IVY HOLDCO LIMITED

Annual Report and the Consolidated and Parent Company Financial Statements for the year ended 31 March 2017

Company Registration Number 07497036

ANNUAL REPORT AND THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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STRATEGIC REPORT

As at 31 March 2017, Ivy Holdco Limited ("the Company") has four wholly-owned subsidiaries: Gatwick Airport Limited ("Gatwick", "GAL", "the Airport"), Ivy Bidco Limited, Gatwick Airport Pension Trustees Limited and Gatwick Funding Limited, collectively "the Group".

The Company's subsidiary, Gatwick Airport Limited, accounts for the significant majority of the Group's operations.

Strategy

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

Gatwick has set out its ambition – compete to grow and become London's airport of choice, and has established six strategic priorities to which its activities are aligned.

The strategic priorities and the approach Gatwick is taking to achieve them have been outlined below:

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

STRATEGIC REPORT (continued)

Regulatory Environment

Background

On 1 April 2014 the new regulatory framework based on Commitments backed by a licence, supplemented by a monitoring regime, came into operation at Gatwick. The Commitments are a set of legally enforceable undertakings, made by GAL to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The Commitments also enable GAL to enter into a series of bilateral contracts incorporating, for example, price, service and duration, agreed on a contractual basis between Gatwick and individual airlines. The CAA's Decision and Notice, granting a licence to Gatwick, incorporates the Commitments within the licence, and requires GAL to comply with its obligations in the Commitments. This includes that GAL's commitments incorporate a maximum average revenue yield over the next seven years, based on published prices at RPI+1.0% per year, and average prices (taking into account bilateral contracts) at RPI+0.0% per year (i.e. the "blended price"). GAL also has the requirement to ensure it complies with its Commitment to undertake capital investment expenditure of at least £100.0 million per annum over the next seven years.

Basis of licence

In its Decision, the CAA set out, amongst other things, its view of the "fair price" for the period from 1 April 2014 of RPI-1.6% per year. The CAA also considered that GAL should undertake capital investment expenditure of at least £160.0 million per annum on average (in 2011/12 price base). The CAA stated that it intends to monitor GAL's pricing and other behaviours (such as capital investment expenditure), on an annual basis to assess the extent to which the out-turn average prices (taking into account bilateral contracts) and is consistent with its assessment of the "fair price" at RPI-1.6% and capital investment expenditure is at least £160.0 million per annum on average. If, as part of the CAA's monitoring of the Commitments, the CAA considers that the introduction of further licence conditions, or modifications to existing licence conditions, is in the passenger interest, then the CAA can propose such modifications at that time. This could be for example, to introduce a requirement for GAL to set its charges consistent with the CAA's view of its "fair price" or its view of minimum capital investment expenditure. Such licence modifications could be appealed by the Airport or airlines, to the Competition and Markets Authority.

The CAA's Decision also includes a financial resilience condition. This requires GAL to produce a Certificate of Adequacy of resources and submit this to the CAA on an annual basis. This condition also restricts the business of GAL to the businesses undertaken on 1 April 2014, including the ownership and operation of the Airport. Any other business will require the written consent of the CAA. Finally, the financial resilience condition requires undertakings from the ultimate holding company to not take action that would likely cause a breach of the licence and provide information requested by the CAA to enable GAL to comply with the licence.

Update

As planned, the CAA undertook a "short and focused review" of the Commitments in the second half of 2016 to assess whether they are operating in the interests of passengers. The review was concluded in December 2016.The review concluded that there was general support for the new regulatory framework and that many aspects of the new framework appeared to be working well. It did also note issues with airline punctuality at Gatwick and, while the root causes of this are investigated further, the CAA will monitor Gatwick's investment performance in airfield capacity to ensure that such investment is at a level which the CAA considers appropriate.

Requirements as to operational resilience are included within GAL's Commitments and as such are not subject to a separate licence condition. The CAA has also stated that as part of the monitoring regime, GAL should produce a shadow regulatory asset base ("RAB") calculation. This requirement is in case, at some time in the future, the CAA considers that the passenger interest would be better served by tighter regulation being introduced. As with pricing, shadow RAB and capital investment expenditure above, the CAA can propose to introduce such licence conditions to the extent it considers such modification is in the passenger interest. Similarly, such a licence modification could be appealed by the Airport or airlines, to the Competition and Markets Authority. All airport operators are also subject to aerodrome licensing under the Air Navigation Order 2009, which requires an airport operator to demonstrate that it is competent to conduct aerodrome operations safely. That licensing requirement is not affected by the Civil Aviation Act 2012.

STRATEGIC REPORT (continued)

Financing Structure

The Group is party to a Common Terms Agreement ("CTA") with, *inter alia*, the Royal Bank of Scotland plc as Authorised Credit Facility ("ACF") agent and previously the Initial Authorised Credit Facility ("Initial ACF") agent. Gatwick Airport Limited and Ivy Bidco Limited have a Borrower Loan Agreement with Gatwick Funding Limited (as Issuer), and Deutsche Trustee Company Limited (as Borrower Security Trustee). The CTA together with a Master Definitions Agreement covers, *inter alia*, the Initial ACF Agreement, the ACF Agreement and the Borrower Loan Agreement.

The ACF Agreement entered into on 27 March 2014 has a Revolving Credit Facility of £300.0 million and a tenor of five years giving a termination date of 27 March 2019. As at 31 March 2017, the Group had £253.0 million (31 March 2016: £70.0 million) undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date.

Gatwick Funding Limited has issued £1,850.0 million of publicly listed fixed rate secured bonds comprising: £300.0 million Class A 6.125 per cent. Bonds with scheduled and legal maturities of 2026 and 2028 respectively; £300.0 million Class A 6.5 per cent. Bonds with scheduled and legal maturities of 2041 and 2043 respectively; £300.0 million Class A 5.25 per cent. Bonds with scheduled and legal maturities of 2024 and 2026 respectively; £300.0 million Class A 5.75 per cent. Bonds with scheduled and legal maturities of 2037 and 2039 respectively; £350.0 million Class A 4.625 per cent. Bonds with scheduled and legal maturities of 2034 and 2036 respectively; and £300.0 million Class A 2.625 per cent. Bonds with scheduled and legal maturities of 2046 and 2048 respectively. As at 31 March 2017, total bond debt was £1,850.0 million (31 March 2016: £1,550.0 million).

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

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

Further information on the financing structure is included in note 24 of the financial statements.

STRATEGIC REPORT (continued)

Review of the Business

Under sections 414A and 414C of the Companies Act 2006 ("the Act"), the Group is required to produce a fair review of the business of the Group, including a description of the principal risks and uncertainties facing the Group, an analysis of the development and performance of the business during the year, and position at the year end. Furthermore, additional information is provided under this Business Review in accordance with the Walker Guidelines, which sets out suggestions for best practice for Portfolio Companies owned by private equity investors (of which Gatwick Airport Limited is deemed to be one), which the Group has complied with.

Overview of the Year Ended 31 March 2017

The Group has reported a profit after tax of £124.6 million for the year ended 31 March 2017 compared to £142.2 million for the year ended 31 March 2016. These results are discussed in more detail in the financial review section of this report.

Overall Passenger Traffic Trends

Delivering sustainable passenger growth at Gatwick through helping our airlines grow is a strategic priority for the business, and in the year ended 31 March 2017, a total of 44.1 million (2016: 40.9 million) passengers travelled through Gatwick: an increase of 3.2 million passengers or 7.7% which is a record number for Gatwick.

	Year ended 31 March 2017	Year ended 31 March 2016
Passengers	**44,101,486**	40,933,547
Air transport movements ("ATMs")	**278,889**	265,970
Passengers per ATM	**158.1**	153.9
Seats per ATM	**185.6**	181.4
Load factors (%)	**85.2%**	84.8%

Commercial flight types only

The growth in passenger numbers came mainly from an increase in ATMs, which were up 4.9% compared to the prior year, with additional capacity seen across both the established European network and emerging long haul markets.

Aircraft seat capacity also grew by 2.3%, reflecting an increase in the number of long-haul flights, most notably on North American routes and also on the short haul European routes where carriers are beginning to either upgrade the size of their aircraft or reconfigure cabin designs to increase capacity.

Average load factors were 85.2%, an increase of 0.4% points compared to the year ended 31 March 2016.

STRATEGIC REPORT (continued)

Passenger Traffic by Region

The table below outlines passenger numbers by region for the year ended 31 March 2017 and the comparative year ended 31 March 2016.

	Year ended 31 March 2017 m	Year ended 31 March 2016 m
Europe (including UK and Channel Islands)	**36.6**	34.3
North America	**3.3**	2.4
Caribbean and Latin America	**1.9**	1.7
Northern and Sub-Saharan Africa	**1.1**	1.3
Middle East and Central Asia	**1.0**	1.0
Far East and South Asia	**0.2**	0.2
Total	**44.1**	40.9

Short Haul European Traffic

83.0% of Gatwick's passenger traffic was on European routes (including the UK and Channel Islands). Traffic on these routes grew by 2.3 million passengers (6.7%), with growth not only in the southern European destinations of Spain, Italy, Greece, Portugal and France, but also the Czech Republic, Iceland, Sweden and Ireland.

Long Haul Traffic

Long haul destinations saw significant growth of 0.9 million passengers (13.6%) in the year and now make up 17.0% of passenger traffic through Gatwick. As the number of destinations served and frequency to those destinations increases so has competition in the London market both in terms of fares and choice which is to the benefit of passengers.

Traffic on flights to North America grew by 0.9 million passengers (37.5%). Norwegian continued to grow its long-haul network with increased capacity on its existing USA services as well as introducing two new routes (Las Vegas and Oakland, San Francisco); while Canadian carrier WestJet began flying from Gatwick during the year, serving six destinations across Canada.

There was an increase of 0.2 million passengers (11.8%) on flights to the Caribbean and Latin America. BA introduced new services to Costa Rica and Peru in addition to its existing Caribbean flights; and Thomson began flying to Cuba from Gatwick.

This year also saw the launch of flights to the Far East from Gatwick, with Cathay Pacific's Hong Kong service and Tianjin Airlines' flights to mainland China.

Instability in Northern Africa continued to have an impact on traffic to this region. Passenger numbers to Egypt were down 0.3 million or 63.4% compared to the previous year whilst traffic to Morocco showed a 6.0% increase.

STRATEGIC REPORT (continued)

Route Development

Gatwick continued to develop its route network reaching record traffic figures during the year ended 31 March 2017 of 44.1 million and with a 25.1% share of the London market, a share which has increased from the previous financial year, in spite of strong competition from those other London airports who have also grown market share in the past year.

Apart from newcomer WestJet, the airlines contributing most to Gatwick's growth were primarily the established incumbent companies such as easyJet, Norwegian and British Airways.

- easyJet increased frequency on routes such as Inverness, Milan and Valencia as well as launching new winter and summer leisure routes including Ostersund, La Palma, Granada, Tivat, Ljubljana and Varna.

- British Airways is continuing to grow long haul services at Gatwick, with a 13th Gatwick-based Boeing 777 being added to their fleet this summer, flying to Oakland and Fort Lauderdale in the United States.

- Norwegian also continued to deliver significant growth during the year ended 31 March 2017, primarily through their popular low cost long haul services, adding Las Vegas in the winter season to their existing services to New York, Los Angeles, Boston, Oakland, Orlando, Puerto Rico and Fort Lauderdale, serving passengers in direct competition with other established airlines across the London airports. Summer 2017 will see Norwegian base six Boeing Dreamliners at Gatwick, later increasing to eight as they add additional daily services to New York and introduce three new destinations: Denver, Seattle and Singapore, their first long haul Asian destination.

- Ryanair's traffic grew 78.1% (0.7 million passengers), mainly on its services to Dublin and Belfast whilst Aer Lingus stopped flying to Belfast, with a reduction of 0.2 million passengers, resulting in a net increase of 0.5 million passengers on these routes.

- Low-cost carrier Vueling Airlines also continued to show significant growth in traffic, with passengers up 47.2% (0.3 million passengers) supported by the addition of a daily Paris flight and services to Santiago de Compostela, Asturias and Rennes.

Other existing airlines also continued to increase capacity during the year including Virgin Atlantic to Barbados and Cuba, Thomas Cook to Orlando and St. Lucia and Monarch to Almeria, Gibraltar and Lisbon.

There were a number of exciting new developments and announcements during the year which will contribute to future passenger growth within the long haul market with the following notable highlights:

- Air Canada Rouge commenced a daily service to Toronto for summer 2016. The airline is also providing this service in 2017 along with a new seasonal service to Vancouver in June 2017;

- Tianjin Airlines commenced their twice-weekly year round service to China (Chongqing & Tianjin) and have announced an additional twice weekly service to Xi'an starting in late summer 2016;

- Cathay Pacific commenced a four weekly service to Hong Kong in September 2016 and this moved to a daily service from March 2017;

- British Airways commenced a 12th Gatwick-based Boeing 777 aircraft from November 2016, which was used to launch a new service to Cape Town, in addition they have based a further Boeing 777 at Gatwick from March 2017, which is being used to launch their new routes to United States (Oakland and Fort Lauderdale this summer);

- Thomson launched seasonal services to Cuba (Varadero) and Sri Lanka (Colombo) in winter 2016, they are launching a new twice weekly service to St. Lucia for summer 2017 and a weekly service to Phu Quoc in Vietnam for winter 2017; and

- Aeroflot commenced a daily service to Moscow in November 2016 which is being flown year round, contributing circa 70,000 passengers.

STRATEGIC REPORT (continued)

Capital Investment Programme

The key strategic objective for Gatwick is to compete to grow and become London's airport of choice. A key enabler in delivering this objective is continued focus on transforming the passenger and airline airport experience through both investment in modern infrastructure and improving service standards. This will ensure that airlines can operate efficiently and passengers enjoy a superior airport experience relative to competitors, encouraging greater utilisation of Gatwick and supporting its long-term growth ambitions. The key investment drivers for the Airport are as follows:

- Capacity
- Cost Efficiencies
- EH&S, Security and Compliance
- Service Quality
- Commercial Revenue
- Asset Stewardship and Resilience

	31 March 2017 £m	31 March 2016 £m
Capital expenditure	**272.6**	220.1

From April 2014, and following completion of GAL's £1.2 billion Q5 Capital Investment Programme, regulatory oversight of Gatwick has evolved in response to the seven year Commitments framework, under which the Airport has made price, service quality, capital investment and consultation undertakings to its customers. Rather than being constrained by a fixed capital investment programme, the new framework allows flexibility, innovation and pace in making investments at the Airport to improve services for our passengers and airline customers. The framework includes a commitment to undertake capital investment expenditure of at least £100.0 million per annum over the next seven years.

In May 2017, GAL published its 2017 Capital Investment Programme for consultation with passengers and airlines, outlining the capital investment undertaken in the first three years under Commitments and the plan for the following four years. Gatwick has continued to invest heavily in its Capital Investment Programme with its largest ever year of investment, spending £272.6 million in the year ended 31 March 2017 (2016: £220.1 million). Capital investment is forecast to be approximately £1.6 billion over the seven year Commitments period (starting April 2014) thereby continuing a similar rate of investment and improvement since the Airport changed ownership in December 2009, and in excess of the minimum level required under the Commitments framework.

Gatwick controls and delivers its Capital Investment Programme through seven individual programmes covering the key elements of the Airport. This approach allows Gatwick to deliver against its key investment drivers whilst maintaining its operations. Key capital investment projects and programmes completed and in construction during the year ended 31 March 2017 can be summarised as follows:

- **Pier 1:** Construction of a new South Terminal Baggage Factory and Pier 1, including delivery of an automated baggage storage facility, continued from the prior year and was successfully opened on 1 June 2016. The innovative design solution includes an automated baggage storage facility, providing airlines and passengers with greater check-in and baggage processing capacity and flexibility, including enhanced early check in options, as well as modern gate rooms and segregated departures and arrivals routes.

- **North Terminal Development Programme:** A major programme to transform the North Terminal continued from the prior year, with the world's largest self-bag drop check-in facility successfully completed and opened in April 2016. Additional investment in the Airport's security facilities was completed during the year with the existing security facilities being upgraded to the latest Gen II system providing both enhanced screening and improved operational performance. In addition the arrivals hall on the ground floor was refurbished. The programme will go on to deliver a modern walkthrough duty free store and reconfigured departure lounge to match those facilities already successfully operating in the South Terminal.

STRATEGIC REPORT (continued)

Capital Investment Programme (continued)

- **Airport Transformation Programme:** An extensive programme of works was undertaken during the year which saw British Airways relocating to the South Terminal, Virgin relocating to the North Terminal and easyJet consolidating its entire operation in the North Terminal. The programme is designed to enhance the passenger experience through upgrading existing facilities, simplifying the passenger journey and providing improved offerings. The programme encompassed a number of areas within the Airport including; check in desks, crew report facilities, engineering facilities, airline lounges, piers, gate rooms and stands through the 42 associated construction projects. The programme largely completed in January 2017 enabling a successful move with a number of projects continuing into 2017.

- **Commercial:** A number of projects were completed during the year which have enhanced and improved the retail and food and beverage offerings at the Airport. Catering remains a real highlight as several new restaurants were opened throughout the year, including a new Starbucks and an expansion of the Flying Horse pub in the South Terminal. These will be followed next by the introduction of Jamie's Diner which is replacing Costa and Apostrophe which were stripped out during the financial year. Within retail, there were new stores for Next and Dune in the South Terminal while the completion of the North Terminal Development project has enabled the redesign of the arrivals area with new outlets for M&S, Boots and London News Company. These will be followed next year by a number of new retail units created from the relocation of World Duty Free to their new walkthrough store.

- **Asset Stewardship:** Investment to maintain the existing asset base of the Airport has been ongoing during the year. The works can be categorised into: Airfield, Facilities, Commercial, IT and Compliance and EHS and are considered critical to enhance the passenger experience whilst passing through the Airport. Investment during the year was in excess of £40.0 million and included the toilet refurbishment programme, cladding replacement, replacement of a number of old air handling units and new gas boilers in the North Terminal.

- **Airfield:** A number of projects completed during the year as part of an on-going programme of works to improve Gatwick's resilience. There was a significant investment in the taxiways and ground lighting system as well as reconfiguration of various stands to enable the Airport to meet the changing demands of the airlines. In addition there was some initial works towards the runway resurfacing project planned towards the end of the Commitments period.

- **Resilience:** A programme of works to improve Gatwick's resilience has been ongoing, including projects to reduce risk associated with flooding and security. This programme is partially in response to the McMillan report, published on 26 February 2014, but also aims to ensure operational resilience remains a key component of our operational and capital investment plans going forward. Since the McMillan report, Gatwick has invested over £15.0 million with an additional £20.0 million of capital investment funds ring-fenced for delivering capital projects over the remainder of the commitments period for investment in flood management, power and IT upgrades, terminal equipment, and weather and disruption events protection projects.

Looking ahead, significant further investment is planned to expand current facilities where required, to achieve greater operational efficiency and improve the passenger experience for all segments of the passenger journey. Further details of which can be found in the Capital Investment Plan published annually by Gatwick.

STRATEGIC REPORT (continued)

Operational Performance

Delivering the best passenger experience is a strategic priority for Gatwick. Adhering to a set of stringent passenger satisfaction targets and through listening and acting upon passenger feedback are two ways in which service overall at the Airport is monitored.

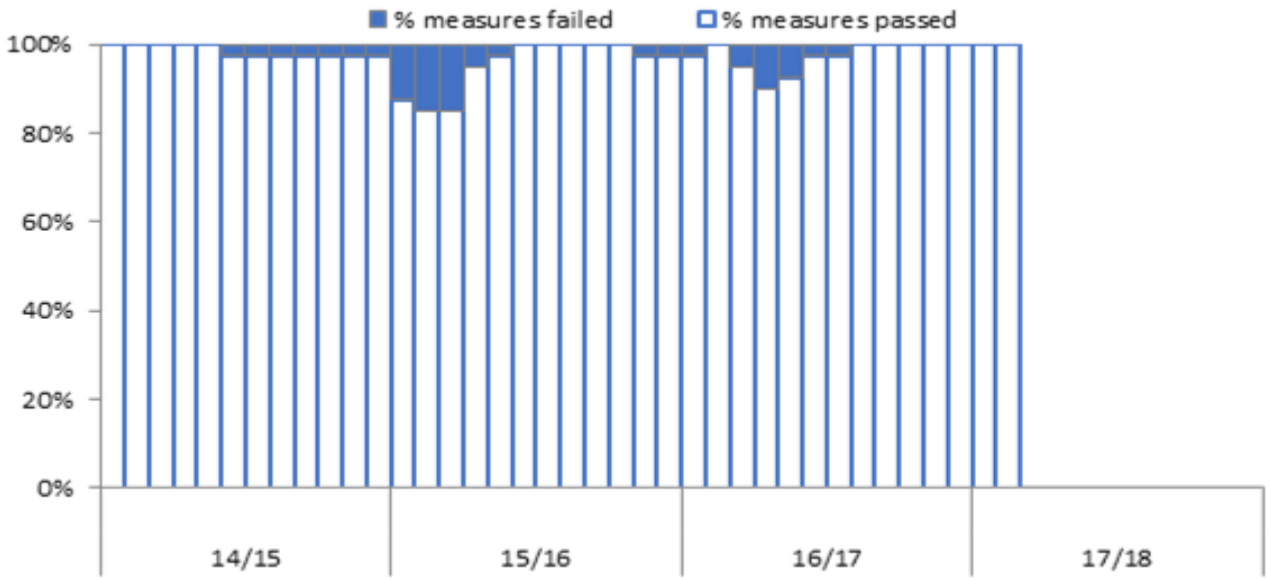
The Core Service Standards ("CSS") are stretching targets for a variety of measures impacting the passenger experience, from security queuing times to the availability of terminal and airfield assets, ensuring Gatwick is constantly focused on the performance in these key areas. The scheme also incorporates the results of a passenger survey, the Quality of Service Monitor ("QSM"), which provides a measure of passenger satisfaction with certain airport services and facilities (cleanliness, wayfinding, flight information, and departure lounge seat availability). If service standards are not met for a number of aspects of the Airport's facilities and services for passengers and airlines, Gatwick pays rebates of airport charges to airlines.

Gatwick reports its performance against the CSS targets (including QSM) on a monthly basis on its website. Gatwick uses, amongst other measures, total CSS targets passed, overall QSM score, on time departure performance and inbound baggage, to monitor whether it is delivering the best passenger experience, and forms part of the Commitments framework under which it operates.

Core Service Standards

Gatwick achieved 98% of its CSS targets during the year ended 31 March 2017 compared to 95% in the prior year. During the year, Gatwick passed 468 out of a total 480 CSS targets, with 12 targets missed.

Percentage of Core Service Standards passed per month



Eight of the CSS failures during the year were related to the length of queues in the departures security area, where the principal CSS target is for passenger queue times to be less than five minutes 95% of the time; queues should also be less than 15 minutes for 97% of the time, and always under 30 minutes.

In the year ended 31 March 2017 Gatwick did not achieve its monthly CSS security queuing target during the peak passenger traffic months of June, July and August. Prior to this busy period Gatwick had opened a new passenger security area, along with new screening technology and work practices which took longer to establish than expected. This, coupled with changes in the way hand luggage is screened, resulted in slightly longer passenger queues at certain busy points in the day.

STRATEGIC REPORT (continued)

Core Service Standards (continued)

Two of the CSS failures were related to the aerodrome congestion measure. In both June and September there were isolated cases of damage to the runway surface which necessitated immediate repair, which resulted in an increased level of aircraft congestion and disruption.

The remaining two CSS failures related to an IT issue with the outbound baggage system and a technical fault with a passenger lift, both of which were quickly remedied.

Passenger Satisfaction

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

Gatwick's overall QSM score reached 4.16 at the end of 2015/16 and had increased to 4.37, its highest point in the last eight years, by the end of 2016/17 (5 = excellent; 4 = good; 3 = average; 2 = poor; 1 = extremely poor).

A major contributory factor of this improved QSM score is the successful transformation of the North Terminal, in particular the completion of the world's largest self-bag drop zone and the new central security search area including the installation of the latest generation passenger screening technology.

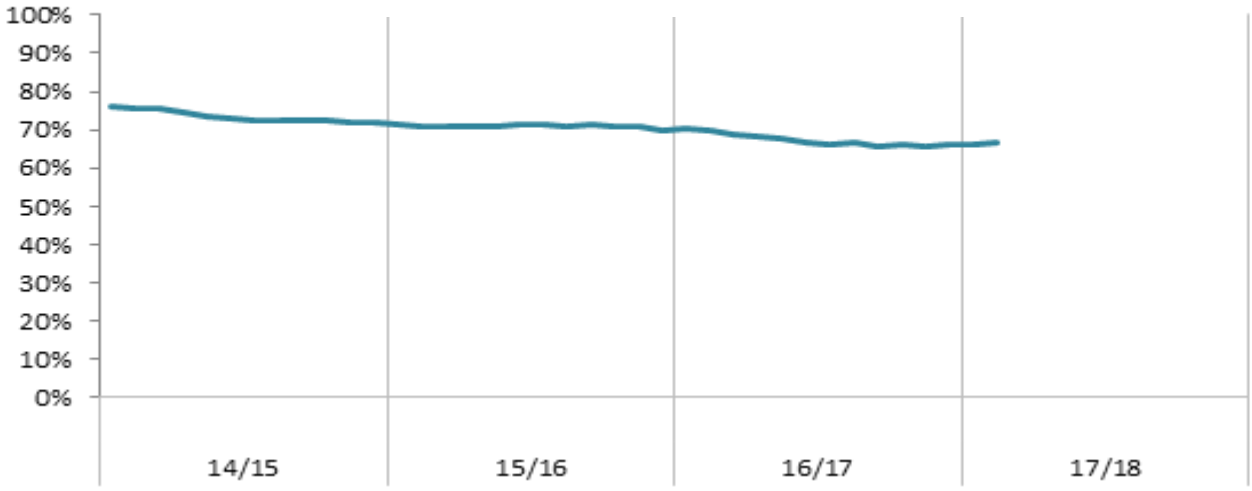
The following chart shows Gatwick's improved QSM performance over the last three years against a backdrop of increased passenger numbers using the Airport and its services:

STRATEGIC REPORT (continued)

Airfield Performance

On time performance remains a key strategic priority for GAL as it seeks to improve the passenger experience, deliver a stable and resilient operation for its airline customers which allows them to continue to grow their businesses from Gatwick.

The graph below shows the percentage of flights departing no later than 15 minutes after the scheduled time of departure on a rolling 12 month basis.



For the year ended 31 March 2017, 65% of departures from Gatwick departed no later than 15 minutes after the scheduled time of departure; this compares with 70% of departures for the year ended 31 March 2016.
A number of factors can influence on time performance and a range of stakeholders including GAL, air traffic control providers, the airlines and its ground handlers have an important role to play. Some of the key challenges over the last year included (i) a continued increase in the proportion of flights subject to airspace restrictions caused by congestion in en-route airspace corridors and/or restrictions at the destination airport; approximately 25% of departures were issued with an airspace restriction in summer 2016 and (ii) pressures in the ground handling market, with ground handlers continuing to find it challenging to deliver against scheduled turn times.

Gatwick took a pro-active role in seeking to support improved on time performance through (i) investment in facilities to support the efficient turnaround of aircraft including the successful delivery of the airline terminal moves project, (ii) the introduction of financial incentives for airlines and ground handlers to reward the efficient turnaround of aircraft, (iii) engagement with ground handlers to audit resource plans ahead of the summer season and (iv) a continued strong focus on meeting the Core Service Standards to support a high quality and efficient operation.

GAL's efforts to support an improvement in on time performance are continuing into 2017/18 with (i) investment in airfield infrastructure, including a planned extension to Pier 6 and planned improvements to the taxiway configuration to improve airfield circulation, (ii) investment in a dedicated airline performance team to monitor and support the delivery of aircraft turnarounds and (iii) enhancement of the financial incentive schemes that reward airlines and ground handlers for the efficient turnaround of aircraft with a 25% discount of the departure demand charge set out in the Conditions of Use now available for each aircraft turn that is completed within its scheduled turn time.

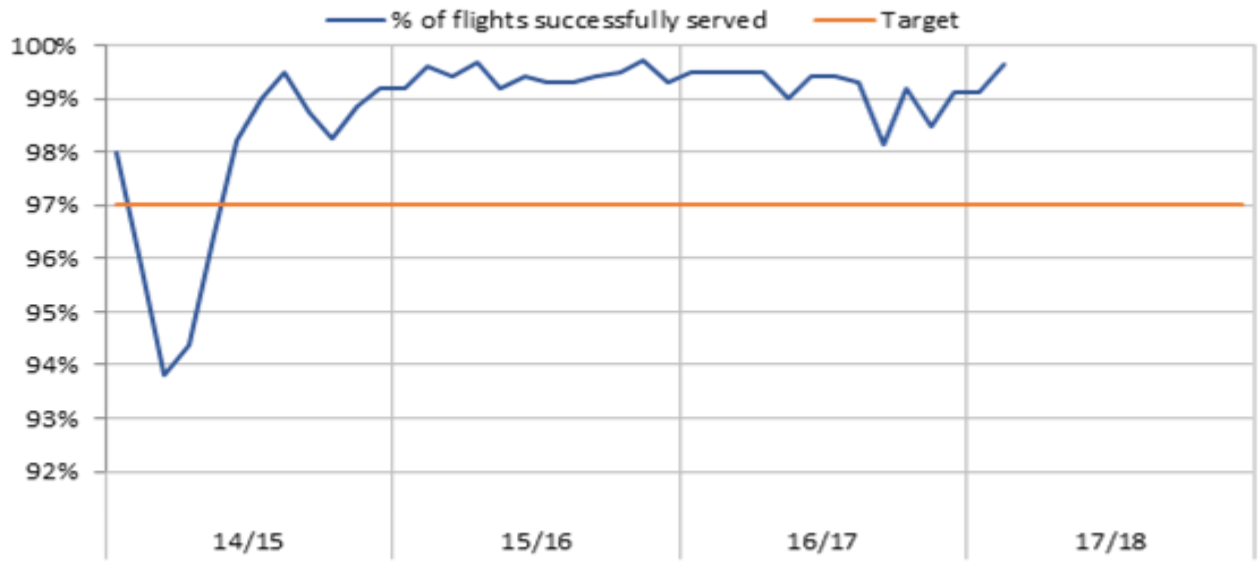
Improving on time performance at the airport remains a key strategic priority, and the early signs are that the collaborative approach outlined above is beginning to positively impact overall performance.

STRATEGIC REPORT (continued)

Inbound Baggage

Inbound baggage (the measure of how timely the delivery of baggage is from the plane to the reclaim belt) is of great importance to Gatwick as it has a significant impact on the passenger experience. During the year ended 31 March 2017, 99% (31 March 2016: 99%) of flights had arrivals bags delivered on time (measured as last bag delivered to the baggage belt within 55 minutes of on-block time).

During the year Gatwick has continued to work closely with its airlines and their ground handling partners to improve and maintain baggage delivery performance, as a result of which the 97% target was consistently achieved and comfortably exceeded throughout the year.



Airspace Change

In August 2015, in response to concerns expressed by communities around the Airport, Gatwick commissioned an Independent Review of Arrivals to ensure that everything that could reasonably be done to minimise disturbance caused by arrivals traffic was being done. The review also considered the way the Airport shared information with local communities and the Airport's complaints procedure. The review was completed at the end of January 2016; it recommended 23 specific steps to improve the management and mitigation of noise from arriving aircraft, and for better community engagement.

Gatwick accepted all of the review recommendations and published an Action Plan on 1 June 2016.

A key outcome of the Action Plan was the establishment of an independent Gatwick Noise Management Board ("NMB") for the governance and oversight of noise matters by concerned stakeholders, including relevant aviation stakeholders and community representatives. The NMB is responsible for the coordinated consideration and oversight of all the recommendations and other wider noise strategies.

The implementation of the recommendations, taken as a whole, will reduce the noise impact of arrivals into Gatwick, and strengthen the Airport's dialogue with its neighbours. The recommendations have already enabled better coordinated noise strategies, more transparent accountability for noise, and the acceleration of planned longer term efficiencies to reduce noise impacts and, through the creation of the NMB, established a radically different and much more transparent process for regular review and updates.

Of the 20 immediate review recommendations 17 have been completed. The remaining of these and the three longer term aspirational recommendations, along with additional proposed noise mitigation strategies developed through the NMB will be taken forward under the direction of the NMB 2017/18 work plan.

STRATEGIC REPORT (continued)

Community Engagement

Gatwick seeks to build strong and constructive relationships with its neighbours and key stakeholders, and values these relationships with both the local community and across the wider region. Gatwick also seeks to engage in many different ways to understand what matters most to people and to keep them up to date about Gatwick airport issues.

One of the ways the Airport engages with the local areas is through the Gatwick Airport Consultative Committee ("GATCOM") which is the Airport's formal consultative body. It is run by West Sussex County Council; with 32 committee members from groups across the region representing a wide range of interests including civil aviation, passenger service, business development, tourism and environmental issues. GATCOM meets quarterly, with appointed sub-committees to discuss matters of particular interest or concern. Gatwick has continued its work with community groups and industry bodies on airspace management with a view to alleviating noise disturbance locally. As previously mentioned Gatwick now participates, along with other interested stakeholder organisations, on the Gatwick Noise Management Board.

Gatwick Airport is also a significant contributor to the South East region's economic activity and is a major regional employment site, generating around 36,000 direct and indirect jobs. Gatwick participates in regional activities through active membership of economic groups and partnerships, working together to build a strong local supply chain; boost business and to strengthen opportunities for employment and skills development. Some of the areas in which Gatwick has been particularly active in over the last year are:

- Continuing to develop a programme of increased community engagement, which started in 2015, through regular publication of a community newsletter, and direct engagement with local parish, town and neighbourhood representatives through a series of half day engagement events at the Airport. These activities have provided a valuable opportunity for Gatwick to share information about the Airport's operations and build greater understanding of the issues of most concern to local communities.

- Participating in regular dialogue with local authorities to understand local issues and priorities and explore opportunities for joint working where appropriate. This has included the County Councils of West Sussex, East Sussex and Surrey; and District/Borough Councils of Crawley; Mole Valley; Reigate and Banstead; Brighton and Hove; and Croydon.

- Delivering an enhanced programme of community investment activity in 2016/17 which aims to target Gatwick's resources to the issues of greatest concern to the local community. The majority of investment has been targeted at charitable giving and sponsorship programmes, demonstrating that Gatwick is taking an active role in supporting the community.

- Investing in the launch of the Gatwick Foundation Fund; a collaboration between Gatwick and the Community Foundations in Sussex, Surrey and Kent, which will oversee £300,000 of annual grants to worthy causes across the region.

- Establishing the Gatwick Growth Board ("GGB") to examine the wider economic and social impacts of Gatwick Airport's future growth and expansion plans with particular emphasis on ensuring that the benefits of Gatwick's expansion are properly distributed across the local area, the wider region and the rest of the UK. The GGB has a particular objective of ensuring areas that need economic regeneration benefit appropriately from Gatwick's expansion.

The Gatwick Foundation Fund is in addition to existing Airport commitments to the Gatwick Airport Community Trust, set up through the Section 106 agreement with West Sussex County Council and Crawley Borough council. The Trust supports local communities most affected by the Airport and its operations and awarded grants to 141 local causes in 2016/17.

STRATEGIC REPORT (continued)

Future Developments

For planning purposes, Gatwick is currently projecting 45.2 million passengers to travel through the Airport during the year ended 31 March 2018, a 2.5% increase on the prior year (actual for year ended 31 March 2017: 44.1 million).

Since 1 April 2014, Gatwick has been operating under the Contracts and Commitments framework, under which the gross increase in allowable yield is RPI+1.0% with the blended increase being RPI+0.0%. In addition to the limitations on charges noted above and in the licence granted by the CAA, Gatwick is cognisant of the "fair price" determined by the CAA of RPI-1.6% included within the monitoring framework. Consistent with these benchmarks, which are measured over the full seven years of the Commitments period, a gross change to the tariff of RPI+0.9% has been applied for the year ending 31 March 2018.

The result of the referendum in favour of the UK leaving the EU is expected to create some economic uncertainty in the UK and Europe in the near term, but Gatwick does not believe this will have a material effect on the strategy and financial performance of the airport in the longer term, provided air services between the UK and other countries are no more constrained than at present.

In the short term, the uncertainty during Brexit negotiations may have a bearing on the level of passenger demand growth, such as through lower levels of economic growth (and therefore consumer demand) or as a result of fluctuations in currency exchange rates, particularly the Euro and the US Dollar affecting the relative levels of UK outbound travel and inbound visits to the UK.

In the medium term, the negotiation of the UK exit from the EU and implementation of new trading arrangements will need to address the air service arrangements between the UK and other countries. This will affect the strategies adopted by individual airlines to serve the UK market and there is a risk of some disruption during transition, but is not expected to materially affect the underlying level of market demand for air travel to/from the UK, at the time of exit, during any transition period or in the longer term.

Financing activities

During the year ended 31 March 2017, the average interest rate payable on borrowings was 4.96% p.a. (31 March 2016: 4.85% p.a.).

During the year ended 31 March 2017, the Group issued £300.0 million of bonds. Further information on the bond issuances is included in note 24 of the financial statements.

STRATEGIC REPORT (continued)

FINANCIAL REVIEW

During the year ended 31 March 2017 the Group made a profit after tax of £124.6 million (2016: £142.2 million profit).

Revenue

In the year to 31 March 2017, the Group's revenue increased as a result of the increased passenger numbers benefitting aeronautical, retail and car parking income.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Aeronautical income	**380.9**	350.8
Retail income	**163.0**	152.5
Car parking income	**86.3**	77.9
Property income	**25.2**	24.7
Operational facilities and utilities income	**32.7**	31.9
Other income	**36.9**	35.3
Total revenue	**725.0**	673.1

Aeronautical Income

Aeronautical income is driven by both traffic volume and the level of airport charges. Since 1 April 2014, Gatwick has been operating under the Contracts and Commitments framework. Under this framework, default prices and service standards are published in Gatwick's Conditions of Use but there is scope for modifications (to both price and service standards) through bilateral contracts with individual airlines. Gatwick has entered into a number of such agreements, with contracts in place with airlines which accounted for over 85% of passengers by 31 March 2017.

As part of the Contracts and Commitments framework, Gatwick has committed to limit the increase in gross yield under the published tariff (i.e. the revenue per passenger before discounts and marketing support under bilateral contracts) to RPI+1.0% and limit the increase in net yield (i.e. the revenue per passenger after discounts and marketing support) to RPI+0.0%. There is scope for prices to be higher or lower than the price path in a given year, with the commitment relating to the overall price profile across the seven year term of the Commitments.

During the year ended 31 March 2017, aeronautical income (after discounts) increased by £30.1 million; equivalent to an increase of 8.6%. The net income per passenger of £8.64 has increased by 0.7% over the year. The planned increase in the gross yield (under the published tariff) was limited by Gatwick to 2.0% (equivalent to RPI+0.9%). The impact of this price increase was partly offset by an increase in the level of discounts offered to airline customers to support passenger growth.

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

Retail Income

Net retail income increased by £10.6 million or 7.1% during the year ended 31 March 2017 compared to a 7.7% increase in passengers. Net retail income per passenger is calculated as follows:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Duty and tax-free	**50.3**	47.9
Specialist shops	**39.9**	38.6
Catering	**32.7**	27.6
Bureau de change	**24.1**	23.3
Other retail income	**16.0**	15.1
	163.0	152.5
Less: retail expenditure	**(2.5)**	(2.6)
Net retail income	**160.5**	149.9
Passengers (m)	**44.1**	40.9
Net retail income per passenger	**£3.64**	£3.67

Net retail income per passenger decreased by £0.03 or 0.8% year-on-year to £3.64 (2016: £3.67).

Duty and tax-free performance saw income levels increase year on year by 5.0%. However, this was below passenger growth due to ongoing challenges in the business environment for this category which has resulted in a reduction in income per passenger from Duty and tax-free of 2.5% year on year.

In specialist shops Gatwick welcomed the arrival of Next and Dune to the South Terminal, complementing the existing fashion offering to passengers, and reflecting the periodic churn of stores. In the North Terminal, despite a temporary loss of space to enable the re-development of the retail environment, specialist shops sales continued to grow. The increase in sales was driven by the very successful “pop up” retail strategy in the departure lounge with brands such as Havaianas, North Face and Cath Kidston. The same strategy is being embedded in the South Terminal in 2017/18.

The strength of the catering category continued with income up 18.5% year on year, and a 10.4% improvement in income per passenger, reflective of strong passenger demand for this category combined with an average 4.5% increase in overall catering space in the year. The year ended 31 March 2017 saw a number of existing catering outlets refurbished and improved, delivering increased seating capacity, customer choice and trading performance along with higher effective margins to Gatwick in some cases. These factors all positively impacted average spend per passenger, as did the full year contribution of certain stores opened in the prior year such as Wagamama.

To ensure the Gatwick retail strategy is fully aligned to customer expectations, a rigorous process of compiling consumer research enables the Airport to derive insight. Decisions are centred on introducing brands that are both relevant and exciting for the Gatwick customer. This approach continues to deliver. Both retail and catering satisfaction scores have consistently remained above 80% for the duration of the financial year, meaning that Gatwick’s customers have rated the selection of retail and catering brands as good to excellent.

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

Car Parking Income

Net car parking income increased by 12.0% during the year ended 31 March 2017. Net car parking income per passenger is calculated as follows:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Car parking income	**86.3**	**77.9**
Less: car parking expenditure	**(19.0)**	**(17.8)**
Net car parking income	**67.3**	**60.1**
Passengers (m)	**44.1**	**40.9**
Net car parking income per passenger	**£1.53**	**£1.47**

Net car parking income per passenger increased by £0.06 (4.1%) in the year ended 31 March 2017.

Overall, car parking income was up £8.4 million (10.8%) as a result of additional spaces generated on the existing estate through reconfiguration and the partial return of Multi Storey Car Park 6 during the peak summer months. Careful cost management led to below passenger growth in costs of 6.7%, primarily driven by the change in sales channel to the direct pre-book channel and supported by the reduction in online paid search costs per acquisition. In addition, active yield management has seen underlying yields increase throughout the year leading to an overall increase in net car parking income of 12%.

Other Income Categories

Other income categories (i.e. excluding aeronautical, retail and car parking) increased by £2.9 million to £94.8 million in 2017 (2016: £91.9 million) primarily as a result of increased passenger numbers.

Income per Passenger

Income per passenger was broadly in line with prior year at £16.44 (2016: £16.46) as outlined above.

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

Operating Costs

Operating costs pre-exceptional items have increased by £33.3 million, or 7.1%, to £503.7 million during the year ended 31 March 2017 (2016: £470.4 million).

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Staff costs	**200.4**	178.2
Retail expenditure	**2.5**	2.6
Car parking expenditure	**19.0**	17.8
Depreciation and amortisation	**147.3**	128.3
Maintenance and IT expenditure	**37.5**	33.5
Rent and rates	**30.8**	29.5
Utility costs	**19.3**	18.2
Other operating expenses	**46.9**	62.3
Total operating costs	**503.7**	470.4

Staff costs increased by £22.2 million or 12.5% for the year ended 31 March 2017, reflecting the 14.8% increase in average full-time equivalent ("FTE") employee numbers and the annual pay increase awarded to staff, partially offset by a change in underlying average pay rates for new starters.

Staff costs associated with the capital expenditure programme increased by £10.1 million (34.1%) as a result of the ongoing capital works and the requirements of the Airport Transformation Programme. These are offset by the subsequent capitalisation of these costs, which appears as part of Other operating expenses. Overall, total staff costs capitalised were £39.7 million in the year ended 31 March 2017 (31 March 2016: £29.6 million).

Average full-time equivalent ("FTE") employee numbers increased from 2,501 in the prior year to 2,871 in the current year. Average operational FTE employees increased from 2,148 to 2,420 during the year, and non-operational FTE employees increased from 353 to 451.The increase in operational staff was driven largely by increased security headcount due to higher passenger numbers and related screening requirements throughout the summer peak.

Depreciation and amortisation has increased £19.0 million (14.8%) due to continued capital investment in the airport and a number of capital large projects completing during the year; notably the North Terminal Development Programme, the Airport Transformation Programme and Pier 1.

Maintenance and IT expenditure has increased £4.0 million (11.9%), partly as a result of increased IT contracted services, system costs and an increase in airside engineering maintenance (particularly runway maintenance).

Rent and rates increased by £1.3 million (4.4%) reflecting the increased number of rateable assets following their return from construction during the year.

Other operating expenses decreased by £15.4 million. The increase in staff costs recharged to the capital expenditure programme accounts for £10.1 million of this. The remaining saving is due to a change in the supplier of air traffic control services in the prior year, offset by an increase in cleaning and logistic costs driven by increased passenger volumes.

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

EBITDA

Reconciliation of earnings before interest, tax, depreciation and amortisation ("EBITDA") to operating profit:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Operating profit	**207.9**	196.8
Add back: exceptional items	**18.4**	5.9
Add back: depreciation and amortisation	**147.3**	128.3
EBITDA	**373.6**	331.0

EBITDA increased by £42.6 million in the year ended 31 March 2017, as a result of continued strong financial performance throughout all areas.

Going Concern

The Group's net asset position is largely unchanged at £629.5 million (2016: £651.8 million).

All the Group's financial covenants (see below) have been met for the year ended 31 March 2017 and are forecast to be met for the years ending 31 March 2018, 2019 and 2020.

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

Senior RAR and Senior ICR

The maximum net indebtedness to the total Regulatory Asset Base[1] ("Senior RAR") and minimum interest cover ratio ("Senior ICR") are the Group's financial covenants that govern the Group's ability to draw new loans under the ACF Agreement. As at 31 March 2017, the Group's Senior RAR ratio was 0.51 (2016: 0.54). The Senior ICR for the year ended 31 March 2017 was 3.96 (2016: 3.51).

1 Regulatory Asset Base is a multiple of EBITDA as defined in the CTA.

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS

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

- passengers and air transport movements ("ATM");
- passengers per ATM and load factors;
- Customer Service Standards ("CSS");
- overall Quality of Service Monitor ("QSM");
- on-time departures;
- EBITDA pre-exceptional items;
- net retail income per passenger;
- net car parking income per passenger;
- income per passenger;
- loss time injury ("LTI") rates;
- absenteeism per employee;
- net indebtedness to total Regulatory Asset Base ("Senior RAR"); and
- interest cover ratio ("Senior ICR").

RISK MANAGEMENT

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

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

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

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

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

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

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

Health and Safety and Security Risks

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

Gatwick continues to develop its Environment, Health and Safety ("EH&S") Programme. The programme is designed to continually improve the Health, Safety and Well-Being of our employees and third parties, as well as the environment, with the ultimate goal of achieving GatwickSAFE, which is a measure of the safety and health of our people, safety of our assets and the safety of our environment.

In 2016/17, Gatwick has maintained its accreditation for Management Systems ISO14001 and OHSAS 18001 and compliance has been monitored during surveillance audits which took place in April and November 2016. Both certifications demonstrate the Airport's commitment to implementing robust systems and controls for managing EH&S risks, which are independently verified for effectiveness.

One of the key performance indicators which Gatwick uses to measure and drive improvement in EH&S performance is the reduction of lost time injuries ("LTI") rates (LTI per 100,000 hours). In the year ended 31 March 2017 the Gatwick reported a 11% reduction with 8 employee LTIs at an LTI rate per 100,000 hours of 0.12 (2016: 9 employee LTIs at a rate of 0.16).

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

The CAA aerodrome standards department visit each aerodrome periodically as part of their audit/inspection programme. The CAA inspectors assess compliance with the requirements of EASA licencing of aerodromes, audit the aerodrome's management safety and assess the competence of those responsible for safety. The last major audit carried out at Gatwick was in summer 2016. During that audit the inspectors found four Level 2 findings, which have all now been closed.

The Group has a clear mandate to build a strong EH&S culture, with an ongoing focus on six key deliverables – Leadership; Competence and Training; Occupational Health and Well-Being; Communications and Engagement; Environmental Stewardship; and Performance Improvement.

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Regulatory Environment, Legal and Reputational Risks

CAA Regulation

The Group's operations, and in particular Gatwick's operations, are subject to regulatory review by the CAA, with the most recent interim review completed in late 2016. The risk of adverse regulatory outcomes is mitigated as far as possible by a dedicated team which ensures full compliance with formal regulatory requirements, has established a sound relationship with the CAA and advises Gatwick's management and Board of Directors on regulatory matters. Regulation is represented on Gatwick's Executive Management Board by the Chief Financial Officer.

An important part of the regulatory framework is Gatwick's continuous dialogue with the airlines that operate at the airport. In order to mitigate the risk of adverse airline relationships, in addition to regular operational meetings with airline representative bodies on a range of operational and strategic issues, there are regular bilateral meetings between senior management at Gatwick and the major airlines operating at Gatwick. Furthermore airlines have been invited to participate at all stages of the Capital Investment Plan including steering and working groups, with Gatwick pro-actively disclosing information to these groups.

Competition Rules

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

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Regulatory Environment, Legal and Reputational Risks (continued)

Permission to Grow and Airports Policy

With increasing demand for air travel, failure to secure planning permissions for new infrastructure would result in Gatwick having insufficient capacity to meet the expected demands of the industry resulting in increased congestion and declining passenger service. This risk is mitigated through extensive consultation with community groups and authorities at a local level, supported by a Section 106 agreement which was renewed during the course of 2015, and active participation in Government policy consultations.

Currently, the Aviation Policy Framework (2013) sets out the Government's policy to allow the aviation sector to continue to make a significant contribution to economic growth across the country, as well as setting out Government policy on important issues such as noise and climate change. It emphasises the need for airport operators to invest in delivering new capacity as well as maximising the use of existing capacity.

Alongside the Policy Framework, an Airports Commission was established by Government to identify the scale and timing of any requirement for additional runway capacity. The Commission recommended the Heathrow North West scheme to Government, subject to a number of conditions. The Commission also confirmed that Gatwick was a "credible, deliverable and financeable option". Following a period of further review and analysis by the Department for Transport, the Government announced in October 2016 that it would accept the recommendation of the Airports Commission in favour of the Heathrow North West Runway scheme.

A Draft Airports National Policy Statement ("NPS") was published on 2 February 2017, for consultation running through to 25 May 2017. The draft NPS sets out the Government's policy on the need for new airport capacity in the South East of England, its preferred location and scheme for delivering this capacity (the Heathrow North West Runway option), and the assessment principles to be used when considering an application for development consent. Gatwick submitted a full response to this consultation outlining its position for consideration by Government.

The need for additional airport capacity is more urgent than ever. The latest traffic forecasts, and opportunities from Brexit, mean the UK needs more capacity well before 2030. Government's preference for Heathrow expansion is not justified by the evidence in the draft NPS, and the challenges inherent in the Heathrow scheme are so substantial that it would be a huge risk for Government to confirm it as the single preference on the basis of the current evidence. Gatwick continues to offer a deliverable and privately funded solution in the form of a second runway. This could be progressed should the Heathrow scheme not come forward as planned or is delayed , or as an another additional runway to provide more capacity due to greater growth than originally expected and to ensure that Brexit opportunities are exploited to the full.

Following the General Election, the new Government will decide whether to proceed with the NPS and what its final form should be, taking into account comments received during the consultation. A final version of the NPS will then be laid before Parliament for designation. Any such designation can be subject to legal challenge.

In addition to work on the NPS, the Government plans to consult on various elements of a new Aviation Strategy during 2017 and 2018. This is likely to replace the Aviation Policy Framework (2013) and include consideration of airport development requirements at all UK airports including Gatwick. The programme for development and adoption of the new Aviation Strategy will be determined by the new Government.

Gatwick will be fully engaging in both the NPS consultation and all other Government consultations in support of a new Aviation Strategy.

The current Section 106 legal agreement with the Local Planning Authorities expires at the end of 2018 and Gatwick will be engaging with these authorities during 2018 with a view to agreeing a new version of this agreement.

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Regulatory Environment, Legal and Reputational Risks (continued)

Environment

Environmental risks need to be mitigated to ensure compliance with environmental legislation and to minimise environmental impact. Poor environmental performance has the potential to impact Gatwick's reputation, its licence to operate and potential to grow. These risks are mitigated at a number of levels including the implementation of an environmental management system which is externally audited and certified to the ISO14001 standard. The management system includes the assessment and management of key environmental risks and opportunities including compliance obligations. Gatwick continues to monitor performance against annual improvement targets and undertakes internal audits and training programmes. Gatwick works proactively with stakeholders to ensure that it effectively manages the challenges posed to the environment by the Airport's operation.

Noise Management

Gatwick continues to demonstrate a clear commitment to building strong and constructive relationships with local residents, in particular its commitment to improve community engagement on the subject of aircraft noise and airspace changes.

A key milestone in 2016 was the creation of the Gatwick Noise Management Board, a central recommendation of the Independent Review of Arrivals. The NMB brings together community representatives and Airport stakeholders for the first time in order to implement the review recommendations. Looking to the future, this forum will form the basis of Gatwick's ongoing strategy to reduce and mitigate the impact of noise from both arrivals and departures.

Compliance against published noise mitigation regulations is managed through the Flight Performance Team which reports to the Director of Corporate Affairs and Sustainability. As an example to Gatwick's commitment to improve transparency, detailed statistics on aircraft complaints are now available to the public on Gatwick's dedicated noise website. Throughout 2016, team members attended numerous public meetings and continued to support a public annual airspace event open to all.

Capital Projects

Gatwick recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Airport mitigates this risk through adherence to a rigorous project process, and by systems of project reviews before approval, during construction and after project completion.

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Changes in Demand

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

Under the Contracts and Commitments framework which has been in place since 1 April 2014, Gatwick carries the financial risk associated with a reduction in passenger volumes but certain mechanisms are available to Gatwick to mitigate and manage risk. As described already, the framework requires Gatwick to limit its maximum average revenue yield over the seven year Commitments term. However Gatwick has the ability to alter prices by up to RPI+10.0% in any year and airline discounts under bilateral contracts are defined, in part, by committed passenger volumes. In addition, there remains flexibility in the capital programme to reduce expenditure commensurate with a reduction in demand.

Industrial Relations

Industrial action by key groups of employees that affects critical services or curtails operations could have potentially adverse financial and/or reputational impacts on the Airport. Gatwick recognises three trade unions – Unite, Prospect, and PCS.

Gatwick has a range of formal consultative bodies that discuss pay, conditions of employment, and business issues with the recognised trade unions. Increasing emphasis has been placed on resolving issues at a departmental level thereby avoiding escalation. The Gatwick Joint Committee, the top-level consultative forum in the Airport, puts more focus on business strategy and performance. There are formal agreements designed to resolve disputes.

Industrial relations have been more challenging throughout 2016/17, with increased trade union activity both nationally and more locally within the Airport. During the year Gatwick undertook consultation to amend its defined benefit pension scheme, including prolonged talks and negotiation with the trade unions (this consultation has now been completed and reforms to the defined benefit pension scheme agreed and implemented). Maintaining strong relationships with the full time union officials, and building solid working relationships with representatives in the forums and meetings established under the collective agreement, is seen to be crucial to preserving good industrial relations at Gatwick.

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Financial Risk Management

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

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

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

(a) Cash Flow Interest Rate Risk

The Group maintains a mix of fixed and floating rate debt. As at 31 March 2017, fixed rate debt after hedging with derivatives represented 99.6% (31 March 2016: 89.3%) of the Group's total external nominal debt.

The Group mitigates the risk of mismatch between aeronautical income, which is directly linked to changes in the retail price index, and interest payments, by the use of inflation linked derivatives.

(b) Funding and Liquidity Risk

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

The Group has positive cash flows before capital expenditure. The Group had net cash flows from operations of £383.1 million for the year ended 31 March 2017 (2016: £340.2 million). As at 31 March 2017, cash at bank was £3.0 million (2016: £3.1 million), undrawn headroom under bank revolving facilities was £253.0 million (2016: £70.0 million) and undrawn headroom under the liquidity facility was £100.0 million (2016: £100.0 million).

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

(c) Credit Risk

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

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

CORPORATE SOCIAL RESPONSIBILITY

Sustainability Management

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

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

The Airport works closely with its local authorities, having signed a Section 106 ("S106") legal agreement with the West Sussex County Council and Crawley Borough Council in December 2008. In December 2015, the legal agreement was extended until the end of 2018. The legal agreement provides the framework for Gatwick's approach on social, environmental and economic matters. It defines how Gatwick's operation, growth and environmental impacts will be managed and ensures the Airport's wider sustainability strategy is aligned with key local authority partners. It is considered good practice in the UK by external stakeholders. The agreement underpins the important relationship between Gatwick and its local authorities who have responsibilities for planning, environmental management and highways. Performance against the legal agreement is communicated through the S106 Annual Monitoring Report and to Gatwick's Consultative Committee ("GATCOM").

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

Decade of Change Progress

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

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

Seven years on from launching the strategy Gatwick continues to work collaboratively with its partners, making significant progress on all areas of focus, including:

- Reducing Airport energy consumption by 13%, and Airport water consumption by 24%, since 2010;
- Reusing or recycling 52% of Airport operational and commercial waste, and becoming the first Airport to process aircraft waste onsite into renewable energy;
- Reducing carbon emissions under GAL's direct control (energy and ground fuels) by 44% since 2010, and securing Airport Carbon Accreditation at Level 3+ ("Neutral") through these reduction efforts, ongoing purchase of renewable electricity for the Airport, and offsetting residual GAL emissions through verified carbon credits; and
- Retained The Wildlife Trusts' Biodiversity Benchmark for the third consecutive year.

This progress is detailed in Gatwick's Annual Sustainability Report published on Gatwick's website.

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

CORPORATE SOCIAL RESPONSIBILITY (continued)

Modern Slavery Act 2015

Gatwick has a zero tolerance policy towards modern slavery and human trafficking, and is committed to ensuring that there is no modern slavery or human trafficking in the supply chains or in any part of the business, and to doing what can be done to prevent the Airport from being used by human traffickers.

There are three broad areas to which Gatwick has regard:

- supply chain – Gatwick has in the region of 750 suppliers; to ensure all those in the supply chain and contractors comply with Gatwick's values and ethics and Gatwick is working towards establishing a supply chain compliance programme.

- business partners – Gatwick will ensure that business partners, not just suppliers, comply with its values and ethics.

- use of the Airport - Gatwick works with the police and other agencies to assist them in detecting and disrupting human trafficking which might be taking place at Gatwick. In addition, security officers are being trained to recognise and assist those who might be vulnerable.

Gatwick is working with The GoodCorporation to develop and implement training and compliance programmes. Gatwick's Slavery and Human Trafficking Statement may be found on Gatwick's website.

STRATEGIC REPORT (continued)

DEVELOPING OUR PEOPLE

Review of the Year

The Human Resources team continues to play an increasingly proactive role across the Gatwick campus, supporting employers to maintain strong industrial relations and sustain recruitment all year round. In particular, Gatwick is working ever more closely with the ground handling organisations to share recruitment and resource planning best practices so as to help meet their resourcing requirements for the busy summer months, and further direct support in attracting, selecting and referencing candidates.

As Gatwick continues to grow so does its workforce; 619 new hires were undertaken (58% in security during 2016/17). The Gatwick Airport Limited brand is strong in the market place, with the business being an attractive choice for candidates as evidenced by both recent searches for more senior level roles and a strong pipeline of security officers. Construction, Engineering and Information Technology vacancies remain the most challenging to fill in a competitive market.

The business continues to grow internal talent aided by implementing succession planning and potential review planning across all leader grades in addition to Executive and Senior Leader roles introduced during the year.

The Executive team remains stable with one addition, a new Chief Planning Officer. This role has been combined with the Corporate Affairs and Sustainability Director role. During the year, a member of the senior leadership team was appointed Chief Operating Officer ("COO") and the Construction leadership has been split between the Chief Construction Officer ("CCO"), focusing on construction delivery, and a Chief Development Officer ("CDO"), focusing on the Airport's long term development plan. A replacement EH&S Director is being recruited to the Executive team.

Pension Consultation

During the year ended 31 March 2017 Gatwick entered into consultation with employees and trade unions to close the Defined Benefit Scheme with members having the option of transferring into the Defined Contribution Scheme or taking a special severance package.

A formal consultation period commenced in September 2016, and concluded in late November 2016. As a result of the consultation an additional option of an amended Defined Benefit Scheme with reduced benefits and risk share was added. Final agreement was reached with acceptance of the proposed changes by all three trade unions in February 2017. Of the 1,196 Defined Benefit Scheme members, 999 elected to transfer to the Defined Contribution Scheme, 142 elected to take special severance and 55 elected to become members of the revised Defined Benefit Scheme.

Although industrial relations were strained during this period, with a threat of industrial action, final agreement with all three trade unions was reached.

STRATEGIC REPORT (continued)

DEVELOPING OUR PEOPLE (continued)

Employee Relations

Gatwick recognises three trades unions (Unite the Union, PCS and Prospect) which represent approximately 2,000 employees. Relationships with all three unions have historically been cordial with no instances of industrial action during the past 20 years. During the year, there was one instance of the threat of industrial action (In relation to the changes to the defined benefit pension scheme) but this was concluded without incident. A two and a half year pay deal for non-managerial staff secured in 2015 expires 30 September 2017.

Gatwick's reward strategy is based on the principle of rewarding individual performance subject to overall Group performance. In addition to an EBITDA target (being the trigger to enable a bonus pot) there is a weighted set of measures which reflect Gatwick's priorities for the year ahead covering customer service (including on-time performance) and environment, health and safety targets. The amount of any payment to eligible employees depends both on their grade and their individual performance.

Attendance Management

The year has seen an increase in absenteeism to an average of 10.4 days from 9.8 days in 2016. Attendance Management, alongside Occupational Health, will be a focus for 2017.

Learning and Development

Gatwick is committed to the development of its people. A team of dedicated operational trainers are employed by Gatwick to ensure the Airport remains compliant and delivers the required regulatory training.

As part of an overall learning and development strategy the focus has remained on developing frontline managers through Gatwick's "Leading People" programme. Over 100 delegates have either completed the year-long programme or are currently in the programme which will be run for all new frontline managers. In addition Gatwick delivered a leadership programme for Senior Leaders and Business Managers with potential during 2016/17, spread over the year and based on three modules (Leading Myself, Leading Others and Leading the Business). Identified benefits of the programme include personal/career development, enhanced cross functional collaboration and improved networks across GAL.

Investment in people "IiP" accreditation

Following re-assessment in 2015, Gatwick continues to hold IiP Gold accreditation, having previously been awarded the Core standard in 2013. 15,000 businesses assessed in the UK hold the IiP accreditation and out of those only 7% (just over 1,000) achieve the Gold standard.

The assessor previously concluded that the employee experience at Gatwick is of the highest level and that our people understand what Gatwick is about, feel a part of it, are engaged and motivated to do a great job and want to play a part in the Airport's success.

In 2015 a key focus was to actively manage talent within the senior leader population, a detailed potential review resulted in a number of promotions and changes to role responsibility. The process has been cascaded in 2016/17 to the remaining leader population to identify potential future leaders.

STRATEGIC REPORT (continued)

DEVELOPING OUR PEOPLE (continued)

Headcount

Headcount turnover increased to 7.8% (2016: 6.5%). There were 207 leavers of which 64% resigned, 6% were made redundant or took special severance, 14% were normal fixed term contract ends, 14% were dismissed or failed probation and 2% left under medical retirement. Average employee headcount increased from 2,651 in the prior year to 3,035 in the current year.

Resourcing

Gatwick actively recruits internally, promoting the development and progression of the Airport's employees and continuously focuses on improving its selection and recruitment processes both internally and externally. The previously outsourced recruitment function was successfully brought back in-house during the year. Wider campus recruitment is also being supported by the creation of a resourcing alliance and the development of a recruitment portal which displays all vacancies across the campus and which is due to go live mid 2017/18.

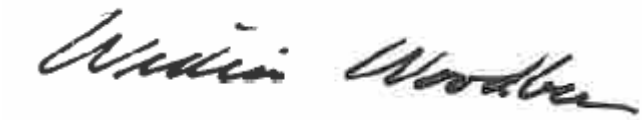
Gatwick's engineering apprenticeship programme celebrates its 40th year in 2017. During 2016 the graduate engineering programme was further developed in partnership with University of Brighton, University College London and Imperial College London.

In July 2016 GAL published a summary of regional and Airport employment and skills research, commissioned in 2015 to support the development of Gatwick's future employment and skills strategy.

Gatwick has a range of equal opportunities policies in order to create and support a diverse workforce. It is the policy of Gatwick that no form of discrimination due to disability, race, sex or age, amongst other characteristics, should/will exist in the workplace. At 31 March 2017 within the Group: 8% of Board members were female and 92% of Board members were male (31 March 2016: 9% and 91%); 24% of senior management were female and 76% male (31 March 2016: 25% and 75%); and 37% of other employees were female and 63% male (31 March 2016: 36% and 64%).

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

On behalf of the Board



William Woodburn
Director
28 June 2017

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31 March 2017.

OWNERSHIP

As at 31 March 2017, Ivy Holdco Limited ("the Company") has four wholly-owned subsidiaries: Gatwick Airport Limited ("Gatwick", "GAL", "the Airport"), Ivy Bidco Limited, Gatwick Airport Pension Trustees Limited and Gatwick Funding Limited, collectively "the Group".

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

The Company's subsidiary, Gatwick Airport Limited, provides the significant majority of the Group's operations.

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

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

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

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

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

[3] The California Public Employees' Retirement System ("CalPERS") manages retirement benefits for more than 1.8 million public employees, retirees, and their families and more than 3,000 employers in the state of California, United States of America. CalPERS also manages health benefits for nearly 1.4 million members. The CalPERS fund invests in a range of asset classes, with a market value of approximately US$314 billion at 31 March 2017.

[4] National Pension Service of Korea ("NPS") is a public pension fund for the general public in Korea with assets of KRW 570 trillion (c.US$500 billion), and is the third largest pension fund in the world.

[5] The Future Fund is a public asset fund established by the Future Fund Act 2006 to strengthen the Australian Government's long-term financial position by meeting the cost of public sector superannuation liabilities. The fund had nearly A$130 billion assets under management as at 31 March 2017.

DIRECTORS' REPORT (continued)

BOARD OF DIRECTORS

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

Andrew Gillespie-Smith
Michael McGhee
William Woodburn
John McCarthy

The following non-executive directors oversee Gatwick Airport Limited on behalf of the consortium:

- Andrew Gillespie-Smith;
- John McCarthy;
- Michael McGhee;
- William Woodburn; and
- Wendy Norris

As most of the Airport's operations occur within Gatwick Airport Limited, below lists the two executive and ten non-executive directors that served on the Board of Gatwick Airport Limited, the primary operating company of the Group.

Sir David Higgins (Non-executive Chairman)
Sir David Higgins was appointed non-executive Chairman in January 2017. Sir David has been non-executive Chairman of High Speed 2 since March 2014 and has made strong progress in establishing an organisation capable of commencing construction in 2017. As Chief Executive of Network Rail, Sir David initiated a major reform programme focussing on transparency, value for money and accountability. Sir David also served as Chief Executive of the organisation responsible for the delivery of the London 2012 Olympic Games, the Olympic Delivery Authority, establishing the organisation and negotiating the overall budget with HM Treasury, and led the commercial negotiations for Stratford City, London & Continental Railways, and Westfield. He is a current Director of the Commonwealth Bank of Australia. Sir David holds a degree in Engineering from Sydney University and a Diploma from the Securities Institute. He is also a Fellow of both the Royal Academy of Engineering and the Institute of Civil Engineers.

Sir Roy McNulty (Non-executive Deputy Chairman)
Sir Roy McNulty became Deputy Chairman of Gatwick Airport Limited on 1 January 2017, having first joined the Board in April 2011 as a Non-executive Director, and been Chairman from 2013 to 2016. Sir Roy was previously Chairman of the Civil Aviation Authority, the UK's specialist aviation regulator, a post he held for eight years. Prior to this he was Executive Chairman of National Air Traffic Services Limited ("NATS") from May 1999 to July 2001. Sir Roy was appointed by the former Secretary of State in February 2010 as Chairman to lead a special Rail Value for Money Study which reported in May 2011. Other previous posts include being Chief Executive and latterly Chairman of Short Brothers plc, the Belfast-based aerospace company now part of Bombardier Inc., President of the Society of British Aerospace Companies, Chairman of the former Department of Trade and Industry Aviation Committee, Deputy Chairman of the Olympic Delivery Authority, Chairman of the Ilex Urban Regeneration Company in Northern Ireland, Chairman of Norbrook Laboratories Limited, and a Non-executive Director of Monarch Holdings Limited.

Stewart Wingate (Chief Executive Officer)
Stewart has served as the Chief Executive Officer (CEO) since 2009. Stewart was with BAA from 2004 until September 2009, first as Customer Services Director of Glasgow Airport, then as Chief Executive Officer of Budapest Airport and then as Managing Director of Stansted Airport. He is a Chartered Engineer and a Fellow of the Institute of Engineering and Technology. Stewart has a Masters in Business Administration with distinction and a first-class honours degree in Electrical and Electronic Engineering.

DIRECTORS' REPORT (continued)

BOARD OF DIRECTORS (continued)

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

Wendy Norris (Non-executive Director, Future Fund representative)
Wendy Norris joined the Future Fund in April 2010 and is the Head of Infrastructure and Timberland. Wendy is responsible for managing and establishing the strategy for the infrastructure and timberland portfolios. Prior to this role, Wendy was a Director of Infrastructure and Timberland. Wendy was previously an Investment Director with Hastings Funds Management where she was responsible for managing infrastructure investments and leading transactions in Australia, the UK and the US. Wendy holds an Applied Science degree from the University of New South Wales and a graduate management diploma from the Australian Graduate School of Management.

Andrew Gillespie-Smith (Non-executive Director, GIP representative)
Andrew joined Global Infrastructure Partners ("GIP") in 2008 and led the M&A team for GIP in acquiring Gatwick Airport, Edinburgh Airport and Terminal Investments Limited. He also led the M&A team on the sale of London City Airport and Great Yarmouth Port. Prior to joining GIP, Andrew was a Managing Director of the Investment Banking Department of Credit Suisse where he worked in both the M&A and global transport groups. He joined Credit Suisse in 1998 when BZW's corporate finance business was acquired by Credit Suisse. Prior to joining BZW, he qualified as a corporate lawyer at the London-based law firm Herbert Smith.

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

Andrew Jurenko (Non-executive Director)
Andrew advised the consortium on the Gatwick acquisition. He was previously employed by BAA plc and was a member of BAA plc's executive committee, as Managing Director of BAA International, where he led the acquisition of Budapest Airport. Andrew's international experience also includes serving as CEO of Australia Pacific Airports Corporation Limited ("APAC"), as interim CEO of Melbourne Airport following its successful acquisition and as Managing Director of BAA Pacific Ltd in Hong Kong. In the UK, Andrew, was also Managing Director of BAA's World Duty Free direct retailing arm, co-Chairman of BAA's non-airport retail joint venture, McArthur Glen, and Managing Director and then Chairman of the commercial property company, BAA Lynton. He is also a non-executive director of Bloc Hotels Group Limited.

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

DIRECTORS' REPORT (continued)

BOARD OF DIRECTORS (continued)

David McMillan (Non-executive Director)
David McMillan has had a long career in the transport sector, with a focus on aviation. Previously he has held a number of key positions including Chair of the global Flight Safety Foundation and Director General of Eurocontrol, which coordinates air traffic across 40 European states. Before that he was UK Director General of Civil Aviation and spoke for Europe on environmental issues at ICAO. Earlier in his career, David led for the Government on the establishment of both the NATS PPP and of Network Rail; and was Secretary to the RUCATSE report on airport capacity in South East England. David started his career in the Diplomatic Service and is a fellow of both the Chartered Institute of Transport and the Royal Aeronautical Society.

William Woodburn (Non-executive Director, GIP representative)
Bill Woodburn is a Founding Partner. He chairs the Portfolio Management Committee and is a member of the Investment, Operating and Valuation Committees. He oversees GIP's Operating Team and is based in Stamford, Connecticut. Prior to the formation of GIP in 2006, Mr. Woodburn spent 23 years at GE, where he most recently served as President and CEO of GE Infrastructure. During his tenure at GE, he oversaw several key acquisitions including those that led to the GE entry and expansion in the water technology business. Mr. Woodburn previously served as Executive Vice President and as a member of the four person Office of the CEO at GE Capital. He served on the GE Capital Board for 2000 and 2001.

Mr. Woodburn holds M.S. and B.S. degrees in Engineering from Northwestern University and the U.S. Merchant Marine Academy. He is a member of the Boards of Directors of London Gatwick Airport, Edinburgh Airport, Competitive Power Ventures, Hess Infrastructure Partners and Gas Natural.

John McCarthy (Non-executive Director, ADIA representative)
John McCarthy is Global Head of Infrastructure at Abu Dhabi Investment Authority. He is responsible for developing and implementing investment strategy for the infrastructure division and for overseeing all day-to-day activities within the infrastructure team. This includes managing ADIA's existing investment portfolio, as well as new transactions.

With over 20 years' experience in this sector, John joined ADIA from Deutsche Bank where he was Managing Director and Global Head of Infrastructure. Prior to that he worked at ABN AMRO and BZW in Australia. He holds a post graduate degree in Finance and a BA in Economics from Monash University, Melbourne.

BOARD COMMITTEES

There are four sub-committees of the Board of Directors: an Audit and Governance Committee, a Capital Investment Board Sub-Committee, Environment Health and Safety and Operational Resilience Committee, and a Nomination and Remuneration Committee.

The Audit and Governance Committee (Chairman, Andrew Gillespie-Smith) is responsible for the independent oversight of corporate governance, the system of internal control, risk management and the financial reporting processes of the Group.

The Capital Investment Board Sub-Committee (Chairman, Andrew Gillespie-Smith) is primarily responsible for discharging the Board's duties in relation to capital investment. In particular, it is responsible for the approval of any project over £10.0 million and the annual Capital Investment Plan.

The Environment Health and Safety and Operational Resilience Committee (Chairman, David McMillan) is responsible for reviewing the Group's strategy with respect to health and safety, operational resilience and business continuity. The Committee monitors the Group's performance against targets and drives management commitment and accountability with respect to managing risks.

The Nomination and Remuneration Committee (Chairman, Michael McGhee) is responsible for overseeing Board and Senior Management appointments, remuneration and succession planning.

These committees meet at least twice per annum.

DIRECTORS' REPORT (continued)

EXECUTIVE MANAGEMENT BOARD

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

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

DIVIDENDS

On 29 June 2016 and 22 November 2016, the Directors declared and paid dividends of 29.48p and 19.65p per share amounting to £75.0 million and £50.0 million respectively; a total of £125.0 million during the year (2016: £48.0 million on 11 December 2015). The Directors did not recommend the payment of a final dividend (2016: £nil).

DIRECTORS' INDEMNITY

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any indemnity to which the person concerned might otherwise be entitled, every Director of the Company shall be indemnified out of the assets of the Company against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

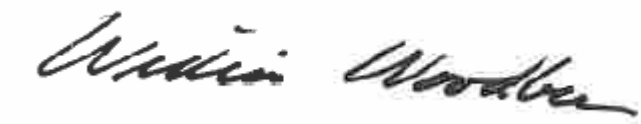
DISCLOSURE OF INFORMATION TO AUDITOR

So far as the Directors who held office at the date of approval of this Directors' Report are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

INDEPENDENT AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board



William Woodburn
Director
28 June 2017

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

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

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law they have elected to prepare the consolidated financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the consolidated and parent company financial statements, the directors are required to:

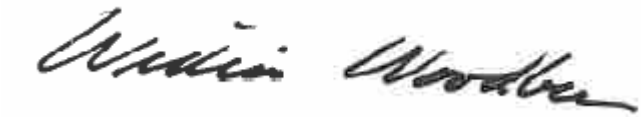
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



William Woodburn
Director
28 June 2017

INDEPENDENT AUDITOR'S REPORT
To the members of Ivy Holdco Limited

We have audited the consolidated financial statements of Ivy Holdco Limited for the year ended 31 March 2017 set out on pages 41 to 78. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on consolidated financial statements

In our opinion:

- the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the group financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

Other matter – consolidated financial statements

- We have reported separately on the parent company financial statements of Ivy Holdco Limited for the year ended 31 March 2017.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road, Crawley
West Sussex, RH11 9PT
28 June 2017

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2017

	Note	**Year ended 31 March 2017 £m**	Year ended 31 March 2016 £m
Revenue	5	**725.0**	673.1
Other operating income	6	**5.0**	-
Operating costs	7	**(522.1)**	(476.3)
Operating profit		**207.9**	196.8
Analysed as:			
Operating profit before exceptional items		**226.3**	202.7
Operating costs - exceptional	8	**(18.4)**	(5.9)
Investment property revaluation	17	**70.4**	28.7
Loss on disposal of fixed assets	9	**(1.7)**	(6.4)
Financing			
Fair value (loss)/gain on derivative financial instruments	10	**(56.6)**	4.1
Finance income	11	**20.8**	21.3
Finance costs	12	**(109.0)**	(103.5)
Profit before tax		**131.8**	141.0
Income tax (charge)/credit	13	**(7.2)**	1.2
Profit for the year		**124.6**	142.2

The notes on pages 45 to 78 form an integral part of these financial statements.
All income and expenses recognised during the current and prior year are from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2017

	Note	**Year ended 31 March 2017 £m**	Year ended 31 March 2016 £m
Profit for the year		**124.6**	142.2
Other comprehensive income			
Items that will not be reclassified to the consolidated income statement			
Actuarial (loss)/gain on retirement benefit obligations	25	**(22.2)**	3.7
Tax credit/(charge)	23	**3.8**	(0.9)
Other comprehensive (loss)/income for the year		**(18.4)**	2.8
Total comprehensive income for the year		**106.2**	145.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

	Note	**Share capital £m**	**Merger reserve £m**	**Retained earnings £m**	**Total £m**
Balance at 1 April 2015		254.4	(260.8)	560.7	554.3
Profit for the year		-	-	142.2	142.2
Other comprehensive income		-	-	2.8	2.8
Capital contribution	15	-	-	0.5	0.5
Dividends	14	-	-	(48.0)	(48.0)
Balance at 31 March 2016		254.4	(260.8)	658.2	651.8
Profit for the year		-	-	124.6	124.6
Other comprehensive income		-	-	(18.4)	(18.4)
Capital contribution	15	-	-	0.5	0.5
Dividends	14	-	-	(125.0)	(125.0)
Balance at 31 March 2017		**254.4**	**(260.8)**	**639.9**	**633.5**

The notes on pages 45 to 78 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017	Note	31 March 2017 £m	31 March 2016 £m
Assets			
Non-current assets			
Property, plant and equipment	16	**2,254.6**	2,138.1
Investment properties	17	**882.4**	801.3
Intangible assets	18	**9.8**	12.3
Finance lease receivables	21	**16.9**	17.0
Other non-current assets	22	**0.1**	0.1
		3,163.8	2,968.8
Current assets			
Inventories		**4.5**	2.9
Trade and other receivables	19	**36.5**	44.5
Cash and cash equivalents		**3.0**	3.1
		44.0	50.5
Total assets		**3,207.8**	3,019.3
Liabilities			
Non-current liabilities			
Borrowings	24	**(1,867.8)**	(1,753.8)
Derivative financial liabilities	20	**(212.4)**	(155.8)
Finance lease liabilities	21	**(45.2)**	(44.0)
Deferred tax	23	**(247.3)**	(243.9)
Retirement benefit obligations	25	**(44.8)**	(45.2)
		(2,417.5)	(2,242.7)
Current liabilities			
Finance lease liabilities	21	**(0.4)**	(0.3)
Trade and other payables	26	**(135.6)**	(109.4)
Current tax liabilities		**(7.8)**	(3.3)
Deferred income		**(13.0)**	(11.8)
		(156.8)	(124.8)
Total liabilities		**(2,574.3)**	(2,367.5)
Net assets		**633.5**	651.8
Equity			
Share capital	27	**254.4**	254.4
Retained earnings		**639.9**	658.2
Merger reserve		**(260.8)**	(260.8)
Total equity		**633.5**	651.8

The notes on pages 45 to 78 form an integral part of these financial statements.

The financial statements of Ivy Holdco Limited (Company registration number 07497036) were approved by the Board of Directors on 28 June 2017 and were signed on its behalf by:

Michael McGhee
Director

William Woodburn
Director

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2017

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Cash flows from operating activities		
Profit before tax	**131.8**	141.0
Adjustments for:		
Investment property revaluation	**(70.4)**	(28.7)
Loss on disposal of fixed assets	**1.7**	6.4
Fair value loss/(gain) on financial instruments	**56.6**	(4.1)
Finance income	**(20.8)**	(21.3)
Finance costs	**109.0**	103.5
Depreciation and amortisation	**147.3**	128.3
Impairment of fixed assets	**9.1**	5.9
Decrease in inventories, trade and other receivables	**9.6**	4.0
Increase/(decrease) in trade and other payables	**34.0**	(2.3)
(Decrease)/increase in net pension liability	**(24.2)**	6.8
Other non-cash movements	**3.0**	0.7
Cash generated from operations	**386.7**	340.2
Corporation tax paid	**(3.6)**	-
Net cash from operating activities	**383.1**	340.2
Cash flows from investing activities		
Interest received	**1.1**	1.4
Purchase of fixed assets	**(279.8)**	(213.8)
Net cash from investing activities	**(278.7)**	(212.4)
Cash flows from financing activities		
Interest paid	**(91.2)**	(93.3)
Increase in external borrowings	**111.7**	90.0
Payment of inflation accretion	**-**	(26.7)
Repayment of related party borrowings	**-**	(50.0)
Equity dividends paid	**(125.0)**	(48.0)
Net cash from financing activities	**(104.5)**	(128.0)
Net decrease in cash and cash equivalents	**(0.1)**	(0.2)
Cash and cash equivalents at the beginning of the year	**3.1**	3.3
Cash and cash equivalents at the end of the year	**3.0**	3.1

The notes on pages 45 to 78 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. BASIS OF PREPARATION

Ivy Holdco Limited ("the Company") is a private company, limited by shares, and is registered and incorporated in England, United Kingdom.

These are the consolidated financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 March 2017. The comparative year is the year ended 31 March 2016. They are presented in sterling and rounded to the nearest £0.1million. They have been prepared applying the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the EU and prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS as adopted by the EU and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

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

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

- the forecast passenger numbers, revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure;
- the Group's funding structure and the facilities that are available to the Group (refer to note 24); and
- the Group's financial covenants.

All of the Group's financial covenants (refer to note 24) have been met and are forecast to be met for the years ending 31 March 2018, 2019 and 2020.

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

The financial statements were approved by the Directors on 28 June 2017.

The principal accounting policies, set out in note 3, have been applied consistently by the Group through the current and prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

2. STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

The following standards, amendments and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRS 16 Leases
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group and parent Company's financial statements. Certain of these standards and interpretations will, when adopted, require addition to or amendment of disclosures in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Ownership

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

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

Gatwick Airport Limited owns 100% of the share capital of Gatwick Funding Limited, a company incorporated in Jersey but resident in the UK for tax purposes.

On 31 March 2015 Ivy Midco Limited (the Company's ultimate parent in the UK), sold 100% of the issued share capital of Ivy Bidco Limited to Ivy Holdco Limited. Following this transaction, Gatwick Airport Limited acquired 100% of the issued share capital of Ivy Bidco Limited from Ivy Holdco Limited.

Gatwick Airport Limited, its parent entity Ivy Holdco Limited, Gatwick Funding Limited, Ivy Bidco Limited and its subsidiary Gatwick Airport Pension Trustees Limited are collectively referred to in this Annual Report and the financial statements as "the Ivy Holdco Group" or "the Group".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and it can be measured reliably. Revenue is measured at the fair value of the consideration received net of rebates, discounts and VAT and comprises:

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

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

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

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

- Contractual income is treated as deferred income and released to the income statement as earned.

(c) Exceptional Items

Exceptional items are material items of income or expense that, because of the unusual nature or frequency of the events giving rise to them, merit separate presentation to allow an understanding of the Group's financial performance. Such items may include gains or losses on disposal of assets, impairment of assets, major reorganisation of business, closure or mothballing of terminals and those costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project.

Details of items treated as exceptional are provided in note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, Plant and Equipment

Property, plant and equipment constitutes the Group's operational asset base including terminal complexes, airfield assets, plant, equipment and Group occupied properties. The Group has elected to use the cost model under IAS 16 Property, Plant and Equipment as modified by the transitional exemption to account for assets at deemed cost that were fair valued upon transition to IFRS at 1 April 2014 in accordance with IFRS 1. Consequently, property, plant and equipment is stated at cost or deemed cost less accumulated depreciation.

Assets in the course of construction are stated at cost less provision for impairment (if any). 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 relevant borrowing costs, own labour costs of construction and related project management costs, and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the Directors are satisfied that it is probable the necessary consents will be received and the resources will be available to achieve a successful delivery of an asset such that future commercial returns will flow to the Group.

The Group 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.

Depreciation is provided on operational assets, other than land, and assets in the course of construction, on a straight-line basis over their expected useful life as follows:

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

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

Interest payable resulting from financing property, plant and equipment whilst in the course of construction is capitalised once planning permission has been obtained and a firm decision to proceed taken. Capitalisation of interest ceases once the asset is complete and ready for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment Properties

The Group recognises investment property in accordance with IAS 40 Investment Properties. An investment property is one held to either earn rental income or for capital growth. The Group has elected to use the fair value model and therefore investment properties are initially recognised at cost then revalued to fair value at the reporting date by an Independent Property Valuer. Gains or losses in fair value of investment properties are recognised in the Income Statement in the period in which they arise. Gains or losses on disposal of investment property are recognised in the Income Statement on completion.

If an investment property becomes Group occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost.

(f) Intangible Assets

Intangible assets relate to computer software costs and are measured at cost less accumulated amortisation. Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful economic life, from the date that the assets are available for use. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

(g) Impairment of Assets

The Group 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 Group 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 Income Statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases

Leases are classified according to the substance of the arrangement**.**

Operating Leases

(i) Group as lessor

Leases where the Group 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) Group as lessee

Rental costs under operating leases are charged to the Income Statement in equal instalments over the period of the lease.

Finance Leases

(i) Group as lessor

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

(ii) Group as lessee

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

(i) Inventories

Inventories consist of engineering spares and other consumable stores and are recorded at the lower of cost and net realisable value.

(j) Cash and Cash Equivalents

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

(k) Provisions

Provisions are recognised when the Group 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 financial position date and are discounted to present value where the effect is material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

The Group's financial assets are classified as loans and receivables. Classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

(i) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not they are presented as non-current assets.

(ii) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in payments; or
- it becoming probable that the counterparty will enter administration/bankruptcy or financial re-organisation.

For trade receivables that are not assessed to be impaired individually are in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade receivables includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of trade receivables is reduced through the use of an allowance account (i.e. a bad debt provision). When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Instruments (continued)

Financial Liabilities

Financial liabilities are classified as either:

- financial liabilities at fair value through profit or loss (FVTPL); or
- other financial liabilities (i.e. borrowings, trade and other payables, etc.)

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of a business after deducting all of its liabilities.

(i) Borrowings

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 Income Statement over the period of the borrowings using the effective interest method.

(ii) Debt issue costs and arrangement fees

Issue costs are those that are incurred directly in connection with the issue of a financial 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

(iii) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Instruments (continued)

(iv) Derivative financial instruments

The Group has a number of derivative financial instruments used to manage its exposure to inflation and interest rate risk. The derivative financial instruments utilised by the Group are interest rate and index-linked swaps.

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

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each financial position date.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group's current derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the Income Statement and incorporates a reduction to reflect the credit risk of the Group on its swap position at the reporting date in accordance with IFRS 13.

The periodic amounts of interest payable and receivable on interest rate and index-linked swaps, and the periodic change in the accrued amount of inflation accretion on the notional principal value of the index-linked swaps, are taken to the Income Statement; accrued interest payable and receivable is included in current creditors or debtors, and the inflation accretion accrual is included in non-current debt in the Statement of Financial Position.

(m) Retirement Benefit Obligations

The Group operates a self-administered defined benefit plan. The defined benefit obligation or surplus is calculated each reporting date by independent actuaries using the projected unit method. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the Statement of Financial Position.

Current service costs, a net interest charge on plan assets and plan administration expenses are recognised within the Income Statement as they are incurred.

Re-measurements on retirement benefit obligations are recognised in Other Comprehensive Income under IAS 19 Employee Benefits.

The Group also operates a defined contribution scheme. The pension costs of this scheme are charged to the Income Statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Share-Based Payments

Certain employees of the Group participate in a long term incentive plan ("LTIP"). Under this equity-settled plan, the Group receives services from these employees as consideration for equity instruments of another group company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense, with the corresponding entry being a capital contribution from the group entity ultimately issuing the equity instruments. During the year ended 31 March 2017, this group entity was Ivy Midco Limited.

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

(o) Current and Deferred Taxation

The tax expense for the year comprises current and deferred taxation. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in equity.

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

Deferred tax is provided on temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, for instance, deferred tax is recognised on temporary differences arising from the revaluation of investment properties.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the financial position date and are expected to apply in the periods in which the timing differences are expected to reverse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share Capital

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

(q) Dividend Distribution

A dividend distribution to the Group's shareholders is recognised in the Group's financial statements in the year in which the shareholders' right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting, or board meeting for interim dividends.

(r) Related Party Disclosures

The Group's ultimate parent entity in the UK is Ivy Midco Limited, a company registered in England and Wales. The results of the Group are included in the audited consolidated financial statements of Ivy Midco Limited for the year ended 31 March 2017. The results of the Group will be included in the audited consolidated financial statements of Ivy Luxco I S.à.r.l. for the year ended 31 March 2017 (the largest group to consolidate these financial statements for the year).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Investment Properties

Investment properties were valued at fair value at 31 March 2017 by Deloitte LLP. The valuations were prepared in accordance with IFRS 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.

Investment property classification and valuation are areas of judgement. The directors have defined specific criteria required to be met for assets to be classified as investment property.

Retirement Benefit Obligations

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at year end and future returns on pension scheme assets and charges to the Income Statement. The factors have been determined in consultation with the Group's actuary taking into account market and economic conditions. Changes in assumptions can vary from year-to-year as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations. The objective of setting pension scheme assumptions for future years is to reflect the expected actual outcomes. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the Statement of Comprehensive Income. Further details are available in note 25.

At 31 March 2017 the Group changed the discount rate methodology used in the Retirement Benefit Obligations. This change in methodology changed the rate from 2.5% to 2.9% which impacted the liability as at 31 March 2017 by £46.0 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Taxation

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. On this basis, the recognition of a deferred tax asset in the financial statements requires judgement from management. Management make an assessment of forecast profits in future years and use this as the basis for their decision as to whether or not to recognise the deferred tax asset.

Fair Value of Derivative Financial Instruments

The fair value of derivative financial instruments is determined by using valuation techniques. These techniques require judgement and make assumptions that are mainly based on market conditions existing at each reporting date. The valuation technique used is a discounted cash flow methodology.

5. REVENUE

The Directors consider the business to have only one segment (defined as the Airport due to the nature of its regulatory environment, type of operation, geographic location, and internal management reporting framework).

All of the Group's revenue arises in the United Kingdom and is from continuing operations. Additional details of the revenue generated by each of the Group's key activities are given below.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Airport and other traffic charges	**380.9**	350.8
Retail	**163.0**	152.5
Car parking	**86.3**	77.9
Property income	**25.2**	24.7
Operational facilities and utilities income	**32.7**	31.9
Other	**36.9**	35.3
	725.0	673.1

6. OTHER OPERATING INCOME

During the year ended 31 March 2017, the Group received other income in the form of insurance proceeds.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Other income	**5.0**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

7. OPERATING COSTS

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Wages and salaries	**159.3**	138.9
Social security costs	**14.8**	11.9
Pension costs	**19.6**	20.4
Share-based payments	**0.5**	0.5
Other staff related costs	**6.2**	6.5
Staff costs	**200.4**	178.2
Retail expenditure	**2.5**	2.6
Car parking expenditure	**19.0**	17.8
Depreciation and amortisation	**147.3**	128.3
Maintenance and IT expenditure	**37.5**	33.5
Rent and rates	**30.8**	29.5
Utility costs	**19.3**	18.2
Police costs	**13.0**	12.7
General expenses	**21.5**	29.6
Aerodrome navigation service costs	**12.4**	20.0
Operating costs – exceptional (note 8)	**18.4**	5.9
	522.1	476.3

Staff costs are offset by the subsequent capitalisation of these costs, which appear as part of general expenses above. Overall, total staff costs capitalised were £39.7 million in the year ended 31 March 2017 (2016: £29.6 million). Average full-time equivalent ("FTE") employee numbers increased from 2,501 in the prior year to 2,871 in the current year. Average operational FTE employees increased from 2,148 to 2,420 during the year, and non-operational FTE employees increased from 353 to 451.

Average employee headcount increased from 2,651 in the prior year to 3,035 in the current year.

Amounts receivable by the Group's auditor in respect of audit services to the Group totalled £0.2 million in 2017 (2016: £0.2 million.) Amounts receivable by the Group's auditor in respect of non-audit services to the Group totalled £1.7 million in 2017 (2016: £0.9 million.)

No directors of the Company were remunerated during the year for services to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

8. OPERATING COSTS - EXCEPTIONAL

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Impairment of fixed assets [(a)]	**9.1**	5.9
Staff related exceptional costs [(b)]	**33.9**	-
Pension curtailment credit [(b)]	**(30.2)**	-
Other exceptional costs [(c)]	**5.6**	-
	18.4	5.9

(a) During the year ended 31 March 2017 the Group impaired assets in the course of construction by £9.1 million because it was deemed that a project had a significant change in scope and the costs associated with it should not be carried forward to completion. In the year ended 31 March 2016 a £5.9 million impairment was identified following review of a structural defect identified in a car park.

(b) During the year ended 31 March 2017, the Group undertook a consultation to amend its defined benefit pension plan. Staff related exceptional costs include payments incurred as a result of staff transitioning to the defined contribution pension plan and also severance payments. As a result of the changes to the Group's pension scheme, the Group received a pension curtailment credit.

(c) Other exceptional costs were incurred during the year in relation to the Airport Transformation Programme.

9. LOSS ON DISPOSAL OF FIXED ASSETS

Loss on disposal of fixed assets relate to assets no longer in use by the Group.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Loss on disposal of fixed assets	**1.7**	6.4

10. FAIR VALUE MOVEMENT ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value (loss)/gain on derivative financial instruments represents the year-on-year movement in the present value of expected net cash outflows in interest rate and index- linked derivative contracts (refer to note 20).

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Fair value (loss)/gain on derivative financial instruments	**(56.6)**	4.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

11. FINANCE INCOME

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Interest receivable on money markets and bank deposits	**0.2**	-
Interest receivable on derivative financial instruments [(a)]	**19.7**	20.4
Finance lease income	**0.9**	0.9
	20.8	21.3

(a) These amounts relate to interest receivable on £396.0 million interest to index-linked derivatives. Refer to note 20 for detail on the nominal value of the Group's swaps.

12. FINANCE COSTS

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Interest on fixed rate bonds	**90.8**	87.1
Interest on bank borrowings [(a)]	**1.9**	1.7
Interest on borrowings from other group undertakings [(b)]	**-**	2.0
Interest payable on derivative financial instruments [(c)]	**11.1**	11.4
Amortisation of debt costs	**2.2**	1.6
Non-utilisation fees on bank facilities	**2.1**	1.9
Finance lease expense	**8.9**	9.6
Net charge on pension scheme	**1.6**	1.4
Capitalised borrowing costs [(d)]	**(9.6)**	(13.2)
	109.0	103.5

(a) These amounts relate to interest payable on loans drawn under the £300.0 million Authorised Credit Facilities Agreement.

(b) This amount related to interest on borrowings from Ivy Midco Limited during the year ended 31 March 2016.

(c) These amounts relate to interest payable on £396.0 million interest to index-linked derivatives. Refer to note 20 for detail on the nominal value of the Group's swaps.

(d) Borrowing costs have been capitalised using a rate of 5.2% (2016: 5.1%), which is the weighted average of rates applicable to the Group's overall borrowings outstanding during the year. The capitalised interest amount is calculated by applying the capitalisation rate to the average monthly balance of assets in the course of construction, after deducting the value of construction work undertaken but not paid for, and included in the value of such assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

13. INCOME TAX

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Current tax		
Total current tax charge	**-**	-
Deferred tax		
Current year	**(24.6)**	(26.8)
Adjustment in respect of prior years	**1.6**	0.1
Effect of change in tax rate	**15.8**	27.9
Total deferred tax (charge)/credit	**(7.2)**	1.2
Income tax (charge)/credit	**(7.2)**	1.2

Reconciliation of effective tax rate

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 20% (2016: 20%). The actual tax charge for the current and prior year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Profit before tax	**131.8**	141.0
Tax on profit at 20% (2016: 20%)	**(26.4)**	(28.2)
Effect of:		
Adjustment in respect of prior years	**1.6**	0.1
Expenses not deductible for tax purposes	**(5.9)**	(6.5)
Income not taxable	**-**	0.5
Movements in deferred tax with no current tax impact	**0.4**	-
Tax rate changes	**15.8**	27.9
Effects of group relief	**8.5**	8.1
Revaluation on investment property	**(1.2)**	(0.7)
Total tax (charge)/credit	**(7.2)**	1.2

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. These will reduce the Group's future current tax charge and deferred tax liability accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

14. DIVIDENDS

On 29 June 2016 and 22 November 2016, the Directors declared and paid dividends of 29.48p and 19.65p per share amounting to £75.0 million and £50.0 million respectively; a total of £125.0 million during the year (2016: £48.0 million on 11 December 2015). The Directors did not recommend the payment of a final dividend (2016: £nil).

15. SHARE BASED PAYMENTS

The Group has an LTIP for certain members of its Executive Management Board. During the year ended 31 March 2017 the LTIP related to equity instruments of Ivy Midco Limited. On 31 March 2015, the LTIP members' interest was transferred from Ivy Bidco Limited to Ivy Midco Limited.

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

The initial investment by participants at 1 October 2011 is at price equal to the estimated fair value, for taxation purposes, of the equity instrument at inception of the scheme. The equity instrument has been valued for accounting purposes applying a simplified binomial valuation methodology, using the output of a discounted cash flow model under a series of probability weighted scenarios as to the financial performance of the Group, including dividend cash flows, and the timing and level of any future sale. The Group recognised total expenses of £0.5 million related to equity-settled share-based payment transactions in the year ended 31 March 2017 (31 March 2016: £0.5 million).

The participants in the scheme are party to a loan agreement with Gatwick Airport Limited, amounting to £2.8 million (2016: £2.8 million), the purpose of which enabled the participants to fund the original allotment of equity instruments of Ivy Bidco Limited under the LTIP agreement. The participants originally directed Gatwick Airport Limited to pay monies lent under the loan agreement directly to Ivy Bidco Limited for that purpose. The loan is interest free and repayable under the terms set out in the loan agreement. In particular, the loan has no fixed duration, but shall become repayable in full no later than two business days after the date on which the participant disposes of their equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

16. PROPERTY, PLANT AND EQUIPMENT

Cost	Terminal complexes £m	Airfield assets £m	Group occupied properties £m	Plant, equipment & other assets £m	Assets in the course of construction £m	Total £m
1 April 2015	1,161.4	459.4	59.2	295.6	248.6	2,224.2
Additions at cost	-	-	-	-	220.1	220.1
Interest capitalised	-	-	-	-	13.2	13.2
Transfers to completed assets	39.3	2.6	16.3	29.6	(107.9)	(20.1)
Disposals	(5.6)	(0.7)	-	(8.7)	-	(15.0)
31 March 2016	1,195.1	461.3	75.5	316.5	374.0	2,422.4
Additions at cost	-	-	-	-	272.6	272.6
Interest capitalised	-	-	-	-	9.6	9.6
Transfers to completed assets	240.7	38.8	18.0	119.1	(462.2)	(45.6)
Disposals	(9.0)	(0.3)	-	(3.0)	-	(12.3)
Impairment	-	-	-	-	(9.1)	(9.1)
Reclass between categories	(0.2)	-	31.8	-	-	31.6
31 March 2017	**1,426.6**	**499.8**	**125.3**	**432.6**	**184.9**	**2,669.2**
Depreciation						
1 April 2015						
Additions at cost	(67.6)	(26.1)	(4.1)	(76.6)	-	(174.4)
Charge for the year	(69.0)	(33.0)	(3.1)	(14.3)	-	(119.4)
Disposals	1.8	0.7	-	7.0	-	9.5
1 April 2016	(134.8)	(58.4)	(7.2)	(83.9)	-	(284.3)
Charge for the year	(81.7)	(28.5)	(4.5)	(26.8)	-	(141.5)
Disposals	8.1	0.3	-	2.8	-	11.2
31 March 2017	**(208.4)**	**(86.6)**	**(11.7)**	**(107.9)**	**-**	**(414.6)**
Net book value						
31 March 2017	**1,218.2**	**413.2**	**113.6**	**324.7**	**184.9**	**2,254.6**
31 March 2016	1,060.3	402.9	68.3	232.6	374.0	2,138.1
1 April 2015	1,093.8	433.3	55.1	219.0	248.6	2,049.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation

Terminal complexes, airfield assets, Group occupied properties, plant and equipment and other assets are shown at historical cost or deemed cost following fair value revaluation upon the Group's transition to IFRS at 1 April 2014.

Capitalised interest

Interest costs of £9.6 million (2016: £13.2 million) have been capitalised in the year at a capitalisation rate of 5.2% (2016: 5.1%) based on a weighted average cost of borrowings.

Leased assets

The Group had assets held under finance leases, capitalised and included in property, plant and equipment as follows:

	31 March 2017 £m	31 March 2016 £m
Cost or valuation	**171.8**	169.7
Accumulated depreciation	**(8.5)**	(5.7)
Net book value	**163.3**	164.0

Total future minimum lease payments under finance leases are as follows:

	31 March 2017		31 March 2016	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**8.3**	**-**	8.2	-
Within two to five years	**28.5**	**0.5**	28.1	-
After five years	**97.4**	**2.3**	96.1	2.6
	134.2	**2.8**	132.4	2.6

Total minimum lease payments for land and buildings relate to electricity supply equipment at Gatwick leased on agreement with UK Power Networks Services Limited ("UKPNS"). The lease expires in 2083. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element fee payable to UKPNS as neither the Group nor UKPNS are able to split the base fee between a capital and maintenance charge. The commitment has been discounted at Gatwick's weighted average cost of capital.

Security

As part of the financing agreements outlined in note 24, the Group have granted security over its assets and share capital to the Group's secured creditors via a Security Agreement, with Deutsche Trustee Company Limited acting as the Borrower Security Trustee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

17. INVESTMENT PROPERTIES

Valuation	Investment properties £m
1 April 2015	765.5
Transfers to completed assets (from Assets in the course of construction)	13.4
Disposals	(0.4)
Impairment	(5.9)
Revaluation gain	28.7
31 March 2016	801.3
Transfers to completed assets (from Assets in the course of construction)	42.3
Reclass between categories	(31.6)
Revaluation gain	70.4
31 March 2017	**882.4**

Net book value	
31 March 2017	**882.4**
31 March 2016	801.3
1 April 2015	765.5

Valuation

Investment properties and land held for development were valued at open market value at 31 March 2017 by Deloitte LLP at £882.4 million. They were valued at 31 March 2016 at £801.3 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 gain of £70.4 million is recognised in the Income Statement (2016: £28.7 million).

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

The fair value measurement for all of the investment properties has been categorised as a level 2 fair value based on the inputs to the valuation technique used (refer to note 21). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

18. INTANGIBLE ASSETS

Cost	Intangible assets £m
1 April 2015	41.0
Transfers to completed assets (from Assets in the course of construction)	6.7
Disposals	(4.2)
31 March 2016	43.5
Transfers to completed assets (from Assets in the course of construction)	3.3
Disposals	(0.1)
31 March 2017	**46.7**
Amortisation	
1 April 2015	(26.5)
Charge for the year	(8.9)
Disposals	4.2
31 March 2016	(31.2)
Charge for the year	(5.8)
Disposals	0.1
31 March 2017	**(36.9)**
Net book value	
31 March 2017	**9.8**
31 March 2016	12.3
1 April 2015	14.5

19. TRADE AND OTHER RECEIVABLES

	31 March 2017 £m	31 March 2016 £m
Trade receivables[1]	**21.5**	26.6
Accrued interest receivable	**1.4**	1.4
Other receivables	**9.5**	5.4
Prepayments and accrued income	**3.7**	10.7
Amounts owed by group undertakings – interest free	**0.3**	0.3
Amounts owed by group undertakings – interest bearing	**0.1**	0.1
	36.5	44.5

[1] At 31 March 2017, trade receivables of £3.3 million were impaired (31 March 2016: £2.2 million). There were no trade receivables past due by more than 180 days but not impaired (31 March 2016: £0.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

20. DERIVATIVE FINANCIAL LIABILITIES

	31 March 2017		31 March 2016	
	Notional £m	**Fair value £m**	Notional £m	Fair value £m
Variable rate to index-linked swaps	**40.0**	**33.2**	40.0	26.6
Fixed rate to index-linked swaps	**356.0**	**179.2**	356.0	129.2
	396.0	**212.4**	396.0	155.8

Variable rate to index-linked swaps
Variable rate to index-linked swaps have been entered into to economically hedge borrowings and inflation-linked revenue.

Fixed rate to index-linked swaps
Fixed rate to index-linked swaps have been entered into to economically hedge borrowings and inflation-linked revenue.

The above swaps are designated as financial instruments which are fair valued through profit or loss. The gains and losses arising on changes in fair value at the reporting date are reduced to reflect the credit risk of the Group on its swap position at the reporting date. The net gains and losses are recognised immediately in the Income Statement.

21. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, cash and short term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions, principally interest rate swaps and index-linked swaps. The purpose of these transactions is to manage the interest rate and inflation risks arising from the Group's operations and its sources of finance.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Board of Directors approves prudent treasury policies for managing each of the risks which are summarised below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

21. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk

Market risk is the risk that changes in market prices, such as interest rates and inflation indices (such as RPI) will affect the Group's income and expenditure or the value of its holdings of financial instruments.

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 75% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

As at 31 March 2017, the Group's fixed: floating interest rate profile, after hedging, on gross debt was 99:1 (31 March 2016: 89:11).

As at 31 March 2017, each 0.5% change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the finance income, finance cost and mark-to-market valuation of derivatives:

	31 March 2017		31 March 2016	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.5% increase	**3.0**	**-**	3.2	-
0.5% decrease	**(2.7)**	**-**	(2.9)	-

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet their contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-3/F3. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+(S&P)/BBB+(Fitch).

As at 31 March 2017, the Group had no credit risk exposure with derivative counterparties of its interest rate swaps and index-linked swaps due to a liability position on the mark to market (31 March 2016: nil).

The carrying amount of financial assets represents the maximum credit exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

21. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

Financial instruments by category

The Group's financial instruments can be analysed under the following categories:

Loans and receivables	**31 March 2017 £m**	31 March 2016 £m
Finance lease receivables	**16.9**	17.0
Trade receivables	**21.5**	26.6
Other receivables	**9.5**	5.4
Cash and cash equivalents	**3.0**	3.1
Total financial assets	**50.9**	52.1

Total future minimum lease receivables under finance leases are as follows:

	31 March 2017 £m	31 March 2016 £m
Less than one year	**0.9**	0.9
Between one and five years	**3.6**	3.6
More than five years	**79.8**	80.7
	84.3	85.2

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group regularly reviews and maintains or adjusts the capital structure as appropriate in order to achieve these objectives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

21. FINANCIAL INSTRUMENTS (continued)

	31 March 2017		31 March 2016	
	Other financial liabilities at amortised cost £m	**Liabilities at fair value through income statement £m**	Other financial liabilities at amortised cost £m	Liabilities at fair value through income statement £m
Borrowings	**1,867.8**	**-**	1,753.8	-
Derivative financial liabilities	**-**	**212.4**	-	155.8
Finance lease liabilities	**45.6**	**-**	44.3	-
Trade payables	**23.7**	**-**	19.7	-
Other payables	**2.8**	**-**	2.6	-
Capital creditors	**48.1**	**-**	54.3	-
Total financial liabilities	**1,988.0**	**212.4**	1,874.7	155.8

At 31 March 2017, the Group has not designated any financial liabilities at fair value through the Income Statement, other than its derivative financial liabilities which do not qualify for hedge accounting.

The tables below analyse the gross undiscounted contractual cash outflows/(inflows) on the Group's financial liabilities and net settled derivative financial instruments as at 31 March 2017 to the contract maturity date.

	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
31 March 2017				
Class A Bonds – Principal payments	**-**	**-**	**-**	**1,850.0**
Class A Bonds – Interest payments	**94.9**	**94.9**	**284.8**	**1,125.4**
Derivative financial instruments	**(8.1)**	**(7.8)**	**44.5**	**211.2**
	86.8	**87.1**	**329.3**	**3,186.6**
31 March 2016				
Class A Bonds – Principal payments	-	-	-	1,550.0
Class A Bonds – Interest payments	87.1	87.1	261.2	1,015.6
Derivative financial instruments	(8.5)	(8.1)	35.0	136.7
	78.6	79.0	296.2	2,702.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

21. FINANCIAL INSTRUMENTS (continued)

	31 March 2017	31 March 2017
	Book value £m	**Fair value £m**
Fair value of borrowings		
Class A Bonds	**1,821.9**	**2,382.0**

The fair values of listed borrowings are based on quoted prices.

Fair value estimation

Financial instruments that are measured in the Statement of Financial Position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the Group's derivative financial instruments is determined using the present value of the estimated future cash flows based on observable yield curves. As at 31 March 2017, all of the resulting fair value estimates in the Group are included at Level 2 except for Bonds which are valued at Level 1, consistent with previous years (31 March 2016: Level 2 except for Bonds which are valued at Level 1).

22. OTHER NON-CURRENT ASSETS

Other non-current assets relate to amounts due from group undertakings.

	31 March 2017 £m	31 March 2016 £m
Other non-current assets	**0.1**	0.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

23. DEFERRED TAX

The following are the deferred tax assets and liabilities recognised by the Group and associated movements during the year:

	Losses £m	Fixed assets £m	Retirement benefit obligations £m	Short term timing differences £m	Total £m
1 April 2015	51.2	(298.9)	8.1	(4.6)	(244.2)
(Charge)/credit to income	(26.4)	25.9	0.9	0.8	1.2
Charge to equity	-	-	(0.9)	-	(0.9)
31 March 2016	24.8	(273.0)	8.1	(3.8)	(243.9)
(Charge)/credit to income	11.2	(15.3)	(3.5)	0.4	(7.2)
Credit to equity	-	-	3.8	-	3.8
31 March 2017	**36.0**	**(288.3)**	**8.4**	**(3.4)**	**(247.3)**

24. BORROWINGS

	31 March 2017 £m	31 March 2016 £m
Fixed rate borrowings	**1,821.9**	1,525.5
Authorised Credit Facility–Revolving Facility [(a)]	**45.9**	228.3
	1,867.8	1,753.8
Maturity Profile:		
Repayable between 1 and 2 years	**45.9**	-
Repayable between 2 and 5 years	**-**	228.3
Repayable in more than 5 years	**1,821.9**	1,525.5
	1,867.8	1,753.8

(a) This amount includes capitalised upfront costs in relation to the bank facilities entered into during the year ended 31 March 2014. These costs are being amortised over the term of the facility.

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

Ivy Holdco Group Facilities

Gatwick Airport Limited is party to a Common Terms Agreement ("CTA") with, *inter alia*, the Royal Bank of Scotland plc as ACF agent and previously the Initial ACF agent. Gatwick Airport Limited has a Borrower Loan Agreement with both Gatwick Funding Limited (as Issuer) and Deutsche Trustee Company Limited (as Borrower Security Trustee). The CTA together with a Master Definitions Agreement covers, *inter alia*, the Initial Authorised Credit Facility Agreement (the "Initial ACF Agreement"), the Authorised Credit Facility Agreement (the "ACF Agreement") and the Borrower Loan Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

24. BORROWINGS (continued)

The ACF Agreement entered into on 27 March 2014 has a Revolving Credit Facility of £300.0 million. The ACF Agreement terminates on 27 March 2019. There are £47.0 million drawings outstanding on the Revolving Credit Facility at 31 March 2017 (31 March 2016: £230.0 million).

The Group's subsidiary Gatwick Funding Limited, has issued £1,850.0 million of publicly listed fixed rate secured Bonds comprising: £300.0 million Class A 6.125 per cent. Bonds with scheduled and legal maturities of 2026 and 2028 respectively; £300.0 million Class A 6.5 per cent. Bonds with scheduled and legal maturities of 2041 and 2043 respectively; £300.0 million Class A 5.25 per cent. Bonds with scheduled and legal maturities of 2024 and 2026 respectively; £300.0 million Class A 5.75 per cent. Bonds with scheduled and legal maturities of 2037 and 2039 respectively; £350.0 million of publicly listed fixed rate secured bonds comprising £350.0 million Class A 4.625 per cent. Bonds with scheduled and legal maturities of 2034 and 2036 respectively; and £300.0 million of publicly listed fixed rate secured bonds comprising £300.0 million Class A 2.625 per cent. Bonds with scheduled and legal maturities of 2046 and 2048 respectively.

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

At 31 March 2017, the average interest rate payable on borrowings was 4.96% (31 March 2016: 4.85% p.a.).

At 31 March 2017, the Group had £253.0 million (31 March 2016: £70.0 million) undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date.

Financial covenants

Under the CTA, the Group is required to comply with certain financial and information covenants. All financial covenants have been tested and complied with as at 31 March 2017 (31 March 2016: all covenants tested and complied with).

The following table summarises the Group's financial covenants as at 31 March 2017 under the CTA, and lists the trigger and default levels:

Covenant	**31 March 2017**	Trigger	Default
Minimum interest cover ratio ("Senior ICR")	**3.96**	< 1.50	< 1.10
Maximum net indebtedness to the total regulatory asset base ("Senior RAR")	**0.51**	> 0.70	> 0.85

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

25. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plan

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

The total cost charged to the Income Statement of £4.8 million (2016: £3.8 million) represents contributions payable to this scheme by the Group at rates specified in the rules of the plans. As at 31 March 2017, £4.4 million of contributions (31 March 2016: nil) due in respect of the current reporting period remain unpaid to the scheme.

Defined benefit pension plan

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

The results of the formal actuarial valuation as at 30 September 2013 were updated to 31 March 2017 by an independent qualified actuary in accordance with IAS 19.

During the year ended 31 March 2017, the Group undertook a consultation to amend its defined benefit pension plan and a number of employees left the plan.

The estimated amount of total employer contributions expected to be paid to the plan during the year ending 31 March 2018 is £0.4 million (actual for year ended 31 March 2017: £8.8 million).

The following table sets out the key IAS 19 assumptions used for the plan:

	31 March 2017 %	31 March 2016 %
Rate of increase in salaries – to 31 March 2017	**1.5**	-
– from 31 March 2017	**1.5**	3.0
– thereafter	**1.5**	3.0
Rate of increase in pensions in payment (RPI)	**3.2**	3.0
Rate of increase in pensions in payment (5% LPI)	**3.1**	2.9
Discount rate	**2.9**	3.5
Retail Prices Index inflation	**3.2**	3.0
Consumer Prices Index inflation	**2.1**	2.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

25. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit pension plan (continued)

The mortality assumptions used were as follows:

	31 March 2017 Years	31 March 2016 Years
Life expectancy of male aged 60 at the Statement of Financial Position date	**27.0**	27.4
Life expectancy of male aged 60 in 20 years' time	**28.5**	29.3

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

Assumptions	Change in assumption	Impact on plan liabilities at 31 March 2017 £m
Discount rate	+0.5%	(54.1)
	-0.5%	63.5
Life expectancy	+ 1 year	14.0
	- 1 year	(14.0)

The amount included in the Statement of Financial Position arising from the Group's obligations in respect of its defined benefit plan is as follows:

	31 March 2017 £m	31 March 2016 £m
Present value of plan liabilities	**(477.0)**	(396.0)
Fair value of plan assets	**432.2**	350.8
Deficit	**(44.8)**	(45.2)

Reconciliation of present value of plan liabilities

	31 March 2017 £m	31 March 2016 £m
Opening present value of plan liabilities	**(396.0)**	(390.8)
Current service cost	**(14.4)**	(16.6)
Curtailment credit	**30.2**	0.5
Interest cost	**(13.9)**	(13.3)
Contributions from plan members [(a)]	**(2.0)**	(2.2)
Benefits paid	**5.2**	5.1
Actuarial (loss)/gain	**(86.1)**	21.3
Closing present value of plan liabilities	**(477.0)**	(396.0)

(a) Contributions from plan members include contributions paid by the Group on behalf of plan members via salary sacrifice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

25. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit pension plan (continued)

Reconciliation of fair value of plan assets

	31 March 2017 £m	31 March 2016 £m
Opening fair value of plan assets	**350.8**	350.1
Interest on plan assets	**12.3**	11.9
Actuarial gain/(loss)	**63.9**	(17.6)
Benefits paid	**(5.2)**	(5.1)
Admin expenses	**(0.4)**	(0.4)
Contributions paid by employer	**8.8**	9.7
Contributions paid by members	**2.0**	2.2
Closing fair value of plan assets	**432.2**	350.8

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

	31 March 2017	31 March 2016
Equities	**33%**	35%
Private credit	**2%**	-
Diversified growth funds - emerging market multi-asset funds	**10%**	10%
Diversified growth funds	**31%**	33%
Liability driven investment	**24%**	22%
	100%	100%

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

Re-measurements under IAS 19 are determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on index-linked investments are based on relevant indices as at the financial position date. Expected returns on equity investments and diversified growth funds reflect long-term real rates of return expected in the respective markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

25. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit pension plan (continued)

The amounts recognised in the income statement are as follows:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Curtailment credit	**30.2**	0.5
Admin expenses	**(0.4)**	(0.4)
Employer's part of current service cost	**(14.4)**	(16.6)
Net interest charge	**(1.6)**	(1.4)
	13.8	(17.9)

Actuarial gains and losses

The amount recognised in other comprehensive income for the year ended 31 March 2017 is a loss of £22.2 million (31 March 2016: £3.7 million gain).

Amounts for current year and prior years

	31 March 2017 £m	31 March 2016 £m	31 March 2015 £m	31 March 2014 £m	31 March 2013 £m
Present value of plan liabilities	**(477.0)**	(396.0)	(390.8)	(321.1)	(290.0)
Fair value of plan assets	**432.2**	350.8	350.1	297.1	281.4
Deficit	**(44.8)**	(45.2)	(40.7)	(24.0)	(8.6)

The Group operates the schemes under the UK regulatory framework. Benefits are paid to members from trustee-administered funds, and the trustees of each scheme are responsible for ensuring that each representative scheme is sufficiently funded to meet current and future benefit payments. Scheme assets are held in trusts separate to the Group. If investment experience is worse than expected, the Group's obligations increase.

26. TRADE AND OTHER PAYABLES

	31 March 2017 £m	31 March 2016 £m
Trade payables	**23.7**	19.7
Accruals	**46.6**	22.3
Capital payables	**48.1**	54.3
Accrued financing charges	**0.3**	0.1
Accrued interest payable	**14.1**	10.5
Other payables	**2.8**	2.5
	135.6	109.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

27. SHARE CAPITAL

	31 March 2017 £m	31 March 2016 £m
Called up, allotted and fully paid		
254,417,261 (2016: 254,417,261) ordinary shares of £1.00 each	**254.4**	254.4

28. RELATED PARTY TRANSACTIONS

During the year the Group entered into transactions with related parties as follows:

	Interest payable to related party		Amounts owed from related party	
	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	**As at 31 March 2017 £m**	As at 31 March 2016 £m
Ivy Midco Limited	**-**	(2.0)	**0.4**	0.4

Ivy Midco Limited is the Group's ultimate parent entity in the UK (see note 31).

29. COMMITMENTS

Capital commitments

Contracted commitments for capital expenditure amount to £60.1 million (2016: £64.7 million).

Commitments under operating leases

At 31 March 2017, the Group has commitments under non-cancellable operating leases which are payable as follows:

	Land & Buildings 31 March 2017 £m	**Other leases 31 March 2017 £m**	Land & Buildings 31 March 2016 £m	Other leases 31 March 2016 £m
Within one year	**1.0**	**0.1**	1.0	-
Within two to five years	**4.0**	**-**	2.7	0.1
After five years	**2.1**	**-**	2.0	-
	7.1	**0.1**	5.7	0.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

29. COMMITMENTS (continued)

Other commitments

During the year ended 31 March 2014, the Group reviewed its current policy around the noise alleviation. In April 2014 Gatwick launched a new revised domestic noise insulation scheme for local communities affected by noise around the Airport. The scheme is one of the most innovative in Europe and covers an additional 1,000 homes and increases the area eligible by 17km^2. Estimated payments under this scheme will total £3.0 million, spread over a four year period.

In addition, there are live blight schemes to support the market for housing in areas identified for a potential future runway at Gatwick. Obligation under these schemes will only crystallise once the Group announces its intention to pursue a planning application for a new runway. At this time, no decisions have been made.

30. CLAIMS AND CONTINGENT LIABILTIES

As part of the refinancing agreements outlined in note 24, the Group have granted security over their assets and share capital to the Group's secured creditors via a Security Agreement, with Deutsche Trustee Company Limited acting as the Borrower Security Trustee.

Other than the above, the Group has no contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and no other items arising in the normal course of business at 31 March 2017 (31 March 2016: nil).

31. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

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

The Group's ultimate parent in the UK is Ivy Midco Limited, which is the largest parent undertaking in the UK to consolidate these financial statements. The consortium that ultimately own and control the Group and Ivy Midco Limited comprises Global Infrastructure Partners (41.95%), the Abu Dhabi Investment Authority (15.90%), the California Public Employees' Retirement System (12.78%), National Pension Service of Korea (12.14%), and Future Fund Board of Guardians (17.23%). The Groups results are also included in the audited consolidated financial statements of Ivy Luxco I S.à.r.l. and of Ivy Midco Limited for the year ended 31 March 2017 (the largest and smallest groups to consolidate these financial statements respectively).

INDEPENDENT AUDITOR'S REPORT
To the members of Ivy Holdco Limited

We have audited the parent company financial statements of Ivy Holdco Limited for the year ended 31 March 2017 set out on pages 81 to 88. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the parent company financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Other matter – consolidated financial statements

We have reported separately on the consolidated financial statements of Ivy Holdco Limited for the year ended 31 March 2017.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road, Crawley
West Sussex, RH11 9PT
28 June 2017

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 March 2017

	Note	**31 March 2017 £m**	31 March 2016 £m
Assets			
Non-current assets			
Investment in subsidiaries	6	**604.9**	604.9
Net assets		**604.9**	604.9
Equity			
Share capital	8	**254.4**	254.4
Retained earnings		**350.5**	350.5
Total equity		**604.9**	604.9

The notes on pages 84 to 88 form an integral part of these parent company financial statements.

These parent company financial statements were approved by the Board of Directors on 28 June 2017 and were signed on its behalf by:

Michael McGhee
Director

William Woodburn
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

	Note	Share capital £m	Retained earnings £m	Total £m
Balance at 1 April 2016		254.4	350.5	604.9
Profit for the year	4	-	125.0	125.0
Dividends	5	-	(125.0)	(125.0)
Balance at 31 March 2017		**254.4**	**350.5**	**604.9**

The notes on pages 84 to 88 form an integral part of these parent company financial statements.

COMPANY CASH FLOW STATEMENT
For the year ended 31 March 2017

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Cash flows from operating activities		
Profit before tax	**125.0**	48.0
Net cash from operating activities	**125.0**	48.0
Cash flows from investing activities		
	-	-
Net cash from investing activities	**-**	-
Cash flows from financing activities		
Equity dividends paid	**(125.0)**	(48.0)
Net cash from financing activities	**(125.0)**	(48.0)
Net decrease in cash and cash equivalents	**-**	-
Cash and cash equivalents at the beginning of the year	**-**	-
Cash and cash equivalents at the end of the year	**-**	-

The notes on pages 84 to 88 form an integral part of these parent company financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. BASIS OF PREPARATION

These financial statements are the financial statements of Ivy Holdco Limited ("the Company") for the year ended 31 March 2017. The comparative period is the year ended 31 March 2016. They have been prepared applying the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the EU and prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS as adopted by the EU and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

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.

As at 31 March 2017 the Company had net current liabilities of £28,000 (2016: £27,000) and net assets of £604.9 million (2016: £604.9 million). Having made enquiries of management, and taking into account the net asset position of the Company, the Directors have a reasonable expectation that the Company will continue as a going concern, and the financial statements have been prepared on that basis.

The financial statements were approved by the Directors on 28 June 2017.

The principal accounting policies, which have been applied consistently throughout the period, are set out below.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in subsidiaries

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

(b) Receivables

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

(c) Current and deferred taxation

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in equity.

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

Deferred tax is provided on temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the financial position date and are expected to apply in the periods in which the temporary differences are expected to reverse.

(d) Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Payables excluding borrowings are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

(e) Share Capital

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

(f) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In applying the Company's accounting policies management have made estimates and judgements. Actual results may, however, differ from the estimates calculated and management believe that the following presents the greatest level of uncertainty.

Taxation

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

Investments in subsidiaries

Management regularly assesses the performance of the subsidiaries of the Company and takes into account forecast future cash flows and activities. Management believe that the carrying value of the investments are supported by their underlying net assets.

4. COMPANY RESULT FOR THE YEAR

The profit for the year ended 31 March 2017 was £125.0 million (31 March 2016: £48.0 million)

As permitted by Section 408 of the Companies Act 2006, no separate Income Statement is presented in respect of the Company.

Employee information

The Company had no employees during the period. All staff costs are borne by Gatwick Airport Limited, the Company's subsidiary.

No Directors were remunerated during the period.

5. DIVIDENDS

On 29 June 2016 and 22 November 2016, the Directors declared and paid dividends of 29.48p and 19.65p per share amounting to £75.0 million and £50.0 million respectively; a total of £125.0 million during the year (2016: £48.0 million on 11 December 2015). The Directors did not recommend the payment of a final dividend (2016: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

6. INVESTMENT IN SUBSIDIARIES

	31 March 2017 £m	31 March 2016 £m
Investment in subsidiaries	**604.9**	604.9

The Company has investments in the following subsidiary undertakings:

Subsidiary Undertakings	**Principal activity**	**Holding**	**%**
Gatwick Airport Limited	Airport owner and operator	Ordinary Shares	100%
Gatwick Funding Limited	Financing company	Ordinary Shares	100%
Ivy Bidco Limited	Property company	Ordinary Shares	100%
Gatwick Airport Pension Trustees Limited†	Dormant company	Ordinary Shares	100%

† Held by a subsidiary undertaking

All subsidiaries (except for Gatwick Funding Limited ("GFL")) are incorporated and operate in England, United Kingdom. Gatwick Airport Limited and Ivy Bidco Limited have registered office 5th Floor, 6 St Andrew Street, London, EC4A 3AE. Gatwick Airport Pension Trustees Limited has registered office 5th Floor Destinations Place, Gatwick Airport, West Sussex, RH6 0NP. GFL is incorporated in Jersey and has registered office 44 Esplanade, St Helier, Jersey, JE4 9WG.

7. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 2 March 2011, as part of the Group's refinancing, Ivy Bidco Limited transferred ownership of Gatwick Airport Limited to the Company, for consideration of £597,117,801, the carrying value of Ivy Bidco Limited's investment in Gatwick Airport Limited as at that date. This consideration was satisfied by the Company issuing an additional 597,117,801 ordinary shares at £1.00 per share to Ivy Bidco Limited.

As a result of the acquisition of Gatwick Airport Limited, the Company indirectly acquired ownership of Gatwick Funding Limited, being a wholly-owned subsidiary of Gatwick Airport Limited, incorporated in Jersey.

On 31 March 2015 the Company acquired 100% of the issued share capital of Ivy Bidco Limited from Ivy Midco Limited (the Company's ultimate parent in the UK), for consideration of £7,779,360 in the form of a share for share exchange. Immediately following this transaction, the company sold 100% of the issued share capital of Ivy Bidco Limited to Gatwick Airport Limited in exchange for 7,779,360 ordinary shares in Gatwick Airport Limited issued at £1 per share. As a result of the above transaction, the Company indirectly acquired ownership of Gatwick Airport Pension Trustees Limited, being a wholly-owned subsidiary of Ivy Bidco Limited, incorporated in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

8. CALLED UP SHARE CAPITAL

	31 March 2017 £'m	31 March 2016 £'m
Called up, allotted and fully paid		
254,417,261 (2016: 254,417,261) ordinary shares of £1.00 each	**254.4**	254.4

9. RELATED PARTY TRANSACTIONS

During the year the Company had no notable related party transactions.

10. CLAIMS AND CONTINGENT LIABILITIES

As part of the Group's financing agreements, the Company has granted security over their assets and share capital to the Group's secured creditors via a Security Agreement, with Deutsche Trustee Company Limited acting as the Borrower Security Trustee.

Other than the above, the Company has no contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and no other items arising in the normal course of business at 31 March 2017.

11. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

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

The Company's parent is Ivy Midco Limited, which is the largest parent undertaking in the UK to consolidate these financial statements. The consortium that ultimately own and control the Company are Global Infrastructure Partners (41.95%), the Abu Dhabi Investment Authority (15.90%), the California Public Employees' Retirement System (12.78%), National Pension Service of Korea (12.14%), and Future Fund Board of Guardians (17.23%). The results of the Company are included in the audited consolidated financial statements of Ivy Luxco I S.à.r.l. and Ivy Midco Limited for the year ended 31 March 2017, the largest and smallest groups to consolidate these financial statements respectively.

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