

**LONDON LUTON AIRPORT LIMITED
FINANCIAL STATEMENTS**

YEAR ENDED 31 MARCH 2004

Registered number: 2020381



**Registered Address:
Town Hall, LUTON LU1 2BQ**

LONDON LUTON AIRPORT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004

The directors present their report and the audited financial statements of the company for the year ended 31 March 2004.

Principal activities

The company's principal activities until August 1998 were the ownership, operation and management of London Luton Airport. In August 1998 the company granted a concession contract to an unrelated company, London Luton Airport Operations Limited (LLAOL) to operate the airport on its behalf in return for a concession fee. The company continues to own the land and buildings at the airport.

Review of business and future developments

At the year end the company's financial position was strong and its future prospects are good. The company continues to operate profitably and will share in the future success of the airport via the concession fee receivable from LLAOL.

Results and dividends

The company's profit for the financial year is £5.57m (2003: £3.96m). The directors recommend payment of a final dividend for the year of 6.07 pence per ordinary share (amounting to £2.72m), making a total dividend for the year of £7.22m (2003: £6.9m). Interim dividends of 3.35, 4.46 and 2.23 pence per ordinary share (amounting to £1.5m, £2.0m and £1.0m) were paid on 15 July 2003, 15 October 2003 and 15 January 2004 respectively.

Directors and their interests

The directors who held office during the year are given below. No director had any interest in the shares of the company at the beginning and at the end of the year.

R Davies

D Franks (appointed 2 June 2003)

R Harris

L Ireland (appointed 2 June 2003)

W McKenzie (appointed 9 June 2003, resigned 20 May 2004)

M Pantling (appointed 2 June 2003, resigned 20 May 2004)

D Patten (Chairman)

J Titmuss (appointed 2 June 2003)

M. Yasin (appointed 20 May 2004)

M Akhtar (resigned 2 May 2003)

B Devenish (resigned 2 May 2003)

K McCarthy (resigned 2 May 2003)

Disabled persons

It is company policy to consider always full applications for employment by disabled persons, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort would be made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable donations

The company has made Gift Aid payments during the year amounting to £550,000 (2003 £520,200) to local charitable organisations based in Luton.

Auditors

PricewaterhouseCoopers LLP have acted as auditors to the company in the year. A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the annual general meeting.

By order of the Board



P Watson
For the Company Secretary
Luton Borough Council

14 July 2004

LONDON LUTON AIRPORT LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON LUTON 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, reconciliation of movement in shareholders' funds and the related notes.

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 in to 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.

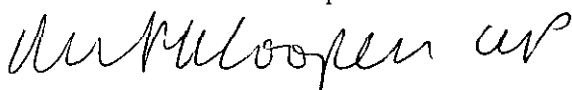
Basis of audit opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Milton Keynes

14 July 2004

LONDON LUTON AIRPORT LIMITED

PROFIT AND LOSS ACCOUNT YEAR ENDED 31 MARCH 2004

	Note	2004 £'000	2003 £'000
Turnover	2	11,083	9,952
Administrative expenses		(1,857)	(1,760)
Operating profit	3	9,226	8,192
Interest receivable and similar income		71	194
Interest payable and similar charges	6	(1,588)	(1,638)
Profit on ordinary activities before taxation		7,709	6,748
Tax charge on profit on ordinary activities	7	(2,140)	(2,789)
Profit on ordinary activities after taxation		5,569	3,959
Dividends	8	(7,221)	(6,900)
Transferred from reserves for the financial year		(1,652)	(2,941)
Profit and loss account balance brought forward		5,724	8,665
Profit and loss account balance carried forward		4,072	5,724

All the results for the year derive from continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the retained profit stated above and their historical equivalents.

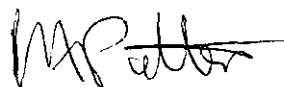
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BALANCE SHEET AS AT 31 MARCH 2004

	Note	2004 £'000	£'000	2003 £'000
Fixed assets				
Investments	9		235,000	187,994
Current assets				
Debtors	10	2,691		2,320
Cash at bank and in hand		257		4,165
		2,948		6,485
Creditors: Amounts falling due within one year	11	(4,079)		(6,235)
Net current (liabilities)/assets			(1,131)	250
Total assets less current liabilities			233,869	188,244
Creditors: Amounts falling due after more than one year	12		(16,921)	(16,921)
Provisions for liabilities and charges	13		(6,043)	(5,772)
			210,905	165,551
Capital and reserves				
Called up share capital	14		44,837	44,837
Revaluation reserve	15		161,996	114,990
Profit and loss account			4,072	5,724
Total equity shareholders' funds			210,905	165,551

The financial statements on pages 4 to 17 were approved by the board of Directors on 14 July 2004

For and on behalf of the Board



D Patten
Director

LONDON LUTON AIRPORT LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

	2004	2003
	£'000	£'000
Profit for the financial year	5,569	3,959
Dividends paid and proposed	(7,221)	(6,900)
Unrealised surplus on revaluation of properties	47,006	11,157
Total recognised gains and losses relating to the year	45,354	8,216

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004	2003
	£'000	£'000
Profit for the financial year	5,569	3,959
Dividends	(7,221)	(6,900)
Revaluation of investment property in the year	47,006	11,157
Net additions to shareholders' funds	45,354	8,216
Opening shareholders funds at 1 April	165,551	157,335
Closing shareholders funds at 31 March	210,905	165,551

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CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	18	8,457	8,342
Returns on investment and servicing of finance			
Interest received	71	194	
Interest paid	(1,588)	(1,638)	
Net cash outflow on investment and servicing of finance		(1,517)	(1,444)
		6,940	6,898
Taxation		(1,448)	(1,641)
		5,492	5,257
Equity dividends paid to shareholders		(9,400)	(2,800)
Net cash inflow before use of liquid sources and financing	19	(3,908)	2,457
Management of liquid resources			
Reduction in short term deposits		-	1,500
(Decrease)/increase in net cash	19	(3,908)	3,957

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ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investment properties and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Revenue

Revenue for existing routes is recognised as it is earned and represents the amounts falling due under rental and concession agreements.

Revenue relating to some new routes introduced with effect from 1 June 2002 is recognised at the fair value of revenue receivable. A proportion of the revenue is receivable within one year, with the balance due in about 9 years after the date it is earned.

Amounts due after more than one year are not recognised due to the uncertainty of future inflow of economic benefit given the length of time before revenue is receivable. The revenue relating to these amounts is disclosed as a contingent asset (see note 17).

Leased assets

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

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation, or a right to pay less taxation, in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have been discounted using the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred taxation assets and liabilities.

Deferred taxation is not provided in respect of timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into.

Pension costs

Certain employees of the airport business prior to the granting of the Concession Contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

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ACCOUNTING POLICIES (continued)

Pension costs (continued)

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire County Council Local Government Pension Scheme in respect of former employees' entitlement to pension augmentations arising on redundancy.

This provision has been assessed in accordance with the advice of an independent actuary using the following principal assumptions.

	% pa
Rate of increase to pensions in payment	2.5
Discount rate	6.0
Inflation	2.5

A formal actuarial valuation is carried out every 3 years. The next valuation is due for the year ended 31 March 2005.

Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date on the basis of the directors' annual valuation. This annual valuation takes into account forecast future cash flows and is discounted using a discount rate of 10% (2003: 10%) being an estimate of the company's long term weighted average cost of capital. Every 5 years an external valuer assesses the value of the investment. Drivers Jonas undertook this for the year ended 31 March 2004.

Depreciation is not provided on investment properties. This treatment, as regards the company's investment properties, is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

LONDON LUTON AIRPORT LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004

1 Concession contract

On 20 August 1998 ('the concession date') the company entered into a concession contract with an unrelated entity, London Luton Airport Operations Limited (LLAOL).

Under the terms of this contract LLAOL was granted a concession to operate the airport for a period of 30 years ('the concession period') and a lease over the company's land and buildings. In return LLAOL undertook to pay an annual concession fee to the company and, subject to the continuing growth of passenger numbers, fund an extensive capital investment programme. At the end of the concession period the assets, liabilities and operations of the airport revert to the ownership and use of the company.

At the concession date the trading assets and liabilities of the company were transferred to LLAOL at book value. No profit or loss arose on the transfer of these assets and liabilities. The employees of the company were also transferred to LLAOL.

As the company no longer operates the airport itself, the land and buildings have become investment properties. At the instructions of London Luton Airport Limited, Drivers Jonas, Chartered Surveyors have valued the freehold interest in London Luton Airport at £235,000,000 as at 31st March 2004 (2003: directors valuation £187,994,000).

The excess of the amount of this valuation over £73,004,000 (being the net book value of tangible fixed assets redesignated as an interest in an investment property at the concession date) has been recorded within the revaluation reserve (see note 15).

2 Turnover

	2004	2003
	£'000	£'000
Concession income	11,083	9,952

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004 (continued)

3	Operating profit	2004	2003
		£'000	£'000

Operating profit is stated after the following amounts have been charged:

Operating leases - land and buildings	928	728
Charge for enhanced pension payments	144	142
Gift Aid payments	550	520
Auditors' remuneration	9	9
Other fees paid to auditors	16	38

The shareholder, Luton Borough Council, provides professional and computer services to the company. Charges to the company for these services amounted to £148,000 (2003 - £159,000) and are on commercial terms. £924,000 of the operating lease for land is with Luton Borough Council on commercial terms. Luton Borough Council is the company's controlling party by virtue of its majority shareholding.

4 Directors' emoluments

Directors' emoluments for the year amounted to £nil (2003: £nil). All directors are council members and therefore do not qualify for remuneration.

5 Staff costs

The company has no employees (2003: nil). Services to London Luton Airport Limited are carried out by employees of Luton Borough Council and the company is charged for these as set out in note 3.

6 Interest payable and similar charges

	2004	2003
	£'000	£'000
Interest on debenture loans - repayable after more than 5 years (note 12)	1,588	1,613
Other interest	-	25
Total interest	1,588	1,638

LONDON LUTON AIRPORT LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004 (Continued)

7 Tax charge on profit on ordinary activities

	2004 £'000	2003 £'000
Taxation charge on profit for the year:		
Adjustment for previous year	16	70
United Kingdom corporation tax at 30%	1,783	1,190
	1,799	1,260
Deferred taxation		
Capital allowances in excess of depreciation	512	816
Other short term timing differences	21	20
Discount	(192)	693
	2,140	2,789

The tax assessed for the period is lower than the standard rate of Corporation tax in the UK (30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities	7,709	6,748
Profit on ordinary activities multiplied by standard rate in UK 30% (2003: 30%)	2,313	2,024
Effects of:		
Expenses non deductible for tax purposes	3	2
Capital allowances in excess of depreciation	(512)	(816)
Decrease in provisions	(21)	(20)
Adjustments to tax charge in respect of previous period	16	70
Current tax charge for period	1,799	1,260

Based on current forecasts the company will continue to claim capital and industrial building allowances in excess of depreciation for the foreseeable future.

No provision has been made for the deferred tax on gains recognised on revaluing the investment property. Such tax would become payable only if the property was sold. The company has no intention to sell its investment property. The total amount unprovided for is £45,462,000 (2003: £31,360,000).

LONDON LUTON AIRPORT LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004 (Continued)

8 Dividends

	2004 £'000	2003 £'000
On ordinary equity shares		
1 st interim paid 15 July 2003: 3.35p (2003: 4.46p) per share	1,500	2,000
2 nd interim paid 15 October 2003: 4.46p (2003: nil) per share	2,000	-
3 rd interim paid 15 January 2004: 2.23p (2003: nil) per share	1,000	-
1 st Final proposed 14 April 2004 nil (2003 6.69p) per share	-	3,000
2 nd Final proposed 14 July 2004: 6.07p (2003: 4.24p) per share	2,721	1,900
	<u>7,221</u>	<u>6,900</u>

9 Investments

	2004 £'000	2003 £'000
At 1 April	187,994	176,837
Revaluation (see note 15)	47,006	11,157
At 31 March	<u>235,000</u>	<u>187,994</u>

The interest in investment property has been valued in accordance with the circumstances and principles set out in note 1 above.

The value transferred from tangible fixed assets in 1998 represented the net book value (cost of £102,892,000 less accumulated depreciation of £29,888,000) of assets before the signing of the concession contract as set out in note 1 above.

10 Debtors

	2004 £'000	2003 £'000
Trade debtors	2,432	2,066
Other debtors and prepayments	259	254
	<u>2,691</u>	<u>2,320</u>

LONDON LUTON AIRPORT LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004 (continued)

11 Creditors: Amounts falling due within one year

	2004 £'000	2003 £'000
Trade creditors	-	46
Other creditors	105	415
Accruals	9	25
Corporation tax	866	514
Taxation and social security	378	335
Proposed dividend	2,721	4,900
	4,079	6,235

12 Creditors: Amounts falling due after more than one year

	2004 £'000	2003 £'000
Debenture Loans		
Debenture loan 1 – interest fixed at 12%	3,153	3,153
Debenture loans 2,3, and 6 – interest at 4% over three months LIBOR	8,878	8,878
Debenture loan 4 – interest 4% over six months LIBOR	1,788	1,788
Debenture loan 5 – interest fixed at 12.125%	3,102	3,102
	16,921	16,921

The debenture loans are from Luton Borough Council, the shareholder. No repayments of principal amounts are scheduled until the end of the concession period.

13 Provisions for liabilities and charges

	2004 £'000	2003 £'000
Deferred tax	4,000	3,659
Provision for enhanced pension payments for early retirees	2,043	2,113
	6,043	5,772

LONDON LUTON AIRPORT LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004 (continued)

Deferred taxation

The deferred tax liability represents the following:

	2004 £'000	2003 £'000
Capital allowances in excess of depreciation	8,276	7,764
Short term timing differences	(612)	(634)
Undiscounted provision for deferred tax	7,664	7,130
Discount	(3,664)	(3,471)
Discounted provision for deferred tax	4,000	3,659
1 April	3,659	2,130
Deferred tax charge in the profit and loss account	341	1,529
31 March 2004	4,000	3,659

Provision for enhanced pension payments for early retirees

	2004 £'000	2003 £'000
Amount provided at 1 April	2,113	2,181
Charged in the year	144	142
Paid in the year	(214)	(210)
Amount provided at 31 March	2,043	2,113

The provision for enhanced pension payments relates to payments due to former employees as set out in the accounting policies. The provision will be utilised over the remaining lives of the pensioners, with £145,000 to be paid in 2004/5.

14 Called up share capital

	2004 £'000	2003 £'000
60,000,000 Authorised ordinary shares £1 each	60,000	60,000
44,837,000 Allotted and fully paid	44,837	44,837

LONDON LUTON AIRPORT LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004 (Continued)

15 Revaluation reserve

	2004 £'000	2003 £'000
At 1 April	114,990	103,833
Arising on revaluation of investment property in the year (see note 9)	47,006	11,157
At 31 March	161,996	114,990

16 Operating lease commitments and contingencies

At 31 March 2004 the company was committed to making the following annual payments in respect of operating leases relating to land and buildings.

	2004 £'000	2003 £'000
Leases which expire after five years	1,015	724

17 Contingent assets

The company renegotiated the terms of the concession agreement with LLAOL on revenue relating to qualifying new routes, introduced with effect from 1 June 2002, with the result that, of the fee payable on the volumes arising on these new routes, an amount is deferred until around 9 years time. Since there is inherent uncertainty as to the recoverability of debtors with such extended credit terms, the directors do not believe it is appropriate for the company to recognise the element of the income receivable in around 9 years time.

The amount relating to revenue earned for the year ended 31 March 2004, which falls for payment in around 9 years time amounted to £1,090,000 (2003: £402,000).

18 Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	9,226	8,192
Movement in pension enhancement provision	(69)	(68)
(Increase)/decrease in debtors	(371)	31
(Decrease)/increase in creditors	(329)	187
Net cash inflow from operating activities	8,457	8,342

LONDON LUTON AIRPORT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004 (Continued)

19 Analysis of net debt

	1 April 2003 £'000	Cash flow £'000	31 March 2004 £'000
Cash at bank and in hand	4,165	(3,908)	257
Debt due after one year: Debenture loans	(16,921)	-	(16,921)
Net debt	(12,756)	(3,908)	(16,664)

20 Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Decrease/(increase) in cash in the year	3,908	(3,957)
Cash outflow from management of liquid resources	-	1,500
Movement in the year	3,908	(2,457)
Net debt at the start of the year	12,756	15,213
Net debt at the end of the year	16,664	12,756