

**STANSTED AIRPORT LIMITED  
REGULATORY ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**STANSTED AIRPORT LIMITED  
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PERFORMANCE REPORT  
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		Actual '000s	CAA Forecast '000s
<b>Terminal passengers</b>		<b>23,845</b>	<b>21,100</b>
		<b>£m</b>	<b>£m</b>
<b>Revenue</b>			
Net revenue from airport charges	2	80.7	100.7
Other revenue	3	108.2	121.8
<b>Total revenue</b>		<b>188.9</b>	<b>222.5</b>
<b>Expenditure</b>			
Operating costs	4	114.7	108.1
Assumed Ordinary Depreciation	5	40.5	40.5
<b>Total expenditure</b>		<b>155.2</b>	<b>148.6</b>
<b>Regulatory operating profit</b>	<b>6</b>	<b>33.7</b>	<b>73.9</b>
<b>Capital expenditure</b>	<b>1,8</b>	<b>111.4</b>	<b>91.7</b>
<b>Opening Basic RAB</b>	<b>8</b>	<b>912.1</b>	<b>1,024.1</b>
<b>Closing Basic RAB</b>	<b>8</b>	<b>1,028.3</b>	<b>1,125.7</b>
<b>Weighted average Basic RAB</b>		<b>969.1</b>	<b>1,074.0</b>
<b>Return on weighted average Basic RAB</b>		<b>3.5%</b>	<b>6.9%</b>

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

These regulatory accounts were approved by the Board of Directors on 13<sup>th</sup> October 2007 and signed on behalf of the Board.

**STANSTED AIRPORT LIMITED  
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NOTES TO THE PERFORMANCE REPORT  
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**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 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 Stansted 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 and management accounts of the Company.

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 airport statutory accounts for the period 1 April 2006 to 31 December 2006 and the management accounts for the period 1 January 2007 to 31 March 2007. 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 definition in Annex 5 of its 2003 Decision. 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 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

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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 CAA Decision) to average 2006/07 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 2007.

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';

Comparisons with the CAA Decision have been made with the CAA 'Basic RAB' forecasts. In the 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 CAA Decision.

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.

**(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 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 re-categorised to 'Other revenue' from 'Property and operational facilities';
- intercompany income is netted off against costs; and
- losses on asset disposals are excluded from operating costs.

**(e) Indexation**

The CAA forecasts have been derived by indexing forward the forecasts to 2006/07 in accordance with the CAA Decision. The appropriate RPI indices are shown in Note 10. Profit and loss items have been indexed forward to 2006/07 using the average RPI for 2006/07, and the RAB using the RPI at 31 March 2007.

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**2. AIRPORT CHARGES**

	<b>Actual 2007 £m</b>	<b>CAA Forecast 2007 £m</b>
Gross revenue from passenger flights	122.8	113.3
Discounts on passenger flights	(48.5)	(21.4)
Net revenue from passenger flights	<u>74.3</u>	<u>91.9</u>
Net revenue from non passenger flights	<u>6.4</u>	<u>8.8</u>
 Net revenue from airport charges	 <u><u>80.7</u></u>	 <u><u>100.7</u></u>

**3. OTHER REVENUE**

	<b>Actual 2007 £m</b>	<b>CAA Forecast 2007 £m</b>
Other traffic charges	0.4	0.7
Retail	84.5	83.0
Property	11.4	21.2
Other	<u>11.9</u>	<u>16.9</u>
 <b>Other revenue</b>	 <b><u><u>108.2</u></u></b>	 <b><u><u>121.8</u></u></b>
 <b>Reconciliation to the underlying accounts</b>		
Other revenue	108.2	
Airport charges	80.7	
Retail costs netted off against revenue	1.7	
Intercompany income netted off costs	<u>0.2</u>	
 <b>Revenue per the underlying accounts</b>	 <b><u><u>190.8</u></u></b>	

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**4. OPERATING COSTS**

	<b>Actual 2007 £m</b>	<b>CAA Forecast 2007 £m</b>
<b>Operating costs</b>	<b><u>114.7</u></b>	<b><u>108.1</u></b>
<b>Reconciliation to the underlying accounts</b>		
Adjusted operating costs	114.7	
Statutory depreciation	28.8	
Profit on disposals of tangible fixed assets	(0.2)	
Retail costs netted off against revenue	1.7	
Inter company income netted off	<u>0.2</u>	
<b>Operating costs per the underlying accounts including exceptional costs</b>	<b><u>145.2</u></b>	

**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 the underlying accounts and  
Regulatory Accounts**

	<b>2007</b>
	<b>£m</b>
Operating profit per the underlying accounts	45.6
Statutory depreciation	28.8
Assumed Ordinary Depreciation per CAA (indexed)	(40.5)
Profit on disposals of tangible fixed assets	(0.2)
	<hr/>
<b>Adjusted operating profit</b>	<b><u><u>33.7</u></u></b>

**7. OPENING REGULATORY ASSET BASE AT 31 MARCH 2003**

	<b>£m</b>	<b>Increase in RPI to 31 March 2003</b>	<b>Adjusted RAB at 31 March 2003 £m</b>
Forecast RAB at 31 March 2003 per CAA final report (at average 2000/01 prices)	814.3	5.0%	855.2
Actual capital expenditure 2002/03	46.4	1.3%	47.0
Assumed capital expenditure for 2002/03 (at average 2000/01 prices)	(36.7)	5.0%	(38.6)
Actual proceeds from disposal in 2002/03	-	1.3%	-
			<hr/>
<b>Adjusted opening RAB at 31 March 2003</b>			<b><u><u>863.6</u></u></b>

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**8. CLOSING REGULATORY ASSET BASE AT 31 MARCH 2007**

		<b>Actual 2007 £m</b>	<b>CAA Forecast 2007 £m</b>
Opening Basic RAB at 1 April 2006		912.1	1,024.1
Additions in year	(a,b)	111.4	91.7
Proceeds from disposal	(c)	(0.1)	-
Assumed Ordinary Depreciation		(40.5)	(40.5)
Indexation to 31 March 2007		45.4	50.4
		<hr/>	<hr/>
Closing Basic RAB at 31 March 2007		1,028.3	1,125.7
Cumulative profiling adjustment (Note 1)		43.2	43.2
		<hr/>	<hr/>
<b>Closing RAB at 31 March 2007</b>		<b>1,071.5</b>	<b>1,168.9</b>
		<hr/> <hr/>	<hr/> <hr/>

- (a) Additions in the year include £43.0 million (2006: £34.9 million) in respect of the development of a second runway and related infrastructure. The costs consist of £18.4 million (2006: £19.3 million) incurred in respect of the initial planning application preparation, and £24.6 million (2006: £15.6 million) in respect of the purchase of domestic properties that fall within the expanded airport boundary. These costs were specifically excluded from the CAA forecasts made at the time of the 2002 regulatory review. The treatment of these costs within the RAB in the current quinquennium has been the subject of a consultation by the CAA. Following an error of process, the CAA re-consulted in 2005. The CAA has confirmed that the treatment of preliminary expenditure would be a matter for the CAA to decide in concluding its price control review, having taken into account the responses of interested parties and having regard to the recommendations of the Competition Commission. The next price control review for Stansted will set maximum allowable airport charges for the period beginning on 1 April 2009. Its then current view was that there is a case for allowing net preliminary expenditure, including an annual return of 7.75%, to be added to the Stansted RAB at the beginning of the next price control period.
- (b) Forecast additions in the year, £91.7 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 actual increase in COPI and the original forecasts produced in 2002/03 prices. COPI indices used are those published quarterly by the Office of National Statistics ("ONS"). On this basis the forecast additions in the year would be £96.8 million. The forecast Closing Basic RAB at 31 March 2007, based on published COPI indices for the four years of the current quinquennium, would be £1,139.9 million.
- (c) Proceeds from disposal comprise amounts from the sale of operating assets.

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**9. RECONCILIATION OF FIXED ASSETS IN THE UNDERLYING ACCOUNTS  
TO THE CLOSING BASIC RAB AT 31 MARCH 2007**

	<b>£m</b>
Net fixed assets per the underlying accounts at 31 March 2007	1,356.6
Difference between net fixed assets and RAB at 31 March 2003 (a)	(250.4)
Interest capitalised disallowed (b)	(3.7)
Difference between net book value of disposals and proceeds (c)	13.3
Revaluation in the underlying accounts (d)	(177.1)
Indexation of RAB (d)	116.7
Difference between underlying accounts depreciation and Assumed Ordinary Depreciation (e)	<u>(27.1)</u>
<b>Closing Basic RAB at 31 March 2007</b>	<b><u>1,028.3</u></b>

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 (Note 7). 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 £1.6 million (2003 - 2006 - £2.1 million) 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 underlying 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 2007	200.3
RPI index at 31 March 2003	179.9
RPI index at 31 March 2007	204.4
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 2007	19.31%
Increase from average 2006/07 to 31 March 2007	2.04%
Increase from average 2000/01 to average 2006/07	16.93%