

# YOUR LONDON AIRPORT

## *Gatwick*

### **IVY HOLDCO LIMITED INVESTOR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2021**

**11 August 2021**

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 six months ended 30 June 2021, and the Compliance Certificate for the period then ended.

#### **Overview of the Securitisation Group’s performance for the period ended 30 June 2021**

The Group continued to be impacted by the COVID-19 pandemic. A travel ban that was implemented at the beginning of the year was lifted on 17 May and a country ‘traffic light system’ was put in place. The system has changed country restrictions with minimal notice which has affected passenger confidence to travel. There was a slow but steady improvement in traffic volumes in June and there is an expectation during the second half of the year that this improvement will accelerate following the recent amendment removing the requirement for those who are fully vaccinated returning from an ‘amber’ list country to quarantine for 10 days on their return. For those coming from Amber countries who have been fully vaccinated in an EU member state or the USA are also no longer required to quarantine on arrival into the UK.

The Group has reported an operating loss of £137.2 million for the six months ended 30 June 2021 compared to a loss of £103.4 million for the six months ended 30 June 2020

In the six months ended 30 June 2021, 0.6 million passengers travelled through the Airport, a decrease of 6.9 million or 92.4% compared to the same period in the prior year.

#### **Regulatory Environment**

During the period 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.

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 period. Obligations on third parties, contained in the Commitments, do not form part of the licence.

# YOUR LONDON AIRPORT

## *Gatwick*

### **Regulatory Environment (continued)**

#### **Commitments until 31 March 2021 (continued)**

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 of conditions of the licence outlined above.

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.

#### **Commitments from 1 April 2021**

The first generation of Commitments expired on 31 March 2021. Gatwick consulted on a fuller 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. Gatwick furthermore decided that it will accelerate the pricing benefit inherent in these Commitments to be effective retrospectively from 1 January 2020, bringing pricing benefits to airlines sooner.

# YOUR LONDON AIRPORT

## *Gatwick*

### Regulatory Environment (continued)

#### Commitments from 1 April 2021 (continued)

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 may incur in this period in preparation for obtaining the DCO or in implementing the resulting infrastructure projects.

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-instated sufficiently quickly.

Some elements of the regulatory regime remain unchanged, including the CAA requirements in relation to operation 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.

# YOUR LONDON AIRPORT

## *Gatwick*

### **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 with this forecast to continue in the coming months.

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. 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 however this was tempered slightly as a result of the uncertainty brought about by the changing of the travel corridors.

During the final quarter of the year, 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.

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 £140m in 2020:
  - 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. South Terminal remains closed and the Airport continues to vary the operational footprint in the North Terminal to meet the changing demand;
  - Between March and November 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.

# YOUR LONDON AIRPORT

## *Gatwick*

### **Response to COVID-19 (continued)**

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 million Term Loan (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 period, the Group received a capital injection of £370.0 million.

The Group was approved to draw up to £300 million under the Bank of England Covid Corporate Financing Facility ("CCFF"). £175 million was drawn on 10 November 2020. The loan was repaid in January 2021 and a further £250 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 30 June 2021, the Group held cash of £623.5 million and its £300 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.

Alongside these financial statements, the Group has also issued its Compliance Certificate and Investor Report in respect of the 6 months to 30 June 2021, and its forecast for each of the 12 month periods ending 31 December 2021, 2022, and 2023. These forecasts incorporate revised traffic planning assumptions combined with 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 has been granted a covenant waiver and 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 shall be waived in respect of the calculation dates falling on December 2020 and June 2021; and b) 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.

The Group's most recent forecast assumes a steady increase in passengers as the vaccination program in the UK continues to roll out and reduces levels of serious infection such that we expect total passenger numbers of 2021 to be circa 20% compared to 2019. Whilst the Group has obtained a covenant waiver for the June 2021 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 recent rise in COVID-19 cases and the action taken by both the UK Government and other nations, there remains short term uncertainty in the passenger forecasts for 2021.

The Group's most recent forecast anticipates a breach in the Senior ICR at calculation dates of 31 December 2021 and 30 June 2022, and in Senior RAR at each calculation date from 31 December 2021 to 31 December 2023 (inclusive).



# YOUR LONDON AIRPORT

## *Gatwick*

### **Response to COVID-19 (continued)**

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 2021 and June 2022; and b) a request for a temporary amendment (until June 2023) 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. 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.

Given the current rise in COVID-19 cases and the action taken by both the UK Government and other nations, there remains short term uncertainty in the passenger forecasts for 2021 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.

### **Capital expenditure**

The Group spent £35.4 million (year ended 31 December 2020: £86.0 million) on the Airport's Capital Investment Plan during the six months ended 30 June 2021, of which £20.2 million related to right-of-use assets (non-cash capital expenditure).

The business review in the Ivy Holdco Limited Report and the Interim Consolidated Financial Statements for the six months ended 30 June 2021 details the key capital projects both paused and delivered during the period and in progress at the period end.

### **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. Further information is included in note 16 of the financial statements. Following the impact of COVID-19, during 2020 the RCF of £300 million was fully drawn to ensure sufficient liquidity and has remained fully drawn to 30 June 2021.

During the period ended 30 June 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 entered into during April 2020. The initial termination date of the Term Loan was 16 April 2021 and was fully repaid and terminated on this date.

During 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 January 2021, with a further £250.0 million 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.

# YOUR LONDON AIRPORT

## *Gatwick*

### **Acquisitions and Disposals**

No acquisitions or disposals occurred during the six months ended 30 June 2021.

### **Restricted Payments**

There were no restricted payments during the six months ended 30 June 2021.

### **Ratios**

We confirm that in respect of this Investor Report dated 12 August 2021, 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 2021 was -2.51;
  - (b) the forecast Senior ICR for the Relevant Period ended 31 December 2021 is -0.28;
  - (c) the historical Senior RAR for the Relevant Period ended 30 June 2021 was 1.12; and
  - (d) the forecast Senior RAR for the Relevant Period ended 31 December 2021 is 0.76;
- (together the Ratios).

### **Group RAR**

We confirm that as at 30 June 2021:

- (a) Group Net Debt is £3,430million (comprising Senior Net Debt of £2,778million, CCFF Debt of £275million, Junior Debt of nil and Issuer Net Debt of £377million);
- (b) RAB is £2,479million; and
- (c) therefore, Group RAR is 138 per cent., as at the Relevant Date.

### **Current Hedging Position**

As at 30 June 2021, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 83.9% of the Borrower's Relevant Debt.

# YOUR LONDON AIRPORT

## *Gatwick*

### 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 Trigger Event has occurred and is continuing and the following steps are being taken in connection with such Trigger Event:
  - I. those outlined on page 10 (Response to COVID19) of the Financial Statements of Ivy Holdco Limited for the 6 months ended 30 June 2021; and
  - 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 2021 and June 2022; and b) a request for a temporary amendment (from June 2022 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) no Default has occurred and is continuing. For information 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 21 September 2020. 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 2020 and June 2021 and b) 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;
- (c) the Borrower is in compliance with the Hedging Policy; and
- (d) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

Stewart Wingate  
Chief Executive Officer

Lorenzo Rebel  
Interim Chief Financial Officer

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