YOUR LONDON AIRPORT Gatwick

IVY HOLDCO LIMITED
INVESTOR REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

7 March 2022

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) Annual Report and the Consolidated Financial Statements for the year ended 31 December 2021, and the Compliance Certificate for the period then ended.

Overview of the Securitisation Group’s performance for the year ended 31 December 2021

During 2021, the Group saw the impact of the COVID-19 pandemic continue. Non-essential travel was heavily restricted during the UK’s lockdown from 4 January 2021 and was illegal from 29 March to 17 May, the lifting of the travel ban saw an increase in passenger volumes. Passenger numbers in the second half of 2021 have improved and exceeded 1 million in August, September and October as well as December, despite the emerging Omicron variant. The high level of vaccinations in the UK and our core markets; the availability of widespread testing and the acknowledgement from Government that economic impacts need to be considered means that 2022 is likely to see less restrictions in place than in 2021, allowing the recovery of international travel.

The Group has reported a loss of £370.6 million for the year ended 31 December 2021 compared to a loss of £465.5 million for the year ended 31 December 2020.

In the 12 months ended 31 December 2021, passenger numbers reduced by 38.5% from 10.2 million in the prior year to 6.3 million as a result of COVID-19 and the impact it had on the Airport’s operations.

Passenger behaviour when restrictions have been lifted to destinations shows pent up demand for travel which is expected to come to fruition in 2022 as restrictions on travel being eased both in the UK and abroad.

Regulatory Environment

During the year Gatwick transitioned to a new set of Commitments on 1 April 2021.

Commitments until 31 March 2021

On 1 April 2014, a new regulatory framework, based on Commitments backed by a licence and supplemented by a monitoring regime, came into operation at Gatwick. The Commitments are a set of legally enforceable undertakings, made by Gatwick to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The Commitments also enable Gatwick to enter into a series of bilateral contracts incorporating, for example, price, service and duration, agreed on a contractual basis between Gatwick and individual airlines.

Regulatory Environment (continued)

Commitments until 31 March 2021 (continued)

The CAA published its Decision and Notice granting a licence to Gatwick in February 2014. The CAA's Decision incorporates the Commitments proposed by the Airport within a licence. It is therefore a requirement of the licence that Gatwick complies with its obligations in the Commitments. This includes that Gatwick complies with its commitment to incorporate a maximum average revenue yield over the next seven years, based on published prices at RPI+1.0% per year, and average prices (taking into account bilateral contracts) at RPI+0.0% per year (i.e. the "Blended Price").

It also includes that Gatwick complies with its Commitment to undertake capital investment expenditure of at least £100.0 million per annum over the next seven years of the Commitment Year. Obligations on third parties contained in the Commitments do not form part of the licence.

In the Decision, the CAA set out, amongst other things, its view of the "fair price" for the period from 1 April 2014 of RPI-1.6% per year. The CAA also considered that Gatwick should undertake capital investment expenditure of at least £160.0 million per annum on average (in 2011/12 price base). The CAA stated that it intends to monitor Gatwick's pricing and other behaviours (such as capital investment expenditure), on an annual basis to assess the extent to which the out-turn average prices (taking into account bilateral contracts) are consistent with its assessment of the "fair price" at RPI-1.6% and capital investment expenditure is at least £160.0 million per annum on average. If, as part of the CAA's monitoring of the Commitments, the CAA considers that the introduction of further licence conditions, or modifications to existing licence conditions, is in the passenger interest, then the CAA can propose such modifications at that time. This could be for example, to introduce a requirement for Gatwick to set its charges consistent with the CAA's view of its "fair price" or its view of minimum capital investment expenditure. Such licence modifications could be appealed by the Airport or airlines, to the Competition and Markets Authority.

The CAA 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 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.

Gatwick has complied with all conditions of the licence outlined above.

Regulatory Environment (continued)

Commitments from 1 April 2021

All airport operators are also subject to aerodrome licensing under the Air Navigation Order 2009, which requires an airport operator to demonstrate that it is competent to conduct aerodrome operations safely. That licensing requirement is not affected by the Civil Aviation Act 2012.

The first generation of Commitments expired on 31 March 2021 and Gatwick remained subject to them until this date. Gatwick consulted on a set of extended Commitments in October 2019 and issued finalised extended Commitments to our airlines in January 2020, with a term from 1 April 2021 to 31 March 2025.

In February 2021, the economic regulator published its decision and statutory Licence consultation in relation to economic regulation of Gatwick from 1 April 2021 to 31 March 2025. The February 2021 decision outlined broad support for Gatwick's finalised extended commitments and introduced some changes to the ongoing annual monitoring provisions. The CAA confirmed the final licence conditions in a notice in May 2021 (CAP 2144).

The finalised extended Commitments include a number of enhancements and improvements to the existing commitments, including:

- **Service**: Gatwick commits to maintain excellent service delivery for its passenger and airlines and will remain financially incentivised to do so. Informed by the consultation and passenger research many of the existing service standards have been updated, and we have also added new standards for wifi connectivity, Special Assistance service and Flight Information Screen system availability.
- **Investment**: Gatwick will continue to consult annually on a 5 year Capital Investment Programme, and has amended the consultation process to provide earlier insight and greater clarity for airlines and passenger representatives on emerging projects. Gatwick have also increased the minimum capital investment commitment to £120m per annum on average (in 2018/19 price base).
- **Price**: Gatwick will limit the maximum annual rate of increase in its gross yield to RPI+0%, referencing the gross yield for the year ending 31 March 2019. In addition, the gross yield ceiling has been simplified to be a year-by-year limit rather than an average measured over the Commitments Term. The new, simplified gross yield ceiling will give greater certainty to passengers and airlines about the maximum level of future charges.
- **Operational initiatives**: To increase the focus of Gatwick, its airlines, ground handlers and air traffic control provider on delivering resilient and punctual services, Gatwick will set itself formal targets for average on time departure punctuality to be at least 70% in the summer season and 75% in the winter season. Gatwick will invest in a portfolio of operational initiatives and financial incentives for airlines and/or their ground handlers, with the aim of enabling airlines to achieve these punctuality targets. Gatwick will consult with airlines annually on the proposed on-time departure programme; and
- **Capacity Growth**: Gatwick commits to seek to increase the resilient capacity of its airfield infrastructure, and to continue for the present to bear the cost of developing these plans, securing necessary political and planning approvals, and implementing the project. This includes potential projects to maximise the use of the existing main runway and to bring into routine use the standby runway. Gatwick is not adjusting its price commitment in response to the additional capital expenditure which Gatwick incurred in the period in preparation for obtaining the Development Consent Order ("DCO") or in implementing the resulting infrastructure projects.

Regulatory Environment (continued)

Commitments from 1 April 2021 (continued)

In addition to this it signalled that it would be undertaking “focused assessments” during the period on the average level of aeronautical discounts, the new security queue measurement system and the new capital investment consultation process and whether airfield investment is being re-reinstated sufficiently quickly.

Some elements of the regulatory regime remain unchanged, including the CAA requirements in relation to operational and financial resilience. In addition to this all airport operators are also subject to aerodrome licensing under the Air Navigation Order 2009, which requires an airport operator to demonstrate that it is competent to conduct aerodrome operations safely. That licensing requirement is not affected by the Civil Aviation Act 2012.

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 since the start of the pandemic.

Until the end of February 2020, 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 2020. 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.

During the summer of 2020, the easing of restrictions allowed for the return of flights, supported by strong passenger demand, but this was tempered slightly as a result of the uncertainty brought about by the changing of the travel corridors.

During the final quarter of 2020, the second and third national lockdowns, coupled with the border restrictions imposed on travellers from the UK, greatly reduced demand.

Non-essential travel was heavily restricted during the UK’s lockdown from 4 January 2021 and was illegal from 29 March to 17 May. The lifting of the travel ban saw an increase in passenger volumes, particularly to Portugal while it was on the green list, but passenger confidence was affected by changes to the traffic light system with minimal notice. There was a small improvement in passenger volumes in June.

Passenger numbers in the second half of 2021 have improved and exceeded 1 million in August, September and October as well as December, despite the emerging Omicron variant. The high level of vaccinations in the UK and our core markets; the availability of widespread testing and the acknowledgement from Government that economic impacts need to be considered means that 2022 is likely to see less restrictions in place than in 2021, allowing the recovery of international travel.

Response to COVID-19 (continued)

From March 2020, steps have been taken to reduce immediate cash outgoings and to reposition the business for the mid-term:

- The Group has acted to reduce operating expenditure, saving over £140 million in 2020 and over £242 million in 2021:
  - 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 2020. 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. The South Terminal remained closed throughout the year and the Airport continues to vary the operational footprint in the North Terminal to meet the changing demand;
  - Between March and November 2020 the overall headcount was reduced from 3,261 to 1,867, through the termination of fixed term contracts and redundancy programmes; and
  - The Group utilised the Government's furlough scheme and job retention scheme throughout the period to protect as many jobs as possible as passenger levels meant many of the retained employees had no work.
- A review of the Group's Capital Investment Programme has resulted in the deferral of over £380 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. 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. On 3 April 2020, the Group entered into a new £300.0 million Term Loan (initially due for repayment in April 2021, extendable for 6 to 12 months at the Group's option). During 2021 the Group issued £300.0 million of new Class A bonds and utilised the proceeds to repay the Term Loan. In addition during the year, the Group received a capital injection of £370.0 million.

The Group was approved to draw up to £300.0 million under the Bank of England Covid Corporate Financing Facility ("CCFF"). £175.0 million was drawn on 10 November 2020. The loan was repaid in January 2021 and a further £250.0 million was drawn on 14 January 2021. Prior to the closure of the CCFF scheme this loan was repaid in March 2021 with a further £275.0 million drawn on 19 March 2021 to both provide additional working capital to the Group and to extend the maturity of the facility.

As at 31 December 2021, the Group held cash of £558.0 million and its £300.0 million Revolving Credit Facility was 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. The Group does not currently expect to utilise the Liquidity Facility. The Group's forecasts demonstrate that the Group continues to have liquidity headroom for at least the next 12 months.

Response to COVID-19 (continued)

During 2020 and 2021 the Group was granted covenant waivers and an amendment of certain terms under the financing documents, from Qualifying Borrower Secured Creditors. This includes: a) that any Default relating to Senior ICR and Senior RAR levels are waived in respect of the calculation dates falling on December 2020, June 2021, December 2021 and June 2022; and b) a temporary amendment (until June 2024) to the calculation of the Senior RAR to replace both the April 2020 to March 2021 EBITDA and the April 2021 to March 2022 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.

The Group's most recent forecast anticipates a breach in the Senior ICR and in Senior RAR at calculation date 30 June 2022, which is covered by the covenant waiver. The calculation of Senior RAR is subject to an amended definition of Transfer RAB at each calculation date from (and excluding) 30 June 2022 to (and including) 30 June 2024, preventing any forecast default.

The Group's most recent forecast assumes a steady increase in passengers supported by the high level of vaccinations in the UK and in our core markets and fewer travel restrictions. Passenger numbers in 2022 are forecast to be circa 66% compared to 2019. Whilst the Group has obtained a covenant waiver for the June 2022 calculation date, it should be noted that 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. Given the current level of COVID-19 cases and the possible emergence of new variants, there remains short term uncertainty in the passenger forecasts for 2022 which adds to the risk on the Group's financial covenants and highlights there is a material uncertainty which may cast significant doubt about the Group's ability to adopt a going concern basis of preparation for the financial statements. For further details, refer to note 1 of the financial statements.

Significant Board changes

During the period Lorenzo Rebel served on the Board as Interim Chief Financial Officer between 2 February 2021 and 23 September 2021.

Jim Butler was appointed as Chief Financial Officer on 23 September 2021.

Capital expenditure

The Group spent £51.4 million (year ended 31 December 2020: £86.0 million) on the Airport's Capital Investment Plan during the year ended 31 December 2021.

The business review in the Ivy Holdco Limited Annual Report and the Consolidated Financial Statements details the key capital projects both paused and delivered during the year and in progress at 31 December 2021.

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Financing

The Group has a Revolving Credit Facility ("RCF") under an Authorised Credit Facility ("ACF") of £300.0 million with a termination date of 21 June 2025.

Following the impact of COVID-19, in April 2020 Gatwick entered into a new £300 million Term Loan with a utilisation date of 16 April 2020, the initial termination date of 16 April 2021. On 15 April 2021 the Group issued £300.0 million of new Class A bonds, the proceeds of the new bonds were utilised to repay the £300.0 million Term Loan on 16 April 2021.

In 2020 the Group was approved to draw up to £300.0 million under the Bank of England Covid Corporate Financing Facility ("CCFF"). £175.0 million was drawn on 10 November 2020. The loan was repaid in early 2021 and a further £275.0 million was drawn on 19 March 2021 which matures in March 2022.

Acquisitions and Disposals

No acquisitions or disposals occurred during the year ended 31 December 2021.

Restricted Payments

There were no restricted payments during the year ended 31 December 2021.

Ratios

We confirm that in respect of this Investor Report dated 7 March 2022, 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:

the historical Senior ICR for the Relevant Period ended 31 December 2021 was -1.49;
the forecast Senior ICR for the Relevant Period ended 31 December 2022 is 2.82;
the historical Senior RAR for the Relevant Period ended 31 December 2021 was 0.81; and
the forecast Senior RAR for the Relevant Period ended 31 December 2022 is 0.62;
(together the Ratios).

Current Hedging Position

As at 31 December 2021, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 83.9% 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 or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

We confirm that:

(a) a Default has occurred and is continuing and the following steps are being taken in connection with such Default:

i. those steps outlined on page 26 (Response to COVID-19) of the Financial Statements of Ivy Holdco Limited for the year ended 31 December 2021;

ii. the Group issued a request for a covenant waiver and amendment of certain terms under the financing documents, which was approved by the Qualifying Borrower Secured Creditors and documented under the Amendment and Waiver Agreement dated 8 September 2021. This includes: a) a waiver in respect of any Default relating to Senior ICR and Senior RAR levels in respect of the calculation dates falling on December 2021 and June 2022 and b) a temporary amendment (until June 2024) to the calculation of the Senior RAR to replace the April 2021 to March 2022 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) the Borrower is in compliance with the Hedging Policy; and

(c) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

Stewart Wingate
Chief Executive Officer

Jim Butler
Chief Financial Officer

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