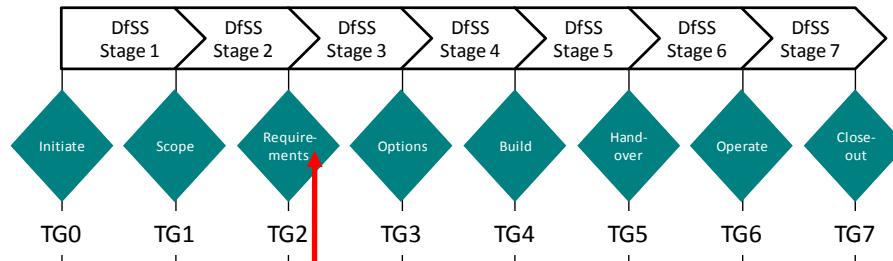


# Business Case Confidential

## SOUTH TERMINAL IDL CAPACITY

easyjet Split

Current status within  
Gatwick project  
process



### Business Objective

Independent market research and passenger insight has highlighted that an overall positive passenger experience of an airport is heavily influenced by the experience in the Departure Lounge. UK lounges including the lounges at Gatwick are not meeting passenger expectation in comparison with our European and International competitors. Passenger insight reveals that our lounges are 'boring compared to other countries' and because passengers 'spend most of their airport time in the lounge' provision of adequate space, information, seating, toilets, restaurants and shopping has been highlighted as important lounge priorities. We also know that as congestion in a lounge increases beyond a comfortable level the retail spend per passenger decreases.

By 2018, the South Terminal International Departure Lounge (IDL) will have insufficient capacity to meet the forecast growth. In order for Gatwick to maximize retail revenue, improve the passenger experience and deliver an IDL that has the adequate space for retail, food and beverage, seating and circulation and allow for future growth, an extension of circa 35% of the existing area is required.

The South Terminal IDL capacity project will provide additional space in the lounge to meet passenger growth forecast, improve passenger experience, provide additional seating, information, circulation and toilets and ensure retail revenues are maximised by increasing and improving the mix, range and appearance of stores and outlets on offer to passengers.

In order for Gatwick to maintain and improve its competitive position against other UK and European airports it is essential to ensure that we provide a positive experience in the lounge.

### Drivers & Benefits

#### GAL's Business Drivers

#### Project Alignment

#### Deliver the best passenger experience

- Ensure we meet service quality rebate (SQR) standards for general IDL seating and maintain performance in the quality service monitor (QSM) target (3.8 for availability of IDL seating) as passenger numbers grow
- Deliver capacity by the provision of space and good quality facilities within the IDL, in line with expected passenger growth
- Improve the quality of overall passenger experience allowing Gatwick to compete with our comparator airports
- Provide IDL capacity space to accommodate an increase to busy day peak occupancy of 3,450 passengers (2011 estimate) to 3,800 passengers (2018 forecast), driven by expected passenger volume growth, increase in 'anytime check in', increase in IDL dwell time and meeting our service aspirations and service proposition (GAL Product Matrix)

#### Help our airlines grow

- Meet capacity growth in passenger volumes through the provision of adequate passenger space and facilities

#### Increase value and efficiency

- Deliver increased penetration and average spend per passenger. Therefore creating a strong commercial return on investment



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## SOUTH TERMINAL IDL CAPACITY

### easyjet Split

through increased space and improved quality, range, mix and appearance of retail stores and outlets on offer

#### Protect and enhance our reputation

- Deliver our aim of providing a world class retail experience at Gatwick

#### Requirements

- Deliver elements of the product matrix e.g. Smokers Balcony, Assistance Facilities, Family Zone, Quite Zone
- Strong commercial return on investment driven by increased space and improved quality, range, mix and appearance of retail offer
- Deliver additional capacity by the provision of space and good quality facilities in line with expected passenger growth
- Provide IDL capacity to accommodate the 2018 increase in busy day peak occupancy
- Maintain current SQR and QSM performance targets as passenger numbers grow
- Improve overall quality of the passenger experience
- Increase income per passenger
- Deliver improved retail and catering penetration
- Increase income by delivering the optimum retail mix for the South Terminal passenger
- Protect revenue and minimise passenger disruption during construction

#### Impact on Gatwick's competitive position

The expansion will:

- ensure no degradation to passenger service levels or retail revenue or on time departure performance as passenger numbers grow
- support Gatwick's ambition to be London's airport of choice by providing facilities that passengers have identified as contributing to their overall satisfaction with their airport experience

#### Projected Start Date

October 2016

#### Projected End Date

March 2021

#### Project Milestone Dates

ST IDL Capacity project cannot commence until the Q5 Pier 1 and Baggage Project completes in 2016. Project start and end dates provided

Detailed milestone dates to be provided at Tollgate 3

#### Procurement Strategy

Design and Construction will be procured by competitive tender through the Gatwick designer and contractor frameworks

#### Total Capital Expenditure

£ millions (est.)

Beyond Q5

2019-2024

Business Plan Assumption

Business Plan Assumption

**£30.00m**

**£34.00m**

All Options Range

Prices @ 2013/14

Prices @ 2013/14

£42.00-£120.00m

**Note: Total Project Capex £64.00m**

#### Capital Expenditure Breakdown

GAL Management:	£2.65m	(5%)
Design Consultants:	£ 3.53m	(6%)
Base Construction:	£ 39.91m	(6%)
Project Specifics:	£ 4.22m	(62%)
General/ others:	£3.02m	(4%)

South Terminal IDL Capacity Business Case (July 2013)



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## SOUTH TERMINAL IDL CAPACITY

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Risk:	£10.67m (17%)
<b>TOTAL:</b>	<b>£64.00m</b>

### Scope

#### Details of costed scope

- Expand and reconfigure the South Terminal IDL to deliver an increase of up to 6,000m<sup>2</sup> of additional space over 2/3 floors and 3,000m<sup>2</sup> at Ground Level to the west. Providing a lounge with a total area of up to 24,000m<sup>2</sup> including up to: 4,900m<sup>2</sup> food & beverage, 10,000m<sup>2</sup> retail, 1,710 - 1,900 seats, 4,700m<sup>2</sup> to 8,000m<sup>2</sup> circulation
- Upgrade the life safety system and equipment where required
- Re provide any facilities removed to allow for expansion e.g. premium lounge facilities
- Provide logistic routes for goods in and waste away and retail storage
- Provide retail shell and core to Gatwick design and engineering standards

#### Service Proposition items included (Product Matrix)

- De-clutter and improve way finding (including pier entry portal)
- Airside smoking area for passengers
- Space to International Air Transport Association (IATA) level of service C standard
- Quiet and Business Zone
- Family Zone – spaces for children and teenagers
- Facilities to assist passengers with restricted mobility which are visible and assessable
- Layouts to consider airfield views
- Uncluttered structured retail layout

#### Out of scope

- Relocation of existing retailers – see Asset Stewardship Commercial Business Case – Retail Enhancements - programme to be aligned
- Advertising media, technology (WIFI) – see Asset Stewardship Commercial and IT Business Cases - programmes to be aligned
- Push information to passengers (mobile communications) – see Business System Transformation Business Case – programmes to be aligned
- Personalised call to gate– see Business System Transformation Business Case – programmes to be aligned
- Installation of new escalators and glass lifts (part of Q5 Phase 2 Development), walk through Duty Free (completed as part of Q5 Phase 1 Development) and a new line of perimeter shop fronts at lower level
- Refurbishment of existing lifts and escalators – see Asset Stewardship Facilities Business Case – programmes to be aligned

### Likely impact on revenue and operating costs

#### Revenue Impact

- Extension 6,000 m2. Retail / Catering = 5,200 m2 (65% of extension = retail / catering as per NT IDL extension). Capacity income benefit takes ratio of 5,200:7,500 (NT IDL extension increase in retail and catering space) of NT IDL extension benefit. Incremental Income in 2021/22 is £11.6m (out-turn prices).

#### On-going Opex [out-turn prices]

- Rates: circa £3.52m in 2021/22
- Utilities: circa £0.34m in 2021/22
- IT: circa £0.02m in 2021/22



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## SOUTH TERMINAL IDL CAPACITY easyjet Split

### Operational Impacts during construction

- Erection of hoarding will impact upon circulation space, sightlines and way finding but will be managed to minimise disruption and loss of income
- Potential impact upon passenger, PRM and trolley flow
- Potential impact on terminal support infrastructure e.g. flight information display screens (FIDs) etc
- Potential impact on current terminal processes and contingencies
- Impact upon other retailers located within the IDL and other commercial partners
- Potential impact on areas outside the boundary of the project e.g. security, airfield, external operations (deliveries) and baggage

### Indicative airline impact £ in 2013 constant prices

	<u>2014/15 – 2018/19</u>	<u>Over Asset Life (27 yrs.)</u>
Increase in airport charges per passenger	£0.011	
Decrease in airport charges per passenger		£0.021

### Current decision status (options)

An early version of Option 1 highlighted below was included in the January 2013 Business Plan. The option remains the most appropriate at this stage. Further development of the option has been carried out to create greater definition of scope which has enabled the cost and income estimates and thus the business case to become more defined. The CAPEX costs and indicative impact on airline economics have been updated to reflect the latest development work.

- **Option 1: Westerly IDL extension. Assumed full extension of existing IDL. Option taken to allow same m<sup>2</sup> per passenger as North Terminal IDL. Assumed lower level cost range for these works with relatively simple extension options - £30.00m Business Plan Assumption Q6 2014/2019, £34.00m Q7 2020/2021. Total £64.00m**
- Option 2: No extension, but remove existing retail and reconfigure space to provide required levels of circulation & seating in line with NT m<sup>2</sup> per passenger aspiration. Includes general refurbishment of IDL throughout (£42.00m)
- Option 3: Upper option assuming same extension as Option 1, but at upper level cost range. No design available therefore assumed worst case scenario (£120.00m)

### Linked projects and prioritisation based on chronological requirement

This project is part of the overall programme to improve capacity at London Gatwick Airport:

1. ST Baggage & Pier 1
2. Stand Reconfigurations
3. Check in Upgrade
4. CIP Departures
5. Asset Stewardship

### Project Inter-dependencies

### Asset lifecycle

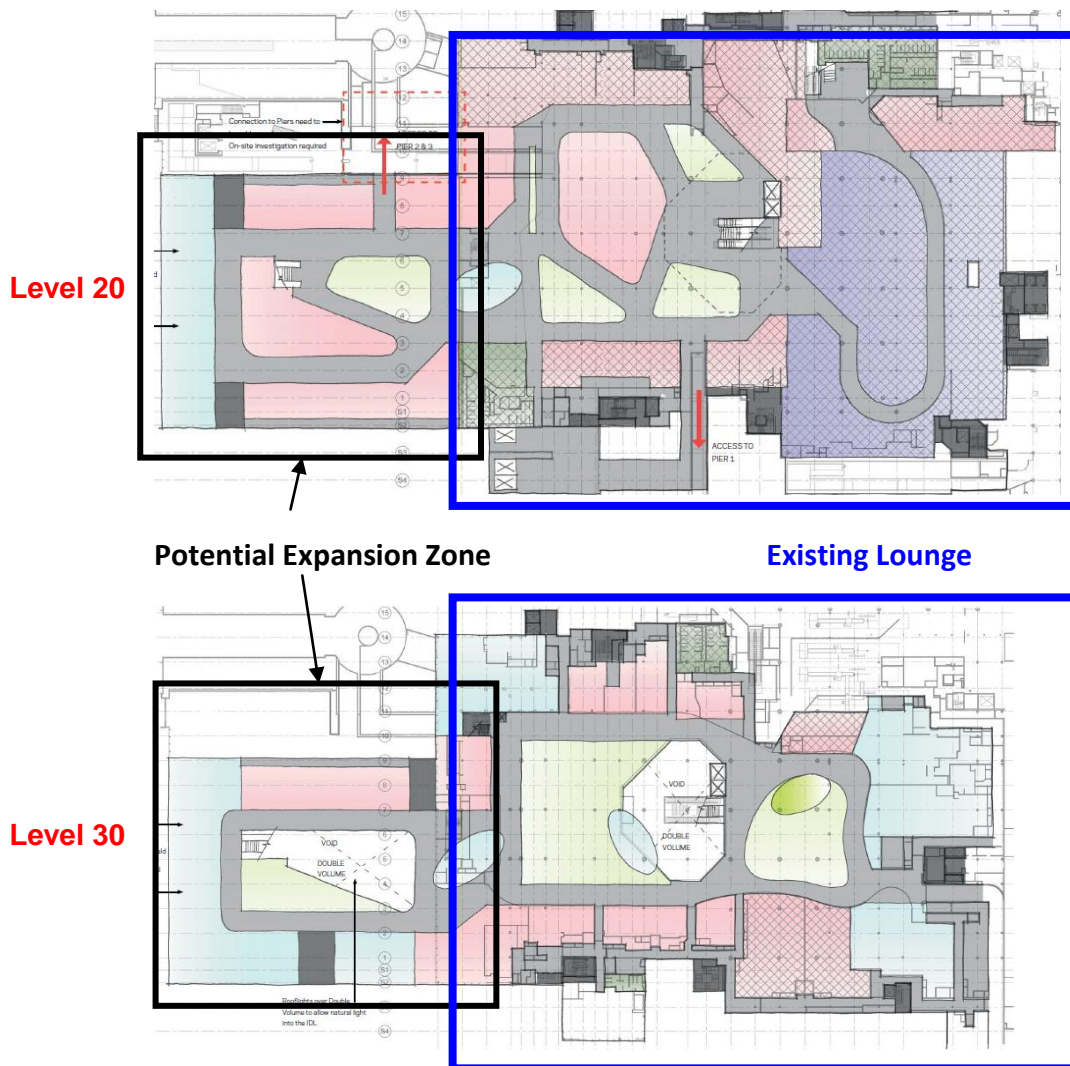
27 years



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## SOUTH TERMINAL IDL CAPACITY easyjet Split

### Drawings



# PROJECT ECONOMICS

Project Summary		
Asset Life	years	27
Reduction/(increase) on 2014/15 - 2018/19 airline price	£	(£0.011)
Reduction/(increase) on airline price over asset life	£	£0.021

All figures in £m unless stated & 2013/14 prices

Passengers	
Total Pax	m

Impact on RAB	
Opening RAB (incremental)	£m
Capital Additions	£m
less: Depreciation	£m
<b>Basic Closing RAB</b>	<b>£m</b>
Average Basic RAB	£m

Project Return - Airline (@13/14 Price Levels)	
Aircraft charges (Gross)	£m
Incremental Non-Aero Revenue	£m
Opex / Opex Savings	£m
<b>Net Aircraft Charges (pre-profiling)</b>	<b>£m</b>

Project Return - Airport (@13/14 Price Levels)	
Capital Expenditure paid by Gatwick	£m
Allowable Return - Gross	£m
Depreciation Allowance	£m
<b>Net Income / (Cost)</b>	<b>£m</b>

Impact on Prices before Inflation	
£ / Pax	£

Q5 + 1	2014/15 - 2018/19					2019/20 - 2023/24				
2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
34.4	34.5	34.7	35.0	35.4	35.9	36.6	37.2	38.1	39.0	40.1

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
0.0	0.0	0.0	0.5	1.8	10.7	25.3	41.1	54.5	52.1	49.8
0.0	0.0	0.5	1.3	11.3	16.9	18.2	15.8	0.0	0.0	0.0
0.0	0.0	0.0	0.0	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
0.0	0.0	0.5	1.8	10.7	25.3	41.1	54.5	52.1	49.8	47.4
0.0	0.0	0.3	1.2	6.2	18.0	33.2	47.8	53.3	51.0	48.6

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
£0.0	£0.0	(£0.0)	(£0.1)	(£2.8)	(£3.5)	(£4.5)	(£5.4)	(£5.7)	(£5.6)	(£5.4)
£0.0	£0.0	£0.1	£0.2	£1.8	£4.1	£6.6	£8.8	£8.9	£8.9	£9.0
£0.0	£0.0	(£0.0)	(£0.1)	(£0.5)	(£1.2)	(£2.0)	(£2.7)	(£3.0)	(£3.0)	(£3.1)
£0.0	£0.0	£0.0	£0.1	(£1.5)	(£0.6)	£0.2	£0.8	£0.2	£0.3	£0.5

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
£0.0	£0.0	(£0.5)	(£1.3)	(£11.3)	(£16.9)	(£18.2)	(£15.8)	£0.0	£0.0	£0.0
£0.0	£0.0	£0.0	£0.1	£0.4	£1.1	£2.1	£3.0	£3.4	£3.2	£3.1
£0.0	£0.0	£0.0	£0.0	£2.4	£2.4	£2.4	£2.4	£2.4	£2.4	£2.4
£0.0	£0.0	(£0.5)	(£1.2)	(£8.5)	(£13.4)	(£13.7)	(£10.4)	£5.7	£5.6	£5.4

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(£0.011)	(£0.011)	(£0.011)	(£0.011)	(£0.011)	£0.010	£0.010	£0.010	£0.010	£0.010

