YOUR LONDON AIRPORT
Gatwick

GATWICK AIRPORT LIMITED
INVESTOR REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2019

23 April 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 Gatwick Airport Limited Annual Report and Financial Statements and the Security Group's (Ivy Holdco Limited) Annual Report and the Consolidated Financial Statements for the period ended 31 December 2019, and the Compliance Certificate for the period then ended.

The Group's Annual Report and Financial Statements cover the nine-month period 1 April 2019 to 31 December 2019.

Overview of the Securitisation Group's performance for the period ended 31 December 2019

In the period ended 31 December 2019, a total of 36.9 million (nine months ended 31 December 2018: 36.8 million) passengers travelled through Gatwick: an increase of 0.1 million passengers or 0.3% compared to the same period in the prior year. ATMs were lower than prior period, but there was an increase in seats per movement as airlines better utilised the existing infrastructure by upguaging their aircraft.

The grounding of the Boeing 737 MAX has impacted some airlines' ability to grow during the period and has occasionally resulted in a reduction in capacity through cancelled movements or smaller aircraft. Planned operators of the aircraft include Icelandair, Ryanair, Turkish Airlines and TUI. The failure of Thomas Cook on 23 September 2019 had an estimated impact of 0.4 million passengers.

81.3% of Gatwick's passenger traffic was on European routes (including the UK and Channel Islands). Long haul traffic grew by 0.1 million or 1.5% passengers in the period compared to the same period in 2018. Long haul destinations now account for 18.7% of Gatwick's passenger traffic, an increase of 1.0% point on the same period in 2018.

The airlines contributing most to Gatwick's growth were primarily the established incumbent companies such as easyJet, British Airways and TUI Airways.

The Group made an operating profit of £278.7 million for the period ended 31 December 2019 compared to £274.9 million in the period ended 31 December 2018.

Further information is available at www.gatwickairport.com/investor and in the Group's Strategic report, Directors' report and consolidated financial statements for the period ended 31 December 2019.

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Regulatory Environment

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.

Basis of 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

Regulatory Environment (continued)

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.

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 Commitments expire on 31 March 2021, and for avoidance of doubt, Gatwick remains subject to the Commitments until this date. 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 2017, Gatwick started the process of consultation with users about the future of commitments and in 2018 the CAA started considering the regulatory arrangements for the period beyond the end of the current Commitments in 2021. The CAA process 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.

During the autumn of 2018 through to the autumn of 2019 Gatwick, together with its airline community and with input from the passenger advisory group have commissioned passenger research and reviewed the service standards at Gatwick Airport. In addition to this, in December 2018, Gatwick presented to the airlines its commercial proposals, indicating its intention to amend the commitments and extend them to 31 March 2025. Gatwick consulted on a fuller set of extended Commitments in October 2019 and issued finalised extended Commitments to its airlines in January 2020, with a term from 1 April 2021 to 31 March 2025.

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 Gatwick has 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 plan, 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.
- ***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.

Regulatory Environment (continued)

- ***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.

Gatwick has 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.

Gatwick anticipates that the CAA, as its economic regulator, will assess the outcome of the consultation undertaken by Gatwick over the last two years and make its own statement on how it intends to review and update Gatwick's economic licence.

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 has 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 imposed travel restrictions, daily passenger numbers declined throughout March. Major carriers such as easyJet, BA, TUI and Norwegian have now grounded fleets serving Gatwick.

There is a high level of uncertainty as to the timeline for lifting travel restrictions within and between European countries, which are the principal markets served by airlines at Gatwick. The Group has considered a range of scenarios to guide its forward planning in the current and subsequent years. Its expectation is that the current low level of traffic will persist through April and into May, with a ramp-up during June and into July. Passenger traffic is projected to be c. 28.9m in calendar year 2020, as compared to 46.1m in 2018 and 46.6m in 2019. The mid-term economic impact is another source of uncertainty; for business planning purposes Gatwick is projecting passenger numbers of 40.2m in 2021 and 43.0m in 2022.

Response to Covid-19 (continued)

Steps taken to reduce immediate cash outgoings and to re-position the business for the mid-term include:

- Discretionary expenditure has been halted.
- The operational footprint of the airport has been reduced on a staged basis through March. Starting with night closure and the shutdown of 2 out of 6 piers, operations are now limited to a single pier in South Terminal within an 8-hour window (2pm to 10pm).
- The Group has completed a consultation with its Unions and employees and reduced staff costs temporarily by 20%. This agreement has now been complemented by the announcement of the Government's "furlough" scheme, which provides additional assurance to the company and employees, particularly if travel restrictions are extended for longer than currently expected. Approximately 2,025 employees have been furloughed. Over 200 employees left the business in mid-March upon termination of fixed term contracts. A further 330 employees left the business in early April following the completion of a severance programme.
- We have worked with third party contractors and other service providers to reduce their costs to reflect lower passenger volumes and the reduced operational footprint.
- A review of the Group's Capital Investment Programme in March has resulted in the removal of over £136 million of the £250 million investment originally planned in 2020. 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. In March, Gatwick drew down in full on its £300 million Revolving Credit Facility, such that as at 31 March 2020, the Group held cash of £92 million. 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), to replenish in full the £300 million Revolving Credit Facility (maturity June 2024). 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 this Investor Report, the Group has also issued its Compliance Certificate related to the 9-month period to 31 December 2019, and its forecast for each of the 12-month periods ending 31 December 2020, 2021, & 2022. These forecasts incorporate the traffic planning assumptions set out above, combined with the mitigating actions already identified.

The Compliance Certificate projects a reduction in the overall level of headroom for the Group's financial covenants, largely reflecting the expected material reduction in revenue and therefore operating cash flow within calendar year 2020. The Senior Interest Cover Ratio ("Senior ICR"), which refers to operating cash flow within a 12-month period, is particularly sensitive to the concentrated loss of revenues (and therefore operating cash flows) within the year. The Senior ICR is projected to reduce from an estimated 3.15x (management calculation of the ratio for the 12 months to 31 December 2019) to 1.29x as at 31 December 2020, but to improve subsequently to 2.08x by 31 December 2021. If the impact of Covid-19 is more protracted than currently expected, with revenues lower for longer, the Senior ICR at 31 December 2020 will continue to deteriorate and could, ultimately, breach the Group's financial covenants (i.e. Senior ICR <1.10x). The actual position at 31 December 2020 will be confirmed in the Compliance Certificate to be published in the early months of 2021 following completion of the 2020 audit, together with a then current assessment of the outlook for the following year.

Response to Covid-19 (continued)

The impact of Covid-19 on the Group is expected to become clearer over the course of the year and an updated Compliance Certificate (including updated forecasts out to December 2020, 2021 & 2022) will be published alongside the Group's Interim Financial Statements by the end of August 2020. This provides a significant window for the Group to address any emerging risks in relation to future financial covenant testing dates, e.g. through additional action to align investment and operating costs with a lower traffic environment; sourcing additional financial support to remedy any short-term shortfall; or negotiating a waiver with debt-holders for any prospective breach of financial covenants.

Significant Board changes

John McCarthy, the ADIA representative, resigned as a non-executive director of Gatwick Airport Limited on 30 April 2019. Karim Mourad was appointed as a replacement non-executive director.

Following the completion of the sale of 50.01% interest in Gatwick on 13 May 2019 the following changes were made to the Board of Directors of Gatwick Airport Limited on the same day:

Appointments:
Nicolas Notebaert
Benoît Trochu
Rémi Maumon de Longevialle
Pierre-Hugues Schmit
Olivier Mathieu

Resignations:
James van Hoften
Andrew Jurenko
Justin Ginnivan

Benoît Trochu resigned from the Board of Directors on 24 September 2019 and was replaced by Eric Marc Jacques Delobel on the same date.

Andrew Gillespie-Smith resigned from the Board of Directors on 20 November 2019 and was replaced by Philip Iley on the same date.

Karim Mourad resigned from the Board of Directors on 20 November 2019.

Capital expenditure

The Group spent £174.4 million (2018: £173.2 million) on the Airport's Capital Investment Plan during the period ended 31 December 2019.

The business review in the Ivy Holdco Limited Annual Report and the Consolidated Financial Statements details the major capital projects delivered during the period and in progress at 31 December 2019.

Financing

On 5 July 2019, Gatwick Funding Limited issued a £300.0 million of publicly listed fixed rate bonds comprising Class A 2.875 per cent. Bonds with scheduled and legal maturities of 2049 and 2051 respectively.

The proceeds of all bond issuances by Gatwick Funding Limited (together "the Bonds") are lent to the Borrower under the Borrower Loan Agreement, the terms of which are 'back-to back' with those of the Bonds. The £292.3 million net proceeds were received by Gatwick Airport Limited on 5 July 2019.

The ACF Agreement entered into on 21 June 2018 has a Revolving Credit Facility of £300.0 million and a tenor of five years (with two, one year extension options) giving a termination date of 21 June 2023 (and extension options to 21 June 2024 and 21 June 2025 respectively). During the period the Group exercised the first one year extension option, giving a revised termination date of 21 June 2024.

Subsequently, on 3 April 2020, the Group entered into a new £300 million Term Loan (duration of 12 months, extendable to 24 months at the Group's option) to increase the availability of cash following the Covid-19 crisis.

Acquisitions and Disposals

No acquisitions or disposals occurred during the period ended 31 December 2019.

Restricted Payments

During the period ended 31 December 2019 total restricted payments of £400.0 million.

Ratios

We confirm that in respect of this investor report dated 25 March 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:

the historical Senior ICR for the Relevant Period ended 31 December 2019 was 11.78;
the forecast Senior ICR for the Relevant Period ended 31 December 2020 is 1.29;
the historical Senior RAR for the Relevant Period ended 31 December 2019 was 0.60; and
the forecast Senior RAR for the Relevant Period ended 31 December 2020 is 0.69;
(together the Ratios).

Current Hedging Position

As at 31 December 2019, after taking hedging with derivatives into account, fixed and inflation-linked debt represented 98.4% 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:

no Default or Trigger Event has occurred and is continuing;
the Borrower is in compliance with the Hedging Policy; and
the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

Stewart Wingate	Nicholas Dunn
Chief Executive Officer	Chief Financial Officer

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