

**STANSTED AIRPORT LIMITED
REGULATORY ACCOUNTS
PERFORMANCE REPORT
FOR THE YEAR ENDED 31 MARCH 2010**

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STANSTED AIRPORT LIMITED
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Financial Review

General overview

Stansted Airport has been operating in a continuing environment of challenging economic conditions contributing to a 8.7% decline in passenger traffic. However, Stansted has continued to implement its strategy to deliver sustained improvement in passengers' experience and airlines' operations through service standards and investment in modern airport facilities. This will ensure customers experience superior facilities relative to competitors, encouraging greater utilisation of Stansted and supporting its long term growth ambitions.

For the year ended 31 March 2010, the regulatory operating profit before exceptional operating costs was £58.0m (2009: £68.8m), total revenue was £236.1m (2009: £248.8m) and operating costs were £132.6m (2009: £138.3m).

In addition, an exceptional item of £39.0m was charged to operating costs resulting in a regulatory operating profit of £19.0m.

Stansted's view of the actual weighted average regulatory asset base was £1,248.2m. This resulted in returns of 4.6% (before exceptional operating costs) and 1.5% (after exceptional operating costs).

Further details of actual financial performance compared to last year are provided below:

Passenger numbers

Passenger traffic declined 8.7% to 19.8m (2009: 21.6 m) which was a result of Aegean Airlines joining the Star Alliance and moving to Heathrow, the majority of Norwegian Airline routes moving to Gatwick, and Ryanair having delayed full summer schedule until July 2009. EasyJet and Air Berlin have also shown a decline in passenger numbers. The rate of decline reduced quarter on quarter against last year, with a 14.2% decline in the first quarter ended 30 June 2009 moderating to a 4.7% decline in the final quarter ended 31 March 2010. Ryanair remained the airport's largest carrier, followed by easyJet and Air Berlin. At 31 March 2010, Stansted served 150 destinations with 21 airlines.

Revenue

Aeronautical income

Stansted's aeronautical income decreased 5.8% to £132.9m (2009: £141.1m), driven by a 1.8m (8.7%) reduction in passenger numbers.

Retail income

Stansted's net retail income (NRI) declined 5.6% to £79.8m (2009: £84.5m). The main reason for this decline was the reduction in passenger numbers, though NRI per passenger increased 3.8% to £4.05. The main drivers of reduced NRI was the reduction in car parking income (due to changing modes of travel) as well as the reduction in passenger numbers. This was partially offset by improved performance in airside specialist shops and duty and tax-free.

Other income

Other income increased 0.9% to £23.4m (2009: £23.2m). This was a combination of increased property and utilities income due to voids being let, a new hangar and back dated rent reviews. This was partially offset by reduced check-in utilisation and fuel sales.

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Operating expenditure

The below narrative discusses significant variances as stated in note 4 of these accounts:

Staff costs

There was a 7.6% reduction in staff costs to £47.3 m (2009: £51.2 m) which related primarily to a reduction to staffing numbers from 1,216 in 2009 to 1,136 in 2010.

Rent and rates costs

There was a 8.8% increase in rent and rates to £12.3m (2009: £11.3m) primarily due to additional facilities such as the terminal arrival extension.

Utility costs

The increase of 80.0% in utilities costs to £23.4m (2009: £13.0m) is due to the revised allocation of electricity distribution charges between Heathrow and Stansted associated with splitting the group contract for the Gatwick sale. In addition to this there has been increasing electricity costs. At the beginning of the current quinquennium, the Group entered into hedging arrangements for both the quantity and price of electricity. As a consequence of lower consumption than expected and of the market prices set in the contract, the actual cost of electricity is higher compared to last year. These additional costs are not reflected in the charge to third party consumers of airport electricity.

Police costs

Police costs reduced 10.0% to £6.3m (2009: £7.0m) reflective of current service provision from Essex Police.

Other costs

Other costs reduced 12.3% to £22.2m (2009: £25.3m). This was a combination of supply chain initiatives and cost bundling, less marketing spend and reduced insurance premiums.

Intra group costs

Intra group costs have reduced by 42.6% to £12.0m (2009: £20.9m), attributable to responsibilities previously fulfilled by the BAA group being devolved to the airport such as retail, property, procurement and other central charges.

Operational costs - exceptional

There was £39.0m of exceptional items in the regulatory year ended 31 March 2010. This was a non-cash charge relating to the Stansted's share of the actuarial deficit in the BAA group's defined benefit pension scheme. Under the shared services agreement (SSA) Stansted holds the legal obligation to fund its share of any deficit.

Service standards

As part of the Civil Aviation Authority's ('CAA') economic regulation of BAA's Regulated Airports, the Service Quality Rebate scheme was introduced at Stansted on 1 April 2009. Rebates are payable to airlines where standards are not met.

The scheme covers service quality performance, specifically the availability of the following equipment:

- Passenger Sensitive Equipment ('PSE'), such as lifts, escalators and travelators
- Other equipment such as departure and arrivals baggage belts, fixed electrical ground power (for aircraft on stands), stands, jetties and pier service (for aircraft).

It also includes the following areas of the airport:

- Security queuing times
- Passenger perception of departure lounge seat availability, the quality of flight information, the ease of getting round the airport and the cleanliness of terminal buildings.

In the year to 31 March 2010 total payments were £0.6 million out of a maximum potential rebate of £6.9 million to the airlines.

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Performance Report

	Note	2010 ‘000s	2009 ‘000s
Terminal passengers	1	19,758	21,635
		£m	£m
Revenue			
Net revenue from airport charges	2	132.9	141.1
Other revenue	3	103.2	107.7
Total revenue		236.1	248.8
Expenditure			
Operating costs	4	132.6	138.3
Assumed Ordinary Depreciation	5,9	45.5	41.7
Total expenditure		178.1	180.0
Regulatory operating profit (before exceptional operating costs)		58.0	68.8
Exceptional operating costs	6	39.0	6.9
Regulatory operating profit	7	19.0	61.9
Capital expenditure	1,9	27.9	100.4
Opening Basic RAB	8	1,229.8	1,132.9
Closing Basic RAB	9	1,266.5	1,186.1
Weighted average Basic RAB		1,248.2	1,159.0
Return on weighted average Basic RAB (before exceptional operating costs)		4.6%	5.9%
Return on weighted average Basic RAB		1.5%	5.3%

The notes on pages 4 to 11 form part of these regulatory accounts.

These regulatory accounts were approved by the Board of Directors on 22 June 2010.

**STANSTED AIRPORT LIMITED
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Notes to the Performance Report

1. BASIS OF PREPARATION

Stansted 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 Regulatory Accounts comprise a report in the format shown on pages 3 to 11 of this report. This in turn comprises the Performance Report which sets out actual performance for the year ended 31 March 2010 compared with actual performance for the previous year ended 31 March 2009. The Performance Report includes notes which describe the derivation of key regulatory results, and, where relevant, adjustments to the statutory and management accounts of the Company.

The Stansted Q5 decision (1st April 2009 to 31st March 2014) was based on a dual approach to price setting; namely:

"to assess the reasonableness of the [Competition] Commission's individual 'building blocks' of its proposed price control, including in the light of new information received since the Commission's 23 October 2008 report (which has been updated in the light of responses, and new information); and...to assess the resulting price caps against the CAA's statutory objectives, recognising that these objectives may in future best be met by facilitating competition between airports (which has been updated in the light of responses, and new information)"¹

In the final determination on aeronautical charges at Stansted Airport for the five years to 31 March 2014, the CAA stated that it did not believe that it would be accurate to describe its proposed Q5 price cap as a RAB based approach to price setting. In addition no revenue or operating costs forecast was presented that underpins prices.

Consequently, Stansted airport is calculating the airport's RAB using the Opening RAB and other parameters presented by the Competition Commission in their recommendation presented to the CAA on 23 October 2008. Other parameters are depreciation and profiling.

The CAA stated in its Q5 decision that:

"there should be no presumption that a RAB-based approach would be used in any future modification of price controls at Stansted airport, whether or not the modification occurred via an application under section 40(6) of the Airports Act 1986 (sometimes referred to as a midquinquennial review) or in resetting price controls for a further five year period starting on 1 April 2014 (assuming that the current Airports Act 1986, and the designation of Stansted airport for price control purposes, remained in place)"²

Since the final price decision, the CAA launched a review in November 2009 which, amongst other issues, will explore alternatives to the current RAB based methodology for setting price controls³.

¹ Airport Regulation, Economic Regulation of Stansted Airport 2009-2014, CAA Decision, 13 March 2009, para. 2, page 5

² Airport Regulation, Economic Regulation of Stansted Airport 2009-2014, CAA Decision, 13 March 2009, para 19, page 10

³ Preparing for a more competitive airports sector, Initial consultation document: objectives and processes, November 2009

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

(a) **Data sources**

The principal sources of data used in the preparation of these accounts are the audited financial statements for the year ended 31 December 2009, unaudited interim financial statements for the three month periods ending 31 March 2009 and unaudited management accounts for the year ended 31 December 2009 and for the three month periods ended 31 March 2010 and 31 March 2009. Together, these are referred to in these Regulatory Accounts as 'the underlying accounts'.

(b) **Terminal passengers**

Terminal passengers numbers represent those passengers on commercial flights who physically pass through the airport's passenger terminal facilities. This is consistent with the CAA's document entitled 'Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-2008, CAA Decision, February 2003'. It excludes transit passengers. It also excludes passenger numbers for the following flight categories, which are included in the certificate of revenues from passenger flights provided annually to the CAA: air ambulance, government charter (troops and cargo), air taxi, general aviation, diplomatic and military.

(c) **The Regulatory Asset Base ("RAB")**

The Regulatory Asset Base ('RAB') of the Company is prepared as at 31 March each year and published in the Regulatory Accounts. The RAB up to the end of the regulatory period ended 31 March 2009 had been calculated by applying the roll forward formula consistent to Annex 6 of the Q4 CAA decision.

For Q5, the opening RAB has been taken from the Competition Commission, Stansted Airport, Q5 Price Control Review presented to the CAA on 23 October 2008. The roll forward formula for the RAB in these accounts is consistent to Annex 6 of the Q4 CAA decision.

For Q5, the depreciation allowance has been taken from the Competition Commission, Stansted Airport, Q5 Price Control Review presented to the CAA on 23 October 2008, indexed to 2009-10 prices. This is referred to in this report as 'Assumed Ordinary Depreciation'.

The Performance Report shows a comparison of Basic RAB as at 31 March 2010, and weighted average Basic RAB for the year ended 31 March 2010, with corresponding figures for the previous year ended 31 March 2009. In the Q4 CAA 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 CAA's rationale for profiling is included in the Q4 CAA Decision.

For Q5, the profiling adjustment has been taken from the Competition Commission, Stansted Airport, Q5 Price Control Review presented to the CAA on 23 October 2008, indexed to 2009-10 prices.

The Weighted Average Basic RAB is calculated as the sum of the opening balance and the closing balance multiplied by 0.5.

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(d) Operating revenues and costs

Operating revenues and costs are taken from the underlying accounts and underlying accounting records of the Company. Adjustments have been made to align the presentation of actual results to that in the Q4 CAA Decision. These operating revenues and costs are compared against the previous year. 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 re-categorised to 'Other revenue' from 'Property and operational facilities';
- intercompany income is netted off against costs;
- service quality rebates are excluded from operating costs; and
- gains or losses on asset disposals are excluded from operating costs.

(e) Indexation

The appropriate RPI indices are shown in Note 11. RAB has been indexed forward to 31 March 2010 by using the RPI at 31 March 2010.

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2. AIRPORT CHARGES

	2010	2009
	£m	£m
Gross revenue from passenger flights	127.7	137.2
Discounts on passenger flights	(2.1)	(4.5)
Net revenue from passenger flights	125.6	132.7
Net revenue from non passenger flights	7.3	8.4
Net revenue from airport charges	132.9	141.1

3. OTHER REVENUE

	2010	2009
	£m	£m
Other traffic charges	0.5	0.4
Retail	79.8	84.5
Property	13.8	12.6
Other	9.1	10.2
Other revenue	103.2	107.7

Reconciliation to the underlying accounts

Other revenue	103.2
Airport charges	132.9
Retail costs netted off against revenue	8.1
Revenue per the underlying accounts	244.2

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4. OPERATING COSTS

	2010	2009
	£m	£m
Staff costs	47.3	51.2
Maintenance and equipment costs	9.7	9.6
Rent and rates	12.3	11.3
Utility costs	23.4	13.0
Police costs	6.3	7.0
Other costs	22.2	25.3
Intra group costs	12.0	20.9
	<u>133.2</u>	<u>138.3</u>
Service quality rebates	(0.6)	-
Operating costs excluding exceptional costs	<u>132.6</u>	<u>138.3</u>
Reconciliation to the underlying accounts		
Adjusted operating costs	132.6	
Statutory depreciation	38.8	
Profit on disposals of tangible fixed assets	-	
Retail costs netted off against revenue	8.1	
Inter company income netted off	-	
Service quality rebates	0.6	
Operating costs per the underlying accounts excluding exceptional costs	<u>180.1</u>	

5. ASSUMED ORDINARY DEPRECIATION

For Q5, forecast depreciation has been taken from the Competition Commission, Stansted Airport, Q5 Price Control Review presented to the CAA on 23 October 2008, indexed to 2009-10 prices.

6. EXCEPTIONAL OPERATING COSTS

	2010	2009
	£m	£m
Pension costs	39.0	5.9
Other	-	1.0
Exceptional operating costs	<u>39.0</u>	<u>6.9</u>

The exceptional pension costs were a non-cash charge relating to Stansted's share of the actuarial deficit in the BAA group's defined benefit pension scheme. Under the shared services agreement (SSA) Stansted holds the legal obligation to fund its share of any deficit.

7. REGULATORY OPERATING PROFIT

Reconciliation of operating profit between the underlying accounts and the Regulatory Accounts

	2010
	£m
Operating profit per the underlying accounts	25.1
Statutory depreciation	38.8
Service Quality Rebates	0.6
Assumed Ordinary Depreciation	(45.5)
Profit on disposals of tangible fixed assets	-
Regulatory operating profit	<u>19.0</u>

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8. OPENING REGULATORY ASSET BASE AT 1 APRIL 2009

	Adjusted RAB at 1 April 2009 £m
Closing Basic RAB at 31 March 2009	1,186.1
Q5 Opening RAB adjustment	43.7
Adjusted opening Basic RAB at 1 April 2009	1,229.8

- (a) The Competition Commission's recommendations regarding Q5 opening RAB stated "Overall, we recommend that the value of the opening Q5 RAB be set at £1.214 billion (in 2007/08 prices)."⁴ The CAA, in its Stansted Q5 price decision, confirmed that "the CAA continues to consider that the Commission's recommendations with respect to SG2 preliminary expenditure and all other elements, which together comprise the Commission's recommended Q5 opening RAB, appear to be reasonable."⁵ The indexation adjustment to 31 March 2009 prices is a £15.8m increase, resulting in an opening RAB of £1,229.8m.

9. CLOSING REGULATORY ASSET BASE AT 31 MARCH 2010

		2010 £m	2009 £m
Opening Basic RAB at 1 April	(a)	1,229.8	1,132.9
Additions in year	(b)	27.9	100.4
Proceeds from disposal		-	(0.3)
Assumed Ordinary Depreciation		(45.5)	(41.7)
Indexation to 31 March		54.3	(5.2)
Closing Basic RAB at 31 March		1266.5	1,186.1
Cumulative profiling adjustment (Note 1)		26.5	56.7
Closing RAB at 31 March		1,293.0	1,242.8

- (a) This reflects Q5 opening basic RAB at 1 April 2009 as stated in Note 8 above.
- (b) Additions in the year include £13.2 million (2009: £36.8 million) in respect of the development of a second runway and related infrastructure. This cost consists of a net £(0.1) million (2009: £17.4 million) incurred in respect of the main planning application for Stansted Generation 2, £0.0 million for agricultural land purchase (2009: £2.4 million), and £13.3 million (2009: £17.0 million) in respect of the purchase of domestic properties under the voluntary schemes promoted by BAA (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. Stansted Generation 2 costs incurred in 2009/10 are included in the Q5 regulatory settlement. The remaining £14.7 million relates to capital expenditure on the existing airport facilities.

⁴ Stansted Airport Limited, Q5 Price Control Review, Competition Commission, 23 October 2008, para. 6.46, page 46

⁵ Airport Regulation, Economic Regulation of Stansted Airport 2009-2014, CAA Decision, 13 March 2009, para. 3.77, page 48

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10. RECONCILIATION OF FIXED ASSETS IN THE UNDERLYING ACCOUNTS TO THE CLOSING BASIC RAB AT 31 MARCH 2010

		£m
Net fixed assets per the underlying accounts at 31 March 2010		1,398.2
Difference between net fixed assets and RAB at 31 March 2003	(a)	(250.4)
Interest capitalised disallowed	(b)	(11.3)
Difference between net book value of disposals and proceeds	(c)	13.4
Revaluation in the underlying accounts	(d)	(76.1)
Indexation of RAB	(d)	205.5
Difference between underlying accounts depreciation and Assumed Ordinary Depreciation	(e)	(56.5)
Q5 opening RAB adjustment	(f)	43.7
Closing Basic RAB at 31 March 2010		<u>1,266.5</u>

These reconciling items are explained as follows:

- (a) This reflects the difference between the net fixed asset value in the statutory accounts of £1,114.0 million and the assessed value of the RAB at 31 March 2003 of £863.6 million. This comprises:
 - (i) a reduction of £20.5 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) a reduction of £215.9 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; and
 - (iii) a reduction of £14.0 million in respect of other valuation differences.
- (b) Interest costs amounting to £0.7 million (2003 - 2009 - £10.6 million) were capitalised in the year. The roll forward calculation for the RAB specified in Annex 6 of the Q4 CAA Decision excludes capitalised interest;
- (c) Statutory asset valuations are derived after deducting the net book value of assets disposed of during the year. RAB values, as specified in Annex 6 of the Q4 CAA Decision, are 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 Q4 CAA Decision;
- (e) This reflects the difference between the amount charged as depreciation in the underlying accounts and the Assumed Ordinary Depreciation as noted in Note 5 and Note 7 above.
- (f) This reflects the Q5 opening RAB adjustment as noted in Note 8 above.

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11. INDEXATION

The following indices have been used for revaluing forecasts

Average RPI index for the year ended 31 March 2008	208.6
Average RPI index for the year ended 31 March 2009	214.8
Average RPI index for the year ended 31 March 2010	215.8
RPI index at 31 March 2009	211.3
RPI index at 31 March 2010	220.7
Increase from average 2007/08 to 31 March 2009	1.30%
Increase from average 2007/08 to 31 March 2010	5.80%
Increase from average 2008/09 to 31 March 2010	2.75%

12. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	2010 £m	2009 £m
Operating profit per the underlying accounts	7	25.1	68.4
Depreciation	7	38.8	35.2
Non cash movement - pensions exceptional charge	6	39.0	5.9
(Increase)/decrease in intragroup pensions debtor		(5.6)	-
(Increase)/decrease in stock and trade debtors		7.2	(7.7)
Increase/(decrease) in creditors		(4.7)	(0.7)
Increase/(decrease) in provisions		(1.6)	-
Net cash inflow from operating activities including movement in amounts owed to group undertakings		98.2	101.1