

GATWICK AIRPORT LIMITED

**Report and Financial Statements
for the year ended 31 December 2008**

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A J Flower
J Leo
T D Morgan
R D Herga Alternate to J Leo

SECRETARY

S M Ooi Appointed 28 November 2008

REGISTERED OFFICE

130 Wilton Road
London
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AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
WC2N 6RH

BANKERS

The Royal Bank of Scotland plc
135 Bishopsgate
London
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BUSINESS REVIEW

Gatwick Airport Limited (the 'Company') is the owner and operator of Gatwick Airport.

This business review is presented under three sections:-

Management review – overview of the year ended 31 December 2008.

Financial performance – presentation and explanation of the key drivers behind the underlying financial performance reported for the year ended 31 December 2008 and analysis of the financial position of the Company as at that date.

Risk management – outline of BAA Limited (the 'Group') approach to risk management, sources of assurance and highlight of the key business risks identified by the Group Executive Committee.

MANAGEMENT REVIEW AND OUTLOOK

Review of 2008

As part of the wider BAA Limited group corporate restructuring and refinancing, ownership of the Company was transferred from London Airports Limited to BAA Airports Limited at open market value on 31 January 2008. BAA Airports Limited subsequently sold its interest in the Company to BAA Limited (formerly known as Airport Development and Investment Limited ('ADIL')). BAA Limited then sold its interest in the Company to another subsidiary company, BAA (AH) Limited, which forms part of the long term financing ring fenced group under the immediate parent undertaking of BAA (SP) Limited.

During the year the number of passengers handled by the airport decreased by 2.8% compared to 2007 to a total of 34.2 million. International traffic decreased by 2.3% over the previous comparative period whilst domestic passengers were down by 7.0%. The year on year decline reflects the impact of Open Skies on North Atlantic traffic transferring to Heathrow, the challenging trading conditions resulting in a number of airlines entering administration and reductions in capacity to the winter schedule.

During 2008, easyJet became the largest airline at Gatwick and remains one of the fastest growing airlines at the airport. British Airways is now the second largest airline at Gatwick.

The general economic environment saw some airlines face financial difficulties during the year due to a short term spike in oil prices and difficulties in financing their businesses. These conditions forced a number of airlines into administration and resulted in a significant rise in the bad debt provision.

The South Terminal International Departure Lounge extension was completed in May 2008 providing additional space for seating, circulation, toilets and new retail and catering outlets.

Gatwick's overall passenger satisfaction scores increased to 4.04 from 3.97 (5 = excellent; 1 = poor), as a result of continuing initiatives and investment to improve the passenger experience.

The airport was again successful in winning awards picking up "Best UK Airport for Leisure Travel" by passengers and the travel industry and picking up "Best Regional UK Airport" at the Travel Weekly Globe Awards in January 2009.

BUSINESS REVIEW (continued)

MANAGEMENT REVIEW AND OUTLOOK (continued)

Review of 2008 (continued)

Department for Transport ('DfT') review of UK airport economic regulation

The DfT is currently conducting a review of the economic regulation of all UK airports and the most recent consultation process commenced on 9 March 2009. This is expected to be followed by the issue of the DfT's final decision on the new regulatory proposals in the autumn of 2009. Implementation of the final proposals will require changes in law which are unlikely to occur before mid-2010 with the exact timing being subject to parliamentary time being found to enact the necessary legislative changes. Implementation of the new law would follow some time thereafter as further consultation on the specifics of each initial licence is contemplated.

The DfT has indicated that the key policy objectives of the review will include improving the passenger experience (in particular a stronger focus on putting the passenger first across the whole journey). It will also seek to encourage appropriate and timely investment in additional capacity to help deliver economic growth in line with wider Government policy and address the wider environmental impacts of aviation and airport development.

It is anticipated that the regulatory review will result in the introduction of a licensing regime similar to that operating in many regulated industries, which would reflect a spectrum of proportionate regulation with appropriate application to airports. The DfT is aiming to establish a regulatory environment that more explicitly supports the financial profile of efficient airport operators for which, among other features, it is proposing the introduction of a new duty on the regulator to ensure licence holders can finance their activities. The DfT is also consulting on the merits of concepts that are common in other regulated industries, including a special administration regime in a limited number of airports.

Whilst there may be a change in law prior to the end of the price control period in 2013, the DfT has made clear that the tariff arrangements for this period will not be re-opened.

Competition Commission inquiry into the supply of UK airport services by BAA

On 19 March 2009, the Competition Commission ('CC') concluded its investigation on the supply of airport services by BAA in the UK. Its report calls for structural and behavioural remedies as well as recommendations on regulatory and policy matters for consideration by other governmental bodies.

The structural remedies include the disposal of Gatwick and Stansted to different purchasers, as well as either one of Edinburgh or Glasgow airport within two years. The CC expects them to be sold in sequence, beginning with Gatwick, then Stansted, followed by either Edinburgh or Glasgow.

The CC has recommended that the DfT consider adopting a licence based regime of economic regulation of UK airports.

BAA Limited has two months from the publication date to decide whether to lodge a legal appeal.

BUSINESS REVIEW (continued)**MANAGEMENT REVIEW AND OUTLOOK (continued)****Review of 2008 (continued)****Gatwick disposal**

Given the CC's findings earlier in its investigation, on 17 September 2008, BAA announced plans to sell Gatwick airport. The sale process is progressing on schedule with initial bids received during January 2009. The process is expected to be completed in the first half of 2009. The regulatory asset base of Gatwick airport at 31 December 2008 was £1,578 million.

Aeronautical charges at Gatwick for 5 years to 31 March 2013 ('fifth quinquennium' or 'Q5')

In March 2008, the Civil Aviation Authority ('CAA') published its price control review for Gatwick for the five years to 31 March 2013 ('quinquennium 5'). In its proposals, a pre-tax real cost of capital of 6.5% was assumed. It set the maximum growth in aeronautical charges per passenger for Gatwick at RPI+21.0% for the year to 31 March 2009 and RPI+2.0% per annum for the remainder of Q5.

The resulting impact on the maximum allowable yield per passenger (in 2007/08 prices) is as follows:

2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
£5.61	£6.79	£6.92	£7.06	£7.20	£7.34

The significant increase in the aeronautical charges reflects the major capital programmes being undertaken by the Company in addition to the increased expenditure required to meet the security regime requirements introduced post August 2006. Further, between 2007/08 and 2008/09 this one-off uplift reflects a rebasing of tariffs to include costs previously charged to airlines by National Air Traffic Services ('NATS') for aerodrome navigation services and by the Company separately from the aeronautical charges for both baggage infrastructure services and fuel levy. The total amount included in the new tariffs for these services is £0.70 per passenger. The higher charges for Q5 are being phased in during the first regulatory year to 31 March 2009, meaning that in the year to 31 December 2008 the full benefit was not enjoyed.

BUSINESS REVIEW (continued)**MANAGEMENT REVIEW AND OUTLOOK (continued)****Review of 2008 (continued)****Refinancing**

In August 2008, BAA Limited completed a permanent refinancing of the acquisition financing originally put in place at the time of the Ferrovial-led consortium's acquisition of BAA in 2006. The terms of the refinancing are described in more detail in Note 15 on page 44 and are summarised below:

- A corporate reorganisation occurred to enable separate ownership and financing of the three London airports (the 'Designated Airports') of Heathrow, Gatwick and Stansted.
- The Designated Airports became indirect wholly-owned subsidiaries of BAA (SP) Limited, forming a sub-group in which a ring fenced investment grade long term financing platform was established.
- The financing established within this sub-group included £4.4 billion of drawn bank facilities ('Refinancing Facility'), and £2.75 billion of capital expenditure and working capital facilities ('Initial Credit Facility').
- Financing of the BAA (SP) Group is managed centrally. At December 2008 the Company had £1,033.7 million of third party borrowings and £484.8 million loans receivable from BAA (SP) Limited one of the Company's parent Companies.

Developments since beginning of 2009*2009 traffic trends*

In January 2009, Gatwick's total passenger traffic was 1.98 million, a fall of 10.8% compared to 2.22 million in January 2008. In February 2009, passenger traffic versus 2008 was impacted by both weather disruption early in the month and the fact that February 2008 contained 29 days. Therefore, whilst the reported decline in passenger traffic was 14.4% to 1.99 million (2008: 2.33 million), the underlying decline is estimated to have been 8.9%.

BUSINESS REVIEW (continued)**FINANCIAL PERFORMANCE FOR THE YEAR****Turnover**

The commentary below, in respect of operating costs and operating profit, is based on the adjusted performance (excluding depreciation and exceptional costs) of the Company. The commentary on all other aspects of the Company's results are based on the statutory financial information.

In the year to 31 December 2008, the Company's turnover increased 13.6% to £465.4 million (2007: £409.7 million). This increase reflects a 28.6% rise in aeronautical income, a 7.6% increase in gross retail income and 10.0% decrease in all other income compared to 2007.

	2008	2007	Change
	£m	£m	(%)
Aeronautical income	228.3	177.5	28.6
Retail income	172.0	159.9	7.6
Operational facilities and utilities income	22.5	34.0	(33.8)
Property rental income	26.3	27.0	(2.6)
Other income	16.3	11.3	44.2
Total turnover	465.4	409.7	13.6

Aeronautical income

In the year to 31 December 2008, the Company's aeronautical income increased 28.6% to £228.3 million (2007: £177.5 million), driven by the revised tariffs announced by the CAA for the five year regulatory period commencing on 1 April 2008. A significant element of the increase in aeronautical income reflected the inclusion in the regulatory settlement of the costs of the heightened security regime in place since 2006. In addition, £12.6 million of the increase in aeronautical income reflected a rebasing of tariffs to include costs previously charged to airlines by NATS for aerodrome navigation services ('ANS'). The tariffs were also rebased to include services previously charged by the Company separately from the aeronautical charges for both baggage infrastructure capital and fuel levy.

BUSINESS REVIEW (continued)**FINANCIAL PERFORMANCE FOR THE YEAR (continued)***Retail income*

	2008	2007	Change
	£m	£m	(%)
Gross retail income			
Car parking	57.1	47.1	21.2
Duty and tax-free	36.7	38.7	(5.2)
Airside specialist shops	17.3	15.9	8.8
Bureaux de change	14.4	13.2	9.1
Catering	17.0	16.3	4.3
Landside shops and bookshops	14.1	13.5	4.4
Advertising	5.3	4.4	20.5
Car rental	3.2	3.4	(5.9)
Other	6.9	7.4	(6.8)
Total gross retail income	172.0	159.9	7.6
Retail expenditure	(14.5)	(8.7)	66.7
Net retail income ('NRI')	157.5	151.2	4.2
Passengers (m)	34.2	35.2	(2.8)
NRI per passenger	£4.61	£4.30	7.2

By activity the main growth driver in retail performance in the year to 31 December 2008 was in car park revenues. This mainly reflects changes in car park contracts from a concession basis to a contract basis at the start of 2008, increased car parking capacity and the implementation of active yield management.

Other areas that performed well were airside specialist shops, bureaux de change and catering. They benefited from improvements in security queuing times allowing greater airside dwell time for passengers and the opening of the South Terminal International Departure Lounge extension in May 2008. Advertising revenue benefited from improved contractual terms in 2008.

Duty and tax free revenue was lower primarily due to the lower passenger numbers and the changing mix of passengers as a result of Open Skies.

On a comparable basis, derived by deducting cost of sales from gross income to adjust principally for changes in car parking contractual arrangements, NRI improved 4.2% to £157.5 million (2007: £151.2 million) with an increase of 7.2% in NRI per passenger more than offsetting the 2.8% reduction in passenger numbers.

Other income categories

Income from areas other than aeronautical and retail activities decreased by 10.0% in the year to 31 December 2008 to £65.1 million (2007: £72.3 million). This decrease reflected in particular a 33.8% decrease in operational facilities and utilities income to £22.5 million (2007: £34.0 million) driven by a reduction in check-in/baggage rents income of £4.6 million primarily due to one-off income from 2007 and changes in the regulated tariff for baggage infrastructure and a reduction of £5.4 million in Aviation fuel rents driven by changes in the regulated tariff for fuel levy.

BUSINESS REVIEW (continued)**FINANCIAL PERFORMANCE FOR THE YEAR (continued)**

Utility revenues were £1.4m lower primarily due to reduced utility pricing in 2008 adjusting for prior year over-recovery. Other income partly offset these lower revenues with income from the introduction of services provided for passengers with reduced mobility ('PRM') which were previously directly sourced by the airlines of £3.4 million (2007: £nil) and increases in car park passes revenue of £1.2 million due mainly to increased tariffs.

Adjusted operating costs

Adjusted operating costs (excluding depreciation and exceptional costs) are presented as this better reflects the underlying performance of the business. In the year to 31 December 2008 adjusted operating costs increased 19.5% to £305.5 million (2007: £255.7 million).

Analysis of adjusted operating costs

	2008	2007	Change
	£m	£m	(%)
Staff costs	105.2	94.8	11.0
Maintenance expenditure	29.2	27.3	7.0
Utility costs	25.9	23.9	8.4
Rent and rates	24.6	23.1	6.5
General expenses ¹	62.4	36.1	72.9
Retail expenditure	14.5	8.7	66.7
Other intra-group charges	43.7	41.7	4.8
Profit on disposal of tangible fixed assets	0.0	0.1	n/a
Total	305.5	255.7	19.5

¹ Includes £17.5 million (2007: £nil) related to re-charging of ANS provided by NATS and the cost of services for PRM.

There was an 11.0% increase in staff costs to £105.2 million (2007: £94.8 million) which related primarily to the costs of increased numbers of security personnel that were required to meet increased DfT security requirements and achieve the security service standards under the new Service Quality Rebate ('SQR') scheme. Increases in maintenance costs are due in part to the new SQR regime, utility costs increases are driven in the main by generally higher utility prices and rent and rates by increases in rateable values and new capital developments becoming operational. The increase in general expenses was reflecting £17.5 million in additional costs relating to the first year of providing ANS and services for PRM which were sourced previously directly by the airlines. These are reimbursed through aeronautical charges for ANS and other income for PRM, as mentioned above. The remaining increase in general expenses was due mainly to higher SQR costs under the new SQR regime (greater at risk amount and higher target service levels) of £3.7 million, higher provisions made for bad debts due to airlines going into administration and other contractual disputes of £3.2 million and increases in the cost of airside goods security screening of £1.6 million as a result of legislative changes.

BUSINESS REVIEW (continued)**FINANCIAL PERFORMANCE FOR THE YEAR (continued)***Exceptional costs*

In the year to 31 December 2008, the Company released prior year provisions of £11.7 million to exceptional costs (2007: £16.7 million charge) within operating profit. The release was made primarily in relation to the 'Simplifying the Organisation' restructuring programme which was brought to a conclusion at Gatwick following the announcement of the intention to initiate the business disposal process.

The exceptional costs charged within operating profit included £3.2 million (2007: £nil) of accumulated historical pension costs which had not been previously charged by BAA Airports Limited and were charged after the Company entered into the Shared Services Agreement (refer to Note 1 and Note 16). An additional £23.0 million (2007: £nil) of refinancing fees were written off within net interest payable.

Adjusted EBITDA, adjusted operating profit and operating profit

Adjusted EBITDA, i.e. earnings before interest, tax, depreciation and amortisation and exceptional items, in the year to 31 December 2008 was £159.9 million (2007: £154.0 million).

The key drivers in adjusted EBITDA remaining at similar levels to the prior year whilst turnover increased by 13.6% were:-

- Increased aeronautical charges to reflect the higher cost structure, including those highlighted above, only applying from 1 April 2008.
- Increased employment costs driven by an increase in security personnel, to reflect the full impact of increased DfT security requirements and to achieve enhanced SQR service standards.
- Increased general and maintenance expenses to achieve higher service standards.
- Increased bad debt charges largely as a result of airlines going into administration during 2008 and contractual disputes.

Adjusted operating profit (i.e. operating profit before exceptional items) in the year to 31 December 2008 was £95.5 million (2007: £97.5 million). In addition to the factors affecting adjusted EBITDA, the reduction in adjusted operating profit reflects higher depreciation of £64.4 million (2007: £56.5 million).

Operating profit for the year to 31 December 2008 was £104.0 million (2007: £80.8 million) with the increase from the prior year relative to adjusted operating profit reflecting net exceptional releases of over-provisions within operating profit (£8.5 million in 2008; £16.7 million charge in 2007).

BUSINESS REVIEW (continued)**FINANCIAL PERFORMANCE FOR THE YEAR (continued)**

Adjusted EBITDA, adjusted operating profit and operating profit (continued)

A reconciliation between statutory operating profit and adjusted EBITDA is provided below.

	2008	2007	Change
	£m	£m	(%)
Adjusted EBITDA	159.9	154.0	3.8
Depreciation	(64.4)	(56.5)	14.0
Adjusted operating profit	95.5	97.5	(2.1)
Exceptional items	8.5	(16.7)	n/a
Operating profit	104.0	80.8	28.7

Capital expenditure

Capital expenditure for the year was £123.5 million. Ongoing projects include, the replacement of the Inter Terminal Transit System, the redevelopment of security search areas and the redevelopment of the North Terminal forecourt and its extension. In addition to these projects the airport continues to focus on the experience for passengers in an extensive programme of refurbishment including flooring, lighting, cleanliness and décor.

Regulatory Asset Base

The Regulatory Asset Base ('RAB') of Gatwick airport is provided to the CAA and published as at 31 March each year in the regulatory accounts. The RAB is also determined at 31 December each year for the purposes of calculating the Regulatory Asset Ratio (the ratio of net debt to RAB) under its financing arrangements. The RAB is rolled forward between each date according to a formula set out by the CAA. Set out below is the historic RAB figure for Gatwick airport at 31 March 2008 from its regulatory accounts together with the historic figure at 31 December 2008. No forecast RAB at 31 December 2009 is provided for Gatwick as it is expected to be sold prior to that date.

	RAB
	£m
31 March 2008	1,560
31 December 2008	1,578
31 December 2009	-

BUSINESS REVIEW (continued)

FINANCIAL PERFORMANCE FOR THE YEAR (continued)

Contingent liabilities

easyJet have obtained leave to bring a judicial review of the CAA's price cap determination for Gatwick Airport for Q5. The easyJet challenge relates principally to the amount of operating expenditure allowed. They maintain the CAA has not had sufficient regard to the recommendations of the CC and has unfairly and unlawfully allowed security cost submitted at a late stage of the review. The case was heard in the High Court from 17th - 20th March with judgement expected by the end of April. If easyJet are successful it is likely the issue will be remitted to the CAA for their reconsideration. Should the CAA determine that the airport charges cap should be lower, Gatwick Airport Limited would be required to rebate the amount of airport charges levied in excess of the amended cap. On the basis of legal advice received the Board is confident no such rebate will arise.

RISK MANAGEMENT

Risk management is a key element of the Group operations. This has been centrally managed as part of the Group which includes Gatwick Airport Limited ('the Company') and in addition, the Company has a fully dedicated senior team which implements and manages risk closely following the Group's guidelines. The Executive Committee and Board referred to in the notes below relates to the Executive Committee and Board of BAA Limited.

Risk management in the Group facilitates the identification, evaluation and effective management of the threats to the achievement of the Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed. Particular emphasis is given to safety and security, environmental, commercial, financial, reputational and legal risks with the framework ensuring that the Group's financial aspirations are not pursued at the expense of risk management, thus delivering a balanced control of risk, using formal risk management processes.

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 review of risk management at Executive Committee and Board level. The risk registers are also used to inform decisions relating to the procurement of insurance cover.

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 to ensure statutory compliance whilst supporting business units to successfully manage their operations and properly embed risk management within these operations. The operation of the process and the individual registers are subject to review by the Group's Business Assurance function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

The principal corporate risks as identified by the Executive Committee are:

Safety and security risks

Safety and security risks are regarded as an important risk to manage. The Company mitigates this risk 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, police and the Armed Forces to match security measures to a level commensurate with the current raised threat environment.

Assurance is provided through management reporting processes and a specialist compliance audit function, reporting directly to the Health, Safety, Security and Environment Committee.

Regulatory environment, legal and reputational risks

CAA regulation

The Company's operations are subject to regulatory review by the CAA and 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 regulator and advises the Executive Committee and Board on regulatory matters.

Part of the regulatory framework is the Company's involvement in constructive engagement with the airlines. In order to mitigate the risk of adverse airline relations, airlines have been invited to participate at all stages and to be represented on all fora – eg joint steering groups. When feedback was sought or processes measured, independent third parties have been utilised for data gathering and analysis to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides the airlines with the opportunity of airing views and sharing plans, thereby ensuring their ongoing requirements are articulated and understood.

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage 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, has reduced the likelihood of the Company breaching these regulations.

BUSINESS REVIEW (continued)**RISK MANAGEMENT (continued)****Regulatory environment, legal and reputational risks (continued)****Capacity shortfall**

Failure to secure necessary planning permission 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. However, it should be noted that, despite the mitigation action taken by management and a planned capital investment programme, which will provide additional capacity, it is anticipated that demand will continue to exceed available capacity in London throughout the next ten years. In addition, the investment in additional capacity at Gatwick is dependent on the outcome of the regulatory settlements in 2013. Existing planning approvals provide for annual passenger traffic at Gatwick to grow to 40 million.

The UK Government's 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. The Company recognises a need to manage airport development following the White Paper in a way that does not lead to a loss of public or political confidence. To mitigate this risk, dedicated project teams (with relevant expertise and disciplines) have been established to work closely with local communities, airlines and other interested parties.

Environment

Environmental risks need to be mitigated as they have the potential to impact the Company's reputation, and licence to operate and to grow. The Company mitigates these risks at a number of levels, including environmental management systems and training programmes embedded with operations, clear environmental strategies, resource conservation initiatives, proactive and progressive influencing of third parties, stakeholder engagement and community relations programmes. The Company works closely with a range of stakeholders to ensure that the Company reacts effectively to the challenges posed by the environmental agenda.

BUSINESS REVIEW (continued)**RISK MANAGEMENT (continued)****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 continually enhanced project process and by systems of project reviews before approval, during construction and after project completion. All projects include an allowance for risk and opportunity.

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.

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations, and has an adverse financial and reputational impact on the Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. A three year Pay Agreement was reached in August 2006 covering negotiated grades within the Company and new negotiations are taking place in 2009 for the next pay deal. The Company could also be exposed in the short term to the effect of industrial action at key clients (i.e. airlines).

Financial risk management

The Company's financial risk management objectives are aligned with its immediate parent company, BAA (AH) Limited and also BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements. Furthermore, details of the treasury policies for the wider BAA Group are also given in the financial statements of BAA Limited.

The Company's principal financial instruments comprise external borrowings and derivatives and amounts due to/from other BAA Group undertakings, including BAA Funding Limited and BAA (SP) Limited. All of these instruments are centrally managed for BAA (SP) Group and allocated to each of its airports. Facility limits and covenants are set for the BAA (SP) Group as a whole. The Company does not use financial instruments for speculative purposes.

The main risks arising from the Company's financial instruments are market risk (primarily cash flow interest rate risk), credit risk and liquidity risk.

BUSINESS REVIEW (continued)

RISK MANAGEMENT (continued)

Cash flow interest rate risk

The Company's cash flow interest rate risk arises primarily from its third party borrowings issued at variable interest rates. In accordance with the wider BAA Group policy of maintaining a high level of fixed rate borrowings and the hedging restrictions of the Refinancing Facilities, the Company has entered into floating to fixed interest rate swaps to protect against cash flow interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial assets and accounts receivables. The Company has no significant concentrations of credit risk. The Company'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 and ensuring only counterparties within defined credit risk parameters are used. The credit risks of the Group are further discussed in its financial statements and the directors do not consider that the Company faces any additional significant credit risks.

Liquidity risk

At 31 December 2008, the Company, together with Heathrow Airport Limited and Stansted Airport Limited (both fellow subsidiary companies of BAA (AH) Limited and BAA (SP) Limited), had £2.45 billion of undrawn joint committed capex borrowing facilities available. In addition, the Company had a further £0.05 billion committed working capital borrowing facility available, jointly with all four of the other BAA Group undertakings listed above. All conditions precedent in respect of the above facilities had been satisfied. Further details of these facilities are provided in Note 15.

Security and guarantees

The Company has guaranteed certain financial obligations of BAA (SH) Limited. Details of these guarantees are provided in Note 20.

On behalf of the Board



A J Flower

Director

3 April 2009

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is the owner and operator of Gatwick Airport.

A review of the progress of the Company's business during the year, the key performance indicators, and principal business risks are reported in Business Review on pages 2 to 15.

RESULTS AND DIVIDENDS

The directors do not recommend the payment of a dividend during 2008.

In 2007, the directors paid a first interim dividend of 10.3p per share amounting to £34.6 million and a second interim dividend of 8.9p per share amounting to £30.0 million. The directors did not recommend the payment of final dividend.

The profit after taxation for the financial year amounted to £32.2 million (2007: £109.0 million).

BOARD OF DIRECTORS

The directors who served during the year and since the year end are as follows:

A J Flower

J Leo

T D Morgan

R D Herga

Alternate to J Leo

DIRECTORS' INTERESTS

None of the directors held interests in the ordinary shares of the Company at the end of the period.

EMPLOYEES

The Company has no direct employees. The staff are employed by BAA Airports Limited which is the Company's intermediate parent company.

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
- Advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 14 days purchases outstanding at 31 December 2008 (2007: 17 days) based on the average daily amount invoiced by suppliers during the year.

REPORT OF THE DIRECTORS (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management objectives and policies can be found on page 14 in the Risk Management section of the Business Review.

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 loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

DISCLOSURE OF INFORMATION FOR AUDITORS

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's financial statements for the year ended 31 December 2008 and that they have taken all the steps that they ought to have taken as directors in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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



Shu Mei Ooi
Company Secretary
3 April 2009

Registered Office:
130 Wilton Road
London
SW1V 1LQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). The financial statements are required by law to 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 year.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Company's financial statements comply with applicable UK GAAP, 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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 maintenance and integrity of the BAA website which includes information related to the Company is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Shu Mei Ooi
Company Secretary
3 April 2009

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 December 2008 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Statement of Directors Responsibilities and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

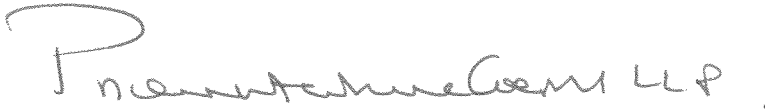
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GATWICK AIRPORT LIMITED (continued)**

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Report of the Directors is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

3 April 2009

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Turnover – continuing operations	2	465.4	409.7
Operating costs – ordinary	3	(369.9)	(312.2)
Operating income/(costs) – exceptional	4	8.5	(16.7)
Total operating costs		(361.4)	(328.9)
Operating profit – continuing operations		104.0	80.8
Net interest payable and similar charges- ordinary	6	(34.1)	(25.3)
Net interest payable and similar charges- exceptional	4	(23.0)	-
Profit on ordinary activities before taxation		46.9	55.5
Tax (charge)/credit on profit on ordinary activities	7	(14.7)	53.5
Profit on ordinary activities after taxation	18	32.2	109.0

The notes on pages 24 to 52 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 profit on ordinary activities before taxation and the retained profit for the year and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2008

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit for the financial year	18	32.2	109.0
Unrealised revaluation (deficit)/ surplus	18	(43.4)	39.3
Total recognised (losses)/gains relating to the year		(11.2)	148.3

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit for the financial year	18	32.2	109.0
Dividends paid	8	-	(64.6)
Retained profit for the financial year		32.2	44.4
Other net recognised gains and losses relating to the year	18	(43.4)	39.3
Net (reduction in)/addition to shareholders' funds		(11.2)	83.7
Opening shareholders' funds		1,035.7	952.0
Closing shareholders' funds		1,024.5	1,035.7


The notes on pages 24 to 52 form an integral part of these financial statements.


BALANCE SHEET
As at 31 December 2008

	Notes	31 December 2008 £m	31 December 2007 £m
FIXED ASSETS			
Tangible assets	9	1,633.7	1,614.3
CURRENT ASSETS			
Stocks	10	2.9	4.2
Debtors : due within one year	11	576.2	168.8
: due after more than one year	11	-	69.2
Current assets investment	12	15.0	-
Cash at bank and in hand	12	0.2	-
TOTAL CURRENT ASSETS		594.3	242.2
CREDITORS:			
amounts falling due within one year	13	(118.0)	(550.9)
NET CURRENT ASSETS/(LIABILITIES)		476.3	(308.7)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,110.0	1,305.6
CREDITORS:			
amounts falling due after more than one year	14	(1,041.0)	(202.8)
Provisions for liabilities and charges	16	(44.5)	(67.1)
NET ASSETS		1,024.5	1,035.7
CAPITAL AND RESERVES			
Called up share capital	17	336.3	336.3
Revaluation reserve	18	506.8	550.2
Profit and loss reserve	18	181.4	149.2
TOTAL SHAREHOLDERS' FUNDS		1,024.5	1,035.7

The notes on pages 24 to 51 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 3 April 2009 and were signed on its behalf by:


A J Flower
Director


J Leo
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. ACCOUNTING POLICIES

Basis of preparation

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 section 230 of the Companies Act 1985 and United Kingdom Accounting Standard (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 BAA SP Group taking into account:

- the forecast passenger numbers, revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the Group's funding structure following the refinancing in August 2008 and the significant committed facilities that are available to the Company and to the Group (see Note 15).

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 will be available to meet the Company's funding requirement over the coming twelve month period. All of the Group's financial covenants of which the Company forms part (see Note 15) have been met and are forecast to be met for the foreseeable future.

The principal accounting policies are set out below.

Turnover

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

- Airport and other traffic charges
 - Passenger charges levied on passengers on departure
 - Aircraft landing charges levied according to weight on landing
 - Aircraft parking charges based on a combination of weight and time parked
 - Other charges levied for passenger and baggage handling when these services are rendered.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Turnover (continued)

- 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), recognised as each service is provided
 - Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale
 - Other invoiced sales, recognised on the performance of the service.
- Retail
 - Concession fees based upon turnover certificates supplied by concessionaires.

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 businesses or 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.

Additional details of items disclosed as exceptional are provided in Note 4.

Fixed 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Fixed assets (continued)

(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.

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.

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 1985 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 accounts giving a true and fair view.

(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 by equal instalments over their expected useful lives 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 - 5 years
• Computer software	3 - 7 years
• Short leasehold properties	over period of lease

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2008****1. ACCOUNTING POLICIES (continued)****Impairment of assets**

The Company assesses, at each reporting 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 reporting 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.

Capitalisation of interest

Interest payable is charged as incurred except where the borrowing finances tangible fixed assets in the course of construction. Such interest is capitalised once planning permission has been obtained and a firm decision to proceed has been taken until the asset is complete and ready for use. It is charged to the profit and loss account as depreciation over the life of the relevant asset.

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 annual amounts over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008**1. ACCOUNTING POLICIES (continued)****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.

Deferred tax

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.

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.

Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Shared Services Agreement

All employees are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Company. BAA Airports Limited is the administrator of the related defined benefit and defined contribution pension plans and grants all employee benefits.

On 18 August 2008, the airports entered a Shared Services Agreement (SSA) under which BAA Airports Limited provides the Company with operational staff and corporate services.

(i) *Operational staff*

BAA Airports Limited charges the Company for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of BAA Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to the employee share options. All of the amounts included in the above mentioned costs are settled in cash except for superannuation costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by BAA Airports Limited.

(ii) *Corporate and centralised services*

BAA Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications where full costs were recharged to the Company. The total mark-up charged to the Company amounted to £1.8 million during the year (2007: £1.6 million).

(iii) *Pension costs*

Under the Shared Services Agreement the current period service cost for the BAA Airports Limited pension schemes are recharged to the Company. Cash contributions are made directly to the pension trustee of the BAA Airports Limited defined benefit scheme on behalf of BAA Airports Limited. The Company also has a legal obligation to fund any pension deficit related to BAA Airports Limited pension plans under the SSA.

In the year to 31 December 2008 an amount of £3.2 million was recorded as a one-off exceptional past-service cost in the profit and loss account relating to unfunded pension schemes existing at BAA Airports Limited. However these amounts will not be settled until the cash outflows are required by BAA Airports Limited and are accordingly recorded as long term provisions. (Refer note 16).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Cash and liquid resources

Cash, for the purpose of the summary 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 of term deposits less than one year (other than cash) and investments in money market managed funds.

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.

Derivative financial instruments

The derivative financial instruments utilised by the Company are interest rate swaps. These are used to manage the interest rate risk of borrowings. Interest receivable on the instruments is calculated using a variable interest rate whereas interest payable is based on a fixed interest rate. The purpose of the swaps is to hedge the risk that arises from the borrowings with variable interest rates.

The derivative financial instruments are hedge accounted in accordance with FRS 4 'Capital Instruments' and consequently accounted for on an accrual basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship the interest payable and receivable on those derivatives are recorded at their gross amount in finance costs and finance income in the profit and loss account. The net interest payable or receivable accrual on derivatives are included in current debtors or current creditors on the balance sheet.

Derivative financial instruments novated from other companies within the BAA Limited Group are transferred at fair value prevailing on that date. Premiums payable or receivable are amortised on a straight-line basis over the term of the financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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.

Summary cash flow statement and related party disclosures

The Company is wholly owned by FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2008. The results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2008 (intermediate parent entity and the smallest group to consolidate these financial statements for the full year). They are also included in the consolidated financial statements of BAA (SH) Limited and BAA Limited for the year ended 31 December 2008. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements (revised 1996)'. A summary cashflow statement has been included at Note 22.

The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are related to, or part of the FGP Topco Limited group. However, the transactions and balances in relation to the provision of services under the SSA between the Company and subsidiaries of the FGP Topco Group are disclosed in the notes to the financial statements.

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 presents the greatest level of uncertainty.

Investment properties

Investment properties were valued at fair value at 31 December 2008 by Drivers Jonas, 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. Given recent market conditions and the decline in property prices, for the year ended 31 December 2008, independent valuations have been obtained for 100 percent of the investment properties.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

2. SEGMENTAL ANALYSIS

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

Turnover	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Airport and other traffic charges ¹	228.3	177.5
Retail	172.0	159.9
Property and operational facilities	48.8	61.0
Other ²	16.3	11.3
	465.4	409.7

1 Included in airport and other traffic charges are £13.6 million (2007:£nil) in relation to recharging of ANS provided by NATS.

2 Increase in other mainly relates to a first time contribution from providing services for PRM.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

3. OPERATING COSTS - ORDINARY

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Wages and salaries	80.2	71.7
Social security costs	6.1	5.1
Pension costs	13.0	13.7
Other staff related costs	5.0	3.8
Share-based payments	0.9	0.5
Staff costs¹	105.2	94.8
Retail expenditure	14.5	8.7
Depreciation – owned assets	64.4	56.5
Maintenance expenditure	29.2	27.3
Rent and rates	24.6	23.1
Utility costs	18.8	17.6
Police costs	13.8	13.4
General expenses ²	35.0	22.7
Aerodrome navigation service costs	13.6	-
Distribution fee	7.1	6.3
Other intra-group charges ³	43.7	41.7
	369.9	312.1
Loss on disposal of tangible fixed assets	-	0.1
	369.9	312.2

1 Staff costs comprise of recharges from BAA Airports Limited for employee services to the Company. Refer to SSA accounting policy in Note 1.

2 Increase in general expenses partly reflects the provision of services for PRM which were previously sourced directly by the airlines.

3 This amount includes all costs in relation to the corporate and centralised services under the SSA (refer to Note 1 for accounting policy on Shared Service Agreement (ii) Corporate and centralised services).

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Operating costs include:		
Training expenditure	1.0	0.8
Rentals under operating leases		
- Plant and machinery	7.1	6.3
- Other operating leases	0.7	1.1
Services provided by the Company's auditor		
- Audit fees	0.1	0.1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

3. OPERATING COSTS – ORDINARY (continued)

Employee information

The Company has no employees. All staff costs are borne by BAA Airports Limited which recharges all such costs directly to the Company. Previously this was included in a management charge.

The average number of employees of BAA Airports Limited engaged in the operation of Gatwick Airport during the year was 2,186 (2007: 1,916).

4. EXCEPTIONAL COSTS

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Operating items		
Pension cost (a)	(3.2)	-
Reorganisation income/(costs) (b)	11.7	(16.7)
	8.5	(16.7)
Interest payable and similar charges		
Refinancing fees written off (c)	(23.0)	-

(a) £3.2 million (2007: £nil) of accumulated past service pension costs not previously charged to the Company by BAA Airports Limited in relation to Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits were incurred during the year. The Company's share of these costs have been allocated on the basis of EBITDA for the year ended 31 December 2008.

(b) A release of £11.7 million was credited during the year associated with restructuring programmes (2007: charge of £16.7 million). The amount released resulted from lower than expected cost for each reduction in headcount and certain headcount reductions not being made due to the decision to sell Gatwick. The charge in the year ended 31 December 2007 was mainly in relation to severance and pension payments associated with the 2008/09 'Simplifying the Organisation' programme.

(c) Fees of £23.0 million (2007: £nil) were incurred during the year, in relation to facility and arrangement fees that are expensed under UK GAAP. These costs are mainly upfront fees paid for the initial credit facility (comprising capital expenditure and working capital facilities), liquidity facility and costs attributed to future bond issuance. For further details of the borrowing facilities see Note 15.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

5. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Directors' emoluments		
Aggregate emoluments	316	260
<hr/>		
Highest paid director's remuneration		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	316	260
<hr/>		
Highest paid director's pension		
Accrued pension at end of year	19	14
<hr/>		
	31 December 2008	31 December 2007
Number of directors who:		
- are members of a defined benefit pension scheme	2	3
<hr/>		

J Leo was a director of BAA Airports Limited (formerly BAA Limited) until 18 September 2008 then became a director of BAA Limited (formerly Airport Development and Investment Limited). His remuneration was paid by BAA Airports Limited and is disclosed within the respective company financial statements for the period he was a director. The directors do not believe it is possible to apportion his remuneration to individual companies within the Group based on services.

Two directors (2007: four) were not remunerated during the year.

No directors exercised share options during the year or received shares under the Group's long term incentive scheme (2007:nil).

The aggregate of Company contributions paid in respect of money purchase schemes during the year was nil (2007: nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

6. NET INTEREST PAYABLE AND SIMILAR CHARGES - ORDINARY

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest payable		
Interest on borrowings from other group undertakings ¹	21.4	32.1
Interest on bank borrowings	35.6	-
Commitment fees	1.5	-
Net interest receivable on derivative financial instruments	(3.7)	-
	54.8	32.1
Interest receivable		
Interest receivable from other group undertakings ¹	(16.7)	(4.7)
Interest receivable on money markets and bank deposits	(0.2)	-
	(16.9)	(4.7)
Less: capitalised borrowings costs	(3.8)	(2.1)
Net interest payable	34.1	25.3

¹ These amounts relate to interest accrued on balances due (from)/to BAA Airports Limited prior to refinancing in August 2008. However included in these balances are £13.7 million receivable from BAA (SP) Limited post refinancing.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 7.00% (2007: 5.95%) to expenditure incurred on such assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax		
Group relief payable	25.8	25.0
Adjustments in respect of prior periods	1.1	(16.2)
Total current tax	26.9	8.8
Deferred tax		
Origination and reversal of timing differences	(12.2)	8.3
Abolition of industrial building allowances balancing adjustments – impact on deferred tax liabilities	-	(61.9)
Change in tax rate – impact on deferred tax liabilities	-	(8.7)
Total deferred tax	(12.2)	(62.3)
Tax charge/(credit) on profit on ordinary activities	14.7	(53.5)

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28.5% (2007: 30%). 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 December 2008 £m	Year ended 31 December 2007 £m
Profit on ordinary activities before tax	46.9	55.5
Tax on profit on ordinary activities at 28.5 / 30 %	13.4	16.7
Effect of:		
Permanent differences	1.6	0.1
Non taxable income	-	(0.6)
Depreciation for the year in excess of capital allowances	12.1	9.0
Capitalised interest	(1.1)	(0.6)
Impact of change in tax rate	-	0.6
Other short-term timing differences	(0.2)	(0.2)
Adjustments to tax charge in respect of prior periods	1.1	(16.2)
Current tax charge for the year	26.9	8.8

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits for the accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

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.

The accounting impact of the abolition of Industrial Building Allowances (IBAs) in the financial statements of the Company, prepared under UK GAAP, is significantly different to that disclosed in the consolidated financial statements of BAA Limited, which were prepared under IFRS. Under UK GAAP, the accounting impact of the abolition of balancing adjustments for IBAs (in respect of prior claims) resulted in a release of a deferred tax liability of £62 million in the year ended 31 December 2007. This contrasts with IFRS where BAA Limited has been obliged to recognise a deferred tax charge equivalent to the loss of future tax relief on expenditure already incurred.

The cash impact of the abolition of IBAs on the Company in 'quinquennium 5' is not expected to be material due to the transitional period regime applicable to 2011 and the low taxable income base of the Company. The impact of the abolition on future periods is uncertain due to the potential regulatory change to a post-tax allowed return (as is the case in other regulated industries). Under the existing regulatory framework, and assuming no further changes, the present value on the reduced cash flows for the existing assets would be approximately £40 million.

8. DIVIDENDS

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Equity- Ordinary		
First interim dividend for year to 31 December 2008 -£nil per £1 share (2007: 10.3p per £1 share)	-	34.6
Second interim dividend for year to 31 December 2008 - £nil per £1 share (2007: 8.9p per £1 share)	-	30.0
	<hr/>	<hr/>
	-	64.6

The directors did not recommend the payment of dividend during 2008.

In 2007, the directors paid a first interim dividend of 10.3p per share amounting to £34.6 million and a second interim dividend of 8.9p per share amounting to £30.0 million. The directors did not recommend the payment of final dividend.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. TANGIBLE ASSETS

Cost or valuation	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
1 January 2008	683.2	4.9	1,247.3	184.2	18.4	93.0	68.0	2,299.0
Additions at cost	-	-	0.2	-	-	0.1	123.4	123.5
Inter-company transfers	-	-	-	-	-	(0.1)	-	(0.1)
Transfers to completed assets	9.1	-	76.0	8.7	1.9	27.8	(123.5)	-
Interest capitalised	-	-	-	-	-	-	3.8	3.8
Disposals	-	-	(2.0)	-	-	-	-	(2.0)
Re-classifications	0.3	-	(0.3)	-	(0.2)	-	-	(0.2)
Revaluation	(42.7)	(0.7)	-	-	-	-	-	(43.4)
31 December 2008	649.9	4.2	1,321.2	192.9	20.1	120.8	71.5	2,380.6
Depreciation								
1 January 2008	-	-	536.8	68.1	5.2	74.6	-	684.7
Charge for the year	-	-	49.8	7.0	0.8	6.8	-	64.4
Inter-company transfers	-	-	-	-	-	(0.1)	-	(0.1)
Disposals	-	-	(1.9)	-	-	-	-	(1.9)
Re-classifications	-	-	(0.2)	-	-	-	-	(0.2)
31 December 2008	-	-	584.5	75.1	6.0	81.3	-	746.9
Net book value								
31 December 2008	649.9	4.2	736.7	117.8	14.1	39.5	71.5	1,633.7
31 December 2007	683.2	4.9	710.5	116.1	13.2	18.4	68.0	1,614.3

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. TANGIBLE ASSETS (continued)

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2008 by Drivers Jonas, Chartered Surveyors at £654.1 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 £43.4 million has been transferred to revaluation reserve.

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 after depreciation are interest costs of £56.4 million (2007: £55.1 million). £3.8 million (2007: £2.1 million) has been capitalised in the year at a capitalisation rate of 7.0 % (2007: 5.95%) based on a weighted average cost of borrowings.

A tax deduction of £3.8 million for capitalised interest was taken in the year (2007: £2.1 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 December 2008 was £147.4 million (2007: £137.8 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. TANGIBLE ASSETS (continued)

Leased assets

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

	31 December 2008 £m	31 December 2007 £m
Cost or valuation	770.4	825.9
Accumulated depreciation	(50.0)	(60.8)
Net book amount	720.4	765.1

A significant proportion of freehold property is occupied by third parties under concession and management agreements.

BAA Group occupied properties

Group occupied properties are freehold except for certain short leasehold properties with a net book value at 31 December 2008 of £1.9 million (2007: nil).

Security

BAA Airports Limited granted security over the Company's assets as disclosed in the BAA Airports Limited (formerly BAA Limited) Group's report and accounts as at 31 December 2008. Subsequent to the completion of the refinancing transactions the securities were released and transferred to other group companies. Details of these are provided in Note 19.

10. STOCKS

	31 December 2008 £m	31 December 2007 £m
Raw materials and consumables	2.9	4.2

The replacement cost of raw materials and consumables at 31 December 2008 and 31 December 2007 was not materially different than the amount at which they are included in the accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

11. DEBTORS

	31 December	31 December
	2008	2007
	£m	£m
Due within one year:		
Trade debtors	35.1	32.3
Amounts owed by group undertakings – interest bearing ¹	484.8	132.1
Amounts owed by group undertakings – interest free ²	11.6	-
Amounts owed by group undertakings – pensions ⁴	1.5	-
Other debtors	18.2	-
Prepayments	6.1	4.4
Net interest receivable on derivative financial instruments	14.4	-
Derivative interest prepayment	4.5	-
	576.2	168.8
Due after more than one year:		
Loan to group undertaking ³	-	69.2
	-	69.2
Total debtors	576.2	238.0

1 Amounts owed by group undertakings during the year relate to a loan being made to BAA (SP) Limited post refinancing in August 2008. This amount is repayable on demand and accrues interest at a fixed rate of 7.57 %. 2007 balance of £132.1m was fully settled on refinancing in August 2008).

2 Amounts owed by group undertakings – interest free largely relates to external payments received by BAA Airports Limited under the SSA on behalf of the Company which will be allocated in due course.

3 This amount was fully settled on refinancing in August 2008. Refer to Note 6 for interest accrued on the balance during the current year prior to settlement.

4 Amounts owed by group undertakings - pensions relates to amounts receivable from BAA Airports Limited in respect of cash contributions made by the Company to the pension trustee in accordance with the SSA. Refer to Note 1 for more detail on pension costs.

12. CASH AND CASH EQUIVALENTS

	31 December	31 December
	2008	2007
	£m	£m
Cash at bank and in hand	0.2	-
Short term deposits	15.0	-
	15.2	-

Cash at bank and in hand earns interest at floating rates based on daily bank deposits rates and is subject to interest rate risk.

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short and long term credit ratings. Of these deposits, counterparties with a short term credit rating of A-1+ held assets of £8 million and A-1 held assets of £7 million as at 31 December 2008. The fair value of cash and cash equivalents approximate their book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2008 £m	31 December 2007 £m
Trade creditors	36.2	36.8
Capital creditors	33.3	24.1
Amounts owed to group undertakings – interest bearing ¹	-	449.6
Amounts owed to group undertakings – interest free ²	12.8	-
Corporation tax payable	0.3	0.7
Group relief payable	15.8	25.0
Other creditors	11.3	6.7
Other tax and social security	2.2	1.6
Deferred income	6.1	6.4
	118.0	550.9

1 This amount was fully settled on refinancing in August 2008. Refer to Note 6 for interest accrued on the balance during the current year prior to settlement.

2 Amounts owed to group undertakings largely relate to external payments made by BAA Airports Limited under the SSA on behalf of the Company which will be settled in due course.

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

	31 December 2008 £m	31 December 2007 £m
Borrowings (refer to Note 15)	1,033.7	200.0
Deferred income	2.1	2.8
Derivative financial instruments ¹	5.2	-
	1,041.0	202.8

1 This relates to the unamortised part of fair value derivative financial instruments on the date of novation.

	31 December 2008 £m	31 December 2007 £m
The borrowings are repayable as follows:		
In more than 5 years	-	200.0

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. BORROWINGS

	31 December 2008	31 December 2007
	£m	£m
Non-current borrowings		
Senior Refinancing Facility – secured	641.2	-
Junior Refinancing Facility - secured	392.5	-
Borrowings from BAA Airports Limited - unsecured	-	200.0
Total non-current borrowings	1,033.7	200.0

Refinancing Facilities

As described in the business review, the Company forms part of the Designated Group which has a specific ring-fenced financing structure and where facilities and covenants are at BAA (SP) Group level. As such, when considering facilities drawn down by the Company, available facilities and covenant testing, due consideration must be given to the amounts drawn by its fellow subsidiary companies (Heathrow Airport Limited and Stansted Airport Limited).

In August 2008, the Company together with Heathrow Airport Limited and Stansted Airport Limited, (“the Designated Group”), drew loans under the Designated Group £4.4 billion Refinancing Facility in order to repay the Senior Facilities held by BAA Limited (formally ADIL).

The amounts and maturities of the Senior and Junior Refinancing Facilities drawn by each BAA (SP) group undertaking were:

	Gatwick Airport Limited £m	Heathrow Airport Limited £m	Stansted Airport Limited £m	Total £m
Senior Facilities:				
Due March 2010	650.0	150.0	-	800.0
Due March 2011	-	250.0	500.0	750.0
Due March 2012	-	750.0	-	750.0
Due March 2013	-	1,100.0	-	1,100.0
Total Senior Facilities	650.0	2,250.0	500.0	3,400.0
Junior Facilities:				
Due March 2010	100.0	-	100.0	200.0
Due March 2011	-	250.0	-	250.0
Due March 2012	-	250.0	-	250.0
Due March 2013	300.0	-	-	300.0
Total Junior Facilities	400.0	500.0	100.0	1,000.0
Total Refinancing Facilities	1,050.0	2,750.0	600.0	4,400.0

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. BORROWINGS (continued)

At 31 December 2008, the interest rate payable on these facilities was equal to Libor plus a margin of 2.00% p.a. on the Senior Facility and 2.75% p.a. on the Junior Facility. The interest rate payable on these Facilities is linked to the aggregate principal amount outstanding for the Designated Group as a whole, in accordance with the table below.

Senior Facility – Amount Outstanding		Junior Facility – Amount Outstanding	
Less than £1,200 million	1.25%	Less than £330 million	2.00%
Between £1,200 million and £2,200 million	1.50%	Between £330 million and £660 million	2.50%
Between £2,200 million and £3,200 million	1.75%	Greater than £660 million	2.75%
Greater than £3,200 million	2.00%		

In addition, there are contractual margin step ups of 0.25% p.a. in August 2010 and 0.25% p.a. every six months thereafter, subject to the provision that the aggregate increase in the margin shall be limited to 1.50% p.a.

The repayment of the Senior Refinancing Facility and Junior Refinancing Facility, regardless of where the facility is held within the BAA Group, is based on the terms of the Refinancing Facility Agreement. This states that repayment of the facilities are firstly applied in repayment of the initial credit facility to ensure the required capex headroom is met, then applied to refinancing facilities with a maturity date falling within 12 months of the date of prepayment and then applied to refinancing facilities in descending order of the final maturity date, until the Senior net indebtedness to total RAB is no more than or equal to 0.70 and the Junior net indebtedness to total RAB is no more than or equal to 0.85. The remaining proceeds are then applied to refinancing facilities in ascending order of the final maturity date. On disposal of Gatwick, 100% of the net proceeds are expected to be set against the refinancing facility.

At 31 December 2008, the aggregate amount outstanding under the £2.75 billion Designated Group Initial Credit Facility (comprising of the capital expenditure facility and working capital facility) used to fund capital expenditure was £250 million. On that date, the interest rate payable on this facility was equal to Libor plus a margin of 2.00% p.a. In addition, there are contractual margin step ups of 0.25% p.a. in August 2010 and 0.25% p.a. every six months thereafter, subject to the proviso that the aggregate increase in the margin shall be limited to 1.50% p.a. If there is no balance outstanding on the Refinancing Facilities the margin on the Initial Credit Facility shall be 1.00% p.a.

All of the above facilities are carried at amortised cost.

The Company, together with Heathrow Airport Limited and Stansted Airport Limited, had £2.5 billion undrawn committed borrowing facilities available at 31 December 2008 in respect of which all conditions precedent had been met at that date.

In addition there is a gross overdraft limit between Gatwick Airport Limited, Heathrow Airport Limited, and Stansted Airport Limited up to a maximum gross balance of £75 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. BORROWINGS (continued)

Covenants

The Refinancing Facilities and the Initial Credit Facilities used to fund capex, are required to comply with the covenants under the Common Terms Agreement (CTA) of the Designated Group. There are certain covenant threshold requirements under the CTA which must be maintained:

		Forecasting event	Trigger event	Financial covenant¹
Senior Interest Cover Ratio	To be greater than	1.60	1.40	1.05
Junior Interest Cover Ratio	To be greater than	1.40	1.20	N/A
Senior Net Indebtedness to Total RAB (RAR)	To be less than	0.70	0.70	0.925
Junior Net Indebtedness to Total RAB (RAR)	To be less than	0.85	0.85	N/A

¹ Three year period average for Interest Cover Ratio from the three year period ending 31 December 2012.

Following the occurrence of a Trigger Event (as defined above) which is continuing, the Obligors are prohibited from making certain payments ("Restricted Payments"), mainly in relation to payments in respect of subordinated debt and payments to other BAA group companies outside of the security group, and are obliged to make repayments of amounts outstanding under the senior debt facilities of the security group, equivalent to the amount of restricted payments that would otherwise have been made.

Following the occurrence of a Forecasting Event (as defined above) which is continuing, the Investor Report issued under the CTA shall disclose information of all forward looking ratios until the end of the current regulatory period, rather than just the 12 month forward looking ratio. In addition, the Investor Report and Compliance Certificate issued under the CTA shall disclose the forecasted restricted payments which are to be made within the 90 days commencing from the delivery of such report.

All covenants have been tested and complied with as at 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Notes	Deferred tax (a) £m	Reorganisation costs (b) £m	Pension costs (c) £m	Total £m
1 January 2008		50.7	16.4	-	67.1
(Credited)/charged to profit and loss account	7/4	(12.2)	(11.7)	3.2	(20.7)
Utilised in the year		-	(1.9)	-	(1.9)
31 December 2008		38.5	2.8	3.2	44.5

(a) Deferred tax

Analysis of the deferred tax balances are as follows:

	31 December 2008 £m	31 December 2007 £m
Excess of capital allowances over depreciation	39.2	51.4
Other timing differences	(0.7)	(0.7)
	38.5	50.7

	Unprovided 31 December 2008 £m	31 December 2007 £m
Tax on chargeable gains if investment properties were sold at their current valuations	105.1	121.8
Tax on rolled-over gains if replacement assets were sold at their current valuations	2.6	2.6
	107.7	124.4

Provision has been made for deferred taxation in accordance with FRS 19.

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 for is £107.7 million (2007: £124.4 million). At present, it is not envisaged that this tax will become payable in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

16. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(b) Reorganisation costs

The Company commenced implementing its restructuring programme, 'Simplifying the Organisation' in late 2007. Costs associated with this and other restructuring programmes are for severance and pension payments only. The amount released resulted from lower than expected costs for each reduction in headcount and certain headcount reductions not being made due to the decision to sell Gatwick. The remaining provision predominately relates to pension costs and is expected to be resolved early in 2009. See Note 4 for further details.

(c) Pension costs

A provision of £3.2 million (2007: £nil) for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits was made in the year. This provision, which was held by BAA Airports Limited in previous years has been charged to the Company as a result of the SSA, as BAA SP's airports are committed to fund any unfunded pension plan obligation of BAA Airports Limited (Refer to Note 1 for details). This provision is based on the Company's share of unfunded scheme valuation performed for BAA Airports Limited and will only be settled when the cash outflow is requested by BAA Airports Limited.

17. CALLED UP SHARE CAPITAL

	31 December 2008 £m	31 December 2007 £m
Authorised		
384,100,000 ordinary shares of £1 each	384.1	384.1
Called up, allotted and fully paid		
336,300,002 ordinary shares of £1 each	336.3	336.3

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

18. RESERVES

	Profit and loss reserve £m	Revaluation reserve £m	Total £m
1 January 2008	149.2	550.2	699.4
Profit for the financial year	32.2	-	32.2
Revaluation deficit	-	(43.4)	(43.4)
31 December 2008	181.4	506.8	688.2

19. COMMITMENTS

Capital

Capital expenditure contracted commitments amount to £29.3 million (2007: £39.0 million).

Commitments under operating leases

At 31 December 2008, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land & buildings 31 December 2008 £m	Other leases 31 December 2008 £m	Land & buildings 31 December 2007 £m	Other leases 31 December 2007 £m
Leases which expire:				
- within two to five years	0.2	0.2	0.2	0.2
- after five years	0.1	6.3	0.1	6.3
	0.3	6.5	0.3	6.5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

19. COMMITMENTS (continued)

Other commitments

In June 2006, the UK Government announced its conclusions for 2006-2012 night flights regime at BAA Group's London airports. The regime committed BAA to introducing a new domestic noise insulation scheme at Heathrow, Gatwick and Stansted to address the impact of night flights on local communities. Based on the BAA Group's evaluation, payments under this scheme are estimated to total £62 million, spread over the five year period commencing 2008. The maximum expected payment in relation to Gatwick is £2 million.

In addition, there are live blight schemes to support the market for housing in areas identified for potential future runways at Heathrow, Gatwick, Glasgow and Edinburgh airports. Obligation under these schemes will only crystallise once the Company announces its intention to pursue a planning application for a new runway. In the case of Gatwick this is unlikely in the short term.

In July 2008, the wider BAA Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute the lesser of £80 million per annum and the annual cost of accruing benefits (as calculated using the FRS 17 'Retirement Benefit' accounting standard) for a period of three years ending 31 December 2011. The Company expects to contribute approximately £17 million to the pension plan in the year ending 31 December 2009.

20. CONTINGENT LIABILITIES

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £20 million at 31 December 2008 (2007: £nil).

In addition to the above, in August 2008, Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited jointly issued a letter of credit amounting to £205 million under the Borrower Liquidity Facility Agreement, to cover interest payable to Supported Lenders.

The Company, together with Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations to the Borrower Secured Creditors under the August 2008 refinancing documents and to the Subordinated Creditors under the Subordinated Facility Agreement dated April 2006. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

The Company, together with Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

In addition the Company is a joint guarantor, together with Stansted Airport Limited, in respect of principal and accrued interest in relation to the borrowings of Heathrow Airport Limited from BAA Funding Limited under the Initial Borrower Loan Agreement ('IBLA') dated 18 August 2008. As at 31 December 2008 the principal amount of the borrowings under the IBLA were £4,436 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

20. CONTINGENT LIABILITIES (continued)

Under the SSA hedging costs properly incurred by BAA Airports Limited in relation to the ESOP may be recharged to Gatwick Airports Limited. At 31 December 2008, the ESOP swap held in BAA Airports Limited had a fair value loss of £117 million. The Company may be obligated to settle its share of these amounts (approximately £22 million), in the future, depending on a number of factors, including options vesting at the Ferrovial share price at exercise date. Accordingly this is disclosed as contingent liability.

BAA Pension Trustee Company Limited (the BAA Pension Trustee) is a Borrower Secured Creditor and has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Company as an Obligor, such right ranking *pari passu* with the Class A creditor of the Obligors.

easyJet have obtained leave to bring a judicial review of the CAA's price cap determination for Gatwick Airport for Q5. The easyJet challenge relates principally to the amount of operating expenditure allowed. They maintain the CAA has not had sufficient regard to the recommendations of the CC and has unfairly and unlawfully allowed security cost submitted at a late stage of the review. The case was heard in the High Court from 17th -20th March with judgement expected by the end of April. If easyJet are successful it is likely the issue will be remitted to the CAA for their reconsideration. Should the CAA determine that the airport charges cap should be lower Gatwick Airport Limited would be required to rebate the amount of airport charges levied in excess of the amended cap. On the basis of legal advice received the Board is confident no such rebate will arise.

21. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The immediate parent undertaking is BAA (AH) Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited and the ultimate parent of FGP Topco Limited is Grupo Ferrovial, S.A. (Spain), which is the largest group to consolidate these financial statements.

The Company's results are also included in the consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2008, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of BAA (SH) Limited, BAA Limited and FGP Topco Limited for the year ended 31 December 2008.

Copies of the financial statements of FGP Topco Limited, BAA Limited, BAA (SH) Limited and BAA (SP) Limited may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

22. SUMMARY CASH FLOW STATEMENT

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Net cash inflow from operating activities	154.1	149.1
Net interest paid	(19.8)	(27.4)
Corporation tax paid	(10.0)	(15.1)
Dividends paid	-	(64.6)
Net capital expenditure	(123.5)	(90.0)
Net cash movement before use of liquid resources and financing	0.8	(48.0)
Management of Liquid Resources		
Increase in short-term deposits	(15.0)	-
Financing		
Long term banks loan	1,050.0	-
Decrease in amounts owed to group undertakings	(1,035.6)	48.0
Movement in cash in the period	0.2	-

Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Operating profit	104.0	80.8
<i>Adjustments for:</i>		
Depreciation	64.4	56.5
Increase in stock and debtors	(21.2)	(2.5)
Increase in creditors	17.3	13.6
Loss on disposal of fixed assets	-	0.1
(Decrease)/increase in provisions	(10.4)	0.6
Net cash inflow from operating activities	154.1	197.1

For the purpose of the summary cash flow statement, the movement in inter-company balances before the refinancing date are shown within the decrease in amounts owed to group in the financing section of the cash flow as interest was charged/credited on the outstanding balance.

All amounts owed to BAA Airports Limited as at 31 July 2008 have been fully settled during the refinancing process.