

IVY MIDCO LIMITED

**Annual Report and the Consolidated and Parent Company
Financial Statements for the 9 month period ended 31
December 2019**

Company Registration Number 06894065

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**ANNUAL REPORT AND CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2019**

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STRATEGIC REPORT

In accordance with sections 414A and 414C of the Companies Act 2006 ("the Act"), this strategic report informs the members as to how the Directors of the Group have performed their duty under section 172 (duty to promote the success of the company).

In summary, it contains 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 period, and position at the period end.

This Strategic report is presented in five sections:

1. Business overview – an overview of the Group's: Structure; Strategy; Regulatory Environment; Financing structure; and Ownership;
2. Management review – overview of the period ended 31 December 2019, along with an outlook for 2020;
3. Financial review – presentation and explanation of the key drivers behind the financial performance reported for the period ended 31 December 2019 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered;
4. Corporate Governance and Leadership – description of the Board of Directors (the 'Board') and Committees of the Board which provide overall leadership to the Group; and
5. Internal controls and risk management – outline of the Group's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the Group Executive Committee and Board.

1. Business Overview

Gatwick's Corporate Structure

As at 31 December 2019, Ivy Midco Limited ("the Company") has seven wholly-owned subsidiaries: Ivy Super Holdco Limited, Ivy Holdco Limited ("IHL"), Gatwick Airport Limited ("Gatwick", "GAL", "the Airport"), Ivy Bidco Limited, Gatwick Airport Pension Trustees Limited, Ivy Property Holdings Limited and Gatwick Funding Limited, collectively known as "the Group". The business of Ivy Midco Limited is that of a holding company.

Ivy Holdco Limited along with Gatwick Airport Limited, Ivy Bidco Limited, Gatwick Airport Pension Trustees Limited and Gatwick Funding Limited are referred to collectively in this Strategic Report and these financial statements as "the Ivy Holdco Group".

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

During the period, the Group changed its year end from 31 March to 31 December. The current period covers the nine months for 1 April 2019 to 31 December 2019.

STRATEGIC REPORT (continued)

Business Overview (continued)

Strategy

The 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.

Regulatory Environment

On 1 April 2014, a new regulatory framework, based on Commitments backed by a licence and supplemented by a monitoring regime, came into operation at Gatwick. The Commitments are a set of legally enforceable undertakings, made by Gatwick to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The Commitments also enable Gatwick to enter into a series of bilateral contracts incorporating, for example, price, service and duration, agreed on a contractual basis between Gatwick and individual airlines.

The CAA published its Decision and Notice granting a licence to Gatwick in February 2014. The CAA's Decision incorporates the Commitments proposed by the Airport within a licence. It is therefore a requirement of the licence that Gatwick complies with its obligations in the Commitments. This includes that Gatwick complies with its commitment to incorporate a maximum average revenue yield over the next seven years, based on published prices at RPI+1.0% per year, and average prices (taking into account bilateral contracts) at RPI+0.0% per year (i.e. the "Blended Price"). It also includes that Gatwick complies with its Commitment to undertake capital investment expenditure of at least £100.0 million per annum over the next seven years of the Commitment period. Obligations on third parties, contained in the Commitments, do not form part of the licence.

STRATEGIC REPORT (continued)

Business Overview (continued)

Regulatory Environment (continued)

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

The CAA undertook a “short and focused review” of the Commitments in the second half of 2016 to assess whether they are operating in the passenger interest. The review was concluded in December 2016. The review did not recommend any changes to the Commitments.

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

Requirements as to operational resilience are included within Gatwick’s Commitments and as such are not subject to a separate licence condition. However, based on a review of operational resilience, the CAA has provided guidance to Gatwick, and Gatwick indicated in the Commitments that it would have regard to such guidance. The CAA has also stated that as part of the monitoring regime, Gatwick should produce a shadow regulatory asset base (“RAB”) calculation. The purpose of this requirement is in case the CAA considers that the passenger interest would be better served in the future by tighter regulation being introduced. As with pricing, shadow RAB and capital investment expenditure above, the CAA can propose to introduce such licence conditions to the extent it considers such modification is in the passenger interest. Similarly, such a licence modification could be appealed by the Airport or airlines, to the Competition and Markets Authority.

All airport operators are also subject to aerodrome licensing under the Air Navigation Order 2009, which requires an airport operator to demonstrate that it is competent to conduct aerodrome operations safely. That licensing requirement is not affected by the Civil Aviation Act 2012.

The Commitments expire on 31 March 2021, and for avoidance of doubt, Gatwick remains subject to the Commitments until this date. Gatwick has undertaken to notify the CAA and all operators at the Airport at least two years prior to the end of the term of its intentions with regard to the continuation of Commitments. In 2017 Gatwick started the process of consultation with users about the future of commitments and in 2018 the CAA started considering the regulatory arrangements for the period beyond the end of the current Commitments in 2021. The CAA process is broadly supportive of Gatwick’s favoured process of approaching the airlines directly with a commercial proposal, recognising this mechanism was embedded in the original Commitments.

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

STRATEGIC REPORT (continued)

Business Overview (continued)

Regulatory Environment (continued)

The finalised extended Commitments include a number of enhancements and improvements to the existing commitments, including:

- **Service:** Gatwick commits to maintain excellent service delivery for its passenger and airlines and will remain financially incentivised to do so. Informed by the consultation and passenger research many of the existing service standards have been updated, and we have also added new standards for wifi connectivity, Special Assistance service and Flight Information Screen system availability.
- **Investment:** Gatwick will continue to consult annually on a 5 year Capital Investment plan, and has amended the consultation process to provide earlier insight and greater clarity for airlines and passenger representatives on emerging projects. Gatwick have also increased the minimum capital investment Commitment to £120m per annum on average.
- **Price:** Gatwick will limit the maximum annual rate of increase in its gross yield to RPI+0%, referencing the gross yield for the year ending 31 March 2019. In addition, the gross yield ceiling has been simplified to be a year-by-year limit rather than an average measured over the Commitments Term. The new, simplified gross yield ceiling will give greater certainty to passengers and airlines about the maximum level of future charges.
- **Operational initiatives:** To increase the focus of Gatwick, its airlines, ground handlers and air traffic control provider on delivering resilient and punctual services, Gatwick will set itself formal targets for average on time departure punctuality to be at least 70% in the summer season and 75% in the winter season. Gatwick will invest in a portfolio of operational initiatives and financial incentives for airlines and/or their ground handlers, with the aim of enabling airlines to achieve these punctuality targets. Gatwick will consult with airlines annually on the proposed on-time departure programme; and
- **Capacity Growth:** Gatwick commits to seek to increase the resilient capacity of its airfield infrastructure, and to continue for the present to bear the cost of developing these plans, securing necessary political and planning approvals, and implementing the project. This includes potential projects to maximise the use of the existing main runway and to bring into routine use the standby runway. Gatwick is not adjusting its price commitment in response to the additional capital expenditure which Gatwick may incur in this period in preparation for obtaining the DCO or in implementing the resulting infrastructure projects.

Gatwick has furthermore decided that it will accelerate the pricing benefit inherent in these Commitments to be effective retrospectively from 1 January 2020, bringing pricing benefits to airlines sooner.

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

STRATEGIC REPORT (continued)**Business Overview (continued)****Financing Structure**

The Group is party to a Common Terms Agreement ("CTA") with, *inter alia*, the National Westminster Bank as Authorised Credit Facility ("ACF") agent and previously the Initial Authorised Credit Facility ("Initial ACF") agent. Gatwick Airport Limited and Ivy Holdco Limited have Borrower Loan Agreements 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 Agreements.

The ACF Agreement entered into on 21 June 2018 has a Revolving Credit Facility of £300.0 million and a tenor of five years (with two, one year extension options) giving a termination date of 21 June 2023 (and extension options to 21 June 2024 and 21 June 2025 respectively). During the period the Group exercised the first one year extension option, giving a revised termination date of 21 June 2024. As at 31 December 2019, the Group had £215.0 million (31 March 2019: £180.0 million) undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date.

Gatwick Funding Limited has issued £2,800.0 million of publicly listed fixed rate secured bonds with scheduled and legal maturities ranging from 2024 and 2026 to 2049 and 2051 respectively as detailed below.

As at 31 December 2019, total bond debt was £2,800.0 million (31 March 2019: £2,500.0 million) (refer to note 25).

	Scheduled maturity	Legal maturity	Issue date	As at 31 December 2019 £m	As at 31 March 2019 £m	Borrower
Class A 5.25 per cent.	2024	2026	20 Jan 2012	300.0	300.0	GAL
Class A 6.125 per cent.	2026	2028	2 Mar 2011	300.0	300.0	GAL
Class A 4.625 per cent.	2034	2036	27 Mar 2014	350.0	350.0	GAL
Class A 5.75 per cent.	2037	2039	20 Jan 2012	300.0	300.0	GAL
Class A 3.125 per cent.	2039	2041	28 Sep 2017	350.0	350.0	GAL
Class A 6.5 per cent.	2041	2043	2 Mar 2011	300.0	300.0	GAL
Class A 2.625 per cent.	2046	2048	7 Oct 2016	300.0	300.0	GAL
Class A 3.25 per cent.	2048	2050	26 Feb 2018	300.0	300.0	IHL
Class A 2.875 per cent.	2049	2051	5 July 2019	300.0	-	GAL
				2,800.0	2,500.0	

The proceeds of bond issuances by Gatwick Funding Limited (together "the Bonds") are lent to either Gatwick Airport Limited or Ivy Holdco Limited under the respective Borrower Loan Agreements, 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, as highlighted in note 25.

The legal maturity date under the Bonds corresponding to the relevant advance will fall two years after the scheduled maturity date.

Further information on the financing structure is included in note 25 of the financial statements.

STRATEGIC REPORT (continued)

Business Overview (continued)

Ownership

On 13 May 2019, Global Infrastructure Partners, LP ("GIP 1"), together with its four co-shareholders (Abu Dhabi Investment Authority, National Pension Service of the Republic of Korea, California Public Employees' Retirement System and the Future Fund) completed the sale of a 50.01% interest in the Group to CRUISER Bidco Limited, a wholly owned subsidiary of VINCI SA (a company incorporated in France) for a total equity consideration of approximately £3.0 billion.

As such, the previous shareholders have disposed of the remaining 49.99% interest to a combination of separate accounts and limited partnerships, all of which will be managed by Global Infrastructure Management, LLC ("GIM"), the manager of GIP 1.

At 31 December 2019 VINCI SA is the ultimate parent company and controlling party.

As at 31 December 2019, Ivy Midco Limited ("the Company") has seven wholly-owned subsidiaries: Ivy Super Holdco Limited, Ivy Holdco Limited ("IHL"), Ivy Property Holdings Limited, 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, 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 and Ivy Holdco 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 and Ivy Holdco Limited.

VINCI Airports, as the leading private airport operator in the world, manages the development and operation of 45 airports located in Brazil, Cambodia, Chile, Costa Rica, Dominican Republic, France, Japan, Portugal, Serbia, Sweden, the United Kingdom and the United States. Served by more than 250 airlines, VINCI Airports' network handled 255 million passengers in 2019. Through its expertise as a comprehensive integrator, VINCI Airports develops, finances, builds and operates airports, leveraging its investment capability and know-how to optimise the management and performance of airports and carry out extensions and upgrades. In 2019, its annual revenue for managed activities amounted to €4.9 billion, for a consolidated revenue of €2.6 billion. For more information, visit www.vinci-airports.com.

Global Infrastructure Partners, LP ("GIP 1") is an independent infrastructure fund manager that invests in the equity and credit of infrastructure assets and businesses. GIP targets investments in OECD and select emerging market countries in single assets and portfolios of assets and companies in the energy, transport and water/waste sectors. GIP's teams are located in 10 offices globally: London, New York, Stamford (Connecticut), Sydney, Melbourne, Brisbane, Mumbai, Delhi, Singapore and Hong Kong. For more information, visit www.global-infra.com

STRATEGIC REPORT (continued)**2. Management Review****Overview of the Period Ended 31 December 2019**

During the period, the Group changed its period end from 31 March to 31 December. The strategic report includes unaudited comparative information for the nine month period ended 31 December 2018 and audited comparative information for the twelve month period ended 31 March 2019.

The Group has reported a profit of £143.6 million for the period ended 31 December 2019 compared to a profit of £75.4 million for the period ended 31 December 2018 and £133.7 million for the year ended 31 March 2019. These results are discussed in more detail in the financial review section of this report.

Overall Passenger Traffic Trends

Gatwick's passenger traffic continued to show growth during the period, increasing by 0.1 million (0.3%) passengers to 36.9 million. The failure of Thomas Cook on 23 September 2019 had an estimated impact of 0.4 million passengers, further impacting growth. Growth slowed due to the softening of consumer demand which led to air transport movements ("ATM") cuts from airlines to manage load factor reductions and in recognition that seats per ATM increased by 1.7 over the period.

The grounding of the Boeing 737 MAX has impacted some airlines' ability to grow during the period and has occasionally resulted in a reduction in capacity through cancelled movements or smaller aircraft. Planned operators of the aircraft include Icelandair, Ryanair, Turkish Airlines and TUI.

	Period ended 31 December 2019	Period ended 31 December 2018	Year ended 31 March 2019
Passengers	36,894,321	36,768,932	46,442,154
Air transport movements ("ATMs")	219,417	220,498	281,741
Passengers per ATM	168.1	166.8	164.8
Seats per ATM	192.2	190.5	191.0
Load factors (%)	87.5%	87.6%	86.3%
<i>Commercial flight types only</i>			

STRATEGIC REPORT (continued)**Management review (continued)****Passenger Traffic by Region**

The table below outlines passenger numbers by region:

	Period ended 31 December 2019 m	Period ended 31 December 2018 m	Year ended 31 March 2019 m
Short haul			
Europe (including UK and Channel Islands)	29.3	29.3	36.6
Northern Africa	0.7	0.7	1.0
Total short haul	30.0	30.0	37.6
Long haul			
North America	3.3	3.4	4.6
Caribbean and Central America	1.6	1.6	1.8
South America	0.3	0.1	0.2
Sub-Sahara Africa	0.3	0.3	0.4
Middle East and Central Asia	1.1	1.0	1.2
Far East and South Asia	0.3	0.4	0.6
Total long haul	6.9	6.8	8.8
Total passengers	36.9	36.8	46.4

Short Haul European Traffic

Passenger traffic on European and Domestic routes for the period was 29.3 million consistent with the previous period. The failure of Thomas Cook has resulted in no net growth in this sector for the period.

Some carriers, such as British Airways, easyJet and Vueling had growth within this sector, this was driven by an increase in seats per aircraft for British Airways and easyJet and by an increase in aircraft movements for Vueling. Part of Vueling's growth was through the acquisition of WOW and Flybe slots. British Airways has seen an increase in load factor, however most carriers including easyJet and Vueling have seen a decrease.

Most non-Gatwick based airlines continued to grow in 2019, led by Wizz Air, increasing from one daily service to four. Turkish Airlines also continued to seek additional capacity and grow movements.

Long Haul Traffic

Long haul traffic grew by 0.1 million (1.5%) passengers compared to the prior period. The number of destinations served has remained similar however the mix has changed with more variety being added including services to Rio de Janeiro, San Jose del Cabo (Mexico) and Kuwait.

North America services reduced as Virgin Atlantic withdrew its daily service to Las Vegas.

Traffic on South American routes grew by 0.2 million passengers. This growth was driven by Norwegian, as the airline increased capacity on its Buenos Aires service and introduced a new service to Rio de Janeiro.

Middle East traffic grew as Qatar Airways continued to increase frequencies to triple daily in peak summer as well as increasing aircraft size to meet demand. Jazeera also launched the UK's first ever Low Cost Carrier connection to the Middle East. Growth was tempered as Emirates cut capacity for six weeks due to runway capacity reductions in Dubai.

STRATEGIC REPORT (continued)**Management review (continued)****Route Development**

Gatwick have experienced a period of consolidation in the market as airlines react to a softening of demand, resulting in capacity decline and a marginal reduction in load factor. Also, in this period Thomas Cook ceased operations, entering liquidation on 23 September 2019, this resulted in a loss of 0.4m passengers period on period. easyJet were the successful bidders from the Liquidator for two thirds of Thomas Cook slot portfolio. The remaining runway slots (all in the summer period) have been allocated to a mixture of existing and new carriers whose intentions will become clear over the next couple of months. Despite these headwinds, Gatwick has still grown period on period for the nine month period ended 31 December 2019 by 0.3% (0.1 million).

The airlines who contributed most to Gatwick's growth were the established incumbent airlines such as easyJet, British Airways, and Vueling.

- easyJet continued to increase aircraft size, moving to an average of 172 seats per ATM by the end of December driven by the addition of two A321 aircraft with 235 seats into their Gatwick fleet and their continued programme of replacing A319 with A320. ATMs increased by 0.3%, however average load factor fell by 0.7 percentage points. Combined, these changes were the drivers for the 1.1% (0.2 million) year on year increase in easyJet's passenger numbers.
- British Airways has continued to grow long haul services at Gatwick, primarily through additional seats via the densification of their long haul fleet an increase year on year of 19 seats per movement; in addition, average load factor for their long haul flights has increased by 2.3 percentage points. They have also continued to grow short haul again via an increase in seats per movement and load factors during the period of 4 seats and 0.8 percentage points, respectively. In total BA have grown by 5.3% (0.3m) year on year. The airline also launched a new route to Bergamo in Italy in 2019 and increased the frequency of flights to Las Palmas (Canary Islands).
- Vueling has added a new service in 2019 to Alicante and revived their service to Oviedo, in addition, they have grown movements on existing routes, particularly Paris and Florence. Combined these changes added 30.9% (1,990) movements year on year. This drove their growth of 25.5% (0.3m) as load factor was 3.1 percentage points down and average seats also down by 1 on the previous year.

Other notable highlights during the 9 months include:

- Air China commenced a four weekly service to Shanghai in November 2019 and China Eastern increased their service to the same city to daily from three per week.
- Jazeera Airways commenced a service to Kuwait in November, increasing to daily flights in December.
- From summer 2019 Wizz started operating three new daily routes to Gdansk, Cluj, Budapest and have announced a new daily route to Krakow, Poland due to commence in February 2020.
- TUI launched a new twice weekly flight to San Jose del Cabo in Mexico.
- Delta announced their return to Gatwick with daily services due to start in May 2020 to Boston.
- Virgin Atlantic Airways announced a new daily route to New York due to commence in June 2020, which ends a period of retraction for them at Gatwick.

STRATEGIC REPORT (continued)**Management review (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 experience of using the Airport through both investment in modern infrastructure and improving service standards. This will ensure that airlines can operate efficiently and customers 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

	Period ended 31 December 2019 £m	Period ended 31 December 2018 £m	Year ended 31 March 2019 £m
Capital expenditure	174.4	173.2	249.3

From April 2014, and following completion of Gatwick'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.

The Group continues to invest in its Capital Investment Programme, spending £174.4 million in the 9 months ended 31 December 2019 (period ended 31 December 2018: £173.2 million, year ended 31 March 2019: £249.3 million). In July 2019, Gatwick published its 2019 Capital Investment Programme ("CIP") for consultation with passengers and airlines, outlining plans to invest £1.1 billion over the next five years. Following the impact of Covid-19 in 2020 the Group has re-prioritised Capital Investment, see pages 22 and 69 for further details. Capital investment is forecast to be 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 or in construction during the 9 months ended 31 December 2019 can be summarised as follows:

- **Pier 6 Programme:** Design and construction works continued during the period on a significant programme of works to extend Pier 6 in order to improve pier service levels. Progress continued to be made on enabling works including taxiway alignment and stand reconfiguration and the main extension construction commenced at the end of 2019. The scheme, once complete will include an additional 8 A321 compatible gates in order to meet the continued growth and up gauging of the airline fleets.
- **Terminals Programme:** Investment continued during the period on the airports terminals with a view to improving resilience, efficiency and passenger service. Work continued on a new automated boarding gate process, designed to utilise biometrics to make the future boarding process more efficient with a number of new e-gates now operational on Pier 1 and for NT domestic passengers. Work completed in the South Terminal on a new facility for Common Travel Area ("CTA") and domestic passengers which has created a segregated walking route from Pier 1 for these arriving passengers as well as a new baggage reclaim facility.

STRATEGIC REPORT (continued)

Management review (continued)

Capital Investment Programme (continued)

- **Security Programme:** Planning has started on a significant programme of works to upgrade passenger and a staff screening technology mandated by the DfT which will impact multiple sites across the campus; central search areas, flight connections, staff search areas in terminals and office blocks, external access posts, maintenance hangars, and the cargo centre.
- **Baggage Programme:** In August 2019 Gatwick successfully achieved full airport compliance with the DfT's regulations regarding enhanced screening of all passenger hold baggage ahead of the DfT deadline. Work impacted a number of areas within the Airport across both terminals including upgrading the screening machines to the latest security standards along with associated reconfiguration of the baggage system. The final projects within the programme are now nearing completion.
- **Commercial Programme:** A number of projects were completed during the period which have improved the retail and catering offerings at the Airport. In North Terminal work continued on a large extension to the mezzanine level in the international departure lounge which will accommodate new food and beverage offerings in addition to providing seating space for passengers. Barburrito, The Bookshop by WHSmith, Shake Shack and Ray-Ban all had new stores opened in the period.
- **Car Parking and Surface Access:** During the period works commenced on a new multi-storey short-stay car park in the North Terminal (MSCP 7) and on a pilot project for "robotic parking" aimed at offering all the convenience of valet parking, but without the need for passengers to hand over their keys.
- **Asset Stewardship:** Investment to maintain the existing asset base of the Airport has been ongoing during the period. These works can be categorised into: Airfield, Facilities, Commercial, IT, Compliance and EHS and are considered critical to enhance the facilities and service offering throughout the Airport. Gatwick's 2019 CIP is forecasting to spend over £400.0 million in this area over the next five years to 2024.
- **Airfield Programme:** There continues to be significant investment in airfield asset stewardship and resilience in terms of taxiway rehabilitation and reconfiguration. Design work completed on a project to replace the entire airfield data network with new resilient fibre-optic cabling and construction commenced in January 2020. Progress was also made on the design of a new rapid exit taxiway aimed at improving the resilience of the operation of the runway and on-time performance.
- **Resilience:** A programme of works to improve Gatwick's resilience has been ongoing, including projects to reduce risk associated with power, flooding, weather disruption events, terminal equipment failures, IT upgrades and security. This programme aims to ensure operational resilience remains a key component of our operational and capital investment plans going forward. Gatwick's 2019 CIP is forecasting to spend £62.6 million in this area over the next five years to 2024.

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)

Management review (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 97.2% of its CSS targets during the nine months ended 31 December 2019 compared to 100% in the prior period. The targets that were missed during the period were as follows:

- There was one failure of the 30-minute security queuing standard in May 2019. An operational decision to move resource across terminals resulted in one 15 minute time period where passengers queued more than 30 minutes.
- There was a baggage system fault in July 2019 which resulted in a poor baggage service for some airlines and passengers, which was treated as a failure of the outbound baggage standard. There were two further issues with the baggage systems in September 2019 resulting in below-target performance.
- The aerodrome congestion term was breached on six occasions: once in May, twice in July, once in August and twice in October. This standard relates to material events which are the responsibility of the airport or its agents and which cause a material operational impact in terms of the number of movements lost or deferred. The breaches in the nine months to December 2019 were all caused by staff shortages in the Control Tower, except for one occasion in July when there was a critical systems failure.

Percentage of Core Service Standards passed per month



STRATEGIC REPORT (continued)

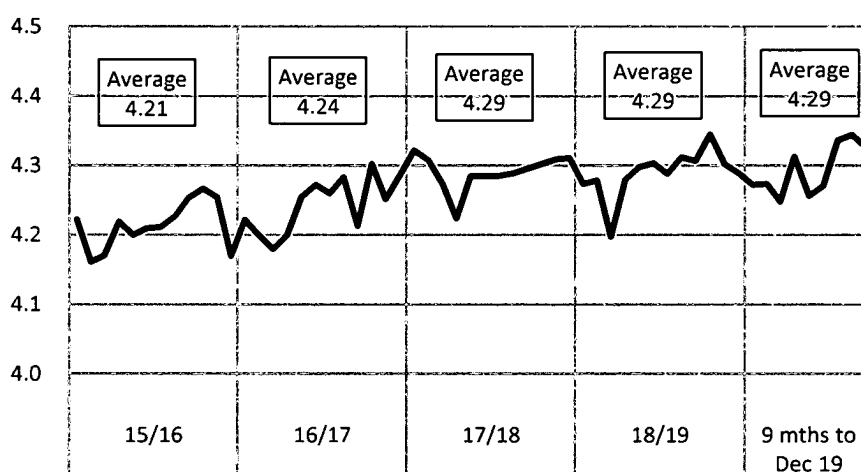
Management review (continued)

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 a CAA formula and published each month.

Gatwick's overall QSM score averaged 4.29 at the end of 2018/19 and remained at 4.29 by the end of December 2019 (5 = excellent; 4 = good; 3 = average; 2 = poor; 1 = extremely poor).

The following chart shows Gatwick's continued high performance over the last four years against a backdrop of increased passenger numbers using the Airport and its services.



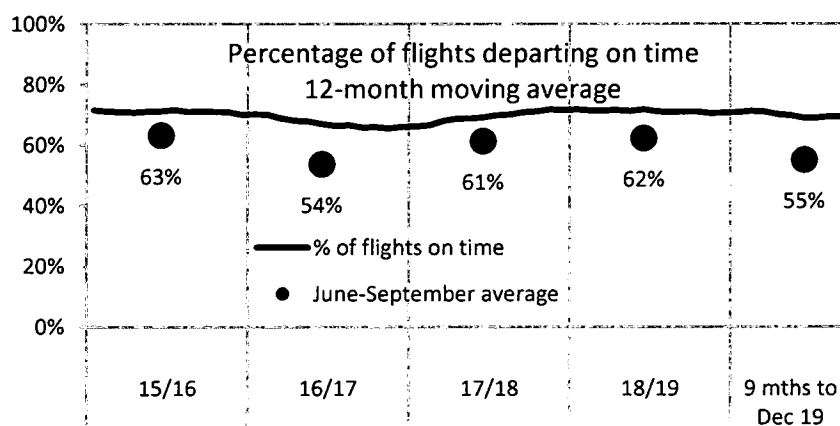
STRATEGIC REPORT (continued)

Management review (continued)

Airfield Performance

On-time performance remains a key strategic priority for Gatwick as it seeks to improve the passenger experience and 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 nine months ended 31 December 2019, 66% of departures from Gatwick departed no later than 15 minutes after the scheduled time of departure, compared to 68% for the nine months ended 31 December 2018.

A number of factors can influence on time performance and a range of stakeholders including Gatwick, air traffic control providers, airlines and ground handlers have an important role to play. Some of the key challenges over the last period included (i) a continued exposure to high levels of airspace restrictions caused by congestion in en-route airspace corridors and/or restrictions at destination airports and (ii) pressures in the ground handling market, with some 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 airfield and terminal works, (ii) the continuation of financial incentives for airlines to reward the efficient turnaround of aircraft, (iii) a revised arrival spacing strategy and process to optimise first wave performance through a reduction in the number of flights subject to arrival restrictions (iv) engagement with ground handlers to audit resource plans ahead of the Summer season and (v) a continued strong focus on meeting the Core Service Standards to support a high quality and efficient operation.

Major airlines operating at Gatwick have also continued efforts to improve on-time performance through (i) scheduling adjustments, (ii) end to end process reviews of turn management, (iii) reviews of the airspace operating environment and the impact on flight operations and (iv) investment in new scheduling and planning tools. Gatwick's efforts to support an improvement in on time performance are continuing into 2020 with (i) investment in terminal and airfield infrastructure, including an extension to Pier 6, (ii) collaborative working with airlines and air navigation service providers to reduce the number of departures and arrivals subject to restrictions, (iii) collaborative working with airlines and ground handling agents to stabilise and, where possible, improve turn performance and (iv) continuation of the financial incentive scheme that rewards airlines for the efficient turnaround of aircraft; a 25% discount of the departure demand charge set out in the Conditions of Use is available for each aircraft turn that is completed within its scheduled turn time.

Notwithstanding the continued high levels of airspace restrictions that are anticipated – primarily as a result of on-going capacity and staffing issues in European airspace sectors – Gatwick is targeting an improvement in on time performance in 2020.

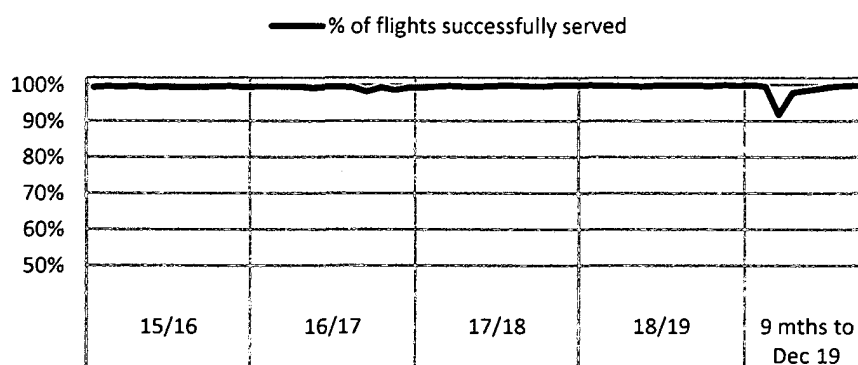
STRATEGIC REPORT (continued)

Management review (continued)

Inbound Baggage

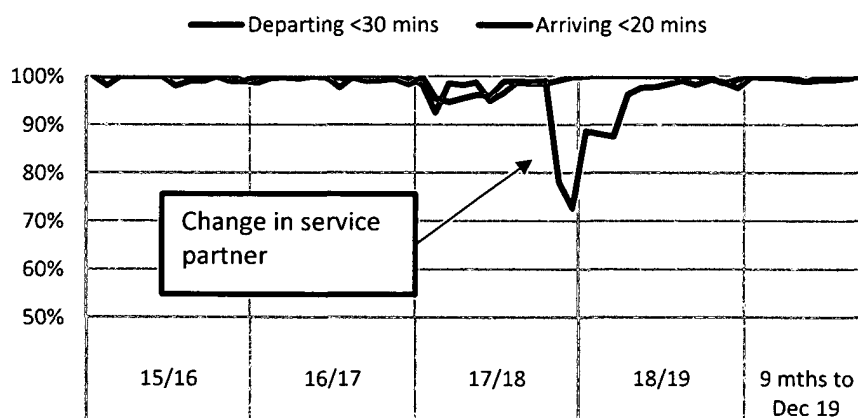
Inbound baggage (the measure of how timely the delivery of baggage is from the plane to the reclaim belt) is of great importance to Gatwick as it has a significant impact on the passenger experience. During the nine months ended 31 December 2019, 99.1% of flights had arrivals bags delivered on time (measured as last bag delivered to the baggage belt within 55 minutes of on-block time). This compares to 99.7% during the year ended 31 March 2019.

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 targets were consistently achieved and comfortably exceeded throughout the period. In July 2019 our second largest handling agent (Menzies) suffered from significant resourcing shortfalls, impacting their ability to deliver bags within the time requirements. The potentially large impact of this was mitigated with help from other handling agents, and proactive engagement with handling agent management teams.



Special Assistance Service

After a difficult start to the contract with the new service partner in February 2018, performance has been steadily improving since July 2018. All arrivals performance scores have been continuously improving and now remain at a steady score. The chart below shows for each month, the percentage of departing and arriving passengers requiring Special Assistance Services that were successfully served.



STRATEGIC REPORT (continued)

Management review (continued)

Airspace Change and Noise

Environmental Noise Directive Noise Action Plan

Under the Environmental Noise (England) Regulations 2006, Gatwick Airport is required to produce a Noise Action Plan which provides a comprehensive and effective driver for aircraft noise management and mitigation around the airport.

Gatwick's Environmental Noise Directive ("END") Noise Action Plan 2019-2024 builds significantly on the actions in the previous version - containing 32 new, 18 amended, and eight retained actions, including: the expansion of the Gatwick Community Noise Monitoring Programme (which will give the airport and local government officers a greater insight into the noise environment around the airport); and a review of noise limits for departing aircraft which aims to further incentivise the quieter operation of aircraft at the airport.

Gatwick has already started to implement a number of the initiatives from the END Noise Action Plan 2019-2024 which was formally adopted by the Parliamentary under Secretary of State for the Environment on 11 February 2019. The actions contained within the Environmental Noise Directive Noise Action Plan continue to align with the Section 106 Legal Agreement with West Sussex County Council and Crawley Borough Council, the work plan of the Noise Management Board and the Gatwick Airport Decade of Change Sustainability Strategy.

Noise and Track Keeping System

In April 2019, Gatwick Airport launched the operation of a new Noise and Track Keeping system, deployed an enhanced fleet of Noise Monitoring Terminals and completely overhauled the noise information that is available to the public online.

A key enhancement of the new Noise and Track Keeping system is the PerformTrak tool that allows the Gatwick Airspace Office to work more efficiently with airlines to improve their noise performance.

Information is readily available to the public on airport operations, including videos and performance dashboards focusing on operations, noise abatement metrics and complaints. Flight tracking and mapping also shows how aircraft operate to and from the airport. The network of remote noise monitoring terminals, the data from which is available online, has more than doubled with the addition of 13 noise monitors, bringing the total to 23 monitors deployed in the local area. Delivery of this system and the improvements in the publicly available information partially, or directly contributes to 11 of Gatwick's END Noise Action Plan initiatives.

Gatwick Airport Annual Noise

The Civil Aviation Authority is commissioned annually to undertake and publish independent retrospective noise contour analysis for Gatwick Airport. The findings of the 2018 Noise Contours analysis showed that the airport's noise footprint (54dBA L_{eq}) reduced by 7% in 2018; this reduction being due to a range of measures including improved operational procedures, the phasing out of the noisiest aircraft and the introduction of new, quieter aircraft. The noise contour - calculated using the new nationally recognised standard measurement (54dBA L_{eq}) - shrank from 82.7km² in 2017 to 77.1km² in 2018. The number of people living within the 54dBA L_{eq} contour also reduced to 10,200 from 10,950.

STRATEGIC REPORT (continued)

Management review (continued)

Airspace Change and Noise (continued)

Noise Management Board

Gatwick Airport continued to drive and manage noise engagement through the Noise Management Board (NMB) during 2019 and in particular the implementation of the recommendations from the independently-led review of the NMB structure and constitution. One of the purposes of the review was to ascertain, as the first three-year term of the NMB came to a close in 2019, what if any, evolution would be necessary for the NMB's second term.

Gatwick adopted the review's recommendations as the basis for launching the NMB's second term which included a new NMB structure and revised governance. The new structure will comprise three groups: the NMB Executive Board (NEX); the NMB Community Forum (NCF); and, the NMB Delivery Group (NDG). Two new Independent Chairs were appointed in November 2019 to govern the NCF and the NEX. This structure will be a more effective means of drawing together all of the appropriate stakeholders, both local and industry, to collaborate on practical measures to reduce the noise impacts of the operation of the airport for local communities.

Noise Management Board Workplan

The NMB work plan continues to take forward key initiatives designed to manage noise impacts. Two notable highlights - which are both national cross-industry resourced initiatives led by Gatwick - include the preparation for a Reduced Night Noise trial at Gatwick for arriving aircraft which aims to increase the height of low flying aircraft so that the noise they make on the ground below is reduced; and the development of a Low Noise Arrival Metric, designed to complement the current Continuous Descent Operation definition and the effectiveness of it in modifying the profile of arriving aircraft to reduce noise.

Airspace Modernisation – FASI-South Programme

The Department for Transport and Civil Aviation Authority co-sponsored strategy for airspace modernisation is a key enabler of the UK's economic development and its plans to further reduce carbon emissions. The long-overdue redesign of the UK's airspace infrastructure will facilitate a wide range of operational and environmental benefits and help to reduce the some of the noise impacts experienced by local communities.

The scope of Gatwick's potential change under the programme encompasses the redesign of all its departure and arrival procedures. Gatwick, having initiated the airspace change process in October 2018, completed Stage 1 of the process in July 2019 and is now engaged in the development and assessment of design options which forms stage 2. Gatwick continues to engage with relevant local and industry stakeholder groups and is also working closely with a new independent body, the Airspace Coordination Organising Group (ACOG). ACOG was established by the CAA in 2019 to ensure synergy of action across all the parties involved in the airspace modernisation programme; the current focus is the development of a deployment strategy and schedule that can deliver the greatest benefits with the least risk; it is expected that five winter deployments will be required to safely deliver the scope of the envisaged changes across the south of the UK.

Route 4

Following a CAA Post Implementation Review decision on the Route 4 Standard Instrument Departure routes (SIDs) 2012 airspace change it is anticipated that Gatwick will be required to remove the temporary Route 4 R-NAV1 SIDs currently in place. Airlines will continue to fly Route 4 departures using the published conventional SIDs pending the completion of the ongoing Route 4 ACP process initiated in 2018.

Gatwick secured Civil Aviation Authority approval for its Route 4 SIDs 2018 airspace change and successfully passed through the Stage 1 Define Gateway in September 2019. Gatwick is now progressing the development and assessment of design options under Stage 2 of the airspace change process; a public consultation on which will follow later in 2020.

STRATEGIC REPORT (continued)**Management review (continued)****Community Engagement**

Our community investment programmes are designed to share the benefits that the airport generates among local people, focusing on key themes identified as priorities locally, including Economy; Education, Employment & Skills; and Community Investment. We do this by working with partners and stakeholders on airport (our "Gatwick Family") and across the wider region.

Local Economy

The significant contribution that the airport makes to the local and regional economy through jobs, the supply chain and trade is widely recognised. Gatwick also works with local business groups and economic partnerships to identify opportunities to deliver additional benefits locally, for example we delivered a dedicated seminar for local businesses on understanding airport procurement and supported a range of business events.

In October Gatwick hosted its first Meet the Local producer event, inviting food and beverage suppliers from across the region. The purpose and objective of this event was to raise awareness of the wonderful local products that are available – profiling and enhancing the whole region as a 'go to place' for unique and quality produce. The event was also used to highlight to suppliers the specific needs and requirements of buyers. The event was attended by approximately 50 buyers from across the region and differing hospitality sectors, including Gatwick's own retail concessionaires. The event succeeded in its objectives by several of the buyers having placed orders directly with the suppliers on the day and many stating a strong likelihood of placing an order within the next 6 months. 96% stated that they would attend a similar event in the future.

We have also been working with local tourism partners from across Sussex, Surrey and Kent as part of the new 'Gateway Gatwick' group, chaired by Gatwick, with the aim of boosting benefits to the local visitor economy by promoting the area to international tourists arriving into the UK via Gatwick. Our Discover Local campaign was launched in the summer, including a new page on the Gatwick website, large scale promotional graphics in the Terminals, and a series of itineraries, all showcasing the huge range of tourist attractions and stunning landscapes and heritage surrounding Gatwick.

Education, Employment & Skills

Gatwick supports 24,000 jobs across the airport campus, and we continue to work with our partners across the Gatwick Family to deliver a range of initiatives helping adults return to work and inspire young people about the range of skills required and career opportunities at the airport.

One of the flagship events in Gatwick's education programme – highlighting the importance and relevance of STEM (Science Technology Engineering and Maths) subjects in the world of work – is the Big Bang Fair. It's a fun, action-packed day to enthuse and inspire more than 10,000 young people aged 9-19 about careers in STEM. As headline sponsor for 2019 we enabled the event to take place over two days and had an entire Gatwick zone for students and teachers to explore. With more than 25 inspiring interactive workshops, shows and other STEM-related activities, the Gatwick Zone was supported by 150 Gatwick employee volunteers from a range of airport teams, including Airfield Operations and Engineering; Biodiversity; IT; and various partner organisations including easyJet and Border Force.

Gatwick also took the airport out on a series of roadshows out to secondary schools with the aim of giving students across the region hands-on experience of STEM-related careers to encourage them to consider working in the industry. The roadshow visited pupils in Kent, West and East Sussex throughout the year engaging with over 4,000 students.

We have partnered with Primary Engineering and have trained 28 teachers from 15 local schools so that they are better able to bring STEM subjects to life and inspire local children in the classroom, supported by skilled engineers from Gatwick who are working alongside the teachers in the classroom. Continuing the theme of skills, 2019 also saw the continuation of the One Destination Employability programme. Gatwick, in partnership with local Job Centres, employability partners and a training provider, successfully supported around 40 people back into the workplace with Gatwick Family businesses— several of whom had been long term unemployed. The programme is running at a 92.5% employment success rate.

STRATEGIC REPORT (continued)

Management review (continued)

Community Investment

Throughout 2019 Gatwick has worked with the Community Foundations in Kent, Surrey & Sussex to target projects that help the young, elderly and other vulnerable groups. We also continue to fund the Gatwick Airport Community Trust. This combined funding supported over 153 local causes receiving grants totalling nearly £550,000 in 2019. Fifty-six grants came from the Gatwick Foundation Fund and 97 grants came from the Gatwick Airport Community Trust.

Grants from the Gatwick Foundation Fund passed the £1 million mark in October 2019 with more than 200 organisations and close to 100,000 people benefitting since our Fund was established in late 2016. The Fund was set up as a way of supporting local people who may not directly benefit from the jobs and other economic opportunities that the airport generates. We do this by offering grants to organisations that have a meaningful and lasting impact on local people.

The Kent Surrey & Sussex Air Ambulance whose doctor and paramedic teams can deliver all the skills and equipment of an A&E department remotely to critically ill and injured patients became a charity partner in April 2018. From marathon running and Tough Mudder challenges to cake baking and marshalling, our energetic and passionate workforce have enjoyed fundraising for a charity in 2019 that is changing lives and making a real difference in the communities around the airport. The close of 2019 saw Gatwick hit £100,000 in fundraising for the charity. Our partnerships with St Catherine's Hospice and Gatwick Travel Care have also continued with great success throughout the period.

Gatwick's community programme also seeks to protect and enhance the local environment in ways that also benefit the health and quality of life of our local communities. Through joint working with the Gatwick Greenspace Partnership over 1400 young people used the airport's landholdings for forest schools, guided walks, and conservation training. Over 400 volunteers also helped Gatwick retain its Wildlife Trust's Biodiversity Benchmark Award for the 6th consecutive year.

Gatwick's continued sponsorship of South & South East In Bloom saw over 300 local communities benefit from over 122,000 volunteer hours helping boost community participation, physical and mental wellbeing – also reducing social isolation. We were proud to sponsor the first E.Y.E (Eco, Young and Engaged) Conference in Crawley. Helping to promote the many themes of sustainability. Attended by 160 students from across the Crawley and Horsham area.

Gatwick supported 40 local events in 2019, using our sponsorship to help them 'take off', including making many of them accessible to more local people, by providing free entry. For example Brighton Marathon is a growing regional event attracting 12,000 athletes and 180,000 spectators and our longstanding partnership of the event enabled over 3,000 children to participate free of charge in the mini-mile. As part of Gatwick's involvement, 20,000 free reusable water bottles were given to runners, event staff and volunteers to reduce litter and single use plastics at the event, while also raising awareness of wider sustainability management issues. The Horsham District Year of Culture 2019 was a year-long celebration of Horsham culture and heritage, sponsored by Gatwick Airport. From a film festival to a children's show to sculpture trails and music nights, there were more than 650 events and projects taking place throughout the period.

Response to Covid-19

The Covid-19 pandemic has had an unprecedented adverse impact on the global aviation industry, with significantly reduced levels of traffic and passengers and substantial cuts in capacity by airlines over the coming months.

Until the end of February, the impact at Gatwick has been restricted to a limited number of services to and from the Far East. The response of the Italian government resulted in a notable shift in traffic away from Italy during the last week of February. As other European Governments imposed travel restrictions, daily passenger numbers declined throughout March. Major carriers such as easyJet, BA, TUI and Norwegian have now grounded fleets serving Gatwick.

STRATEGIC REPORT (continued)

Management review (continued)

Response to Covid-19 (continued)

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

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

- Discretionary expenditure has been halted.
- The operational footprint of the airport has been reduced on a staged basis through March. Starting with night closure and the shutdown of 2 out of 6 piers, operations are now limited to a single pier in South Terminal within an 8-hour window (2pm to 10pm).
- The Group has completed a consultation with its Unions and employees and reduced staff costs temporarily by 20%. This agreement has now been complemented by the announcement of the Government's "furlough" scheme, which provides additional assurance to the company and employees, particularly if travel restrictions are extended for longer than currently expected. Approximately 2,025 employees have been furloughed. Over 200 employees left the business in mid-March upon termination of fixed term contracts. A further 330 employees left the business in early April following the completion of a severance programme.
- We have worked with third party contractors and other service providers to reduce their costs to reflect lower passenger volumes and the reduced operational footprint.
- A review of the Group's Capital Investment Programme in March has resulted in the removal of over £136 million of the £250 million investment originally planned in 2020. Over half of the projects already in delivery have been stopped, with only operationally critical projects continuing or those that are near to completion. 47 of the 49 projects in the design phase have been suspended. Further opportunities have been identified to reduce capital investment and associated cash outflow, if required.

In addition to the actions to reduce cash outgoings, the Group has taken steps to increase the availability of cash and committed funding available to it. In March, Gatwick drew down in full on its £300 million Revolving Credit Facility, such that as at 31 March 2020, the Group held cash of £92 million. On 3 April 2020, the Group entered into a new £300 million term loan (duration of 12 months, extendable to 18 then 24 months at the Group's option), to replenish in full the £300 million Revolving Credit Facility (maturity June 2024). The Group also has access to a committed £150 million Liquidity Facility to ensure interest payment obligations can be kept current for over 12 months, providing additional assurance to bondholders and banks.

Alongside these Report & Accounts, the Group has also issued its Compliance Certificate and Investor Report in respect of the 9-month period to 31 December 2019, and its forecast for each of the 12-month periods ending 31 December 2020, 2021, & 2022. These forecasts incorporate the traffic planning assumptions set out above, combined with the mitigating actions already identified.

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

STRATEGIC REPORT (continued)**Management review (continued)****Response to Covid-19 (continued)**

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

Brexit

Following the UK General Election, the withdrawal agreement was approved by the UK Parliament, which triggered the formal exit of the UK from the EU on 31 January and the beginning of the transition period to 31 December 2020. During this period, the UK will see no change in aviation regulations or market arrangements. Focus has instead turned to the negotiation of the long-term strategic relationship between the UK and the EU27. The Political Declaration on the Future Relationship between the EU and the UK, which is annexed to the Withdrawal Agreement, provides high level shared objectives and common understanding of what will be the starting point for the negotiation of this new relationship. When it comes to aviation, the Political Declaration states that the objective shall be "to ensure passenger and cargo air connectivity through a Comprehensive Air Transport Agreement" (CATA) covering "market access and investment, security and safety, ATM and provisions to ensure open and fair competition".

The UK has indicated that it would like to keep the current fully open aviation regime but is unlikely to accept regulatory alignment with EU rules. For the EU27, the absence of regulatory alignment may not allow it to offer UK airlines the right to operate intra-EU27 routes. It is likely however that 3rd & 4th freedom rights (allowing international services to and from the EU) would be unrestricted, and some 5th freedom rights could also be considered. Gatwick's traffic is predominantly of this type. Throughout negotiations so far, both sides have shown a pragmatic commitment to maintaining the rights of airlines to fly between the UK and Europe and an understanding of the importance of certainty to the aviation industry (and passengers). Gatwick is confident the same level of commitment will prevail should the main trade deal negotiations falter. Gatwick will however continue to monitor discussions on both aviation and trade developments post transition period and adapt its preparation plans appropriately.

Financing activities

For the period ended 31 December 2019, the average interest rate payable on borrowings was 4.45% p.a. (31 March 2019: 4.71% p.a.).

During the period ended 31 December 2019 the Group issued £300.0 million of new bonds. The Group has an Authorised Credit Facility ("ACF") of £300.0 million with a termination date of 21 June 2024 (extension option to 21 June 2024). Further information is included in note 25 of the financial statements.

Following the impact of Covid-19, in March 2020 Gatwick drew down in full on its £300 million Revolving Credit Facility. In addition, on 3 April, the Group entered into a new £300 million Term Loan. See pages 22 and 69 for further details.

STRATEGIC REPORT (continued)**3. Financial review**

During the period ended 31 December 2019 the Group made a profit after tax of £143.6 million (period ended 31 December 2018: £75.4 million profit).

Revenue

In the period to 31 December 2019, the Group's revenue increased as a result of the increased passenger numbers and an increase in the level of published airport charges and improved terms with certain retail concessionaires.

	Period ended 31 December 2019 £m	Period ended 31 December 2018 £m	Year ended 31 March 2019 £m
Aeronautical income	405.2	375.6	427.8
Retail income	159.4	151.2	191.3
Car parking income	70.6	71.7	88.3
Property income	24.5	23.0	31.9
Operational facilities and utilities income	27.1	25.2	32.5
Other income	32.8	30.1	39.0
Total revenue	719.6	676.8	810.8

Aeronautical Income

Aeronautical income is driven by traffic volume, the level of airport charges and the terms of bilateral contracts with airlines. During the period ended 31 December 2019, aeronautical income increased by 7.9% or £29.6 million to £405.2 million. This was mainly due to an increase in the level of published airport charges and a 0.1 million or 0.3% increase in passengers, offset to some extent by an increase in the discounts earned by airlines through bilateral contracts.

The CAA granted a licence under section 15(5) of the Civil Aviation Act 2012 which came into effect on 1 April 2014. The current regulatory approach for Gatwick is based on the Airport's Commitments to airlines (including bilateral contracts negotiated with individual airlines), underpinned by a licence issued by the CAA and supplemented by a monitoring regime.

The Airport's Commitments limit the increase in airport charges per passenger, measured over the 7 year Commitments period (1 April 2014 – 31 March 2021), to an average of RPI+1.0% per annum under the published airport tariff (i.e. excluding the terms of bilateral contracts) and an average of RPI+0.0% per annum including the terms of bilateral contracts. The increase in airport charges in any given year of the 7 year Commitments period may be higher or lower than the average price limits over the 7 year period.

Following a period of consultation with the airline community, the planned gross yield (i.e. the planned aeronautical revenue per passenger excluding the terms of bilateral contracts) was increased by 6.6% (equivalent to RPI+2.5%, plus a permitted security cost adjustment of 0.6%) for the period commencing 1 April 2019. Any permitted security cost adjustments are outside of the underlying price commitment.

Including the impact of bilateral pricing agreements, the aeronautical income per passenger for the period ended 31 December 2019 was £10.98 (period ended 31 December 2018: £10.21), an increase of 7.5% over the period.

In January 2020 Gatwick issued to its airlines a finalised set of Extended Commitments for the period 1 April 2021 to 31 March 2025; these include a simplified gross yield ceiling to give greater certainty on future charges. Gatwick also decided to accelerate the pricing benefit in these Commitments to be effective retrospectively from 1 January 2020.

STRATEGIC REPORT (continued)**Financial review (continued)****Retail Income**

Net retail income increased by £7.4 million or 5.0% during the period ended 31 December 2019 compared to a 0.3% increase in passengers. Net retail income per passenger is calculated as follows:

	Period ended 31 December 2019 £m	Period ended 31 December 2018 £m	Year ended 31 March 2019 £m
Retail income			
Duty and tax-free	47.8	47.1	59.1
Specialist shops	36.9	35.3	44.1
Catering	37.5	32.4	41.8
Bureau de change	21.4	21.2	26.6
Other retail	15.8	15.2	19.7
	159.4	151.2	191.3
Less: retail expenditure	(3.4)	(2.6)	(3.4)
Net retail income	156.0	148.6	187.9
Passengers (m)	36.9	36.8	46.4
Net retail income per passenger	£4.23	£4.04	£4.05

Net retail income per passenger increased by £0.19 or 4.7% to £4.23.

Duty and tax-free performance saw income levels increase in the period by 1.5%, delivering an increase in income per passenger of 1.2%. This has been delivered through the introduction of additional space in this category with the addition of a North Terminal express store, the delivery of commercial activity as part of our Summer Festival which focused on the value proposition of duty free and new contract terms.

Catering has continued its strong income performance trend delivering an increase of 15.7%, and a 15.4% increase in income per passenger. This has been driven by the increased space assigned to this category in the South Terminal through the additions of Itsu and Joe and the Juice. Trading performance has been strong in the North Terminal airside units during development work to construct an extension to the mezzanine level and whilst several units were reconfigured or refurbished. Bar Burrito, Shake Shack and Warren's Bakery opened in the North Terminal in the autumn of 2019 and in the spring of 2020 another two food and beverage outlets will open. These changes will complete the terminal's food and beverage changes ready for our peak passenger period.

Specialist shops income has grown by 4.5%, which has exceeded passenger growth. The North Terminal has seen the introduction of new brands in the form of Watches of Switzerland, Whittards of Chelsea, Reiss and a Mulberry pop up shop. These brands continue to improve the proposition for passengers, making a significant improvement in our premium fashion offer and gifting. In South Terminal, Gatwick have seen several of our existing brands invest in refurbishing their units in order to improve the experience for passengers, which has also helped increased our income.

Bureau de change income has remained stable during the period.

The airport's passenger survey data shows that customer satisfaction remains high across both terminals and we have seen an improving trend in the North Terminal as development works have been completed and new units have opened.

STRATEGIC REPORT (continued)**Financial review (continued)****Car Parking Income**

Net car parking income decreased by £1.4 million or 2.5% during the period ended 31 December 2019. Net car parking income per passenger is calculated as follows:

	Period ended 31 December 2019 £m	Period ended 31 December 2018 £m	Year ended 31 March 2019 £m
Car parking income	70.6	71.7	88.3
Less: car parking expenditure	(15.3)	(15.0)	(19.1)
Net car parking income	55.3	56.7	69.2
Passengers (m)	36.9	36.8	46.4
Net car parking income per passenger	£1.50	£1.54	£1.49

Net car parking income per passenger for the period to 31 December 2019 decreased 2.7%, £0.04 with market conditions remaining challenging.

Parking demand has been weak driven by the loss of Thomas Cook in September and the overall shift away from UK outbound passengers. Gatwick market research data showed an average decline in UK resident non-transfer departing passengers of 1.5% compared to the same period in 2018. Against this weaker market demand pre-book revenue remained flat and roll-up revenue was down 3.8%.

Overall costs increased 2.0% driven by wage increases linked to living wage changes and higher online marketing costs.

Other Income Categories (Property, operational facilities and utilities, and other income)

For the nine months ended 31 December 2019, income from other categories increased by £6.1 million to £84.4 million compared to £78.3 million for the nine months ended 31 December 2018. The Airport is now responsible for providing the hold baggage screening service to the Airline community; the associated operating costs have been recharged which has driven an increase in other income.

Income per Passenger

Income per passenger for the period ended 31 December 2019 increased by £1.11 (6.0%) to £19.50 compared to £18.39 for the period ended 31 December 2018.

STRATEGIC REPORT (continued)**Financial review (continued)****Operating Costs**

In the nine months ended 31 December 2019 operating costs pre exceptional items increased by 6.0% period-on-period compared to passenger growth of 0.3%.

	Period ended 31 December 2019 £m	Period ended 31 December 2018 £m	Year ended 31 March 2019 £m
Staff costs	149.6	152.1	203.6
Retail expenditure	3.4	2.6	3.4
Car parking expenditure	15.3	15.0	19.1
Maintenance and IT expenditure	34.7	32.7	45.2
Utility costs	17.7	16.9	23.1
Rent and rates	20.9	24.5	32.8
Other operating expenses	49.6	32.3	42.2
Depreciation and amortisation	134.9	125.8	170.0
Total operating costs pre exceptional costs	426.1	401.9	539.4

For this period, staff costs, the largest operating cost, decreased by £2.5 million or 1.6%. The average number of full time equivalent ("FTE") employees increased from 3,046 for the nine months to December 2018 to 3,052 for the same period in 2019. The average cost per FTE reduced due to new starter rates, staff mix and discretionary payments.

Retail expenditure increased by £0.8 million as a result of growth in Gatwick Connects, E-commerce and advertising revenue.

Car park expenditure increased by £0.3 million or 2.0% driven by wage increases linked to living wage changes and higher online marketing costs.

Depreciation and amortisation increased £9.1 million or 7.2% due to continued capital investment in the Airport and a number of large capital projects completing during the period including the replacement of the EDS Standard 3 baggage screening machines.

Maintenance and IT expenditure increased £2.0 million or 6.1% as a result of increased spend largely driven by a different schedule of maintenance related activities, specific new costs in relation to EDS Standard 3 baggage screening machines, along with increased IT software, licence and maintenance costs.

Rent and rates decreased by £3.6 million or 14.7% for the period ended 31 December 2019 due to a change in valuation methodology, resulting in a new baseline cost for current period and a one-off revision of costs for prior periods.

Utility costs increased by £0.8 million due to higher wholesale prices and consumption.

Other operating expenses increased by £17.3 million. Following a UK Government directive, since 1 April 2019, airports are responsible for providing the hold baggage screening service which has resulted in additional operating costs. However, this cost is recharged to the Airline community resulting in a corresponding increase in other income of £3.3 million. Staff costs associated with the capital expenditure programme decreased by £3.1 million as a result of a different capital works programme. The remaining growth is due to royalties and service fees of £7.4 million, plus contractual increases across a range of activities and services.

STRATEGIC REPORT (continued)**Financial review (continued)****EBITDA**

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

	Period ended 31 December 2019 £m	Period ended 31 December 2018 £m	Year ended 31 March 2019 £m
Operating profit	278.7	274.9	271.3
Add back: depreciation and amortisation	134.9	125.8	170.0
Exceptional costs	18.8	-	-
EBITDA	432.4	400.7	441.3

The Group define EBITDA as profit for the period before depreciation, amortisation, profit/(loss) on disposal of fixed assets, investment property revaluations, exceptional items, net finance costs, and tax. EBITDA is a non-IFRS measure and not a uniformly or legally defined financial measure. EBITDA is not a substitute for IFRS measures in assessing our overall financial performance.

EBITDA is included in this Annual Report because it is a measure of the Group's operating performance and the Group believes that EBITDA is useful to investors as it is frequently used by securities analysts, investors and other interested parties. EBITDA is useful to management and investors as a measure of comparative operating performance from period to period as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance, and it removes the effect of the Group's asset base (primarily depreciation and amortisation), capital structure (primarily finance costs), and items outside the control of management (primarily taxes).

EBITDA is used as a financial metric when assessing the credit worthiness of the Group by credit rating analysts and utilised to calculate the Group's debt leverage position and interest coverage under the financial covenants as defined within the Common Terms Agreement.

Exceptional costs have been called out separately above due to the one off nature of the costs in relation to an incentive scheme and reorganisation costs incurred during the period following the change of ownership and reorganisation costs relate to the Operational Change Programme designed to deliver an enhanced passenger journey and create new leadership roles.

EBITDA increased by £31.7 million in the period ended 31 December 2019, as a result of continued strong revenue growth compared to the period ended 31 December 2018.

Going Concern

The Group's net asset position has increased to £53.9 million (31 March 2019: £385.2 million net liability).

All the Group's financial covenants (see note 25) have been met for the period ended 31 December 2019 and are forecast to be met for the years ending 31 December 2020, 2021 and 2022. The covenants require that the Group forecasts for at least the next three years from the Statement of Financial Position date.

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

STRATEGIC REPORT (continued)

Financial review (continued)

Dividends

The Directors declared and paid dividends of £58.12 per share on 12 July 2019 amounting to £300.0 million and dividends of £19.37 per share on 20 December 2019 amounting to £100.0 million, totalling £400.0 million for the period (31 March 2019: £29.06 per share amounting to £150.0 million on 5 July 2018). The Directors did not recommend the payment of a final dividend (31 March 2019: £nil).

Senior RAR and Senior ICR

The maximum net indebtedness to the total Regulatory Asset Base¹ ("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 December 2019, the Group's Senior RAR ratio was 0.60 (31 March 2019: 0.59). The Senior ICR for the period ended 31 December 2019 was 11.78 (31 March 2019: 2.93).

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;
- Core Service Standards ("CSS");
- overall Quality of Service Monitor ("QSM");
- on-time departures;
- EBITDA pre-exceptional items;
- net retail income per passenger or per departing 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").

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

STRATEGIC REPORT (continued)

4. Corporate Governance & Leadership

Board of Directors

The Board consists of the Chief Executive Officer, the Chief Financial Officer and Non-Executive Directors. Board Meetings are attended also by the Company Secretary. The Board has assessed its composition and consider that it has an appropriate balance of skills, backgrounds, experience and knowledge. In line with good corporate governance, an effectiveness review will be completed in 2020 to consider any further enhancements. The Chairman of the Board is an independent non-voting Director appointed by a resolution of the Board. The other Non-Executive Directors are voting and are shareholder representatives.

The Board defines the Group's overall long-term strategy and support the Executive management team by ensuring they have the necessary resources to meet the Groups objectives. The Board participate in the recruitment of key management team members and to decide on material investment and financing issues. The Board also conducts general supervision by monitoring performance and ensure that the Group acts ethically and meets its responsibilities as a leading airport company by having effective Corporate Governance.

Board Committees

Audit Committee

The Audit Committee members include a chairman appointed by the Board of Directors and two shareholder Non-Executive Directors, who also attend the Board. Together they have appropriate competence in accounting and auditing.

Olivier Mathieu (Chair) Non-Executive Director (representing VINCI)
 Rémi Maumon de Longevialle Non-Executive Director (representing VINCI)
 Marten Soderbom Non-Executive Director (representing GIM)
 Philip Iley Non-Executive Director (representing GIM)

The Audit Committee is a sub-committee of the Board and its responsibilities include:

- considering the appointment of the external auditor, taking into account relevant ethical guidance and assessing the independence of the external auditor ensuring that key audit personnel are rotated at appropriate intervals (including overseeing the process for selecting the external auditor and making recommendations to the Board);
- recommending the audit fee to the Board for approval and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity;
- discussing with the external auditor the nature and the scope of the audit and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes;
- reviewing reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitoring the integrity of the financial statements of the Group and reviewing, and challenging where necessary, the actions and judgements of management, in relation to the interim and annual financial statements and any press release related to those statements;
- reviewing Internal Audit reports to the Audit Committee on the effectiveness of the Group's systems for internal control, financial reporting and risk management;
- reviewing the external auditor's management letter and management's responses;
- considering management's response to any major external or internal audit recommendations;
- approving the appointment and dismissal of the Head of Business Assurance;
- reviewing Gatwick's procedures for handling allegations from whistle-blowers;
- reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings;
- overseeing all press releases relating to external financial results;
- reviewing Gatwick's tax policy and insurance strategy and arrangements;
- reviewing the results of the Data Protection Officer's data privacy compliance monitoring programme and ensuring that the Data Protection Office is adequately resourced to carry out its tasks;
- considering the adequacy of management's response to any major data privacy non-compliance findings as a result of monitoring activities; and
- ensuring that the accounts are fair, balanced and understandable.

The committee meets at least three times per annum.

STRATEGIC REPORT (continued)

Corporate Governance & Leadership (continued)

Board Committees (continued)

Remuneration Committee

The Remuneration Committee members include a chairman appointed by the Board and three shareholder Non-Executive Directors who also attend the Board.

Nicolas Notebaert (Chair) Non-Executive Director (representing VINCI)
 Olivier Mathieu Non-Executive Director (representing VINCI)
 Michael McGhee Non-Executive Director (representing GIM)
 Marten Soderbom Non-Executive Director (representing GIM)
 Cheikh Daff

The Remuneration Committee is a sub-committee of the Board and is responsible for overseeing Board and Senior Management appointments, remuneration and succession planning, including;

- the compensation packages of the members of the EMB (including salary, bonus, pensions and other incentive compensation);
- the contractual terms for the members of the EMB and independent Non-Executive Directors;
- the design and terms of bonus plans including approval of off-cycle bonus payments outside bonus guidelines including sign on, retention and guaranteed bonuses;
- the design and terms of long term incentive plans; and
- succession planning for the members of the EMB.
- To approve the operating framework for remuneration delegated to the Chief Executive Officer

The committee meet at least once per annum.

Environment, Health, Safety and Operational Resilience (EHSOR) Committee

The EHSOR Committee members include a chairman appointed by the Board of Directors and three shareholder Non-Executive Directors, who also attend the Board.

David McMillan (Chair) Non-Executive Director (representing CalPERS)
 Eric Delobel Non-Executive Director (representing VINCI)
 Marten Soderbom Non-Executive Director (representing GIM)
 Michael O'Toole Non-Executive Director (representing GIM)
 Cheikh Daff
 Terry Morgan
 Bo Rederborn

The EHSOR Committee is responsible for reviewing the Group's strategy and exposure to risk with respect to environmental, health and safety (EHS) matters and operational resilience and business continuity. The EHSOR Committee monitors the Group's performance against targets and drives management commitment and accountability with respect to managing EHSOR risks.

The committee meets three to four times per annum.

Capital Investment Board

The Capital Investment Board members include a chairman appointed by the Board of Directors and two shareholder Non-Executive Directors, who also attend the Board.

Sir David Higgins (Chair) Non-Executive Director (independent)
 Eric Delobel Non-Executive Director (representing VINCI)
 Philip Iley Non-Executive Director (representing GIM)

The Capital Investment Board Sub-Committee is primarily responsible for discharging the Board's duties by providing financial governance and performance oversight in relation to the capital investment programme, including reviewing all major capital investment proposals and providing a recommendation to the Board.

The committee meets monthly.

STRATEGIC REPORT (continued)

Corporate Governance & Leadership (continued)

Board Committees (continued)

Executive Management Board

Gatwick has an Executive Management Board (EMB) which consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Technical Officer, the Chief Operating Officer, the General Counsel, the Capital Programmes Director, the Development Director, the HR Director and the EHS Director.

The EMB meets monthly and is responsible for the day-to-day management of the Group. In particular, the EMB 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.

STRATEGIC REPORT (continued)

5. Risk Management and Internal Control Environment

Risk Management Framework

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.

Internal Control Environment

The Board of Directors are responsible for reviewing annually the effectiveness of the internal control environment designed to mitigate the risks faced by the Group. 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.

These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

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 Committee and Board of Directors that the controls put in place to mitigate risks are working effectively.

The Audit Committee was established to provide, amongst other things, independent oversight of the risk management of the Group. The key features of the Group's internal control and risk management systems in relation to the financial reporting process include:

- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of safety and security, environmental, commercial, financial, reputational and legal risks;
- detailed reviews by the EMB and the Board of management accounts measuring actual performance against both budgets and forecasts on key metrics;
- Audit Committee review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items:
 - compliance with accounting, legal, regulatory and lending requirements
 - critical accounting policies and the going concern assumption
 - significant areas of judgement and estimates
 - key financial statement risk areas as reported further below in the report
- independent review of controls by the Internal Audit function, reporting to the Audit Committee; and
- a confidential whistleblowing process.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****Key Corporate Risks**

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

Environment, Health and Safety

Continuing to build on a strong Environment Health and Safety (EHS) culture, Gatwick remains committed to the reduction and management of risks associated with its people, assets and environment. As a responsible business, Gatwick's vision is to deliver a customer focussed operation in the healthiest and safest way, while ensuring minimal adverse environmental impact.

Gatwick continues to work on improving its culture with respect to EHS and have targeted five areas to improve on from the results of a safety culture survey carried out in late 2017. Following the appointment of Gatwick's new EHS Director in July 2019, the culture improvement programme has been amended to include health and environment. The programme to date has used an external consultant and a steering group consisting of representatives from eight areas of the business of differing levels and roles. This group is used to develop and critique initiatives aimed at improving EHS culture.

Improving the passenger experience is always a priority for everyone working at Gatwick. The EHS team, along with Engineering, Terminals and Construction work tirelessly to prevent and respond to fires or alarms that our sensitive detection equipment alerts us to. In 2019 we had just 10 evacuations involving passengers, which is over 40% less than the same period last year.

Gatwick achieved Gold status by The Royal Society for the Prevention of Accidents (RoSPA) again last year and are currently planning our submission for 2020. Gatwick is recognised for its commitment to helping staff, customers and contractors keep safe.

The investment in telematics for the Gatwick vehicle fleet has given us our first proactive insight into Gatwick driving behaviours and has allowed us to focus both positive and negative feedback to different teams across the airport creating safer driving conditions for all.

Telematics has been a great addition supporting a positive change in human behaviour whilst also driving an improvement on reporting on the airfield with respect to vehicle collisions. For example, since the introduction of telematics we have seen more knocks and scrapes reported. This helps us to proactively respond to trends and continue to reduce more significant collisions, which we have seen 50% less of.

Gatwick has continued to implement robust systems and controls for managing EHS risks, EHS compliance obligations and driving EHS performance improvement. One way to demonstrate the effectiveness of these systems is by aligning them with international standards for management systems and obtaining external certification. Gatwick has continued to achieve these standards and has remained certified to ISO14001 since 2010 and OHSAS18001 since 2012.

In 2019 Gatwick retained for the sixth consecutive time our Biodiversity Benchmark Award. This is an important target in our Decade of Change programme and shows we have a leading approach to biodiversity and ecological management and awareness. This year we achieved zero non-conformances and zero negative observations being raised and/or applying to the site. This is only the second time in the history of the award this has been achieved. Only 13 organisations in the whole of the UK can lay claim to meeting the rigorous assessment standards, making this a great achievement for Gatwick.

With increasing public awareness on mental health, Gatwick has introduced a programme of four modules to give people the awareness and tools to understand their own mental health and recognise symptoms in others, providing methods for managing stress and moods. More than 300 managers will have attended this externally delivered sessions by the end of March 2020. We have also trained 70 members of staff and five managers to respond to and support their peers after they deal with traumatic incidents.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****Environment, Health and Safety (continued)**

Gatwick has trialled a new approach to responding to Aircraft Ground Incidents (AGIs) which are incidents involving aircraft not relating to take-off or landing, for example contact with other vehicles, smoke and fire events. Historically, any event considered an AGI by Air Traffic Control (ATC) would require a full response from our own airport fire service and create the need for three local fire service fire appliances and one officer to attend Gatwick. AGIs required 13 fire fighters, with each instance taking around an hour. Over 99% of the AGI demand for local fire service attendance were stood down without any involvement. Since August 2019 the trial has seen our own fire service respond to each AGI and assess the severity of the event and whether the local fire service is required. In the 59 AGIs since August 2019 our Airport Fire Service have assessed no need for local fire service attendance, managing the incident internally and avoiding 767 hours of fire fighter time and resource. As our fire service can attend any AGI in minutes, their ability to assess the risk and then call on the local service if required means that the adequacy of response will not be impaired. This innovative initiative has had input from ATC, Local Authorities and our Airport Fire Service, the benefits are generating interest and enquiries from other UK airports.

Regulatory Environment, Legal and Reputational Risks**Business resilience**

Gatwick continually monitors and manages a number of business resilience risks, covering our assets, infrastructure, human or electronic processes or systems, the failure of which, by accident or deliberate act, could result in periods of interruption to critical services/operations and passenger experience.

Gatwick is not immune to shocks from the macroeconomic environment and whilst we may be unable to fully insulate ourselves from these external threats (for example: terrorism; wars; airline bankruptcies; pandemics; weather conditions; and natural disasters), where possible the Group seeks to anticipate the effects of these events on its operations and also maintains detailed contingency plans to minimise disruption and passenger inconvenience. These plans are continually updated via routine testing and from lessons learned from unplanned incidents.

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 and Internal Control Environment (continued)

UK Aviation Strategy

Government policy is clear in its support for aviation industry growth. It recognizes the tangible benefits growth brings in terms of economic confidence, growing tourism, increased trade and business investment. However, it also recognizes the need for sustainable growth taking steps to mitigate environmental impacts such as carbon emissions, noise and air quality. With continued demand for air travel therefore, securing consents and permissions for new infrastructure is key to ensure Gatwick can meet such demand. Gatwick's active participation in both Government and local policy consultations and extensive engagement with local authorities and community groups is a key enabler to ensure Gatwick receives the support it requires to continue to meet its ambition for sustainable growth. This ambition is further supported by a Section 106 agreement with Crawley Borough Council and West Sussex County Council which was renewed in April 2019.

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 policy on important issues such as noise and climate change. It emphasises the need for airport operators to invest in delivering new capacity and improved resilience as well as maximising the use of existing capacity.

In December 2018, the Government published for consultation policy proposals for a new Aviation Strategy entitled "Aviation 2050 – The future of UK aviation" (Cm9714). The policy measures are designed to develop a long-term Aviation Strategy to 2050 and beyond which aim to achieve a safe, secure and sustainable aviation sector that meets the needs of consumers and of a global, outward-looking Britain. The objectives of the strategy are to:

- Build a global and connected Britain;
- Help the aviation industry work for its customers;
- Ensure a safe and secure way to travel;
- Encourage competitive markets;
- Support growth whilst tackling environmental impacts; and
- Develop innovation, technology and skills.

This consultation closed in June 2019 and the Department for Transport (DfT) are currently analysing responses. A final Aviation Strategy is due to be published during 2020. Gatwick supports the development of a new Aviation Strategy and its recognition that the aviation industry is important to the whole of the UK as it creates jobs, facilitates trade and promotes economic growth, supports inbound and outbound tourism, and connects the UK with the rest of the world.

The development of the Aviation Strategy is not a process the government can undertake on its own and it therefore engages with a wide range of industry groups, passengers and communities to develop a long term plan for sustainable growth. One element of Gatwick's input into policy making is through the preparation of a master plan.

Since Gatwick's July 2012 master plan there have been significant changes within both the industry and at the Airport. The Government decided to support a third runway at Heathrow, and announced policy supporting all other airports to make best use of existing runways ('Beyond the Horizon – The future of UK aviation. Making best use of existing runways' June 2018). The Government considers that any proposals to make best use of existing infrastructure should be judged taking account of all relevant considerations, particularly economic and environmental impacts and proposed mitigations.

It is best practice to review the long-term development and planning strategy every five years. Therefore, in October 2018 Gatwick published and consulted on its draft master plan. The new draft master plan had two main sections, covering (1) the next five years, and (2) Growth scenarios looking 5-15 years ahead. The latter section described three scenarios:

- One where it remains a single runway operation using the existing main runway
- One where the existing standby runway is routinely used together with the main runway
- One where we continue to safeguard for an additional runway to the south

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****UK Aviation Strategy (continued)**

Since the draft master plan was published, events over the last period have reinforced the need for greater resilience and additional capacity through sustainable airport growth. In July 2019 the Airport published the final form of the master plan and produced a report on consultation. The Airport was encouraged by the levels of feedback with over 5,000 responses to the consultation received. Many of these responses highlighted strong support for Gatwick's future growth ambitions with two-thirds (66%) of respondents supporting growth by making best use of Gatwick's existing runways, through bringing the existing standby runway into routine use for the first time alongside our main runway. There was also clear support (59%) for the continued safeguarding of land for an additional runway should it be required in the future.

Importantly, the master plan sets out how Gatwick could develop to meet demand in the most sustainable way over the next 15 years. Indeed, the overall vision for Gatwick is to be the airport of the future, and a model for sustainable growth. Taking into account the consultation feedback, Gatwick announced it will:

- continue to make best use of its main runway through the use of technology;
- prepare a planning application to bring the standby runway into routine use; and
- continue to seek that national and local planning policy safeguards land for an additional runway in the future.

Gatwick have started to undertake further detailed design and development work and undertake environmental, highways and other studies to prepare the planning application to bring the standby runway into routine use. The planning process will follow the requirements of the Planning Act 2008 for nationally significant infrastructure projects including the submission of a Development Consent Order (DCO).

In September 2019 Gatwick formally started the DCO process and submitted our Environmental Impact Assessment Scoping Report to the Planning Inspectorate (PINS). PINS responded with a Scoping Opinion in October 2019.

The statutory planning process will include a further stage of public consultation which will be carried out during the first half of 2020. This will allow all stakeholders including local authorities, communities, businesses and partners the opportunity to provide more feedback as the scheme evolves. If consent for the scheme is granted, the runway could be brought into routine use by the mid-2020's.

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.

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, and from 1 January 2020 onwards to limit increases in airport charges to RPI until 31 March 2025. However, Gatwick has the ability to alter prices year by year, as long as it does not exceed the price ceiling set by RPI+0% (indexed to 31 March 2019). Protections are also offered by the structure of airline discounts under bilateral contracts which are defined, in part, by committed passenger volumes. In addition, there remains flexibility in the capital programme and operating costs to reduce expenditure commensurate with a reduction in demand.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****Loss of Personal Data**

The penalties for the Group failing to comply with the Data Protection Act 2018 (DPA18) are recognised as on-going risks to be managed. Failure to comply with the DPA18 could result in reputational risks (impacting on Gatwick's relationship with its stakeholders including its regulators) litigation against Gatwick or a fine (maximum fine applicable is the greater of 20 million euros or 4% of annual turnover).

The Group has implemented a number of controls and mitigating actions, including: a GDPR Compliance Programme; appointment of a Data Protection Officer (DPO) to advise on compliance requirements, mandatory data protection e-learning; etc.

A programme is continuing to identify comprehensively GDPR compliance requirements and implement required controls as business as usual. Data protection by design is a work in progress to ensure that data processing risks are identified and that the Company has a central record of all of its processing activities (a critical GDPR requirement).

Anti-corruption and anti-bribery matters

Any breach of anti-bribery provisions by Gatwick employees, paid or voluntary agents, consultants or suppliers could result in Gatwick breaching the Bribery Act by failing to prevent an act of bribery being committed. If Gatwick is found guilty of such an offence, it could face an unlimited fine, as well as significant reputational damage.

As such, Gatwick takes a zero-tolerance approach to bribery and corruption and is committed to conducting its business in an honest and ethical manner, in compliance with the Bribery Act 2010 (the "Bribery Act") and applicable anti-bribery and anticorruption laws. Gatwick has embedded and maintains a robust code of ethics policy which contains detailed guidance for all employees and third parties associated with Gatwick on how they are required to conduct themselves.

Any breach of the anti-bribery policy will result in disciplinary action, and, if appropriate, in instant dismissal and referral to the relevant law enforcement authorities. In addition, our whistleblowing policy encourages individuals to report any wrong doing which extends to bribery and corruption matters. All whistleblowing reports are treated in the strictest confidence and are investigated fully with appropriate actions taken.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****People (including Industrial Relations)**

Gatwick is a complex business, employing over 3,000 individuals directly and as such there are risks associated with recruiting, screening, developing and training employees on a large scale. As such, Gatwick has developed several strategies and policies to engage, motivate and challenge its employees as well as rewarding appropriately and retaining critical talent and ensuring succession plans are in place.

Gatwick has a transparent recruitment process and is committed to recruiting diverse talented individuals from all sectors of the community. At all stages of the recruitment and selection process, interviewing and selection will always be carried out without regard to gender, sexual orientation, disability, marital status, colour, race, ethnic origins, religion or religious belief or age. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty which is intrinsic to the role, having taken into account any reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure an applicant is not disadvantaged due to his/her disability. All successful external candidates are subject to a criminal record check and the appropriate security clearance as required by the role.

To mitigate the risk of industrial action by key groups of employees that could have potentially adverse financial and/or reputational impacts on the Airport, Gatwick has a range of formal consultative bodies that discuss pay, conditions of employment, and business issues with three recognised trade unions (Unite, Prospect, and PCS). Our emphasis is 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. In addition, there are formal agreements designed to resolve disputes.

During 2019 the company proposed a series of changes to the role of front line leaders across the Operations function. The proposal, designed to strengthen the quality of leadership provided to front line colleagues, was agreed with employee representatives following lengthy and detailed consultation.

We will continue our focus on maintaining strong relationships with the full time union officials, and building solid working relationships with representatives.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (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 December 2019, fixed rate debt after hedging with derivatives represented 98.4% (31 March 2019: 96.9%) 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 £373.1 million for the period ended 31 December 2019 (31 March 2019: £409.0 million). As at 31 December 2019, cash at bank was £10.6 million (31 March 2019: £3.2 million), undrawn headroom under bank revolving facilities was £215.0 million (31 March 2019: £180.0 million) and undrawn headroom under the liquidity facility was £150.0 million (31 March 2019: £150 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.

Following the impact of Covid-19, in March 2020 Gatwick drew down in full on its £300 million Revolving Credit Facility. In addition, on 3 April, the Group entered into a new £300 million Term Loan. See pages 22 and 69 for further details.

(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 and Internal Control Environment (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 2001. In April 2019 a further extension was agreed until the end of 2021. The legal agreement provides the framework for Gatwick's approach on local 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 under 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 which 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.

With the Decade of Change nearing completion, Gatwick continues to work collaboratively with its partners and is on track to meet the 2020 objectives, laying a strong foundation for the next decade. The next set of goals for 2030 are presently being developed.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****Corporate Social Responsibility (continued)****Decade of Change Progress (continued)**

During 2019, Gatwick has made significant progress on all areas of focus, and continues to reduce the Airport's environmental impact, including:

- Reducing Airport energy consumption by 11%, and Airport water consumption by 26%, since 2010;
- Reusing or recycling 71% of Airport operational and commercial waste, and becoming the first airport to process aircraft waste onsite into renewable energy;
- Reducing carbon greenhouse gas (GHG) emissions under Gatwick's direct control (i.e. Scope 1 and 2 emissions, from GAL use of energy and ground fuels) by 54% compared to the 1990 baseline, and by 60% since 2010. Gatwick maintains Airport Carbon Accreditation at Level 3+ ("Neutral") through these reduction efforts, ongoing purchase of renewable electricity for the Airport, and offsetting residual Gatwick emissions through verified carbon credits; and
- Retained The Wildlife Trusts' Biodiversity Benchmark for the sixth consecutive year.

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

Carbon and energy

Gatwick is committed to low-carbon growth. Through the Decade of Change strategy, Gatwick has reduced Scope 1 and 2 GHG emissions by 54% compared to the 1990 baseline (location-based GHG accounting) and by 85% compared to the 1990 baseline (market-based GHG accounting). Gatwick has also committed to reach net zero emissions, without offsetting, for Scope 1 and 2 GHG emissions before 2050. In addition to reducing our own emissions, Gatwick works with airport partners to reduce emissions from aircraft on the ground, operational vehicles and surface transport used by staff and passengers to reach the airport. by promoting electric and ultra-low vehicles and equipment.

Gatwick has achieved and maintains the Airport Council International's Airport Carbon Accreditation at Level 3+ ("Neutral") which requires ongoing reduction in and offsetting of residual Scope 1 and 2 emissions, and active stakeholder engagement to manage and where feasible reduce Scope 3 emissions, including aircraft and surface access emissions. At Gatwick this programme includes incentivising newer aircraft, providing Fixed Electric Ground Power on aircraft stands and restricting use of aircraft Auxiliary Power Units, investing in electric and ultra-low emission operational vehicles and equipment, and promoting public and low emission transport to the airport.

In 2019 Gatwick continued to focus on the transition to electric and ultra-low emission vehicles and equipment. Gatwick's airfield has around 200 sockets and charge-points for electric ground support equipment (GSE) and vehicles, with more being planned; and almost 40% of airfield ground services equipment at Gatwick is already electric. The conversion of Gatwick's fleet vehicles to electric or ultra-low emission equivalent has commenced. Gatwick expects that by 2030 all light and medium duty vehicles used on the airfield will be electric or ultra-low equivalent.

In the past three years, Gatwick has provided rapid-charging infrastructure for the official airport taxi provider and upgraded existing charge-points in short-stay car parks and is presently introducing electric charging as part of the valet parking service. During 2020, with Gatwick's support, Metrobus will be introducing hydrogen fuel cell buses on the local Fastway 10 and 20 routes.

Energy efficiency is another important aspect of reducing carbon emissions. Energy efficiency programmes have been incorporated into Gatwick's capital investment plan so that improvements are built into all new developments and building refurbishments. In 2019, a full mechanical and electrical refurbishment of Gatwick's fire station was completed. Recent significant building refurbishments have included the North Terminal and Pier 5 redevelopments, the replacement of South Terminal Pier 1 and the Airline Moves programme.

STRATEGIC REPORT (continued)**Risk Management and Internal Control Environment (continued)****Corporate Social Responsibility (continued)****Carbon and energy (continued)**

Asset replacements provide a further opportunity to improve energy efficiency. There has been significant investment in upgraded lighting, baggage and security systems, heating, ventilation and air conditioning systems as well as controls. In the past three years, 25% of the South Terminal heat network has been replaced with 'local' low temperature high efficiency gas boilers.

Over the last decade, a significant investment in energy efficiency through asset replacement has been made in lighting through the installation of LED technology. Gatwick's runway, taxiways and aircraft stands have LED lighting. New lighting has been provided to all of Gatwick's long-stay surface and multi-storey car parks. In the terminals and administrative buildings many areas have been upgraded to LED lighting with centralised lighting control systems. In 2019, Gatwick substantially completed a project to replace existing lights with over 3,000 LED fittings in public areas within North and South terminals as well as offices, welfare spaces and plantrooms; the project is expected to save around 1GWh of electricity annually.

Gatwick energy usage and greenhouse gas emissions for the period ended 31 December 2019

	Reporting year 2019 (calendar year)	Comparison year 2018 (calendar year)
Energy consumption used to calculate emissions /kWh	152,363,337	157,015,858
Emissions from combustion of gas tCO ₂ e (Scope 1)	9,705	9,883
Emissions from combustion of fuel for transport purposes (Scope 1)	1,214	1,197
Emissions from purchased electricity (Scope 2, location-based)	25,443	29,224
Emissions from purchased electricity (Scope 2, market-based factor)	5	5
GAL business travel: employee road mileage and car hire (part of Scope 3 Emissions tCO ₂ e – see notes below)	16	25
Total gross CO ₂ e based on above (location-based)	37,666	41,386
Total gross CO ₂ e based on above (market-based)	12,228	11,936
Intensity ratio: kgCO ₂ e/passenger	0.81	0.89
Intensity metric: passenger numbers	46,568,000	46,075,400

Methodology

Greenhouse gas assessment undertaken in line with the Greenhouse Gas Protocol, using BEIS emission factors for the assessment year, and quantifying all six GHGs measured in terms of carbon dioxide equivalence (CO₂e).

The location-based method reflects the average emissions intensity of the grid on which energy consumption occurs. The market-based method reflects emissions from electricity that has been purposefully chosen, in Gatwick's case Renewable Electricity Guarantee of Origin certificates for the airport's electricity supply.

Scope 3 emissions (Emissions as a direct consequence of the use of goods and services provided by the company) are reported in the annual Decade of Change report following completion of annual Airport Carbon Accreditation. These Decade of Change reports are available at www.gatwickairport.com/sustainabilityreports.

STRATEGIC REPORT (continued)

Risk Management and Internal Control Environment (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 aims to 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's Slavery and Human Trafficking Statement may be found on Gatwick's website.

Developing Our People

Review of the Period

The Human Resources team continues to play a highly proactive role, both within the Gatwick workforce and across the airport campus, supporting employers to maintain strong industrial relations and sustain resourcing requirements all year round.

During 2019 Gatwick Airport has focused on developing relationships across the wider Gatwick Family to support the resourcing agenda. The Gatwick Jobs portal continues to prove an attractive proposition to job seekers wanting to work at the Airport in a variety of available positions. Annually, over 1,000 hits are made on the portal which has 68 registered employers showcasing their vacancies whilst leveraging the Gatwick Airport brand. In addition, the third annual jobs fair was held with 965 job seekers attending the event. Focus this year was on real people, real jobs, innovation using technology and sustainability. Gatwick Airport was keen to demonstrate our commitment to our Decade of Change by developing an event app which significantly reduced the usage of paper and plastic by enabling job seekers and exhibitors to share information online. Further supporting the sustainability agenda, all exhibitors were provided with reusable water bottles. Job seekers were also welcomed by our community partners including the National Careers Service, Croydon Works, and Employ Crawley as well as East Surrey and Crawley Colleges. This important alliance was representative of Gatwick as a great place for jobs but also demonstrated the routes to those wanting to develop into a career in any number of the 40 organisations across the Family.

- The Gatwick Airport Limited brand has sustained its position in the Talent marketplace. Key metrics for 2019 include:
 - 156 security officers recruited
 - 178 corporate, technical and operational hires
 - 4 engineering apprentices
 - 1 engineering graduate
 - 1 engineering graduate year in Industry

STRATEGIC REPORT (continued)

Risk Management and Internal Control Environment (continued)

Developing Our People (continued)

Review of the Period (continued)

Gatwick continues with a direct resourcing model which has a positive impact on costs and maintains a significant reduction in the reliance on agency usage. Gatwick is proud of our ability to engage with both active and passive talent focusing on the importance of our people and the capability for our competitive advantage that they bring.

A particular focus of the Gatwick team has been on promoting flexible working solutions and to encourage more diversity in applications (with specific focus on STEM roles) by investing in technology which encourages gender neutral language in advertising, using a more diverse range of images on the careers webpage and diversifying the job boards used to encourage more women to apply. In addition working with a partnership of job centres across the region, Croydon Works, and Employ Crawley, the Careers Transition Partnership for Armed Forces, and local schools and colleges, Gatwick is committed to opening up employment opportunities for all.

The business continues to grow internal talent with 116 internal moves aided by the roll out of succession planning and potential review planning across all leader grades. In particular, internal appointments made were with the Head of Strategy Development and Head of Sales and Ops Planning and IT Director.

The Gatwick training team is well established and a key contributor to the strong performance of Security compliance and service standards. The training team has delivered high quality training with a focus on raising the level of technical knowledge across the business to support improved efficiency. A new syllabus for new security officers, is now embedded, the managers and trainers courses also saw the introduction of new syllabi, with a new syllabus for the supervisory level going live in January, this will again support an improvement in standards which in turn will improve efficiency, the introduction of practical assessments at this level will enhance the technical capability of this level of management.

Pension change of administration

Following a process of good governance, the defined benefit Pension Scheme Trustees made the decision to transfer to a new provider, AON, for all service – actuarial, investment and administration. This process was completed, as planned, in November 2019.

Attendance management

Gatwick continued during the period to focus on employee productivity and health and wellbeing. The implementation of a new People system (CoreHR) in November 2018 gave the organisation much greater transparency of current attendance levels within the business and from November 2019, we were able to report on a full year of data and compare year on year progress. We continue to use the system and become more data driven to help our Managers manage attendance within their teams by better visibility. As a result during the following year more time/focus will be spent on managing attendance throughout the organisation supported by the HR Team.

Gender pay

Companies with over 250 employees are required to report their Gender Pay Gap information. In 2019 Gatwick reported a reduced Mean Gender Pay Gap of 8.7%, down from 13.3% last year.

The mean hourly gender pay gap is the difference between the average pay of all of the men versus the average pay of all of the women employed in the company rather than equal pay which is the comparison of pay between men and women who do the same job.

STRATEGIC REPORT (continued)

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires the directors of the Group to act in the way they consider, in good faith, would most likely promote the success of the Group for the benefit of its members.

In doing so section 172 requires a director to have regard (amongst other matters) to:

- a. The likely consequences of any decisions in the long-term.
- b. The interests of the company's employees.
- c. The need to foster the company's business relationships with suppliers, customers and others.
- d. The impact of the company's operations on the community and environment.
- e. The desirability of the company maintaining a reputation for high standards of business conduct.
- f. The need to act fairly as between members of the company.

The directors discharge their section 172 duty by having regard to the factors set out above along with other relevant factors. The directors will ensure key decisions are in line with the Group's vision, purpose and values.

As any large organisation, the directors delegate authority for the day-to-day management of the Group to the EMB and then engage management in setting, approving and overseeing execution of the business strategy and related policies.

The Group's key stakeholders are its passengers, local communities and environment, colleagues, airlines, shareholders and investors, commercial partners and supplier and regulators. The views of and the impact of the Group's activities on these stakeholders are important when making relevant decisions.

The directors have set out below some examples of how we have had regard to the matters set out in section 172(1)(a) - (f) when discharging our section 172 duty.

Key Decisions

Capital Allocation

The total amount of distributions (as defined under the CTA) for the period ended 31 December 2019 was £400 million, which consisted of £100.0 million dividend and a £300.0 million loan from Gatwick Airport Limited to a shareholder affiliate company outside of the Ivy Holdco Group.

In setting this level, the directors considered the following factors:

- the overall performance of the business and near-term market conditions;
- the financial outlook for key airlines;
- the likely views of rating agencies regarding these factors;
- the forward view of the Ivy Holdco Group's debt and interest-cover credit ratios;
- the extent of the pension fund deficit reduction;
- the ability to maintain adequate liquidity;
- the ability to allocate sufficient capital to re-invest into asset maintenance, airport resilience, capacity and service improvements; and
- the ability to allocate sufficient resources and capital to achieving stretching environmental goals, which ensure the long-term sustainability of the Group

The level of distribution reflected a balanced approach that considered all the factors above but gave significant weight to the factors that safeguarded the long-term best interests of the Group.

STRATEGIC REPORT (continued)**Section 172(1) Statement (continued)****Key Decisions (continued)****Carbon Strategy**

Gatwick is committed to low-carbon growth. Through the Decade of Change strategy, Gatwick has reduced Scope 1 and 2 emissions by 54% compared to the 1990 baseline and has committed to reach net zero emissions for Scope 1 and 2 emissions before 2050. In addition to reducing our own emissions, Gatwick engages with airport partners such as airlines, retailers, construction firms, cleaning companies, hotels and others to reduce emissions from aircraft on the ground, operational vehicles and surface transport used by staff and passengers to reach the airport by promoting electric and ultra-low vehicles and equipment.

In 2019 Gatwick continued to focus on the transition to electric and ultra-low emission vehicles and equipment. Gatwick's airfield has around 200 sockets and charge-points for electric ground support equipment (GSE) and vehicles, with more being planned; and almost 40% of airfield ground services equipment at Gatwick is already electric. The conversion of Gatwick's fleet vehicles to electric or ultra-low emission equivalent has commenced. Gatwick expects that by 2030 all light and medium duty vehicles used on the airfield will be electric or ultra-low equivalent.

Masterplan

Following a 12-week consultation with the local community during 2018 in July 2019 the directors approved and published the final form of the masterplan and produced a report on the consultation. The Airport was encouraged by the levels of feedback with over 5,000 responses to the consultation received. Many of these responses highlighted strong support for Gatwick's future growth ambitions with two-thirds (66%) of respondents supporting growth by making best use of Gatwick's existing runways, through bringing the existing standby runway into routine use for the first time alongside our main runway. The master plan sets out how Gatwick could develop to meet demand in the most sustainable way over the next 15 years. Indeed, the overall vision for Gatwick is to be the airport of the future, and a model for sustainable growth.

Gatwick have started to undertake further detailed design and development work and undertake environmental, highways and other studies to prepare the planning application to bring the standby runway into routine use. The planning process will follow the requirements of the Planning Act 2008 for nationally significant infrastructure projects including the submission of a Development Consent Order (DCO).

Commitments

The directors approved the Updated and Extended Commitments, which became legally binding on Gatwick from 1 January 2020, and which replace the existing Commitments from 1 April 2021 onwards. These finalised Commitments represent a further enhancement of Gatwick's contractual undertakings to users. The Board also decided to accelerate the pricing benefit inherent in these finalised Commitments to be effective from 1 January 2020.

The decision to update and extend the Commitments was informed by two rounds of consultation with airlines and passenger representatives in 2018 and 2019 and passenger research undertaken in 2019.

Stakeholder Engagement

The Executive Management Board along with the management engage with key stakeholders, the output of this engagement informs business-level decisions. Below highlights some of the engagement that take place.

Passengers

Gatwick engages with our passengers through a number of channels to understand their needs and to help shape our future plans.

Gatwick formally consult the Passenger Advisory Group, a sub-group of the Gatwick Airport Consultative Committee (GATCOM), on our capital investment plans. We listen to their views on the facilities and services we provide to passengers and their recommendations for improving the passenger experience. In addition to the Passenger Advisory Group are being consulted on capital development projects, we work with them through several other consultative work streams, to hear about passengers' experiences and needs for their journeys through the airport.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Stakeholder Engagement (continued)

Passengers (continued)

Gatwick have a comprehensive research strategy, which systematically collects and analyses passengers' views on all aspects of their journeys to and through the airport, at each of 50 'touch points' where passengers interact with airport services and facilities. In addition, we have an on-line feedback tool to make feedback simple for passengers to give, and social media channels such as Twitter, Instagram and Facebook all offer our customers the opportunity to provide 'in the moment' feedback on their airport experience, as well as providing hugely important opportunities for communication.

Airlines

Gatwick engages with its airline customers through a variety of established forums to understand their needs and deliver the right operating environment. The key forums used to engage with airlines are:

- Airport Consultative Committee (ACC) covering a range of strategic topics.
- Annual consultation forums covering Gatwick's Capital Investment Programme and the structure and level of airport charges.
- Monthly Joint Operations Group (JOG) meetings with representatives from a range of stakeholders including airlines, ground handlers and Gatwick's local air navigation service provider.

These forums have informed a number of important decisions which have been taken by the directors during the period, including finalisation of Gatwick's price and service offer under an updated and extended commitments term that will apply until March 2025, published in January 2020. An updated Capital Investment Programme, published in July 2019, which set out Gatwick's plan to invest more than £1 billion over the next 5 years.

Colleagues

Gatwick will only deliver its strategic priorities if we recruit, develop and retain the best people. Having the best people enables Gatwick to deliver the best passenger experience.

Gatwick engages with its employees through Trade Union (TU) representatives. TU sub groups meeting take place on a monthly basis across Engineering, Passenger Ops, Security, Airfield and Fire. These groups come together at the Gatwick Joint Committee (GJC) on a quarterly basis with TU representatives from all the unions, Human Resources (HR) and Senior Leaders in Operations. There is also a monthly TU Chairs meeting. Any negotiation is through the Collective Bargaining Agreement covering Terms and Conditions of employment, including pay and consultation occurring whenever any organisational changes are proposed.

Gatwick seeks to engage all leaders within the business (Directors, Senior Leaders, Business Managers and Front Line Leaders) by holding two leadership events per year. This involves updating attendees on the performance of the business, expected trends within the aviation industry and examples of good practice within the business.

Regulator

Gatwick is subject to a regulatory framework, based on Commitments backed by a licence and supplemented by a monitoring regime by the Civil Aviation Authority (CAA).

Management meet regularly with the CAA to discuss all issues relating to the regulation of Gatwick. As part of the licence Gatwick is required to provide various documents and information.

Suppliers and Commercial Partners

Gatwick works together with suppliers and commercial partners to deliver the vision of being London's airport of choice and deliver the best passenger experience.

Gatwick regularly attend events with the local business community and in the period have hosted a workshop for the Federation of Small Businesses to give them guidance on Gatwick Procurement. Our Procurement team hold a regular quarterly forum attended by all of our construction contractors to keep them updated on Gatwick's plans. Gatwick regularly invite local suppliers along to present to the key contractors to help promote that local supply chain.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Stakeholder Engagement (continued)

Suppliers and Commercial Partners (continued)

In August 2019, in order to demonstrate Gatwick's commitment to fair payment practices, we undertook a review of Gatwick's payment terms. As a result, all Small & Medium Enterprises (SMEs) consisting of businesses with less than 250 employees and under £50m turnover, are now paid within 30 days. This is benefitting over 200 small suppliers who were previously on 60 days terms.

Investors

Understanding the needs of investors helps Gatwick to access a cost-effective financing base and maintain the investment grade rating.

Gatwick's Board of Directors is made up of a mixture of Executive and Non-executive directors representing both shareholders. Gatwick provides regular financial updates to both shareholders. Gatwick publishes annual and semi-annual reports and financial statements which include enhanced disclosures. Along with the reports and financial statements Gatwick performs investor roadshows to provide current and potential investors an update on performance.

Management liaise with credit rating agencies to ensure we understand the impact of Gatwick's strategic decisions.

Local Communities and Environment

Working with local communities enables Gatwick to develop to meet demand in the most sustainable way. The overall vision for Gatwick is to be the airport of the future, and a model for sustainable growth. Gatwick's community investment programmes are designed to share the benefits that the airport generates among local people, focusing on key themes identified as priorities locally, including Economy; Education, Employment & Skills; and Community Investment. We do this by working with partners and stakeholders on airport (our "Gatwick Family") and across the wider region.

Gatwick engages with local communities across several different forums, in October Gatwick hosted its first Meet the Local producer event, inviting food and beverage suppliers from across the region. The purpose and objective of this event was to raise awareness of the wonderful local products that available locally – profiling and enhancing the whole region as a 'go to place' for unique and quality produce.

Gatwick also took the airport out on a series of roadshows out to secondary schools with the aim of giving students across the region hands-on experience of STEM-related careers to encourage them to consider working in the industry. The roadshow visited pupils in Kent, West and East Sussex throughout the period engaging with over 4,000 students.

Gatwick continued to drive and manage noise engagement through the Noise Management Board. Gatwick will seek members' inputs in the planning and development of Gatwick's airspace. During 2019 the NMB implemented the recommendations of the independently-led review of the NMB structure and constitution. The main purpose of the review was to ascertain, as the first three-year term of the NMB came to a close in 2019, what if any, evolution would be necessary for the NMB's second term.

The new structure will comprise three groups: the NMB Executive Board; the NMB Community Forum; and, the NMB Delivery Group. This structure will be a more effective means of drawing together all of the appropriate stakeholders, both local and industry, to collaborate on practical measures to reduce the noise impacts of the operation of the airport for local communities.

On behalf of the Board



Michael McGhee

Director

23 April 2020

DIRECTORS' REPORT

The Directors present their report and audited consolidated financial statements for the period ended 31 December 2019.

BOARD OF DIRECTORS

The directors of the company who were in office during the period and up to the date of signing the financial statements were as follows:

Michael McGhee	
William Woodburn	
Olivier Mathieu	Appointed 27 June 2019
Nicolas Notebaert	Appointed 27 June 2019
Rémi Maumon de Longevialle	Appointed 27 June 2019
Benoit Trochu	Appointed 27 June 2019
Pierre-Hugues Paul Schmit	Appointed 27 June 2019
David McMillan	Appointed 27 June 2019
Marten Soderbom	Appointed 27 June 2019
Philip Iley	Appointed 20 November 2019
Andrew Gillespie-Smith	Resigned 20 November 2019
John McCarthy	Resigned 30 April 2019
Karim Mourad	Appointed 30 April 2019 and resigned 20 November 2019

As most of the Airport's operations occur within Gatwick Airport Limited, below lists the directors that served on the Board of Gatwick Airport Limited during the period.

Sir David Higgins (Non-executive Chairman)

Sir David Higgins was appointed non-executive Chairman in January 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. 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. He was appointed Chairman of United Utilities in January 2020.

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.

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.

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)

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, Competitive Power Ventures and EnLink Midstream.

Philip Iley (Non-executive Director, GIP representative)

Philip Iley is an Investment Principal at GIP focusing on the transport infrastructure sector. Prior to joining GIP in 2016, Philip spent over 20 years as an investment banker at Credit Suisse, heading their Transport & Logistics team from 2006-16. He is also a director on the board on Italo, Europe's largest private high speed rail operator. Philip has a BA (Hons) Law & Accountancy degree from Manchester University

David McMillan (Non-executive Director)

David McMillan has had a long career in the transport sector, with a focus on aviation. He is currently Chair of the Air Traffic management Policy Institute. 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.

Nicolas Notebaert (Chairman, VINCI Airports and Chief Executive Officer, VINCI Concessions)

Nicolas Notebaert joined the VINCI Group in 2002 as Head of Operations for the French road concession Cofiroute, before being appointed Director of Business Development for VINCI Concessions France in 2004. In February 2008, he became President of VINCI Airports, and CEO of VINCI Concessions in 2016. Prior to joining the VINCI Group, he held various positions in the French Ministry of Public Works and served as a cabinet member of the French Minister for Transportation and Infrastructure. He started his career in 1994 as a consultant to the World Bank. Nicolas Notebaert is a graduate of Ecole Polytechnique (X 89) and Ecole Nationale des Ponts et Chaussées (Ponts 94). As President of VINCI Airports, Nicolas Notebaert holds leadership positions in prominent projects throughout the world : board member of London Gatwick, Aeroportos de Portugal (ANA) and Kansai Airports (Japan), President of the Board of Nuevo Pudahuel (the consortium operating Santiago's international airport), Chairman of the Board of Cambodia Airports, Chairman of the board of Aerodom (Dominican Republic), President of the Supervisory Board of Aéroports de Lyon, Chairman of the board of Aéroports du Grand Ouest.

Olivier Mathieu (Executive Vice President, VINCI Concessions)

Olivier Mathieu is an alumnus of the ESSEC business school (MBA). He began his career as an adviser to the Chief Financial Officer of VINCI in 1995. He then successively became management controller at G+H Montage (VINCI Group – Germany), Chief Financial Officer of Sogea-Satom (Africa branch of VINCI Construction) and Chief Administrative and Financial Officer of VINCI Construction Filiales Internationales (Africa, Overseas France, Germany, Central Europe). Olivier Mathieu was then appointed Chief Financial and Asset Management Officer of VINCI Concessions. He was appointed Executive Vice-President of VINCI Concessions in 2012.

DIRECTORS' REPORT (continued)**BOARD OF DIRECTORS (continued)****Rémi Maumon de Longevialle (Chief Financial Officer, VINCI Airports)**

Rémi graduated from Ecole Polytechnique and ENSAE in France and has also a Master of Public Affairs from Sciences-Po Paris. He started his career at PwC where he was a member of the PPP / Project Finance team in Paris for 2 years. He joined VINCI in 2012 as Project Manager in the VINCI Concessions Structured Finance team where he took part in the financing of large infrastructure projects in Europe and Latin America (motorways, railways and stadiums). In 2014, he joined the Business Development team of VINCI Airports as Project Manager. He was notably in charge of the successful bid, closing and operational take-over of the Kansai airports in Japan from 2015 to 2016. Rémi was then appointed as Project Director for the Middle-East and Central Asia region where he managed several airport acquisition projects before being named Chief Financial Officer of VINCI Airports in 2018.

Pierre-Hugues Schmit (Chief Commercial Officer, VINCI Airports)

A graduate of Ecole Polytechnique (Paris) in 2001 and the French National University of Civil Aviation (ENAC in Toulouse) in 2003, Pierre-Hugues has also spent one year in UC Berkeley as graduate student in transportation engineering. Pierre-Hugues worked at the French CAA for 7 years, 3 of which is the head of the French Airlines Department (2006-2009). From 2010 to 2012, Pierre-Hugues was working as an advisor to the French Transportation Minister. He then joined Aéroports de Paris as deputy director of the Le Bourget division. In 2014, along with three partners he founded La compagnie, a scheduled airline based in Paris delivering pure business class service to New York. Pierre-Hugues joined VINCI Airports in June 2017 where he supervises the airport business expertise on air service development, extra aeronautical activities and airport operations.

Eric Delobel (Chief Technical Officer, VINCI Airports)

Joining Quille (Bouygues Group) in 1995, he held various positions in the area of project management before moving into real estate development for Bouygues Immobilier, Hammerson, then Foruminvest as Director of programs and development, respectively. After joining VINCI at the end of 2009, he moved to Slovakia at the beginning of 2010 as Chief Executive Officer of the Granvia concession company in charge of the funding, the design, the construction and the operation of the 52km R1-PR1bina expressway, which opened to traffic in October 2011. He joined VINCI Airports in 2012 as Deputy Managing Director of the future Grand Ouest airport, with responsibility for its implementation and the transfer from Nantes Atlantique. In 2014, Eric Delobel has been appointed Managing Director for West Region in France. He is a member of the VINCI Airports Executive Committee. On April, 4th 2016, he has been appointed Chief Executive Officer of Cambodia Airports, the concession company in charge of operation and development of the 3 international airports of Cambodia. On August, 1st 2019, Eric Delobel is appointed Chief Technical Officer of VINCI Airports.

Marten Soderbom (Non-executive Director, GIP representative)

Marten Soderbom is a Principal at Global Infrastructure Partners (GIP) and is based in London. Marten focuses on the transport sector at GIP and worked on the recent sale of Gatwick, the sale of London City Airport and the acquisition of NTV Italo Rail. Marten is a member of the Board of Directors of London Gatwick Airport and a member of its Audit Committee.

Prior to joining GIP in 2012, Marten spent 12 years at Credit Suisse, where he was a Director in the Transport team. His experience includes numerous airport, port and rail M&A transactions and privatisations. He also has M&A, capital raising and restructuring experience in other transport sub-sectors including airline, shipping and bus.

DIRECTORS' REPORT (continued)

BOARD OF DIRECTORS (continued)

DIVIDENDS

The Directors declared and paid dividends of £58.12 per share on 12 July 2019 amounting to £300.0 million and dividends of £19.37 per share on 20 December 2019 amounting to £100.0 million, totalling £400.0 million for the period (31 March 2019: £29.06 per share amounting to £150.0 million on 5 July 2018). The Directors did not recommend the payment of a final dividend (31 March 2019: £nil).

STATEMENT OF ENGAGEMENT WITH EMPLOYEES

The directors have promoted the information in this statement to the Section 172(1) statement shown on page 47.

STATEMENT ON ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS IN A BUSINESS RELATIONSHIP WITH THE COMPANY

The directors have promoted the information in this statement to the Section 172(1) statement shown on page 47.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

In accordance with the Companies (Miscellaneous Reporting) Regulation 2018, the Board has reviewed its corporate governance arrangements and the statement below explains how the Group has applied the Financial Reporting Council (FRC) Wates Corporate Governance Principles.

Gatwick's Purpose & Leadership:

As set out in detail within sections 1-4 of the Strategic Report, the Board has set out the ambition of the Group "to compete to grow and become London's airport of choice" in a way that benefits all - our passengers, our people, our business partners and our communities.

The Board has established six strategic priorities to: deliver the best passenger experience; help our airlines grow; increase value and efficiency; protect and enhance its reputation; build a strong environment, health and safety culture; and develop the best people, processes and technology. The Board implements this strategy by aligning all its activities with these priorities.

Balancing Opportunity and Risk to create long-term sustainable success:

As set out in detail within section 2 of the Strategic Report, the Board is committed to promoting the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Set out below is a summary of three key on-going areas of focus for the Board:

1. Extension of the Commitments Regulatory Framework

- Since 1 April 2014, Gatwick's regulatory framework is based on Commitments backed by a licence and supplemented by a monitoring regime. The Commitments are a set of legally enforceable undertakings, made by Gatwick to airlines, covering price, service, transparency, financial resilience, operational resilience and dispute resolution. The Commitments also enable Gatwick to enter into a series of bilateral contracts incorporating, for example, price, service and duration, agreed on a contractual basis between Gatwick and individual airlines.
- Given that Gatwick has maintained a strong operational performance over recent years, in June 2018 the CAA published CAP 1684: "Future economic regulation of Gatwick Airport Limited: initial consultation" which is broadly supportive of Gatwick's favoured process of approaching the airlines directly with a commercial proposal, recognising this mechanism was embedded in the original Commitments, beyond the expiry of the current Commitments framework on 31 March 2021.

DIRECTORS' REPORT (continued)**STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)****2. Delivering Sustainable Growth by Engaging and Delivering for our Stakeholders**

- 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. 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.
- Gatwick is operating close to its permitted limit on annual aircraft movements and is the busiest single runway airport in the world. As a result, management has identified that sustainable growth and increased airport capacity could be delivered through further development of our existing infrastructure.
- 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.
- Gatwick understands the importance to its business of the communities in which it operates, and through consultation and engagement seeks to ensure that their concerns are taken into account in the operation and planning of Gatwick. The Board is committed to managing the airport responsibly, such that economic benefits are optimised without prioritising profits over the long term interests of local communities.
- Gatwick continues to work collaboratively with its partners to deliver sustainable growth. It is on track to meet the 2020 Decade of Change objectives, which has set a strong foundation for the next decade. Gatwick has made significant progress on all areas of focus, it continues to reduce the Airport's environmental impact, by delivering sustainable growth.
- Gatwick has maintained its environmental permits and licenses and have had no formal reportable environmental incidents
- The Group undertakes procurement responsibly and encourages trade and employment opportunities for local communities. Gatwick has a transparent recruitment process and is committed to recruiting diverse talented individuals from all sectors of the community. Gatwick has developed a number of strategies and policies to engage, motivate and challenge its employees as well as rewarding appropriately.
- Gatwick has a range of formal consultative bodies that discuss pay, conditions of employment, and business issues with three recognised trade unions (Unite, Prospect, and PCS). The Gatwick Joint Committee, the top-level consultative forum in the Airport, provides a forum for the workforce to share with management their views on business strategy and performance.

3. Maintaining an effective risk management culture and internal control environment

- As set out in detail within section 5 of the Strategic Report, an effective risk management culture and internal control environment 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.
- Whilst these internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss, the Audit Committee provides the Board, amongst other things, with independent oversight of the risk management of the Group.
- The principal corporate risks as identified by the Board are detailed within Section 5 of the strategic report.

DIRECTORS' REPORT (continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

Board Composition, Responsibilities & Remuneration:

- The Corporate Governance and Leadership of the Group is set out in detail within section 4 of the Strategic Report.
- This provides a detailed description of the Board of Directors (the 'Board') and Committees of the Board. Each board comprises a chair, a number of non-executive directors and advisers which together bring a broad balance of skills, backgrounds, experience and knowledge.
- Each Board and Committees of the Board have a formal terms of reference which set out clearly their accountability and responsibilities. The Board's policies and procedures support effective decision-making and independent challenge.
- The Remuneration Committee ensures that executive remuneration structures align to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

FUTURE DEVELOPMENTS

The directors have disclosed future developments in the Strategic Report on page 22.

FINANCIAL RISK MANAGEMENT

The directors have disclosed financial risk management in the Strategic Report on page 41.

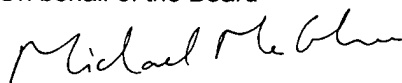
DIRECTORS' INDEMNITY

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 AUDITORS

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 auditors are 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 auditors are aware of that information.

On behalf of the Board



Michael McGhee
Director
 23 April 2020

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Ivy Midco Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and the Group's and the Company's cash flows for the 9 month period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated and Parent Company Financial Statements (the "Annual Report"), which comprise: the Consolidated Income Statement and Statement of Comprehensive Income for the 9 months ended 31 December 2019, the Consolidated and Company Statements of Changes in Equity for the 9 months ended 31 December 2019, the Consolidated and Company Statements of Financial Position as at 31 December 2019 and the Consolidated and Company Cash Flow Statements for the 9 months ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the preparation of the financial statements on a going concern basis. Covid-19 has had a significant impact on the trading performance of the Group and as a consequence the Group may breach its senior interest cover ratio covenant for one measurement date in the next 12 months (that being, 31 December 2020) in a period of prolonged closure or slower than expected recovery from the impact of Covid-19.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED (continued)

Material uncertainty related to going concern (continued)

Audit procedures performed

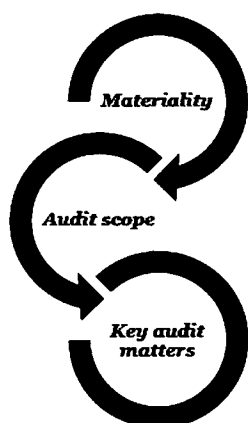
In concluding there is a material uncertainty, our audit procedures evaluated the Directors' assessment of the impact of lower levels of traffic through April and May, and over a potentially longer period, and the impact this would have on revenue and the ability of the Group to manage costs and cashflows. We also considered the covenant calculations and the adjustments that are permitted under financing agreements.

In assessing the impact of the above scenarios, which are referred to in note 1 of the financial statements, we performed the following procedures on the Directors' assessment that the Group and Company will continue as a going concern:

- agreed the underlying cash flow projections to management approved forecasts;
- tested the mathematical accuracy for the forecast models;
- considered the basis for the forecasts by reference to historical performance of the Group and different potential scenarios of how Covid-19 may impact the business;
- evaluated key assumptions regarding the lost revenue, associated EBITDA and cash impact that would result from the current low level of traffic continuing through April and May 2020, with a phased recovery in services starting in June 2020;
- evaluated the assumptions in respect of the costs that could be avoided in a period of reduced activity and traffic;
- assessed the impact of the mitigating factors available to management in respect of the ability to restrict capital expenditure and other cash expense items;
- reviewed the terms of the financing agreements, including the new term loan, and the associated covenants, and tested the calculation of the covenant ratios based on the forecast results and cashflows; and
- reviewed and evaluated the appropriateness of the going concern basis and the related disclosures made in the financial statements in light of the findings of our work.

Our audit approach

Overview



- Overall group materiality: £10.6 million, based on 2.5% of earnings before interest, tax, depreciation and amortisation adjusted for exceptional items and non-cash adjustments for fair value of investment properties and fair value of derivatives.
- Our full scope audit accounts for 100% of group revenue.
- Valuation of investment property (group)
- Capital expenditure (group)
- Recoverability of investment (parent)
- Going concern (Group & Company) (see material uncertainty related to going concern paragraph above)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED (continued)

Our audit approach (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment property</p> <p>The Group holds investment properties totalling £1,173.0 million at 31 December 2019, including Car Parks, Offices and Non-Operational land, which represents a significant proportion of the Group's total assets of £3,744.4 million.</p> <p>The valuation is sensitive to changes in assumptions, particularly:</p> <p>Changes in the estimated rental value of the underlying property, and management's plan to utilise the properties in the future;</p> <p>The rental yields that are achievable from the use of the property, particularly the estimate of future cash flows associated with the profitability of the car parks; and</p> <p>The discount rate and comparable transactions used to estimate the fair value analysis.</p>	<p>In respect of the valuation of investment property, we engaged our valuations experts to assist us in evaluating the valuations assessments including:</p> <ul style="list-style-type: none">Assessing of the valuation approach used and any changes in the approach from prior years;Ensuring the valuation approach is consistent with professional valuation standards;Evaluating significant assumptions and judgements made in the model. <p>We obtained supporting documentation to test the inputs into the valuation including validating input data such as future cash flows associated with rental income, revenues and yields.</p> <p>We tested the mathematical accuracy of the valuation models.</p> <p>We assessed the disclosures of the methodologies used, assumptions adopted and the associated judgements with reference to relevant accounting standards.</p> <p>We did not identify any material exceptions.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Capital expenditure</p> <p>Given the size and nature of the Group's operations, there is judgement required to determine the costs which should be capitalised, compared to those which are maintenance in nature and therefore operating costs.</p> <p>The risk impacts both the balance sheet and income statement as costs could be incorrectly classified therefore impacting fixed assets, operating expenses and EBITDA.</p> <p>In addition there is judgment required in assessing the cut-off of accrued capital expenditure of projects in progress at the period end, which totalled £32.3 million.</p>	<p>We evaluated management's accounting policies to ensure they are in accordance with the relevant accounting standards.</p> <p>For a sample of additions, we assessed the nature of the expense that was capitalised and ensured that these are capital in nature as opposed to expense items.</p> <p>We tested a sample of capitalised projects to supporting documentation including contracts with suppliers, invoices, project analysis sheets and approval by cost engineers.</p> <p>In respect of capital projects in progress, we utilised our own specialists to independently assess the estimated completion of the project at period end. We also then assessed the continued viability of these projects to ensure that it is probable that the projects will continue to completion and generate future cash flows in excess of the carrying value of the capital in progress.</p> <p>We performed testing on a sample of capitalised overhead and interest costs and ensured the capitalisation criteria was met, only appropriate costs were included, and the capitalisation calculation was mathematically accurate.</p> <p>We assessed the Group's disclosures of the capitalisation criteria, and the judgements involved with reference to relevant accounting standards.</p> <p>We did not identify any material exceptions.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of investment</p> <p>The Company holds an investment in Gatwick Airport Limited. Given the size and nature of the investment, there is judgement required by management to determine whether or not there is any indication of impairment in value.</p> <p>In the event of any indicator of impairment management are required to evaluate the carrying value of the investment either by reference to the value in use of the investment or the fair value less cost to sell. Valuations of this nature are inherently judgmental and require management to use a variety of estimates, in particular the assessment of future cash flows of the airport, discount rates and future growth rates in relation to a value in use, and the valuation a third party would be willing to pay to acquire the operations in the case of fair value less cost to sell.</p> <p>Management did not identify any indicators in the carrying value of investments of £683.1 million in the current period.</p>	<p>We evaluated management's assessment of impairment indicators by reference to the consideration paid by VINCI to acquire a 50.01% controlling interest in the Group in the period, and by reference to the performance of the Group since the acquisition.</p> <p>We found management's assessment to be reasonable, noting no exceptions.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED (continued)

Our audit approach (continued)

Materiality (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements
Overall materiality	£10.6 million
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation adjusted for exceptional items and non-cash adjustments for fair value of investment properties and fair value of derivatives.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, earnings before interest, tax, depreciation and amortisation is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. We consider it appropriate to exclude exceptional items and non-cash adjustments for fair value of investment properties and fair value of derivatives as it eliminates volatility and maintains the link between materiality and underlying business performance.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £6 million to £9.1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (Group audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IVY MIDCO LIMITED (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, The Directors' Report and the Financial Statements set out on page 57, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Matthew Hall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
23 April 2020

CONSOLIDATED INCOME STATEMENT**For the 9 month period ended 31 December 2019**

		Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
	Note		
Revenue	5	719.6	810.8
Other operating income	6	3.9	-
Operating costs	7	(444.8)	(539.5)
Operating profit		278.7	271.3
Analysed as:			
Operating profit before exceptional items		297.4	271.3
Operating costs – exceptional		(18.7)	-
Investment property revaluation	18	15.8	126.6
Loss on disposal of fixed assets	10	(1.4)	(5.2)
Financing			
Fair value loss on derivative financial instruments	11	(0.3)	(20.5)
Finance income	12	15.6	20.8
Finance costs	13	(124.5)	(207.5)
Profit before tax		183.9	185.5
Income tax charge	14	(40.3)	(51.8)
Profit for the period		143.6	133.7

The notes on pages 69 to 112 form an integral part of these financial statements.

All income and expenses recognised during the current and prior periods are from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period 9 month ended 31 December 2019

	Note	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Profit for the period		143.6	133.7
Other comprehensive income/(loss)			
Items that will not be reclassified to the consolidated income statement			
Actuarial gain/(loss) on retirement benefit obligations	26	1.6	(13.6)
Tax (charge)/credit	24	(0.3)	2.3
Other comprehensive profit/(loss) for the period		1.3	(11.3)
Total comprehensive income for the period		144.9	122.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 9 month period ended 31 December 2019

	Note	Share capital £m	Share Premium £m	Retained earnings £m	Total £m
Balance at 1 April 2018		5.2	2.8	(366.1)	(358.1)
Profit for the period		-	-	133.7	133.7
Other comprehensive income		-	-	(11.3)	(11.3)
Share based payments	16	-	-	0.5	0.5
Dividends	15	-	-	(150.0)	(150.0)
Balance at 31 March 2018		5.2	2.8	(393.2)	(385.2)
Profit for the period		-	-	143.6	143.6
Other comprehensive income		-	-	1.3	1.3
Dividends	15	-	-	(400.0)	(400.0)
Proceeds from shares issued	29	0.7	693.5	-	694.2
Bonus share issue	29	693.5	(693.5)	-	-
Share capital reduction	29	(694.2)	(2.8)	697.0	-
Balance at 31 December 2019		5.2	-	48.7	53.9

The notes on pages 69 to 112 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	31 December 2019 £m	31 March 2019 £m
Assets			
Non-current assets			
Property, plant and equipment	17	2,396.6	2,347.3
Investment properties	18	1,173.0	1,148.3
Intangible assets	19	26.3	24.8
Goodwill	19	51.8	51.8
Lease receivables	23	16.9	16.9
		3,664.6	3,589.1
Current assets			
Inventories		6.1	6.0
Trade and other receivables	20	63.1	42.7
Cash and cash equivalents		10.6	3.2
		79.8	51.9
Total assets		3,744.4	3,641.0
Liabilities			
Non-current liabilities			
Borrowings	25	(2,839.6)	(2,580.4)
Derivative financial liabilities	21	(228.9)	(228.6)
Lease liabilities ^(a)	23	(63.4)	(50.3)
Deferred tax liabilities	24	(309.7)	(300.3)
Retirement benefit obligations	26	(24.7)	(37.6)
Other non-current liabilities	27	-	(675.0)
		(3,466.3)	(3,872.2)
Current liabilities			
Lease liabilities ^(a)	23	(2.1)	(1.0)
Trade and other payables	28	(206.2)	(134.0)
Current tax liabilities		(4.2)	(4.1)
Deferred income		(11.7)	(14.9)
		(224.2)	(154.0)
Total liabilities		(3,690.5)	(4,026.2)
Net (liabilities)/assets		53.9	(385.2)
Equity			
Share capital	29	5.2	5.2
Share premium	29	-	2.8
Retained earnings		48.7	(393.2)
Total equity		53.9	(385.2)

(a) The Group has adopted IFRS 16 using the modified retrospective approach in accordance with IFRS 16:C5(b) with a date of initial application of 1 April 2019. The Group has not restated the comparative information.

The financial statements on pages 65 to 112 were approved by the Board of Directors on 23 April 2020 and signed on its behalf by:



Michael McGhee
Director



Rémi Maumon de Longevialle
Director

CONSOLIDATED CASH FLOW STATEMENT
For the 9 month period ended 31 December 2019

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Cash flows from operating activities		
Profit before tax	183.9	185.5
<i>Adjustments for:</i>		
Investment property revaluation	(15.8)	(126.6)
Loss on disposal of fixed assets	1.4	5.2
Fair value loss/(gain) on financial instruments	0.3	20.5
Finance income	(15.6)	(20.8)
Finance costs	124.5	207.5
Depreciation and amortisation	134.9	170.0
Increase in inventories, trade and other receivables	(4.7)	(0.9)
Increase/(decrease) in trade and other payables	16.2	(4.2)
Defined benefit pension contributions	(11.8)	(15.0)
Other non-cash movements	-	0.1
Cash generated from operations	413.3	421.3
Corporation tax paid	(40.2)	(12.3)
Net cash from operating activities	373.1	409.0
Cash flows from investing activities		
Interest received	1.0	0.8
Purchase of fixed assets	(188.6)	(256.5)
Sale of tangible fixed assets	0.1	1.1
Net cash from investing activities	(187.5)	(254.6)
Cash flows from financing activities		
Interest paid	(33.7)	(116.9)
Payment of lease liabilities ^(a)	(1.8)	-
Increase in long term external borrowings	292.3	-
(Decrease)/increase in revolving credit facility	(35.0)	97.6
Equity dividends paid	(400.0)	(150.0)
Net cash from financing activities	(178.2)	(169.3)
Net increase/(decrease) in cash and cash equivalents	7.4	(14.9)
Cash and cash equivalents at the beginning of the period	3.2	18.1
Cash and cash equivalents at the end of the period	10.6	3.2

(b) The Group has adopted IFRS 16 using the modified retrospective approach in accordance with IFRS 16:C5(b) with a date of initial application of 1 April 2019. The Group has not restated the comparative information.

The notes on pages 69 to 112 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 31 December 2019

1. BASIS OF PREPARATION

Ivy Midco Limited ("the Company") is a private company, limited by shares, and is registered, incorporated and domiciled in England, United Kingdom. The registered number is 06894065 and the registered address is 8th Floor, 20 Farringdon Street, London, United Kingdom, EC4A 4AB

These are the consolidated financial statements of the Company and its subsidiaries ("the Group") for the period ended 31 December 2019. The comparative year is the year ended 31 March 2019. They are presented in sterling and rounded to the nearest £0.1 million. 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, 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. In assessing the going concern position of the Group, the Directors have considered the potential impact of Covid-19 on the cash flow and liquidity of the Group over the next 12 months, and the corresponding impact on the covenants associated with the Group's financing arrangements.

The Group's financing arrangements are cross-guaranteed by each company within the Ivy Holdco Group. This results in each company being interdependent on the overall results and cash flows of the Group as a whole. This arrangement is further disclosed within note 25.

The Group's financial modelling assumes significantly reduced passenger numbers and revenue as a result of Covid-19 over the next 12 months, reflecting the current period of near closure of the airport and an assumed recovery starting in the early Summer. Its expectation is that the current low level of traffic will persist through April and May, with a ramp-up during June and into July. Passenger traffic is projected to be c. 28.9m in calendar year 2020, as compared to 46.1m in 2018 and 46.6m in 2019. Consequently, Group EBITDA and cash flow from operations in 2020 is expected to reduce significantly compared to prior expectations.

The Group has acted to reduce operating expenditure. Discretionary spending has been halted; the operational footprint of the airport has been shrunk to a single pier and the hours of operation limited; over 530 employees have permanently left the business through a combination of voluntary and compulsory severance; following consultation with Unions and employees, we have reduced staff costs temporarily by 20%, and approximately 2,025 employees have been furloughed; and we have worked with contractors and other service providers to reduce their costs.

In addition, the Group has reviewed and adjusted its Capital Investment Programme, removing £136 million of the £250 million investment planned in 2020. Specifically, over half of the projects already in delivery have stopped, with only operationally critical projects or those that are near to completion continuing; and 47 of the 49 projects in the design phase have been suspended.

Further details of these actions to reduce operating costs and defer capital expenditure are included in the "Response to Covid-19" section of the Strategic Report and in note 36 "Subsequent events".

The Group has taken steps to increase the availability of cash and committed funding available (refer to note 25). As at 31 March 2020, the Group held cash of £92 million and its £300 million Revolving Credit Facility was fully drawn. As of 3 April 2020, the Group had entered into a new £300 million term loan (duration of 12 months, extendable to 18 then 24 months at the Group's option), to replenish in full the availability of funds under the £300 million Revolving Credit Facility (maturity June 2024). The Group also has access to a committed £150 million Liquidity Facility to ensure interest payment obligations can be kept current for over 12 months. The Group does not currently expect to utilise the Liquidity Facility. The Group's forecasts demonstrate that the Group continues to have liquidity headroom throughout the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

1. BASIS OF PREPARATION (continued)

The Group's financing arrangements are subject to compliance with financial covenants, including the Senior Interest Cover Ratio ("ICR") (which is calculated on the basis of operating cash flow within a 12-month period, adjusted downwards by a pre-defined notional (non-cash) amount, compared to net interest paid) and the Senior RAR ratio ("RAR") (which is calculated by reference to net debt compared with a defined multiple of average EBITDA from the last 3 years). Both covenants are subject to bi-annual tests at 30 June and 31 December. The Group's forecasts project a reduction in the overall level of headroom in covenant calculations reflecting the expected reduction in operating cash flows and EBITDA in calendar year 2020. The ICR is particularly sensitive to the concentrated loss of revenues and cash flows within one calendar year. However, in the base case the Group would continue to satisfy its financial and other covenants. If the impact of Covid-19 is more protracted than currently expected, whether through a longer period of near closure or a slower than expected recovery in traffic, this will result in further loss of revenues and reduced headroom in the ICR covenant and, ultimately, this could result in the Group breaching its ICR covenant at the December 2020 measurement date. Any such breach would be determined following preparation of the financial year results in the first quarter of 2021, followed by a period in which the Group can seek to remedy the breach. Thereafter, the granting of a waiver or a request for repayment would be subject, in both cases, to the approval of a requisite majority of the debtholders.

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

The impact of Covid-19 creates considerable uncertainty for the aviation industry. The Directors nevertheless consider that the Group can maintain sufficient liquidity over the next 12 months, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these financial statements. Further stressed scenarios involving a prolonged period of near-closure or slower recovery of traffic could lead to the Group breaching its ICR covenant at 31 December 2020, potentially resulting in the requirement for Group to remedy any shortfall or to seek a waiver in relation to this specific covenant test. The need to seek such a waiver under certain of these stressed scenarios indicates the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to adopt a going concern basis in the preparation of financial statements. These financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the financial statements had not been prepared on a going concern basis.

The financial statements were approved by the Directors on 23 April 2020.

The principal accounting policies, which have been applied consistently through the current and prior periods except for the changes set out in note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

During the period, the Group adopted IFRS 16, of which the impact has been detailed below:

IFRS 16 Leases

IFRS 16 introduces a single lease accounting model for lessees, bringing leases on balance sheet. A lessee recognises a right-of-use asset representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments. Lessor accounting remains unchanged from IAS 17 which makes the classification between operating and finance leases.

There is no impact for leases in which the Group is the lessor.

For leases in which the Group is a lessee, the Group will now recognise a right-of-use asset and lease liability on a number of property, vehicle and maintenance contracts for which the Group deems to be a lease.

The lease liabilities were measured on 1 April 2019 at the present value of the remaining lease payments, discounted at a rate specific to each lease. Each rate has been determined by considering a rate to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The right-of-use assets have been measured at an amount equal to the lease liability, and as such, no impact has been recognised on retained earnings as at 1 April 2019.

The nature of the expenses related to these leases has changed. Previously, the Group recognised an operating expense on a straight-line basis in operating costs. Under IFRS 16, the Group will recognise a depreciation charge for the right-of-use assets and an interest expense on the lease liability

There is no impact expected on the Group's finance leases.

The Group has adopted IFRS 16 using the modified retrospective approach in accordance with IFRS 16:C5(b) with a date of initial application of 1 April 2019. The Group has not restated the comparative information.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases for low value assets. The Group recognises the lease payments associated with such leases as an expense on a straight-line basis over the lease term.

Upon transition to IFRS 16, the Group recognised £14.4 million right-of-use assets within property, plant and equipment, along with an equal corresponding lease liability.

Under the Common Terms Agreement ("CTA"), the Group is required to comply with certain financial and information covenants. The application of IFRS 16 does not affect the minimum interest cover ratio ("Senior ICR") and maximum net indebtedness to the total Regulatory Asset Base ("Senior RAR") as the lease liability and interest on the lease liability is excluded from these calculations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Ownership

On 13 May 2019, Ivy Gurnsey Holding L.P completed the sale of 50.01% of Ivy Topco Limited (parent of Ivy Midco Limited) to CRUISER Bidco Limited, a UK incorporated company. CRUISER Bidco Limited is ultimately owned by VINCI SA, a company incorporated in France.

Ivy Midco Limited, a United Kingdom ("UK") incorporated company, is ultimately owned by VINCI SA and a combination of separate accounts and limited partnerships, all of which will be managed by Global Infrastructure Management, LLC.

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.

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".

(b) Revenue

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer (i.e., when the Group delivers its performance obligation under the contract). Revenue is measured at the fair value of the consideration received net of rebates, discounts and VAT. Note 5 provides further details. Revenue 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 parking income recognised either:
 - (a) on the date of arrival at the car parking in the case of pre-booked reservation; or
 - (b) on the date of departure from the car park in the case of pay-on-exit (roll up).
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. 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, travellers	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, Plant and Equipment (continued)

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.

(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 expected useful economic life (4-10 years), from the date that the assets are available for use. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

(g) Goodwill

Goodwill arising on acquisitions of subsidiary undertakings or business assets represents a difference between the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ('CGU'). CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Positive goodwill is capitalised as an asset in the Group's Consolidated Statement of Financial Position and is subject to annual impairment reviews. An impairment loss is recognised in the Group's Consolidated Statement of Comprehensive Income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

(i) Leases

The Group has adopted IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 April 2019

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at a cost which comprises the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate to dismantle and remove the underlying asset, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset can be reduced by impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability for the Group comprise of fixed payments and any amounts expected to be payable under a residual value guarantee.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments, resulting in an adjustment made to the carrying value of the right-of-use asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group presents right-of-use assets in 'property, plant and equipment', and lease liabilities in 'lease liabilities' in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases for low value assets. The Group recognises the lease payments associated with such leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or operating lease.

Leases where the Group transfers substantially all the risks and rewards of ownership are classified as a finance lease. 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.

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.

Policy applicable before 1 April 2019

As a lessee

In the comparative period under IAS 17, the leases were classified based on the substance of the arrangement.

The Group classified leases that transfer substantially all the risks and rewards of ownership as a finance lease. Assets held under finance leases were 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 was included in the Statement of Financial Position as a finance lease obligation. Lease payments were apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were charged to the Income Statement, unless they were directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Assets held under other leases were classified as operating leases. Rental costs under operating leases were charged to the Income Statement in equal instalments over the period of the lease.

As a lessor

The accounting policies applicable to the Group in the comparative period were not different from IFRS 16.

(j) Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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. Cash that can only be used for a specific purpose or where access is restricted, is classified as restricted cash.

(l) 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.

(m) 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 measured at amortised cost. Classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

1. Amortised cost

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as amortised cost. 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.

2. Impairment of financial assets

IFRS 9 introduces a new impairment model that replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost.

The Group applies a provision matrix using historical loss experience, adjusting for current conditions and reasonable forecasts. The Group uses three years of historical data to establish an average default rate. This probability is applied to current information, taking into account adjustments for current external conditions and reasonable forecasts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial Instruments (continued)

The Group's adjustment of current external conditions and reasonable forecasts extend to assessing individual financial assets for indicators of impairment, 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 assets 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.

The Group's definition of default is based on the ageing of debts and will also consider the financial status of the customer. The Group considers any debts over 180 days overdue, or any customer that falls into receivership, in default.

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.

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.

1. 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.

2. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial Instruments (continued)

3. 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.

4. 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 aircraft and other traffic charges. Interest receivable on the swaps matches the benchmark interest rate payable on the borrowings, and interest payable on the swaps is based on a fixed real interest rate (excluding inflation) plus a periodic inflation adjustment amount based on the cumulative movement in the RPI inflation index. On each five year anniversary date of the index-linked swaps, a further payment is made based on the cumulative movement in the RPI index applied to the notional principal value of the swaps.

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, along with the reduction to reflect the credit risk of the Group on its swap position at the reporting date, in accordance with IFRS 9. 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.

(n) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Retirement Benefit Obligations (continued)

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.

(o) 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.

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.

(p) Current and Deferred Tax

The tax expense for the period comprises current and deferred 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. 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 temporary differences are expected to reverse.

(q) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Dividend Distribution

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

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.

a) Estimates

1) Investment Properties

Investment properties were valued at fair value at 31 December 2019 by Jones Lang LaSalle Limited (31 March 2019: Jones Lang LaSalle Limited). 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. The directors consider car park assets meet this classification criteria therefore hold them as investment property. Further details are available in note 18.

2) 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. Sensitivity analysis has been performed to assess the impact of changes in market conditions (note 22).

3) Retirement Benefit Obligations

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period 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 26.

b) Judgements

1) Capitalisation

Management are required to make judgements in relation to the capitalisation of costs in relation to assets in the course of construction. This relates to both when amounts may begin to be capitalised and where there may be doubt about the ultimate completion of the asset, for example as a consequence of regulatory requirements such as planning consents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

b) Judgements (continued)

2) 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. Further details are available in note 14.

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.

(a) Nature of services

The Group's main revenue streams are:

- Airport and other traffic charges
- Retail income
- Car parking income
- Property income
- Operational facilities, utilities and other income

- Airport and other traffic charges: there are four distinct performance obligations, these are landing, parking, departing and other charges (i.e. noise and fixed electrical ground power). The revenue from these charges is recognised on the day the movement takes place or services are rendered.

There are a number of airline contracts in place with discounts which vary by season (Summer/Winter). The Group recognises the discount over the period during which it is earned. Discounts are typically focussed on the winter season.

- Retail income: the Group deems that the performance obligation is the provision of retail space in return for a fee. The fee is either a fixed rental fee or a concession fee based on the concessionaire's turnover. The performance obligation is satisfied by the customer occupying the retail space.
- Car parking income: car parking revenue is recognised either
 - a) on the date of arrival at the car parking in the case of pre-booked reservation; or
 - b) on the date of departure from the car park in the case of pay-on-exit (roll up).

The performance obligation is the provision of a car parking space in return for a fee.

- Property income: the performance obligation is the provision of office space or land in return for a fee. The fee is either a fixed rental fee or a fee based on the tenant's turnover in the case of the hotel and petrol stations. The Group considers the performance obligation is satisfied by the customer occupying the office space or land. Income recognised in accordance with IFRS 16.
- Operational facilities, utilities and other income: this revenue is derived from the recovery of certain costs incurred by the Group. The Group considers the performance obligation is satisfied when the customers make use of the facilities and utilities provided by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

5. REVENUE (continued)

(a) Nature of services (continued)

Disaggregation of revenue

In the following table, revenue is disaggregated by the Group's primary service lines:

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Airport and other traffic charges	405.2	427.8
Retail	159.4	191.3
- Duty and tax-free	47.8	59.1
- Specialist shops	36.9	44.1
- Catering	37.5	41.8
- Bureaux de change	21.4	26.6
- Other retail	15.8	19.7
Car parking	70.6	88.3
Property income	24.5	31.9
Operational facilities and utilities income	27.1	32.5
Other	32.8	39.0
	719.6	810.8

More than 10% of the Group's total revenue is derived from easyJet in the current and prior periods.

(b) Contract balances

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Receivables (note 20)	28.3	32.2
Contract assets	19.9	16.6
Contract liabilities	(11.7)	(14.9)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers, for which revenue is recognised over time, when the Group's performance obligations have been satisfied.

The amount of revenue recognised in the period to 31 December 2019 from performance obligations satisfied in previous periods is £2.1 million (31 March 2019: £1.4 million). This is due to annual reconciliation of various aeronautical and retail contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

5. REVENUE (continued)

(b) Contract balances (continued)

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	31 December 2019		31 March 2019	
	£m		£m	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Revenue recognised that was included in contract liability balance at the beginning of the period	-	14.1	-	12.8
Increases due to cash received (excluding amounts recognised as revenue in the period)	-	(10.9)	-	(13.6)
Transfers from contract assets recognised at the beginning of the period to receivables	(16.6)	-	(16.3)	-
Increases as a result of changes in the measure of progress	19.9	-	17.1	-

Transaction price allocated to the remaining performance obligations

The Group applies the practical expedient in paragraph 121 of IFRS 15, and does not disclose information about the remaining performance obligations that have original expected durations of one year or less.

6. OTHER OPERATING INCOME

During the period ended 31 December 2019 the Group received other income in the form of insurance proceeds.

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Other income	3.9	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

7. OPERATING COSTS

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Wages and salaries	124.5	170.1
Social security costs	12.1	16.2
Pension costs	7.8	10.4
Share-based payments	-	0.5
Other staff related costs	5.2	6.4
Staff costs	149.6	203.6
Retail expenditure	3.4	3.4
Car parking expenditure	15.3	19.1
Depreciation and amortisation	134.9	170.0
Maintenance expenditure	35.6	45.2
Rent and rates	20.9	32.8
Utility costs	17.7	23.1
Police costs	10.5	14.2
Other operating expenses ^(a)	27.9	15.6
Aerodrome navigation service costs	10.2	12.5
Exceptional costs	18.8	-
	444.8	539.5

(a) Other operating costs includes impairment of trade receivables amounting to £2.3 million in the period (31 March 2019: £0.5 million)

Average full-time equivalent ("FTE") employee numbers increased from 3,046 as at 31 March 2019 to 3,052 as at 31 December 2019. Average operational FTE employees decreased from 2,570 to 2,565 during the period, and non-operational FTE employees increased from 467 to 487.

Amounts receivable by the Group's auditor in respect of audit services to the Group totalled £0.3 million in the period (31 March 2019: £0.2 million). There were no amounts receivable by the Group's auditor in respect of non-audit services in 2019 (31 March 2019: £nil).

8. OPERATING COSTS - EXCEPTIONAL

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Transaction costs ^(a)	14.0	-
Reorganisation costs ^(b)	4.8	-
	18.8	-

(a) Incentive and reorganisation costs incurred during the period in relation to the sale of Gatwick to VINCI SA.

(b) Reorganisation costs relate to the Operational Change Programme designed to deliver an enhanced passenger journey and create new leadership roles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

9. DIRECTORS' EMOLUMENTS

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Directors' emoluments		
Aggregate emoluments	9.8	2.5

An amount of £nil (31 March 2019: £nil) was paid into money purchase schemes in respect of the Directors. Aggregate amounts receivable under long-term incentive schemes were £0.2 million (2019: £0.2 million).

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Highest paid Director		
Aggregate emoluments and benefits	5.8	1.1

Five Directors (31 March 2019: five) were not remunerated during the period for services to the Group. No Directors exercised share options during the period (31 March 2019: nil). No Directors are members of the Gatwick Airport Limited defined benefit pension plan (31 March 2019: nil). No compensation was received by former Directors for loss of office during the year (31 March 2019: nil). Two Directors had awards receivable in the form of shares under the Group's LTIP (31 March 2019: two).

On 13 May 2019 GIP completed the sale of a 50.01% interest in the Group, this disposable represented the trigger event resulting in the participants disposing of their equity instrument in Ivy Midco Limited. The Directors received proceeds of £9.9 million.

The Directors in the scheme were party to a loan agreement with Gatwick Airport Limited, amounting to £1.9 million (31 March 2019: £1.9 million), the purpose of which enabled the Directors to fund the original allotment of equity instruments under the LTIP agreement. This loan was repaid during the period following the disposal of the equity instruments. Further details have been provided in note 16.

10. LOSS ON DISPOSAL OF FIXED ASSETS

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

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Loss on disposal of fixed assets	1.4	5.2

11. FAIR VALUE LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value loss on derivative financial instruments represents the movement in the period of the present value of expected net cash outflows in interest rate and index- linked derivative contracts (refer to note 21).

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Fair value loss on derivative financial instruments	(0.3)	(20.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

12. FINANCE INCOME

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Interest receivable on money markets and bank deposits	0.1	0.1
Interest receivable on derivative financial instruments ^(a)	14.9	19.8
Lease income	0.6	0.9
	15.6	20.8

(a) These amounts relate to interest receivable on £396.0 million (31 March 2019: £396.0 million) interest to index-linked derivatives. Refer to note 21 for detail on the nominal value of the Group's swaps.

13. FINANCE COSTS

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Interest on fixed rate bonds	91.2	115.6
Interest on bank borrowings ^(a)	0.7	0.9
Interest on borrowings from other group undertakings ^(b)	19.1	74.3
Interest payable on derivative financial instruments ^(c)	9.2	11.8
Amortisation of debt costs	2.0	2.8
Non-utilisation fees on bank facilities	0.9	1.4
Lease expense	8.1	9.6
Net charge on pension scheme	0.6	0.8
Capitalised borrowing costs ^(d)	(7.3)	(9.7)
	124.5	207.5

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

(b) These amounts relate to interest payable at 12 per cent on the fixed Rate Unsecured Capital Securities ("the Capital Securities").

(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 4.62% (31 March 2019: 4.96%), which is the weighted average of rates applicable to the Group's overall borrowings outstanding during the period. 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 period ended 31 December 2019

14. INCOME TAX CHARGE

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Current tax		
Total current tax charge	(31.2)	(14.1)
Adjustment in respect of prior years	-	0.6
Total current tax charge	(31.2)	(13.5)
Deferred tax		
Current period	(9.8)	(40.8)
Adjustment in respect of prior years	-	(1.2)
Effect of change in tax rate	0.7	3.7
Total deferred tax charge	(9.1)	(38.3)
Income tax charge	(40.3)	(51.8)

Reconciliation of effective tax rate

The standard rate of current tax for the period, based on the UK standard rate of corporation tax is 19% (31 March 2019: 19%). The actual tax charge for the current and prior periods differs from the standard rate for the reasons set out in the following reconciliation:

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Profit before tax	183.9	185.5
Tax on profit at 19% (31 March 2019: 19%)	(35.0)	(35.2)
Effect of:		
Adjustment in respect of prior years	-	(0.6)
Expenses not deductible for tax purposes ^(a)	(4.9)	(19.2)
Movements in deferred tax with no current tax impact	(0.2)	-
Tax rate changes	0.7	3.7
Revaluation on investment property	(0.9)	(0.5)
Total tax charge	(40.3)	(51.8)

(a) Expenses not deductible for tax purposes is primarily due to finance costs amounting to £2.1 million (31 March 2019: £14.1 million) and capital expenditure which does not qualify for tax relief amounting to £2.6 million (31 March 2019: £3.1 million).

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. During the March 2020 Budget, the UK Government announced that the reduction in corporation tax rate to 17% would be cancelled and the 19% rate retained from 1 April 2020.

The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with HMRC or, as appropriate, through a formal legal process. The Group is currently in discussions with HMRC regarding the utilisation of certain losses and taxes associated with a group reorganisation, and while the final resolution of this matter is uncertain at this time, having taken external advice the directors believe the group has a very strong position and accordingly are confident this will not give rise to any additional tax liability. However, due to the inherent uncertainty surrounding matters of this nature the final resolution could give rise to material difference in the tax charge and related cash flows. The resolution of matters of this nature is not always within the control of the Group and it is often dependent on the efficacy of the legal processes in the relevant tax jurisdictions in which the Group operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

15. DIVIDENDS

The Directors declared and paid dividends of £58.12 per share on 12 July 2019 amounting to £300.0 million and dividends of £19.37 per share on 20 December 2019 amounting to £100.0 million, totalling £400.0 million for the period (31 March 2019: £29.06 per share amounting to £150.0 million on 5 July 2018). The Directors did not recommend the payment of a final dividend (31 March 2019: £nil).

16. SHARE BASED PAYMENTS

The Group has an LTIP for certain members of its Executive Management Board. During, but not at the period ended 31 December 2019 the LTIP related to equity instruments of Ivy Midco Limited.

The value of these equity instruments was 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.

On 13 May 2019 GIP completed the sale of a 50.01% interest in the Group, this disposable represented the trigger event resulting in the participants disposing of their equity instrument in Ivy Midco Limited. The Directors received proceeds of £9.9 million.

The Directors in the scheme were party to a loan agreement with Gatwick Airport Limited, amounting to £1.9 million (31 March 2019: £1.9 million), the purpose of which enabled the Directors to fund the original allotment of equity instruments under the LTIP agreement. This loan was repaid during the period following the disposal of the equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

17. PROPERTY, PLANT AND EQUIPMENT

Cost	Terminal complexes	Airfield assets	Group occupied properties	Plant, equipment & other assets	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m
1 April 2018	1,475.1	513.5	130.1	530.4	196.0	2,845.1
Additions at cost	-	-	-	-	249.3	249.3
Interest capitalised	-	-	-	-	9.7	9.7
Transfers to completed assets	53.1	30.0	9.5	70.2	(213.5)	(50.7)
Disposals	(5.9)	(1.3)	(0.1)	(3.6)	-	(10.9)
31 March 2019	1,522.3	542.2	139.5	597.0	241.5	3,042.5
Transition to IFRS 16 ^(a)	-	-	13.6	0.8	-	14.4
Additions at cost	-	-	-	-	174.4	174.4
Interest capitalised	-	-	-	-	7.3	7.3
Transfers to completed assets	69.8	31.0	11.7	124.3	(254.7)	(17.9)
Disposals	(1.9)	(1.0)	-	(10.0)	-	(12.9)
31 December 2019	1,590.2	572.2	164.8	712.1	168.5	3,207.8

Accumulated Depreciation

1 April 2018						
Additions at cost	(276.2)	(116.1)	(16.6)	(131.1)	-	(540.0)
Charge for the year	(79.8)	(31.1)	(5.9)	(44.4)	-	(161.2)
Disposals	2.7	0.4	0.1	2.8	-	6.0
31 March 2019	(353.3)	(146.8)	(22.4)	(172.7)	-	(695.2)
Charge for the period	(59.5)	(24.4)	(5.0)	(38.5)	-	(127.4)
Disposals	0.9	0.6	-	9.9	-	11.4
31 December 2019	(411.9)	(170.6)	(27.4)	(201.3)	-	(811.2)

Net book value

31 December 2019	1,178.3	401.6	137.4	510.8	168.5	2,396.6
31 March 2019	1,169.0	395.4	117.1	424.3	241.5	2,347.3
1 April 2018	1,198.9	397.4	113.5	399.3	196.0	2,305.1

(a) The Group has adopted IFRS 16 using the modified retrospective approach in accordance with IFRS 16:C5(b) with a date of initial application of 1 April 2019. The Group has not restated the comparative information

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 or following reclassification from investment property.

Capitalised interest

Interest costs of £7.3 million (31 March 2019: £9.7 million) have been capitalised in the period at a capitalisation rate of 4.62% (31 March 2019: 4.96%) based on a weighted average cost of borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Security

As part of the financing agreements outlined in note 25, 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.

18. INVESTMENT PROPERTIES

Valuation	Investment properties £m
1 April 2018	995.7
Transfers to completed assets (from Assets in the course of construction)	27.4
Reclass between categories	(1.4)
Revaluation gain	126.6
31 March 2019	1,148.3
Transfers to completed assets (from Assets in the course of construction)	8.9
Revaluation gain	15.8
31 December 2019	1,173.0
Net book value	
31 December 2019	1,173.0
31 March 2019	1,148.3
1 April 2018	995.7

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2019 by Jones Lang LaSalle Limited at £1,173.0 million. (31 March 2019: £1,148.3 million valued by Jones Lang LaSalle Limited). 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 £15.8 million is recognised in the income statement (31 March 2019: £126.6 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 3 fair value based on the inputs to the valuation technique used (refer to note 22). 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 period ended 31 December 2019

19. INTANGIBLE ASSETS

Cost	Other intangible assets	Goodwill	Total
	£m	£m	£m
1 April 2018	50.6	51.8	102.4
Transfers to completed assets (from Assets in the course of construction)	23.3	-	23.3
Disposals	(4.5)	-	(4.5)
31 March 2019	69.4	51.8	121.2
Transfers to completed assets (from Assets in the course of construction)	9.0	-	9.0
Disposals	(4.3)	-	(4.3)
31 December 2019	74.1	51.8	125.9
Accumulated Amortisation			
1 April 2018	(40.3)	-	(40.3)
Charge for the year	(8.8)	-	(8.8)
Disposals	4.5	-	4.5
31 March 2019	(44.6)	-	(44.6)
Charge for the period	(7.5)	-	(7.5)
Disposals	4.3	-	4.3
31 December 2019	(47.8)	-	(47.8)
Net book value			
31 December 2019	26.3	51.8	78.1
31 March 2019	24.8	51.8	76.6
1 April 2018	10.3	51.8	62.1

Goodwill relates to the purchase consideration paid over the carrying values of the net assets of Gatwick Airport Limited acquired in December 2009. For the purposes of impairment testing, goodwill is allocated to the Airport as a single cash-generating unit. The estimated recoverable amount of the Airport has been determined from value-in-use calculations. Key assumptions for these calculations are those regarding discount rates, expected changes to passenger growth and revenue growth, EBITDA margin and the level of capital expenditure required to support trading. The rate used to discount forecast cash flows is Gatwick's WACC as assumed by the CAA in its regulatory settlement on a pre-tax real basis. Forecast growth of the Airport is considered to be substantially greater than the carrying amount of goodwill. No impairment is identified at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

20. TRADE AND OTHER RECEIVABLES

	31 December 2019 £m	31 March 2019 £m
Trade receivables	28.3	32.2
Less: provision for impairment of trade receivables (refer to note 22)	(3.0)	(3.4)
Net trade receivables	25.3	28.8
Accrued interest receivable	16.1	2.3
Other receivables	1.1	3.5
Prepayments and accrued income ^(a)	18.4	8.1
Corporation tax receivable	2.2	-
	63.1	42.7

(a) Includes contract assets.

The carrying value of trade and other receivables is classified at amortised cost.

Trade receivables are assessed monthly for any impairments. For trade receivables and other assets that are in scope of the IFRS 9 impairment model, an expected credit loss model has been applied, taking into account current conditions and reasonable forecasts.

Trade receivables are non-interest bearing and are generally on 14 day payment terms.

For further information about the Group's exposure to credit and market risks, and impairment losses for trade receivables refer to note 22.

21. DERIVATIVE FINANCIAL LIABILITIES

	31 December 2019 Notional £m	31 December 2019 Fair value £m	31 March 2019 Notional £m	31 March 2019 Fair value £m
Variable rate to index-linked swaps	40.0	32.4	40.0	33.3
Fixed rate to index-linked swaps	356.0	196.5	356.0	195.3
	396.0	228.9	396.0	228.6

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. Changes in the fair value of these derivative instruments are recognised immediately in the Income Statement, along with the reduction to reflect the credit risk of the Group on its swap position at the reporting date, in accordance with IFRS 9.

The Group has recognised £0.3 million loss in financial derivatives through the income statement for the period ended 31 December 2019 (31 March 2019: £20.5 million loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**For the period ended 31 December 2019****21. DERIVATIVE FINANCIAL LIABILITIES (continued)**

The Group has recognised a total cumulative gain of £28.9 million at 31 December 2019 (31 March 2019: £32.4 million) to reflect the credit risk on the Group's external swap position.

22. 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:

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 December 2019, the Group's fixed: floating interest rate profile, after hedging, on gross debt was 98:2 (31 March 2019: 97:3).

As at 31 December 2019, 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 December 2019 Income statement impact £m	31 December 2019 Equity impact £m	31 March 2019 Income statement impact £m	31 March 2019 Equity impact £m
0.5% increase in interest rates	2.8	-	2.7	-
0.5% decrease in interest rates	(2.8)	-	(2.7)	-
0.5% increase in inflation indices	(58.0)	-	(59.6)	-
0.5% decrease in inflation indices	54.7	-	56.0	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

22. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

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.

a) Trade and lease receivables and amounts due from other group undertakings

For the financial assets that are in scope of the IFRS 9 impairment model, the Group applies a provision matrix using historical loss experience, adjusting for current conditions and reasonable forecasts. The assets assessed by the Group are the receivables, and the Group uses three years of historical data to establish an average default rate.

The Group's adjustment for current external conditions and reasonable forecasts extend to assessing individual financial assets for indicators of impairment, 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 asset 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.

The Group's definition of default is based on the ageing of debts and will also consider the financial status of the customer. The Group considers any debts over 180 days overdue, or any customer that falls into receivership, in default.

The Group has recognised a provision based on current external factors of £3.0 million as at 31 December 2019 (31 March 2019: £3.4 million).

Movements in impairment allowance for trade receivables are as follows:

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
At 1 April	3.4	3.4
Increase during the period	3.5	1.0
Receivable written off as uncollectible	(1.5)	(0.3)
Reversal of amounts previously impaired	(2.4)	(0.7)
As at 31 March	3.0	3.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

22. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk exposure

The table below summarises the Group's exposure to credit risk by customer group calculated as a portion of impairment of trade receivables over the annual revenue.

	Period ended 31 December 2019 %	Year ended 31 March 2019 %
Airport and other traffic charges ^(a)	0.5	-
Retail	0.2	0.1
Car park	0.1	-
Property ^(b)	-	0.2
Other	0.1	0.3

(a) Increased primarily due to an airline withholding payment due to a disruption event that occurred during the period.

(b) Nil for the period ended 31 December 2019 due to reversal of amounts previously impaired.

As the Group's exposure to credit risk is mainly influenced by the individual characteristics of each customer group, the Group analyses each customer for creditworthiness by using external ratings. The Group can also adjust payment terms to mitigate its exposure to credit risk.

The airport charges and payment terms for airlines are published in the Conditions of Use. As the charges are significantly based on the number of departing passengers, the outstanding debt can escalate quickly. Therefore financial security is requested from all new customers, invoices are raised on a five day cycle and where credit is granted, it is on 14 day payment terms or less. Airline credit exposure is monitored on a daily basis and payment terms and financial security requirements amended as appropriate.

Many of the retail concessionaires have a significant high street presence and are affected by the changes in their market place. The performance of their contracts at the airport are constantly monitored and the broader impact of their overall business is considered. Additional financial security is requested where there is an indication of increased credit risk.

Passenger car parking charges are either paid in advance or paid prior to exit from the car park. Parking charges for contractors and service providers are billed on a monthly cycle and where credit is granted, it is on 14 day payment terms.

Certain customers and suppliers are critical to the operation of the airport, such as ground handling agents and failure of such company can have a significant impact on the operation of the airport. The credit risk of these companies is constantly monitored and where an increase in credit risk is identified an appropriate action plan is agreed with that company in order to ensure a stable operation of the airport and to minimise any financial loss.

a) Cash and Cash equivalents

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk.

b) Debt securities

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 regularly and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+(S&P), BBB+(Fitch) or Baa1 (Moody's).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

22. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk exposure (continued)

As at 31 December 2019, 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 2019: nil).

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

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:

Amortised cost	31 December 2019 £m	31 March 2019 £m
Lease receivables	16.9	16.9
Trade receivables	31.7	27.7
Other receivables	1.1	3.5
Cash and cash equivalents	10.6	3.2
Total financial assets	60.3	51.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

22. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

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.

	31 December 2019	31 December 2019	31 March 2019	31 March 2019
	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	2,839.6	-	2,580.4	-
Derivative financial liabilities	-	228.9	-	228.6
Lease liabilities	65.5	-	51.3	-
Trade payables	61.7	-	42.5	-
Other payables	4.8	-	4.4	-
Capital creditors	43.2	-	58.9	-
Amounts due to parent undertakings	-	-	675.0	-
Total financial liabilities	3,014.8	228.9	3,412.5	228.6

Changes in the fair value of derivative financial instruments are recognised immediately in the Income Statement, along with the reduction to reflect the credit risk of the Group on its swap position at the reporting date, in accordance with IFRS 9.

The Group has recognised £0.3 million loss (31 March 2019: £20.5 million loss) in financial derivatives through the income statement for the period ended 31 December 2019.

At 31 December 2019, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

22. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Capital risk management (continued)

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 December 2019 to the contract maturity date. Other, non-interest bearing financial liabilities have been excluded.

	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
31 December 2019				
Class A Bonds – Principal payments	-	-	300.0	2,500.0
Class A Bonds – Interest payments	124.3	124.3	372.8	1,541.3
Derivative financial instruments	29.1	23.9	(18.9)	216.0
	153.4	148.2	653.9	4,257.3
31 March 2019				
Class A Bonds – Principal payments	-	-	300.0	2,200.0
Class A Bonds – Interest payments	115.6	115.6	346.9	1,344.5
Derivative financial instruments	30.2	24.5	(19.0)	205.9
	145.8	140.1	627.9	3,750.4

Fair value estimation

The Group considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

- Trade receivables
- Trade payables
- Amounts due to/from group undertakings
- Cash and cash equivalents

	31 December 2019 Book value £m	31 December 2019 Fair value £m
Fair value of borrowings		
Class A Bonds	2,756.3	3,404.0

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

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 December 2019, 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 2019: Level 2 except for Bonds which are valued at Level 1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

23. LEASES

A. As a lessee

'Property, plant and equipment' comprise owned and leased assets.

	31 December 2019 £m
Note	
Property, plant and equipment owned	2,219.9
Right-of-use assets	176.7
17	2,396.6

The Group leases many assets including land and buildings, vehicles and machinery. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Cost

	Group occupied properties £m	Plant and equipment £m	Total £m
31 March 2019	2.3	176.9	179.2
Transition to IFRS 16	13.6	0.8	14.4
1 April 2019	15.9	177.7	193.6
Additions in the period	-	1.4	1.4
31 December 2019	15.9	179.1	195.0

Accumulated depreciation

31 March 2019	(0.5)	(14.3)	(14.8)
Charge in the period	(0.8)	(2.7)	(3.5)
31 December 2019	(1.3)	(17.0)	(18.3)

Net Book value

31 December 2019	14.6	162.1	176.7
1 April 2019	15.4	163.4	178.8
31 March 2019	1.8	162.6	164.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

23. LEASES (continued)

Lease Liabilities

The recognised lease liability is as follows:

	1 April 2019 £m
Operating lease commitments disclosed at 31 March 2019	9.5
Incremental lease obligation recognised on adoption to IFRS 16 ^(a)	4.9
Add: finance lease liabilities recognised as at 31 March 2019	51.3
(Less): short term leases recognised on a straight-line basis as expense	-
(Less): low value leases recognised on straight-line basis as expense ^(b)	-
Lease Liability as at 1 April 2019	65.7

(a) Amounts recognised on transition to IFRS 16 include extension options on a number of contracts, these amounts were previously excluded due to mutual break clauses.

(b) Low value leases recognised on a straight-line basis as expense amount to £23,035.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.19%

Lease liabilities included in the statement of financial position

	31 December 2019 £m	31 March 2019 £m
Current	2.1	1.0
Non-current	63.4	50.3
Total lease liabilities	65.5	51.3

The following table sets out the maturity analysis of lease liabilities, showing the undiscounted lease payments payable after the reporting date.

	31 December 2019 £m	31 March 2019 £m
Less than one year	13.1	10.9
Between one and five years	51.3	44.2
More than five years	642.7	609.8
Total undiscounted lease payments payable ^(a)	707.1	664.9

(a) The Group has adopted IFRS 16 using the modified retrospective approach in accordance with IFRS 16:C5(b) with a date of initial application of 1 April 2019. The Group has not restated the comparative information.

Amounts recognised in Income statement

	31 December 2019 £m	31 March 2019 £m
Interest on lease liabilities	8.1	9.6
Depreciation expense on right-of-use assets	3.5	3.2
Expenses relating to short-term leases ^(a)	-	-
Expenses relating to leases of low-value items ^(b)	-	-
	11.6	12.8

(a) Short-term leases amount to £78,425 for the period ended 31 December 2019.

(b) Low value assets amount to £2,622 for the period ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

23. LEASES (continued)

B. As a Lessor

The Group leases properties, which have been classified as a finance lease. Please see note 10 for the Group's finance lease income for the period.

Leases included in the statement of financial position

	31 December 2019 £m	31 March 2019 £m
Non-current assets	16.9	16.9
Total lease asset	16.9	16.9

The following table sets out the maturity analysis of the lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	31 December 2019 £m	31 March 2019 £m
Less than one year	0.9	0.9
Between one and five years	3.6	3.6
More than five years	76.9	78.0
Total undiscounted lease payments receivable	81.4	82.5

Lease income from lease contracts in which the Group acts as a lessor for the period is £24.5 million (31 March 2019: £31.9 million). The Group classified these leases as operating leases because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

24. DEFERRED TAX

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

	Losses £m	Fixed assets £m	Retirement benefit obligations £m	Short term timing differences £m	Total £m
1 April 2018	28.1	(296.1)	7.2	(3.5)	(264.3)
Adjustment in respect of prior years	0.8	(2.0)	(0.6)	0.6	(1.2)
(Charge)/credit to income	(14.9)	(20.2)	(2.4)	0.4	(37.1)
Charge to equity	-	-	2.3	-	2.3
31 March 2019	14.0	(318.3)	6.5	(2.5)	(300.3)
Prior year adjustment	-	-	(0.6)	0.6	-
(Charge)/credit to income	(6.8)	(0.7)	(1.9)	0.3	(9.1)
Credit to equity	-	-	(0.3)	-	(0.3)
31 December 2019	7.2	(319.0)	3.7	(1.6)	(309.7)

25. BORROWINGS

	31 December 2019 £m	31 March 2019 £m
Fixed rate borrowings	2,756.3	2,462.5
Authorised Credit Facility–Revolving Facility ^(a)	83.3	117.9
	2,839.6	2,580.4
 Maturity Profile:		
Repayable between 1 and 2 years	-	-
Repayable between 2 and 5 years	381.9	416.2
Repayable in more than 5 years	2,457.7	2,164.2
	2,839.6	2,580.4

(a) Amount includes capitalised upfront costs in relation to the bank facilities entered into on 21 June 2018. These costs are being amortised over the term of the facility.

At the balance sheet date, the Group recognised unamortised capitalised coupon discount and debt issuance costs of £45.4 million (31 March 2019: £39.6 million).

All the above borrowings are secured and carried at amortised cost. The Group's borrowings also include interest bearing amounts in the form of Capital Securities issued to Ivy Guernsey Holdings, LP (refer to note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**For the period ended 31 December 2019****25. BORROWINGS (continued)**

The Group is party to a Common Terms Agreement ("CTA") with, *inter alia*, the National Westminster Bank as Authorised Credit Facility ("ACF") agent and previously the Initial Authorised Credit Facility ("Initial ACF") agent. Gatwick Airport Limited and Ivy Holdco Limited have Borrower Loan Agreements 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 Agreements.

The ACF Agreement entered into on 21 June 2018 has a Revolving Credit Facility of £300.0 million and a tenor of five years (with two, one year extension options) giving a termination date of 21 June 2023 (and extension options to 21 June 2024 and 21 June 2025 respectively). During the period the Group exercised the first one year extension option, giving a revised termination date of 21 June 2024. There are £85.0 million drawings outstanding on the Revolving Credit Facility at 31 December 2019 (31 March 2019: £120.0 million).

The Group's subsidiary, Gatwick Funding Limited has issued £2,800.0 million of publicly listed fixed rate secured Bonds comprising:

	Scheduled maturity	Legal maturity	Issue date	As at 31 December 2019 £m	As at 31 March 2019 £m	Borrower
Class A 5.25 per cent.	2024	2026	20 Jan 2012	300.0	300.0	GAL
Class A 6.125 per cent.	2026	2028	2 Mar 2011	300.0	300.0	GAL
Class A 4.625 per cent.	2034	2036	27 Mar 2014	350.0	350.0	GAL
Class A 5.75 per cent.	2037	2039	20 Jan 2012	300.0	300.0	GAL
Class A 3.125 per cent.	2039	2041	28 Sep 2017	350.0	350.0	GAL
Class A 6.5 per cent.	2041	2043	2 Mar 2011	300.0	300.0	GAL
Class A 2.625 per cent.	2046	2048	7 Oct 2016	300.0	300.0	GAL
Class A 3.25 per cent.	2048	2050	26 Feb 2018	300.0	300.0	IHL
Class A 2.875 per cent.	2049	2051	5 July 2019	300.0	-	GAL
				2,800.0	2,500.0	

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

At 31 December 2019, the average interest rate payable on borrowings was 4.45% p.a. (31 March 2019: 4.71% p.a.).

At 31 December 2019, the Group had £215.0 million (31 March 2019: £180.0 million) undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

25. BORROWINGS (continued)

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 December 2019 (31 March 2019: all covenants tested and complied with).

The following table summarises the Group's financial covenants as at 31 December 2019 under the CTA, and lists the trigger and default levels:

Covenant	31 December 2019	Trigger	Default
Minimum interest cover ratio ("Senior ICR")	11.78	< 1.50	< 1.10
Maximum net indebtedness to the total regulatory asset base ("Senior RAR")	0.60	> 0.70	> 0.85

26. 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 £7.0 million (31 March 2019: £9.2 million) represents contributions payable to this scheme by the Group at rates specified in the rules of the plans. As at 31 December 2019, £0.8 million of contributions (31 March 2019: £0.8 million) 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 2016 were updated to 31 December 2019 by an independent qualified actuary in accordance with IAS 19.

The estimated amount of total employer contributions expected to be paid to the plan during the year ending 31 December 2020 is £15.2 million (actual for period ended 31 December 2019: £11.6 million).

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

	31 December 2019 %	31 March 2019 %
Rate of increase in salaries – to 31 December 2019	1.5	1.5
– from 31 December 2019	1.5	1.5
– thereafter	1.5	1.5
Rate of increase in pensions in payment (RPI)	2.9	3.3
Rate of increase in pensions in payment (5% LPI)	2.8	3.1
Discount rate	2.2	2.6
Retail Prices Index inflation	2.9	3.3
Consumer Prices Index inflation	2.1	2.2

The majority of the plan's assets are held within instruments with quoted market prices in an active market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit pension plan (continued)

The mortality assumptions used were as follows:

	31 December 2019 Years	31 March 2019 Years
Life expectancy of male aged 60 at the Statement of Financial Position date	26.3	26.3
Life expectancy of male aged 60 in 20 years' time	27.8	27.8
Life expectancy of female aged 60 at the Statement of Financial Position date	28.5	28.5
Life expectancy of female aged 60 in 20 years' time	30.1	30.1

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 December 2019 £m
Discount rate	+0.5%	(52.6)
	-0.5%	61.0
Life expectancy	+ 1 year	16.5
	- 1 year	(16.4)

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 December 2019 £m	31 March 2019 £m
Present value of plan liabilities	(511.7)	(495.9)
Fair value of plan assets	487.0	458.3
Deficit	(24.7)	(37.6)

Reconciliation of present value of plan liabilities

	31 December 2019 £m	31 March 2019 £m
Opening present value of plan liabilities	(495.9)	(465.8)
Current service cost	(0.2)	(0.2)
Interest cost	(9.5)	(12.6)
GMP equalisation allowance	-	(0.5)
Contributions from plan members ^(a)	(0.1)	(0.2)
Benefits paid	6.7	10.6
Actuarial loss	(12.7)	(27.2)
Closing present value of plan liabilities	(511.7)	(495.9)

(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 period ended 31 December 2019

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit pension plan (continued)

Reconciliation of fair value of plan assets

	31 December 2019 £m	31 March 2019 £m
Opening fair value of plan assets	458.3	427.9
Interest on plan assets	8.9	11.8
Actuarial gain	14.8	13.6
Benefits paid	(6.7)	(10.6)
Contributions paid by employer	11.6	15.4
Contributions paid by members	0.1	0.2
Closing fair value of plan assets	487.0	458.3

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

	31 December 2019	31 March 2019
Equities	27%	26%
Private credit	4%	4%
Diversified growth funds - emerging market multi-asset funds	10%	9%
Diversified growth funds	30%	30%
Liability driven investment	28%	30%
Cash/other	1%	1%
	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.

The amounts recognised in the income statement are as follows:

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
GMP equalisation allowance	-	(0.5)
Employer's part of current service cost	(0.2)	(0.2)
Net interest charge	(0.6)	(0.8)
	(0.8)	(1.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit pension plan (continued)

Actuarial gains and losses

The amount recognised in other comprehensive income are as follows:

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Changes in financial assumptions	(13.6)	(34.5)
Changes in demographic assumptions	-	8.8
Experience adjustments on benefit obligations	0.4	(1.6)
Return on plan assets less interest on plan assets	14.8	13.7
Loss recognised in other comprehensive income	1.6	(13.6)

Amounts for current period and prior years

	31 December 2019 £m	31 March 2019 £m	31 March 2018 £m	31 March 2017 £m	31 March 2016 £m
Present value of plan liabilities	(511.7)	(495.9)	(465.8)	(477.0)	(396.0)
Fair value of plan assets	487.0	458.3	427.9	432.2	350.8
Deficit	(24.7)	(37.6)	(37.9)	(44.8)	(45.2)

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.

27. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities relate to amounts due to parent undertakings. The following amounts represent interest bearing amounts in the form of Capital Securities issued to Ivy Guernsey Holdings, LP.

	31 December 2019 £m	31 March 2019 £m
Other non-current liabilities ^(a)	-	675.0

(a) Interest payable at 12 per cent on the fixed Rate Unsecured Capital Securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

28. TRADE AND OTHER PAYABLES

	31 December 2019 £m	31 March 2019 £m
Trade payables	12.0	12.7
Accruals	49.7	29.8
Capital payables	43.2	58.9
Amounts owed to group undertakings – interest free	0.1	0.1
Accrued financing charges	0.2	-
Accrued interest payable	96.2	21.1
Other payables	4.8	4.4
Corporation tax payable	-	7.0
	206.2	134.0

29. SHARE CAPITAL

	31 December 2019 £m	31 March 2019 £m
Called up share capital		
5,150,000 (31 March 2019: 5,150,000) Ordinary shares of £1.00 each	5.2	5.2
Nil (31 March 2019: 11,520) 'Ordinary A' shares of £1.00 each	-	-
Share premium		
'Ordinary A' share premium	-	2.8
	5.2	8.0

On 13 May 2019 the Company cancelled 11,520 ordinary A shares and associated share premium totaling £2,799,360; this resulted in the creation of £2,799,360 of distributable reserves.

The Company issued 673,463 ordinary shares at £1,030.74 per share on 28 June 2019; this was satisfied by converting the Company's fixed rate unsecured Capital securities of £694,167,273. The Company then undertook a bonus share issue of 693,493,810 ordinary shares at £1.00 per share on 28 June 2019; this was satisfied by way of capitalisation of £693,493,810 of the Company's share premium account. The Company then undertook a capital reduction of £694,167,273 of share capital by means of a special resolution supported by a solvency statement, resulting in the creation of £694,167,273 of distributable reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

30. RECONCILIATION IN NET DEBT

Net debt comprised the Group's borrowings net of cash and cash equivalents excluding interest accruals.

	As at 1 April 2019 £m	Cash flow £m	Other non- cash changes £m	As at 31 December 2019 £m
Other non-current liabilities	(675.0)	-	675.0	-
Derivative financial liabilities	(228.6)	-	(0.3)	(228.9)
Lease liabilities	(51.3)	1.8	(16.0)	(65.5)
Borrowings	(2,580.4)	(257.3)	(1.9)	(2,839.6)
Total financing liabilities	(3,535.3)	(255.5)	656.8	(3,134.0)
Cash and cash equivalents	3.2	7.4	-	10.6
Net debt	(3,532.1)	(248.1)	656.8	(3,123.4)

	As at 1 April 2018 £m	Cash flow £m	Other non- cash changes £m	As at 31 March 2019 £m
Other non-current liabilities	(600.8)	-	(74.2)	(675.0)
Derivative financial liabilities	(208.1)	-	(20.5)	(228.6)
Lease liabilities	(47.9)	1.2	(4.6)	(51.3)
Borrowings	(2,479.9)	(97.6)	(2.9)	(2,580.4)
Total financing liabilities	(3,336.7)	(96.4)	(102.2)	(3,535.3)
Cash and cash equivalents	18.1	(14.9)	-	3.2
Net debt	(3,318.6)	(111.3)	(102.2)	(3,532.1)

31. RELATED PARTY TRANSACTIONS

During the period the Group had the following transactions with related parties as follows:

	Amounts receivable/(payable) to related party		Amounts owed from/(due to) related party	
	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m	As at 31 December 2019 £m	As at 31 March 2019 £m
VINCI Airports SAS ^(a)	(4.3)	-	(4.3)	-
Global Infrastructure Partners ^(a)	(3.1)	-	(3.1)	-
Ivy Topco Limited	-	-	(0.1)	(0.1)
Ivy Guernsey Holdings, LP. ^(b)	(19.1)	(74.3)	-	(675.0)
	(26.5)	(74.3)	(7.5)	(675.1)

(a) Amounts payable to related party relate to royalties and service fees.

(b) Amounts payable to related party relate to interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

32. COMMITMENTS

Capital commitments

Contracted commitments for capital expenditure amount to £71.8 million (31 March 2019: £90.1 million).

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 17km². 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.

33. CLAIMS AND CONTINGENT LIABILITIES

As part of the refinancing agreements outlined in note 25, 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 and the disclosure in note 14, 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 December 2019 (31 March 2019: nil).

34. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

At 31 December 2019 the Group's ultimate parent and ultimate controlling party is VINCI SA, a company incorporated in France.

On 13 May 2019, Global Infrastructure Partners, LP ("GIP 1"), together with its four co-shareholders (Abu Dhabi Investment Authority, National Pension Service of the Republic of Korea, California Public Employees' Retirement System and the Future Fund) completed the sale of a 50.01% interest in the Group to CRUISER Bidco Limited, a wholly owned subsidiary of VINCI SA for a total equity consideration of approximately £3.0 billion.

The Group's results are included in the audited consolidated financial statements of VINCI SA for the period ended 31 December 2019, the largest and smallest group to consolidate these financial statements. The consolidated financial statements of VINCI SA can be obtained from the Company Secretary, VINCI, 1 Cours Ferdinand-de-Lesseps, 92851 Rueil-Malmaison, Cedex, France.

35. TRANSITION TO NEW ACCOUNTING STANDARDS

During the period the Group adopted the new IFRS 16 Leases standard.

The Group adopted IFRS 16 using the modified retrospective approach in accordance with IFRS 16:C5(b) with a date of initial application of 1 April 2019. The Group has not restated the comparative information (note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

36. SUBSEQUENT EVENTS

Gatwick is concerned about the global impact of the COVID-19 virus and are closely monitoring its impact on our business and stakeholders. The Airport has run a number of scenarios to test both our financial and operational resilience, see pages 22 and 69 for further details.

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	31 December 2019 £m	31 March 2019 £m
Assets			
Non-current assets			
Investment in subsidiaries	7	683.1	683.1
		683.1	683.1
Current assets			
Cash and cash equivalents		0.6	0.6
		0.6	0.6
Total assets		683.7	683.7
Liabilities			
Non-current liabilities			
Other non-current liabilities	9	(0.2)	(675.2)
Current liabilities			
Trade and other payables		(0.7)	(0.6)
Total liabilities		(0.9)	(675.8)
Net assets		682.8	7.9
Equity			
Share capital	10	5.2	5.2
Share premium	10	-	2.8
Retained earnings		677.6	(0.1)
Total equity		682.8	7.9

The profit for the period ended 31 December 2019 was £380.7 million (31 March 2019: £75.7 million).

These parent company financial statements on pages 113 to 122 were approved by the Board of Directors on 23 April 2020 and signed on its behalf by:



Michael McGhee
Director



Rémi Maumon de Longevialle
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the 9 month period ended 31 December 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 1 April 2018		5.2	2.8	74.2	82.2
Profit for the year		-	-	75.7	75.7
Dividends	6	-	-	(150.0)	(150.0)
Balance at 31 March 2019		5.2	2.8	(0.1)	7.9
Profit for the period		-	-	380.7	380.7
Dividends	6	-	-	(400.0)	(400.0)
Proceeds from shares issued		0.7	693.5	-	694.2
Bonus share issue		693.5	(693.5)	-	-
Capital reduction		(694.2)	(2.8)	697.0	-
Balance at 31 December 2019		5.2	-	677.6	682.8

The notes on pages 116 to 122 form an integral part of these financial statements.

COMPANY CASH FLOW STATEMENT
For the 9 month period ended 31 December 2019

	Period ended 31 December 2019 £m	Year ended 31 March 2019 £m
Cash flows from operating activities		
Profit/(loss) before tax	380.7	75.7
<i>Adjustments for:</i>		
Finance expense	19.2	74.2
Increase in trade and other payables	0.1	0.1
Net cash from operating activities	400.0	150.0
Cash flows from financing activities		
Equity dividends paid	(400.0)	(150.0)
Net cash from financing activities	(400.0)	(150.0)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the period	0.6	0.6
Cash and cash equivalents at the end of the period	0.6	0.6

The notes on pages 116 to 122 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2019

1. BASIS OF PREPARATION

These financial statements are the financial statements of Ivy Midco Limited ("the Company") for the period ended 31 December 2019. The comparative period is the year ended 31 March 2019. 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. See page 69 for further details.

As at 31 December 2019 the Company had net assets of £682.8 million (31 March 2019: £7.9 million). Taking into account the Company's current assessment of the impact of Covid-19 combined with the mitigating actions that are within the Company's control, and access to cash and committed financing, the Directors consider the Company can maintain sufficient liquidity over the next 12 months, and they continue to adopt a going concern basis for the preparation of the Financial Statements.

The financial statements were approved by the Directors on 23 April 2020.

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

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

During the period, the Company adopted the new IFRS 16 standard. The impact is detailed below:

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, and introduces a single lease accounting model for lessees, bringing leases on balance sheet. A lessee recognises a right-of-use asset representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments. Lessor accounting largely stays the same under IFRS 16.

The Company had no arrangements during the period that were considered to be or contain a lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

3. 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 period 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 the 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

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

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 period ended 31 December 2019

4. 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.

(a) 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.

(b) 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 future trade.

5. COMPANY RESULT FOR THE PERIOD

The profit for the period ended 31 December 2019 was £380.7 million (31 March 2019: £75.7 million). As permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the Company.

Operating costs

Audit fees of £5,000 (31 March 2019: £5,000) are borne by Gatwick Airport Limited.

Employee information

The Company had no employees during the period (31 March 2019: nil). All staff costs are borne by Gatwick Airport Limited, the Company's subsidiary. No directors of the Company were remunerated during the period for services to the Company (31 March 2019: nil).

6. DIVIDENDS

The Directors declared and paid dividends of £58.12 per share on 12 July 2019 amounting to £300.0 million and dividends of £19.37 per share on 20 December 2019 amounting to £100.0 million, totalling £400.0 million for the period (31 March 2019: £29.06 per share amounting to £150.0 million on 5 July 2018). The Directors did not recommend the payment of a final dividend (31 March 2019: £nil).

The company received dividends from its wholly owned subsidiary, Ivy Super Holdco Limited, of £300.0 million on 12 July 2019 and £100.0 million on 19 December 2019. (31 March 2019: £150.0 million on 5 July 2018 from the company's wholly owned subsidiary, Ivy Holdco Limited).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

7. INVESTMENT IN SUBSIDIARIES

	31 December 2019 £m	31 March 2019 £m
Investment in subsidiaries	683.1	683.1

The Company has investments in the following subsidiary undertakings:

Subsidiary Undertakings	Principal Activity	Holding	%
Ivy Super Holdco Limited	Holding company	Ordinary Shares	100%
Ivy Holdco Limited ^(a)	Holding company	Ordinary Shares	100%
Gatwick Airport Limited ^(a)	Airport owner and operator	Ordinary Shares	100%
Gatwick Funding Limited ^(a)	Financing company	Ordinary Shares	100%
Ivy Bidco Limited ^(a)	Property company	Ordinary Shares	100%
Gatwick Airport Pension Trustees Limited ^(a)	Dormant company	Ordinary Shares	100%
Ivy Property Holdings Limited	Dormant company	Ordinary Shares	100%

(a) 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 Gatwick Airport Pension Trustees Limited have registered office 5th Floor Destinations Place, Gatwick Airport, West Sussex, RH6 0NP. Ivy Super Holdco Limited, Ivy Holdco Limited and Ivy Bidco Limited have registered office 8th Floor, 20 Farringdon Street, London, United Kingdom, EC4A 4AB. GFL is incorporated in Jersey and has registered office 44 Esplanade, St Helier, Jersey, JE4 9WG.

8. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 31 March 2015 the Company acquired investment in Ivy Holdco Limited for £599,777,305. Following distribution of the assets of the Company's subsidiary, Ivy Bidco Limited, the Company impaired its investment in Ivy Bidco Limited by £148,237,380. At the same time, the Company sold 100% of the issued share capital of Ivy Bidco Limited to Ivy Holdco Limited in exchange for 7,779,360 ordinary shares in Ivy Holdco Limited issued at £1 per share.

The cost of the Company's investments in Ivy Bidco Limited reflected the underlying fair value of its net assets at the time of acquisition. As a result of the transfer, the value of the Company's investment in this company fell below the amount at which it was stated in the Company's accounting records. Schedule 1 to the Companies Act 2006, The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2009 (SI 2009 No. 401) requires that the investment be written down accordingly and that the amount be charged as a loss in the Company's Income Statement. However, the directors consider that, as there has been no overall loss to the Company, it would fail to give a true and fair view to charge that diminution to the Company's Income Statement for the year and it should instead be re-allocated to its cost investment in Ivy Holdco Limited. The effect of this departure was to increase the Company's profit for the financial year ended 31 March 2015 by nil. The value of the Company's investment in subsidiary undertakings for the year ended 31 March 2015 had increased by £73,183,160 in the Company's Statement of Financial Position due to the effect of the transfer of trade and assets from one subsidiary of the Company during the current and prior periods.

On 28 June 2019 the Company acquired an investment in Ivy Super Holdco Limited for £1. On the same day the Company contributed its investment in Ivy Holdco Limited to Ivy Super Holdco Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

9. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities relate to amounts due to group undertakings.

	31 December 2019 £m	31 March 2019 £m
Unsecured capital securities ^(a)	-	675.0
Other non-current liabilities	0.2	0.2
	0.2	675.2

(a) Interest payable at 12 per cent on the fixed Rate Unsecured Capital Securities.

10. CALLED UP SHARE CAPITAL

	31 December 2019 £m	31 March 2019 £m
Called up share capital		
5,150,000 (31 March 2019: 5,150,000) ordinary shares of £1.00 each	5.2	5.2
Nil (31 March 2019: 11,520) 'Ordinary A' shares of £1.00 each	-	-
Share premium		
'Ordinary A' share premium	-	2.8
	5.2	8.0

On 13 May 2019 the Company cancelled 11,520 ordinary A shares and associated share premium totaling £2,799,360; this resulted in the creation of £2,799,360 of distributable reserves.

The Company issued 673,463 ordinary shares at £1,030.74 per share on 28 June 2019; this was satisfied by converting the Company's fixed rate unsecured Capital securities of £694,167,273. The Company then undertook a bonus share issue of 693,493,810 ordinary shares at £1.00 per share on 28 June 2019; this was satisfied by way of capitalisation of £693,493,810 of the Company's share premium account. The Company then undertook a capital reduction of £694,167,273 of share capital by means of a special resolution supported by a solvency statement, resulting in the creation of £694,167,273 of distributable reserves.

11. CLAIMS AND CONTINGENT LIABILITIES

As part of the Group's financing agreements, the Group has granted security over their assets 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 December 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

12. RECONCILIATION IN NET DEBT

Net debt comprised the Company's borrowings net of cash and cash equivalents excluding interest accruals.

	As at 1 April 2019 £m	Cash flow £m	Other non- cash changes £m	As at 31 December 2019 £m
Cash and cash equivalents	0.6	-	-	0.6
Other non-current liabilities	(675.0)	-	675.0	-
	(674.4)	-	675.0	0.6

	As at 1 April 2018 £m	Cash flow £m	Other non- cash changes £m	As at 31 March 2019 £m
Cash and cash equivalents	0.6	-	-	0.6
Other non-current liabilities	(600.8)	-	(74.2)	(675.0)
	(600.2)	-	(74.2)	(674.4)

13. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

At 31 December 2019 the Company's ultimate parent and ultimate controlling party is VINCI SA, a company incorporated in France.

On 13 May 2019, Global Infrastructure Partners, LP ("GIP 1"), together with its four co-shareholders (Abu Dhabi Investment Authority, National Pension Service of the Republic of Korea, California Public Employees' Retirement System and the Future Fund) completed the sale of a 50.01% interest in the Company to CRUISER Bidco Limited, a wholly owned subsidiary of VINCI SA for a total equity consideration of approximately £3.0 billion.

The Company's results are included in the audited consolidated financial statements of VINCI SA for the period ended 31 December 2019, the largest and smallest group to consolidate these financial statements. The consolidated financial statements of VINCI SA can be obtained from the Company Secretary, VINCI, 1 Cours Ferdinand-de-Lesseps, 92851 Rueil-Malmaison, Cedex, France.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2019

14. RELATED PARTY TRANSACTIONS

During the period the Company entered into the following transactions with related parties as follows:

	Interest payable with related party		Amounts owed to related party	
	Period ended 31 December 2019 £m	Period ended 31 March 2019 £m	As at 31 December 2019 £m	As at 31 March 2019 £m
Gatwick Airport Limited	-	-	(0.8)	(0.7)
Ivy Topco Limited	-	-	(0.1)	(0.1)
Ivy Guernsey Holdings, LP.	(19.1)	(74.3)	-	(675.0)
	(19.1)	(74.3)	(0.9)	(675.8)

Gatwick Airport Limited is a subsidiary of the Company (refer to note 7). Ivy Topco Limited and Ivy Guernsey Holdings, LP. are both parent companies of the Company (refer to note 13).

15. TRANSITION TO NEW ACCOUNTING STANDARDS

During the period the Company adopted a new accounting standards, IFRS 16 Financial Instruments.

The adoption of IFRS 16 had no impact to the equity and total comprehensive income previously reported at 31 March 2019.