

**GATWICK AIRPORT LIMITED
REGULATORY ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2004**

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**GATWICK AIRPORT LIMITED
REGULATORY ACCOUNTS
PERFORMANCE REPORT**

FOR THE YEAR ENDED 31 MARCH 2004

		Actual	CAA
		'000s	forecast
			'000s
Terminal passengers		30,057.5	31,200.0
		£m	£m
Revenue			
Net revenue from airport charges	2	129.8	135.3
Other revenue	3	188.9	180.0
Total revenue		318.7	315.3
Expenditure			
Operating costs	4	184.3	174.6
Assumed ordinary depreciation	5	62.7	62.7
Total expenditure		247.0	237.3
Regulatory operating profit	6	71.7	78.0
Capital expenditure		121.7	77.0
Opening basic RAB	7	1,217.2	1,217.2
Closing basic RAB	8	1,308.5	1,263.4
Weighted average basic RAB		1,262.0	1,239.8
Return on weighted average basic RAB		5.7%	6.3%

The notes on pages 2 to 9 form part of these regulatory accounts

These regulatory accounts were approved by the Board of Directors on 7 October 2004 and signed on behalf of the Board.

**GATWICK AIRPORT LIMITED
REGULATORY ACCOUNTS
NOTES TO THE PERFORMANCE REPORT
FOR THE YEAR ENDED 31 MARCH 2004**

1. BASIS OF PREPARATION

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

The CAA has determined that the Regulatory Accounts shall comprise a report in the format shown on pages 1 to 9 of this report. This in turn comprises the Performance Report which sets out actual performance for the year under review compared with the forecasts underlying the determination of the price cap for Gatwick Airport Limited. These forecasts are set out in the CAA’s document entitled Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-2008, CAA Decision, February 2003 (“the CAA Decision”), following its quinquennial review. The Performance Report includes notes as agreed with the CAA which describe the derivation of key regulatory results, and ,where relevant, adjustments to the statutory accounts of the Company.

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

(a) The Regulatory Asset Base (“RAB”)

The CAA, in Annex 6 of its Decision determined how the value of the RAB at 31 March 2003 should be calculated, and this is shown in Note 7. The CAA further determined in Annex 6 how the value of the RAB should be rolled forward annually thereafter;

Capital expenditure in the year has been uplifted by the increase in RPI in accordance with Annex 6 of the CAA Decision. Forecast capital expenditure has likewise been uplifted by the increase in RPI, from average 2000/01 prices (as in the Decision) to average 2003/04 prices, in accordance with CAA guidance. Indexing the forecasts in this way does not fully take into account actual variations in the Construction Output Price Index (‘COPI’) from the Company’s original 2002/03 forecast, which in the Company’s view is a more appropriate basis for comparison with actual expenditure. Note 8 shows the effect of using COPI on capital expenditure forecasts and on the forecast closing RAB value at 31 March 2004.

The depreciation allowance has been set for each of the five years. This is referred to in Annex 6 of the CAA Decision and in this report as ‘Assumed Ordinary Depreciation’;

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1. BASIS OF PREPARATION (continued)

Comparisons with the CAA Decision have been made with the CAA 'Basic RAB' forecasts. In its Decision the CAA adjusted the Basic RAB by including a profiling adjustment to arrive at a Closing RAB at each year end. The Company's view is that, as this profiling adjustment does not form part of actual movements in net investment in the year, inclusion of the adjustment would only serve to complicate a true comparison of performance;

The Weighted Average Basic RAB is calculated using the weighting formula adopted in the CAA Decision. This equates to the sum of the closing balance multiplied by a factor of 0.49067 and the opening balance multiplied by a factor of 0.50933.

(b) Operating revenues and costs

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

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

(c) Indexation

The CAA forecasts have been derived by indexing forward the forecasts to 2003/04, using the Retail Price Index ("RPI"), except for airport charges which have been indexed in accordance with the CAA Decision. For Gatwick Airport, the price cap in 2000/01 prices was £4.08 (per Annex 5), and in 2003/04 prices £4.32 (per the Executive Summary), an effective increase of 5.88%. The appropriate RPI indices for other calculations are shown in Note 10. Profit and loss items have been indexed forward to 2003/04 using the average RPI for 2003/04, and the RAB using the RPI at 31 March 2004.

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2. AIRPORT CHARGES

	2004 £m	CAA forecast 2004 £m
Gross and net revenue from passenger flights	127.8	134.8
Net revenue from non passenger flights	<u>2.0</u>	<u>0.5</u>
Net revenue from airport charges	<u>129.8</u>	<u>135.3</u>

3. OTHER REVENUE

	2004 £m	CAA forecast 2004 £m
Other traffic charges	2.1	2.1
Retail	127.8	122.1
Property	33.7	33.2
Other	<u>25.3</u>	<u>22.6</u>
Other revenue	<u>188.9</u>	<u>180.0</u>

Reconciliation to statutory accounts

Other revenue	188.9
Airport charges	129.8
Retail costs netted off against revenue	2.7
Intercompany income netted off costs	<u>4.1</u>
Revenue per statutory accounts	<u>325.5</u>

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4. OPERATING COSTS

	2004 £m	CAA forecast 2004 £m
Operating costs	184.6	174.6
Less service quality rebates	(0.3)	0.0
Adjusted operating costs	<u>184.3</u>	<u>174.6</u>
Reconciliation to Statutory Accounts		
Adjusted operating costs	184.3	
Service quality rebates	0.3	
Statutory depreciation	44.9	
Loss (profit) on disposals of tangible fixed assets	0.4	
Retail costs netted off against revenue	2.7	
Inter company income netted off	4.1	
Operating costs per statutory accounts	<u>236.7</u>	

5. ASSUMED ORDINARY DEPRECIATION

The depreciation allowance was determined by the CAA in its February 2003 Decision document. This has been indexed to current year values in accordance with the methodology specified in Annex 6 of that document.

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6. REGULATORY OPERATING PROFIT

**Reconciliation of operating profit between Statutory Accounts and
Regulatory Accounts**

	2004 £m
Operating profit per statutory accounts	88.8
Actual depreciation per statutory accounts	44.9
Assumed Ordinary Depreciation per CAA (indexed)	(62.7)
Loss on disposals	0.4
Service quality rebates	0.3
	<hr/>
Adjusted operating profit	<u><u>71.7</u></u>

7. OPENING REGULATORY ASSET BASE AT 31 MARCH 2003

	£m	Increase In RPI to 31 March 2003	Adjusted RAB at 31 March 2003 £m
Forecast RAB at 31 March 2003 per CAA final report (at average 2000/01 prices)	1,172.7	5.0%	1,231.6
Actual capital expenditure 2002/03	29.8	1.3%	30.2
Assumed capital expenditure for 2002/03 (at average 2000/01 prices)	(36.7)	5.0%	(38.4)
Actual proceeds from disposal in 2002/03	(6.1)	1.3%	(6.2)
			<hr/>
Adjusted opening RAB at 31 March 2003			<u><u>1,217.2</u></u>

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8. CLOSING REGULATORY ASSET BASE AT 31 MARCH 2004

	2004 £m	CAA Forecast 2004 £m
Opening Basic RAB at 1 April 2003	1,217.2	1,217.2
Additions in year (a)	121.7	77.0
Proceeds from disposal	(0.1)	0.0
Assumed Ordinary Depreciation	(62.7)	(62.7)
Indexation to 31 March 2004	32.4	32.0
Closing Basic RAB at 31 March 2004	1,308.5	1,263.5
Cumulative profiling adjustment (Note 1)	<u>15.9</u>	<u>15.9</u>
Closing RAB at 31 March 2004	<u><u>1,324.4</u></u>	<u><u>1,279.4</u></u>

- (a) Forecast additions in the year, £77.0 million, have been calculated by indexing forward the forecasts in the CAA Decision by RPI (Note 1). The Company believes that a more appropriate comparison would be achieved by using the increase in COPI and the original forecasts produced in 2002/03 prices. On this basis the forecast additions in the year would be £77.6 million, and the forecast Closing RAB at 31 March 2004 £1,280.0 million.

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**9. RECONCILIATION OF BASIC RAB TO FIXED ASSETS
AT 31 MARCH 2004**

	£m
Net fixed assets per statutory accounts at 31 March 2004	1,316.4
Difference between net fixed assets and RAB at 31 March 2003 (a)	6.0
Interest capitalised disallowed (b)	(3.2)
Difference between net book value of disposals and proceeds (c)	0.4
Revaluation in statutory accounts (d)	(25.7)
Indexation of RAB (d)	32.4
Difference between statutory depreciation and Assumed Ordinary Depreciation (e)	<u>(17.8)</u>
Closing Basic RAB at 31 March 2004	<u><u>1,308.5</u></u>

These are explained as follows:

- (a) This reflects the difference between the net fixed asset value in the statutory accounts of £1211.2m and the assessed value of the RAB at 31 March 2003 of £1217.2m (Note 7). This comprises:
- (i) a reduction of £28.5 million in respect of interest capitalised from 1 April 1995 to 31 March 2003 in statutory fixed assets valuations but excluded from the RAB calculation;
 - (ii) an addition of £82.4 million in respect of the difference between the value of asset revaluations in the statutory accounts and the indexation uplifts provided in the regulatory accounts to 31 March 2003;
 - (iii) a reduction of £47.9 million in respect of other valuation differences.
- (b) Interest costs amounting to £3.2m were capitalised in the year. The roll forward calculation for the RAB specified in Annex 6 of the CAA Decision excludes capitalised interest;
- (c) Statutory asset valuations are derived after deducting the net book value of assets disposed of during the year. The RAB value specified in Annex 6 of the CAA Decision is derived by deducting the proceeds of asset disposals;
- (d) Investment properties and land held for development are subject to annual revaluation in the statutory accounts. Remaining assets are held at depreciated historic cost. The RAB is revalued annually by reference to the Retail Prices Index ("RPI") as specified in Annex 6 of the CAA Decision;
- (e) This reflects the difference between the amount charged as depreciation in the statutory accounts and the Assumed Ordinary Depreciation allowed in the CAA Decision and specified in Annex 6 of that Decision

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10. INDEXATION

The following indices have been used for revaluing forecasts:

Average RPI index for the year ended 31 March 2001	171.3
Average index for the year ended 31 March 2003	177.5
Average index for the year ended 31 March 2004	182.5
RPI index at 31 March 2003	179.9
RPI index at 31 March 2004	184.6
Increase from average 2000/01 to 31 March 2003	5.02%
Increase from average 2002/03 to 31 March 2003	1.35%
Increase from average 2000/01 to 31 March 2004	7.75%
Increase from average 2003/04 to 31 March 2004	1.16%
Increase from average 2000/01 to average 2003/04	6.51%