

# YOUR LONDON AIRPORT

## *Gatwick*

### **GATWICK AIRPORT LIMITED INVESTOR REPORT FOR THE YEAR ENDED 31 MARCH 2016**

**29 June 2016**

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 Ivy Holdco Limited Annual Report and the Consolidated Financial Statements for the year ended 31 March 2016, and the Compliance Certificate for the period then ended.

#### **Overview of the year ended 31 March 2016**

In the year ended 31 March 2016, a total of 40.8 million (2015: 38.7 million) passengers travelled through Gatwick: an increase of 2.1 million passengers or 5.5%. The growth in passenger numbers came mainly from an increase in Air Transport Movements (“ATMs”), which were up 4.0% compared to the prior year. Seat capacity also grew, which can be attributable to easyJet upgrading their fleet, BA’s increase in seats per movement, and on long-haul routes where some fleets have been updated with larger aircraft such as the Airbus A380 used by Emirates on its Dubai service. Average load factors were 84.5%, an increase of 0.6% pts compared to 2015.

83.9% of Gatwick’s passenger traffic was on European routes (including the UK and Channel Islands). Traffic on these routes grew by 2.1 million passengers (5.5%), with growth not only in the southern European destinations of Spain, Italy, Greece and France, but also Germany, the Netherlands and Ireland.

Traffic on flights to North America grew by 9.1% (0.2 million passengers). Most of this growth came from Norwegian Air Shuttle: passenger numbers on their US routes more than doubled during the year, with new services to Orlando and Puerto Rico being introduced.

The terrorist attacks in Tunisia and Egypt during 2015 have had a significant impact on the number of passengers travelling to Northern Africa. Traffic to this region was down 0.3 million passengers or 18.8% compared to the prior year.

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. Low-cost carrier Vueling Airlines, which is a relative newcomer to Gatwick, also showed significant growth in traffic, with passengers up 85.1% (0.3 million passengers).

The Borrower made an operating profit of £196.8 million for the year ended 31 March 2016 compared to £156.0 million in the year ended 31 March 2015.

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 2016.

# YOUR LONDON AIRPORT

## *Gatwick*

### **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 Gatwick 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 (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) 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 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 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.

# YOUR LONDON AIRPORT

## *Gatwick*

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

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.

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### **Significant Board changes**

On 23 March 2016 Raphael Arndt resigned as director and Wendy Norris was appointed as director.

### **Capital expenditure**

The Borrower spent £220.1 million (2015: £181.4 million) on Gatwick's Capital Investment Plan during the year ended 31 March 2016.

The business review in the Borrower's Directors' report and financial statements for the year ended 31 March 2016 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 2016. 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 2016 were £90.0 million (2015: £140 million).

# YOUR LONDON AIRPORT

## *Gatwick*

### **Acquisitions and Disposals**

No acquisitions or disposals occurred during the year ended 31 March 2016. 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.

### **Restricted Payments**

During the year ended 31 March 2016 total restricted payments of £100.0 million were made. The payments took the form of a shareholder loan repayment of £52.0 million (July 2015) and dividend of £48.0 million (December 2015).

### **Ratios**

We confirm that in respect of this investor report dated 29 June 2016, 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 2016 was 3.51;
- (b) the forecast Senior ICR for the Relevant Period ended 31 March 2017 is 3.44;
- (c) the historical Senior RAR for the Relevant Period ended 31 March 2016 was 0.54;  
and
- (d) the forecast Senior RAR for the Relevant Period ended 31 March 2017 is 0.51;  
(together the **Ratios**).

### **Current Hedging Position**

As at 31 March 2016, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 89.3% 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.

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*Gatwick*

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