

# YOUR LONDON AIRPORT

## *Gatwick*

### **GATWICK AIRPORT LIMITED INVESTOR REPORT FOR THE YEAR ENDED 31 MARCH 2015**

**24 June 2015**

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 Annual Report and Financial Statements for the year ended 31 March 2015, and the Compliance Certificate for the period then ended.

#### **Overview of the year ended 31 March 2015**

In the year ended 31 March 2015, a total of 38.7 million (2014: 35.9 million) passengers travelled through Gatwick: an increase of 2.8 million passengers or 7.8%. During the year, Gatwick achieved its record monthly passenger number in August 2014 of 4.37 million passengers. Total Air Transport Movements (“ATMs”) were up 3.2% or 7.9k compared to the prior year. The growth in passenger numbers came mainly from a combination of higher ATMs and larger average aircraft size. Load factors increased by 0.7% points to 83.9%.

The European sector is Gatwick’s largest market, representing 83.1% of passenger traffic. Traffic on European routes (including UK and Channel Islands) grew by 8.1% (2.4 million passengers); 55.2% of this European growth was on flights to Italy, Spain and France. Domestic traffic declined by 4.3%, mainly because Flybe discontinued all but one of its UK routes.

Passenger traffic on flights to the USA grew by 13.3% (0.2 million passengers); most of this growth was generated by Norwegian Air Shuttle’s new services to New York, Los Angeles and Fort Lauderdale, which began in July 2014. Middle Eastern routes grew by 12.0% (0.1 million passengers), with Emirates increasing seat capacity on their Dubai service. Other notable areas of growth included the Caribbean and Northern African destinations such as Egypt and Morocco.

The airlines contributing most to Gatwick’s growth were for the most part the established incumbent companies such as easyJet, Norwegian Air Shuttle and British Airways. Norwegian’s traffic in particular grew by 48.9% (1.1 million passengers), of which 28% came from new European routes such as Madrid, Berlin and Warsaw, and 14% from the new transatlantic services; the remainder came from increased frequencies and improved load factors on existing European routes. Low-cost carrier Vueling Airlines, which began operating from Gatwick in March 2013, also showed significant growth in traffic, with passengers up 79.3% (0.2 million passengers).

The Borrower made an operating profit before exceptional items of £174.7 million for the year ended 31 March 2015 compared to £147.0 million in the year ended 31 March 2014.

Further information is available at [www.gatwickairport.com/investor](http://www.gatwickairport.com/investor) and in the Borrower’s Strategic report, Directors’ report and financial statements for the year ended 31 March 2015.

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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.

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### **Regulatory and business update (continued)**

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 regulatory asset base ("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 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.

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 significant Board changes during the year ended 31 March 2015.

### **Capital expenditure**

The Borrower spent £180.7 million (2014: £201.0m) on Gatwick's Capital Investment Plan during the year ended 31 March 2015.

The business review in the Borrower's Directors' report and financial statements for the year ended 31 March 2015 details the major capital projects delivered during the year and in progress at year end.

### **Financing**

No new financing agreements were entered into during the year ended 31 March 2015. The Borrower entered into a new five year Authorised Credit Facility comprising a General Purpose Revolving Credit Facility of £300.0 million in the year ended 31 March 2014; drawings under the new facility during the year ended 31 March 2015 were £140.0 million.

### **Acquisitions and Disposals**

On 31 March 2015 Ivy Midco Limited (the Company's ultimate parent in the UK), sold 100% of the issued share capital of Ivy Bidco Limited to Ivy Holdco Limited. Following this transaction, Gatwick Airport Limited acquired 100% of the issued share capital of Ivy Bidco Limited from Ivy Holdco Limited. Following its acquisition, Ivy Bidco Limited acceded to the CTA and became a borrower.

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## Restricted Payments

During the year ended 31 March 2015 total restricted payments of £133.0 million were made. The payments took the form of a dividend of £80.0 million (July 2014) and £53.0 million (November 2014).

## Ratios

We confirm that in respect of this investor report dated 24 June 2015, 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 ended 31 March 2015 was 3.11;
- (b) the forecast Senior ICR for the Relevant Period ended 31 March 2016 is 2.97;
- (c) the historical Senior RAR for the Relevant Period ended 31 March 2015 was 0.59;  
and
- (d) the forecast Senior RAR for the Relevant Period ended 31 March 2016 is 0.55;  
(together the **Ratios**).

## Current Hedging Position

As at 31 March 2015, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 91.7% 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