YOUR LONDON AIRPORT
Gatwick

GATWICK AIRPORT LIMITED
INVESTOR REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

27 August 2020

This investor report is prepared in accordance with the requirements of the Common Terms Agreement dated 15 February 2011 between, among others, the Issuer, the Obligors and Deutsche Trustee Borrower Limited ("the Borrower Security Trustee") ("the Common Terms Agreement"). It summarises certain information contained in the Security Group's (Ivy Holdco Limited) Report and Interim Consolidated Financial Statements for the six months ended 30 June 2020, and the Compliance Certificate for the period then ended.

Overview of the Securitisation Group's performance for the period ended 30 June 2020

In the six months ended 30 June 2020, 7.5 million passengers travelled through the Airport, a decrease of 14.7 million or 66.0% compared to the same period in the prior year.

The primary reason for the decline in both ATMs and passengers was the collapse in demand due to the Covid-19 pandemic, the effects of which began to be felt during February, increasing significantly in March and causing a near-complete drop in volume during April, May and June 2020.

Gatwick remained open throughout the whole period, servicing repatriation, freight, positioning and maintenance flights alongside a small number of scheduled services; there were days where only one passenger flight operated. Recovery was slowed during June due to the quarantine measures put in place by the UK Government. These were eased in early July but have been reintroduced for some important destinations (e.g. Spain), and many of the forecasted flights for the remainder of summer depend upon the extent of the quarantine.

Ryanair and Belavia continued to operate throughout April and May, alongside Wizz, which flew for most of the period. May did see the start-up of one new airline at Gatwick; Blue Islands, a Jersey based carrier, began weekly services to the Island and saw reasonable load factors towards the end of the period. Air Baltic also announced a new service from Vilnius which launched on 1 July.

Virgin Atlantic notified us that it plans to cease operations from Gatwick. In order to retain its slots and enable a return in future years as demand recovers, Gatwick understands that Virgin intend to lease its slots. Norwegian, after restructuring, brought forward its plans to relaunch at Gatwick from April 2021 to 1 July 2020 with services to Oslo and Copenhagen.

British Airways recommenced long haul operations, primarily to the Caribbean during the second half of July. Their short haul operation has been consolidated at London Heathrow since April; Gatwick now expect this to continue until start of the winter season.

The Group made an operating loss of £103.4 million for the six months ended 30 June 2020 compared to a profit of £81.4 million for the six months ended 30 June 2019.

Further information is available at www.gatwickairport.com/investor and in the Ivy Holdco Limited Report and Interim Consolidated Financial Statements for the six months ended 30 June 2020.

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Regulatory Environment

In the Decision, the CAA set out, amongst other things, its view of the "fair price" for the period from 1 April 2014 to 31 March 2021 of RPI-1.6% per year. The CAA also considered that Gatwick should undertake capital investment expenditure of at least £160.0 million per annum on average.

The CAA stated that it intends to monitor Gatwick's pricing and other behaviours (such as capital investment expenditure), on an annual basis to assess the extent to which the out-turn average prices (taking into account bilateral contracts) are consistent with its assessment of the "fair price" at RPI-1.6% and capital investment expenditure is at least £160.0 million per annum on average. If, as part of the CAA's monitoring of the Commitments, the CAA considers that the introduction of further licence conditions, or modifications to existing licence conditions, is in the passenger interest, then the CAA can propose such modifications at that time. This could be for example, to introduce a requirement for Gatwick to set its charges consistent with the CAA's view of its "fair price" or its view of minimum capital investment expenditure. Such licence modifications could be appealed by the Airport or airlines, to the Competition and Markets Authority.

The CAA's Decision also included a financial resilience condition. This requires Gatwick to produce a Certificate of Adequacy of resources and submit this to the CAA on an annual basis. This condition also restricts the business of Gatwick to the businesses undertaken on 1 April 2014, including the owning and operation of the Airport. Any other business will require the written consent of the CAA. Finally, the financial resilience condition requires undertakings from the ultimate holding company to not take action that would likely cause a breach of the licence and provide information requested by the CAA to enable Gatwick to comply with the licence.

Requirements as to operational resilience are included within Gatwick's Commitments and as such are not subject to a separate licence condition. However, based on a review of operational resilience, the CAA has provided guidance to Gatwick, and Gatwick indicated in the Commitments that it would have regard to such guidance. The CAA has also stated that as part of the monitoring regime, Gatwick should produce a shadow regulatory asset base ("RAB") calculation. The purpose of this requirement is in case the CAA considers that the passenger interest would be better served in the future by tighter regulation being introduced. As with pricing, shadow RAB and capital investment expenditure above, the CAA can propose to introduce such licence conditions to the extent it considers such modification is in the passenger interest. Similarly, such a licence modification could be appealed by the Airport or airlines, to the Competition and Markets Authority.

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

The Commitments expire on 31 March 2021. Gatwick has undertaken to notify the CAA and all operators at the Airport at least two years prior to the end of the term of its intentions with regard to the continuation of Commitments. In June 2018 the CAA published CAP 1684: "Future economic regulation of Gatwick Airport Limited: initial consultation." This document consults on a possible CAA process to determine the regulatory arrangements for the period beyond the end of the current Commitments in 2021. The document is broadly supportive of Gatwick's favoured process of approaching the airlines directly with a commercial proposal, recognising this mechanism was embedded in the original Commitments.

Regulatory Environment (continued)

During the autumn of 2018 and spring of 2019 Gatwick, together with its airline community and with input from the passenger advisory group undertook passenger research and reviewed the service standards at Gatwick Airport. In addition to this, in December 2018, Gatwick presented to the airlines its proposal to amend the Commitments and extend them to 31 March 2025. Following dialogue with the airline representatives in October 2019 Gatwick issued refined proposals to extend the Commitments for consultation with the airlines and the passenger advisory group. Gatwick wrote to the airlines and the CAA in January 2020 and set out its decision on updated and extended Commitments. These updated and extended commitments come into effect on 1 April 2021, however Gatwick also decided to accelerate the pricing benefits embedded in the commitments and these came into effect from 1 January 2020.

Response to Covid-19

The Covid-19 pandemic has had an unprecedented adverse impact on the global aviation industry, with significantly reduced levels of traffic and passengers and substantial cuts in capacity by airlines over the coming months.

Until the end of February, the impact at Gatwick had been restricted to a limited number of services to and from the Far East. The response of the Italian government resulted in a notable shift in traffic away from Italy during the last week of February. As other European governments had imposed travel restrictions, daily passenger numbers declined throughout March. Major carriers such as easyJet, BA, TUI and Norwegian started to ground fleets serving Gatwick. The Airport remained open throughout April, May and June, servicing repatriation, freight, positioning and maintenance flights alongside a small number of scheduled services such as Ryanair and Wizz Air flights serving a total of 45,149 passengers during the period (Q2 2019: 12.5 million). easyJet restarted operations from Gatwick on 15 June 2020 followed by BA, TUI and Norwegian in July 2020 serving a mixture of short and long-haul destinations. As UK quarantine restrictions are lifted passengers are arriving from selected countries (e.g. Italy, Greece, France). There remains considerable uncertainty as to the pace at which passenger traffic will rebuild over the summer months.

Following a number of commercial discussions with airline partners, the Group has refined its passenger traffic forecast for calendar year 2020 to be c. 65-70% below 2019 levels (46.6 million in 2019; 46.1 million in 2018), with traffic expected to return to 2019 levels by 2024.

From March, steps have been taken to reduce immediate cash outgoings and to re-position the business for the mid-term:

- The Group has acted to reduce operating expenditure, saving over £100m in 2020 with £73m annual savings expected to be permanent:
    - Contractual and resourcing adjustments have been agreed with suppliers to decrease their costs;
    - Discretionary expenditure has been halted;
    - The operational footprint of the Airport was reduced on a staged basis through March. Starting with night closure and the shutdown of 2 out of 6 piers, operations were then limited to a single pier in South Terminal within an 8-hour window (2pm to 10pm). Operations then switched to North Terminal only from 15 June 2020, as easyJet restarted their operations; and
    - The Group completed a consultation with its Unions and employees to reduce staff costs temporarily by 20%. This agreement has been complemented by the announcement of the Government's "furlough" scheme. Over 740 employees have permanently left or agreed to leave the business through a combination of voluntary and compulsory severance with further reductions expected in Q3.

Response to Covid-19 (continued)

- A review of the Group's Capital Investment Programme has resulted in the removal of over £353 million from the investment originally planned in 2020 and 2021. Over half of the projects already in delivery have been stopped, with only operationally critical projects continuing or those that are near to completion. 47 of the 49 projects in the design phase have been suspended. Further opportunities have been identified to reduce capital investment and associated cash outflow, if required.

In addition to the actions to reduce cash outgoings, the Group has taken steps to increase the availability of cash and committed funding available to it. On 3 April 2020, the Group entered into a new £300 million term loan (duration of 12 months, extendable to 18 then 24 months at the Group's option). As at 30 June 2020 the Group held cash of £326.7 million (£300 million Revolving Credit Facility fully drawn). The Group also has access to a committed £150 million Liquidity Facility to ensure interest payment obligations can be kept current for over 12 months, providing additional assurance to bondholders and banks.

Alongside the interim financial statements, the Group has also issued its Compliance Certificate in respect of the six-month period to 30 June 2020, and its forecast for each of the 12-month periods ending 31 December 2020, 2021, and 2022. These forecasts incorporate the traffic planning assumptions set out above, combined with the mitigating actions already identified.

The Group's financing arrangements are subject to compliance with financial covenants, including the Senior Interest Cover Ratio ("ICR") (which is calculated on the basis of operating cash flow within a 12-month period, adjusted downwards by a pre-defined notional (non-cash) amount, compared to net interest paid) and the Senior RAR Ratio ("RAR") (which is calculated by reference to net debt compared with a defined multiple of average EBITDA from the last 3 years). Both covenants are subject to bi-annual tests at 30 June and 31 December.

The Group's most recent forecast anticipates a breach in the Senior ICR at calculation dates of 31 December 2020 and 30 June 2021, and in Senior RAR at each calculation date from 31 December 2020 to 31 December 2022 (inclusive). The ICR is particularly sensitive to the concentrated loss of revenues and cash flows within a trailing 12 month period, while the Senior RAR is impacted for longer since it incorporates a 3 year trailing average EBITDA component.

The Group has issued a request for a covenant waiver and amendment of certain terms under the financing documents, from Qualifying Borrower Secured Creditors. This includes : a) a request that any Default relating to Senior ICR and Senior RAR levels shall be waived in respect of the calculation dates falling on December 2020 and June 2021; and b) a request for a temporary amendment (until June 2023) to the calculation of the Senior RAR to replace the April 2020 to March 2021 EBITDA in such calculation with the average of the 2017, 2018 and 2019 financial years corresponding to each relevant calendar quarter, to prevent results in this exceptional period continuing to impact the Senior RAR. If the requested waivers and amendments are not agreed, an Event of Default may arise, which may (if supported by the required majority of Qualifying Borrower Secured Creditors) result in acceleration of the debt and enforcement action being taken. Given the underlying credit quality of the business, the Directors consider they can secure the necessary and timely support of the Qualifying Borrower Secured Creditors.

Capital expenditure

The Group spent £66.5 million (2019: £142.1 million) on the Airport's Capital Investment Plan during the six months ended 30 June 2020.

The business review in the Ivy Holdco Limited Report and the interim Consolidated Financial Statements for the six months ended 30 June 2020 details the major capital projects delivered during the year and in progress at period end.

Financing

During the six months ended 30 June 2020 the Group has not issued any new bonds. On 3 April 2020, the Group executed a new Authorised Credit Facility ("ACF"). The new ACF Agreement has a Term Loan Credit Facility of £300.0 million which was fully drawn on 16 April 2020. The Term Loan has a tenor of one year (extendable to 18 then 24 months at the Group's option) giving an initial termination date of 16 April 2021 (and extension options to 15 October 2021 and 15 April 2022 respectively).

In June 2020 the Group exercised a second extension option on the existing Authorised Credit Facility ("ACF"). The ACF Agreement has a Revolving Credit Facility of £300.0 million with an initial tenor of five years (with two, one year extension options); the further one year extension gives a revised termination date of 21 June 2025).

Further information on the bonds outstanding is available in the Ivy Holdco Limited Report and the interim Consolidated Financial Statements for the six months ended 30 June 2020.

Acquisitions and Disposals

No acquisitions or disposals occurred during the six months ended 30 June 2020.

Restricted Payments

During the six months ended 30 June 2020 no restricted payments were made.

Ratios

We confirm that in respect of this investor report dated 27 August 2020, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Covenants) of the Common Terms Agreement:

(a) the historical Senior ICR for the Relevant Period ended 30 June 2020 was 1.94;
(b) the forecast Senior ICR for the Relevant Period ending 31 December 2020 is -0.52;[1]
(c) the historical Senior RAR for the Relevant Period ended 30 June 2020 was 0.72; and
(d) the forecast Senior RAR for the Relevant Period ending 31 December 2020 is 0.92;[1]
(together the **Ratios**).

1 The forecast Senior ICR and the forecast Senior RAR for the period ending 31 December 2020 (set out in paragraphs (b) and (d) above) are calculated on the basis of a 12 month period, consistent with prior reporting. The request to creditors referred to in the section "Response to Covid-19" above includes a request to align the definition of "Relevant Period" with this approach.

Current Hedging Position

As at 30 June 2020, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 92.4% of the Borrower's Relevant Debt.

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Confirmations

We confirm that each of the above Ratios has been calculated in respect of the Relevant Period (save that Ratios for the period ending 31 December 2020 have been calculated on the basis of a 12 month period, consistent with prior reporting) or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

We confirm that:

(a) a Trigger Event has occurred and is continuing and the following steps are being taken in connection with such Trigger Event:
   (i) those outlined above (Response to Covid-19);
   (ii) the Group has issued a request for a covenant waiver and amendment of certain terms under the financing documents, from Qualifying Borrower Secured Creditors. This includes: a) a request that any Default relating to Senior ICR and Senior RAR levels shall be waived in respect of the calculation dates falling on December 2020 and June 2021and b) a request for a temporary amendment (until June 2023) to the calculation of the Senior RAR to replace the April 2020 to March 2021 EBITDA in such calculation with the average of the 2017, 2018 and 2019 financial years corresponding to each relevant calendar quarter, to prevent results in this exceptional period continuing to impact the Senior RAR;
(b) no Default has occurred and is continuing;
(c) the Borrower is in compliance with the Hedging Policy;
(d) to the best of our knowledge after verification, the statements made in this Investor Report are accurate in all material respects; and
(e) the amount of any Restricted Payments made since the date of the delivery of the immediately previous Compliance Certificate is £nil.

Yours faithfully,

Stewart Wingate
Chief Executive Officer

Nicholas Dunn
Chief Financial Officer

Signing without personal liability, for and on behalf of Gatwick Airport Limited as Borrower.