

# STANSTED AIRPORT LIMITED

## Report and Financial Statements for the Year Ended 31 March 2005

Company Registration Number 1990920



## REPORT AND FINANCIAL STATEMENTS 2005

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## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

T D Morgan	-	Managing Director
M Ewing	-	Director
D S Garrood	-	Director
R D Herga	-	Alternate Director

### **SECRETARY**

M B Lewis

### **REGISTERED OFFICE**

130 Wilton Road  
London  
SW1V 1LQ

### **AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Glasgow  
G2 2LW

### **BANKERS**

Barclays Bank Plc  
PO Box 544  
54 Lombard Street  
London  
EC3V 9EX

### **SOLICITORS**

Herbert Smith  
Exchange House  
Primrose Street  
London  
EC2A 2HS

## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for Stansted Airport Limited ("the Company") for the year ended 31 March 2005 ("the year").

## PRINCIPAL ACTIVITIES

The Company owns and is the licensed operator of Stansted Airport.

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Stansted has continued its dramatic growth in passenger numbers, maintaining its position as one of Europe's fastest growing major airports. Additional new routes have ensured its primary position as Europe's major driver for low cost airlines. The Government's decision to make Stansted the site for the next runway in the South-East of England, as per the White Paper (The Future of Air Transport), has come under scrutiny through a judicial review. The judgement was delivered by the High Court on the 16 February 2005, which gave a positive result that upheld the central policy of the White Paper. Following this decision, Stansted Airport is set to achieve even greater importance in the transport infrastructure of London and the South-East. The White Paper calls for the building of a second runway at Stansted during the next decade enabling the airport to grow in stages to a maximum of 80 million passengers per annum (mppa). As the airport grows, all aspects of the new plans will require close consultation with airlines and local stakeholders. This has already started and the Company has committed itself to a heavy programme of communication and dialogue with local communities over issues such as noise and other environmental disturbance.

At present Stansted has planning permission for 25mppa. The airport commenced services to 23 new destinations in 2004/5 and offers over 130 destinations. Stansted welcomed three new airlines in the year (Zoom, Euromanx and Nikki). Of course the threat of terrorism continues to demand our focus on ensuring the safety and security of all who travel through the airport.

As mentioned earlier, the rapid growth of the airport continues: 21.2 million passengers have been served by the airport in the last 12 months. This represents an increase of 9.1%, an additional 1.8m passengers.

The Company's turnover for the year was £164.5 million, a rise of £16.3 million (11.0%) over last year. It has made an operating profit of £45.0 million against £38.6 million last year, the additional profit being due to increased airport charges and retail income with continued tight cost control. We continue to achieve good Customer Service ratings as measured by regular Quality of Service surveys.

The capital expenditure programme for the year equated to £51.4 million, of which £29.4 million related to expenditure on Stansted Generation 2. Planned investment, excluding Generation 2, over the next 10 years is forecast to be £613.4 million.

## REPORT OF THE DIRECTORS (continued)

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (continued)

The Board wishes to thank all of the staff at Stansted for their continued professionalism and the important part they have played throughout another challenging year. The forthcoming year will again bring major challenges and opportunities. We expect continued growth both in terms of passenger numbers and our own profitability. At the same time we will seek to ensure that those who travel through our Airport do so safely and in comfort.

### RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £33.7 million (2004: £27.7 million).

The directors do not recommend the payment of a dividend (2004: £nil).

The retained profit for the year of £31.5 million (2004: £16.0 million) has been transferred to reserves.

### BOARD OF DIRECTORS

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

T D Morgan	Managing Director
J Astor	resigned 25 June 2004
C M Butler	resigned 25 June 2004
M Clasper	resigned 25 June 2004
M Ewing	appointed 25 June 2004
D S Garrood	appointed 25 June 2004
R D Herga	alternate to M Clasper
A J Mears	resigned 25 June 2004
M P J Murphy	resigned 25 June 2004
C Stewart	resigned 25 June 2004

### DIRECTORS' INTERESTS

The interests of the directors holding office at the year end in the ordinary shares of BAA plc are set out in Note 5 to the financial statements, with the exception of those directors disclosed in the accounts of BAA plc.

### EMPLOYEES

The Company has no direct employees. The staff are employed by BAA plc which is the Company's ultimate parent company.

## REPORT OF THE DIRECTORS (continued)

### PAYMENT PRACTICE

The Company's policy is to follow the DTI's Better Payment Practice Code which is reproduced in the report and accounts of BAA plc. The Company had 30 days purchases outstanding at 31 March 2005 (2004: 38 days) based on the average daily amount invoiced by suppliers during the year ended 31 March 2005.

### ECONOMIC AND MONETARY UNION

An outline implementation strategy for the introduction of the euro if and when the UK elects to join the EMU has been developed and is under continual review. It is too early to estimate the costs to the Company of the UK joining the euro, however the Company continues to ensure that new systems being introduced to the business are euro compliant.

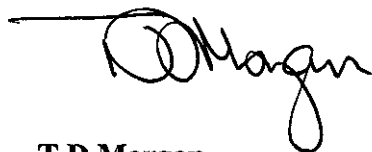
The Company's policy is that while the UK remains outside of the euro and sterling is floating freely the Company will:

- Treat the euro as another foreign currency
- Raise invoices and require settlement in sterling
- Settle liabilities according to the currency of the contract

### AUDITORS

A resolution has been passed to dispense with the obligation to appoint auditors annually in accordance with Section 386 of the Companies Act 1985. Accordingly, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to the member(s).

By order of the Board



**T D Morgan**  
Managing Director

4 August 2005

Registered Office:  
130 Wilton Road  
London  
SW1V 1LQ

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy, the financial position of the Company, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANSTED AIRPORT LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

### **Basis of audit opinion**

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

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



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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Glasgow

*4 August* 2005

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2005**

	<b>Note</b>	<b>2005 £'m</b>	<b>2004 £'m</b>
Revenue – continuing operations	2	164.5	148.2
Operating costs - ordinary	3	(119.5)	(109.6)
Operating profit – continuing operations		<u>45.0</u>	<u>38.6</u>
Exceptional items	4	0.2	-
Net interest payable	6	(11.5)	(10.9)
Profit on ordinary activities before taxation		<u>33.7</u>	<u>27.7</u>
Tax on profit on ordinary activities	7	(2.2)	(11.7)
Retained profit on ordinary activities after taxation for the financial year	15	<u><u>31.5</u></u>	<u><u>16.0</u></u>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES****For the year ended 31 March 2005**

	<b>Note</b>	<b>2005 £'m</b>	<b>2004 £'m</b>
Profit on ordinary activities before taxation		33.7	27.7
Realisation of property revaluations gains of previous years	15	44.3	-
		<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation		78.0	27.7
		<hr/>	<hr/>
Historical cost profit for the year retained after taxation and dividends		75.8	16.0
		<hr/>	<hr/>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****For the year ended 31 March 2005**

	<b>Note</b>	<b>2005 £'m</b>	<b>2004 £'m</b>
Profit for the financial year		31.5	16.0
Unrealised revaluation surplus	15	51.6	31.0
		<hr/>	<hr/>
Total recognised gains and losses relating to the year		83.1	47.0
		<hr/>	<hr/>

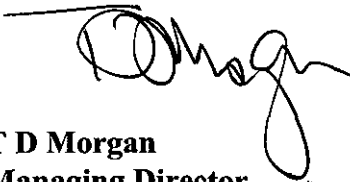
**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**For the year ended 31 March 2005**

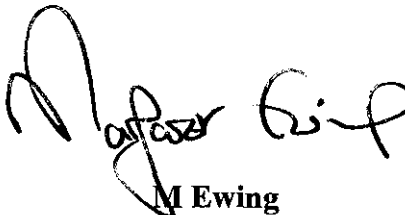
	<b>Note</b>	<b>2005 £'m</b>	<b>2004 £'m</b>
Profit for the financial year	15	31.5	16.0
Other net recognised gains and losses relating to the year		<u>51.6</u>	<u>31.0</u>
Net addition to shareholders' funds		83.1	47.0
Opening shareholders' funds		<u>819.5</u>	<u>772.5</u>
Closing shareholders' funds		<u>902.6</u>	<u>819.5</u>

**BALANCE SHEET AT 31 MARCH 2005**

	Note	2005 £'m	2004 £'m
<b>FIXED ASSETS</b>			
Tangible assets	8	1,140.7	1,137.6
<b>CURRENT ASSETS</b>			
Stocks	9	1.8	1.8
Debtors : due within one year	10	26.5	16.3
: due after more than one year	10	104.6	30.3
<b>TOTAL CURRENT ASSETS</b>		132.9	48.4
<b>CREDITORS: amounts falling due within one year</b>	11	(281.6)	(271.0)
<b>NET CURRENT LIABILITIES</b>		(148.7)	(222.6)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		992.0	915.0
<b>CREDITORS: amounts falling due after more than one year</b>	12	(9.2)	(9.7)
<b>Provisions for liabilities and charges</b>	13	(80.2)	(85.8)
<b>NET ASSETS</b>		902.6	819.5
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	503.9	503.9
Revaluation reserve	15	421.3	414.0
Profit and loss account	15	(22.6)	(98.4)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		902.6	819.5

These financial statements were approved by the Board of Directors on 4 August 2005 and signed on behalf of the Board.

  
**T D Morgan**  
**Managing Director**

  
**M Ewing**  
**Director**

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005

#### 1. ACCOUNTING POLICIES

##### Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with all applicable United Kingdom accounting standards.

##### Revenue

Revenue is recognised in accordance with Financial Reporting Standard 5 application note G, net of VAT, and comprises:

- Airport and other traffic charges
  - Passenger charges levied on departing passengers
  - Aircraft landing charges levied according to weight
  - Aircraft parking charges based on a combination of weight and time parked
  - Other charges levied for passenger and baggage handling
- Property and operational facilities
  - Property letting sales recognised on a straight-line basis over the term of the rental period
  - Usage charges made for the operational systems (e.g. check-in desks), recognised as each service is provided
  - Other invoiced sales, recognised on the performance of the service
- Retail
  - Concession fees based upon turnover certificates supplied by concessionaires.

##### Fixed assets

###### (i) Operational assets

Terminal complexes, airfield assets, plant and equipment, fixtures and fittings and Group occupied properties are stated at historical cost less accumulated depreciation. Assets in the course of construction are stated at historical cost less provision for impairment and assume that projects in early planning stages will receive the consents necessary to achieve a successful outcome. Where appropriate, cost includes interest, own labour and associated overheads.

###### (ii) Investment properties

Fully completed properties let to, and operated by, third parties and held for long term retention, are accounted for as investment properties and valued at the balance sheet date at open market value. All investment properties are revalued annually by the directors and at least once every five years by external valuers. Any surplus or deficit on revaluation is transferred to revaluation reserve except that deficits below original cost which are expected to be permanent are charged to the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### Fixed assets (continued)

##### (ii) Investment properties (continued)

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits are recognised on completion.

In accordance with SSAP No. 19, Accounting for Investment Properties, no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 1985 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

##### (iii) Depreciation

Depreciation is provided on operational assets, other than land, to write off the cost of the assets by equal instalments over their expected useful lives as follows:

• Terminal building, pier and satellite structures	20 - 60 years
• Terminal fixtures and fittings	5 - 20 years
• Airport plant and equipment:	
• baggage systems	15 years
• screening equipment	7 years
• lifts, escalators, travelators	20 years
• other plant and equipment including runway lighting and building plant	5 - 20 years
• Airport tunnels, bridges and subways	up to 100 years
• Runway surfaces	10 - 15 years
• Runway bases	up to 100 years
• Taxiways and aprons	50 years
• Motor vehicles	4 - 8 years
• Office equipment	5 - 10 years
• Computer equipment	4 - 5 years
• Computer software	3 - 7 years

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 March 2005 (continued)**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Capitalisation of interest**

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

##### **Stocks**

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value.

##### **Deferred taxation**

In accordance with Financial Reporting Standard 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### **Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

##### **Pensions**

All employees are employed directly by BAA plc, the Company's ultimate parent undertaking, and are entitled to join the BAA plc defined benefit pension scheme. The Company is recharged the relevant amount of staff costs, including pension service costs, which are charged to the P&L account as incurred. Consequently the Company does not account for the BAA plc pension scheme under Financial Reporting Standard 17. Details of the BAA plc pensions scheme can be found in the BAA plc annual financial statements.

##### **Cash flow statement**

The Company is a wholly-owned subsidiary of BAA plc and is included in the consolidated financial statements of BAA plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 2. SEGMENTAL ANALYSIS

	2005 £'m	2004 £'m
<b>Revenue</b>		
Airport and other traffic charges	62.7	54.5
Retail	74.3	66.1
Property and operational facilities	22.9	23.2
Other	4.6	4.4
	<u>164.5</u>	<u>148.2</u>

All revenue arises in the United Kingdom. The majority of the operating costs and net assets relate to more than one segment. In the opinion of the directors it would be misleading to apportion operating costs and net assets to individual segments.

#### 3. OPERATING COSTS - ORDINARY

	2005 £'m	2004 £'m
Staff costs:		
Wages and salaries	27.7	26.4
Social security costs	2.2	2.2
Pension costs	5.9	4.7
Other staff related costs	1.5	1.8
	<u>37.3</u>	<u>35.1</u>
Retail expenditure	0.2	0.2
Depreciation	28.1	27.7
Maintenance expenditure	12.2	10.8
Rent and rates	6.9	6.6
Utility costs	6.1	5.2
Police costs	6.6	5.2
General expenses	8.0	7.5
Distribution fee	2.6	2.2
Other intra-group charges	11.0	9.0
	<u>119.0</u>	<u>109.5</u>
Loss on disposals of tangible fixed assets	0.5	0.1
	<u>119.5</u>	<u>109.6</u>

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 3. OPERATING COSTS - ORDINARY (continued)

	2005 £'000	2004 £'000
<b>Operating costs include:</b>		
Training expenditure	831	880
Rentals under operating leases		
- Hire of plant and machinery	2,663	2,290
- Other operating leases	1,513	1,427
Auditors' remuneration		
- Audit fees	35	26
Legal and other professional fees	173	169
	<hr/>	<hr/>

#### Employee information

The Company has no employees. All staff costs are borne by BAA plc which levies a management charge inclusive of staff costs.

The average number of employees of BAA plc engaged in the operation of Stansted Airport during the year was 1,036 (2004: 988).

As announced on 30 July 2001, BAA plc adopted Financial Reporting Standard 17 Retirement Benefits and, at that time, adjusted the management charge to its airport subsidiaries to reflect the full service cost of pension provision together with the cost of benefits relating to past service as calculated under Financial Reporting Standard 17.

In 2005, wages and salaries costs include a recharge of £nil (2004: £12,000) in respect of contributions made to the BAA Qualifying Employee Share Ownership Trust in connection with the satisfaction of sharesave options held by BAA plc employees engaged in the business of Stansted Airport Limited.

Other employee information including disclosure relating to Financial Reporting Standard 17 and BAA plc's pension schemes is disclosed in the financial statements of BAA plc.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 March 2005 (continued)

### 4. EXCEPTIONAL ITEMS

	2005 £'m	2004 £'m
Profit on sale of investment properties	0.2	-

In February 2005, the Company transferred a portfolio of property to BAA Partnership Limited as part of an overall Group transfer of property and property related assets to the Airport Property Partnership, a 50/50 joint venture. The profit attributable to the Company on the transfer of these assets is shown above.

### 5. DIRECTORS' EMOLUMENTS

	2005 £'000	2004 £'000
<b>Directors' emoluments</b>		
(excluding pension contributions and awards under share option schemes and other long term incentive schemes)	397	806
Pension contributions	39	83
	<u>436</u>	<u>889</u>
	2005 No.	2004 No.
Number of directors who:		
are members of a defined benefit pension scheme	3	7
exercised share options	2	3

M Clasper and M Ewing were also directors of BAA plc during both financial years and their remuneration was paid by BAA plc and disclosed in its financial statements. The directors do not believe it is possible to apportion this to individual companies within the Group based on services provided.

Two directors did not receive any emoluments in their capacity as directors of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 March 2005 (continued)

### 5. DIRECTORS' EMOLUMENTS (continued)

	2005 £'000	2004 £'000
<b>Highest paid director's remuneration</b>		
Aggregate of emoluments and awards under long-term incentive schemes (excluding pension contributions, share options, gains and awards in the form of shares)	<u>238</u>	<u>209</u>
<b>Highest paid director's pension</b>		
Accrued pension	<u>76</u>	<u>69</u>

The highest paid director exercised share options during the year.

### Directors' interests

The interests of the directors holding office at the year end in the ordinary shares of BAA plc are set out below:

	SHARES		OPTIONS				
	1 April 2004 (or date of appointment if later)	31 March 2005	1 April 2004 (or date of appointment if later)	Granted during the year	Cancelled during the year	Exercised during the year	31 March 2005
T D Morgan	22,853	25,558	167,683	-	-	14,900	152,783
D S Garrood	-	171	-	3,584	-	-	3,584
R D Herga	1,806	1,800	132,149	-	-	15,843	116,306

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 5. DIRECTORS' EMOLUMENTS (continued)

##### Directors' interests (continued)

In addition, the interests of the directors holding office at the year end in the ordinary shares of BAA plc held under the BAA Deferred Annual Bonus Plan ("DAB") are set out below:

	1 April 2004 (or date of appointment if later)		31 March 2005	
	No of shares Purchased	No of matching shares to be awarded at end of 3 year qualifying period	No of shares purchased	No of matching shares to be awarded at end of 3 year qualifying period
T D Morgan	8,159	9,826	4,369	7,404
D S Garrood	-	-	1,041	1,764
R D Herga	3,557	5,742	3,625	5,895

Details of the DAB are given in the Annual Report of the ultimate parent company, BAA plc.

The interests of the directors holding office at the year end in the ordinary share of BAA plc held under the BAA Performance Share Plan ("PSP") are set out below:

	SHARES		OPTIONS				
	1 April 2004 (or date of appointment if later)	31 March 2005	1 April 2004 (or date of appointment if later)	Granted during the year	Cancelled during the year	Exercised during the year	31 March 2005
T D Morgan	-	-	-	23,673	-	-	23,673
D S Garrood	-	-	-	54,463	-	-	54,463
R D Herga	-	-	-	13,479	-	-	13,479

Details of the PSP are given in the Annual Report of the ultimate parent company, BAA plc.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 5. DIRECTORS' EMOLUMENTS (continued)

##### Directors' interests (continued)

##### BAA Employee Share Trust ("BEST")

The BEST is a discretionary trust which acquires and holds ordinary shares in BAA plc for subsequent transfer to employees who exercise share options or receive share awards under the BAA plc employee share schemes. By virtue of the provisions of the Companies Act 1985, each director, as a potential beneficiary of the BEST, is deemed to have an interest in the ordinary shares in the Company in which the BEST is interested as shown in the table below:

	1 April 2004	31 March 2005
Number of shares held	<u>8,052,520</u>	<u>5,027,756</u>

The number of shares held by the BEST, in which the directors were interested, had reduced to 3,977,435 by 3<sup>rd</sup> August 2005.

The interests of M Ewing are disclosed in the Report and Accounts of BAA plc, the Company's ultimate parent company.

No director had any interest in the shares of the Company or any other subsidiary of BAA plc at any time during the year.

#### 6. NET INTEREST PAYABLE

	2005 £'m	2004 £'m
<b>Interest payable</b>		
Payable to ultimate parent undertaking:		
On current loans	(14.3)	(13.4)
Interest capitalised	0.6	1.0
	<u>(13.7)</u>	<u>(12.4)</u>
<b>Interest receivable</b>		
Receivable from ultimate parent undertaking	<u>2.2</u>	<u>1.5</u>
<b>Net interest payable</b>	<u>(11.5)</u>	<u>(10.9)</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 March 2005 (continued)

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Note	2005 £'m	2004 £'m
United Kingdom Corporation tax			
Current at 30% (2004: 30%)		8.1	5.2
- prior year adjustment		(0.3)	(1.0)
Total current tax charge		<u>7.8</u>	<u>4.2</u>
Deferred - origination and reversal of timing differences	13		
- current year		(5.7)	3.5
- prior year		<u>0.1</u>	<u>4.0</u>
		<u>2.2</u>	<u>11.7</u>

#### Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2004: 30%). The actual tax charge for the current and prior years is less than 30% for the reasons set out in the following reconciliation:

	2005 £'m	2004 £'m
Profit on ordinary activities before tax	<u>33.7</u>	<u>27.7</u>
Tax on profit on ordinary activities at 30%	10.2	8.3
Factors affecting charge:		
Permanent differences	(7.6)	0.4
Capital allowances for the year in excess of depreciation	5.9	(3.1)
Capitalised interest	(0.2)	(0.3)
Other short term timing differences	(0.2)	(0.1)
Adjustments to tax charge in respect of prior years	<u>(0.3)</u>	<u>(1.0)</u>
Current tax charge for the year	<u>7.8</u>	<u>4.2</u>

Other than unprovided deferred tax discussed in the paragraph below and note 13, there are no items which would materially affect the future tax charge.

No provision has been made for deferred tax on gains recognised on revaluing investment property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Taxable gains will crystallise only if the property were sold without it being possible to claim rollover relief. The total amount of tax unprovided for is £121.7 million (2004: £116.9 million).

# **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 March 2005 (continued)**

## **8. TANGIBLE ASSETS**

<b>Cost or valuation</b>	<b>Investment properties £'m</b>	<b>Land held for development £'m</b>	<b>Terminal complexes £'m</b>	<b>Airfields £'m</b>	<b>Group occupied properties £'m</b>	<b>Plant, equipment &amp; other assets £'m</b>	<b>Assets in the course of construction £'m</b>	<b>Total £'m</b>
1 April 2004	459.9	68.9	609.5	150.8	2.2	41.9	21.3	1,354.5
Additions at cost	-	-	-	-	-	0.7	50.7	51.4
Transfers to completed assets	1.3	-	10.8	3.9	0.6	1.8	(18.4)	-
Interest capitalised	-	-	-	-	-	-	0.6	0.6
Disposals	-	-	(0.8)	-	-	(0.3)	-	(1.1)
Inter-company transfers	(71.9)	-	-	-	-	-	-	(71.9)
Revaluation	51.6	-	-	-	-	-	-	51.6
31 March 2005	440.9	68.9	619.5	154.7	2.8	44.1	54.2	1,385.1
<b>Depreciation</b>								
1 April 2004	-	-	166.5	29.9	0.2	20.3	-	216.9
Charge for the year	-	-	21.8	4.2	0.2	1.9	-	28.1
Disposals	-	-	(0.3)	-	-	(0.3)	-	(0.6)
31 March 2005	-	-	188.0	34.1	0.4	21.9	-	244.4
<b>Net book value</b>								
31 March 2005	440.9	68.9	431.5	120.6	2.4	22.2	54.2	1,140.7
31 March 2004	459.9	68.9	443.0	120.9	2.0	21.6	21.3	1,137.6



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 8. TANGIBLE ASSETS (continued)

##### Valuation

Certain investment properties and land held for development were valued at open market value at 31 March 2005 by Drivers Jonas, Chartered Surveyors at £395.5 million. The remaining investment properties and land held for development were valued at open market value by Mr J M Arbuckle BLE(Hons), MRICS, Head of BAA Professional Services. 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 surplus of £51.6 million has been transferred to revaluation reserve.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, have been shown at historical cost.

##### Fully depreciated assets

Cost and accumulated depreciation include £39.0 million (2004: £32.5 million) in respect of fully depreciated assets still in use.

##### Capitalised interest

Included in the cost of assets after depreciation are interest costs of £62.7 million (2004: £66.6 million). £0.6 million (2004: £1.0 million) has been capitalised in the year at a capitalisation rate of 4.31% (2004: 4.8%) based on a weighted average of borrowings.

A tax deduction of £0.6 million for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes, consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

##### Historical cost

The historical cost of investment properties and land held for development at 31 March 2005 was £88.6 million (2004: £114.8 million).

##### Assets in the course of construction

Assets in the course of construction also include £29.4 million in respect of costs incurred with the initial planning application preparation (£13.0 million) and the purchase of domestic properties that fall within the expanded airport boundary (£16.4 million), required for the development of a second runway and related facilities.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 March 2005 (continued)

### 8. TANGIBLE ASSETS (continued)

#### Leased assets

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

	2005 £'m	2004 £'m
Cost or valuation	490.2	507.4
Accumulated depreciation	<u>(12.4)</u>	<u>(10.7)</u>
Net book amount	<u>477.8</u>	<u>496.7</u>

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

### 9. STOCKS

	2005 £'m	2004 £'m
Raw materials and consumables	<u>1.8</u>	<u>1.8</u>

The replacement cost of raw materials and consumables at 31 March 2005 and 2004 was not materially different than the amount at which they are included in the accounts.

### 10. DEBTORS

	2005 £'m	2004 £'m
<b>Due within one year:</b>		
Trade debtors	22.0	15.2
Amounts owed by group undertakings	0.7	0.6
Corporation tax receivable	3.3	-
Other debtors	<u>0.5</u>	<u>0.5</u>
	26.5	16.3
<b>Due after more than one year:</b>		
Loan to ultimate parent undertaking	<u>104.6</u>	<u>30.3</u>
	<u>131.1</u>	<u>46.6</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2005 (continued)**

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2005</b>	<b>2004</b>
	<b>£'m</b>	<b>£'m</b>
Trade creditors	13.0	14.5
Capital creditors	8.7	4.2
Amount owed to ultimate parent undertaking	247.4	244.5
Corporation tax payable	-	2.2
Group relief payable	6.2	-
Other creditors	2.6	1.8
Deferred income	3.7	3.8
	<u>281.6</u>	<u>271.0</u>

**12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2005</b>	<b>2004</b>
	<b>£'m</b>	<b>£'m</b>
Deferred income	<u>9.2</u>	<u>9.7</u>

**13. PROVISIONS FOR LIABILITIES AND CHARGES**

	<b>Note</b>	<b>Deferred Tax £'m</b>
1 April 2004		85.8
Charge to profit and loss account	7	<u>(5.6)</u>
31 March 2005		<u>80.2</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 March 2005 (continued)

### 13. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Analysis of the deferred tax balances are as follows:

	2005 £'m	2004 £'m
Excess of capital allowances over depreciation	82.6	88.4
Other timing differences	(2.4)	(2.6)
	<u>80.2</u>	<u>85.8</u>
	<b>Unprovided</b>	
	2005 £'m	2004 £'m
Tax on chargeable gains if investment properties were sold at their current valuations	117.1	112.3
Tax on rolled-over gains if replacement assets were sold at their current valuations	4.6	4.6
	<u>121.7</u>	<u>116.9</u>

The deferred taxation liabilities have been computed at the expected long term rate of 30% (2004: 30%).

Provision has been made for deferred taxation in accordance with Financial Reporting Standard 19.

### 14. CALLED UP SHARE CAPITAL

	2005 £'m	2004 £'m
<b>Authorised</b>		
520,000,000 ordinary shares of £1 each	<u>520.0</u>	<u>520.0</u>
<b>Called up, allotted and fully paid</b>		
503,900,002 ordinary shares of £1 each	<u>503.9</u>	<u>503.9</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 March 2005 (continued)

### 15. RESERVES

	Profit and loss account £'m	Revaluation reserve £'m	Total £'m
1 April 2004	(98.4)	414.0	315.6
Retained profit for financial year	31.5	-	31.5
Revaluation surplus	-	51.6	51.6
Realisation of reserves	44.3	(44.3)	-
31 March 2005	<u>(22.6)</u>	<u>421.3</u>	<u>398.7</u>

### 16. FUTURE COMMITMENTS

#### Capital

Future capital expenditure contracted commitments amount to £9.6 million (2004:£0.5 million).

The Government's White Paper on aviation was published on 16 December 2003 and sets out the Government's policy for runway development in the UK. The Government has chosen a second runway at Stansted as its preferred location for the first new runway in the south-east of England. As the development of Stansted will be the subject of a planning inquiry the Company is pressing ahead with the necessary preparation of a planning application and environmental impact assessment. The anticipated costs of preparing for and undertaking the planning application are approximately £72 million to 31 March 2008. These costs are being capitalised as part of the runway development costs. £13 million has been capitalised as at 31 March 2005.

As part of its commitment to the Stansted development, the Company has announced three schemes (the Home Value Guarantee Scheme, the Home Owners Support Scheme and the Special Cases Scheme) for those people living near the airport whose homes will be affected by the airport expansion. The current estimate of the net cost of the compensation schemes is up to £100 million (with approximately £30 million being incurred in the 2003-8 regulatory period). These costs are being capitalised as part of the runway development costs. £16 million has been capitalised as at 31 March 2005.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2005 (continued)

#### 16. FUTURE COMMITMENTS (continued)

##### Commitments under operating leases

At 31 March 2005, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land & buildings 2005 £'m	Other leases 2005 £'m	Land & buildings 2004 £'m	Other leases 2004 £'m
Leases which expire:				
- within two to five years	-	0.2	-	0.2
- after five years	-	2.3	1.0	2.6
	<hr/>	<hr/>	<hr/>	<hr/>
	-	2.5	1.0	2.8
	<hr/>	<hr/>	<hr/>	<hr/>

#### 17. CONTINGENT LIABILITIES

The Company is a joint guarantor of the £400 million 5.75% bond due 2013, the two £150 million 11.75% bonds due 2016, the £250 million 8.5% bond due 2021, the £200 million 6.375% bond due 2028, the £900 million 5.75% bond due 2031 and the Euro 750 million 4.50% bond due 2014, all issued by BAA plc.

The Company is also a joint guarantor on a £1,000 million revolving credit facility provided to its parent company BAA plc, of which £72.4 million is drawn.

The Company is a joint guarantor on two loan facilities provided by the European Investment Bank to its parent company BAA plc, to the extent of £220 million of which £70 million is drawn.

The Company is honouring its obligation to introduce a number of measures to deal with the impact of increased aircraft noise on the surrounding areas. These include compensation payments and the installation of noise monitoring equipment.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 March 2005 (continued)**

#### **18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY**

The ultimate parent undertaking and controlling entity is BAA plc, a company registered in England and Wales.

The only group of companies which includes the Company and for which group accounts are prepared, is the BAA plc group. Copies of the financial statements of BAA plc may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.

#### **19. RELATED PARTY TRANSACTIONS**

The Company has taken advantage of the exemption granted by paragraph 3c of Financial Reporting Standard No. 8 not to disclose related party transactions with BAA plc group companies.

#### **20. POST BALANCE SHEET EVENT**

On 13 April 2005, the Company and Ryanair came to a settlement to discontinue their respective claims arising out of the fuel levy. Having withdrawn its claim that Ryanair was in repudiatory breach of a contract for discounted aeronautical charges, the Company will recommence billing aeronautical charges at the previously agreed discounted rate.

By the end of March the Company had charged an additional £20 million to Ryanair, being the difference between the full tariff and the previously recognised discounted charge. In view of the litigation risk of establishing a repudiatory breach, a £20 million provision against this additional charge was established as an operating cost. After reaching the settlement, credit notes for the £20 million income have been issued.

The settlement of the claim is considered to be an adjusting post-balance sheet event. Consequently, the provision has been offset against the additional £20 million of income, in the Company's profit and loss account for the year ended 31 March 2005.

**AIRPORTS ACT 1986**

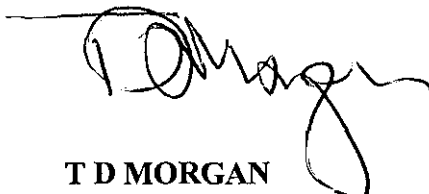
**STANSTED AIRPORT LIMITED**

**PERMISSION TO LEVY CHARGES  
FOR THE YEAR ENDED 31 MARCH 2005**

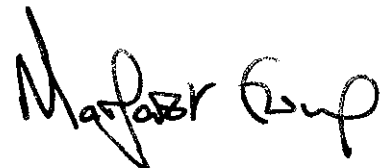
The following information is disclosed in accordance with the accounts conditions imposed under section 40 (1) (a) of the Airports Act 1986.

Statement A: Operational/Non-Operational Trading Results  
Statement B: Principles of Cost Allocation  
Statement C: Connected Party Transactions  
Statement D: Auditors' Special Report

The information in statements A, B and C attached was approved by the Board of Directors on 04 August 2005



**T D MORGAN**  
**Managing Director**



**M Ewing**  
**Director**

Date: 07 September 2005



# STANSTED AIRPORT LIMITED

## PERMISSION TO LEVY CHARGES

### STATEMENT A

#### OPERATIONAL/NON-OPERATIONAL TRADING RESULTS IN ACCORDANCE WITH CONDITIONS 3 AND 4 FOR THE YEAR ENDED 31 MARCH 2005

	<u>Income</u>	<u>Expenditure</u>	<u>Profit/(Loss)</u> <u>before tax</u> <u>and interest</u>
	£'000	£'000	£'000
<b>Operational Activities:</b>			
Airport Charges	62,375	86,208	(23,833)
Other operational activities	99,918	32,798	67,120
	-----	-----	-----
Total operational activities	162,293	119,006	43,287
<b>Non operational activities</b>	2,245	332	1,913
	-----	-----	-----
<b>Total</b>	<u>164,538</u>	<u>119,338</u>	<u>45,200</u>

These disclosures have been prepared under the historic cost convention modified by the revaluation of certain tangible fixed assets and are in accordance with the accounting policies disclosed within the Stansted Airport Limited financial statements for the year ended 31 March 2005.

## **STANSTED AIRPORT LIMITED**

### **PERMISSION TO LEVY CHARGES**

#### **STATEMENT B**

#### **BROAD PRINCIPLES OF COST ALLOCATION IN ACCORDANCE WITH CONDITIONS 2 AND 3 FOR THE YEAR ENDED 31 MARCH 2005**

Costs have been allocated into the following categories:

- Airport charges;
- Other operational activities;
- Non-operational activities;

Airport charges comprise all activities in respect of which airport charges are levied. Airport charges comprise landing charges, passenger charges and aircraft parking charges. All other activities are classified as other operational activities except for the provision and operation of facilities for commercial advertising and non-airport related rents.

Where appropriate, income and direct costs are directly allocated to each activity. Other support costs which cannot be directly attributed are allocated between activities as indirect charges or overheads on appropriate bases. These include:

- Direct expenditure before depreciation;
- Area occupied;
- Staff deployed.

Total costs include costs incurred by BAA plc. Those costs which are assessed according to usage are attributed to subsidiaries on that basis. The remaining BAA plc costs are allocated to subsidiaries proportionately on the basis of operating profit subject to a minimum charge of £100,000. Within the Company these costs are allocated between activities as overheads.

# **STANSTED AIRPORT LIMITED**

## **PERMISSION TO LEVY CHARGES**

### **STATEMENT C**

#### **DISCLOSURE TRANSACTIONS IN ACCORDANCE WITH CONDITION 1 FOR THE YEAR ENDED 31 MARCH 2005**

##### **1. BAA plc Costs**

The Company is charged by BAA plc £6,283,000 for services supplied in carrying out the Company's business. This charge includes those costs which are assessed according to usage and are attributed to Stansted Airport Limited and other fellow subsidiaries on that basis. Other parent company charges include items of expenditure relating directly to the Company which have been charged to the Company. The remaining BAA plc costs cannot be separately attributed on a usage basis because of the nature of the services supplied and have therefore been allocated proportionately on the basis of operating profit subject to a minimum charge of £100,000.

##### **2. Inter-Company Accounts**

The Company's funding is met by loans from other Group companies and by an inter-company account with BAA plc. Interest on the inter-company current account is charged to the net borrowing calculated at the last day of each month on the balance at the beginning of the month at a percentage derived from Bank of England base rate plus 1.5%.

The interest rate prevailing at 31 March 2005 was 6.25%.

During the year ended 31 March 2005 the aggregate minimum borrowing was £225,499,979 at 30 September 2004 and the aggregate maximum borrowing was £247,431,783 at 31 March 2005.

##### **3. BAA plc bonds**

Stansted Airport Limited has guaranteed jointly with Heathrow Airport Limited and Gatwick Airport Limited £400 million 5.75% bond due 2013, two £150 million 11.75% bonds which are due in 2016, a £250 million 8.5% bond due in 2021, a £200 million 6.375% bond due in 2028 and the £900 million 5.75% bond due in 2031 and the Euro 750 million 4.50% bond due 2014.

##### **4. Other Transactions**

On 7 February 2005 assets valued at £71.86m were sold to Baa Partnership Limited for a consideration of £72.06m a profit of £0.2m.

There were no other material transactions which would require disclosure under Condition 1 of the Accounts Conditions.

## **STATEMENT D – INDEPENDENT AUDITORS' REPORT**

### **Report in respect of the Accounts Conditions Statements for Stansted Airport Limited ("the Airport")**

We have reviewed the Accounts Conditions Statements for Stansted Airport Limited for the year ended 31 March 2005 ("the Statements") in accordance with our engagement letter between the Civil Aviation Authority ("the CAA") and Stansted Airport Limited ("the Airport") of 16 August 2004 ("engagement letter"). A copy of the Statements, which is the responsibility of the directors, is attached to this report.

Our report is made solely to the Airport and the CAA in accordance with our engagement letter. Our work has been undertaken so that we might report to the Airport and the CAA those matters we are required to state to them in this report in accordance with the engagement letter and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Airport and the CAA for our work, for this report or for the opinions we have formed.

We carried out the following procedures:

- Obtained a copy of the Accounts Conditions Statements as prepared by the Airport's directors;
- Obtained a copy of the audited Financial Statements of the Airport for the year under review, formally approved by the Airport's directors and, agreed the total amount of income, expenditure and profit before interest and tax to Statement A of the Accounts Conditions Statements;
- Identified and understood the process in place by which the Airport's directors compiled the Statements and the factors they considered in compiling the Statements;
- Reviewed the application of the Principles of Cost Allocation in Accounts Condition Statement B, used in the preparation of Statement A;
- Verified that the financial information provided in Accounts Condition Statements A and C has been accurately extracted from the Airport's books and records;
- Recalculated, where appropriate, any calculations in the Statements A, B and C ;
- Verified the allocations of income, expenditure and profit before interest and tax to Statement B ;
- Ensured that any necessary amendments to the Statements arising from the above work were correctly reflected in the final Statements approved by the Directors.


Based on the procedures carried out:

- the information presented in the Statements has been properly extracted from the books and records of the Airport, and is arithmetically accurate;
- the Statements have been compiled in accordance with the process established by the Airport's directors for preparing the Statements.

We are the current auditors of the Airport. We do not accept, or assume responsibility to anyone other than the Airport and the Airport's members as a body, for our audit work, for our audit report(s) or for the opinions we have formed. The statutory audit is undertaken in order that we might report to the Airport's members, as a body, in accordance with Section 235 of the Companies Act 1985 on whether the financial statements of the Airport, which are the sole responsibility of the Airport's directors, give a true and fair view of the state of affairs of the Airport as at the end of the relevant financial year and for no other purpose.

### **Third party**

Our report is addressed to you and is provided solely for your use and benefit and only in connection with the purpose set out in the engagement letter. Unless required by law, you shall not provide our report, or a copy thereof, in whole or in part, to any other person or party or refer to us or the Services without our prior written consent, which we may at our discretion grant, withhold or grant subject to conditions. In no event, regardless of whether consent has been provided, shall we assume any liability or responsibility to any third party to which any report or letter is disclosed or otherwise made available.

  
PricewaterhouseCoopers LLP  
London

