

YOUR LONDON AIRPORT

Gatwick

GATWICK AIRPORT LIMITED INVESTOR REPORT FOR THE YEAR ENDED 31 MARCH 2018

20 June 2018

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 and the Security Group’s (Ivy Holdco Limited) Annual Report and the Consolidated Financial Statements for the year ended 31 March 2018, and the Compliance Certificate for the period then ended.

Overview of the Securitisation Group’s performance for the year ended 31 March 2018

In the year ended 31 March 2018, a total of 45.7 million (2017: 44.1 million) passengers travelled through Gatwick: an increase of 1.6 million passengers or 3.6%.

The growth in passenger numbers came from a 1.0% increase in seats per ATM as well as from an increase in ATMs, which were up 0.7% compared to the prior year, with additional capacity seen across both the established European network and emerging long haul markets.

Average load factors were 86.8%, an increase of 1.6% points compared to the year ended 31 March 2017.

81.4% of Gatwick’s passenger traffic was on European routes (including the UK and Channel Islands). Traffic on these routes grew by 0.6 million passengers (1.6%), with growth not only in the southern European destinations of Spain, Italy, Greece, Portugal and France but also in Turkey and Tunisia due to the start of a recovery in tourist traffic to those countries.

The airlines contributing most to Gatwick’s growth were primarily the established incumbent companies such as easyJet, Norwegian and British Airways, but also Vueling.

The Group made an operating profit of £243.6 million for the year ended 31 March 2018 compared to £207.9 million in the year ended 31 March 2017.

Further information is available at www.gatwickairport.com/investor and in the Group’s Strategic report, Directors’ report and consolidated financial statements for the year ended 31 March 2018.

Regulatory Environment

Background

On 1 April 2014 the current regulatory framework based on Commitments backed by a licence and 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 Gatwick and individual airlines.

Regulatory Environment (continued)

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 of the Commitment period. Obligations on third parties, contained in the Commitments do not form part of the licence.

Basis of licence

In its Decision, the CAA set out, amongst other things, its view of the "fair price" for the period 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 (in 2011/12 price base). 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) and 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.

As planned, the CAA undertook a "short and focused review" of the Commitments in the second half of 2016 to assess whether they are operating in the passenger interest. The review was concluded in December 2016. The review did not recommend any changes to the Commitments.

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 ownership 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 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

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Regulatory Environment (continued)

The Commitments expire on 31 March 2021. Gatwick has undertaken to notify the CAA and all operators at the Airport at least two years prior to the end of the term of its intentions with regard to the continuation of Commitments.

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

Wendy Norris, the Future Fund representative, resigned as a non-executive director of Gatwick Airport Limited on 12 April 2018. Justin Ginnivan was appointed as a replacement non-executive director.

Capital expenditure

The Group spent £239.7 million (2017: £272.6 million) on the Airport's Capital Investment Plan during the year ended 31 March 2018.

The business review in the Ivy Holdco Limited Annual Report and the Consolidated Financial Statements for the year ended 31 March 2018 details the major capital projects delivered during the year and in progress at year end.

Financing

On 28 September 2017, Gatwick Funding Limited issued a further £350.0 million of publicly listed fixed rate bonds comprising Class A 3.125 per cent. Bonds with scheduled and legal maturities of 2039 and 2041 respectively and on 26 February 2018, issued a further £300.0 million of publicly listed fixed rate secured bonds comprising Class A 3.25 per cent. Bonds with scheduled and legal maturities of 2048 and 2050 respectively.

The proceeds of all bond issuances by Gatwick Funding Limited (together "the Bonds") are lent to the Borrower under the Borrower Loan Agreement, the terms of which are 'back-to-back' with those of the Bonds.

The £344.4 million net proceeds were received by Gatwick Airport Limited on 28 September 2017 and the £292.7 million net proceeds were received by Ivy Holdco Limited on 26 February 2018.

Acquisitions and Disposals

No acquisitions or disposals occurred during the year ended 31 March 2018.

Restricted Payments

During the year ended 31 March 2018 total restricted payments of £643.0 million were made. The payments took the form of dividends of £175.0 million (August 2017), £175.0 million (October 2017) and £293.0 million (February 2018).

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Ratios

We confirm that in respect of this investor report dated 23 June 2018, 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 2018 was 3.59;
 - (b) the forecast Senior ICR for the Relevant Period ended 31 March 2019 is 2.83;
 - (c) the historical Senior RAR for the Relevant Period ended 31 March 2018 was 0.61; and
 - (d) the forecast Senior RAR for the Relevant Period ended 31 March 2019 is 0.63;
- (together the **Ratios**).

Current Hedging Position

As at 31 March 2018, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 100.8% 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.