

# YOUR LONDON AIRPORT

## *Gatwick*

### **IVY HOLDCO LIMITED INVESTOR REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

**16 March 2023**

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 2022, and the Compliance Certificate for the period then ended.

### **Overview of the Securitisation Group’s performance for the year ended 31 December 2022**

#### **The initial recovery**

Given the positive outlook in early 2022, we took decisive action to rapidly reopen the South Terminal well in advance of the peak summer season. This decision was driven by strong passenger demand and the airlines confirming their summer plans early following the reinstatement of the airport slot usage rules with the adjusted ratio of 70:30. Most significant was the return of British Airways’ short-haul operations, in addition to substantial growth from Vueling and Wizz Air.

That decisive action saw us welcome a 40% increase in passengers overnight between 26 and 27 March, when we reopened the South Terminal.

The reopening of the South Terminal was a major undertaking, as it had been closed for nearly two years. Thousands of hours of preparation was completed in a short space of time to provide a safe and efficient service for passengers from moving 27 airlines back to the South Terminal, replacing 4,500 floor tiles and 3,000 light fittings and painting 49 miles of new lines on the airfield, to ensuring 3.3 kilometres of conveyer belts were working, and processing 10,000 trays to test our security system.

There was a transitional period in 2022 while we reintroduced our Core Service Standards (CSS). This was carried out in agreement with the airlines and accounted for the uncertainties experienced with the recovery in traffic. We took a number of actions to ensure we met our CSS commitments during the unexpected rapid recovery. This included an early recruitment drive to fill thousands of jobs across the airport, including over 500 security staff.

#### **Acceleration of recovery though a strong summer**

At the beginning of the summer the travel industry saw the first significant signs of recovery. While higher demand and an accelerated recovery led to operational challenges across the whole aviation industry, continuous efforts were made to work with airlines and ground handlers to put in place operational improvements and ensure flight programmes and service levels were maintained.

One of our big challenges in 2022 was late cancellations by the airlines, which were primarily due to airline crew and ground handling availability. Other factors included European airspace restrictions as a result of the war in Ukraine and a small number of cases of staff sickness in air traffic control at Gatwick.

To manage this Gatwick introduced a temporary growth cap for July and August, which allowed measured growth through the peak summer period, and airlines were able to develop more stable schedules, giving greater certainty to passengers.

Despite the particularly challenging environment, we delivered good service levels, in terms of queuing time and passenger satisfaction. This was achieved through early intervention, including recruitment and investing in training as we completed the vetting process. We also introduced a retention programme for the busy summer period and put in place overtime and shift incentives to maximise available resource.

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### **Overview of the Securitisation Group's performance for the year ended 31 December 2022 (continued)**

We supported the wider airport community with the introduction of several strategies, such as inbound baggage incentives and provision of contingent resources for airline ground handlers, and mobilised our own employees to provide additional airfield support to ground handlers and other airside partners.

These steps were designed to manage risk and ensure good service levels for passengers, which are measured through our CSS commitments.

The CSS define the framework for measuring service levels across the airport. They are stretching targets for a variety of passenger experience measures, which ensure we are constantly focused on our key areas of performance, from security queuing times to the availability of terminal and airfield assets. Failure to meet service targets can result in Gatwick paying a rebate of airport charges to the airlines.

As we returned to business as usual over the busy summer period (April-September), we continued to work with our airlines to ensure good levels of service were provided across both terminals.

During the summer 24.2 million passengers flew through Gatwick, with the recovery rate peaking at 85% of 2019 numbers in October. Our short-haul and domestic flights saw a rapid recovery from Q1 to Q2, with easyJet more than doubling the number of passengers.

Given the rapid recovery, meeting our CSS commitment of 95% of passengers passing through central security within five minutes was challenging over the summer. While we did not meet this commitment, the majority of passengers did get through security within 15 minutes. From the start of October 2022 all CSS measures in the security operation had been reinstated.

As well as ensuring our passengers received the best experience possible over the summer, we completed two major projects with minimal disruption to day-to-day operations. The Main Runway was resurfaced in sections over three months, and we transitioned Gatwick's air traffic control service provider from Air Navigation Solutions Limited to NATS Holding Limited. Both projects will provide further resilience to our operations.

### **Business as usual**

As we continued to rebuild our long-haul market, as expected we saw lower levels of passengers in November and December. It was promising that, despite Border Force strike action, our recovery reached 75% of 2019 levels in those months.

Our operations both on the airfield and in the terminals were operating as usual at the end of 2022, and all our CSS measures were reinstated. There is no doubt 2023 will be a busier year, with more airlines coming on board, and new and returning retailers and food and beverage outlets filling our retail spaces.

### **Reflecting on 2022**

In the 12 months to 31 December 2022, passenger numbers increased by over 420%, from 6.3 million in 2021 to 32.8 million, reaching over 70% of 2019 levels. This extraordinary bounce back was a result of three key factors: the lifting of government restrictions on travel, strong demand from passengers, and airlines putting significant capacity back into the market.

In our short-haul market the recovery was slightly higher with passenger levels reaching 77% of 2019 levels.

- easyJet ramped up operations at Gatwick. In August 2022 the carrier was up to 96% of August 2019 levels
- British Airways restarted short-haul operations with 18 aircraft at Gatwick contributing 7% of short-haul passengers during the summer months
- Over the summer Vueling doubled capacity with the number of based aircraft flying 16% more passengers during 2022 than in 2019
- Wizz Air increased from four flights a day in 2019 to 18 in 2022
- In addition to the operators mentioned, a further 28 airlines operated to the UK, Channel Islands and Europe, giving a total of 165 destinations to the region this year, including new destinations La Coruna, Paris Orly and Vilnius

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### **Overview of the Securitisation Group's performance for the year ended 31 December 2022 (continued)**

We expect the long-haul market to take longer to reach 2019 levels due to the slower lifting of restrictions in destinations such as Australia, India and Thailand. In 2022, it reached 44% of 2019 levels across 38 passenger routes served by 11 airlines. This compares to 62 passenger routes served by 14 airlines in 2019. We welcomed new destinations Hanoi, Ho Chi Minh City, Dakar, Quebec, Islamabad and Bangkok, further evidencing the recovery and growth of the airport's connectivity. Our existing long-haul airlines saw positive growth. JetBlue launched a daily Boston service and a second daily flight to JFK. We also celebrated the first flights from Norse Atlantic and Bamboo Airlines, both new to Gatwick. Norse launched a daily Oslo and daily New York flight in August, and Bamboo commenced routes to Hanoi and Ho Chi Minh City.

We have already seen a number of exciting announcements from airlines coming to Gatwick. This includes the return of Delta Airlines in the summer of 2023, Lufthansa starting two daily services to Frankfurt, and Air India launching 12 flights a week to Goa, Ahmedabad, Amritsar and Kochi, starting at the end of March.

Attention is now focused on our 2023 operations and ensuring we offer our passengers the high levels of service they expect from Gatwick.

2022 saw strong financial performance compared to 2021, as passenger numbers bounced back. Revenue increased from £192.7 million in 2021 to £776.6 million in 2022 (303.0%), with increases across all revenue streams. To support the recovery, we started to recruit staff and reopen infrastructure. This resulted in higher operating costs compared with 2021. Operating costs, excluding exceptional items, increased from £393.8 million in 2021 to £494.5 million in 2022 (25.6%).

The Group has reported a profit of £196.5 million for the year ended 31 December 2022 compared to a loss of £370.6 million for the year ended 31 December 2021.

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### Regulatory Environment

Gatwick is subject to economic regulation by the Civil Aviation Authority (CAA) under the Civil Aviation Act 2012. This takes the form of legally enforceable undertakings (“commitments”), made by Gatwick to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. These undertakings are backed by a licence issued by the CAA.

The first generation of commitments expired on 31 March 2021. In February 2021, the CAA published its decision and statutory licence consultation in relation to the 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 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 improvements to the existing commitments, such as:

- **Service:** Gatwick commits to maintain excellent service delivery for its passengers 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 Wi-Fi connectivity, special-assistance service and flight information screen system availability.
- **Investment:** Gatwick will continue to consult annually on a five-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 has also increased the minimum capital investment commitment to £120 million per annum on average (2018/19 price base).
- **Price:** Gatwick will limit airport charges with a ceiling and a maximum annual rate increase of RPI+0%, referencing the gross yield for the year ending 31 March 2019. The new simplified gross-yield ceiling has given 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 has 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.
- **Capacity growth:** Gatwick commits 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 Northern Runway. Gatwick is not adjusting its price commitment in response to the additional capital expenditure it may incur in this period in either preparation for obtaining the Development Consent Order (DCO), or in implementing the resulting infrastructure projects.

In addition to this, the CAA said it would undertake ‘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 reinstated sufficiently quickly.

Gatwick has undertaken to notify the CAA and all operators at the airport at least two years before the end of the commitments term (i.e. by 31 March 2023) of its intention regarding the continuation of commitments. In anticipation of this, Gatwick has started consultation with operators and the CAA about the future of the commitments from 1 April 2025.

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

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### **Impact of COVID-19**

The COVID-19 pandemic had an unprecedented impact on the global aviation industry, with significantly reduced traffic and substantial cuts in capacity by airlines before the removal of travel restrictions in March 2022.

From March 2020, a number of steps were taken to reduce cash outgoings and to reposition the business for the mid-term, including reducing operating expenditure and minimising our Capital Investment Programme, with only operationally critical projects or those near completion continuing.

In addition to the actions to reduce cash outgoings, we took steps to increase the availability of cash and committed funding. During 2020 and 2021 we were granted covenant waivers and an amendment of certain terms under the financing documents from Qualifying Borrower Secured Creditors. See page 44 of the Ivy Holdco Limited Annual Report and the Consolidated Financial Statements for the year ended 31 December 2022 for further details.

### **Significant Board changes**

Rachel Ford joined Gatwick Airport's Executive Management Board on 19 April 2022, replacing Robert Herga as General Counsel and Company Secretary. Rachel joined Gatwick from Capita plc, where she served as Group Legal Director and then Chief of Staff to the Capita plc Chief Executive Officer.

Lucy Chadwick joined the Gatwick Board on 29 June 2022 as Non-Executive Shareholder Director representing Global Infrastructure Partners (GIP), replacing Philip Iley. Lucy has over 30 years' experience in transport and government, and prior to GIP she was Director General at the UK DfT.

### **Capital expenditure**

The Group spent £64.4 million (year ended 31 December 2021: £51.1 million) on the Airport's Capital Investment Plan during the year ended 31 December 2022.

The business review in the Ivy Holdco Limited Annual Report and the Consolidated Financial Statements details the key capital projects delivered during the year and in progress at 31 December 2022.

### **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.

During 2020, Gatwick Airport Limited was approved to draw up to £300.0 million under the Bank of England Covid Corporate Financing Facility (CCFF). £275.0 million was outstanding on 31 December 2021; this was repaid in full on 17 March 2022.

In December 2022, Gatwick Airport Limited launched a tender offer to purchase some of the outstanding Class A bonds. As result of the £354.0 million equity injection in 2021 coupled with strong performance in 2022 the company utilised some of the cash headroom to lower short-term cost of carry and thus temporarily reducing gross debt. A total of £462.6 million of nominal debt was purchased at a cost of £350.9 million. At the same time, the borrower loans between Gatwick Funding Limited and Gatwick Airport Limited were reduced by the same nominal amount.

### **Acquisitions and Disposals**

No acquisitions or disposals occurred during the year ended 31 December 2022.

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## Restricted Payments

There were no restricted payments during the year ended 31 December 2022.

## Ratios

We confirm that in respect of this Investor Report dated 16 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 2022 was 4.15;  
the forecast Senior ICR for the Relevant Period ended 31 December 2023 is 2.89;

the historical Senior RAR for the Relevant Period ended 31 December 2022 was 0.55; and  
the forecast Senior RAR for the Relevant Period ended 31 December 2023 is 0.47;  
(together the Ratios).

## Current Hedging Position

As at 31 December 2022, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 89% of the Borrower's Relevant Debt.

## Confirmations

We confirm that each of the above Ratios has been calculated in respect of the Relevant Period or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

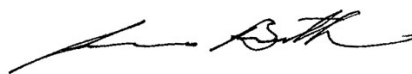
We confirm that:

- a) no Default or Trigger Event has occurred and is continuing:
  - (i) 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 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 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.