

**GATWICK AIRPORT LIMITED
REGULATORY ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2009**

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Performance Report

	Note	Actual	CAA Forecast
		'000s	'000s
Terminal passengers	1	33,105	35,900
Revenue			
Net revenue from airport charges	2	234.5	250.9
Other revenue	3	220.3	222.1
Total revenue		454.8	473.0
Expenditure			
Operating costs	4	282.1	284.9
Assumed Ordinary Depreciation	5 , 6	76.5	76.5
Total expenditure		358.6	361.4
Regulatory operating profit	6	96.2	111.6
Capital expenditure	1 , 8	104.0	200.6
Opening RAB	7	1,559.7	1,559.7
Closing RAB	8	1,575.5	1,670.6
Weighted average RAB		1,567.6	1,615.1
Return on weighted average RAB		6.1%	6.9%

The notes on pages 2 to 10 form part of these regulatory accounts.

These regulatory accounts were approved by the Board of Directors on 22 June 2009 and signed on behalf of the Board.

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Notes to the performance report

1. BASIS OF PREPARATION

Gatwick Airport Limited (“the Company”) is required to prepare Regulatory Accounts by the Airports Act 1986. The primary purpose of these accounts is to serve the process of regulation by the Civil Aviation Authority (“CAA”).

The CAA has determined that the Regulatory Accounts shall comprise a report in the format shown on pages 1 to 10 of this report. This in turn comprises the Performance Report which sets out actual performance for the year under review compared with the forecasts underlying the determination of the price cap for Gatwick Airport Limited. These forecasts are set out in the CAA’s document entitled ‘Economic Regulation of Heathrow and Gatwick Airports 2008-2013, CAA Decision, 11 March 2008’ (“the 2008 Decision”), following its quinquennial review. The Performance Report includes notes as agreed with the CAA which describe the derivation of key regulatory results, and, where relevant, adjustments to the statutory and management accounts of the Company.

The following explains the key underlying assumptions in the preparation of this report:

(a) **Data sources**

The principal sources of data used in the preparation of these accounts are the audited financial statements for the year ended 31 December 2008, unaudited interim financial statements for the three month period ending 31 March 2008 formally approved by the Directors, and unaudited management accounts for the year ended 31 December 2008 and for the three month periods ended 31 March 2009 and 31 March 2008. Together, these are referred to in these Regulatory Accounts as ‘the underlying accounts’.

(b) **Terminal passengers**

Terminal passenger numbers represent those passengers on commercial flights who physically pass through the airport’s passenger terminal facilities. This is consistent with the CAA’s definition in Annex 5 of its document entitled ‘Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-2008, CAA Decision, February 2003’ (“the 2003 Decision”). It excludes transit passengers. It also excludes passenger numbers for the following flight categories, which are included in the certificate of revenues from passenger flights provided annually to the CAA: air ambulance, government charter (troops and cargo), air taxi, general aviation, diplomatic and military.

(c) **The Regulatory Asset Base (“RAB”)**

The CAA, in Annex F of its 2008 Decision, determined how the value of the RAB at 31 March 2008 should be calculated, and this is shown in Note 7. The CAA further determined in Annex F how the value of the RAB should be rolled forward annually thereafter.

Capital expenditure in the year has been uplifted by the increase in RPI in accordance with Annex F of the 2008 Decision. Forecast capital expenditure has likewise been uplifted by the increase in RPI, from average 2007/08 prices (as in the 2008 Decision) to average 2008/09 prices, in accordance with CAA guidance.

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1. BASIS OF PREPARATION (cont.)

The depreciation allowance has been set for each of the five years. This is referred to in Annex F of the 2008 Decision and in this report as 'Assumed Ordinary Depreciation';

Comparisons with the 2008 Decision have been made with the CAA 'RAB' forecasts. In that Decision the CAA adjusted the Basic RAB by including a profiling adjustment to arrive at a Closing RAB at each year end.

The Weighted Average RAB is calculated using the weighting formula adopted in the 2008 Decision. This equates to the sum of the closing balance multiplied by a factor of 0.5 and the opening balance multiplied by a factor of 0.5.

(d) Operating revenues and costs

Operating revenues and costs are taken from the underlying accounts and underlying accounting records of the Company. Adjustments have been made to align the presentation of actual results to that in the 2008 Decision. The principal adjustments are:

- retail costs, principally car park management fees, are netted off against income;
- operational facilities income, principally check in/baggage rents income, are re-categorised to 'Other revenue' from 'Property and operational facilities';
- service quality rebates are excluded from operating costs; and
- gains or losses on asset disposals are excluded from operating costs.

(e) Indexation

The CAA forecasts have been derived by indexing forward the forecasts to 2008/09 in accordance with the 2008 Decision. The appropriate RPI indices are shown in Note 10. Profit and loss items have been indexed forward to 2008/09 using the average RPI for 2008/09, and the RAB using the RPI at 31 March 2009.

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2. AIRPORT CHARGES

	Actual 2009 £m	CAA Forecast 2009 £m
Gross and net revenue from passenger flights	232.3	250.9
Net revenue from non passenger flights	2.2	-
	<u>234.5</u>	<u>250.9</u>
Net revenue from airport charges	<u>234.5</u>	<u>250.9</u>

3. OTHER REVENUE

	Actual 2009 £m	CAA Forecast 2009 £m
Other traffic charges	2.5	2.4
Retail	154.2	155.3
Property	32.4	33.8
Other	31.2	30.6
	<u>220.3</u>	<u>222.1</u>
Other revenue	<u>220.3</u>	<u>222.1</u>

Reconciliation to the underlying accounts

Other revenue	220.3
Airport charges	234.5
Retail costs netted off against revenue	14.5
	<u>469.3</u>
Revenue per the underlying accounts	<u>469.3</u>

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4. OPERATING COSTS

	Actual 2009 £m	CAA Forecast 2009 £m
Staff costs	101.3	121.3
Maintenance and equipment costs	30.2	25.7
Rent and rates	24.8	25.9
Utility costs	26.2	26.6
Police costs	13.8	13.4
Other costs	52.2	36.7
Intragroup costs	41.3	35.3
	<u>289.8</u>	<u>284.9</u>
Exceptional operating costs	(2.1)	-
Less service quality rebates	(5.6)	-
	<u>(7.7)</u>	<u>-</u>
Adjusted operating costs	<u>282.1</u>	<u>284.9</u>
 Reconciliation to the underlying accounts		
Adjusted operating costs	282.1	
Service quality rebates	5.6	
Statutory depreciation	65.9	
Loss on disposals of tangible fixed assets	-	
Retail costs netted off against revenue	14.5	
	<u>368.1</u>	
Operating costs per the underlying accounts including exceptional costs	<u>368.1</u>	

5. ASSUMED ORDINARY DEPRECIATION

The depreciation allowance was determined by the CAA in the 2008 Decision. This has been indexed to current year values in accordance with the methodology specified in Annex F of that document.

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6. REGULATORY OPERATING PROFIT

Reconciliation of operating profit between the underlying accounts and the Regulatory Accounts

	2009
	£m
Operating profit per the underlying accounts	101.2
Statutory depreciation	65.9
Assumed Ordinary Depreciation per CAA (indexed)	(76.5)
Service quality rebates	5.6
Loss on disposals of tangible fixed assets	-
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Regulatory operating profit	96.2
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7. OPENING REGULATORY ASSET BASE AT 1 APRIL 2008

	£m	Increase in RPI to 31 March 2008	Adjusted RAB at 1 April 2008 £m
Forecast Basic RAB at 31 March 2008 in 2008 Decision (at average 2006/07 prices)	1,481.4	5.89%	1,568.7
Actual capital expenditure 2007/08	103.7	1.68%	105.5
Assumed capital expenditure for 2007/08 (at average 2006/07 prices)	(108.1)	5.89%	(114.5)
			<hr/>
Adjusted opening Basic RAB at 1 April 2008			1,559.7
Profiling adjustments (at average 2006/07 prices)		5.89%	<hr/> -
Adjusted opening RAB at 1 April 2008			1,559.7
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8. CLOSING REGULATORY ASSET BASE AT 31 MARCH 2009

		Actual 2009	CAA Forecast 2009
		£m	£m
Opening Basic RAB at 1 April 2008	Note 7	1,559.7	1,559.7
Additions in year	(a)	104.0	200.6
Proceeds from disposal	(b)	(0.1)	-
Assumed Ordinary Depreciation		(76.5)	(76.5)
Indexation to 31 March 2009		(6.3)	(7.9)
Closing Basic RAB at 31 March 2009	Note 9	<u>1,580.8</u>	<u>1,675.9</u>
Cumulative profiling adjustment as determined by the CAA	(c)	<u>(5.3)</u>	<u>(5.3)</u>
Closing RAB at 31 March 2009		<u><u>1,575.5</u></u>	<u><u>1,670.6</u></u>

- (a) Forecast additions in the year, £200.6 million, have been calculated by indexing forward the forecasts in the 2008 Decision by RPI (Note 1).
- (b) Proceeds from disposal comprise amounts from the sale of operating assets.
- (c) This includes a price profiling adjustment as determined by the CAA of £(5.3) million indexed by RPI.

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**9. RECONCILIATION OF FIXED ASSETS IN THE UNDERLYING ACCOUNTS TO THE
CLOSING RAB AT 31 MARCH 2009**

		£m
Net fixed assets per the underlying accounts at 31 March 2009		1,604.4
Difference between net fixed assets and RAB at 31 March 2008	(a)	(69.5)
Interest capitalised disallowed	(b)	(3.8)
Difference between net book value of disposals and proceeds	(c)	-
Revaluation in the underlying accounts	(d)	66.6
Indexation of RAB	Note 8 (d)	(6.3)
Difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation	(e)	(10.6)
Closing Basic RAB at 31 March 2009		<u>1,580.8</u>

These reconciling items are explained as follows:

- (a) This reflects the difference between the net fixed asset value in the underlying accounts of £1,629.2 million and the assessed value of the Basic RAB at 31 March 2008 of £1559.7 million (Note 7). This comprises:
- (i) a reduction of £45.4 million in respect of interest capitalised from 1 April 1995 to 31 March 2008 in statutory fixed assets valuations but excluded from the RAB calculation;
 - (ii) an addition of £155.1 million in respect of the difference between the value of asset revaluations in the statutory accounts and the indexation uplifts provided in the regulatory accounts to 31 March 2008;
 - (iii) a reduction in respect of the difference between depreciation in the underlying accounts and Assumed Ordinary Depreciation of £86.8 million;
 - (iv) a reduction of £45.4 million in respect of pensions disallowed by the regulator and
 - (v) a reduction of £47 million in respect of other valuation differences.
- (b) Interest costs amounting to £3.8 million were capitalised in the year. The roll forward calculation for the RAB specified in Annex F of the 2008 Decision excludes capitalised interest;
- (c) Statutory asset valuations are derived after deducting the net book value of assets disposed of during the year. The RAB value specified in Annex F of the 2008 Decision is derived by deducting the proceeds of asset disposals;
- (d) Investment properties and land held for development are subject to annual revaluation in the underlying accounts. Remaining assets are held at depreciated historic cost. The RAB is revalued annually by reference to the Retail Prices Index ("RPI") as specified in Annex F of the 2008 Decision;
- (e) This reflects the difference between the amount charged as depreciation in the underlying accounts and the Assumed Ordinary Depreciation allowed in the 2008 Decision and specified in Annex F of that Decision.

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10. INDEXATION

The following indices have been used for revaluing forecasts;

Average RPI index for the year ended 31 March 2007	200.3
Average RPI index for the year ended 31 March 2008	208.6
Average RPI index for the year ended 31 March 2009	214.8
RPI index at 31 March 2007	204.4
RPI index at 31 March 2008	212.1
RPI index at 31 March 2009	211.3
Increase from average 2006/07 to 31 March 2008	5.89%
Increase from average 2007/08 to 31 March 2008	1.68%
Increase from average 2007/08 to 31 March 2009	1.30%
Decrease from average 2008/09 to 31 March 2009	(1.62%)
Increase from average 2007/08 to average 2008/09	2.97%

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11. SUMMARY CASH FLOW STATEMENT

	2009 £m
Net cash inflow from operating activities including movement in amounts owed to group undertakings	144.7
Net interest paid	(16.2)
Tax paid	(19.2)
Net capital expenditure	(109.2)
	<hr/>
Cash inflow before use of liquid resources and financing	0.1
Financing	
Long-term bank loans	1,050.0
(Decrease) in amounts owed to Group undertakings	<u>(1,052.5)</u>
Increase in cash in the year	<u>(2.4)</u>

Reconciliation of operating profit to net cash inflow from operating activities

		2009 £m
Operating profit per the underlying accounts	Note 6	101.2
Depreciation	Note 6	65.9
Non-cash movements – pensions		9.7
Decrease in stock and debtors		1.0
Increase in amounts owed to ultimate parent undertaking		-
Decrease in creditors		(16.4)
Decrease in provisions		<u>(16.7)</u>
Net cash inflow from operating activities including movement in amounts owed to group undertakings		<u>144.7</u>