

YOUR LONDON AIRPORT



GATWICK AIRPORT LIMITED INVESTOR REPORT FOR THE YEAR ENDED 31 MARCH 2013

24 June 2013

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 year ended 31 March 2013, and the Compliance Certificate for the period then ended.

Overview of the year ended 31 March 2013

In the year ended 31 March 2013, a total of 34.2 million (2012: 33.8 million) passengers travelled through Gatwick Airport (“Gatwick”); an increase of 0.4 million passengers or 1.2%.

Growth was achieved through incumbent airlines such as easyJet, British Airways and Norwegian Air Shuttle growing frequencies and load factors on existing routes. Year-on-year growth was also contributed to by new airlines operating out of Gatwick, including Air China, WOW Air, Vueling and Gambia Bird, and new routes being launched notably: easyJet flying to Moscow; Norwegian Air Shuttle opening the first of 12 new routes; and British Airways increasing its services to Europe and the Caribbean.

Total Air Transport Movements (“ATMs”) were down 1.6% (or 3.8k) compared to the prior year. The impact of reduction in ATMs was minimised by an increase in capacity, up 1.1% from 172 seats per ATM on average in 2012 to 174 seats in 2013. This increase has resulted from a growing trend towards larger aircraft being used by airlines operating at Gatwick; the number of A320s operating at Gatwick increased by 29.3% supporting the growth in short haul market noted above. Gatwick saw passenger load factors up 1.4% points in 2013 (82.6%) compared to 2012 (81.2%). Passenger load factors showed improvements on average of 1.5% points with the exception of July and early August which were adversely affected as UK based travellers stayed in the country during the Olympic Games. However, late August and early September achieved year-on-year increases as passengers booked post-Olympic holidays. Also August 2012 had the second highest load factor on record (88.1%).

The London 2012 Olympics and Paralympics were a great for success for London and for Gatwick. The Airport handled over 300 dedicated London 2012 flights and provided a warm welcome to over 1,100 accredited Olympic passengers, including approximately 700 athletes and team officials from 58 countries covering 43 sporting events.

The Borrower made an operating profit of £116.4 million for the year ended 31 March 2013 compared to £116.2 million in the year ended 31 March 2012. The Company made a loss of £29.1 million for the year ended 31 March 2013 compared to a loss of £45.7 million in the year ended 31 March 2012.

Further information is available at www.gatwickairport.com/investor and in the Borrower’s Directors’ report and financial statements for the year ended 31 March 2013.

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Gatwick

Regulatory and business update

In March 2008 the Civil Aviation Authority (“CAA”) published its price control review for Gatwick Airport for the five year period ending 31 March 2013 (the 5th regulatory quinquennium known as “Q5”). This was extended by one year during 2011 so that the Q5 regulatory period now expires on 31 March 2014. The year ended 31 March 2013 completes the fifth year of Q5. The price control constrained the growth in aeronautical revenue yield per passenger to no more than RPI+2% at Gatwick for the 5 years to 31 March 2013 and to RPI-0.5% for the year to 31 March 2014. There is an adjustment mechanism to allow for the recovery of 90% of the costs of any new security requirements (i.e. those not envisaged when the price control was set) that amount to more than £7.0 million per annum.

In the CAA’s Q5 decision there are incentive arrangements to promote quality of service and the timely completion of capital projects. Gatwick has continued to meet all of its Q5 obligations to deliver its capital expenditure programme, including the delivery of capital expenditure trigger projects (certain capital projects which, under the CAA’s price control, specify a reduction to the level of the revenues that the Airport would be allowed to recover in airport charges if certain milestones were not reached in respect of these capital projects by defined dates), as agreed both with the airlines and the CAA. As part of the one-year extension of Q5, the Company and the airlines have agreed to replace triggers associated with ceased projects (Pier 7 and South Terminal baggage) with new triggers. The decisions to cease the Pier 7 and South Terminal baggage projects, which were agreed by the Airport and the airlines, resulted in a one-off adjustment to the allowable aeronautical yield (equivalent to £15.6 million in aeronautical revenue) for the year ended 31 March 2013 to reflect the trigger payments associated with these two capital projects. The new triggers, covering 60 per cent. of the forecast capital expenditure in the year ending 31 March 2014, have been agreed with the airlines operating at Gatwick and subsequently approved by the CAA.

Since April 2008, the UK Government has been considering the introduction of a new regulatory regime for airports.

On 23 November 2011, the UK Government published its draft Civil Aviation Bill which was subsequently introduced to Parliament in January 2012. The Civil Aviation Bill (“the Bill”) received Royal Assent on 19 December 2012. The Civil Aviation Act 2012 (“CA Act 2012”) modernises the system of economic regulation of airports in the UK. The CA Act 2012 introduced a new general duty for the CAA to carry out its functions in a manner which furthers the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services, by doing so where appropriate in a manner which will promote competition in the provision of airport operation services. In carrying out its general duty, the CAA is required, among other things, to have regard to “the need to secure that a licence holder is able to finance its provision of airport operation services in the area for which the licence is granted”. The CA Act 2012 makes clear that there will be no change to the current price control which covers the now six year period from 1 April 2008 to 31 March 2014.

All airport operators are 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 CA Act 2012. However, the CA Act 2012 provides for the further economic licensing of dominant airports (and dominant airport areas) where operators are determined by the CAA to have passed the Market Power Test in the CA Act 2012, which includes the CAA determining that the operator has Substantial Market Power. Where the CAA determines that a licence is required, the CA Act 2012 gives the CAA greater flexibility to align the regulatory requirements that it imposes with the market and competitive position at the relevant airport, concentrating more on service quality and performance incentives. Where a licence is not required, an airport’s activities will remain subject to general competition law and the provisions of the Airport Charges Regulations, in respect of both of which the CAA will have an enforcement role.

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Regulatory and business update (continued)

The CAA continued its project to assess competition between airports during the year. The Company submitted its initial analysis of competition in November 2011, setting out that the available evidence does not support a finding that Gatwick has Substantial Market Power and thus it should not be subject to economic regulation beyond the end of Q5. The CAA published its initial views on the competitive position of Gatwick, Heathrow and Stansted in February 2012. The CAA's initial view was that each of the three airports currently subject to economic regulation have some degree of market power and thus could be subject to economic regulation beyond the end of Q5. The Company submitted further analysis during the year in response to the CAA's initial view, setting out that the available evidence does not support a finding that Gatwick has Substantial Market Power and that the Market Power Test in the CA Act 2012 is not met.

The CAA published, for consultation, its "minded to" position on Gatwick's market power in May 2013. The CAA is expected to publish its decision on its assessment of Gatwick's market power in January 2014. The CA Act 2012 includes provisions for the CAA's decision on its assessment of Gatwick's market power to be appealed to the Competition Appeal Tribunal. This work of the CAA is particularly important in the development of any future regulatory framework at Gatwick. The CAA is now considering how its competition analysis and work on forms of regulation should inform its regulatory design for any regulation beyond the end of Q5.

The CAA, as part of its preparations for any regulation beyond the end of Q5, required the Company to participate in constructive engagement with the airlines operating at Gatwick. This constructive engagement between the Company and represented airlines took place from April to December 2012. To facilitate constructive engagement, the Company provided to the airlines and the CAA its Initial Business Plan (April 2012) for the period to 2020. In particular, constructive engagement with the Airport's airline community assessed key themes such as capital investment, traffic forecasts, operating costs and commercial revenue opportunities. The outputs of constructive engagement were then used, as appropriate, by the Company to inform the Revised Business Plan that the Company submitted to the CAA in January 2013.

As part of the Company's Business Plan submission to the CAA it proposed that the Airport would enter into a set of legally enforceable Commitments to airlines covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The proposal was that these Commitments would be in place for seven years from April 2014 and would replace the need for economic regulation of Gatwick by the CAA. In addition, the Company envisaged that there would be a series of bilateral Contracts, incorporating, for example, price, service and duration, agreed on a commercial basis between the Company and individual airlines. The Commitments proposal incorporated a price level which increases by RPI+1.3% for 7 years following a one off price correction of 10.7% in April 2014.

On 30 April 2013, the CAA issued for consultation its Initial Proposals for regulation at Gatwick beyond 31 March 2014. This document, together with the market power assessment noted above, propose that Gatwick has sufficient market power to justify on-going regulation, together with the introduction of a licence, at a price level which increases by no more than RPI+1% for 5 years.

The Company is continuing to engage with airlines and the CAA on the proposed Contracts and Commitments framework, which will protect airline and passenger interests, whilst accelerating Gatwick's drive for improved passenger service and operational excellence. The CAA's final proposals for regulation and draft licences for each airport will be published for consultation in October 2013. Final decisions on market power and economic regulation will be published by the CAA in January 2014.

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Significant Board changes

Sir Roy McNulty was appointed Chairman of Gatwick Airport Limited on 1 April 2013, having first joined the Board in April 2011 as a non-executive director. Sir Roy is Deputy Chairman of the Olympic Delivery Authority, was Chairman of Advantage West Midlands, is a non-executive director of Norbrook Laboratories Limited, and is a non-executive director of Monarch Group Limited.

Khadem Alremeithi was appointed to the Board on 21 November 2012. Khadem is a Deputy Director in the Real Estate and Infrastructure Department at the Abu Dhabi Investment Authority (ADIA).

David McMillan was appointed to the Board as a non-executive director on 1 April 2013. David is Chair of the Board of Governors of the Flight Safety Foundation. He was Director General of Eurocontrol, which co-ordinates air traffic across 40 European states, from 2008 to 2012.

Sir David Rowlands resigned from the Board on 27 March 2013 having served as Chairman since his appointment to the Board in December 2009.

Christopher Koski resigned from the Board on 29 October 2012.

Capital expenditure

The Borrower spent £226.7 million (2012: £239.2m) on Gatwick's Capital Investment Plan during the year ended 31 March 2013, the fifth year of Q5. This brings total capital expenditure for Q5-to-date to £983.5 million (2012: £756.8 million).

During the financial year, the Borrower consulted with the airlines operating at Gatwick on a capital expenditure programme of approximately £210 million following the one year extension to Q5 (i.e. 2013/2014), which will bring the total capital expenditure for Q5 to £1,172 million by the end of the quinquennium (excluding car parks acquired from another former group undertaking, Ivy Subco Limited (dissolved on 10 April 2012), for £20.8 million).

The business review in the Borrower's Directors' Report and financial statements for the year ended 31 March 2013 details the major capital projects delivered during the year and in progress at year end.

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Financing

There have been no significant changes to the financing structure during the year ended 31 March 2013. During the year the Borrower has drawn £30 million and £92 million under the Revolving Credit Facility and Capex Facility respectively. No changes have occurred to the Term Loan 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 year ended 31 March 2013 or since the previously delivered Investor Report.

Restricted Payments

During the year ended 31 March 2013 a restricted payment of £75 million was made. The restricted payment on 30 July 2012 took the form of a shareholder loan repayment.

Ratios

We confirm that in respect of this Investor Report dated 24 June 2013, 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 31 March 2013 was 2.88;
 - (b) the forecast Senior ICR for the Relevant Period ending 31 March 2014 is 2.60;
 - (c) the historical Senior RAR for the Relevant Period ending 31 March 2013 was 0.62;
 - and
 - (d) the forecast Senior RAR for the Relevant Period ending 31 March 2014 is 0.65;
- (together the **Ratios**).

Current Hedging Position

As at 31 March 2013, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 97.9% of the Borrower's Relevant Debt.

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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