

# YOUR LONDON AIRPORT

## *Gatwick*

### **GATWICK AIRPORT LIMITED INVESTOR REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019**

**20 November 2019**

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 Security Group’s (Ivy Holdco Limited) Report and Interim Consolidated Financial Statements for the six months ended 30 September 2019, and the Compliance Certificate for the period then ended.

#### **Overview of the Securitisation Group’s performance for the period ended 30 September 2019**

In the six months ended 30 September 2019, 26.6 million passengers travelled through the Airport, an increase of 0.1 million or 0.2% compared to the same period in the prior year. ATMs were lower than prior period, but there was an increase in seats per movement as airlines better utilised the existing infrastructure by upgating their aircraft. Load factor has decreased by 0.7 percentage points, partly due to the larger aircraft and partly due to the general softening of demand in the market, particularly within Europe.

In addition to a softening of consumer demand, the aviation sector has seen several other challenges. These include airspace congestion with en-route delays, adverse weather conditions, grounding of the Boeing 737 MAX aircraft, continued engine issues for Boeing 787 aircraft, and delivery delays for Airbus 320 and 321 neo aircraft. On 23 September Thomas Cook also went into liquidation which had a negative impact of 50,000 passengers and 254 ATMs for Gatwick in the period to 30 September.

The growth seen has been split between short-haul and long-haul markets, with 0.8% growth of short-haul and 2.3% growth in long-haul. The South American sector contributed 0.1 million of the growth, with Norwegian’s new service to Rio de Janeiro and increased frequency to Buenos Aires.

In the short-haul market Eastern Europe saw the largest growth of 0.2 million as Wizz Air added daily services to Budapest, Gdansk and Cluj. This together with the growth in Southern Europe passengers by 0.2 million more than offset the reduction in traffic from Western Europe by 0.2 million.

Traffic on domestic routes has reduced by 10.3%, as easyJet discontinued their service to Aberdeen and Flybe their Newquay service.

The Group made an operating profit of £246.2 million for the six months ended 30 September 2019 compared to £240.1 million for the six months ended 30 September 2018.

Further information is available at [www.gatwickairport.com/investor](http://www.gatwickairport.com/investor) and in the Ivy Holdco Limited Report and Interim Consolidated Financial Statements for the six months ended 30 September 2019.

# YOUR LONDON AIRPORT

## *Gatwick*

### **Regulatory Environment**

On 1 April 2014, a new 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 Gatwick to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The Commitments also enable Gatwick 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 Gatwick complies with its obligations in the Commitments. This includes that Gatwick 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 Gatwick 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.

In the 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 Gatwick 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 Gatwick'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) are 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 Gatwick 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's Decision also included a financial resilience condition. This requires Gatwick 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 Gatwick 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 Gatwick to comply with the licence.

Requirements as to operational resilience are included within Gatwick'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, Gatwick 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.

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.

# YOUR LONDON AIRPORT

## *Gatwick*

### **Regulatory Environment (continued)**

During the autumn of 2018 and spring of 2019 Gatwick, together with its airline community and with input from the passenger advisory group undertook passenger research and reviewed the service standards at Gatwick Airport. In addition to this, in December 2018, Gatwick presented to the airlines its proposal to amend the Commitments and extend them to 31 March 2025. Following dialogue with the airline representatives in October 2019 Gatwick issued refined proposals to extend the Commitments for consultation with the airlines and the passenger advisory group. Following the consultation period Gatwick expects to write to airlines and the CAA in December 2019 to set out its decision on updated and extended Commitments.

Gatwick anticipates that the CAA, as its economic regulator, will assess the outcome of this consultation and make its own statement on how it intends to review and update Gatwick's economic licence.

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**

John McCarthy, the ADIA representative, resigned as a non-executive director of Gatwick Airport Limited on 30 April 2019. Karim Mourad was appointed as a replacement non-executive director.

Following the completion of the sale of 50.01% interest in Gatwick on 13 May 2019 the following changes were made to the Board of Directors of Gatwick Airport Limited on the same day:

#### Appointments:

Nicolas Notebaert  
Benoît Trochu  
Rémi Maumon de Longevialle  
Pierre-Hugues Schmit  
Olivier Mathieu

#### Resignations:

James van Hoften  
Andrew Jurenko  
Justin Ginnivan

Benoît Trochu resigned from the Board of Directors on 24 September 2019 and was replaced by Eric Marc Jacques Delobel on the same date.

### **Capital expenditure**

The Group spent £124.2 million (2018: £114.6 million) on the Airport's Capital Investment Plan during the six months ended 30 September 2019.

The business review in the Ivy Holdco Limited Report and the interim Consolidated Financial Statements for the six months ended 30 September 2019 details the major capital projects delivered during the year and in progress at period end.

# YOUR LONDON AIRPORT

## *Gatwick*

### **Financing**

During the six months ended 30 September 2019, the Group issued £300.0 million of fixed rate bonds (issue date 5 July 2019). In June 2019 the Group exercised an extension option on the existing Authorised Credit Facility ("ACF"). The ACF Agreement has a Revolving Credit Facility of £300.0 million with an initial tenor of five years (with two, one year extension options); the one year extension gives a revised termination date of 21 June 2024 (with one further extension option to 21 June 2025).

Further information on the bonds outstanding is available in the Ivy Holdco Limited Report and the interim Consolidated Financial Statements for the six months ended 30 September 2019.

### **Acquisitions and Disposals**

No acquisitions or disposals occurred during the six months ended 30 September 2019.

### **Restricted Payments**

During the six months ended 30 September 2019 total restricted payments of £300.0 million were made.

### **Ratios**

We confirm that in respect of this investor report dated 20 November 2019, 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 30 September 2019 was 3.25;
  - (b) the forecast Senior ICR for the Relevant Period ended 31 March 2020 is 2.98;
  - (c) the historical Senior RAR for the Relevant Period ended 30 September 2019 was 0.58; and
  - (d) the forecast Senior RAR for the Relevant Period ended 31 March 2020 is 0.62;
- (together the **Ratios**).

### **Current Hedging Position**

As at 30 September 2019, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 101.4% of the Borrower's Relevant Debt.

# YOUR LONDON AIRPORT

## *Gatwick*

### 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.