commitments and as such are not subject to a separate licence condition. However, based on a review of operational resilience the CAA has provided guidance to Gatwick, and Gatwick indicated in the Commitments that it would have regard to such guidance. The CAA has also stated that as part of the monitoring regime, GAL should produce a shadow RAB calculation. The purpose of this requirement is in case the CAA considers that the passenger interest would be better served in the future by tighter regulation being introduced. As with pricing, shadow regulatory asset base ("RAB") and capital investment expenditure above, the CAA can propose to introduce such licence conditions to the extent it considers such modification is in the passenger interest. Similarly, such a licence modification could be appealed by the Airport or airlines, to the Competition and Markets Authority.

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Regulatory and business update (continued)

All airport operators are also subject to aerodrome licensing under the Air Navigation Order 2009, which requires an airport operator to demonstrate that it is competent to conduct aerodrome operations safely. That licensing requirement is not affected by the Civil Aviation Act 2012.

Significant Board changes

There were no changes to the members of the board during the period 1 April 2014 to 30 September 2014.

Capital expenditure

The Borrower spent £90.5 million (30 September 2013: £104.8m) on Gatwick's Capital Investment Plan during the period ended 30 September 2014. The business review in the Borrower's Directors' report and financial statements for the period ended 30 September 2014 details the major capital projects delivered during the period and in progress as at 30 September 2014.

Financing

There have been no significant changes to the financing structure during the period ended 30 September 2014. No changes have occurred to the General Purpose Revolving Credit Facility and no bonds have been issued by Gatwick Funding Limited.

Acquisitions and Disposals

There have been no acquisitions of subsidiaries or subsidiary undertakings or of any Borrower or business, and no disposals in the period ended 30 September 2014 or since the previously delivered Investor Report.

Restricted Payments

During the period ended 30 September 2014 a restricted payment of £80 million was made. The restricted payment on 31 July 2014 took the form of a dividend.

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Ratios

We confirm that in respect of this investor report dated 20 November 2014, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Covenants) of the Common Terms Agreement:

- (a) the historical Senior ICR for the Relevant Period ending 30 September 2014 was 3.85;
- (b) the forecast Senior ICR for the Relevant Period ending 31 March 2015 is 2.91;
- (c) the historical Senior RAR for the Relevant Period ending 30 September 2014 was 0.60; and
- (d) the forecast Senior RAR for the Relevant Period ending 31 March 2015 is 0.60; (together the **Ratios**).

Current Hedging Position

As at 30 September 2014, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 102.1% of the Borrower's Relevant Debt.

Confirmations

We confirm that each of the above Ratios has been calculated in respect of the Relevant Period or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

We confirm that:

- (a) no Default or Trigger Event has occurred and is continuing;
- (b) the Borrower is in compliance with the Hedging Policy; and
- (c) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,



Stewart Wingate
Chief Executive Officer



Nicholas Dunn
Chief Financial Officer

Signing without personal liability for and on behalf of
Gatwick Airport Limited as Borrower