

YOUR LONDON AIRPORT

Gatwick

20 AUGUST 2013

Andrew Haines
Chief Executive
Civil Aviation Authority
CAA House
45-59 Kingsway
London
WC2B 6TE

Our reference: LGW-BQ5-299

Dear Andrew

London Gatwick's final Contracts and Commitments proposal

Thank you for the CAA's letter to Kyran Hanks of 8 August 2013 and for your time in meeting with us on 14 August. You ask for a revised set of Commitments to be submitted to the CAA by 20 August, such revision to be the final submission on Commitments by Gatwick Airport Ltd prior to the CAA's final proposals to be published on 3 October 2013. In response to the CAA's request, and further dialogue with our airlines, and having considered carefully the points made at our meeting, please find attached to this letter our revised Commitments.

Before I turn to the further changes we have made to the Contracts and Commitments framework, I would like to summarise why Gatwick continues to believe that this framework represents the best way forward for London Gatwick, for our airlines and most importantly for our passengers. We believe that this framework will deliver -

- Greater flexibility to anticipate and react to the changing demands of a rapidly evolving aviation sector, as both airlines and airports seek to differentiate their offerings through service innovations and price, whilst improving efficiency and reducing costs;
- Improved ability to serve the increasingly varied requirements of different airlines through tailored agreements that address more precisely their specific needs;
- More certainty for the airlines over an extended timeframe of 7 rather than 5 years, with Gatwick accepting more risk whilst having greater incentives to grow traffic, develop non-aeronautical revenues and drive efficiency improvements;
- Closer alignment of interests on capital expenditure with stronger incentives to manage it more efficiently, while providing more flexibility to adjust to changing requirements compared with the current system which predetermines capital expenditure over too long a period in too much detail; and

YOUR LONDON AIRPORT

Gatwick

- Reduced regulatory costs and less bureaucracy and, above all, better alignment of incentives for Gatwick and its airline customers to work together on a partnership basis to deliver better service and improved choice for passengers.

The change in ownership of London's airports is now complete following the intervention of the competition authorities. We continue to urge the CAA to put in place changes to the regulatory landscape that reflect this fundamental change and promote competition and the interests of passengers. Our Contracts and Commitments proposal provides an extra level of comfort for all stakeholders that goes beyond the benefits of the new competitive environment.

Our best and final Commitments proposal coupled with improvements we have already made incorporates several critical benefits in relation to terms and conditions, enforceability and price. We are only able to offer these benefits under the specific Contracts and Commitments framework that we are proposing. In particular, the level of pricing that is possible in our final Commitments proposal is unachievable in a traditional RAB-based regulatory framework - with its enormous hidden costs in terms of lack of flexibility, bureaucracy and difficulties in responding quickly and commercially to changes in what is now a dynamic and competitive market.

I now turn to the changes we have made.

Service quality

First, we propose that the service quality regime is adjusted so that the bonus element of the Commitments regime is eliminated. This is a significant change as it removes the opportunity for Gatwick to earn a proportion of aeronautical revenue as reward for out-performance. In a RAB-based world, this would represent the foregoing of around £4m a year of possible upside. In offering this concession, we are responding to the continued opposition from our airlines to the ability of Gatwick to earn bonuses.

We are able to report also that all the metrics of the proposed service quality regime have now been agreed with our airlines, and we believe that we are now in full agreement on all aspects of the service quality regime. Finally, and solely within the Commitments framework, we have already proposed that there would be an increase in the penalties that would apply in the unlikely event that there were protracted failures in service failure. As a package, we believe that these changes respond directly to the airlines' concerns that the service quality proposals were not sufficiently stringent.

Pricing

Second, we propose that the average prices that will be achieved by Gatwick are adjusted from our most recent set of proposed Commitments. We note the airlines' comments on the current proposed gross price of RPI+2.5 over 7 years, with a delivered net price of RPI+1.5, as being too high. We note the "fair price" previously proposed by the CAA of RPI+0 over 7 years (although we remain of the view that this price should rise in the light of the feedback that we have given to the CAA). We have made a further, final and substantial reduction and commit to set the gross level of

YOUR LONDON AIRPORT

Gatwick

the Commitments price at **RPI+1.5**, with the net level of prices achieved by Gatwick set at **RPI+0.5**. At this level, we believe that our proposed price levels are very close to the CAA's initial proposals and provide (more than) adequate protection against any risk of Gatwick excessively pricing. We believe that this is a compelling proposition especially given the concession on service.

Runway development costs

Third, we have considered the subject of runway development costs. Our most recent proposal was that these costs, once demonstrated to be efficiently occurred, should be passed through to our airlines, but only if Government support for the construction of extra runway capacity at Gatwick was forthcoming. In our recent meeting, the CAA indicated that the recovery of costs associated with runway development could be the subject of a regulatory policy statement, since the same issue arises at all three currently regulated airports. The way in which the CAA would propose to allow airports to recover runway development costs is a matter of critical importance to the chances of any new capacity being delivered. In a regulated scenario, we can agree that this subject is best addressed by way of a regulatory policy statement. In the absence of a licence, our proposed Commitment on runway costs would stand although we would have regard to any regulatory policy statement issued by the CAA, and have amended the Commitments accordingly.

Changes to the Commitments regime

Fourth, there have been comments that the ability to change the Commitments regime with the agreement of only 51% (by passenger numbers) of our airlines is an insufficiently high hurdle. In that light, we have altered this hurdle rate to 67%.

Other changes that we have made to the term sheet are indicated by way of a mark-up.

We trust that the inherent merits of the Contracts and Commitments regime, coupled with our responsiveness to the airlines and CAA and a suite of significant improvements, will allow the CAA to support the Contracts and Commitments framework in your final proposals document. We believe the following elements will be critical to the success of the framework –

- The removal of a direct link between capital expenditure and aeronautical charges should encourage more efficient and focused capital expenditure and a more collaborative approach to the provision of facilities and services;
- The streamlined and improved consultation framework should focus everyone's attention on the main strategic projects that are being proposed by Gatwick, rather than the detailed intrusive consultation that has evolved under Annex G; and
- The greater challenge implied by the revised and final proposals we have submitted, and the foregoing of service quality upside, makes the incentive properties of the seven year duration of the Commitments period even more important than previously. That duration provides the space for Gatwick both to improve the efficiency of the airport to the benefit of passengers, and to conclude contractual arrangements with our airlines, in a way consistent with the more competitive airports market that now exists.

YOUR LONDON AIRPORT

Gatwick

Should the CAA wish to change these key attributes of the Contracts and Commitments framework, this would, in our view, undermine the benefits of the Contracts and Commitments framework and the achievability of the outcomes we propose.

Further, the CAA has now received Gatwick's response on the CAA's proposed licence terms consistent with the Contracts and Commitments framework. While we do not repeat that response here, we do not believe that the Contracts and Commitments framework will be able to function effectively if the CAA persists with licence provisions that allow the CAA to implement a price freeze and temporary price control, since this would undermine the certainty that the contractual nature of the new framework seeks to create. The elements of the Contracts and Commitments framework are all important and inter-dependent.

Finally, as you are aware, we continue to believe that Gatwick does not meet the market power test. The Commitments we have proposed would, as we have previously stated, provide sufficient protection against the potential abuse of excessive pricing and service failure identified by the CAA without the requirement for a licence, and all comments in this letter are without prejudice to our views on the CAA's market power analysis.

We believe that this final version of Contracts and Commitments should permit the CAA to adopt this framework as the appropriate future for Gatwick in a more competitive airports market.

As with Tim Griffiths' letter to us, I have copied this letter to the ACC.

Yours sincerely



Stewart Wingate
Chief Executive Officer
T: 01293 503000
E: stewart.wingate@gatwickairport.com

CC: Jason Holt, ACC

Attachment: Heads of Terms

~~Strictly Private & Confidential~~
Subject to Contract
Final Draft of 24 June 20 August 2013

Indicative heads of terms of Airport Commitments in relation to Airport Services & Charges beyond Q5

Section A	General Conditions
Parties	Gatwick Airport Limited (GAL) and all airlines operating at Gatwick Airport.
Regulatory background	<p>The CAA published (April 2013) its initial assessment of the three elements of the “Market Power Test” in accordance with the Civil Aviation Act 2012 (the Act). The CAA has concluded that the Market Power Test is met in relation to GAL as operator of Gatwick Airport, and that it is minded to issue Gatwick with a Licence.</p> <p>GAL disputes the CAA’s assessment and believes it does not meet the Market Power Test and, accordingly, should not be issued with a Licence. GAL remains subject to the provisions of Airport Charges Regulations 2011 (the ACR) and, where applicable, general competition law. The CAA will have concurrent powers under competition law through the framework of the Act. Nevertheless, GAL has decided that it would be commercially expedient for it to put in place the Airport Commitments for the benefit of all airlines operating at Gatwick Airport. The Commitments address the key interests of airport users including the range, availability, continuity, cost and quality of airport operation services.</p> <p>These Airport Commitments will create binding contractual arrangements between GAL and airlines operating at Gatwick. They have been drafted on the basis that GAL is not issued with a Licence. However, without prejudice to our contention that GAL does not require a licence under the Act, the Commitments would be effective if backed by a licence framework as discussed in paragraphs 12.37-12.41 of the Initial Proposals.</p>
Conditions of Use	<p>GAL undertakes to incorporate the Airport Commitments into GAL’s Conditions of Use, for the benefit of all airlines who may operate at Gatwick Airport during the period covered by the Airport Commitments.</p> <p>Set out below is indicative drafting to be incorporated into the Conditions of Use:</p> <ul style="list-style-type: none">• <u>“Applicability and Enforceability</u> <i>The publication of these Conditions of Use constitutes an offer by Gatwick Airport Limited to permit the use of its facilities on the terms set out herein. The use of any facilities at the airport whether airside or landside other than as a passenger constitutes acceptance of these Conditions of Use. It is intended that these Conditions of Use constitute a contract as between Gatwick Airport Limited and each and every Operator using the facilities at the airport.</i>• <u>Variation</u> <i>Gatwick Airport Limited may at its sole discretion vary amend or add to these Conditions of Use and any such variation, amendment, or addition may be promulgated by means of a Gatwick Airport Directive (GAD) save</i>

Commitments

	<p><i>that no variation may be made to clauses ● and ● [i.e. those dealing with the substantive provisions of the commitments including: initial term; contractual remedies and independent adjudication; price commitment; service commitment; investment & consultation commitment; information commitment; and operational & financial resilience commitments], other than in accordance with the variation provisions contained in clauses ● and ● respectively.”</i></p>
Initial term of Airport Commitments	7 years to 31 March 2021
Extension of Airport Commitments	<p>It is envisaged that, over time, the number of airlines operating under bilateral contracts rather than under the Conditions of Use will increase, such that the majority of passenger traffic is under contract.</p> <p>The scope of any future airport commitments will be a matter for commercial consideration by GAL and its airline customers prior to the end of the initial term of the Airport Commitments.</p> <p>GAL will notify the CAA and the airlines operating at Gatwick at least 2 years prior to the end of the initial term of the Airport Commitments of its intention with regards to the modification, extension, termination, or otherwise of the Airport Commitments.</p>
Bilateral airline-airport contracts	<p>Airlines operating at Gatwick Airport will operate under the terms of either:</p> <ul style="list-style-type: none"> • the airport’s Conditions of Use which will incorporate a published airport tariff and set out airport wide service standards consistent with the Airport Commitments; or • bilateral contracts setting out the commercial arrangements between the airport and airline, including price and service standards. Such bilateral contracts may contain additional service penalty/bonus mechanisms and may include prices that are at a discount or premium to the published airport tariff. Alternatively, such contracts may place reliance on the Conditions of Use save for limited, specific alterations. <p>The charges for services rendered under the Conditions of Use and bilateral contracts will need to be consistent with the requirements of the ACR and any relevant provisions of competition law, but no prior regulatory approval of the detail of these contracts will be required.</p>
Pricing principles	GAL will provide users, from time to time, with a summary of the pricing principles it has adopted in setting the airport tariff and entering into bilateral contracts. These pricing principles do not form part of the Commitments, but for information an extract has been set out at Attachment 1.
Contractual remedies and independent adjudication	<p>Normal contractual remedies will be available to airlines operating under the Conditions of Use, within which the Airport Commitments have been incorporated.</p> <p>The right of redress would be to the courts but with an adjudication provision (of the type imposed by section 108 of the Housing Grants Construction and Regeneration Act 1996) built in to encourage speedy resolution of disputes by providing for non-binding adjudication by independent experts drawn from an agreed panel.</p>

Commitments

	<p>Airlines will continue to have separate rights of redress under the Airport Charges Regulations 2011 where the airport operator has failed to set airport charges in accordance with the Regulations. In addition the CAA will continue to have rights to investigate and make compliance orders in relation to the airport operator's failure to comply with the Regulations.</p> <p>Set out below is indicative drafting to be incorporated into the Conditions of Use:</p> <p><u>"Dispute Resolution Procedure</u></p> <ul style="list-style-type: none">• <i>Either party shall refer any Dispute to an Expert for determination by serving notice in writing to that effect on the other party. The notice shall contain sufficient particulars of the Dispute to be referred to an Expert.</i>• <i>The parties shall agree the identity of the Expert to be appointed. In default of agreement, within ten working days of the date of service of a notice referring a Dispute to an Expert for determination, the Expert shall be appointed on the application of any party to the President of the Law Society or the Chairman of the Bar Council.</i>• <i>The Expert shall not act as an arbitrator and the provisions of the Arbitration Act 1996 shall not apply.</i>• <i>The Expert shall determine the Dispute referred to him impartially and acting reasonably. The Expert will establish the procedural rules to be applied to the determination which must include the following steps:</i><ul style="list-style-type: none">- <i>each party will be entitled to make submissions to the Expert;</i>- <i>the Expert may request any party to provide him with any further information as he may require in order to determine the Dispute provided any such information is made available to the other party to comment;</i>- <i>all communications between a party and an Expert shall be copied to the other party;</i>- <i>any failure by a party to respond to any request or direction by the Expert shall not invalidate the Expert's determination.</i>• <i>Unless a shorter period is agreed between the parties at the time of the Expert's appointment, a fully reasoned written determination must be delivered to the parties within 21 working days of the Expert's appointment.</i>• <i>The fees and expenses of the Expert shall be borne by the parties in equal shares unless the Expert determines otherwise. Each party shall be solely responsible for bearing its legal and other costs arising out of any reference of a Dispute to an Expert.</i>• <i>Any decision of the Expert shall be binding until the Dispute is finally determined by legal proceedings or by agreement.</i>• <i>Neither party shall make any application to a competent court in relation to the conduct of the determination or the Expert's determination or the Dispute after ninety days from the date of the Expert's determination or, in the event the Expert has failed to reach a decision, the date on which the Expert should have reached a determination.</i>• <i>The dispute resolution procedure set out in clauses [●] above is without prejudice to, and does not impact upon, Gatwick Airport Limited's right to</i>
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Commitments

	<p><i>exercise its power to detain aircraft for the non-payment of Airport charges, pursuant to the Civil Aviation Act 1982. Gatwick Airport Limited may at all times exercise that power without recourse to this dispute resolution procedure.</i></p> <ul style="list-style-type: none">• <i>The dispute resolution procedure set out in clauses • above shall not prevent either party from seeking urgent relief by applying to a competent court for injunctive relief.”</i>
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Commitments

Section B	Price commitment
<p>Published airport tariff</p>	<p>The published airport tariff will include the following elements:</p> <p>(1) <u>Core Service Charges</u> for commercial passenger flights receiving the Core Service Standard. This will include:</p> <ul style="list-style-type: none"> • ATM fees (landing & take-off) • passenger fees • aircraft parking fees <p>The Core Airport Charges may include general discount and incentive structures available to all airlines operating under the Conditions of Use.</p> <p>(2) <u>Premium Service Charges</u> for commercial passenger flights receiving Premium Service Products.</p> <p>(3) <u>Selected Ancillary Service Charges</u> for other services provided by the airport including for:</p> <ul style="list-style-type: none"> • certain currently Specified Activities, namely: <ul style="list-style-type: none"> - Staff ID - airside licences - FEGP (net of cost of electricity) - Airside Parking - Hydrant Refuelling <p>(4) <u>Other Ancillary Services Charges</u> for other services provided by the airport including for:</p> <ul style="list-style-type: none"> • PRM services • Property related charges (rental, utilities, etc) • Certain currently Specified Activities, namely: <ul style="list-style-type: none"> - Check-in & Baggage Charges - Staff car parks - Facilities for bus & coach operators - Utilities (gas, water, electricity, heating) - Cable routing <p>(5) Other Airport Charges for cargo, general aviation and other non-passenger flights including related landing, <u>take-off</u> and parking fees and ancillary charges.</p> <p>Public interest conditions in relation to currently Specified Activities to be removed. Check-in & Baggage Charges and other charges for groundhandling activities remain subject to the provisions of the Groundhandling Regulations.</p>
<p>Scope of price commitment</p>	<p><u>Core Service Charges and Selected Ancillary Service Charges</u> in the published airport tariff will be set at a level such that the indicative price path condition is met (see below).</p>
<p>Indicative price path condition</p>	<p>GAL intends for the Aggregate Core Revenue per Passenger (the “Core Yield”) and the Aggregate Blended Revenue per Passenger (the “Blended Yield”) to be set in line with, respectively, the Indicative Gross Yield profile and the Indicative Net Yield profile (set out below). The actual Core Yield and <u>actual</u> Blended Yield may deviate from its associated indicative yield in any given year. GAL undertakes that, taking the period of the airport commitments as a whole, there will be no aggregate “over-recovery” in airport charges relative to the indicative yield profiles.</p>

Commitments

	<p>The Indicative Net Yield profile in a relevant year t (NY_t) is defined as:</p> $NY_t = U_t + B_t + S_t$ <p>The Indicative Gross Yield profile in a relevant year t (GY_t) is defined as:</p> $GY_t = W_t + B_t + S_t$ <p>These are indicative profiles since, in any given year, the actual Core Yield and Blended Yield may be less than, or greater than, its associated Indicative Yield. Such phasing differences may be due to unanticipated circumstances (e.g. changes in actual vs. expected mix of traffic) or deliberate business decisions (e.g. to alter charges below/above that implied in the Indicative Yield profiles taking into account factors such as: prior year under- or over-recoveries, economic conditions, competitive threats, growth opportunities, etc).</p> <p>The amount by which the actual Core Yield differs from the Indicative Gross Yield in a relevant year t will generate a revenue difference which, over time, will give rise at the end of a relevant year t to a Cumulative Gross Revenue Difference ($CGRD_t$) defined as:</p> $CGRD_t = (T_t - Q_t \cdot GY_t) + CGRD_{t-1}(1 + I_{t-1})$ <p>and where,</p> $CGRD_{2013/14} = 0$ <p>Similarly, the amount by which the actual Blended Yield differs from the Indicative Net Yield in a relevant year t will generate a revenue difference which, over time, will give rise at the end of a relevant year t to a Cumulative Net Revenue Difference ($CNRD_t$) defined as:</p> $CNRD_t = (FR_t - Q_t \cdot NY_t) + CNRD_{t-1}(1 + I_{t-1})$ <p>and where,</p> $CNRD_{2013/14} = 0$ <p>GAL undertakes that:</p> <ul style="list-style-type: none"> • the Cumulative Gross Revenue Difference shall not exceed: <ul style="list-style-type: none"> - £nil at the end of the initial term of the Airport Commitment i.e. $CGRD_{2020/21} \leq 0$; and - £10m in any year during the initial term of the Airport Commitments i.e. $CGRD_t \leq £10m$. • in setting airport charges each year, GAL will do so with the objective that the change in estimated Core Yield between any year “t-1” and subsequent year “t” should not exceed RPI+10%, provided that this objective shall not limit GAL from attaining a $CGRD_{2020/21}$ of £nil; • the Cumulative Net Revenue Difference shall not exceed: <ul style="list-style-type: none"> - £nil at the end of the initial term of the Airport Commitment i.e. $CNRD_{2020/21} \leq 0$
<p>Publication of Cumulative</p>	<p>The Cumulative Revenue Differences (CRD, meaning both CGRD and CNRD) will</p>

Commitments

<p>Revenue Differences</p>	<p>be published by GAL as part of the annual airport charges consultation, <u>together with the CRD's for prior years which will have been updated</u> updated with actual data <u>when available</u>.</p> <p>and revised estimates. As the consultation in relation to year “t” is undertaken part way through year “t-1”, GAL will publish at this time:</p> <ul style="list-style-type: none"> • the actual CRD_{t-2}; • a revised estimate of CRD_{t-1}; and • an estimate of CRD_t. <p>Assumptions underlying the estimated figures (including <u>actual outturn</u> charges, traffic and revenue data for historic years, as and when available) will be provided to enable airlines to verify the calculations.</p>
<p>Adjustments to indicative price path upon airline approval</p>	<p>Amendments to the indicative price path may be made by GAL, following consultation by GAL with the Gatwick Airline Consultative Committee (ACC):</p> <ul style="list-style-type: none"> • if approved in writing by airlines paying charges under the published tariff that together account for at least 67<u>51</u>% of the passengers (in the 12 months immediately preceding the month in which GAL requested written approval from the airlines of the proposed amendment) travelling through the airport on airlines paying charges under the published tariff, and representing at least 51% of the airlines responding in writing.
<p>Second runway costs and potential adjustments to the indicative price path</p>	<p>Amendments to the indicative price path may be made by GAL, following consultation by GAL with the Gatwick ACC and the CAA:</p> <ul style="list-style-type: none"> • <u>if following the completion of the Airports Commission the Government supports the development of a second runway at Gatwick Airport, to allow for the recovery of the reasonable costs (capital, operating and financing) of: (i) applying for planning permission for a second runway; and (ii) the subsequent development of the second runway and associated airport infrastructure.</u> <p>The recovery of costs associated with an application for planning permission will not be on the basis of an annual pass through, but on the presumption of recovering such costs over a [10 year] period by way of equal instalments.</p> <ul style="list-style-type: none"> • <u>Any such amendment to the indicative price path will take have regard to any into account policy guidance issued by the CAA in relation to the financing of new runway developments in the London airport market.</u>
<p>Annual consultation on charges</p>	<p>Consultation on charges in the published airport tariff of the Conditions of Use, together with associated service standards and investment, will be undertaken annually in accordance with the Airport Charges Regulations 2011. GAL will provide additional financial information to support this consultation as set out in “Information Commitment” below.</p>
<p>Definitions for the Price Commitment</p>	<p>Set out below.</p>
<p>Aggregate Core Revenue</p>	<p>Aggregate Core Revenue is the sum of:</p> <ul style="list-style-type: none"> (i) revenue arising from Core Service Charges and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and (ii) revenue arising from charges equivalent to the Core Service Charge and Selected Ancillary Service Charges for relevant commercial passenger

Commitments

	<p>services operated under the terms of bilateral contracts, but substituting for the actual revenue received the revenue that would have been received if such services had been offered and charged under the published airport tariff.</p> <p>For the avoidance of doubt:</p> <ul style="list-style-type: none"> • Aggregate Core Service Revenue does not include: revenue from Premium Service Charges, Other Ancillary Service Charges, Other Airport Charges and Ancillary Charges arising under the terms of the published airport tariff; nor revenue arising from equivalent charges under the terms of bilateral contracts; and • Revenue from FEGP charges, included in Selected Ancillary Service Charges, is net of the cost of electricity.
Aggregate Blended Revenue	<p>Aggregate Blended Revenue is the sum of:</p> <p>(i) revenue arising from Core Service Charges and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and</p> <p>(ii) revenue arising from charges equivalent to the Core Service Charge and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of bilateral contracts.</p> <p>For the avoidance of doubt:</p> <ul style="list-style-type: none"> • Aggregate Core Service Revenue does not include: revenue from Premium Service Charges, Other Ancillary Service Charges, Other Airport Charges and Ancillary Charges arising under the terms of the published airport tariff; nor revenue arising from equivalent charges under the terms of bilateral contracts; and • Revenue from FEGP charges, included in Selected Ancillary Service Charges, is net of the cost of electricity.
Passengers	<p>For the purpose of the calculation of the Core Yield, "Passengers" includes all passengers, whether carried by an airline under the terms of the published airport tariff or a bilateral contract.</p>
t	<p>The annotation "t" denotes the relevant year t, being a period of twelve months starting on 1 April and ending on 31 March in the following year, the annotation "$t-1$" denotes relevant year "$t-1$" immediately preceding relevant year "t", and so forth. By way of example, the annotation "2014/15" denotes the year commencing 1 April 2014 and ending on 31 March 2015.</p>
U_t	<p>U_t is the underlying net yield in relevant year t, defined as:</p> $U_t = U_{t-1}(1 + RPI_{t-1} + X)$ <p>and,</p> $U_{2013/14} = [\bullet]$
W_t	<p>W_t is the underlying gross yield in relevant year t, defined as:</p> $W_t = W_{t-1}(1 + RPI_{t-1} + X + 1\%)$ <p>and,</p> $W_{2013/14} = U_{2013/14}$

Commitments

RPI_{t-1}	RPI_{t-1} means the percentage change in the Retail Price Index between that published with respect to August in relevant year t-1 and that published with respect to August in relevant year t-2.
X	X is 0.51-5%
B_t	<p>B_t is the bonus per passenger earned in relevant of year t, if any, being:</p> <ul style="list-style-type: none"> the amount of the Core Service Bonus calculated as set out under “Service Commitment” below; divided by the number of passengers using the airport in year t (Q_t) <p>Any estimate of B_t prepared prior to the start of year t will be assumed to be £nil.</p>
S_t	<p>S_t is the permitted security cost per passenger in relevant year t, if any, being:</p> <ul style="list-style-type: none"> the aggregate of: <ul style="list-style-type: none"> 90% of the amount by which the increase in security costs at the airport in year t, which arise as a result of a change in required security standards at the airport, exceeds £1m; and the cost of installing new hold baggage screening equipment in accordance with the requirements of Gatwick’s security regulator and as agreed through the capital investment programme consultation process. The recovery of the capital costs and associated funding costs will be presumed to be made over the assessed life of the equipment, in equal annual amounts. divided by: <ul style="list-style-type: none"> the number of passengers using the airport in year t (Q_t).
T_t	T_t is the Aggregate Core Revenue in relevant year t.
R_t	<u>R_t is the Aggregate Blended Revenue in relevant year t.</u>
Q_t	Q_t is the total number of passengers using Gatwick airport in relevant year t. This includes all passengers, whether carried by an airline under the terms of the published airport tariff or a bilateral contract.
I_{t-1}	I_{t-1} is the annual percentage interest rate equal to the sum of (i) the average of the UK Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of September in relevant year t-1 to the end of August in relevant year t; and (ii) if the relevant <u>CGRD_{t-1} or CNRD_{t-1} to which the interest rate is being applied</u> has a positive value, 3%, otherwise, 0%.
Specified Activities Charges	<p>Gatwick Airport Limited shall ensure that those charges relating to Specified Activities are set at a level which is fair, reasonable and non-discriminatory.</p> <p>Specified Activities for these purposes will comprise:</p> <ul style="list-style-type: none"> Staff ID airside licences FEGP Airside parking Hydrant refuelling Staff car parks

Commitments

	<ul style="list-style-type: none">• Facilities for bus & coach operators• Utilities (gas, water, electricity, heating)• Cable routing <p>At least 3 months prior to making any amendments to those charges relating to Specified Activities, GAL will provide to users of the Specified Activities and the CAA:</p> <ul style="list-style-type: none">• relevant information (including cost information, where relevant, or other information if charges for the specified facilities are not established in relation to cost) and assumptions adequate to verify the basis upon which the charges have been calculated. <p>GAL will provide additional financial information to support this consultation as set out in "Information Commitment" below.</p>
PRM and Check-in & Baggage Charges	<p>GAL will comply with the relevant legislation in relation to the setting of check-in & baggage charges and PRM charges.</p> <p>GAL will provide additional financial information to support this consultation as set out in "Information Commitment" below.</p>

Section C	Service commitment
<p>Airport-wide standards to be monitored and subject to rebates penalties/bonuses</p>	<p>The Core Service Standards are as set out in Table A (appended), together with Service Bonus Standards.</p> <p>These are broadly based on the existing Q5 SQR scheme with some modifications as to:</p> <ul style="list-style-type: none"> • the exclusion of all service bonuses • the inclusion of an outbound baggage target; • the inclusion of an airfield availability metric or retention of the existing aerodrome congestion term (but to include a measure of snow event readiness); • the maximum annual rebate amount remains 7% of Core Service Charge Revenue; • the maximum annual bonus amount is 3.5% of Core Service Charge Revenue, relating only to certain selected passenger facing measures and maintaining symmetry with the rebate; • a single maximum potential rebate percentage for each service standard, equally applicable to a month or year. In Q5 a monthly maximum and a separate annual maximum is specified; • an incremental penalty factor of 25% applied to the rebate percentage for certain selected passenger facing measures if the relevant service standard has not been met for six consecutive months; and • bonuses change the indicative yield profiles and, therefore, may give rise to adjustments in airport charges in subsequent years (as in Q5); and • failure of an airline to meet certain Airline Service Standards will reduce the amount payable by GAL in any month to such airline under the Core Service Rebates.
<p>Adjustments to service standards upon airline approval</p>	<p>Amendments to the Core Service Standards may be made by GAL:</p> <ul style="list-style-type: none"> • following consultation by GAL with the Gatwick Airline Operators Committee (AOC) & Gatwick ACC; and • if approved in writing by airlines paying charges under the published tariff or under bilateral contract (save for those airlines that have expressly waived the application of these service standards under the terms of their contract) that together account for at least 5167% of the passengers (in the 12 months immediately preceding the month in which GAL requested written approval from the airlines of the proposed amendment) travelling through the airport on airlines paying charges under the published tariff or under bilateral contract (save for those airlines that have expressly waived the application of these service standards under the terms of their contract), and representing at least 51% of that airlines responding in writing.
<p>Airline Service Standards to be monitored and published, and subject to rebates penalties/ bonuses</p>	<p>GAL will monitor and publish the performance of individual airlines in relation to certain airport-wide activities. These include:</p> <ul style="list-style-type: none"> • Check-in queue performance; • Arrival bag performance; and • PRM service and pre-notification. <p>GAL may amend the airline service standards that it is monitoring and publishing from time-to-time, following consultation with the Gatwick AOC & ACC.</p> <p>The first two of these standards are designated as Airline Service Standards for the purposes of determining the Core Service Rebate for individual airlines.</p>

Commitments

	<p>These standards are set out in Table B (attached). The third standard (in relation to PRM) is already a factor that determines the PRM charges payable by individual airlines.</p>
<p>Airport-wide standards to be monitored <u>but not</u> subject to <u>rebates/penalties/bonuses</u></p>	<ul style="list-style-type: none"> • Airlines & airport: On-time performance (departures and arrivals); • UKBF: Immigration performance • Airport: ASQ
<p>Publication of standards</p>	<p>GAL to publish monthly report on achievement of Airport-wide standards and the Airline Standards.</p>
<p>Payment of Core Service Rebate</p>	<p>The Core Service Rebate is the amount payable by GAL for a failure by it to meet the Core Service Standards.</p> <p>The Core Service Rebate will be paid quarterly, within 1 month of the end of each quarter (end June, September, December, March) to those airlines operating exclusively under the terms of the published airport tariff during the relevant period. An airline operating under the terms of a bilateral contract will not be entitled to the Core Service Rebate, unless otherwise provided for in such an agreement.</p> <p>The rebates will be calculated by terminal by month, and then allocated to the relevant airlines that used the terminal pro-rata with the Core Service Charges payable by each airline in relation to that month.</p> <p>An airline that has not met the applicable Airline Standards (as set out in Table B) will have its entitlement to Core Service Rebates reduced. Further, GAL shall be under no obligation to pay the rebate to an airline if there are unpaid amounts outstanding from such an airline to GAL. If the entitlement of an individual airline to Service Rebates is so reduced, there will be no change in the entitlement of other airlines to the Core Service Rebate.</p>
<p>Core Service Rebate</p>	<p>The amount (“Core Service Rebate”) payable by GAL to an airline “a” in month “j” for a failure to meet the Core Service Standard Levels will be calculated as:</p> $Core\ Service\ Rebate_{a,j} = \sum_t Net\ Rebate\ Percentage_{a,t,j} \cdot Core\ Service\ Charge_{a,t,j}$ <p>Where:</p> $Net\ Rebate\ Percentage_{a,t,j} = Service\ Rebate\ Percentage_{t,j} - Airline\ Standard\ Rebate\ Percentage_{a,t,j}$ <p>$Core\ Service\ Charge_{a,j,t}$ = Core Service Charges incurred by each airline “a”, in respect of terminal “t”, in relevant month “j”.</p>
<p>Service Rebate Percentage</p>	<p>Rebates shall be calculated separately for each terminal based on the performance against the standards for that terminal; with the exception of airfield availability, which will be calculated at an airfield level and the same percentage applied to both terminals. As noted in Table A, the inter-terminal transit availability standards and potential rebate percentages relate only to the North Terminal.</p>

	<p>For each terminal t, the Service Rebate Percentage for the month j shall be calculated as:</p> $\text{Service Rebate Percentage}_{t,j} = \sum_{\text{standard } i} p_{i,t} \cdot x_{i,t,j}$ <p>Where:</p> <p>$p_{i,t}$ = the potential service rebate percentage per month for standard “i”, for terminal “t”, as set out in Table A.</p> <p>$x_{i,t,j}$ = 0 if the standard “i”, for terminal “t”, in month “j” is greater than or equal to the service rebate level, as set out in Table A; or</p> <p>1 if the standard “i”, for terminal “t”, in month “j” is less than the service rebate level, as set out in Table A; or</p> <p>in relation only to Selected Passenger Facing Measures, 1.25 if the relevant standard “i”, for terminal “t”, in months “j” and in each of the five immediately preceding months (i.e. “j-1”, “j-2”, “j-3”, “j-4”, “j-5”) is or was less than the service rebate level, as set out in Table A . Provided that the maximum aggregate Service Rebate Percentage payable in relation to all Selected Passenger Facing Measures shall not exceed <u>3.502.85%</u> in any financial year ending 31 March.</p> <p>For the purposes of this calculation, the Selected Passenger Facing Measures comprise those that are eligible for a Core Service Bonus, namely: Departure Lounge Seat Availability; Cleanliness; Way-Finding; Flight Information; Central Passenger Search (times<5minutes, times < 15 minutes); Passenger Sensitive Equipment (General); Passenger Sensitive Equipment (Priority); and Arrivals Reclaim (Baggage Carousels).</p>
<p>Airline Standard Reduction Percentage</p>	<p>For each airline “a”, Airline Standard Reduction Percentage for the month j shall be calculated as:</p> $\text{Airline Standard Reduction Percentage}_{a,t,j} = \sum_{\text{standard } k} r_{k,t} \cdot z_{k,t,j}$ <p>Where:</p> <p>$r_{k,t}$ = the potential airline standard reduction percentage per month for standard “k”, for terminal “t”, as set out in Table B.</p> <p>$z_{k,t,j}$ = 0 if the standard “k”, for terminal “t”, in month “j” is greater than or equal to the standard reduction level, as set out in Table B; or</p> <p>1 if the standard “k”, for terminal “t”, in month “j” is less than the standard reduction level, as set out in Table B.</p>
<p>Core Service Bonus</p>	<p>The amount (“Core Service Bonus”) earned by GAL each year for meeting the Service Bonus Standard Levels will be calculated as:</p> $\text{Core Service Rebate} = \sum_{t,j} \text{Service Bonus Percentage}_{t,j} \cdot \text{Core Service Charge}_{t,j}$ <p>Where:</p>

Commitments

	<p><i>Core Service Charge</i>_{t,j} = Core Service Charges in respect of terminal “t”, in relevant month “j”.</p>
<p>Service Bonus Percentage</p>	<p>Bonuses shall be calculated separately for each terminal based on the performance against the standards for that terminal. For each terminal t, the Service Bonus Percentage for the month j shall be calculated as:</p> $\text{Service Bonus Percentage}_{t,j} = \frac{\sum_{\text{standard } i} q_{i,t} \cdot y_{i,t,j}}{\text{standard } i}$ <p>Where:</p> <p>$q_{i,t}$ = the potential service bonus percentage per month for standard “i”, for terminal “t”, as set out in Table A.</p> <p>$y_{i,t,j}$ = 1 if the standard “i”, for terminal “t”, in month “j” is greater than or equal to the service bonus level, as set out in Table A; or 0 if the standard “i”, for terminal “t”, in month “j” is less than the service bonus level, as set out in Table A.</p>
<p>Repeated failures by GAL to meet service quality targets</p>	<p>In the event that any service quality target is not met for a period of 6 months, in addition to the increase in service rebate percentage that this would attract and the requirement for monthly publication of its performance standards, GAL will draw up an improvement plan in consultation with the ACC. In preparing such a plan, GAL and the ACC will consider any representations from the CAA made in the passengers’ interest.</p>
<p>Premium Service Products</p>	<p>GAL may provide airlines and their customers with products and services over-and-above the Core Service Standard. These may be offered under the terms of the Conditions of Use or a bilateral agreement.</p>

Section D	Investment & consultation commitment
<p>Service enhancement through investment</p>	<p>GAL shall retain sole responsibility for managing the capital investment programme to enable it to meet its obligations regarding airport-wide service standards.</p> <p>GAL commits to maintaining the airport to comply with all applicable safety and environmental requirements and to maintain and develop the infrastructure of the airport to enable the airport-wide service standards to be achieved. In doing so, GAL commits to investing a minimum of £100m p.a. on average over each year of the initial term, although there is no binding programme of specific capital expenditure nor are there projects that are subject to capital expenditure triggers.</p> <p>GAL will undertake appropriate consultation in relation to capital investment, as described in the following sections. This approach to consultation goes beyond the capital expenditure consultation requirements of the Airport Charges Regulations 2011.</p>
<p>Categorisation of capital expenditure</p>	<ul style="list-style-type: none"> • For the purposes of consultation, GAL proposes categorising capital expenditure into one of three areas: <ul style="list-style-type: none"> - Major Development Projects, comprising those individual projects or individual programmes of projects in excess of £10m (excluding the Asset Stewardship Programme) and the Second Runway Project; - Minor Development Projects, being those individual projects or individual programmes of projects less than £10m (excluding both the Asset Stewardship Programme and Second Runway Project); and - Asset Stewardship Programme, comprising all asset stewardship projects split into five broad elements - Airfield, Commercial, IT, Facilities and Compliance/Risk.
<p>Airline consultative groups</p>	<ul style="list-style-type: none"> • Consultation with the airlines will need to be undertaken at a number of different levels, with groups formed appropriately: <ul style="list-style-type: none"> - ACC: to consider strategic matters involving the medium- to long-term development of the airport; - Capital sub-committee of ACC: to consider tactical matters involving the delivery by GAL of the capital development programme; and - Working groups (informal and formal): to consider operational impacts of projects on the day-to-day activities of the airlines operating at the airport. These working groups (where required) will be project specific, involve affected airlines, and may require a formally constituted working group (e.g. the AOC) for significant projects requiring a high degree of airline input into the design and execution planning (e.g. check-in transformation).
<p>Master Plan</p>	<ul style="list-style-type: none"> • GAL published a Master Plan in July 2012. GAL will publish a revised Master Plan every five years, in consultation with airlines (including the ACC), other business partners and the local community. The exact timing of Master Plan updates will be dependent on Government airport policy consultations/decisions (e.g. in relation to the Airports Commission) and on the need to keep the overall long-term vision for the airport up-to-date.
<p>Capital Investment Programme</p>	<ul style="list-style-type: none"> • GAL will publish annually a rolling five year Capital Investment Programme • The CIP will be the key document around which strategic-level consultation

Commitments

	<p>on future airport development will take place. This consultation with the ACC will address:</p> <ul style="list-style-type: none"> - the principal business drivers behind the airport’s development strategy, including service levels; - forecast traffic demand and associated demand for airport capacities and services; - the capacities that the airport intends to provide, taken in the context of forecasted demand; and - the cost of the capital investment programme, and the resulting effect on the Asset Base of the airport. <ul style="list-style-type: none"> • The forecast cost of the capital investment programme will: <ul style="list-style-type: none"> - summarise expenditure on each of the Major Development Projects; - summarise aggregate expenditure on the Asset Stewardship Programme (across all five elements); - summarise aggregate expenditure on Minor Development Projects; - be at a level of detail that naturally reflects the planning horizon and Tollgate status for projects, with those in the short-term being more granular and certain than those in the final years of the forecast. - provide an explanation as to any material differences between the latest forecast and: <ul style="list-style-type: none"> ○ the prior year forecast; and ○ the forecast per the CAA’s price control review.
<p>Individual Major Development Project consultation</p>	<ul style="list-style-type: none"> • As part of the annual Capital Investment Programme consultation with the ACC, GAL will consult with airlines in relation to Major Development Projects (with the exception of “commercial return projects” and “dedicated airline projects”) covering: <ul style="list-style-type: none"> - high-level options for the development of Major Development Projects and the trade-offs involved between alternatives; - the outputs that are expected to be delivered in terms of service, capacity, operating cost, and revenue; - scope, programme and cost of the project required to deliver the business objectives; and - the business case for the project. (This would be in a form consistent with those prepared by GAL for the ACC in Q5 and in preparation for BQ5). • GAL will consult with the Capital sub-committee of the ACC in relation to the Major Development Projects at Tollgate 2, Tollgate 3, and Tollgate 4. This will require meetings on a more frequent basis than annually. • Following Tollgate 4, progress with the delivery of Major Development Projects will be reviewed by the Capital sub-committee of the ACC as part of its annual Capital Investment Performance Review (see below). • A “commercial return project” is any project with associated commercial revenues that has a positive NPV not taking into account incremental airport charges. • A “dedicated airline project” would be a project undertaken for the benefit of one or more specified airlines and which is remunerated by a separate commercial arrangement or specific airport charge payable by users of the project.
<p>Annual Capital</p>	<ul style="list-style-type: none"> • GAL will meet annually with the Capital sub-committee of the ACC to review

Commitments

Investment Performance Review	GAL's delivery of the Capital Investment Programme, specifically: <ul style="list-style-type: none">- in relation to the following 12 months:<ul style="list-style-type: none">o the schedule and expenditure for each Major Development Project;o the priorities and aggregate expenditure of the Asset Stewardship Programme across each of the five broad elements (separately identifying individual projects in excess of £1m).o the expenditure on Minor Development Projects (separately identifying individual projects in excess of £1m).- in relation to the preceding 12 months, works undertaken and progress with:<ul style="list-style-type: none">o each Major Development Project;o Minor Development Projects (separately identifying individual projects in excess of £1m); ando Asset Stewardship Programme across each of the five broad elements (separately identifying individual projects in excess of £1m).
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Commitments

Section E	Information commitment
<p>Financial performance</p>	<ul style="list-style-type: none"> • GAL publishes detailed statutory accounts consistent with its status as a UK registered company, with debt securities listed on the London Stock Exchange, and falling within the Walker Guidelines relevant to a private equity owned company. • These statutory accounts (refer, for example, to GAL’s Report & Financial Statements for the year ended 31 March 2012): <ul style="list-style-type: none"> - provide greater disclosure than the current regulatory accounts; and - contain sufficient, meaningful data in relation to the operating cost and revenue components of EBITDA, and in relation to the capital expenditure and depreciation components of GAL’s asset base, to enable airlines, the CAA, and other users of GAL’s accounts to undertake an analytical review of GAL’s on-going business performance, capital investment, and financial returns, (including relative to the CAA’s financial projections prepared as part of the Q6 review) and to assess whether charges are reasonable. • GAL will not publish separate regulatory accounts. • To ensure there continues to be the provision of sufficient information for airlines to understand whether charges are reasonable, GAL will ensure that the scope of disclosure in its statutory accounts is maintained to be consistent with that of its most recent accounts (i.e. GAL’s Report & Financial Statements for the year ended 31 March 2012) in so far as it relates to the operating costs, revenues, fixed asset base, depreciation and capital expenditure. If GAL’s statutory accounts do not meet these requirements, GAL will ensure a separate audited statement meeting this standard will be provided confidentially to airlines and the CAA. • GAL proposes to publish annually a statement of GAL’s assessment of the value of its asset base. This will set out the underlying assumptions and calculations, including: the initial asset based (carried forward from the end of the prior year); depreciation; additions; disposals; indexation factors; other adjustments that may be relevant; and the closing asset base (carried forward to the start of the next year). The material provided, together with the audited financial statements, will enable stakeholders to verify the calculation. • GAL will provide such further financial information required (if any) to ensure compliance with the Airport Charges Regulations 2011.
<p>Financial information in relation to Specified Activities, PRM Service, and Check-in & Baggage facilities</p>	<ul style="list-style-type: none"> • GAL will provide to users of the Specified Activities, PRM Services, Check-in & Baggage Facilities, and the CAA, by 31 December in each year a statement of actual costs and revenues in respect of each of the specified activities for the year ending the previous 31 March.

Section F	Operational and financial resilience commitments
<p>Operational resilience</p>	<p>GAL will develop and maintain an operational resilience plan which will set how GAL intends to operate an efficient and reliable airport to the levels required by the Commitments or otherwise agreed with users and, in particular, how it will secure the availability and continuity of airport operation services, particularly in times of disruption. GAL will consult annually on the resilience plan with all interested parties including the CAA.</p> <p>In pursuance of the above obligation GAL will by [1 October 2014] publish one or more plan(s) or other documents setting out the principles, policies and processes by which it will comply with Condition [●]. Such plans and any amendments will have regard to any relevant guidance issued by the CAA.</p> <p>Prior to publishing any plans or other documents under Condition [●]. GAL shall consult all relevant parties on those plans or documents.</p> <p>GAL shall so far as is reasonably practicable coordinate and cooperate with all relevant parties at the airport to meet the requirements of this operational resilience commitment and shall at least once a year hold a meeting to which all relevant parties or organisations representing them shall be entitled to attend to discuss any issues pertinent to this operational resilience commitment.</p> <p>The Conditions of Use shall require all providers of air transport services and groundhandlers to comply with rules of conduct relating to minimum service provision and in particular to actions to be taken during periods of disruption.</p> <p>During periods of service disruption GAL shall use reasonable endeavours to coordinate the communication of operational information and to ensure the provision of timely, accurate and clear information about its operations to users of air transport services as well as information as to their rights under denied boarding regulations.</p>
<p>Financial resilience</p>	<p>The Conditions of Use will include the following financial resilience obligations to users:</p> <ul style="list-style-type: none"> • The Directors of GAL will provide an annual confirmation of adequate financial resources to operate the airport and provide the Core Services; and • GAL shall not amend, vary, supplement or modify or concur in the amendment, variation, supplementation or modification of any of the finance documents in respect of credit rating requirements (whether in each case in the form of a written instrument, agreement or document or otherwise) (a “Variation”) unless it has given prior written notice thereof to the CAA. GAL shall, as soon as reasonably practicable: <ul style="list-style-type: none"> - notify the CAA of the possibility of any such Variation; and - provide a summary of the executed change. <p>The provisions of this Condition shall not apply to any administrative or procedural variation.</p>
<p>Continuity of Service Plan</p>	<p>GAL shall prepare and at all times maintain a continuity of service plan. The plan shall describe such legal, regulatory, operational and financial information that an administrator, receiver, or new management might reasonably be expected to require, in addition to the aerodrome manual and other statutory or regulatory documents which GAL is required to maintain, in order for it to efficiently carry out its functions and to remain compliant with its aerodrome licence. GAL shall supply such continuity of service plan to the CAA by 1 October</p>

Commitments

	2014 and shall make such reasonable amendment to the form, scope and content of the plan as the CAA may reasonably require. GAL shall provide the CAA with details of any material variations to the continuity of service plan.
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Table A – Airport Service Quality Targets (Rebates & Bonuses)

	Standard "I"	Metric	Rebate Level	Maximum potential rebate (both terminals, unless noted)	Bonus Level	Maximum potential bonus (both terminals, unless noted)
(i)	Passenger satisfaction measures			1.400.80%		1.40%
1	Departure Lounge Seat Availability	Moving Average QSM Score	3.8	0.2035%	4.0	0.35%
2	Cleanliness		4.0	0.2035%	4.2	0.35%
3	Way-Finding		4.1	0.2035%	4.2	0.35%
4	Flight Information		4.2	0.2035%	4.3	0.35%
5	Security		n/a	n/a	n/a	n/a
(ii)	Security			2.600%		0.80%
		Times <5 Minutes and	95%			
56	Central Passenger Search	Times <15 Minutes	98%	1.00.80%	97%	0.80%
6	Central Passenger Search	Day when single time slice > 30 Minutes	Single event per day t.b.d	(0.05% per day) 0.720% max per month	n/a	n/a
7	Transfer Passenger Search	Times <10 Minutes	95%	0.240%	n/a	n/a
8	Staff Search (Terminals & Crew)	Times <5 Minutes (terminal) Times <10 Minutes (crew)	95%	0.350%	n/a	n/a
9	External Control Posts Search	Times <15 Minutes	95%	0.350%	n/a	n/a
(iii)	Passenger operational measures			1.0530% (ST) 1.5560% (NT)		1.30%
10	Passenger Sensitive Equipment (General)	% Time Available	99%	0.0540%	99.5%	0.40%
11	Passenger Sensitive Equipment (Priority)	% Time Available	99%	0.450%	99.5%	0.45%
12	Inter Terminal Transit System	% Time 1 Car Available and % Time 2 Cars Available	99%	0.530% (NT)	n/a	n/a
13	Arrivals Reclaim (Baggage Carousels)	% Time Available	99%	0.450%	99.5%	0.45%
(iv)	Airline operational measures			1.605%		n/a
14	Outbound Baggage	t.b.d OBP*	t.b.d 99%	0.730%	n/a	n/a
15	Stands	% Time Available	99%	0.0530%	n/a	n/a
16	Jetties	% Time Available	99%	0.30%	n/a	n/a
17	Pier Service	Moving annual average % passengers pier served	95% t.b.d	0.50%	n/a	n/a
18	Fixed Electrical Ground Power	% Time Available	99%	0.025%	n/a	n/a
(v)	Aerodrome congestion term			0.7050%		n/a
19	Airfield congestion / availability	t.b.d	t.b.d	0.7050%	n/a	n/a
	Total			7.215% (NT) 6.785% (ST)		3.50% (NT) 3.50% (ST)

Notes:

Item 6: Day when single time slice greater than 30mins. Daily penalty is 0.05%, max. 0.70% per month.

Item 14: OBP = "Overall Baggage Performance" as described in GAL/ACC letter to CAA of 7 August.

Item 17: Target to be agreed and subject to airline adherence with stand planning rules.

The Conditions of Use will incorporate the detailed measurement and exemptions process. This will be based upon the Q5 process and take into account the content of the GAL/ACC letter to CAA of 7 August in relation to service quality targets.

Table B – Airline Service Quality Targets

Standard “k”	Metric	Target Level	Airline Rebate Percentage
Check-in performance – queue time	Times <30 Minutes	95%	1.00 0.80%
Arrivals bag performance – last bag on carousel	Times < 50 45 Minutes (long-haul) <u>Times <35 Minutes (short-haul)</u>	95%	0. 5 80%

The check-in performance metric is not routinely measured, although the use of automated queue measurement in South Terminal security indicates that this is feasible. GAL will consult with the Gatwick AOC to determine the appropriate approach for implementing such a measurement.

Attachment 1	Illustrative bases of Pricing Principles
Pricing principles	<p>GAL will provide users, from time to time, with a summary of the pricing principles it has adopted in setting the airport tariff and entering into bilateral contracts. These pricing principles do not form part of the Commitments, but for information, at this time, GAL believes the following are relevant:</p> <ul style="list-style-type: none">• In general, prices should be set:<ul style="list-style-type: none">- to generate expected revenue for a service that is at least sufficient to meet the costs of providing the service;- to include a return on investment in assets, commensurate with risks involved; and- to provide incentives to reduce costs or improve productivity• There will be price differentiation between different users of the infrastructure, based on commercially objective rationales, including, but not limited to:<ul style="list-style-type: none">- responding to competition for airlines and passengers;- enhancing passenger service including through improved airline performance;- efficiently managing demand and promoting efficient investment in and use of airport infrastructure, in particular the airfield through greater intensity of use of peak-period slots, extending slot season-lengths, and increasing off-peak operations;- reducing the risk of a reduction in, or securing a commitment to, existing traffic volumes;- incentivising, or securing a commitment to, traffic volume growth;- recognising differential contributions to ancillary commercial activities and revenues;- encouraging or securing an increase in ancillary commercial activities and revenues;- incentivising or securing cost reductions; and- promoting diversification of routes/destinations and market segments.

**Subject to Contract
Final 20 August 2013**

Heads of terms of Airport Commitments in relation to Airport Services & Charges beyond Q5

Section A	General Conditions
Parties	Gatwick Airport Limited (GAL) and all airlines operating at Gatwick Airport.
Regulatory background	<p>The CAA published (April 2013) its initial assessment of the three elements of the “Market Power Test” in accordance with the Civil Aviation Act 2012 (the Act). The CAA has concluded that the Market Power Test is met in relation to GAL as operator of Gatwick Airport, and that it is minded to issue Gatwick with a Licence.</p> <p>GAL disputes the CAA’s assessment and believes it does not meet the Market Power Test and, accordingly, should not be issued with a Licence. GAL remains subject to the provisions of Airport Charges Regulations 2011 (the ACR) and, where applicable, general competition law. The CAA will have concurrent powers under competition law through the framework of the Act. Nevertheless, GAL has decided that it would be commercially expedient for it to put in place the Airport Commitments for the benefit of all airlines operating at Gatwick Airport. The Commitments address the key interests of airport users including the range, availability, continuity, cost and quality of airport operation services.</p> <p>These Airport Commitments will create binding contractual arrangements between GAL and airlines operating at Gatwick. They have been drafted on the basis that GAL is not issued with a Licence. However, without prejudice to our contention that GAL does not require a licence under the Act, the Commitments would be effective if backed by a licence framework as discussed in paragraphs 12.37-12.41 of the Initial Proposals.</p>
Conditions of Use	<p>GAL undertakes to incorporate the Airport Commitments into GAL’s Conditions of Use, for the benefit of all airlines who may operate at Gatwick Airport during the period covered by the Airport Commitments.</p> <p>Set out below is indicative drafting to be incorporated into the Conditions of Use:</p> <ul style="list-style-type: none"> • <u>“Applicability and Enforceability</u> <i>The publication of these Conditions of Use constitutes an offer by Gatwick Airport Limited to permit the use of its facilities on the terms set out herein. The use of any facilities at the airport whether airside or landside other than as a passenger constitutes acceptance of these Conditions of Use. It is intended that these Conditions of Use constitute a contract as between Gatwick Airport Limited and each and every Operator using the facilities at the airport.</i> • <u>Variation</u> <i>Gatwick Airport Limited may at its sole discretion vary amend or add to these Conditions of Use and any such variation, amendment, or addition may be promulgated by means of a Gatwick Airport Directive (GAD) save</i>

Final Airport Commitments

	<p><i>that no variation may be made to clauses ● and ● [i.e. those dealing with the substantive provisions of the commitments including: initial term; contractual remedies and independent adjudication; price commitment; service commitment; investment & consultation commitment; information commitment; and operational & financial resilience commitments], other than in accordance with the variation provisions contained in clauses ● and ● respectively.”</i></p>
Initial term of Airport Commitments	7 years to 31 March 2021
Extension of Airport Commitments	<p>It is envisaged that, over time, the number of airlines operating under bilateral contracts rather than under the Conditions of Use will increase, such that the majority of passenger traffic is under contract.</p> <p>The scope of any future airport commitments will be a matter for commercial consideration by GAL and its airline customers prior to the end of the initial term of the Airport Commitments.</p> <p>GAL will notify the CAA and the airlines operating at Gatwick at least 2 years prior to the end of the initial term of the Airport Commitments of its intention with regards to the modification, extension, termination, or otherwise of the Airport Commitments.</p>
Bilateral airline-airport contracts	<p>Airlines operating at Gatwick Airport will operate under the terms of either:</p> <ul style="list-style-type: none"> • the airport’s Conditions of Use which will incorporate a published airport tariff and set out airport wide service standards consistent with the Airport Commitments; or • bilateral contracts setting out the commercial arrangements between the airport and airline, including price and service standards. Such bilateral contracts may contain additional service penalty/bonus mechanisms and may include prices that are at a discount or premium to the published airport tariff. Alternatively, such contracts may place reliance on the Conditions of Use save for limited, specific alterations. <p>The charges for services rendered under the Conditions of Use and bilateral contracts will need to be consistent with the requirements of the ACR and any relevant provisions of competition law, but no prior regulatory approval of the detail of these contracts will be required.</p>
Pricing principles	GAL will provide users, from time to time, with a summary of the pricing principles it has adopted in setting the airport tariff and entering into bilateral contracts. These pricing principles do not form part of the Commitments, but for information an extract has been set out at Attachment 1.
Contractual remedies and independent adjudication	<p>Normal contractual remedies will be available to airlines operating under the Conditions of Use, within which the Airport Commitments have been incorporated.</p> <p>The right of redress would be to the courts but with an adjudication provision (of the type imposed by section 108 of the Housing Grants Construction and Regeneration Act 1996) built in to encourage speedy resolution of disputes by providing for non-binding adjudication by independent experts drawn from an agreed panel.</p>

Airlines will continue to have separate rights of redress under the Airport Charges Regulations 2011 where the airport operator has failed to set airport charges in accordance with the Regulations. In addition the CAA will continue to have rights to investigate and make compliance orders in relation to the airport operator's failure to comply with the Regulations.

Set out below is indicative drafting to be incorporated into the Conditions of Use:

"Dispute Resolution Procedure

- *Either party shall refer any Dispute to an Expert for determination by serving notice in writing to that effect on the other party. The notice shall contain sufficient particulars of the Dispute to be referred to an Expert.*
- *The parties shall agree the identity of the Expert to be appointed. In default of agreement, within ten working days of the date of service of a notice referring a Dispute to an Expert for determination, the Expert shall be appointed on the application of any party to the President of the Law Society or the Chairman of the Bar Council.*
- *The Expert shall not act as an arbitrator and the provisions of the Arbitration Act 1996 shall not apply.*
- *The Expert shall determine the Dispute referred to him impartially and acting reasonably. The Expert will establish the procedural rules to be applied to the determination which must include the following steps:*
 - *each party will be entitled to make submissions to the Expert;*
 - *the Expert may request any party to provide him with any further information as he may require in order to determine the Dispute provided any such information is made available to the other party to comment;*
 - *all communications between a party and an Expert shall be copied to the other party;*
 - *any failure by a party to respond to any request or direction by the Expert shall not invalidate the Expert's determination.*
- *Unless a shorter period is agreed between the parties at the time of the Expert's appointment, a fully reasoned written determination must be delivered to the parties within 21 working days of the Expert's appointment.*
- *The fees and expenses of the Expert shall be borne by the parties in equal shares unless the Expert determines otherwise. Each party shall be solely responsible for bearing its legal and other costs arising out of any reference of a Dispute to an Expert.*
- *Any decision of the Expert shall be binding until the Dispute is finally determined by legal proceedings or by agreement.*
- *Neither party shall make any application to a competent court in relation to the conduct of the determination or the Expert's determination or the Dispute after ninety days from the date of the Expert's determination or, in the event the Expert has failed to reach a decision, the date on which the Expert should have reached a determination.*
- *The dispute resolution procedure set out in clauses [●] above is without prejudice to, and does not impact upon, Gatwick Airport Limited's right to*

Final Airport Commitments

	<p><i>exercise its power to detain aircraft for the non-payment of Airport charges, pursuant to the Civil Aviation Act 1982. Gatwick Airport Limited may at all times exercise that power without recourse to this dispute resolution procedure.</i></p> <ul style="list-style-type: none">• <i>The dispute resolution procedure set out in clauses • above shall not prevent either party from seeking urgent relief by applying to a competent court for injunctive relief.”</i>
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Final Airport Commitments

Section B	Price commitment
Published airport tariff	<p>The published airport tariff will include the following elements:</p> <p>(1) <u>Core Service Charges</u> for commercial passenger flights receiving the Core Service Standard. This will include:</p> <ul style="list-style-type: none"> • ATM fees (landing & take-off) • passenger fees • aircraft parking fees <p>The Core Airport Charges may include general discount and incentive structures available to all airlines operating under the Conditions of Use.</p> <p>(2) <u>Premium Service Charges</u> for commercial passenger flights receiving Premium Service Products.</p> <p>(3) <u>Selected Ancillary Service Charges</u> for other services provided by the airport including for:</p> <ul style="list-style-type: none"> • certain currently Specified Activities, namely: <ul style="list-style-type: none"> - Staff ID - airside licences - FEGP (net of cost of electricity) - Airside Parking - Hydrant Refuelling <p>(4) <u>Other Ancillary Services Charges</u> for other services provided by the airport including for:</p> <ul style="list-style-type: none"> • PRM services • Property related charges (rental, utilities, etc) • Certain currently Specified Activities, namely: <ul style="list-style-type: none"> - Check-in & Baggage Charges - Staff car parks - Facilities for bus & coach operators - Utilities (gas, water, electricity, heating) - Cable routing <p>(5) Other Airport Charges for cargo, general aviation and other non-passenger flights including related landing, take-off and parking fees and ancillary charges.</p> <p>Public interest conditions in relation to currently Specified Activities to be removed. Check-in & Baggage Charges and other charges for groundhandling activities remain subject to the provisions of the Groundhandling Regulations.</p>
Scope of price commitment	<p><u>Core Service Charges and Selected Ancillary Service Charges</u> in the published airport tariff will be set at a level such that the indicative price path condition is met (see below).</p>
Indicative price path condition	<p>GAL intends for the Aggregate Core Revenue per Passenger (the “Core Yield”) and the Aggregate Blended Revenue per Passenger (the “Blended Yield”) to be set in line with, respectively, the Indicative Gross Yield profile and the Indicative Net Yield profile (set out below). The actual Core Yield and actual Blended Yield may deviate from its associated indicative yield in any given year. GAL undertakes that, taking the period of the airport commitments as a whole, there will be no aggregate “over-recovery” in airport charges relative to the indicative yield profiles.</p>

Final Airport Commitments

	<p>The Indicative Net Yield profile in a relevant year t (NY_t) is defined as:</p> $NY_t = U_t + B_t + S_t$ <p>The Indicative Gross Yield profile in a relevant year t (GY_t) is defined as:</p> $GY_t = W_t + B_t + S_t$ <p>These are indicative profiles since, in any given year, the actual Core Yield and Blended Yield may be less than, or greater than, its associated Indicative Yield. Such phasing differences may be due to unanticipated circumstances (e.g. changes in actual vs. expected mix of traffic) or deliberate business decisions (e.g. to alter charges below/above that implied in the Indicative Yield profiles taking into account factors such as: prior year under- or over-recoveries, economic conditions, competitive threats, growth opportunities, etc).</p> <p>The amount by which the actual Core Yield differs from the Indicative Gross Yield in a relevant year t will generate a revenue difference which, over time, will give rise at the end of a relevant year t to a Cumulative Gross Revenue Difference ($CGRD_t$) defined as:</p> $CGRD_t = (T_t - Q_t \cdot GY_t) + CGRD_{t-1}(1 + I_{t-1})$ <p>and where,</p> $CGRD_{2013/14} = 0$ <p>Similarly, the amount by which the actual Blended Yield differs from the Indicative Net Yield in a relevant year t will generate a revenue difference which, over time, will give rise at the end of a relevant year t to a Cumulative Net Revenue Difference ($CNRD_t$) defined as:</p> $CNRD_t = (R_t - Q_t \cdot NY_t) + CNRD_{t-1}(1 + I_{t-1})$ <p>and where,</p> $CNRD_{2013/14} = 0$ <p>GAL undertakes that:</p> <ul style="list-style-type: none"> • the Cumulative Gross Revenue Difference shall not exceed: <ul style="list-style-type: none"> - £nil at the end of the initial term of the Airport Commitment i.e. $CGRD_{2020/21} \leq 0$; and - £10m in any year during the initial term of the Airport Commitments i.e. $CGRD_t \leq £10m$. • in setting airport charges each year, GAL will do so with the objective that the change in estimated Core Yield between any year “t-1” and subsequent year “t” should not exceed RPI+10%, provided that this objective shall not limit GAL from attaining a $CGRD_{2020/21}$ of £nil; • the Cumulative Net Revenue Difference shall not exceed: <ul style="list-style-type: none"> - £nil at the end of the initial term of the Airport Commitment i.e. $CNRD_{2020/21} \leq 0$
Publication of Cumulative	The Cumulative Revenue Differences (CRD, meaning both CGRD and CNRD) will

Final Airport Commitments

<p>Revenue Differences</p>	<p>be published by GAL as part of the annual airport charges consultation, together with the CRD's for prior years which will have been updated with actual data when available.</p> <p>As the consultation in relation to year "t" is undertaken part way through year "t-1", GAL will publish at this time:</p> <ul style="list-style-type: none"> • the actual CRD_{t-2}; • a revised estimate of CRD_{t-1}; and • an estimate of CRD_t. <p>Assumptions underlying the estimated figures (including actual charges, traffic and revenue data for historic years, as and when available) will be provided to enable airlines to verify the calculations.</p>
<p>Adjustments to indicative price path upon airline approval</p>	<p>Amendments to the indicative price path may be made by GAL, following consultation by GAL with the Gatwick Airline Consultative Committee (ACC):</p> <ul style="list-style-type: none"> • if approved in writing by airlines paying charges under the published tariff that together account for at least 67% of the passengers (in the 12 months immediately preceding the month in which GAL requested written approval from the airlines of the proposed amendment) travelling through the airport on airlines paying charges under the published tariff, and representing at least 51% of the airlines responding in writing.
<p>Second runway costs and potential adjustments to the indicative price path</p>	<p>Amendments to the indicative price path may be made by GAL, following consultation by GAL with the Gatwick ACC and the CAA:</p> <ul style="list-style-type: none"> • if following the completion of the Airports Commission the Government supports the development of a second runway at Gatwick Airport, to allow for the recovery of the reasonable costs (capital, operating and financing) of: (i) applying for planning permission for a second runway; and (ii) the subsequent development of the second runway and associated airport infrastructure. • Any such amendment to the indicative price path will have regard to any policy guidance issued by the CAA in relation to the financing of new runway developments in the London airport market.
<p>Annual consultation on charges</p>	<p>Consultation on charges in the published airport tariff of the Conditions of Use, together with associated service standards and investment, will be undertaken annually in accordance with the Airport Charges Regulations 2011. GAL will provide additional financial information to support this consultation as set out in "Information Commitment" below.</p>
<p>Definitions for the Price Commitment</p>	<p>Set out below.</p>
<p>Aggregate Core Revenue</p>	<p>Aggregate Core Revenue is the sum of:</p> <ul style="list-style-type: none"> (i) revenue arising from Core Service Charges and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and (ii) revenue arising from charges equivalent to the Core Service Charge and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of bilateral contracts, but substituting for the actual revenue received the revenue that would have been received if such services had been offered and charged under the published airport

Final Airport Commitments

	<p>tariff.</p> <p>For the avoidance of doubt:</p> <ul style="list-style-type: none"> Aggregate Core Service Revenue does not include: revenue from Premium Service Charges, Other Ancillary Service Charges, Other Airport Charges and Ancillary Charges arising under the terms of the published airport tariff; nor revenue arising from equivalent charges under the terms of bilateral contracts; and Revenue from FEGP charges, included in Selected Ancillary Service Charges, is net of the cost of electricity.
Aggregate Blended Revenue	<p>Aggregate Blended Revenue is the sum of:</p> <p>(i) revenue arising from Core Service Charges and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and</p> <p>(ii) revenue arising from charges equivalent to the Core Service Charge and Selected Ancillary Service Charges for relevant commercial passenger services operated under the terms of bilateral contracts.</p> <p>For the avoidance of doubt:</p> <ul style="list-style-type: none"> Aggregate Core Service Revenue does not include: revenue from Premium Service Charges, Other Ancillary Service Charges, Other Airport Charges and Ancillary Charges arising under the terms of the published airport tariff; nor revenue arising from equivalent charges under the terms of bilateral contracts; and Revenue from FEGP charges, included in Selected Ancillary Service Charges, is net of the cost of electricity.
Passengers	<p>For the purpose of the calculation of the Core Yield, "Passengers" includes all passengers, whether carried by an airline under the terms of the published airport tariff or a bilateral contract.</p>
t	<p>The annotation "t" denotes the relevant year t, being a period of twelve months starting on 1 April and ending on 31 March in the following year, the annotation "t-1" denotes relevant year "t-1" immediately preceding relevant year "t", and so forth. By way of example, the annotation "2014/15" denotes the year commencing 1 April 2014 and ending on 31 March 2015.</p>
U_t	<p>U_t is the underlying net yield in relevant year t, defined as:</p> $U_t = U_{t-1}(1 + RPI_{t-1} + X)$ <p>and,</p> $U_{2013/14} = [●]$
W_t	<p>W_t is the underlying gross yield in relevant year t, defined as:</p> $W_t = W_{t-1}(1 + RPI_{t-1} + X + 1\%)$ <p>and,</p> $W_{2013/14} = U_{2013/14}$
RPI_{t-1}	<p>RPI_{t-1} means the percentage change in the Retail Price Index between that published with respect to August in relevant year t-1 and that published with respect to August in relevant year t-2.</p>

Final Airport Commitments

X	X is 0.5%
B_t	<p>B_t is the bonus per passenger earned in relevant of year t, if any, being:</p> <ul style="list-style-type: none"> • the amount of the Core Service Bonus calculated as set out under “Service Commitment” below; divided by • the number of passengers using the airport in year t (Q_t) <p>Any estimate of B_t prepared prior to the start of year t will be assumed to be £nil.</p>
S_t	<p>S_t is the permitted security cost per passenger in relevant year t, if any, being:</p> <ul style="list-style-type: none"> • the aggregate of: <ul style="list-style-type: none"> - 90% of the amount by which the increase in security costs at the airport in year t, which arise as a result of a change in required security standards at the airport, exceeds £1m; and - the cost of installing new hold baggage screening equipment in accordance with the requirements of Gatwick’s security regulator and as agreed through the capital investment programme consultation process. The recovery of the capital costs and associated funding costs will be presumed to be made over the assessed life of the equipment, in equal annual amounts. • divided by: <ul style="list-style-type: none"> - the number of passengers using the airport in year t (Q_t).
T_t	T_t is the Aggregate Core Revenue in relevant year t .
R_t	R_t is the Aggregate Blended Revenue in relevant year t .
Q_t	Q_t is the total number of passengers using Gatwick airport in relevant year t . This includes all passengers, whether carried by an airline under the terms of the published airport tariff or a bilateral contract.
I_{t-1}	I_{t-1} is the annual percentage interest rate equal to the sum of (i) the average of the UK Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of September in relevant year $t-1$ to the end of August in relevant year t ; and (ii) if the relevant $CGRD_{t-1}$ or $CNRD_{t-1}$ to which the interest rate is being applied has a positive value, 3%, otherwise, 0%.
Specified Activities Charges	<p>Gatwick Airport Limited shall ensure that those charges relating to Specified Activities are set at a level which is fair, reasonable and non-discriminatory.</p> <p>Specified Activities for these purposes will comprise:</p> <ul style="list-style-type: none"> • Staff ID • airside licences • FEGP • Airside parking • Hydrant refuelling • Staff car parks • Facilities for bus & coach operators • Utilities (gas, water, electricity, heating) • Cable routing

Final Airport Commitments

	<p>At least 3 months prior to making any amendments to those charges relating to Specified Activities, GAL will provide to users of the Specified Activities and the CAA:</p> <ul style="list-style-type: none">• relevant information (including cost information, where relevant, or other information if charges for the specified facilities are not established in relation to cost) and assumptions adequate to verify the basis upon which the charges have been calculated. <p>GAL will provide additional financial information to support this consultation as set out in “Information Commitment” below.</p>
PRM and Check-in & Baggage Charges	<p>GAL will comply with the relevant legislation in relation to the setting of check-in & baggage charges and PRM charges.</p> <p>GAL will provide additional financial information to support this consultation as set out in “Information Commitment” below.</p>

Final Airport Commitments

Section C	Service commitment
Airport-wide standards to be monitored <u>and</u> subject to rebates	<p>The Core Service Standards are as set out in Table A (appended). These are broadly based on the existing Q5 SQR scheme with some modifications as to:</p> <ul style="list-style-type: none"> • the exclusion of all service bonuses • the inclusion of an outbound baggage target; • the inclusion of an airfield availability metric or retention of the existing aerodrome congestion term (but to include a measure of snow event readiness); • the maximum annual rebate amount remains 7% of Core Service Charge Revenue; • ; • a single maximum potential rebate percentage for each service standard, equally applicable to a month or year. In Q5 a monthly maximum and a separate annual maximum is specified; • an incremental penalty factor of 25% applied to the rebate percentage for certain selected passenger facing measures if the relevant service standard has not been met for six consecutive months; and • failure of an airline to meet certain Airline Service Standards will reduce the amount payable by GAL in any month to such airline under the Core Service Rebates.
Adjustments to service standards upon airline approval	<p>Amendments to the Core Service Standards may be made by GAL:</p> <ul style="list-style-type: none"> • following consultation by GAL with the Gatwick Airline Operators Committee (AOC) & Gatwick ACC; and • if approved in writing by airlines paying charges under the published tariff or under bilateral contract (save for those airlines that have expressly waived the application of these service standards under the terms of their contract) that together account for at least 67% of the passengers (in the 12 months immediately preceding the month in which GAL requested written approval from the airlines of the proposed amendment) travelling through the airport on airlines paying charges under the published tariff or under bilateral contract (save for those airlines that have expressly waived the application of these service standards under the terms of their contract), and representing at least 51% of that airlines responding in writing.
Airline Service Standards to be monitored and published, and subject to rebates	<p>GAL will monitor and publish the performance of individual airlines in relation to certain airport-wide activities. These include:</p> <ul style="list-style-type: none"> • Check-in queue performance; • Arrival bag performance; and • PRM service and pre-notification. <p>GAL may amend the airline service standards that it is monitoring and publishing from time-to-time, following consultation with the Gatwick AOC & ACC.</p> <p>The first two of these standards are designated as Airline Service Standards for the purposes of determining the Core Service Rebate for individual airlines. These standards are set out in Table B (attached). The third standard (in relation to PRM) is already a factor that determines the PRM charges payable by individual airlines.</p>
Airport-wide standards to	<ul style="list-style-type: none"> • Airlines & airport: On-time performance (departures and arrivals);

Final Airport Commitments

<p>be monitored <u>but not</u> subject to rebates</p>	<ul style="list-style-type: none"> • UKBF: Immigration performance • Airport: ASQ
<p>Publication of standards</p>	<p>GAL to publish monthly report on achievement of Airport-wide standards and the Airline Standards.</p>
<p>Payment of Core Service Rebate</p>	<p>The Core Service Rebate is the amount payable by GAL for a failure by it to meet the Core Service Standards.</p> <p>The Core Service Rebate will be paid quarterly, within 1 month of the end of each quarter (end June, September, December, March) to those airlines operating exclusively under the terms of the published airport tariff during the relevant period. An airline operating under the terms of a bilateral contract will not be entitled to the Core Service Rebate, unless otherwise provided for in such an agreement.</p> <p>The rebates will be calculated by terminal by month, and then allocated to the relevant airlines that used the terminal pro-rata with the Core Service Charges payable by each airline in relation to that month.</p> <p>An airline that has not met the applicable Airline Standards (as set out in Table B) will have its entitlement to Core Service Rebates reduced. Further, GAL shall be under no obligation to pay the rebate to an airline if there are unpaid amounts outstanding from such an airline to GAL. If the entitlement of an individual airline to Service Rebates is so reduced, there will be no change in the entitlement of other airlines to the Core Service Rebate.</p>
<p>Core Service Rebate</p>	<p>The amount (“Core Service Rebate”) payable by GAL to an airline “a” in month “j” for a failure to meet the Core Service Standard Levels will be calculated as:</p> $\text{Core Service Rebate}_{a,j} = \sum_t \text{Net Rebate Percentage}_{a,t,j} \cdot \text{Core Service Charge}_{a,t,j}$ <p>Where:</p> $\begin{aligned} \text{Net Rebate Percentage}_{a,t,j} &= \text{Service Rebate Percentage}_{t,j} \\ &\quad - \text{Airline Standard Rebate Percentage}_{a,t,j} \end{aligned}$ <p>$\text{Core Service Charge}_{a,j,t}$ = Core Service Charges incurred by each airline “a”, in respect of terminal “t”, in relevant month “j”.</p>
<p>Service Rebate Percentage</p>	<p>Rebates shall be calculated separately for each terminal based on the performance against the standards for that terminal; with the exception of airfield availability, which will be calculated at an airfield level and the same percentage applied to both terminals. As noted in Table A, the inter-terminal transit availability standards and potential rebate percentages relate only to the North Terminal.</p> <p>For each terminal t, the Service Rebate Percentage for the month j shall be calculated as:</p> $\text{Service Rebate Percentage}_{t,j} = \sum_{\text{standard } i} p_{i,t} \cdot x_{i,t,j}$ <p>Where:</p>

Final Airport Commitments

	<p>$p_{i,t}$ = the potential service rebate percentage per month for standard “i”, for terminal “t”, as set out in Table A.</p> <p>$x_{i,t,j}$ = 0 if the standard “i”, for terminal “t”, in month “j” is greater than or equal to the service rebate level, as set out in Table A; or</p> <p>1 if the standard “i”, for terminal “t”, in month “j” is less than the service rebate level, as set out in Table A; or</p> <p>in relation only to Selected Passenger Facing Measures, 1.25 if the relevant standard “i”, for terminal “t”, in months “j” and in each of the five immediately preceding months (i.e. “j-1”, “j-2”, “j-3”, “j-4”, “j-5”) is or was less than the service rebate level, as set out in Table A . Provided that the maximum aggregate Service Rebate Percentage payable in relation to all Selected Passenger Facing Measures shall not exceed 2.85% in any financial year ending 31 March.</p> <p>For the purposes of this calculation, the Selected Passenger Facing Measures comprise: Departure Lounge Seat Availability; Cleanliness; Way-Finding; Flight Information; Central Passenger Search (times<5minutes, times < 15 minutes); Passenger Sensitive Equipment (General); Passenger Sensitive Equipment (Priority); and Arrivals Reclaim (Baggage Carousels).</p>
<p>Airline Standard Reduction Percentage</p>	<p>For each airline “a”, Airline Standard Reduction Percentage for the month j shall be calculated as:</p> $\text{Airline Standard Reduction Percentage}_{a,t,j} = \sum_{\text{standard } k} r_{k,t} \cdot z_{k,t,j}$ <p>Where:</p> <p>$r_{k,t}$ = the potential airline standard reduction percentage per month for standard “k”, for terminal “t”, as set out in Table B.</p> <p>$z_{k,t,j}$ = 0 if the standard “k”, for terminal “t”, in month “j” is greater than or equal to the standard reduction level, as set out in Table B; or</p> <p>1 if the standard “k”, for terminal “t”, in month “j” is less than the standard reduction level, as set out in Table B.</p>
<p>Repeated failures by GAL to meet service quality targets</p>	<p>In the event that any service quality target is not met for a period of 6 months, in addition to the increase in service rebate percentage that this would attract and the requirement for monthly publication of its performance standards, GAL will draw up an improvement plan in consultation with the ACC. In preparing such a plan, GAL and the ACC will consider any representations from the CAA made in the passengers’ interest.</p>
<p>Premium Service Products</p>	<p>GAL may provide airlines and their customers with products and services over-and-above the Core Service Standard. These may be offered under the terms of the Conditions of Use or a bilateral agreement.</p>

Final Airport Commitments

Section D	Investment & consultation commitment
Service enhancement through investment	<p>GAL shall retain sole responsibility for managing the capital investment programme to enable it to meet its obligations regarding airport-wide service standards.</p> <p>GAL commits to maintaining the airport to comply with all applicable safety and environmental requirements and to maintain and develop the infrastructure of the airport to enable the airport-wide service standards to be achieved. In doing so, GAL commits to investing a minimum of £100m p.a. on average over each year of the initial term, although there is no binding programme of specific capital expenditure nor are there projects that are subject to capital expenditure triggers.</p> <p>GAL will undertake appropriate consultation in relation to capital investment, as described in the following sections. This approach to consultation goes beyond the capital expenditure consultation requirements of the Airport Charges Regulations 2011.</p>
Categorisation of capital expenditure	<ul style="list-style-type: none"> • For the purposes of consultation, GAL proposes categorising capital expenditure into one of three areas: <ul style="list-style-type: none"> - Major Development Projects, comprising those individual projects or individual programmes of projects in excess of £10m (excluding the Asset Stewardship Programme) and the Second Runway Project; - Minor Development Projects, being those individual projects or individual programmes of projects less than £10m (excluding both the Asset Stewardship Programme and Second Runway Project); and - Asset Stewardship Programme, comprising all asset stewardship projects split into five broad elements - Airfield, Commercial, IT, Facilities and Compliance/Risk.
Airline consultative groups	<ul style="list-style-type: none"> • Consultation with the airlines will need to be undertaken at a number of different levels, with groups formed appropriately: <ul style="list-style-type: none"> - ACC: to consider strategic matters involving the medium- to long-term development of the airport; - Capital sub-committee of ACC: to consider tactical matters involving the delivery by GAL of the capital development programme; and - Working groups (informal and formal): to consider operational impacts of projects on the day-to-day activities of the airlines operating at the airport. These working groups (where required) will be project specific, involve affected airlines, and may require a formally constituted working group (e.g. the AOC) for significant projects requiring a high degree of airline input into the design and execution planning (e.g. check-in transformation).
Master Plan	<ul style="list-style-type: none"> • GAL published a Master Plan in July 2012. GAL will publish a revised Master Plan every five years, in consultation with airlines (including the ACC), other business partners and the local community. The exact timing of Master Plan updates will be dependent on Government airport policy consultations/decisions (e.g. in relation to the Airports Commission) and on the need to keep the overall long-term vision for the airport up-to-date.
Capital Investment Programme	<ul style="list-style-type: none"> • GAL will publish annually a rolling five year Capital Investment Programme • The CIP will be the key document around which strategic-level consultation

Final Airport Commitments

	<p>on future airport development will take place. This consultation with the ACC will address:</p> <ul style="list-style-type: none"> - the principal business drivers behind the airport’s development strategy, including service levels; - forecast traffic demand and associated demand for airport capacities and services; - the capacities that the airport intends to provide, taken in the context of forecasted demand; and - the cost of the capital investment programme, and the resulting effect on the Asset Base of the airport. <ul style="list-style-type: none"> • The forecast cost of the capital investment programme will: <ul style="list-style-type: none"> - summarise expenditure on each of the Major Development Projects; - summarise aggregate expenditure on the Asset Stewardship Programme (across all five elements); - summarise aggregate expenditure on Minor Development Projects; - be at a level of detail that naturally reflects the planning horizon and Tollgate status for projects, with those in the short-term being more granular and certain than those in the final years of the forecast. - provide an explanation as to any material differences between the latest forecast and: <ul style="list-style-type: none"> ○ the prior year forecast; and ○ the forecast per the CAA’s price control review.
<p>Individual Major Development Project consultation</p>	<ul style="list-style-type: none"> • As part of the annual Capital Investment Programme consultation with the ACC, GAL will consult with airlines in relation to Major Development Projects (with the exception of “commercial return projects” and “dedicated airline projects”) covering: <ul style="list-style-type: none"> - high-level options for the development of Major Development Projects and the trade-offs involved between alternatives; - the outputs that are expected to be delivered in terms of service, capacity, operating cost, and revenue; - scope, programme and cost of the project required to deliver the business objectives; and - the business case for the project. (This would be in a form consistent with those prepared by GAL for the ACC in Q5 and in preparation for BQ5). • GAL will consult with the Capital sub-committee of the ACC in relation to the Major Development Projects at Tollgate 2, Tollgate 3, and Tollgate 4. This will require meetings on a more frequent basis than annually. • Following Tollgate 4, progress with the delivery of Major Development Projects will be reviewed by the Capital sub-committee of the ACC as part of its annual Capital Investment Performance Review (see below). • A “commercial return project” is any project with associated commercial revenues that has a positive NPV not taking into account incremental airport charges. • A “dedicated airline project” would be a project undertaken for the benefit of one or more specified airlines and which is remunerated by a separate commercial arrangement or specific airport charge payable by users of the project.
<p>Annual Capital</p>	<ul style="list-style-type: none"> • GAL will meet annually with the Capital sub-committee of the ACC to review

Final Airport Commitments

Investment Performance Review	<p>GAL's delivery of the Capital Investment Programme, specifically:</p> <ul style="list-style-type: none">- in relation to the following 12 months:<ul style="list-style-type: none">o the schedule and expenditure for each Major Development Project;o the priorities and aggregate expenditure of the Asset Stewardship Programme across each of the five broad elements (separately identifying individual projects in excess of £1m).o the expenditure on Minor Development Projects (separately identifying individual projects in excess of £1m).- in relation to the preceding 12 months, works undertaken and progress with:<ul style="list-style-type: none">o each Major Development Project;o Minor Development Projects (separately identifying individual projects in excess of £1m); ando Asset Stewardship Programme across each of the five broad elements (separately identifying individual projects in excess of £1m).
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Final Airport Commitments

Section E	Information commitment
Financial performance	<ul style="list-style-type: none"> • GAL publishes detailed statutory accounts consistent with its status as a UK registered company, with debt securities listed on the London Stock Exchange, and falling within the Walker Guidelines relevant to a private equity owned company. • These statutory accounts (refer, for example, to GAL's Report & Financial Statements for the year ended 31 March 2012): <ul style="list-style-type: none"> - provide greater disclosure than the current regulatory accounts; and - contain sufficient, meaningful data in relation to the operating cost and revenue components of EBITDA, and in relation to the capital expenditure and depreciation components of GAL's asset base, to enable airlines, the CAA, and other users of GAL's accounts to undertake an analytical review of GAL's on-going business performance, capital investment, and financial returns, (including relative to the CAA's financial projections prepared as part of the Q6 review) and to assess whether charges are reasonable. • GAL will not publish separate regulatory accounts. • To ensure there continues to be the provision of sufficient information for airlines to understand whether charges are reasonable, GAL will ensure that the scope of disclosure in its statutory accounts is maintained to be consistent with that of its most recent accounts (i.e. GAL's Report & Financial Statements for the year ended 31 March 2012) in so far as it relates to the operating costs, revenues, fixed asset base, depreciation and capital expenditure. If GAL's statutory accounts do not meet these requirements, GAL will ensure a separate audited statement meeting this standard will be provided confidentially to airlines and the CAA. • GAL proposes to publish annually a statement of GAL's assessment of the value of its asset base. This will set out the underlying assumptions and calculations, including: the initial asset based (carried forward from the end of the prior year); depreciation; additions; disposals; indexation factors; other adjustments that may be relevant; and the closing asset base (carried forward to the start of the next year). The material provided, together with the audited financial statements, will enable stakeholders to verify the calculation. • GAL will provide such further financial information required (if any) to ensure compliance with the Airport Charges Regulations 2011.
Financial information in relation to Specified Activities, PRM Service, and Check-in & Baggage facilities	<ul style="list-style-type: none"> • GAL will provide to users of the Specified Activities, PRM Services, Check-in & Baggage Facilities, and the CAA, by 31 December in each year a statement of actual costs and revenues in respect of each of the specified activities for the year ending the previous 31 March.

Final Airport Commitments

Section F	Operational and financial resilience commitments
Operational resilience	<p>GAL will develop and maintain an operational resilience plan which will set how GAL intends to operate an efficient and reliable airport to the levels required by the Commitments or otherwise agreed with users and, in particular, how it will secure the availability and continuity of airport operation services, particularly in times of disruption. GAL will consult annually on the resilience plan with all interested parties including the CAA.</p> <p>In pursuance of the above obligation GAL will by [1 October 2014] publish one or more plan(s) or other documents setting out the principles, policies and processes by which it will comply with Condition [●]. Such plans and any amendments will have regard to any relevant guidance issued by the CAA.</p> <p>Prior to publishing any plans or other documents under Condition [●]. GAL shall consult all relevant parties on those plans or documents.</p> <p>GAL shall so far as is reasonably practicable coordinate and cooperate with all relevant parties at the airport to meet the requirements of this operational resilience commitment and shall at least once a year hold a meeting to which all relevant parties or organisations representing them shall be entitled to attend to discuss any issues pertinent to this operational resilience commitment.</p> <p>The Conditions of Use shall require all providers of air transport services and groundhandlers to comply with rules of conduct relating to minimum service provision and in particular to actions to be taken during periods of disruption.</p> <p>During periods of service disruption GAL shall use reasonable endeavours to coordinate the communication of operational information and to ensure the provision of timely, accurate and clear information about its operations to users of air transport services as well as information as to their rights under denied boarding regulations.</p>
Financial resilience	<p>The Conditions of Use will include the following financial resilience obligations to users:</p> <ul style="list-style-type: none"> • The Directors of GAL will provide an annual confirmation of adequate financial resources to operate the airport and provide the Core Services; and • GAL shall not amend, vary, supplement or modify or concur in the amendment, variation, supplementation or modification of any of the finance documents in respect of credit rating requirements (whether in each case in the form of a written instrument, agreement or document or otherwise) (a “Variation”) unless it has given prior written notice thereof to the CAA. GAL shall, as soon as reasonably practicable: <ul style="list-style-type: none"> - notify the CAA of the possibility of any such Variation; and - provide a summary of the executed change. <p>The provisions of this Condition shall not apply to any administrative or procedural variation.</p>
Continuity of Service Plan	<p>GAL shall prepare and at all times maintain a continuity of service plan. The plan shall describe such legal, regulatory, operational and financial information that an administrator, receiver, or new management might reasonably be expected to require, in addition to the aerodrome manual and other statutory or regulatory documents which GAL is required to maintain, in order for it to efficiently carry out its functions and to remain compliant with its aerodrome licence. GAL shall supply such continuity of service plan to the CAA by 1 October</p>

Final Airport Commitments

	2014 and shall make such reasonable amendment to the form, scope and content of the plan as the CAA may reasonably require. GAL shall provide the CAA with details of any material variations to the continuity of service plan.
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Final Airport Commitments

Table A – Airport Service Quality Targets (Rebates & Bonuses)

	Standard “i”	Metric	Rebate Level	Maximum potential rebate (both terminals, unless noted)		
(i)	Passenger satisfaction measures			0.80%		
1	Departure Lounge Seat Availability	Moving Average QSM Score	3.8	0.20%		
2	Cleanliness		4.0	0.20%		
3	Way-Finding		4.1	0.20%		
4	Flight Information		4.2	0.20%		
(ii)	Security			2.60%		
5	Central Passenger Search	Times <5 Minutes and Times ≤15 Minutes	95%	1.00%		
6	Central Passenger Search	Day when single time slice > 30 Minutes	Single event per day	(0.05% per day) 0.70% max per month		
7	Transfer Passenger Search	Times <10 Minutes	95%	0.20%		
8	Staff Search (Terminals & Crew)	Times <5 Minutes	95%	0.35%		
9	External Control Posts Search	Times <15 Minutes	95%	0.35%		
(iii)	Passenger operational measures			1.05% (ST) 1.55% (NT)		
10	Passenger Sensitive Equipment (General)	% Time Available	99%	0.05%		
11	Passenger Sensitive Equipment (Priority)	% Time Available	99%	0.50%		
12	Inter Terminal Transit System	% Time 1 Car Available and % Time 2 Cars Available	99%	0.50% (NT)		
13	Arrivals Reclaim (Baggage Carousels)	% Time Available	99%	0.50%		
(iv)	Airline operational measures			1.60%		
14	Outbound Baggage	OBP*	99%	0.70%		
15	Stands	% Time Available	99%	0.05%		
16	Jetties	% Time Available	99%	0.30%		
17	Pier Service	Moving annual average % passengers pier served	t.b.d	0.50%		
18	Fixed Electrical Ground Power	% Time Available	99%	0.05%		
(v)	Aerodrome congestion term			0.70%		
19	Airfield congestion / availability	t.b.d	t.b.d	0.70%		
	Total			7.25% (NT) 6.75% (ST)		

Notes:

Item 6: Day when single time slice greater than 30mins. Daily penalty is 0.05%, max. 0.70% per month.

Item 14: OBP = “Overall Baggage Performance” as described in GAL/ACC letter to CAA of 7 August.

Item 17: Target to be agreed and subject to airline adherence with stand planning rules.

The Conditions of Use will incorporate the detailed measurement and exemptions process. This will be based upon the Q5 process and take into account the content of the GAL/ACC letter to CAA of 7 August in relation to service quality targets.

Table B – Airline Service Quality Targets

Standard “k”	Metric	Target Level	Airline Rebate Percentage
Check-in performance – queue time	Times <30 Minutes	95%	1.00%
Arrivals bag performance – last bag on carousel	Times <50 Minutes (long-haul) Times <35 Minutes (short-haul)	95%	0.50%

The check-in performance metric is not routinely measured, although the use of automated queue measurement in South Terminal security indicates that this is feasible. GAL will consult with the Gatwick AOC to determine the appropriate approach for implementing such a measurement.

Attachment 1	Illustrative bases of Pricing Principles
<p>Pricing principles</p>	<p>GAL will provide users, from time to time, with a summary of the pricing principles it has adopted in setting the airport tariff and entering into bilateral contracts. These pricing principles do not form part of the Commitments, but for information, at this time, GAL believes the following are relevant:</p> <ul style="list-style-type: none"> • In general, prices should be set: <ul style="list-style-type: none"> - to generate expected revenue for a service that is at least sufficient to meet the costs of providing the service; - to include a return on investment in assets, commensurate with risks involved; and - to provide incentives to reduce costs or improve productivity • There will be price differentiation between different users of the infrastructure, based on commercially objective rationales, including, but not limited to: <ul style="list-style-type: none"> - responding to competition for airlines and passengers; - enhancing passenger service including through improved airline performance; - efficiently managing demand and promoting efficient investment in and use of airport infrastructure, in particular the airfield through greater intensity of use of peak-period slots, extending slot season-lengths, and increasing off-peak operations; - reducing the risk of a reduction in, or securing a commitment to, existing traffic volumes; - incentivising, or securing a commitment to, traffic volume growth; - recognising differential contributions to ancillary commercial activities and revenues; - encouraging or securing an increase in ancillary commercial activities and revenues; - incentivising or securing cost reductions; and - promoting diversification of routes/destinations and market segments.