GATWICK AIRPORT LIMITED

Directors' Report and Financial Statements for the year ended 31 March 2012

Company Registration Number 1991018

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Sir David Rowlands
Stewart Wingate
Nicholas Dunn
Raphael Arndt
Andrew Gillespie-Smith
James van Hoften
Andrew Jurenko
Christopher Koski
Michael McGhee
Sir Roy McNulty
William Woodburn

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Robert Herga

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DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31 March 2012.

PRINCIPAL ACTIVITIES

Gatwick Airport Limited ("the Company") is the owner and operator of Gatwick Airport ("Gatwick") or ("the airport").

OWNERSHIP

The Company is a wholly-owned subsidiary of Ivy Holdco Limited, a United Kingdom ("UK") incorporated company, and is ultimately owned by a consortium through a number of UK and overseas holding companies and limited liability partnerships.

Gatwick Airport Limited owns 100% of the share capital of Gatwick Funding Limited, a company incorporated in Jersey but resident in the UK for tax purposes. The primary purpose of Gatwick Funding Limited is to raise external funding and provide it to Gatwick Airport Limited. This is done through the issuance of external bonds and the use of external interest rate and index-linked derivatives, the terms of which are then replicated in a 'back-to-back' agreement with Gatwick Airport Limited.

The Company and its wholly-owned subsidiary Gatwick Funding Limited are referred to collectively in the Directors' Report, the business review and the financial statements as "the Group".

Ivy Holdco Limited, the Company and Gatwick Funding Limited are referred to collectively in the Directors' Report, the business review and the financial statements as "the Ivy Holdco Group".

The consortium that ultimately owns the Company currently comprises the following parties:

Global Infrastructure Partners, LP ("GIP 1")[1]	41.95%
The Abu Dhabi Investment Authority ("ADIA")[2]	15.90%
The California Public Employees' Retirement System ("CalPERS")[3]	12.78%
National Pension Service of Korea ("NPS")[4]	12.14%
Future Fund Board of Guardians ("Future Fund")[5]	17.23%

[1] Global Infrastructure Partners, LP ("GIP 1") is a US$5.64 billion independent, specialist infrastructure fund that invests worldwide in infrastructure assets and businesses in both OECD and select emerging market countries. GIP 1 was founded in 2006 by former senior executives from Credit Suisse and the General Electric Company. GIP 1 targets investments in power and utilities, natural resources infrastructure, air transport infrastructure, seaports, freight railroad, water distribution and treatment and waste management. Global Infrastructure Management, LLC, the manager of GIP 1, has offices in New York and London with an affiliate in Sydney and portfolio operations headquarters in Stamford, Connecticut.

[2] The Abu Dhabi Investment Authority ("ADIA"), established in 1976, is a globally diversified investment institution, whose sole mission is to invest funds on behalf of the Government of the Emirate of Abu Dhabi to make available the necessary financial resources to secure and maintain the welfare of the Emirate.

[3] The California Public Employees' Retirement System ("CalPERS") manages retirement benefits for more than 1.6 million public employees, retirees, and their families and more than 3,000 employers in the state of California, United States of America. CalPERS also manages health benefits for more than 1.3 million members. The CalPERS fund invests in a range of asset classes, with a current market value of approximately US$235 billion.

[4] National Pension Service of Korea ("NPS"), which is a public pension fund for the general public in Korea which has grown to 300 trillion won (US$270 billion), and is the fourth largest pension fund in the world.

DIRECTORS' REPORT (continued)

OWNERSHIP (continued)

[5] Future Fund Board of Guardians ("Future Fund") is a financial asset fund established by the Future Fund Act 2006 to assist future Australian governments meet the cost of public sector superannuation liabilities by delivering investment returns on contributions to the fund. The fund has approximately A$77 billion assets under management.

BOARD OF DIRECTORS

The Company has two executive and nine non-executive directors. The following non-executive directors oversee the Company on behalf of the consortium:

- Raphael Arndt,
- Andrew Gillespie-Smith,
- Christopher Koski,
- Michael McGhee, and
- William Woodburn.

The Company's Board of Directors who served during the year and up to the date of approval of these financial statements were as follows:

Sir David Rowlands (Non-executive Chairman)
Sir David Rowlands is chairman of the GAL Board. He retired in 2007 as Permanent Secretary at the Department for Transport. Sir David is currently non-executive chairman of rolling stock company, Angel Trains. He stepped down as chairman of High Speed Two Limited in February 2010. Sir David is also a governor of Anglia Ruskin University and a member of the RAC Foundation's public policy committee.

Stewart Wingate (Chief Executive Officer)
Stewart was appointed Chief Executive Officer in December 2009. He was with BAA from 2004 until September 2009, first as Customer Services Director of Glasgow Airport, then as Chief Executive Officer of Budapest Airport and most recently as Managing Director of Stansted Airport. Stewart is a Chartered Engineer and a Fellow of the Institute of Engineering and Technology. Stewart has a Masters in Business Administration with distinction and a 1st Class Honours degree in Electrical and Electronic Engineering.

Nicholas Dunn (Chief Financial Officer)
Nicholas was appointed Chief Financial Officer in April 2010. He joined from Anglo American plc where he was General Manager, Corporate Finance. Prior to that, he worked for six years with Centrica plc in a number of senior finance roles including Director of Group M&A, Finance Director for Centrica Energy and Finance Director for British Gas Business. Nicholas has more than 10 years experience in investment banking, with the majority of this time specialising in the transportation and energy sectors. He has advised governments and private investors on the financing of airports and air traffic control and has managed airport acquisition, IPO and financing transactions in the UK and internationally. Nicholas holds a BEng (1st Class Honours) in Electronic Engineering from the University of Southampton.

Raphael Arndt (Non-executive director, Future Fund representative)
Raphael has been Head of Infrastructure and Timberland at the Future Fund since 2007 with a particular focus on building and managing the Fund's investments in these areas. He joined from Hastings Funds Management where he was an Investment Director responsible for managing successful infrastructure and timberland portfolios as well as leading infrastructure and timberland transactions.

Raphael also has significant asset management experience in both sectors. Previously he was Director, Policy at the Australian Council for Infrastructure Development (AusCID) and completed a Ph.D at Melbourne University which addressed "Efficient Risk Allocation in the Private Provision of Infrastructure". Raphael has advised on infrastructure and capital works projects at the Victorian Department of Treasury and Finance.

DIRECTORS' REPORT (continued)

BOARD OF DIRECTORS (continued)

Andrew Gillespie-Smith (Non-executive director, GIP representative)
Andrew joined Global Infrastructure Partners ("GIP") in 2008 and led the M&A team for GIP in acquiring Gatwick Airport. Prior to joining GIP, Andrew was a Managing Director of the Investment Banking Department of Credit Suisse. He joined Credit Suisse in 1998 when BZW's corporate finance business was acquired by Credit Suisse.

Andrew has advised clients on a broad range of corporate finance transactions including mergers and acquisitions, debt and equity financings. These transactions spanned airports, airlines and related businesses, air traffic control, shipping, coal and power generation sectors across Australasia, Europe, Asia and the Americas. Prior to joining BZW, he qualified as a corporate lawyer at the London-based law firm Herbert Smith.

James van Hoften (Non-executive director)
James is a former senior vice president and partner of the Bechtel Corporation. He was managing director of the global airport design and construction business and was responsible for airport developments in the Middle East, Japan, and North and South America. In the early 1990s, he was the programme manager of the $23 billion Hong Kong Airport Core Programme including the new Hong Kong Airport. Previously, James spent eight years as a NASA astronaut including two flights on the space shuttle and four space walks. James is a director of FlexLNG in London and is on the Board of Trustees of the University of California, Berkeley.

Andrew Jurenko (Non-executive director)
Andrew advised the consortium on the Gatwick acquisition and is a consultant to a number of property businesses. He was previously employed by BAA plc and was a member of BAA plc's executive committee, as managing director of BAA International, where he led the acquisition of Budapest Airport. Andrew's international experience also includes serving as CEO of Australia Pacific Airports Corporation Limited (APAC), as interim CEO of Melbourne Airport following its successful acquisition and as managing director of BAA Pacific Ltd in Hong Kong.

In the UK Andrew was also the managing director of BAA's World Duty Free direct retailing arm, co-chairman of BAA's non-airport retail joint venture, McArthur Glen, and managing director and then chairman of the commercial property company, BAA Lynton.

Christopher Koski (Non-executive director, ADIA representative)
Chris is the Global Head of Infrastructure for ADIA. Prior to joining ADIA in 2007 he was a senior member of the infrastructure and private investment teams at the Canada Pension Plan Investment Board. Christopher worked previously in investment banking at RBC Capital Markets and in investment management at the Toronto Dominion Bank. Christopher graduated with high honours from the MBA programme at the University of Chicago and is a Chartered Financial Analyst.

Michael McGhee (Non-executive director, GIP representative)
Michael is a transport partner of GIP and is based in London. He was a managing director of the Investment Banking Department of Credit Suisse and head of the Global Transportation and Logistics Group since 1998. Previously he was head of BZW's Global Transportation Group, since founding it in July 1990, and has advised governments on several privatisations in the transport sector globally.

Sir Roy McNulty
Sir Roy is Deputy Chairman of the Olympic Delivery Authority, Chairman of Advantage West Midlands, and a non-executive director of Norbrook Laboratories Limited.

Sir Roy was previously Chairman of the Civil Aviation Authority (CAA), the UK's specialist aviation regulator, a post he held for eight years. Prior to this he was Executive Chairman of National Air Traffic Services Limited (NATS) from May 1999 to July 2001. Sir Roy was appointed by the former Secretary of State in February 2010 as Chairman to lead a special Rail Value for Money Study which reported in May 2011. Other previous posts include being Chief Executive and latterly Chairman of Short Brothers plc, the Belfast-based aerospace company now part of Bombardier Inc., President of the Society of British Aerospace Companies, Chairman of the former Department of Trade and Industry Aviation Committee, and Chairman of the Ilex Urban Regeneration Company in Northern Ireland.

DIRECTORS' REPORT (continued)

BOARD OF DIRECTORS (continued)

William Woodburn (Non-executive director, GIP representative)
William is the operating partner of GIP and is based in New York City and Stamford, Connecticut. Before joining GIP, he was the president and CEO of GE Infrastructure and previously president and CEO of GE Specialty Materials.

Prior to this, William was executive vice president and a member of the Office of the CEO at GE Capital, with oversight responsibilities for GE Capital Equipment Management businesses, including Americom, Fleet Service, Rail Services, TIP & Modular Space and Penske Truck Leasing. He served on the GE Capital Board in 2000 and 2001 and oversaw GE Capital India, GE Capital Global Sourcing, GE Capital Container Finance and GE SeaCo JV.

Board committees

There are two sub-committees of the Board of Directors: an Audit and Governance Committee, and a Nomination and Remuneration Committee. The Audit and Governance Committee (Chairman, Andrew Gillespie-Smith) is responsible for the independent oversight of corporate governance, the system of internal control, risk management and the financial reporting processes of the Company. The Nomination and Remuneration Committee (Chairman, Michael McGhee) is responsible for overseeing Board and Senior Management appointments, remuneration and succession planning. These committees meet at least twice per annum.

Executive Management Board

The Company also has an Executive Management Board which includes the Chief Executive Officer, the Chief Financial Officer and other members of senior management. The Executive Management Board meets monthly and is responsible for the day-to-day management of the Company. In particular, the Executive Management Board has collective responsibility for assisting the Board of Directors in the performance of their duties for the Company including:

- the development and implementation of strategy, operational plans and budgets;
- the achievement of business plans and targets;
- the assessment and control of risk;
- ensuring compliance with legal and regulatory requirements; and
- the development and implementation of the Company's ethics and business standards and health, safety, security and environment policies and procedures.

DIRECTORS' REPORT (continued)

OVERVIEW OF THE YEAR ENDED 31 MARCH 2012

During the year, the Company completed the final separation of its information technology ("IT") environment from BAA, the last remaining of the transitional services provided by BAA post-sale.

The Group completed a £600.0 million bond issue on 20 January 2012 which resulted in the 'prepayment' of £493.0 million of bank debt.

The Company made an operating profit before exceptional items of £116.2 million for the year ended 31 March 2012 compared to £112.9 million in the year ended 31 March 2011. The Company did not incur any 'operating costs – exceptional' in the year compared to £17.0 million in the year ended 31 March 2011. These results are discussed in more detail in the financial review below.

STRATEGY

Gatwick operates in a competitive market. Passengers have a choice as to which airport they fly from and airlines have alternative bases from which to operate. The Company's strategy for the airport is to transform the passenger experience and improve efficiency for the airlines and the airport itself, thereby improving its competitiveness in the London airport market. A key element of the Company's strategy is to build and maintain strong relationships with its airline customers, regulators and other stakeholders.

The Company has set out its ambition – "competing to grow and become London's airport of choice" – and has established six strategic priorities to which the Company's activities are aligned. These priorities are to:

- deliver the best passenger experience: by listening to our passengers and delivering the kind of service that will make them choose to fly from Gatwick;
- help our airlines grow: by understanding airlines' goals and developing commercial partnerships;
- increase value and efficiency: by maximising income, lowering our operating costs and driving capital efficiency;
- protect and enhance our reputation: by building strong and constructive relationships with our stakeholders based on openness and trust;
- build a strong environment, health and safety ("EH&S") culture: by maintaining a relentless focus on achieving zero incidents; and
- develop the best people, processes and technology: by investing in high-performing people, continuous improvement and the right systems.

REGULATORY ENVIRONMENT

In March 2008 the Civil Aviation Authority ("CAA") published its price control review for Gatwick Airport for the five year period ending 31 March 2013 (the 5th regulatory quinquennium known as "Q5"). This was extended by one year during 2011 so that the Q5 regulatory period now expires on 31 March 2014. 31 March 2012 completes the fourth year of Q5. The price control constrains the growth in aeronautical revenue yield per passenger to no more than RPI+2% at Gatwick for the 5 years to 31 March 2013 and to RPI-0.5% for the year to 31 March 2014. There is an adjustment mechanism to allow for the recovery of 90% of the costs of any new security requirements (i.e. those not envisaged when the price control was set) that amount to more than £7.0 million per annum.

In the CAA's Q5 decision there are incentive arrangements to promote quality of service and the timely completion of capital projects. Gatwick has continued to meet all of its Q5 obligations to deliver its capital expenditure programme, including the delivery of capital expenditure trigger projects, as agreed both with the airlines and the CAA. As part of the one-year extension of Q5, the Company and the airlines have agreed to replace triggers associated with ceased projects (Pier 7 and South Terminal baggage) with new triggers. While these triggers are not expected to be agreed and submitted to the CAA by June 2012, the initial deadline, the Company believes that triggers covering 60 per cent. of the forecast capital expenditure in the year ending 31 March 2014 will still be agreed with the airlines operating at Gatwick without the CAA stepping in to resolve.

DIRECTORS' REPORT (continued)

REGULATORY ENVIRONMENT (continued)

Since April 2008, the UK Government has been considering the introduction of a new regulatory regime for airports.

On 23 November 2011, the UK Government published its draft Civil Aviation Bill which was subsequently introduced to Parliament in January 2012. If enacted, the Civil Aviation Bill ("the Bill") will modernise the system of economic regulation of airports in the UK. The Bill proposes a new general duty for the CAA to carry out its functions in a manner which furthers the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services, where appropriate by doing so in a manner which will promote competition in the provision of airport operation services. In carrying out its general duty, the CAA will be required, among other things, to have regard to "the need to secure that a licence holder is able to finance its provision of airport operation services in the area for which the licence is granted". The Bill is continuing its progress through Parliament. The Bill makes clear that there will be no change to the current price control which covers the now six year period from 1 April 2008 to 31 March 2014.

All airport operators are 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 proposals in the Bill. However, the Bill provides for the further economic licensing of dominant airports (and dominant airport areas) where operators are determined by the CAA to have substantial market power. Where the CAA determines that a licence is required, the Bill gives the CAA greater flexibility to align the regulatory requirements that it imposes with the market and competitive position at the relevant airport, concentrating more on service quality and performance incentives. Where a licence is not required, an airport's activities will remain subject to general competition law and the provisions of the Airport Charges Regulations, in respect of both of which the CAA will have an enforcement role.

The CAA continued its project to assess competition between airports during the year. The Company submitted its analysis of competition in November 2011, setting out that the available evidence does not support a finding that Gatwick has substantial market power and it should not be subject to economic regulation beyond the end of Q5. The CAA published its initial views on the competitive position of Gatwick, Heathrow and Stansted in February 2012. The CAA's initial view was that each of the three airports currently subject to economic regulation have some degree of market power and thus could be subject to economic regulation beyond the end of Q5. This work of the CAA will continue through the coming year and is particularly important in the development of any future regulatory framework at Gatwick.

The CAA continued its work on identifying alternative forms of regulation for airports. The CAA is now considering how its competition analysis and work on forms of regulation should inform its regulatory design for any regulation beyond the end of Q5.

Finally, the CAA, as part of its preparations for any regulation beyond the end of Q5, requires the Company to participate in constructive engagement with the airlines operating at Gatwick. To facilitate this, the Company has provided to the airlines and the CAA its initial business plan for the period to 2020. The Company will engage with airlines throughout the calendar year 2012 on the contents of its business plan and the outputs of the engagement will be used, as appropriate, by the Company to inform the business plan that the Company will submit to the CAA in January 2013. The engagement will also be used by the CAA to inform any future proposals for economic regulation at Gatwick.

DIRECTORS' REPORT (continued)

REVIEW OF THE BUSINESS

Under section 417 of the Companies Act 2006 ("the Act"), the Company is required to produce a fair review of the business of the Company, including a description of the principal risks and uncertainties facing the Company and an analysis of the development and performance of the business during the year and position at the year end. Furthermore, additional information is provided under this Business Review in accordance with the Walker Guidelines, which sets out suggestions for best practice for Portfolio Companies owned by private equity investors (of which Gatwick Airport Limited is deemed to be one), which the Company has complied with.

Passenger traffic trends

	Year ended 31 March 2012	Year ended 31 March 2011
Passengers	**33,819,000**	31,647,000
Air transport movements (ATM)	**242,498**	235,738
Passengers per ATM	**139.5**	134.2
Load factors (%)	**81.2**	78.7

In the year ended 31 March 2012, a total of 33.8 million (2011: 31.6 million) passengers travelled through Gatwick Airport ("Gatwick"), an increase of 2.2 million or 6.9%. Adjusting for prior year events, as a result of which an estimated 1,200,000 passengers did not travel (discussed below), underlying traffic growth is estimated as 3.0%. Gatwick saw underlying year-on-year passenger growth in each month in the year compared to the same month in the prior year.

There were a number of factors that adversely affected passenger numbers in the prior year, most notably the disruption caused by the eruption of Eyjafjallajökull in Iceland. An estimated 600,000 passengers did not travel in April 2010, and passenger numbers in May and June 2010 were impacted by sporadic closures to airspace in the UK and Europe. The impact of the eruption of Grimsvötn in Iceland in May 2011 was less significant, with disruption limited to airports in Northern parts of the UK. The prior year was also affected by industrial action at British Airways, operational issues across easyJet's network, and continental European air traffic control strikes. No such significant factors affecting traveller sentiments were noted in the year ended 31 March 2012.

Passenger numbers increased year-on-year in April 2011 as travellers took advantage of the closeness of the Easter holiday weekend, the additional holiday to mark the royal wedding and the early May bank holiday.

Heavy snowfall across the UK in November and December 2010 affected UK air travel in the year ended 31 March 2011 and meant an estimated 281,000 passengers did not travel through Gatwick. In the year ended 31 March 2012 the Company worked hard to be operationally ready to reduce the potential impact of winter weather disruption on flights at Gatwick. The preparation and deployment of equipment and staff meant that, in the same period when snow caused disruption at certain other London airports, Gatwick did not experience any notable disruption this year.

Low cost carriers in Gatwick's largest market, European scheduled, have made the most significant contribution towards the year-on-year increase. Political unrest in North Africa has been one of the most significant factors in a decline in other long haul traffic as Charter airlines have reduced capacity to the region.

European scheduled passengers grew by 13.8% and represented 52.6% of total passengers for the year ended 31 March 2012 (2011: 49.4%). European charter and other long haul traffic both declined year-on-year and represented 13.5% and 13.4% of total passengers respectively (2011: 14.9% and 15.1% respectively). UK domestic traffic remained stable at 10.8% of total passengers (2011: 10.8%).

DIRECTORS' REPORT (continued)

Passenger traffic trends (continued)

Total air transport movements ("ATMs") were higher than the prior year, with the factors noted above having the most significant impact. Further, Gatwick has seen an increase in average seat capacity with, on average, 172.0 seats per ATM in the year ended 31 March 2012 (2011: 170.8). This increase has resulted from a growing trend towards larger aircraft being used by airlines operating at Gatwick. In addition, higher year-on-year load factors were recorded in each month of the year and Gatwick recorded its highest ever load factors in August 2011 when on average 88.4% (August 2010: 87.0%) of seats were filled. Over the full year, load factors averaged 81.2% (2011: 78.7%). Higher load factors and more seat capacity per plane has resulted in an increase in passengers per ATM.

Route Development

Gatwick has had a successful year in developing its route network, particularly to Asian markets, and has welcomed a number of services both from existing and new airlines as it continues to compete and become London's airport of choice.

Gatwick saw a number of exciting new routes launched to Asian markets. Vietnam Airlines launched their first London services in December with four flights per week – two each to Hanoi and Ho Chi Minh. Hong Kong Airlines launched a daily all business class service to Hong Kong on a 116 seat A330 in March 2012. AirAsia X moved their London to Kuala Lumpur route from Stansted to Gatwick from October 2011 although have subsequently ceased all operations to Europe.

Earlier in the year Gatwick's capacity on routes to Canada increased with Sunwing commencing operations to Toronto, for the summer season, in May 2011, and Air Transat putting on additional frequencies and new routes to various Canadian cities.

At the end of October 2011 British Airways moved their Mauritius service from Heathrow to Gatwick. They have also increased services to Caribbean destinations throughout the year.

Gatwick welcomed a number of new airlines that operate on short haul markets as this market segment continued to grow. There have been start ups from key alliance carriers, including Lufthansa, who commenced a double-daily service to Frankfurt in October, and Turkish Airlines who started a daily service to Istanbul in December, increasing to double-daily for the summer 2012 season. Rossiya commenced operations to St. Petersburg in April 2011, whilst Aerosvit increased Gatwick's capacity to the Ukraine with a five times per week service to Kiev. In March 2012, Italian airline Air One started double-daily flights between Gatwick and Milan Malpensa.

Existing short haul operators have also grown in the last year. New routes added by easyJet in the last year include Aberdeen, Amman, Catania, Izmir, Seville and Verona. They have also built frequency on existing business routes to gain a greater share of business passengers in the London market. easyJet will have 50 aircraft based at Gatwick for the summer 2012 season. Norwegian Air Shuttle, having switched operations from Stansted to Gatwick in 2009, again increased frequency on several existing routes reaching nearly 100 flights per week from Gatwick. British Airways moved their London to Malaga service from Heathrow to Gatwick and increased frequency on the popular Spanish route. They also started a three times per week service to Marrakesh from the start of the summer 2011, but withdrew their service to Luxembourg, moving this to Heathrow.

After the year end, a number of new long haul routes have begun. Korean Air commenced a three per week service to Seoul in April 2012 and Air China started a four per week service to Beijing in May 2012. Air Nigeria started a four per week service to Lagos in May 2012. June 2012 saw Caribbean Airlines commence a twice weekly service to Trinidad. Virgin Atlantic introduced a service to Cancun in June 2012 but reduced frequency on its service to Kingston. The airport will welcome Atlantic Airways for summer 2012 when they move their Faroe Isles to London service from Stansted to Gatwick.

British Airways commenced flights to Nice and Algiers in the short haul sector in summer 2012. Icelandair have announced two services per week to Keflavik for the winter season, commencing in October 2012. easyJet have also stated their intention to fly from Gatwick, their biggest base, to Luxemburg, Isle of Man, Tallin and Turin from winter 2012.

DIRECTORS' REPORT (continued)

Route development (continued)

In addition to the services noted above that ceased during the year, a number of airlines chose not to continue to fly into Gatwick. Qatar Airways stopped services to Doha in May 2011 to focus on serving the London market from Heathrow only. Royal Air Maroc and Delta similarly consolidated operations into Heathrow in October 2011 and April 2012 respectively. Adria Airways ceased operations to Ljubljana in October 2011 and have subsequently decided to re-enter the London market in spring 2012 by operating into Luton rather than Gatwick. United Airways Bangladesh, Olympic, Braathans and Air Zimbabwe all stopped services into London during the year ended 31 March 2012. Finally, Ryanair has reduced the intensity of its services at Gatwick, ceasing services to Faro, Girona, Porto, Rome Ciampino, Bologna and Bergamo during the year.

Capital Investment Programme

The Company spent £239.2 million on Gatwick's Capital Investment Programme ("the Programme") during the year ended 31 March 2012, the fourth year of Q5 (2011: £211.4 million excluding car parks acquired from another group undertaking, Ivy Subco Limited, for £20.8 million). This brings total capital expenditure for Q5-to-date to £756.8 million (including car parks) (2011: £517.6 million (including car parks)).

The following significant projects that have transformed the passenger experience, capacity, airline performance and technology at Gatwick were completed during the year:

- A new 19 lane security search area utilising state-of-the-art technology was completed in the South Terminal in the autumn of 2011. The project also delivered the first dedicated family assistance search lanes in the UK and adjacent restaurants and retail areas have been redeveloped.
- A 7,500 square metre southern extension and a 5,000 square metre eastern extension to the North Terminal were opened in November 2011 to provide additional check-in capacity and three new baggage reclaim areas.
- A new 1,177 space short term car park at the North Terminal opened to the public in April 2011.
- The reconfiguration and upgrade of 21 gate rooms and 14 aircraft stands in Pier 2.
- Two additional high output security lanes to support growth in the North Terminal were completed.
- A new forecourt for the South Terminal was completed providing passengers with quicker and easier access to the different areas of the terminal via a new entrance plaza, clearer lines of sight and a brighter, more contemporary space with new flooring and lighting. The forecourt project, which also transforms transport access to the terminal, was completed in March 2012 in time for the London Olympics.

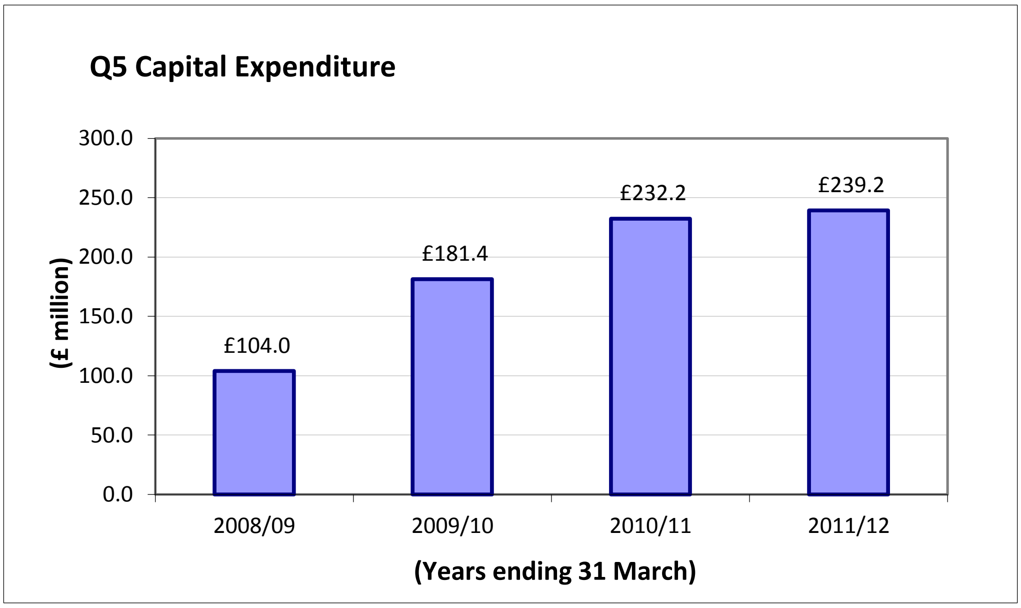
Seven significant projects that will improve the performance of the Airport and the passenger experience at Gatwick were continued or commenced during the year:

- To support the delivery of a pier service level target of 95% for North Terminal, and to meet future growth in passenger numbers, a project reconfiguring aircraft stands and gate rooms in Pier 5 commenced. Lifts, escalators and stairs will be provided for passengers to access each gate room, which are also being refurbished. The project will create a new route for passengers from the departure lounge to the gate rooms.
- Projects to develop the departure lounges in both the North and South Terminals have begun. The focus is on improved retail and catering provision in the North Terminal and improving the layout and vertical circulation in the South.
- A project creating an additional four high output security lanes to support growth in the North Terminal is underway.
- Improvement and resurfacing of the runway, including improvements to lighting and drainage, began in March 2012.
- The North Terminal baggage project, which began in the prior year, is linked to the extension to the Terminal and will provide greater functionality, capacity and reliability.
- Enabling works for the combined South Terminal baggage and Pier 1 project commenced during the year. The next phase of the combined project will be awarded in the year ending 31 March 2013 and be the biggest and most complex of the current Programme.

DIRECTORS' REPORT (continued)

Capital Investment Programme (continued)

The graph below shows actual capital expenditure per year for Q5-to-date:



During the year the Company has been consulting with the airlines operating at Gatwick on a capital expenditure programme of approximately £250.0 million following the year extension to Q5, which would bring the total capital expenditure programme for the six years of Q5 to a budget of £1,172.0 million (excluding car parks acquired from Ivy Subco Limited). There is approximately a further £436.0 million to be invested in the remaining two years of the six year programme.

The Company awarded major contracts during the year for the resurfacing of the main runway, rehabilitation of taxiways, North Terminal security, South Terminal immigration, departure lounge refurbishments and the reconfiguration of Pier 5. In addition, the minor works framework and professional services contracts were awarded. Approximately £300.0 million of the remaining Q5 capital expenditure remains uncommitted.

A new Master Plan is currently being developed that will outline the Company's long term ambition for growth and development for Gatwick to 2020. The consultation process on the draft Master Plan, with the airlines operating at Gatwick and wider stakeholders, began on 13 October 2011 and was completed on 13 January 2012. A report summarising the public and community consultation has been published on the Company's website. The final Master Plan, including feedback from this consultation, is due for publication in July 2012.

The Company's business plan, that is being used for constructive engagement with the airlines operating at Gatwick in relation to the period beyond the end of Q5, details the service proposition that the Company is setting out to enable it to compete directly and effectively with other London airports for long haul business, as well as continue to grow the existing short haul European network to enhance London's international connectivity.

A capital investment programme that supports the service proposition has been developed with detailed supporting evidence from passenger, airline and competitor research. The formal constructive engagement process with the airline community began in April 2012 with detailed review of the service proposition and the supporting capital plan expected to continue throughout the year.

Bechtel Corporation ("Bechtel") has continued to support the Company in the management and delivery of the Programme. Bechtel's role is now focused on the continued implementation of best practices, training of the Company's staff, and then transitioning the management of the Programme to the Company following a structured plan, whilst ensuring the remaining projects are delivered on time and on budget.

DIRECTORS' REPORT (continued)

Capital Investment Programme (continued)

The Company continues its focus on developing people, processes and technology, as well as driving efficiency. Fundamental to this was the need to separate and transform the Company's and Gatwick's operational IT systems from BAA legacy systems. Various IT projects were completed during the year, and a new enterprise resource planning ("ERP") system was implemented in October 2011. This completed the separation from BAA.

The Company is working towards ISO 9001 quality assurance certification for the capital programme by 30 September 2012.

Regulatory Asset Base

The Regulatory Asset Base ("RAB") of Gatwick is provided to the CAA and published as at 31 March each year in the Company's Regulatory Accounts. The RAB is rolled forward between each date according to a formula (including depreciation and indexation) set out by the CAA. The RAB has increased by £215.4 million or 10.8% to £2,200.9 million as at 31 March 2012 (2011: £1,985.5 million) largely driven by the Q5 capital expenditure programme, with total spend of £239.2 million in 2012 (2011: £232.2 million (including car parks)).

Refinancing

On 15 February 2011, Gatwick Airport Limited entered into a Common Terms Agreement with, *inter alia*, the Royal Bank of Scotland plc as Initial ACF agent. The Company then entered into a Borrower Loan Agreement with both Gatwick Funding Limited (as Issuer) and Deutsche Trustee Company Limited (as Borrower Security Trustee) on 24 February 2011. The CTA together with a Master Definitions Agreement covers, *inter alia*, both the Initial Authorised Credit Facility Agreement (the "Initial ACF Agreement") and the Borrower Loan Agreement. Further refinancing agreements were also executed during the period from 15 February 2011 to 2 March 2011 by the Ivy Holdco Group.

The Initial ACF Agreement has total facilities of £970.0 million, comprising a term facility of £620.0 million, a non-revolving capex facility of £300.0 million and a revolving facility of £50.0 million. The Initial ACF Agreement terminates on 3 December 2014. On 2 March 2011, £599.4 million of the term facility was drawn (after a mandatory reduction of £20.6 million in the term facility). Also on 2 March 2011, the Company's subsidiary, Gatwick Funding Limited, issued £600.0 million publicly listed fixed rate secured bonds comprising £300 million Class A 6.125 per cent. Bonds with scheduled and legal maturities of 2026 and 2028 respectively, and £300 million Class A 6.5 per cent. Bonds with scheduled and legal maturities of 2041 and 2043 respectively.

On 20 January 2012, Gatwick Funding Limited, issued a further £600.0 million of publicly listed fixed rate secured bonds comprising £300 million Class A 5.25 per cent. Bonds with scheduled and legal maturities of 2024 and 2026 respectively, and £300 million Class A 5.75 per cent. Bonds with scheduled and legal maturities of 2037 and 2039 respectively.

The proceeds of all bond issuances by Gatwick Funding Limited (together "the Bonds") are lent to the Company under the Borrower Loan Agreement, the terms of which are 'back-to-back' with those of the Bonds.

The £581.4 million net proceeds received by the Company on 20 January 2012 were utilised to meet obligations in the year to 31 March 2012 and to 'prepay' £493.0 million of the term facility under the Initial ACF Agreement.

The Initial ACF Agreement facilities are currently the Company's only source of external funding, and together with operating cash flows, will be used to meet its funding requirements under the capital investment programme.

DIRECTORS' REPORT (continued)

Refinancing (continued)

The Company regularly prepares long-term cash flow forecasts to test the sufficiency of its financing facilities to meet its funding requirements. The Directors consider that the current level of credit facilities is sufficient to meet its present forecast funding requirements and provides the Company with appropriate headroom.

Further information on the refinancing is included in note 20 of the financial statements.

Operational performance

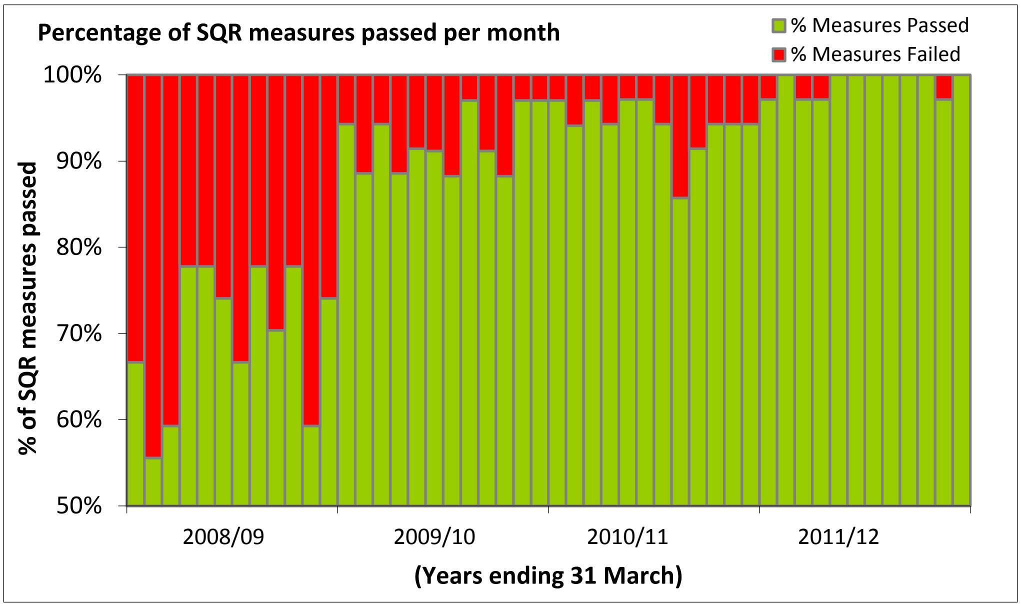
As part of the economic regulation of Gatwick, the Q5 price control for Gatwick incorporates a Service Quality Regime ("SQR"). The SQR sets stretching standards for a variety of measures impacting the passenger experience, from security queuing times to the availability of terminal and airfield assets, ensuring Gatwick is constantly focused on the performance in these key areas. The scheme also incorporates the results of a passenger survey, the Quality of Service Monitor ("QSM"), which provides a measure of passenger satisfaction with certain airport services and facilities (i.e. cleanliness, ease of wayfinding, flight information and seating).

The Company reports its performance against the SQR (including QSM) on a monthly basis on its website at the following link: http://www.gatwickairport.com/business/performance/sqr-perf-reports/

The Company uses, among other things, total SQR targets passed, security queuing, overall QSM and on-time performance to monitor whether it is delivering the best passenger experience. These are discussed below.

Service quality

The Company achieved 99.0% of its SQR targets during the year (2011: 94.2%). As a result of a concerted programme of works commenced in the prior year, the wayfinding target for the South Terminal (measured using a rolling 12-month target) was achieved in April 2011 for only the second time in Q5, and has been met every month since. When the rolling 12-month target for cleanliness was met in May 2011, the Company achieved all its SQR targets for the first time in Q5. The only other targets missed related to two outages on the shuttle that runs between the airport's North and South Terminals, one spanning the end of June start of July and the other during the snow in February 2012.

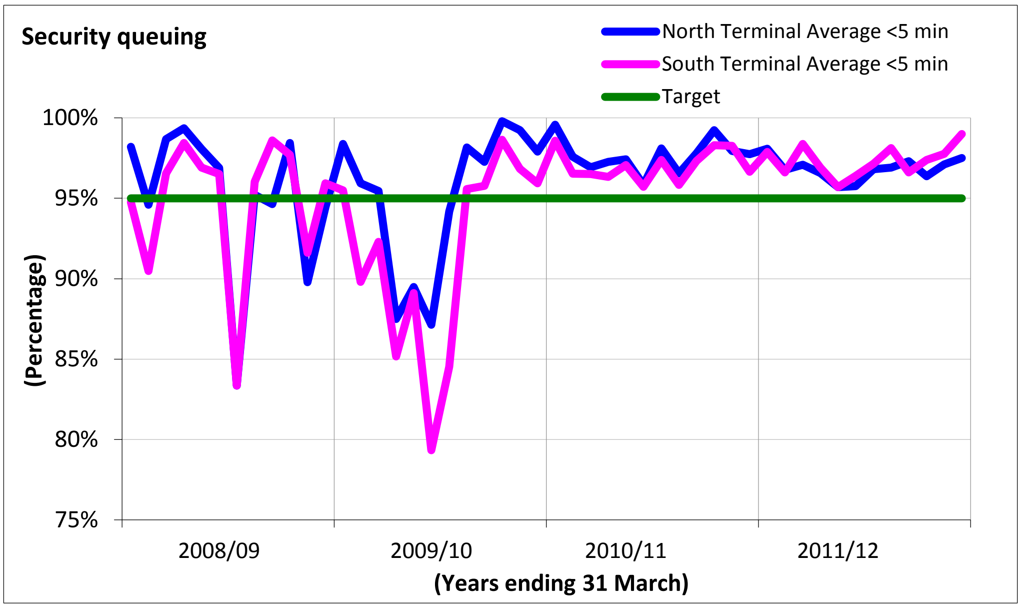


DIRECTORS' REPORT (continued)

Operational performance (continued)

Service quality (continued)

In relation to security queuing, Gatwick has surpassed its service quality target of security queue times of less than 5 minutes in each month in 2012, meaning no service quality penalties were incurred for the second successive year. Gatwick's North and South Terminals achieved 96.8% and 97.3% respectively during 2012 compared to 97.7% and 97.0% in 2011. The following graph shows the percentage of time Gatwick's security queues have been less than five minutes during Q5 to date:



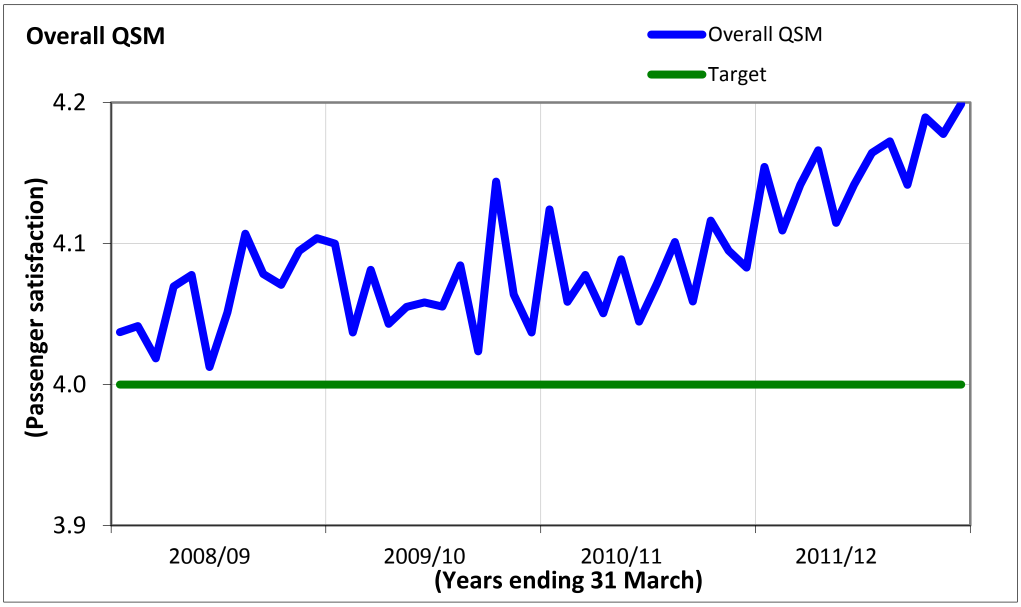
DIRECTORS' REPORT (continued)

Operational performance (continued)

Passenger satisfaction

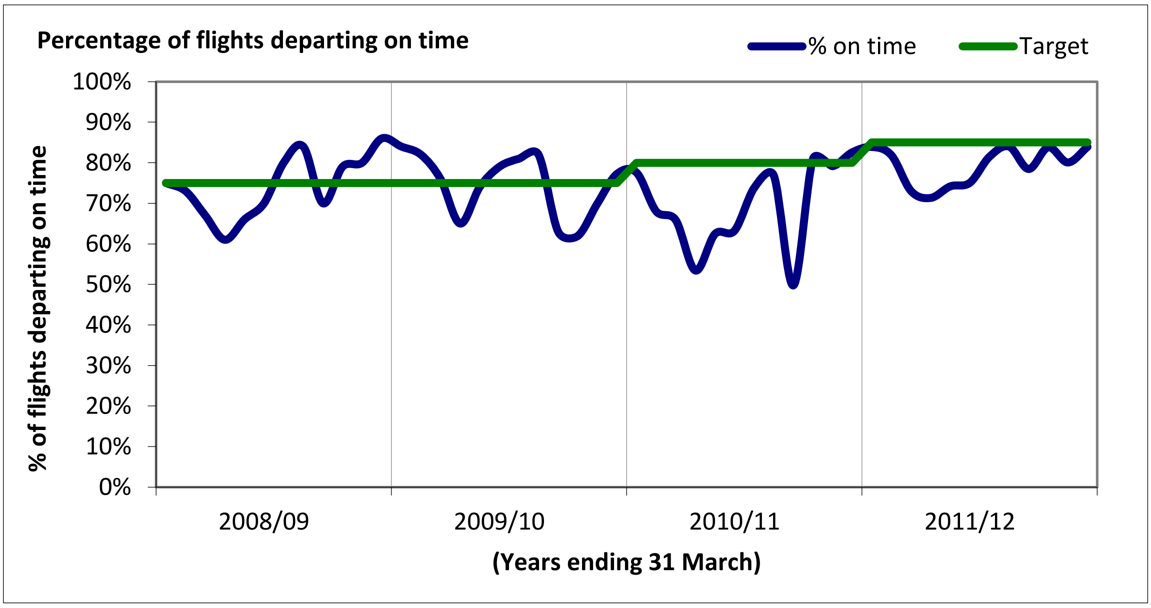
Gatwick's QSM is an ongoing customer service survey conducted amongst a cross-section of departing and arriving passengers by the Company's market research team. Passengers are asked to rate their experience of certain services and facilities at Gatwick. A QSM service quality score is then calculated following a CAA formula and published each month.

Gatwick's overall QSM improved to 4.16 in 2012, up from 4.08 in 2011 (5 = excellent; 1 = poor). The following chart show's Gatwick's improving performance in Q5:



Airfield performance

The Company uses on-time departures as a measure of airfield performance. To depart on-time, a flight must leave within ±15 minutes of the scheduled departure time. During the year ended 31 March 2012, 71.0% of flights departed on time, an increase from 63.4% in the prior year. The Company is actively working with its airline partners to address on-time departures, and the revised target of 85% remains a key focus for the year ended 31 March 2013.



DIRECTORS' REPORT (continued)

Future developments

The positive momentum in developing new services and increased frequencies is tempered by the relatively weak economic outlook and uncertainty as to how the Euro-crisis will be resolved.

For planning purposes the Company is currently projecting 34.3 million passengers to travel through Gatwick during the year ended 31 March 2013, a 1.4% increase on the prior year (actual for year ended 31 March 2012: 33.8 million).

A total of 5.7 million passengers travelled through Gatwick in the period April – May 2012, which remained flat on the prior year (April – May 2011: 5.7 million). Passenger numbers were down 1.3% in April 2012, primarily driven by the Easter holidays starting in April last year but in March this year, and the additional public holiday in April 2011 to mark the royal wedding. Passenger numbers grew by 2.0% year-on-year at Gatwick, with the greatest growth coming from scheduled services to European destinations from both existing and new airlines. Charter traffic serving the same region continued to decline. Traffic growth in May 2012 was impacted by shift in the start of the school half-term and May Bank holiday to June to coincide with the Jubilee celebrations.

The allowable aeronautical yield (aeronautical income per passenger) has increased by 1.5% to £8.066 for the year ended 31 March 2013 (2012: £7.946). Whilst RPI increased by 5.2% between August 2010 and August 2011, and the Company is allowed to increase charges by RPI+2%, a one-off adjustment has been made to the allowable aeronautical yield (equivalent to £15.6 million in aeronautical revenue) to reflect trigger payments associated with two capital projects that the Company chose not to complete during Q5. As detailed in the Regulation section above, it was agreed with the airlines operating at Gatwick that these triggers would be removed for the year ending 31 March 2014 and replaced by alternative capital project triggers and for the allowable aeronautical yield to be RPI-0.5% in the extension year of Q5.

The London Olympic and Paralympic Games will present various operational challenges for the airport, however, there is not expected to be any significant net increase in passenger numbers above the volumes already experienced during that busy time in a normal year.

FINANCIAL REVIEW

Turnover

In the year to 31 March 2012, the Company's turnover was impacted by the traffic upsides discussed in passenger traffic trends above, which affect aeronautical, retail and car parking income.

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Aeronautical income	**274.2**	244.3
Retail income	**120.9**	115.6
Car parking income	**54.3**	51.7
Operational facilities and utilities income	**24.0**	22.2
Property income	**25.8**	26.9
Other income	**18.2**	15.6
Total turnover	**517.4**	476.3

DIRECTORS' REPORT (continued)

Aeronautical income

Aeronautical income is driven by both passenger traffic and the level of airport charges. Airport charges are determined by reference to the CAA's regulatory formula which sets the opening aeronautical yield (aeronautical income per passenger) and the maximum growth in the aeronautical yield for Gatwick for Q5 at RPI+2% for the five years to 31 March 2013 and at RPI-0.5% for the year ending 31 March 2014.

The allowable aeronautical yield increased by 5.8% to £7.946 for year ending 31 March 2012 (year ending 31 March 2011: £7.516). Removing the impact of non-regulated income of £5.2 million (2011: £4.8 million) that is included in aeronautical income, the actual aeronautical yield for the year increased by 5.4% to £7.975 (2011: £7.566). This represents an estimated over-recovery in regulated charges of £1.0 million (2011: actual £1.6 million over-recovery) and is attributable to a change in mix of passengers in the year, and lower than expected remote stand rebates. The over-recovery will result in a downward adjustment to the allowable aeronautical yield in the year ending 31 March 2014.

Total aeronautical income has increased 12.2% year-on-year due to the 5.2% increase in the actual aeronautical yield and the 6.9% increase in passengers.

Retail income

Retail income increased by £5.3 million or 4.6% in 2012 compared to a 6.9% increase in passengers. Net retail income per passenger is calculated as follows:

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Retail income		
Duty and tax-free	**40.7**	38.8
Specialist shops	**31.2**	31.1
Catering	**19.0**	18.0
Bureaux de change	**16.5**	15.0
Other retail	**13.5**	12.7
	120.9	115.6
Less: retail expenditure	**(1.2)**	(1.1)
Net retail income	**119.7**	114.5
Passengers (m)	**33.8**	31.6
Net retail income per passenger	**£3.54**	£3.62

Net retail income per passenger decreased by £0.08 year-on-year to £3.54 (2011: £3.62) with the key contributory factors explained below.

Capital investment programme works ongoing in both terminals resulted in an average monthly reduction in retail space of 6.2% year-on-year. This had a notable impact on fashion and entertainment in 'specialist shops', and on catering. A new walk-through duty and tax-free store is due to open in the South Terminal in July 2012, replacing the existing outlet.

In duty and tax-free, average spend for passengers departing to non-European Union ("non-EU") destinations is over twice that of a passenger departing to European Union ("EU") destinations. An increase in the proportion of passengers departing to EU destinations, as noted in the passenger traffic trends section above, has lowered the overall net retail income per passenger relative to the prior year.

DIRECTORS' REPORT (continued)

Retail income (continued)

The Company has worked with WH Smith to significantly improve the offering in bookshops and newsagents through the renovation and rebranding of their stores as either the London Book Company or the London News Company. The first rebranded store opened in March 2012 and the rebranding and renovation of all stores will be completed in the summer of 2012. This is expected to enhance performance and customer proposition in this category.

The catering category has seen a decline in income per passenger mainly due to capacity issues in the North terminal at peak periods. This has led to passengers selecting more grab-and-go options rather than dining at restaurants, the former being generally a lower margin segment. A project is currently underway to increase capacity with two new catering outlets planned to open during the next year, including a Jamie Oliver restaurant in summer 2012.

Car parking income

Net car parking income increased in excess of the 6.9% increase in passengers to grow by 14.1% or £5.0 million in 2012. Net car parking income per passenger is calculated as follows:

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Car parking income	**54.3**	51.7
Less: car parking expenditure	**(13.8)**	(16.2)
Net car parking income	**40.5**	35.5
Passengers (m)	**33.8**	31.6
Net car parking income per passenger	**£1.20**	£1.12

Net car parking income per passenger increased by £0.08 in 2012, driven by a more effective pricing proposition, operational cost efficiencies, and additional short stay capacity in the North Terminal. Nevertheless, competitive pressures in the market place remain challenging and there has been an adverse shift (from a car parking perspective) in the mix of passengers, with a greater proportion of overseas originating passengers not requiring car park services and UK-based passengers making trips of a shorter duration on average.

Other income categories

Other income categories (i.e. excluding aeronautical, retail or car parking) increased by £3.3 million to £68.0 million in 2012 (2011: £64.7 million). Property income decreased by £1.1 million to £25.8 million in 2012 (2011: £26.9 million), due largely to a reduction in office space following removal of an office block that is being developed as a hotel in the North Terminal. Operational facilities and utilities income increased £1.8 million, largely due to an increase in check-in and baggage income that resulted from the 6.9% increase in passengers and a revised charging structure to address prior year under-recovery of costs, but this was offset by a decrease in utilities income. Income from identity cards and car park passes increased by £1.9 million due to a new charging structure and higher volumes respectively.

Income per passenger

Income per passenger has increased from £15.07 to £15.30 in the year ended 31 March 2012. The 1.5% increase is largely driven by the increase in the allowable aeronautical yield, with increases in car park income being largely offset by the reductions in retail income.

DIRECTORS' REPORT (continued)

Operating costs – ordinary

'Operating costs – ordinary' have increased by £37.8 million or 10.4% to £401.2 million in 2012 (2011: £363.4 million), with £28.8 million of the increase reflecting an increase in depreciation.

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Staff costs	**140.5**	128.5
Retail expenditure	**1.2**	1.1
Car parking expenditure	**13.8**	16.2
Maintenance and IT expenditure	**35.2**	25.6
Utility costs	**30.2**	28.2
Rent and rates	**26.8**	22.5
General expenses	**48.2**	64.8
Depreciation	**105.3**	76.5
Total operating costs – ordinary	**401.2**	363.4

Staff costs increased £12.0 million or 9.3% year-on-year for the year ended 31 March 2012, reflecting the 5% annual pay increase awarded to staff and greater staff numbers working on the capital expenditure programme. The increase in costs associated with the capital expenditure programme is offset by the subsequent capitalisation of these costs, which appears as part of general expenses. Overall, total staff costs capitalised was £20.9 million in 2012 (2011: £16.9 million).

Average full-time equivalent ("FTE") employee numbers decreased from 2,481 in 2011 to 2,409 in 2012. Average operational FTE employees fell from 2,101 to 2,046 during the year, and non-operational FTE employees decreased from 380 to 363. The financial impact of the reduction in operational employees is offset by the higher cost of non-operational staff undertaking work on the capital expenditure programme.

The depreciation charge increased as a result of significant fixed asset additions in the current and prior years as the Q5 capital investment programme continued.

Maintenance and information technology ("IT") expenditure has increased largely due to the Company now directly incurring IT expenditure following separation from BAA. In the prior year, significant elements of the Company's IT infrastructure were being provided by BAA under a Transitional Service Agreement ("TSA"), the costs of which were included in general expenses (see below).

Utilities costs have increased following upgrades to the distribution network at the airport, which is owned by a third party, combined with increases in both the volume and unit cost of utilities consumed.

Rent and rates are higher due to the increase in the rateable value of the Company's premises following the reintroduction of properties to rateable status on completion of capital developments. The prior year also benefited from a £1.2 million positive settlement of a rates review of prior years' charges.

A significant factor in the reduction of general expenses is the termination of the TSA with BAA for the provision of IT services. The last remaining TSA finished in October 2011 when the Company's new ERP system was implemented. TSA costs reduced by £12.0 million to £2.4 million in 2012 (2011: £14.4 million).

Other than the TSA noted above, the significant driving factor in the decrease in general expenses is the credit for staff capitalisation which has increased by £4.0 million due to a greater involvement by the Company's staff on aspects of the capital investment programme, largely in IT.

DIRECTORS' REPORT (continued)

Operating profit before exceptional items

Operating profit before exceptional items increased by £3.3 million to £116.2 million in 2012 (2011: £112.9 million). The increase in turnover is largely down to the 6.9% increase in passengers and the 5.4% increase in the actual aeronautical yield. While 'operating costs – ordinary' increased due to increases in staff costs, depreciation and IT expenditure, they were offset by the reduction in TSA charges paid to BAA and staff costs capitalised. Refer to the sections above for further details on these and other movements within turnover and 'operating costs – ordinary'.

EBITDA pre-exceptional items

Reconciliation of EBITDA to operating profit:

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Operating profit before exceptional items	**116.2**	112.9
Add back: depreciation	**105.3**	76.5
EBITDA pre-exceptional items	**221.5**	189.4

Earnings before interest, tax, depreciation and amortisation ("EBITDA") before exceptional items ("EBITDA pre-exceptional items") increased £32.1 million or 16.9% to £221.5 million in 2012 (2011: £189.4 million). This increase is driven by the £41.1 million increase in turnover, largely due to the increase in aeronautical income, offset by the increases in staff costs and IT expenditure. Refer to the turnover, 'operating costs – ordinary' and 'operating profit before exceptional items' sections above for further details.

Operating costs – exceptional

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Pension costs	**-**	2.4
Reorganisation costs	**-**	2.1
Depreciation	**-**	3.1
Other costs	**-**	0.2
Impairment of tangible fixed assets	**-**	9.2
Total operating costs – exceptional	**-**	17.0

During the year ended 31 March 2011 the BAA pension trustees made a bulk transfer of assets and liabilities from the BAA pension scheme to the Company's defined benefit pension plan. Based on actuarial assumptions prescribed in the sale and purchase agreement (governing the sale of the Company), there was a £2.4 million shortfall in the assets transferred on 1 June 2010, and this cost was recognised by the Company. In accordance with the sale and purchase agreement, monies held in escrow for the benefit of BAA were used to fund the shortfall. No such costs were incurred during the year ended 31 March 2012.

Costs associated with the Company's restructuring programme following the change in ownership totalled £2.1 million during the year ended 31 March 2011. No such costs were incurred during the year ended 31 March 2012.

Exceptional depreciation of £3.1 million during the year ended 31 March 2011 related to shortening the useful life of assets relating to the South Terminal security project. No exceptional depreciation was charged to the profit and loss account during the year ended 31 March 2012.

DIRECTORS' REPORT (continued)

Operating costs – exceptional (continued)

During the year ended 31 March 2011, the Company incurred other costs totalling £0.2 million to effect the separation from BAA. The majority of these relate to employees required to perform one-off activities in roles that will not continue in the Company. The associated costs are therefore treated as exceptional in nature. No such costs were incurred during the year ended 31 March 2012.

During the year ended 31 March 2011, the Company impaired tangible fixed assets by £9.2 million because it was deemed that certain projects had changed scope significantly, and the costs associated with them should not be carried forward to completion. The charge to the profit and loss account during the year ended 31 March 2011 included items relating to South Terminal baggage and Pier 1 works after they were combined into a single project. No such impairments were made during the year ended 31 March 2012.

Going concern

The Company's net current liability position has improved year-on-year at £2.9 million (2011: £27.5 million). The improvement is largely due to the Company's increased cash position at year end and the recognition of a finance lease asset.

All the Company's financial covenants (see below) have been met and are forecast to be met for the years ending 31 March 2013, 2014 and 2015.

Based on the availability of undrawn committed borrowing facilities, and as further detailed in note 1 of the financial statements, the Directors have a reasonable expectation that the Company will continue as a going concern and accordingly the financial statements have been prepared on that basis.

Senior RAR and Senior ICR

The maximum net indebtedness to the total regulatory asset base ("Senior RAR") and minimum interest cover ratio ("Senior ICR") are the Company's financial covenants that govern the Company's ability to draw new loans under the Initial ACF Agreement. As at 31 March 2012, the Company's Senior RAR ratio was 0.60 (2011: 0.61). The Senior ICR for the year ended 31 March 2012 was 3.28 (2011: 3.45).

DIRECTORS' REPORT (continued)

KEY PERFORMANCE INDICATORS

The following are the key performance indicators ("KPI's") that the Company's Executive Management Board and Board of Directors use to monitor the performance of the Company. They are detailed throughout the Directors' Report:

- passengers and air transport movements;
- passengers per air transport movement and load factors;
- overall service quality regime ("SQR") and security queuing;
- overall Quality of Service Monitor ("QSM");
- on-time departures
- net retail income per passenger;
- net car parking income per passenger;
- income per passenger;
- EBITDA pre-exceptional items;
- loss time injury ("LTI") rates;
- absenteeism per employee;
- net indebtedness to total RAB ("Senior RAR");
- interest cover ratio ("Senior ICR"); and
- regulatory asset base ("RAB").

RISK MANAGEMENT

Risk management is a central element of the Company's strategic decisions and operations. The Company is committed to implementing appropriate strategies and processes that identify, analyse and manage the risks associated with the organisation in order to minimise the frequency and impact of undesired and unexpected events on the Company's objectives, while enabling it to optimise its business opportunities.

The principal aim of the risk management strategy is to embed the awareness of risk at all levels of the organisation, in such a way that ensures all significant business decisions are risk-informed. Particular emphasis is given to safety and security, environmental, commercial, financial, reputational and legal risks.

A key element of the risk management process is the risk profiling methodology. This determines the threats to the achievement of business objectives and day-to-day operations in terms of likelihood and consequence at both inherent and residual level, after taking account of mitigating and controlling actions. Details are maintained in a hierarchy of risk registers used as the basis for regular reviews of risk management by the Audit and Governance Committee.

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board of Directors to ensure statutory compliance and protect and enhance our reputation, while supporting business units to successfully manage their operations and properly embed risk management. The operation of the process and the individual registers are subject to review by the Company's Business Assurance function, to provide independent assurance to the Audit and Governance Committee and Board of Directors that the controls put in place to mitigate risks are working effectively.

The Audit and Governance Committee was established to provide, amongst other things, independent oversight of the risk management of the Company.

The principal corporate risks as identified by the Board of Directors are as follows:

Safety and security risks

The Company mitigates safety and security risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company works closely with government agencies, the police and the Armed Forces to match security measures to a level commensurate with the current raised threat environment.

DIRECTORS' REPORT (continued)

Safety and security risks (continued)

The Company has implemented a health and safety management system to mitigate this risk. The system incorporates the setting of standards and targets, monitoring performance, and putting plans in place for improving performance.

Assurance over safety and security risks is provided through management reporting processes and a specialist compliance audit function.

The Company has implemented robust controls to manage the risks associated with works undertaking by contractors. This includes establishing a contractor support centre which will manage all aspects of contractor activities including induction training, issuing permits and undertaking audits. This new function is designed to provide a consistent experience for all contractors ranging from retail to construction. In addition, the Company has implemented new controls and systems to ensure that the appropriate measures are in place during the tender phase of projects.

The CAA aerodrome standards department visit each aerodrome periodically as part of their audit / inspection programme. The CAA inspectors assess compliance with the requirements of *CAP168 licencing of aerodromes*, audit the aerodrome's management safety and assess the competence of those responsible for safety.

The last major audit carried out at Gatwick was in October 2010. During that audit the inspectors found no category 1 or 2 non-compliance. An interim audit by the CAA in January 2012 again found no category 1 or 2 non-compliance.

Regulatory environment, legal and reputational risks

CAA regulation

The Company's operations are subject to regulatory review by the CAA and Competition Commission ("CC") every five years. The risk of an adverse outcome from the five-yearly review is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the CAA and advises the Company's management and Board of Directors on regulatory matters. Regulation is represented on the Company's Executive Management Board by a Strategy and Regulation Director.

An important part of the regulatory framework is the Company's involvement in continuous dialogue with the airlines that operate at Gatwick. In order to mitigate the risk of adverse airline relations, airlines have been invited to participate at all stages of the capital investment programme including steering and working groups, with the Company pro-actively disclosing information to these groups.

To facilitate constructive engagement in relation to any regulation beyond the end of Q5, the Company has provided to the airlines operating at Gatwick and the CAA its initial business plan for the period beyond Q5. The Company will engage with airlines throughout the calendar year 2012 on the contents of its business plan and the outputs of the engagement will be used, as appropriate, by the CAA to inform any future proposals for economic regulation at Gatwick.

The UK Government has introduced the Civil Aviation Bill ("the Bill") into Parliament to reform the framework for the economic regulation of airports. It is intended that this framework will be in place before the end of Q5. The Company has provided evidence to Parliament in the process of the Bill being introduced and continues to engage with the Department for Transport. If the Bill is not passed in the time indicated by the Government, there is a risk that any future regulation will be set under the Airports Act 1986. This may impact the eventual regulatory framework that is in place for the period beyond Q5.

DIRECTORS' REPORT (continued)

CAA regulation (continued)

In 2011 the CAA extended Q5 by an extra year, thereby taking it to 31 March 2014. This followed agreement between the Company and the airlines operating at Gatwick to limit the increase in aeronautical charges to RPI-0.5% for the year ending 31 March 2014. As part of the extension, the Company is required to agree the capital expenditure and associated triggers that will apply in the year ending 31 March 2014 by June 2012. The Company does not expect to meet this deadline but still believes that triggers covering 60 per cent. of the forecast capital expenditure in the year ending 31 March 2014 will still be agreed with the airlines operating at Gatwick without the CAA stepping in to resolve. Failure to do so will give the CAA the power to impose capital triggers – without the approval of the Company – which could lead to an adverse financial outcome for the Company.

The Company ensures ongoing compliance with all Q5 regulatory requirements and participates in ad hoc CAA reviews. The process and the state of Q5 compliance is managed by formal reporting to the Company's Executive Management Board.

An important development for the future competitive landscape is the likely sale by BAA of Stansted airport. The Company supports this development as it is believed it will enhance competition in the London market, to the benefit of passengers. However, the increase in competition that may result from any sale of Stansted could be a risk to the future financial prospects of the Company and Gatwick.

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to be managed within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, is in place to mitigate this risk.

Permission to grow

The existing local authorities' planning agreement envisages passenger traffic growing to 40 million per annum at Gatwick. Failure to secure specific planning permissions would lead to the Company having insufficient capacity to meet the expected demands of the industry resulting in increased congestion and declining passenger service. The Company mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in Government consultations and other advisory groups. The Aviation White Paper 'The Future of Air Transport' ('the White Paper') was published in December 2003 and clarified the Government's policies regarding airport expansion for the whole of the country. It emphasised the need for airport operators to invest in delivering new capacity as well as maximising the use of existing capacity.

Shortly after the current UK Coalition Government came into power in May 2010 it indicated that it would not support any new runway development in the South East of England, ruling out any proposals for new runways at Heathrow, Stansted and Gatwick. More recently, the Government has been considering the development of aviation policy in the UK. Although this review of aviation policy has not to date addressed the issue of the provision of new airport capacity, the Government has indicated that the next public document in summer 2012 will consider the shortage of airport capacity in the South East of England. The review represents an important step in seeking to identify ways of sustainable aviation growth. The Company will play an active role in this consultation to help shape the policy environment in support of its strategy to mitigate risks.

DIRECTORS' REPORT (continued)

Environment

Environmental risks need to be mitigated as they have the potential to impact both the Company's reputation and licence to operate and to grow, as well as the environment. The Company mitigates these risks at a number of levels including the implementation of an environmental management system, which incorporates a legal register to understand what legislation applies to the business, objectives and targets around significant environmental impacts; monitoring performance against targets; internal audit; training programmes; and the influencing of third parties on site to improve their performance. The Company works proactively with stakeholders to ensure that it effectively manages the challenges posed by the environmental agenda.

Commercial and financial risks

Capital projects

The Company recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Company mitigates this risk through adherence to a rigorous project process, and by systems of project reviews before approval, during construction and after project completion. All major projects include an allowance for risk.

The Company has engaged the Bechtel Corporation, an external engineering, construction and project management firm, to support the Company in the delivery and risk management of its capital investment programme.

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the Company. Since it is not possible to identify the timing or period of such an effect, the Company carries out evaluations through a series of scenario planning exercises.

Under the current price control arrangements, which are based on a forecast of passenger numbers, the Company carries the financial risk from a reduction in passenger volume during the six year period of the current price control. As detailed in its Q5 decision document, the CAA would not expect divergences between outturn and projected revenues to justify an interim review of the price control unless a catastrophic event rendered all or much of Gatwick unusable for a significant period of time.

Industrial relations

Industrial action by key groups of employees that affects critical services or curtails operations could have potentially adverse financial and/or reputational impact on the Company. The Company recognises three trade unions – Unite, Prospect and PCS. Joint training is in place with the three recognised trade unions encouraging a constructive joint problem-solving approach. The Company has a range of formal consultative bodies that discuss pay, conditions of employment and business issues with the recognised trade unions. Increasing emphasis has been placed on resolving issues at the departmental level thereby avoiding escalation. There are formal agreements designed to resolve disputes. A two-year pay deal is in place until 31 March 2013.

Additionally there is the potential for adverse financial impact in the event that industrial action is taken within suppliers of key services (e.g. air traffic controllers) or by employees of key clients (e.g. airlines).

DIRECTORS' REPORT (continued)

Separation from BAA

The Company's reliance on BAA was mitigated by the TSA signed between the Company and BAA Airports Limited which detailed the services to be provided. While the sale of the Company was completed in the period ended 31 March 2010, the Company continued to be reliant on BAA for the provision of certain services, notably in relation to IT. The separation of the Company's IT environment was fully completed in October 2011 and it was at this point the Company was no longer reliant on BAA and the risk ceased.

Financial risk management

The Group's principal financial instruments comprise external borrowings and derivatives.

The Company's financial risk management objectives are aligned with the Ivy Holdco Group. The Ivy Holdco Group is the level at which financial risks for the Company are managed. The treasury policies of the Ivy Holdco Group are set out below.

The Board of Directors approves prudent treasury policies for the Ivy Holdco Group and delegates certain responsibilities to senior management who directly control day-to-day treasury operations. The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury related financial risks inherent in the Ivy Holdco Group's business operations and funding. To achieve this, the Ivy Holdco Group enters into interest rate and index-linked swaps to protect against interest rate and inflation risks.

The primary treasury related financial risks faced by the Ivy Holdco Group are:

(a) Cash Flow Interest Rate Risk

The Ivy Holdco Group maintains a mix of fixed and floating rate debt. As at 31 March 2012, fixed-rate debt after hedging with derivatives represented 99.1% of the Ivy Holdco Group's total external nominal debt.

The Ivy Holdco Group mitigates the risk of mismatch between the airport's regulatory asset base and aeronautical income, which are directly linked to changes in the retail price index, and nominal debt and interest payments, by the use of inflation linked derivatives. As at 31 March 2012, the nominal amount of index-linked derivatives equated to 30.3% of the Ivy Holdco Group's external debt.

(b) Funding and Liquidity Risk

The Ivy Holdco Group has established a multicurrency programme for the issuance of bond debt in addition to bank term debt, bank capex and revolving facilities and a liquidity facility. To ensure continuity of funding and flexibility, debt maturities are spread over a range of dates, thereby ensuring that the Ivy Holdco Group is not exposed to excessive refinancing risk in any one year.

The Ivy Holdco Group has positive cash flows before capital expenditure. The Ivy Holdco Group had cash flows from operations of £199.3 million for the year ended 31 March 2012 (2011: £177.5 million). As at 31 March 2012, cash at bank was £12.2 million (2011: £2.2 million), undrawn headroom under bank capex and revolving facilities was £350.0 million (2011: £345.0 million) and undrawn headroom under the liquidity facility was £100.0 million (2011: £100.0 million).

Covenants under the financing arrangements are monitored and forecast on an ongoing basis with formal testing reported to the Board of Directors, Audit Committee and Executive Management Board along with all investors. The Ivy Holdco Group continues to comply with all borrowing obligations and financial covenants, and forecasts to do so for at least the next three years.

(c) Credit Risk

The Ivy Holdco Group's exposure to credit-related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

DIRECTORS' REPORT (continued)

CORPORATE SOCIAL RESPONSIBILITY

Sustainability management

The Company develops strategies, policies and targets that pave the way for sustainable growth.

The Company's sustainability approach is built into its governance framework and is led by the Executive Management Board. The Company's aim is to ensure that the right systems are in place to set strategy and policies, determine and deliver appropriate plans, and to manage the business safely and responsibly.

The Company works closely with its local authorities, having signed a section 106 ("s106") legal agreement with the West Sussex County Council and Crawley Borough Council in December 2008. The legal agreement provides the framework for the Company's approach on social, environmental and economic matters. It defines how Gatwick's operation, growth and environmental impacts will be managed and ensures the Company's wider sustainability strategy is aligned with key local authority partners. It is considered as a best practice case in the UK by external stakeholders. The agreement underpins the important relationship between the Company and its local authorities who have responsibilities for planning, environmental management and highways. Performance against the legal agreement is communicated through the Sustainability Performance Review and to the Company's consultative committee ("GATCOM").

The Company continues to build and maintain strong relationships with stakeholders including the Government, airlines, business partners, passengers and employees. Working closely with these stakeholders ensures that the Company can influence and shape future policy and decisions that may affect Gatwick and the aviation industry, and also to identify joint working opportunities to promote best practice.

A new Master Plan is currently being developed that will outline the Company's long term ambition for growth and development for Gatwick to 2020. The consultation process on the draft Master Plan, with the airlines operating at Gatwick and wider stakeholders, began on 13 October 2011 and was completed on 13 January 2012. To ensure that all levels of interest and expertise were catered for, and that the audience was as wide as possible, the Company undertook both a public presentation and more detailed engagement with stakeholders. Nearly 1,700 members of public attended exhibitions, 132 stakeholders and members of public participated in 19 consultative workshops and a further 350 people provided written or telephone feedback on the Company's proposals.

The Company has noted a substantial degree of support for the airports development and growth plans and a report summarising the public and community consultation has been published on the Company's website. The final Master Plan, including feedback from this consultation, is due for publication in July 2012.

Our Decade of Change progress

In 2010 the Company published its Decade of Change sustainability strategy. This outlined the following sustainability priorities:

- to enable Gatwick to be the airport of choice for our passengers and customers;
- to ensure the safety and security of our passengers, partners and employees;
- to generate national and regional economic wealth, connectivity, increased airport catchment and employment;
- to reduce adverse impacts to the environment;
- to build and maintain constructive relationships with stakeholders; and
- to recognise the value of our employees, partners and communities

Nearly two years on from launching our strategy the Company has made a lot of progress and identified the areas where focus is necessary. Overall the Company wants to continue the work it has already begun with its partners by developing stronger relationships that ensure the Company continues to deliver against our Decade of Change targets while helping our partners to achieve their goals at the same time. This progress is detailed in the Company's annual sustainability report published on the Company's website (see below).

DIRECTORS' REPORT (continued)

Our Decade of Change progress (continued)

The Company's carbon footprint decreased slightly in the 2010 calendar year and the 2011 report is due for publication later in 2012 (see below). In addition to ACI carbon accreditation, Carbon Trust Standard and ISO 14001 management system, the Company has recently been recommended for certification to the OHSAS 18001 standard. The Company is progressing with plans to develop an energy centre on airport to provide a large proportion of its energy needs whilst reducing carbon emissions in line with its 2020 target.

Sustainability performance

The Company monitors its performance in a number of key sustainability areas and produces a comprehensive sustainability report on an annual basis. Full details of the Company's sustainability approach and associated performance reporting can be found at this link on the Company's website:
http://www.gatwickairport.com/business/corporate-responsibility/sustainability1

Health and safety

Gatwick launched its Destination Zer0 Environment, Health and Safety ("EH&S") programme during the year ended 31 March 2011, with the ultimate aim of continual improvement in EH&S for our own employees and Contractors working on the capital investment programme. The Company also introduced a new incident management system in the prior year, which is supported by the new EH&S training programme.

A key success for the year ended 31 March 2012 was being recommended for OHSAS 18001 certification. This will compliment the ISO 14001 certification which the Company already holds. Both certifications demonstrate the Company's commitment to implementing robust systems and controls for managing EH&S risks, which are independently audited and verified for effectiveness.

Through the implementation of the new incident management tool in the prior year, the Company now has an accurate baseline of incident data. The Company will use this data to drive performance through identifying trends and root cause analysis. One of the key performance indicators which the Company is using to measure improvement in health and safety performance is the reduction of lost time injuries ("LTI") rates (LTI per 100,000 hours). In the year ended 31 March 2012 the Company reported 43 LTI at a LTI rate per 100,000 hours of 0.81 (2011: 31 LTI at a rate of 0.58). This year-on-year increase has resulted largely from improved reporting of new standards implemented by the Company.

DEVELOPING OUR PEOPLE

Based on an employee survey in August 2010 and structured interviews with over 160 employees to gather staff views on Gatwick's strengths and barriers to success, the Company established a three-year people strategy and action plan, and a new set of values have been developed. The Company's people strategy is to create a high performance team with a common ambition.

Feedback was sought from over 25% of employees in early 2012, via small discussion groups and one-to-one conversations. This has been used to revalidate the people strategy and has led to a number of focused action plans to address priority issues raised by the Company's employees.

The Company's approach to objectives setting and performance development was further implemented during the year. As a result, all employees have agreed personal objectives in place that are aligned to the Company's values and strategic priorities. During the coming year, a personal development plan ("PDP") will be agreed for every employee.

As part of its people strategy, the Company set the objective of achieving Investors in People ("IIP") accreditation.

DIRECTORS' REPORT (continued)

Employee Relations

The Company has a positive and constructive relationship with the three recognised trade unions.

A two-year pay deal was agreed in 2010 for negotiated grade staff to cover the period from 1 April 2011 to 31 March 2013. The first year included a pay increase of 5%, and the second an increase of 4.8% based on RPI. Senior managers received a pay award averaging 3% from 1 April 2012.

The Company's reward strategy is based on the principle of rewarding individual and team performance. The bonus for senior manager staff is based on individual performance (50%) and on the Company's earnings before interest, tax, depreciation and amortisation ("EBITDA") performance (50%). The bonus structure for negotiated grade staff has three elements covering EBITDA, SQR and departmental performance. The Company is in the process of introducing a new employee grading approach which will reduce the number of grades from 33 to five.

Attendance Management

Attendance is constantly monitored against a clear policy framework. The year saw attendance levels at rolling average days absenteeism per employee increase to 10.3 days (2011: 9.4 days). Following absence levels exceeding nine days on a rolling average basis in more than one department over the six months to 31 October 2011, the triggers for the Company's formal attendance management process were tightened, as per the agreement with the recognised trade unions dated May 2011.

New occupational health arrangements are being implemented in the coming year to support employees who are returning to work.

Learning and Development

The Company is committed to the development of its people. As part of an overall learning and development strategy, there has been a strong focus during the year on developing employees understanding of the Company's strategy and on people leadership. A team of dedicated operational trainers are employed by the Company to deliver compliance and regulatory courses. All employees have performance objectives and performance development plans. All employees have attended a series of training events to reinforce the link between the Company's ambition & strategy and its values and to embed a customer service culture across the business.

Headcount

As at 31 March 2012 the Company had 2,405 FTE employees (2011: 2,404).

Turnover of permanent employees during 2012 was 6%, with 138 people leaving the Company. Of these, just over 58% (80 people) resigned and 42% (58 people) were made redundant or dismissed.

Resourcing

The Company actively recruits internally, promoting the development and progression of the Company's employees.

The Company has a range of equal opportunities policies in order to create and support a diverse workforce. It is the policy of the Company that no form of discrimination due to disability, race, sex or age should/will exist in the workplace.

DIRECTORS' REPORT (continued)

Resourcing (continued)

Applications for employment by disabled persons are welcomed and fully considered against the needs of the role. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate reasonable adjustments and training are provided.

In addition to our engineering apprentice scheme, an airport security apprenticeship scheme has been launched offering a one year contract supported by security and customer service training.

ESSENTIAL CONTRACTS OR OTHER RELATIONSHIPS

The Company has the following essential contracts:

NATS

NATS provides air traffic control services for Gatwick under the terms of an agreement.

Transitional Services Agreement (with BAA)

The Company was gradually separated from BAA over the 12 months leading up to December 2009. Following the sale, a number of services were still performed for the Company by BAA. In particular, the Company was reliant on BAA's IT environment. These services and others were undertaken by BAA under the TSA entered into between the Company and BAA and BAA was paid for these services on an arm's length basis. The last remaining operational IT element of the TSA expired in October 2011 once the Company's IT systems separation had completed. From that point, the Company was no longer reliant on BAA.

PAYMENT PRACTICE

The Company complies with the UK Government's Better Payment Practice Code which states that responsible companies should:

- Agree payment terms at the outset of a transaction and adhere to them;
- Provide suppliers with clear guidance on payment procedures;
- Pay bills in accordance with any contract agreed or as required by law; and
- Advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 25 days purchases outstanding at 31 March 2012 (2011: 19 days) based on the average daily amount invoiced by suppliers during the year.

CHARITABLE AND POLITICAL DONATIONS

During the year the Company made charitable donations of £0.2 million (2011: £0.2 million). The main beneficiary was the Gatwick Airport Community Trust, which provides support for local community projects close to Gatwick Airport. No political donations were made during the year (2011: nil).

DIVIDENDS

No dividends were declared or paid during the year. During the prior year, the Directors declared and paid an interim dividend of 104.22p per share amounting to £350.5 million.

DIRECTORS' REPORT (continued)

DIRECTORS' INDEMNITY

The Company's Articles of Association provide that, subject to the provisions of the Companies Act, but without prejudice to any indemnity to which the person concerned might otherwise be entitled, every Director of the Company shall be indemnified out of the assets of the Company against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

INDEPENDENT AUDITORS

Pursuant to the provisions of section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will automatically be re-appointed as Auditors of the Company.

By order of the Board

Stewart Wingate
Chief Executive Officer
22 June 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each Director in office at the date the Directors' Report is approved, the following applies:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Robert Herga
Company Secretary
22 June 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GATWICK AIRPORT LIMITED

We have audited the financial statements of Gatwick Airport Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Graham Lambert

Graham Lambert (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
22 June 2012

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2012

	Note	**Year ended 31 March 2012 £m**	Year ended 31 March 2011 £m
Turnover	4	**517.4**	476.3
Operating costs – ordinary	5	**(401.2)**	(363.4)
Operating costs – exceptional: pension	6	**-**	(2.4)
Operating costs – exceptional: other	6	**-**	(14.6)
Total operating costs		**(401.2)**	(380.4)
Operating profit before exceptional items		**116.2**	112.9
Operating costs – exceptional: pension	6	**-**	(2.4)
Operating costs – exceptional: other	6	**-**	(14.6)
Operating profit		**116.2**	95.9
Loss on disposal of tangible fixed assets – non-operating	7	**(1.2)**	(3.5)
Net interest payable and similar charges – ordinary	9	**(86.7)**	(48.4)
Net interest payable and similar charges – exceptional	6	**(76.9)**	(106.5)
Loss on ordinary activities before taxation		**(48.6)**	(62.5)
Tax on loss on ordinary activities	10	**2.9**	12.2
Loss for the financial year	23	**(45.7)**	(50.3)

The notes on pages 38 to 69 form an integral part of these financial statements.

All profits and losses recognised during the current and prior year are from continuing operations.

There are no material differences between the losses on ordinary activities before taxation and the retained losses for the year and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2012

	Note	**Year ended 31 March 2012 £m**	Year ended 31 March 2011 £m
Loss for the financial year	23	**(45.7)**	(50.3)
Actuarial (losses)/gains on pension scheme	23	**(21.1)**	17.2
Deferred tax deductions allocated to actuarial (losses)/gains	23	**5.1**	(4.4)
Unrealised revaluation deficit	23	**(5.6)**	(0.3)
Total recognised losses relating to the year		**(67.3)**	(37.8)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2012

	Note	**Year ended 31 March 2012 £m**	Year ended 31 March 2011 £m
Loss for the financial year	23	**(45.7)**	(50.3)
Dividends paid	11	**-**	(350.5)
Retained loss for the financial year		**(45.7)**	(400.8)
Actuarial (losses)/gains on pension scheme net of tax		**(16.0)**	12.8
Capital contribution		**0.3**	-
Other net recognised losses relating to the year	23	**(5.6)**	(0.3)
Net reduction in shareholders' funds		**(67.0)**	(388.3)
Opening shareholders' funds		**395.7**	784.0
Closing shareholders' funds		**328.7**	395.7

The notes on pages 38 to 69 form an integral part of these financial statements.

BALANCE SHEET
As at 31 March 2012

	Note	31 March 2012 £m	31 March 2011 £m
FIXED ASSETS			
Tangible assets	14	**2,017.0**	1,887.6
CURRENT ASSETS			
Stocks	15	**3.9**	3.4
Debtors: due within one year	16	**59.0**	53.7
: due after more than one year	16	**37.9**	26.7
Cash at bank and in hand	17	**12.2**	2.2
TOTAL CURRENT ASSETS		**113.0**	86.0
CREDITORS: amounts falling due within one year	18	**(115.9)**	(113.5)
NET CURRENT LIABILITIES		**(2.9)**	(27.5)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,014.1**	1,860.1
CREDITORS: amounts falling due after more than one year	19	**(1,500.5)**	(1,366.5)
Provisions for liabilities	21	**(191.1)**	(116.8)
NET ASSETS EXCLUDING PENSION ASSET		**322.5**	376.8
Pension asset	27	**6.2**	18.9
NET ASSETS INCLUDING PENSION ASSET		**328.7**	395.7
CAPITAL AND RESERVES			
Called up share capital	22	**336.3**	336.3
Revaluation reserve	23	**(7.6)**	(0.3)
Profit and loss reserve	23	**-**	59.7
TOTAL SHAREHOLDERS' FUNDS		**328.7**	395.7

The notes on pages 38 to 69 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 June 2012 and were signed on its behalf by:

Stewart Wingate
Chief Executive Officer

Nicholas Dunn
Chief Financial Officer

CASH FLOW STATEMENT
For the year ended 31 March 2012

	Note	**Year ended 31 March 2012 £m**	Year ended 31 March 2011 £m
Net cash inflow from operating activities		**199.3**	177.5
Returns on investments and servicing of finance	24	**(36.4)**	(28.9)
Capital expenditure and financial investment	24	**(242.0)**	(219.0)
Equity dividends paid	11	**-**	(350.5)
Cash outflow before management of liquid resources and financing		**(79.1)**	(420.9)
Funding of cash held in Debt Service Reserve deposit	24	**-**	25.0
Financing	24	**89.1**	388.3
Increase/(decrease) in cash in the year	25	**10.0**	(7.6)

Reconciliation of operating profit to net cash inflow from operating activities:

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Operating profit	**116.2**	95.9
Adjustments for:		
Depreciation	**105.3**	79.6
Impairment of tangible fixed assets	**(0.2)**	9.2
Increase in stock and debtors	**(4.7)**	(5.3)
(Decrease)/increase in creditors	**(11.1)**	2.6
Decrease in provisions	**(2.5)**	(1.8)
Increase in net pension asset	**(3.7)**	(2.7)
Net cash inflow from operating activities	**199.3**	177.5

The notes on pages 38 to 69 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

1. BASIS OF PREPARATION

These financial statements are the financial statements of Gatwick Airport Limited ("the Company") for the year ended 31 March 2012. The comparative year is the year ended 31 March 2011. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with the Companies Act 2006 and United Kingdom Accounting Standards ("UK GAAP") except as set out within the accounting policies note.

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Consequently the Directors have reviewed the cash flow projections of the Company taking into account:

- the forecast passenger numbers, revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure;
- the Company's funding structure and the facilities that are available to the Company (see note 20); and
- the Company's financial covenants.

The Company's net current liability position has improved year-on-year at £2.9 million (2011: £27.5 million). The improvement is largely due to the Company's increased cash position at year end and the recognition of a finance lease asset.

All of the Company's financial covenants (see note 20) have been met and are forecast to be met for the years ending 31 March 2013, 2014 and 2015.

As a result of the review, having made appropriate enquiries of management and allowing for headroom to accommodate a reasonable downside scenario (including a fall in passenger numbers), the Directors have a reasonable expectation that sufficient funds are available to meet the Company's funding requirement over a period of at least 12 months from the date of the financial statements. Accordingly the Directors have a reasonable expectation that the Company will continue as a going concern, and the financial statements have been prepared on that basis.

The financial statements were approved by the Directors on 22 June 2012.

The principal accounting policies, which have been applied consistently throughout the current and prior year, are set out below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Ownership

On 3 December 2009, BAA (AH) Limited ("BAA") completed the sale of the Company to Ivy Bidco Limited, a UK incorporated company. On 2 March 2011, Ivy Bidco Limited transferred its shares in the Company to Ivy Holdco Limited, its wholly-owned subsidiary.

The Company is a wholly-owned subsidiary of Ivy Holdco Limited, a United Kingdom ("UK") incorporated company, and is ultimately owned by a consortium through a number of UK and overseas holding companies and limited liability partnerships.

Gatwick Airport Limited owns 100% of the share capital of Gatwick Funding Limited, a company incorporated in Jersey but resident in the UK for tax purposes. The Company and its wholly-owned subsidiary Gatwick Funding Limited are referred to collectively in the Directors' Report, the business review and the financial statements as "the Group".

Ivy Holdco Limited, the Company and Gatwick Funding Limited are referred to collectively in the Directors' Report, the business review and the financial statements as "the Ivy Holdco Group".

(b) Turnover

Turnover is recognised in accordance with Financial Reporting Standard ("FRS") 5 '*Reporting the substance of transactions*', net of VAT, rebates and discounts, and comprises:

- Airport and other traffic charges:
    - Passenger charges levied on passengers on departure,
    - Aircraft landing charges levied according to noise certification and weight on landing,
    - Aircraft parking charges based on a combination of weight and time parked, and
    - Other charges levied (e.g. fixed electrical ground power) when these services are rendered.

- Property and operational facilities:
    - Property letting sales, recognised on a straight-line basis over the term of the rental period,
    - Usage charges made for the operational systems (e.g. check-in desks, baggage handling), recognised as each service is provided,
    - Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale, and
    - Other invoiced sales, recognised on the performance of the service.

- Retail:
    - Concession fees recognised based upon weekly sales turnover information supplied by concessionaires, which is verified at least annually by sales turnover certificates supplied by concessionaires.

- Car parking:
    - Car park income is recognised based upon the date of parking.

(c) Investment in subsidiaries

Investments are held as fixed assets and are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exceptional items

Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Company's financial performance. Such events may include gains or losses on disposal of assets, impairment of assets, major reorganisation of business, closure or mothballing of terminals and those costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project, as well as costs associated with the separation of the Company from BAA, for example pension related costs, and costs of terminating certain financial instruments.

Details of items disclosed as exceptional are provided in note 6.

(e) Tangible assets

(i) Operational assets
Terminal complexes, airfield assets, plant and equipment and Company occupied properties are stated at cost less accumulated depreciation. Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction related project management, and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the Directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company.

The Company reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

(ii) Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is valued at the balance sheet date at open market value. All investment properties are revalued annually by the Directors and at least once every five years by external valuers. Any surplus or deficit on revaluation is transferred to revaluation reserve with the exception of deficits below original cost which are expected to be permanent are charged to the profit and loss account. The Company's car parking assets are held as investment properties.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits are recognised on completion of the sale transaction.

In accordance with Statement of Standard Accounting Practice ("SSAP") 19 '*Accounting for Investment Properties*', no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 2006 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the Directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The Directors consider that this policy results in the financial statements giving a true and fair view.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

(iii) Depreciation

Depreciation is provided on operational assets, other than land, and assets in the course of construction, to write off the cost of the assets, less estimated residual value, on a straight-line basis over their expected useful life as follows:

• Terminal building, pier and satellite structures	20 - 60 years
• Terminal fixtures and fittings	5 - 20 years
• Airport plant and equipment:	
• baggage systems	15 years
• screening equipment	7 years
• lifts, escalators, travelators	20 years
• other plant and equipment including runway lighting and building plant	5 - 20 years
• Airport tunnels, bridges and subways	50 - 100 years
• Runway surfaces	10 - 15 years
• Runway bases	100 years
• Taxiways and aprons	50 years
• Motor vehicles	4 - 8 years
• Office equipment	5 - 10 years
• Computer equipment	4 - 8 years
• Computer software	3 - 8 years
• Short leasehold properties	over period of lease

The Company assesses, at each balance sheet date, whether there is an indication that an asset's residual value and/or useful life may not be appropriate. If such indication exists, the useful lives and residual values are reviewed, and adjusted if appropriate.

(f) Impairment of assets

The Company assesses, at each balance sheet date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the asset does not generate cash flows that are independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Interest

Interest payable resulting from financing tangible fixed assets whilst in the course of construction is capitalised once planning permission has been obtained and a firm decision to proceed taken. Capitalisation of interest ceases once the asset is complete and ready for use. Interest may be capitalised for projects in the early stages of planning where the Directors are satisfied that the necessary planning, building and resource consents will be received. Interest is charged to the profit and loss account as depreciation expense over the life of the relevant asset.

All other interest payable and fees payable for the non-utilisation of credit facilities are charged to the profit and loss account as incurred.

(h) Leases

Operating leases

(i) Company as lessor
Leases where the Company retains substantially all the risks and benefits of ownership are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as the income.

(ii) Company as lessee
Rental costs under operating leases are charged to the profit and loss account in equal instalments over the period of the lease.

Finance leases

(i) Company as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

(ii) Company as lessee
Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's policy on borrowing costs.

(i) Stocks

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value.

(j) Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Pensions

The Company's UK pension fund is a self administered defined benefit plan. In accordance with FRS 17 '*Retirement benefits*', the current service cost, together with the cost of any benefits relating to past service, is charged to the profit and loss account. A charge equal to the increase in the present value of the plan liabilities (because the benefits are closer to settlement) and a credit equivalent to the Company's long-term expected return on assets (based on the market value of the scheme assets at the start of the year) are included in the profit and loss account.

The cost of providing benefits under the defined benefit plan is determined using the 'projected unit method'. The difference between the market value of the assets of the plan and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax.

The statement of recognised gains and losses includes actuarial gains and losses in the year in which they occur and the difference between the expected return on assets and that actually achieved. Actuarial gains and losses arise from changes in actuarial assumptions and where experience is not in line with assumptions made at the beginning of the year.

The Company also operates a defined contribution scheme. The pension costs of this scheme are charged to the profit and loss account in the year in which they are incurred.

(l) Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

In accordance with FRS 19 '*Deferred Tax*', deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

(m) Creditors

Creditors are non interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

(o) Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

(p) Share-based payments

Certain employees of the Company participate in a long term incentive plan ("LTIP"). Under this equity-settled plan, the Company receives services from these employees as consideration for equity instruments of another group company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense, with the corresponding entry being a capital contribution to the Company from Ivy Bidco Limited, the group entity ultimately issuing the equity instruments.

The fair value of the employee services received is determined by reference to the fair value of the equity instruments granted, measured by use of a valuation model. Fair value excludes the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Company revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

(q) Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the year in which the shareholders' right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting. Interim dividends are recognised when paid.

(r) Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits less than one year (other than cash) and investments in money market managed funds.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Debt issue costs and arrangement fees

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instrument not been issued. These are accounted for as a deduction from the amount of consideration received and amortised under the effective interest rate method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred. Debt issue costs on refinanced instruments are written off.

(t) Derivative financial instruments

The derivative financial instruments utilised by the Company are interest rate and index-linked swaps, and foreign exchange spot and forward contracts.

The purpose of the interest rate swaps is to hedge the cash interest rate risk that arises on borrowings with variable interest rates. Interest receivable on the swaps matches the benchmark interest rate payable on the borrowings, and interest payable is at a fixed rate. The purpose of the index-linked swaps is to hedge the inflation risk arising on inflation related income, particularly RPI linked aircraft and other traffic charges. Interest receivable on the swaps matches the benchmark interest rate payable on the borrowings, and interest payable on the swaps is based on a fixed real interest rate (excluding inflation) plus a periodic inflation adjustment amount based on the cumulative movement in the RPI inflation index. On each five year anniversary date of the index-linked swaps, a further payment is made based on the cumulative movement in the RPI index applied to the notional principal value of the swaps. The purpose of the foreign exchange contracts is to hedge foreign currency denominated payables.

Derivative financial instruments are accounted for in accordance with FRS 4 'Capital Instruments'. The periodic amounts of interest payable and receivable on interest rate and index-linked swaps, and the periodic change in the accrued amount of inflation accretion on the notional principal value of the index-linked swaps, are taken to the profit and loss account; accrued interest payable and receivable is included in current creditors or debtors, and the inflation accretion accrual is included in non-current debt on the balance sheet. Any gain or loss arising on foreign exchange contracts undertaken to hedge commercial transactions is recorded in the profit and loss account in the same period as the settlement of the underlying commercial transaction.

(u) Debt and financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

(v) Related party disclosures

The Company's ultimate parent entity in the UK is Ivy Midco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of Ivy Midco Limited for the year ended 31 March 2012. The results of the Company will be included in the audited consolidated financial statements of Ivy Luxco I S.à.r.l. for the year ended 31 March 2012 (the largest group to consolidate these financial statements for the year).

The Company is a wholly-owned subsidiary of Ivy Holdco Limited and is included in the consolidated financial statements of Ivy Holdco Limited which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company is exempt under the terms of FRS 8 '*Related Party Disclosures*' from disclosing related party transactions with entities that are wholly-owned subsidiaries of the Ivy Midco Limited group.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In applying the Company's accounting policies, management have made estimates and judgements. Actual results may, however, differ from the estimates calculated and management believe that the following are the more significant judgements impacting these financial statements.

Investment properties

Investment properties were valued at fair value at 31 March 2012 by Drivers Jonas Deloitte, Chartered Surveyors. The valuations were prepared in accordance with UK GAAP and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence.

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at year end and future returns on pension scheme assets and charges to the profit and loss account. The factors have been determined in consultation with the Company's actuary taking into account market and economic conditions. Changes in assumptions can vary from year to year as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations. The objective of setting pension scheme assumptions for future years is to reflect the expected actual outcomes. The impact of the change in assumption on the valuation of the net financial position for pension schemes is reflected in the statement of recognised gains and losses. Further details are available in note 27.

Taxation

Provision for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of the specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

4. SEGMENTAL ANALYSIS

The Directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and is from continuing operations. Additional details of the turnover generated by each of the Company's key activities are given below.

Turnover	**Year ended 31 March 2012 £m**	Year ended 31 March 2011 £m
Airport and other traffic charges	**274.2**	244.3
Retail	**120.9**	115.6
Car parking	**54.3**	51.7
Property income	**25.8**	26.9
Operational facilities and utilities income	**24.0**	22.2
Other	**18.2**	15.6
	517.4	476.3

5. OPERATING COSTS – ORDINARY

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Wages and salaries	**110.8**	102.9
Social security costs	**8.4**	7.3
Pension costs	**14.0**	15.0
Share-based payments	**0.3**	-
Other staff related costs	**7.0**	3.3
Staff costs	**140.5**	128.5
Retail expenditure	**1.2**	1.1
Car parking expenditure	**13.8**	16.2
Depreciation	**105.3**	76.5
Maintenance expenditure	**35.2**	25.6
Rent and rates	**26.8**	22.5
Utility costs	**22.8**	21.6
Police costs	**12.7**	13.3
General expenses[1]	**18.8**	34.8
Aerodrome navigation service costs	**16.7**	16.7
Electricity distribution fee	**7.4**	6.6
	401.2	363.4

1 General expenses includes £2.4 million (2011: £14.4 million) of charges for services provided by BAA post sale to the Company under a TSA.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

5. OPERATING COSTS – ORDINARY (continued)

Operating costs include:	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Training expenditure	**1.1**	0.7
Rentals under operating leases		
- Plant and machinery	**7.5**	6.7
- Other operating leases	**0.7**	0.8
Services provided by the Company's auditor		
- Audit fees	**0.2**	0.2
- Other non-audit services[1]	**0.1**	0.1

1 Other non-audit services relate to reviews of the Company's Regulatory Accounts, financial covenants, information systems and work in relation to the fixed rate bond issuances in the current and prior years (see note 20).

Employee information

The average number of full time equivalent ("FTE") employees during the year to 31 March 2012 analysed by function was:

	Year ended 31 March 2012	Year ended 31 March 2011
Operational	**2,046**	2,101
Other	**363**	380
	2,409	2,481

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

6. EXCEPTIONAL COSTS

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Operating items		
Pension cost **(a)**	**-**	2.4
Reorganisation costs **(b)**	**-**	2.1
Depreciation **(c)**	**-**	3.1
Staff related separation costs **(d)**	**-**	0.2
Impairment of tangible fixed assets **(e)**	**-**	9.2
Operating costs – exceptional	**-**	17.0
Interest payable and similar charges		
Provision recognised on financial derivatives **(f)**	**76.9**	72.7
Financing fees written off **(g)**	**-**	33.8
Net interest payable and similar charges – exceptional	**76.9**	106.5

(a) During the year ended 31 March 2011 the BAA pension trustees made a bulk transfer of assets and liabilities from the BAA pension scheme to the Company's defined benefit pension plan. Based on actuarial assumptions prescribed in the sale and purchase agreement (governing the sale of the Company), there was a £2.4 million shortfall in the assets transferred on 1 June 2010, and this cost was recognised by the Company. In accordance with the sale and purchase agreement, monies held in escrow for the benefit of BAA were used to fund the shortfall. No such costs were incurred in the year ended 31 March 2012.

(b) The Company undertook a restructuring programme following the change in ownership in December 2009. Costs associated with this programme of £2.1 million were incurred during the year ended 31 March 2011. No such costs were incurred during the year ended 31 March 2012.

(c) Exceptional depreciation of £3.1 million in the year ended 31 March 2011 related to shortening the useful life of assets relating to the South Terminal security project. No exceptional depreciation was charged to the profit and loss account during the year ended 31 March 2012.

(d) Staff costs totalling £0.2 million associated with the separation of the Company from BAA, were incurred in the year ended 31 March 2011 where the cost was considered one-off in nature and will not be ongoing. No such costs were incurred during the year ended 31 March 2012.

(e) During the year ended 31 March 2011, the Company impaired tangible fixed assets by £9.2 million because it was deemed that certain projects had changed scope significantly, and the costs associated with them should not be carried forward to completion. The charge to the profit and loss account during the year ended 31 March 2011 included items relating to South Terminal baggage and Pier 1 works after they were combined into a single project. No such impairments were made in the year ended 31 March 2012.

(f) The £76.9 million provision recognised on financial derivatives (2011: £72.7 million) represents the year-on-year increase in the present value of expected net cash outflows on interest rate and index-linked derivative contracts (refer to note 21). Although the contracts are economic hedges, they do not fully satisfy the requirements of UK GAAP in order for hedge accounting to be applied. Due to the size and nature of this balance it has been recognised as an exceptional item.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

6. EXCEPTIONAL COSTS (continued)

(g) In the 15 months ended 31 March 2010, arrangement and participation fees of £33.8 million were incurred by Ivy Bidco Limited on behalf of the Company. These fees related to the debt raised, for the Company's benefit, under the Ivy Bidco Limited Group Facilities Agreement ("the Facilities Agreement") (refer note 20) following the sale of the Company. Ivy Bidco Limited was restricted from recharging these fees under the terms of the Facilities Agreement, and the fees were not recharged to the Company during the 15 months ended 31 March 2010. Upon termination of the Facilities Agreement on 2 March 2011, Ivy Bidco Limited recharged these fees to the Company, whereupon these have been written-off upon extinguishment of the facilities. No such costs were incurred in the year ended 31 March 2012.

7. NON-OPERATING COSTS

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Non-operating item		
Loss on disposal of tangible fixed assets **(a)**	**1.2**	3.5
	1.2	3.5

(a) Losses on disposal of tangible fixed assets totalled £1.2 million during the year (2011: £3.5 million). These losses relate to assets no longer in use at the airport.

8. DIRECTORS' EMOLUMENTS

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Directors' emoluments		
Aggregate emoluments	**1,335**	1,577
Aggregate amount of contributions paid in respect of money purchase schemes	**55**	47
Aggregate amounts receivable under long-term incentive schemes	**219**	-
Highest paid director's remuneration		
Total amount of emoluments and amounts receivable under long-term incentive schemes	**920**	807
Total amount of contributions paid in respect of money purchase schemes	**30**	23

Five directors (2011: five) were not remunerated during the year.

No directors exercised share options during the year (2011: nil).

No directors are members of the Gatwick Airport Limited defined benefit pension plan.

Two directors had awards receivable in the form of shares under the Company's LTIP (2011: nil).

No compensation was received by former directors for loss of office during the year (2011: nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

9. NET INTEREST PAYABLE AND SIMILAR CHARGES – ORDINARY

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Interest payable		
Interest on bank borrowings[1]	**15.2**	33.4
Interest on borrowings from other group undertakings[2]	**65.9**	8.3
Net interest payable on derivative financial instruments[3]	**0.2**	6.9
Net interest payable on derivative financial instruments with other group undertakings[3]	**14.4**	10.5
Amortisation of debt costs[4]	**3.1**	0.2
Non-utilisation fees on bank facilities	**3.7**	5.6
	102.5	64.9
Interest receivable		
Net foreign exchange gain	**-**	(0.2)
Net return on pension scheme	**(3.6)**	(3.1)
Interest receivable on money markets and bank deposits	**(0.2)**	(0.1)
Finance lease income	**(0.3)**	-
	(4.1)	(3.4)
Less: capitalised borrowings costs[5]	**(11.7)**	(13.1)
Net interest payable	**86.7**	48.4

1 These amounts mainly relate to interest payable on loans drawn under the £970 million Initial Authorised Credit Facilities Agreement that the Company became a borrower of on 2 March 2011, and previously the £1,125 million Facilities Agreement that the Company became a borrower and obligor of on 3 December 2009 (repaid on 2 March 2011).

2 This amount relates to borrowings under the Borrower Loan Agreement with Gatwick Funding Limited entered into on 24 February 2011, and a Loan Agreement with Ivy Bidco Limited entered into on 3 December 2009 that was amended and restated under a Deed dated 15 February 2011.

3 These amounts relate to interest rate and index-linked derivatives of £32.3 million undertaken by the Company in September 2010 and £594 million undertaken in January and February 2010. In February 2011 £594 million of interest rate and index-linked derivatives were restructured and novated to Gatwick Funding Limited with a reciprocal 'back-to-back' agreement. In January 2012, £154.3 million of floating to index-linked swaps were restructured as fixed to index-linked swaps coinciding with a further bond issue. In March 2012, an additional £75 million of fixed to floating rate swaps were undertaken by the Company. Refer to note 21 for detail on the nominal value of the Company's swaps. These amounts include inflation accretion on index-linked swaps.

4 These amounts relate to the debt costs incurred in relation to the Company's refinancing on 20 January 2012 and on 2 March 2011 in the prior year (refer to note 20).

5 Borrowing costs have been capitalised using a rate of 6.1% (2011: 6.6%), which is the weighted average of rates applicable to the Company's overall borrowings outstanding during the year. The capitalised interest amount is calculated by applying the capitalisation rate to the average monthly balance of assets in the course of construction, after deducting the value of construction work undertaken but not paid for, and included in the value of such assets (see note 14).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

10. TAX ON LOSS ON ORDINARY ACTIVITIES

	Note	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Current tax			
Adjustments in respect of prior years		**-**	(0.4)
Total current tax		**-**	(0.4)
Deferred tax			
Origination and reversal of timing differences		**(4.6)**	(9.0)
Adjustment in respect of prior years		**(0.2)**	(4.9)
Effect of change in tax rate		**1.9**	2.1
Total deferred tax	16	**(2.9)**	(11.8)
Tax on loss on ordinary activities		**(2.9)**	(12.2)

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 26% (2011: 28%). The actual tax charge for the current and prior year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Loss on ordinary activities before tax	**(48.6)**	(62.5)
Tax on loss on ordinary activities at 26% (2011: 28%)	**(12.6)**	(17.5)
Effect of:		
Pension commutation payment	**(7.0)**	(6.5)
Trading losses carried forward	**19.4**	22.7
Capital allowances for the year in excess of depreciation	**(7.0)**	(6.3)
Expenses not deductible for tax purposes	**8.2**	8.6
Other short-term timing differences	**(0.8)**	(0.2)
Adjustments in respect of prior years	**-**	(0.4)
Non taxable income	**(0.2)**	(0.8)
Current tax for the year	**-**	(0.4)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

10. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

During the year, as a result of the change in the UK corporation tax rate from 26% to 24% that was substantially enacted on 26 March 2012 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK tax rate have been announced. The changes, which are expected to be enacted separately each year, propose to progressively reduce the rate to 22% by 1 April 2014. The changes had not been substantially enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

Other than this change, and the unprovided deferred tax discussed in note 16, there are no items which would materially affect the future tax charge.

11. DIVIDENDS

No interim or final dividends were paid during the year ended 31 March 2012. On 2 March 2011 the Directors declared and paid an interim dividend of 104.22p per share amounting to £350.5 million.

12. SHARE-BASED PAYMENTS

The Company has an LTIP for certain members of its Executive Management Board. The LTIP relates to equity instruments of Ivy Bidco Limited, the entity which owns the Company's parent.

The value of these equity instruments will be based on the internal rate of return ("IRR") achieved by the Company's controlling shareholder from acquisition to sale of their investment in the Company. Below a minimum IRR threshold, these equity instruments will have no value. Above a ceiling IRR, the value of these equity instruments are capped. These equity instruments will vest over a period of six or eight years, depending on the member.

The initial investment by participants at 1 October 2011 is at price equal to the estimated fair value, for taxation purposes, of the equity instrument at inception of the scheme. The equity instrument has been valued for accounting purposes applying a simplified binomial valuation methodology, using the output of a discounted cash flow model under a series of probability weighted scenarios as to the financial performance of the Company, including dividend cash flows, and the timing and level of any future sale. The Company recognised total expenses of £0.3 million related to equity-settled share-based payment transactions in the year ended 31 March 2012 (2011: nil).

No further disclosures are considered necessary as the impact of the scheme is currently not material to the Company.

13. SUBSIDIARY UNDERTAKING

The Company holds 100% of the issued share capital of Gatwick Funding Limited ("GFL"). GFL has share capital of £2.00 comprising two ordinary shares at £1.00 per share (2011: share capital of £2.00 comprising two ordinary shares at £1.00 per share).

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

14. TANGIBLE ASSETS

	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Group occupied properties £m	Plant, equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation								
1 April 2011	663.3	4.1	1,479.4	240.5	15.9	144.2	219.4	2,766.8
Additions at cost	-	-	-	-	-	-	239.2	239.2
Transfers to completed assets	16.3	-	190.6	24.9	6.4	63.4	(301.6)	-
Interest capitalised	-	-	-	-	-	-	11.7	11.7
Impairment	-	-	-	-	-	-	0.2	0.2
Disposals	(7.6)	-	(38.9)	(2.6)	-	(32.6)	-	(81.7)
Revaluation	(4.9)	-	-	-	-	-	(0.7)	(5.6)
31 March 2012	**667.1**	**4.1**	**1,631.1**	**262.8**	**22.3**	**175.0**	**168.2**	**2,930.6**
Depreciation								
1 April 2011	-	-	682.2	91.7	5.3	100.0	-	879.2
Charge for the year	-	-	66.5	14.2	1.6	23.0	-	105.3
Disposals	-	-	(37.9)	(0.7)	-	(32.3)	-	(70.9)
31 March 2012	**-**	**-**	**710.8**	**105.2**	**6.9**	**90.7**	**-**	**913.6**
Net book value								
31 March 2012	**667.1**	**4.1**	**920.3**	**157.6**	**15.4**	**84.3**	**168.2**	**2,017.0**
31 March 2011	663.3	4.1	797.2	148.8	10.6	44.2	219.4	1,887.6

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

14. TANGIBLE ASSETS (continued)

Valuation

Investment properties and land held for development were valued at open market value at 31 March 2012 by Drivers Jonas Deloitte, Chartered Surveyors at £671.2 million (2011: £667.4 million). These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account*, inter alia,* of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a deficit of £5.6 million (2011: £0.3 million deficit) has been transferred to the revaluation reserve.

The Company's car parking assets are held as investment properties.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, have been shown at historical cost.

Capitalised interest

Included in the cost of assets are interest costs of £104.1 million (2011: £92.4 million). £11.7 million (2011: £13.1 million) has been capitalised in the year at a capitalisation rate of 6.1% (2011: 6.6%) based on a weighted average cost of borrowings.

A tax deduction of £11.7 million for capitalised interest was taken in the year (2011: £13.1 million). Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Historical cost

The historical cost of investment properties and land held for development at 31 March 2012 was £188.8 million (2011: £183.1 million).

Leased assets

The Company had assets rented to third parties under operating leases as follows:

	31 March 2012 £m	31 March 2011 £m
Cost or valuation	**458.9**	422.4
Accumulated depreciation	**(94.3)**	(81.5)
Net book value	**364.6**	340.9

A proportion of Terminal complexes are occupied by third parties under concession and management agreements.

Security

As part of the refinancing agreements outlined in note 20, the Company and its parent, Ivy Holdco Limited, have granted security over their assets and share capital to the Company's secured creditors via a Security Agreement, with Deutsche Trustee Company Limited acting as the Borrower Security Trustee.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

15. STOCKS

	31 March 2012 £m	31 March 2011 £m
Raw materials and consumables	**3.9**	3.4

The replacement cost of raw materials and consumables at 31 March 2012 and 31 March 2011 was not materially different than the amount at which they are included in the financial statements.

16. DEBTORS

	31 March 2012 £m	31 March 2011 £m
Due within one year:		
Trade debtors	**46.8**	39.6
Accrued interest receivable from other group undertakings	**1.4**	0.5
Amounts owed by group undertakings – interest free	**0.2**	-
Other debtors	**7.8**	11.5
Prepayments	**2.8**	2.1
	59.0	53.7
Due after more than one year:		
Deferred tax **(a)**	**29.9**	26.7
Finance lease asset	**7.9**	-
Amounts owed by group undertakings – interest bearing	**0.1**	-
Total debtors	**96.9**	80.4

(a) Deferred tax

Analysis of the deferred tax balances are as follows:

	31 March 2012 £m	31 March 2011 £m
Capital allowances in excess of depreciation	**(39.3)**	(32.8)
Trading losses carried forward	**56.0**	38.4
Pension commutation payment	**13.0**	21.1
Other timing differences	**0.2**	-
	29.9	26.7

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Taxable gains will crystallise only if the property were sold without it being possible to claim rollover relief. The total amount of tax unprovided is £102.0 million (2011: £115.7 million). At present, it is not envisaged that this tax will become payable in the foreseeable future.

Movements in deferred tax balances (excluding deferred tax liability relating to pension surplus) are charged to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

16. DEBTORS (continued)

Deferred tax liability relating to pension surplus:

	31 March 2012 £m	31 March 2011 £m
1 April 2011	**(6.7)**	(1.6)
Deferred tax charge in profit and loss account	**(0.4)**	(0.7)
Deferred tax charged to the statement of total recognised gains and losses:		
- on actuarial gains	**5.1**	(4.4)
31 March 2012	**(2.0)**	(6.7)

Provisions for deferred taxation have been made in accordance with FRS 19.

17. CASH AND CASH EQUIVALENTS

	31 March 2012 £m	31 March 2011 £m
Cash at bank and in hand	**12.2**	2.2
	12.2	2.2

Cash at bank and in hand represents amounts held on operating bank accounts which generally earn interest at floating rates based on the prevailing bank base rate and are subject to interest rate risk.

The fair value of cash and cash equivalents approximate their book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2012 £m	31 March 2011 £m
Trade creditors	**33.1**	40.2
Capital creditors	**59.2**	52.0
Amounts owed to group undertakings – interest free	**-**	4.2
Other tax and social security	**2.4**	2.2
Accrued financing charges	**0.3**	0.2
Accrued interest payable	**-**	1.2
Accrued interest payable to other group undertakings	**10.4**	3.3
Finance lease liabilities	**0.2**	0.2
Other creditors	**1.8**	1.8
Deferred income	**8.5**	8.2
	115.9	113.5

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 March 2012 £m	31 March 2011 £m
Borrowings (refer to note 20)	**1,278.7**	1,186.5
Amounts owed to group undertakings – interest bearing[1]	**190.1**	168.5
Accrued financing charges payable to other group undertakings[2]	**31.7**	10.6
Deferred income	**-**	0.7
Finance lease liabilities	**-**	0.2
	1,500.5	1,366.5

1 'Amounts owed to group undertakings – interest bearing' represents amounts owing to Ivy Bidco Limited.

2 Accrued financing charges payable to other group undertakings relate to the cumulative inflation accretion on index-linked swaps with Gatwick Funding Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

20. BORROWINGS

	31 March 2012 £m	31 March 2011 £m
Non-Current borrowings		
Borrower Loan Agreement		
Fixed rate borrowings from other group undertakings	**1,179.0**	591.2
Initial Authorised Credit Facility Agreement		
Term Facility	**99.7**	590.3
Capex Facility	**-**	-
Revolving Credit Facility	**-**	5.0
Total non-current borrowings	**1,278.7**	1,186.5
Maturity Profile:		
Repayable between 2 and 5 Years	**99.7**	595.3
Repayable in more than 5 Years	**1,179.0**	591.2
	1,278.7	1,186.5

All the above borrowings are secured and carried at amortised cost.

Ivy Holdco Group Facilities

On 15 February 2011, Gatwick Airport Limited entered into a Common Terms Agreement ("CTA") with, *inter alia*, the Royal Bank of Scotland plc as Initial ACF agent. The Company then entered into a Borrower Loan Agreement with both Gatwick Funding Limited (as Issuer) and Deutsche Trustee Company Limited (as Borrower Security Trustee) on 24 February 2011. The CTA together with a Master Definitions Agreement covers, *inter alia*, both the Initial Authorised Credit Facility Agreement (the "Initial ACF Agreement") and the Borrower Loan Agreement. Further refinancing agreements were also executed during the period 15 February 2011 to 2 March 2011 by the Ivy Holdco Group.

The Initial ACF Agreement has total facilities of £970.0 million, comprising a term facility of £620.0 million, a non-revolving capex facility of £300.0 million and a revolving facility of £50.0 million. The Initial ACF Agreement terminates on 3 December 2014. On 2 March 2011, £599.4 million of the term facility was drawn (after a mandatory reduction of £20.6 million in the term facility). Also on 2 March 2011, the Company's subsidiary, Gatwick Funding Limited, issued £600.0 million publicly listed fixed rate secured bonds comprising £300 million Class A 6.125 per cent. Bonds with scheduled and legal maturities of 2026 and 2028 respectively, and £300 million Class A 6.5 per cent. Bonds with scheduled and legal maturities of 2041 and 2043 respectively.

On 20 January 2012, Gatwick Funding Limited, issued a further £600.0 million of publicly listed fixed rate secured bonds comprising £300 million Class A 5.25 per cent. Bonds with scheduled and legal maturities of 2024 and 2026 respectively, and £300 million Class A 5.75 per cent. Bonds with scheduled and legal maturities of 2037 and 2039 respectively.

The proceeds of all bond issuances by Gatwick Funding Limited (together "the Bonds") are lent to the Company under the Borrower Loan Agreement, the terms of which are 'back-to-back' with those of the Bonds.

The £581.4 million net proceeds received by the Company on 20 January 2012 were utilised to meet obligations in the year to 31 March 2012 and to 'prepay' £493.0 million of the term facility under the Initial ACF Agreement.

At 31 March 2012, the average interest rate payable on borrowings was 6.6% p.a. (2011: 6.8% p.a.).

At 31 March 2012, the Company had £350.0 million (2011: £345.0 million) undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

20. BORROWINGS (continued)

Financial covenants
Under the CTA, the Company is required to comply with certain financial and information covenants. All financial covenants have been tested and complied with as at 31 March 2012 (2011: all covenants tested and complied with).

The following table summarises the Company's financial covenants compliance as at 31 March 2012 under the CTA, and lists the trigger and default levels:

Covenant	**Unaudited 31 March 2012**	Unaudited 31 March 2011	Trigger	Default
Minimum interest cover ratio ("Senior ICR")	**3.28**	3.45	< 1.50	< 1.10
Maximum net indebtedness to the total regulatory asset base ("Senior RAR")	**0.60**	0.61	> 0.70	> 0.85

21. PROVISIONS FOR LIABILITIES

	Note	**Reorganisation costs (a) £m**	**Electricity costs (b) £m**	**Financial derivatives (c) £m**	**Total £m**
1 April 2011		2.6	0.4	113.8	116.8
Charged to profit and loss account	5/6	0.3	-	76.9	77.2
Utilised in the year		(2.5)	(0.4)	-	(2.9)
31 March 2012		**0.4**	**-**	**190.7**	**191.1**

(a) Reorganisation costs
Costs charged to the profit and loss account associated with restructuring programmes totalled £0.3 million during the year (2011: £2.1 million).

(b) Electricity costs
The Company signed a contract for the supply of electricity with Gaz de France beginning on 1 April 2009 and ending on 31 March 2013. The contract is for the purchase of a fixed quantity of electricity and the price for this electricity was fixed until 31 March 2012. The actual consumption of electricity fell short of the contracted quantity and the market rate at which this surplus electricity could be sold back was below the contracted fixed price over the first three years of the contract. The provision of £0.4 million as at 1 April 2011 was fully utilised during the year, being the final year of the fixed pricing period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

21. PROVISIONS FOR LIABILITIES (continued)

(c) Financial derivatives

The Company has entered into financial derivative contracts to hedge its exposure to cash flow interest rate risk on variable rate borrowings and inflation risk arising on inflation related income. Although the contracts are commercial hedges, they do not fully satisfy the requirements of UK GAAP hedge accounting. A provision of £190.7 million, equal to the present value of expected net cash outflows on these contracts at 31 March 2012 (as shown below), has been recognised:

	Nominal Amount £m	Average Term (Yrs)	Average Rate Payable %	Average Rate Receivable %	Provision £m
Interest rate swaps	107.3	1.2	1.22	0.98	0.5
Variable to index-linked swaps with group undertaking	137.0	21.2	0.64	1.35	53.7
Fixed rate to index-linked swaps with group undertaking	259.0	20.8	3.37	6.32	136.5
Totals	503.3	16.7	2.17	3.82	190.7

22. CALLED UP SHARE CAPITAL

	31 March 2012 £m	31 March 2011 £m
Called up, allotted and fully paid		
336,300,002 (2011: 336,300,002) ordinary shares of £1.00 each	**336.3**	336.3

In the year ended 31 March 2011, the Company made a bonus share issue of 487,234,060 ordinary shares at £1.00 per share on 10 February 2011. This was satisfied by way of a capitalisation of £487,234,060 of the Company's revaluation reserve. The Company then undertook a capital reduction of £487,234,060 of share capital by means of a special resolution supported by a solvency statement, resulting in the creation of £487,234,060 of distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

23. RESERVES

	Note	Profit and loss reserve £m	Revaluation reserve £m	Total £m
1 April 2011		59.7	(0.3)	59.4
Loss for the year		(45.7)	-	(45.7)
Actuarial gain on pension scheme	27	(21.1)	-	(21.1)
UK deferred tax attributable to actuarial gains	27	5.1	-	5.1
Capital contribution		0.3	-	0.3
Revaluation deficit	14	-	(5.6)	(5.6)
Transfer between reserves		1.7	(1.7)	-
31 March 2012		**-**	**(7.6)**	**(7.6)**

The profit and loss reserve increased by £0.3 million following a capital contribution from Ivy Bidco Limited as a result of the accounting for the Company's LTIP (refer note 12).

24. ANALYSIS OF CASH FLOWS

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Returns on investments and servicing of finance		
Interest received	**3.8**	3.3
Interest paid	**(40.2)**	(32.2)
Net cash outflow	**(36.4)**	(28.9)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(242.0)**	(219.0)
Net cash outflow	**(242.0)**	(219.0)
Funding of cash held in Debt Service Reserve deposit		
Decrease in cash held in Debt Service Reserve deposit	**-**	25.0
Net cash inflow	**-**	25.0
Financing		
External debt repaid under the Ivy Bidco Limited Group facilities agreement	**-**	(798.0)
Debt (repaid)/drawn under the Initial ACF Agreement	**(498.0)**	595.1
Increase in related party borrowings	**587.1**	591.2
Net cash inflow	**89.1**	388.3

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

25. ANALYSIS AND RECONCILIATION OF NET DEBT

	1 April 2011 £m	Cash flow £m	Non-cash £m	31 March 2012 £m
Cash in hand, at bank	**2.2**	**10.0**	**-**	**12.2**
Debt due after 1 year	**(1,186.5)**	**(89.1)**	**(3.1)**	**(1,278.7)**
Net debt	**(1,184.3)**	**(79.1)**	**(3.1)**	**(1,266.5)**

	31 March 2012 £m	31 March 2011 £m
Increase/(decrease) in cash in year	**10.0**	(7.6)
Increase in borrowings	**(92.2)**	(388.5)
Decrease in cash held in Debt Service Reserve deposit	**-**	(25.0)
Movement in net debt in year	**(82.2)**	(421.1)
Net debt at 1 April 2011	**(1,184.3)**	(763.2)
Net debt at 31 March 2012	**(1,266.5)**	(1,184.3)

26. COMMITMENTS

Capital

Contracted commitments for capital expenditure amount to £157.2 million (2011: £210.4 million).

Commitments under operating leases

At 31 March 2012, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land & Buildings 31 March 2012 £m	Other leases 31 March 2012 £m	Land & Buildings 31 March 2011 £m	Other leases 31 March 2011 £m
Leases which expire:				
- within one year	**0.2**	**-**	-	-
- within two to five years	**0.3**	**0.1**	-	0.1
- after five years	**-**	**8.3**	0.5	7.1
	0.5	**8.4**	0.5	7.2

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

26. COMMITMENTS (continued)

Other commitments

In June 2006, the UK Government announced its conclusions for 2006-2012 night flights regime at the BAA Group's London airports. The regime committed the Company to introducing a new domestic noise insulation scheme to address the impact of night flights on local communities. Based on the Company's evaluation, payments under this scheme are estimated to total £2.0 million, spread over the five year period commencing 2008.

In addition, there are live blight schemes to support the market for housing in areas identified for a potential future runway at Gatwick. Obligation under these schemes will only crystallise once the Company announces its intention to pursue a planning application for a new runway. The Directors believe this is unlikely in the foreseeable future.

27. PENSION COMMITMENTS

Defined Contribution Plan

The Company operates a defined contribution scheme for all qualifying employees.

The total cost charged to income of £1.6 million (2011: £1.2 million) represents contributions payable to this scheme by the Company at rates specified in the rules of the plans. As at 31 March 2012, no contributions (2011: nil) due in respect of the current reporting period remain unpaid to the scheme.

Defined benefit pension plan

For some employees, the Company operates a funded pension plan providing benefits based on final pensionable pay. Assets of the plan are held in a separate trustee administered fund.

The results of the formal actuarial valuation as at 30 September 2010 were updated to 31 March 2012 by an independent qualified actuary in accordance with FRS 17.

The expected rate of return on assets for the financial year ended 31 March 2012 was 6.7% p.a. (2011: 7.0% p.a.). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at 31 March 2011, net of expenses.

The estimated amount of total employer contributions expected to be paid to the plan during the year ending 31 March 2013 is £11.1 million (actual for year ended 31 March 2012: £12.5 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

27. PENSION COMMITMENTS (continued)

The following table sets out the key FRS 17 assumptions used for the plan:

	31 March 2012 %	31 March 2011 %
Rate of increase in salaries – to 31 March 2013	**3.8**	4.0
– thereafter	**3.8**	4.0
Rate of increase in pensions in payment (RPI)	**3.3**	3.5
Rate of increase in pensions in payment (5% LPI)	**3.2**	3.4
Discount rate	**4.9**	5.6
Retail Prices Index inflation	**3.3**	3.5
Consumer Prices Index inflation	**2.3**	2.8

The mortality assumptions used were as follows:

	31 March 2012 Years	31 March 2011 Years
Life expectancy of male aged 60 in 2012	**26.4**	26.4
Life expectancy of male aged 60 in 2032	**28.0**	27.9

The sensitivities regarding the principal assumption used to measure the plan liabilities are set out below:

Assumption	**Change in assumption**	**Impact on plan liabilities £m**
Rate of increase in salaries	+ 0.5% pa	+ 11.0
Discount rate	+/- 0.1% pa	+/- 5.6
Life expectancy	+ 1 year	+ 4.7

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit plan is as follows:

	31 March 2012 £m	31 March 2011 £m
Present value of plan liabilities	**(231.0)**	(185.5)
Fair value of plan assets	**239.2**	211.1
Surplus	**8.2**	25.6
Related deferred tax liability	**(2.0)**	(6.7)
Net pension asset	**6.2**	18.9

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

27. PENSION COMMITMENTS (continued)

Reconciliation of present value of plan liabilities

	31 March 2012 £m	31 March 2011 £m
Opening present value of plan liabilities	**(185.5)**	(178.1)
Current service cost	**(12.2)**	(13.9)
Past service cost	**(0.2)**	(1.1)
Interest cost	**(10.8)**	(10.4)
Contributions from plan members[1]	**(2.7)**	(2.5)
Benefits paid	**2.2**	1.3
Actuarial (loss)/gain	**(21.8)**	19.2
Closing present value of plan liabilities	**(231.0)**	(185.5)

1 'Contributions from plan members' includes contributions paid by the Company on behalf of plan members via salary sacrifice.

Reconciliation of fair value of plan assets

	31 March 2012 £m	31 March 2011 £m
Opening fair value of plan assets	**211.1**	183.8
Expected return on plan assets	**14.4**	13.5
Actuarial gain/(loss)	**0.7**	(2.0)
Benefits paid	**(2.2)**	(1.3)
Contributions paid by employer	**12.5**	14.6
Contributions paid by members	**2.7**	2.5
Closing fair value of plan assets	**239.2**	211.1

The current allocation of the plan's assets is as follows:

	31 March 2012	31 March 2011
Equity instruments	**41%**	40%
Debt instruments	**21%**	20%
Diversified growth funds	**38%**	40%
	100%	100%

Plan assets do not include any of the Company's own financial instruments, or any property occupied by Company.

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on index-linked investments are based on relevant indices as at the balance sheet date. Expected returns on equity investments and diversified growth funds reflect long-term real rates of return expected in the respective markets.

The actual return on plan assets over the year was £15.1 million (2011: £11.5 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

27. PENSION COMMITMENTS (continued)

The amounts recognised in operating profit are as follows:

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Past service cost	**(0.2)**	(1.1)
Employer's part of current service cost	**(12.2)**	(13.9)
Total operating charge	**(12.4)**	(15.0)

The following amounts are included in 'net interest payable and similar charges – ordinary':

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Expected return on plan assets	**14.4**	13.5
Interest cost	**(10.8)**	(10.4)
Total credit to 'net interest payable and similar charges – ordinary'	**3.6**	3.1

Actuarial gains and losses

The amount recognised outside the profit and loss account in the statement of total recognised gains and losses for the year ended 31 March 2012 is a loss of £21.1 million (2011: £17.2 million gain). The cumulative amount recognised outside the profit and loss account to 31 March 2012 is a £1.7 million gain (to 31 March 2011: £22.8 million gain).

Amounts for current year and prior year and period

	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m
Present value of plan liabilities	**(231.0)**	(185.5)	(178.1)
Fair value of plan assets	**239.2**	211.1	183.8
Surplus	**8.2**	25.6	5.7

	Year ended 31 March 2012	Year ended 31 March 2011	4 month period ended 31 March 2010
Experience adjustments on plan liabilities			
Amount of gain (£m)	**-**	3.3	-
% of plan liabilities	**-**	1.8%	-
Experience adjustments on plan assets			
Amount of gain/(loss) (£m)	**0.7**	(2.0)	9.9
% of plan assets	**0.3%**	(0.9%)	5.4%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

28. CLAIMS AND CONTINGENT LIABILITIES

As part of the refinancing agreements outlined in note 20, the Company and its parent, Ivy Holdco Limited, have granted security over their assets and share capital to the Company's secured creditors via a Security Agreement, with Deutsche Trustee Company Limited acting as the Borrower Security Trustee.

Other than the above, the Company has no contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and no other items arising in the normal course of business at 31 March 2012 (2011: nil).

The Company commenced proceedings on 6 February 2009 against Ryanair for recovery of check-in and baggage charges withheld since 2004, which as at 31 March 2012 totalled £3.2 million (2011: £2.6 million). Ryanair has defended the claim on the basis that the charges are excessive and discriminatory and also in breach of competition laws and had also complained to the CAA that Gatwick was in breach of the Transparency Condition (imposed by the CAA in relation to specified activities) and also in breach of the Groundhandling Regulations.

The CAA published its decision in relation to this complaint on 31 May 2011. While the decision does not find that the Company's per passenger charge for check-in and baggage is discriminatory, it does find that the Company did not use objective criteria in setting its internet check-in charge as Ryanair's percentage of passengers travelling without hold baggage increased. The CAA also found that the Company was not sufficiently transparent in revealing how the charges were calculated.

The Company was directed by the CAA to carry out a consultation by April 2012 to revise its pricing structure for check-in and baggage and in doing so to ensure that a proper cost reflective charge is made for passengers checking-in online who do not use the baggage system. At the same time, the Company was also required to provide users with a precise and comprehensible description of the method of calculating the charge. The Company completed the consultation as required by the CAA direction and implemented a revised charging structure effective from April 2012.

The litigation in relation to the check-in and baggage charges remains on hold. The CAA decision does not mean that Ryanair is not liable for any of the check-in and baggage charges that have been withheld since 2004, and the Company will continue to seek resolution of that issue. Ryanair has indicated that it will bring proceedings before the Commercial Court for a declaration that the Company has failed to comply with the CAA decision and has also complained to the CAA that the Company's revised pricing structure for check-in and baggage breaches the Groundhandling Regulations. The Company will be defending both claims.

29. SUBSEQUENT EVENTS

There have been no material events or circumstances that have occurred after the balance sheet date, but prior to the signing of the financial statements, that require disclosure or adjustment to balances and transactions that existed at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2012

30. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The Group's ultimate parent is Ivy Guernsey Holdings, L.P., a limited partnership registered in Guernsey.

The Group's ultimate parent in the UK is Ivy Midco Limited, which is the largest parent undertaking in the UK to consolidate these financial statements. The consortium that ultimately own and control the Company and Ivy Midco Limited are Global Infrastructure Partners (41.95%), the Abu Dhabi Investment Authority (15.90%), the California Public Employees' Retirement System (12.78%), National Pension Service (12.14%), and Future Fund Board of Guardians (17.23%). The Company's results are also included in the audited consolidated financial statements of Ivy Luxco I S.à.r.l. and of Ivy Holdco Limited for the year ended 31 March 2012, the largest and smallest groups to consolidate these financial statements respectively.

Copies of the financial statements of Ivy Midco Limited, Ivy Holdco Limited and Ivy Luxco I S.à.r.l. may be obtained by writing to the Company Secretary at 5th Floor Destinations Place, Gatwick Airport, Gatwick, West Sussex, RH6 0NP.