London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2019

Registered number: 03491213

London Luton Airport Operations Limited

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London Luton Airport Operations Limited

Company information

DIRECTORS:	R Marabini Ruiz B R Hunter M Brown A Martin B Pahari J Leo Vizcaíno J I Ascacibar M De Los Reyes Escrig Teigeiro A L Zuleta Perez De Guzman K Ludeman P A Coates E Rotondo Inclán B Landínez González-Valcárcel M Andrés Hermán
COMPANY SECRETARY:	Squire Patton Boggs Secretarial Services Limited
REGISTERED OFFICE:	Percival House 134 Percival Way London Luton Airport Luton LU2 9NU
AUDITOR:	KPMG LLP The Pinnacle 170 Midsummer Boulevard Milton Keynes MK9 1BP
BANKER:	Barclays Bank plc Capability Green Luton Bedfordshire LU1 3US

London Luton Airport Operations Limited

Company information (Continued)

SOLICITOR	Freeths LLP Routeco Office Park Davy Avenue Knowlhill Milton Keynes Buckinghamshire MK5 8HJ

London Luton Airport Operations Limited

Strategic report

The Strategic Report has been prepared by the Directors to provide additional information to shareholders in respect of the Company's strategy and business objectives.

The Strategic Report contains forward-looking statements, which have been made in good faith by the Directors based on information available up to the point of approval of this report. Therefore, these statements should be treated with caution due to underlying inherent uncertainties, including both economic and business risk factors.

The Directors, in preparing the Strategic Report, have complied with s414C of the Companies Act 2006.

The business model

The Company is a subsidiary of London Luton Airport Group Limited. The ultimate parent undertaking and controlling party is Entidad Pública Empresarial Enaire ('Aena'). The Group appointed Keith Ludeman as Chairman in 2019.

The principal activities of the Company during the year were the operation and management of London Luton Airport. The key economic driver of the business is passenger volumes. There are two customer groups influencing this key economic driver: airlines and their passengers. The Company earns revenue from the airlines, primarily through a charge per passenger (traffic income) and from passengers by way of spend-related rental arrangements with retailers, caterers and car park operators (commercial income).

The Company's main objectives are to improve the experience of its passengers and to operate at all times in a safe and environmentally sustainable manner. In recent years the shareholders have invested a substantial amount of capital in the airport which has transformed the terminal, providing new and better facilities and a much enhanced passenger experience. The Company is aware of the importance of its position in the community which, generates valuable economic benefits for the region and the need to manage its impact on the local area.

Financial performance and key performance indicators

The key performance indicators used by management to assess the financial performance of the business are turnover, passenger numbers and EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation).

Overall trading results for the year ended 31 December 2019 have improved as a result of a 9% (2018: 5%) increase in passenger volumes from 16.6 million passengers in 2018 to 17.9 million passengers in 2019. This increase in passengers was driven primarily by growth across most major scheduled carriers notably easyJet, Wizz and Ryanair.

Total revenue for the year ended 31 December 2019 was £226,873k (2018: £201,315k); see note 3 for further analysis. Traffic income in 2019 represented an average of £5.66 per passenger (2018: £5.42). The increase is due to a reduction in the growth incentive scheme which was introduced in 2014 and provided rebates for airlines who grow passenger volumes at London Luton Airport.

Operating profit for the year was £58,434k (2018: £49,855k). The Directors believe that EBITDA is the performance measure most relevant to the readers of the statutory accounts. EBITDA before exceptional items was £87,954k for the year (2018: £74,416k) an increase of 18.2%.

Future developments

The Company entered into a Supplemental Agreement to the Concession Agreement with London Luton Airport Limited ("LLAL") in 2017 to facilitate the construction of the Direct Air Rail Transit ("DART"). This is the light rail project which will connect Luton Airport Parkway railway station with the airport terminal. The Company is undertaking some enabling works on behalf of LLAL which is being funded on a pound-for-pound basis by LLAL. This project is welcomed by the Company and is making good progress. The DART will significantly improve the rail connectivity of the airport when completed.

Principal risks and uncertainties

The principal corporate risks as identified by the Board of Directors are as follows:

Safety and security risks

The Company mitigates safety and security risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in security technology. Security risks include both the risk to physical security and cyber security risk. The Company works closely with government agencies and the police to match security measures to a level commensurate with the current elevated threat level.

Principal risks and uncertainties (continued)

Safety and security risks (continued)

In 2019 we successfully retained our ISO 45001 Occupational Health & Safety Management certification for another three years which is the foundation for successful Health & Safety management. It is recognised that continuous improvement in safety performance is fundamental for achieving outstanding business performance which is why the Health & Safety strategy was revised in 2019. This outlines the Company's commitment to create a proactive safety culture and achieve safety excellence. Our people, behaviours, the way we lead and take accountability will enable us to positively influence our safety culture in 2020 and safety will become integrated into our day to day business.

The ongoing assessment of risk at both local and airport level is managed through our risk governance process. The main purpose of the governance arrangements is to provide a suitable framework for management to manage and lead on HSE management at London Luton Airport. This was refreshed in 2019 to enable greater input from leadership and ensure that actions are more efficiently managed.

The CAA aerodrome standards department visit each aerodrome periodically as part of their Performance Based Regulation (PBR) programme. The CAA inspectors assess compliance against EASA Certification requirements, audit the effectiveness of aerodrome's Operational Safety Management System and assess the competence of those responsible for safety. The last audit was 30th April to 2nd May 2019 and the CAA reported no significant instances of non-compliance however there were findings in relation to Aeronautical Data Quality (ADQ) the regulation for which is developing and to which we have until 2023 to comply. It is our intention to be fully compliant by the end of 2020. The next audit is expected end of June 2020.

Governance, Social and Environmental Issues

The Company is working on the development of a broader strategy to incorporate environmental, social and governance topics, capturing current activities and ensuring the Company acts responsibly in all areas of work. An in-depth analysis of the Company's activities was carried out, collating input from a broad mix of stakeholders. An extensive consultation with partners and departments across the Company was also undertaken, as well as benchmarking against sector peers. A Responsible Business Committee was formed to oversee the delivery of improvements in six key areas, supporting it through a governance and sustainability management structure. Following further consultation, the Company will be launching its Responsible Business Strategy in 2020.

Environment

In 2019 we successfully retained our ISO 14001 Environmental Management certification for the next 3 years. Our management systems provide a systematic framework to identify, manage, monitor and control environmental and energy issues in a holistic manner.

Our Responsible Business Strategy outlines how we will continue to improve environmental performance in 2020, this sets out our targets we are working towards and will require collaboration with our suppliers to identify opportunities for improvement.

We achieved our level 1 of the Airport Carbon Accreditation scheme in 2019. The carbon footprint report highlights that since 2015, we have reduced our carbon emissions by 40%.

Noise management

The Company continues to make improvements to the way in which aircraft noise is managed, actively engaging with the local community to minimise disturbance. This includes measures that respond to the planning conditions placed on the airport. A number of voluntary measures have also been agreed and implemented based on best practice and in consultation with the airport's Consultative Committee, made up of local representatives. These are detailed in full in the airport's Noise Action Plan, available on its website;

https://www.london-luton.co.uk/corporate/community/noise/noise-action-plan

Since 2017 LLA have been in breach of the night-time contour limit. In 2017 this exceedance was by 1.5km2 (4%) and is equivalent of an exceedance on the limit of 0.2dB (typically anything less than 3dB is imperceptible to the human ear). In 2018 the exceedance was 3km2 and in 2019 the exceedance was 7km2. All exceedances were due to a number of factors some of which were outside of the Airport's control including;

- Significant off schedule activity due to airspace and weather disruption in Europe, which resulted in aircraft scheduled to arrive in the daytime arriving at night.
- As the Airport has seen significant growth in the last few years and the delivery of new modern aircraft has not kept pace with that growth.

Strategic report (continued)

Principal risks and uncertainties (continued)

Noise management (continued)

In response to the breach, LLAOL implemented many operating restrictions during summer 2018 and summer 2019 in order to comply. Separately, in 2019, the Company submitted a planning application to request a variation on the noise contour limit. LLAOL is seeking a temporary increase in the noise contour limit until 2024, which will allow the airport to continue operating whilst allowing time for the new modern aircraft to be introduced into the operation. The main mitigation proposed to support the application is a significant increase in the noise insulation fund (from £100,000 per annum to £800,000 in 2020) and local community grants.

Passenger cap

The Airports planning conditions limit the airport to a maximum capacity of 18m commercial passengers. This capacity cap was reached in December 2019. The Company is currently in the process of applying for an extension to this cap to enable further growth.

Capital projects

The Company recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Company mitigates this risk through adherence to a rigorous project process, and by systems of project reviews before approval, during construction and after project completion. Furthermore a capital project committee is established to provide additional rigour and scrutiny.

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the Airport. Since it is not possible to identify the timing or period of such an effect, the Company carries out evaluations through a series of scenario planning exercises.

Industrial relations

Industrial action by key groups of employees that affects critical services or curtails operations could have potentially adverse financial and/or reputational impacts on the Company. The Company recognises the trade union Unite and seeks to resolve any issues through sensible discussion and negotiation. Additionally, there is the potential for adverse financial impacts in the event that industrial action is taken within suppliers of key services (e.g. air traffic controllers) or by employees of key clients (e.g. airlines) that the Company monitors closely.

Macroeconomic environment

The shortage of airport capacity in the south east of the UK is expected to ensure that sufficient demand exists for the airport in spite of any potential effects of Brexit.

Brexit

The outcome of the December 2019 general election and subsequent passing of the EU (Withdrawal Agreement) Bill in January 2020 provided temporary respite to Brexit, the Company is aware that the Transition Period afforded under that Bill expires on 31 December 2020 after which there is little visibility. It is not possible to quantify the impact of this on demand for future air travel however the Company monitors economic factors to ensure the Company's resilience against any changes. The following risks have been considered in the preparation of these financial statements, though ultimately the magnitude and likelihood of identified risks is subject to the negotiation process between the British government and the European Union. The Company will monitor events throughout the Transition Period and take the appropriate action when the future legal and regulatory environment becomes clearer:

- Brexit discussions could cause a reduction in passenger volumes, either because of lack of confidence and/or confusion by the travelling public or because of a fall in the value of the pound making travel less affordable. Scenario analysis has been performed for varying degrees of passenger downturn to ensure that the company can react to any changes.
- From a legal and operational point of view, air travel between the UK and EU is highly regulated. The airlines that operate from the airport have all obtained the relevant EU and UK operating licences and have also put in place contingency measures with regards their shareholding structures to allow them to continue to operate.

Principal risks and uncertainties (continued)

Brexit (continued)

- The United Kingdom (UK) currently has border controls in place as they are not part of the Schengen Treaty, single jurisdiction for international travel purposes. However, the UK do currently maintain a Common travel Area, so there may be an impact on time/resource for immigration control and therefore passenger experience.
- Activity could be reduced as a result of restrictions on the free movement of persons or economic developments in the United Kingdom, given that a high percentage of its traffic is international. Scenario analysis has been performed for varying degrees of passenger downturn to ensure that the company can react to any changes.
- Investments, expenses and operational difficulties may be caused by the reconfiguration of passenger flows at airports. It is not yet possible to predict what effect this may have on LLA. However there is headroom in the current financing structure to enable LLA to react as appropriate.
- The Company reviewed possible scenarios arising from the Brexit concluding that the risk of impairment is remote.

The Company has policies in place aimed at identifying, quantifying and mitigating risk. All major risks are closely monitored.

Financial risk management objectives and policies

The Company operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk, interest rate risk and development capital expenditure risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company.

Specifically, the Company has implemented policies that require appropriate credit checks on potential customers before any business is transacted and has purchased a credit risk insurance policy to further mitigate bad debt risk. The Company refinanced its debt facilities in 2017 to ensure that it has sufficient funds for operations. The Directors monitor the appropriateness of this arrangement should the Company's operations change in size or nature. To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance.

Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company's Finance Department.

London Luton Airport Operations Limited

Strategic report (continued)

Financial risk management objectives and policies (continued)

The following table shows the principal risks the Company is exposed to and the Company's approach to mitigating the risk.

Risk	Impact on Company	Assessment of change in risk year-on-year	Mitigation of risk
Credit risk	The risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.	Credit risk is well managed with 86% (2018: 93%) of trade receivables not yet due.	The airport has a large customer base and key balances are regularly monitored and reported to the shareholders to ensure that risks are highlighted. The Company has implemented policies that require credit checks where required on potential customers before any business is transacted and uses proforma invoicing where appropriate. Working capital is financed through a revolving credit facility to mitigate dependency on any one customer. Credit insurance insures 90% of the trade receivables.
Liquidity risk	The Company's ability to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments.	Funding is in place to support the infrastructure development project to increase airport capacity (see note 15 for details). The total facility available is £80m (2018: £80m)	The Company uses an £80m revolving credit facility to finance infrastructure development and manage working capital. The maturity date of 17 August 2022 includes an option to extend by 2 years to 17 August 2024, which the Company intends to exercise.
Interest rate risk	The Company's ability to maintain interest payments, on external and related party loans.	The Company has interest rate hedging for 100% (2018: 100%) of the finance incurring variable interest rates, therefore minimising interest rate risk.	The Company has interest rate hedging for 100% of the finance incurring variable interest rates, therefore minimising interest rate risk.
Noise management risk	The Company has noise contours agreed as part of its planning permission.	In 2018 and 2019 , the Company exceeded its night-time noise contours by 8%. The Company intends to submit an application to vary the noise contour limits in conjunction with a series of additional noise reduction measures.	The Company has recommended a package of measures to the board to mitigate noise through restriction of certain activities on a cost-neutral basis. In addition, the Company will submit an application to vary the noise contours supported by an additional package of noise reduction measures.

Financial risk management objectives and policies (continued)

Risk	Impact on Company	Assessment of change in risk year-on-year	Mitigation of risk
Passenger cap risk	The Company has a passenger cap of 18m agreed as part of its planning permission	The Company achieved 17.9m passengers in December 2019 reaching the cap. The Company is in the process of submitting an application to vary the planning permission to increase the passenger cap	The Company monitors passengers on a daily basis in order to manage the number of passengers against the cap.

Corporate and social responsibility

The Company's operations are intrinsically linked to the community. Its proximity to residential areas means that impacts such as noise, produced by aircraft and airport operations has the potential to adversely impact the life of people living nearby and under its flight paths. Whilst schemes exist to mitigate operational impacts such as noise, they cannot be completely eliminated. The Community Engagement programme therefore aims to ensure those living close by also see the greatest benefits.

In 2019 funding for the airport's Community Trust Fund was increased to £150,000, supporting 155,951 beneficiaries across Hertfordshire, Bedfordshire and Buckinghamshire. The Company extended their charity partnership with Macmillan Cancer Support, and so far have raised £145,450 for the charity with donations helping to fund Macmillan's Emergency Grant programme in Bedfordshire, increasing the number of people with cancer in the area that Macmillan can support. A school engagement programme has continued which sees about improving the communication and problem solving skills of Year 10 students from 10 schools, across Bedfordshire, Hertfordshire and Buckinghamshire. 163 students took part in the programme with 98% of those students feeling the information learnt was useful and 81% of the students feeling the programme overall was excellent or very good. The Company also continued working in partnership with the Prince's Trust and the Launch Group delivering two 'Get into Airports' programmes for unemployed people aged 18-30. In 2019 over 80% of participants secured paid employment. The Company also supported a number of award ceremonies in the local area celebrating the achievements of neighbouring businesses, organisations and individuals. A new Community Engagement Approach is under development and will be launched with the Responsible Business Strategy in 2020.

Events after the balance sheet date

There have been no identified events after the balance sheet date.

Approval

Approved by the Board and signed on its behalf by:

M Brown
Director
19 February 2020

London Luton Airport Operations Limited

Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2019.

Future developments and events after the balance sheet date

Details of future developments and significant events since the balance sheet date are contained in the Strategic Report.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Accounting Policies in note 1 to the financial statements.

Financial risk management objectives and policies

The Company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk, interest rate risk, development capital expenditure risk and noise management risk. Further details can be found in the Strategic Report.

Dividends

Dividends of £16.7m were paid in 2019 (2018: £nil).

Directors

The statutory directors, who served throughout the year except as noted, were as follows:

J Leo Vizcaíno	
R Marabini Ruiz	
J M Fernández Bosch	resigned 28 February 2019
B R Hunter	appointed 25 February 2019
M Campomanes Camino	resigned 23 May 2019
B Pahari	
H G Rees	resigned 28 June 2019
J J Alvarez-Gallego	resigned 28 February 2019
M Brown	
J I Ascacibar	
M De Los Reyes Escrig Teigeiro	
N Aguilar Iglesias	resigned 22 May 2019
A Martin	appointed 25 February 2019
A L Zuleta Perez De Guzman	appointed 23 May 2019
K Ludeman	appointed 23 May 2019
P A Coates	appointed 28 June 2019
E Rotondo Inclán	appointed 23 May 2019
B Landínez González-Valcárcel	appointed 23 May 2019
M Andrés Hermán	appointed 23 May 2019

Directors include executive, non-executive and alternate directors. Alternate directors have been appointed by certain directors to attend in their place when they are absent, in accordance with article 77 of the articles of association of the company. The directors, who served throughout the year except as noted, were as follows:

Executive directors

A Martin	appointed 25 February 2019

Directors' report (continued)

Directors (continued)

Non-executive directors

J Leo Vizcaíno	
R Marabini Ruiz	
J M Fernández Bosch	resigned 28 February 2019
B Pahari	
H G Rees	resigned 28 June 2019
M Brown	
M De Los Reyes Escrig Teigeiro	
K Ludeman	appointed 23 May 2019
P A Coates	appointed 28 June 2019
B Landínez González-Valcárcel	appointed 23 May 2019

Alternate Directors

B R Hunter (alternate to A Martin)	appointed 25 February 2019
J I Ascacibar (alternate to R Marabini Ruiz)	
J J Alvarez-Gallego (alternate to J M Fernández Bosch)	resigned 28 February 2019
M Campomanes Camino (alternate to M De Los Reyes Escrig Teigeiro)	resigned 23 May 2019
A L Zuleta Perez De Guzman (alternate to M De Los Reyes Escrig Teigeiro)	appointed 23 May 2019
E Rotondo Inclán (alternate to J Leo Vizcaíno)	appointed 23 May 2019
M Andrés Hermán (B Landínez González-Valcárcel)	appointed 23 May 2019

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, the Company magazine and a special edition for employees of the annual financial statements. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee profit share scheme has been running successfully and is open to all qualifying employees

Political contributions

The Company did not make any political donations or incur any political expenditure during the year, (2018: nil).

Directors' report (continued)

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

KPMG LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

M Brown
Director
19 February 2020

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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. In preparing these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility 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 auditor's report to the members of London Luton Airport Operations Limited

Opinion

We have audited the financial statements of London Luton Airport Operations Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as valuation of property, plant, and equipment, intangibles and trade debtors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease their operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;

Strategic report and directors' report (continued)

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

K Tasker

Karen Tasker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
MK9 1BP

21 February 2020

London Luton Airport Operations Limited
Profit and loss account
For the year ended 31 December 2019

	Note	Year ended 2019 £'000	Year ended 2018 £'000
Revenue	3	226,873	201,315
Administrative expenses		(168,439)	(151,460)
Operating profit		58,434	49,855
Finance income	7	66	53
Finance costs	8	(4,728)	(4,768)
Profit before tax		53,772	45,140
Tax	9	(6,712)	(5,835)
Profit for the financial year attributable to owners of the Company	4	47,060	39,305

All results relate to continuing activities.

The accompanying notes form part of the financial statements.

London Luton Airport Operations Limited
Statement of other comprehensive income
For the year ended 31 December 2019

	Year ended 2019 £'000	Year ended 2018 £'000
Profit for the year	47,060	39,305
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on defined benefit plan	(6,886)	(602)
Deferred tax on actuarial movement	1,171	102
Other comprehensive expense for the year net of tax	(5,715)	(500)
Total comprehensive income for the year attributable to the owners of the Company	41,345	38,805

The accompanying notes form part of the financial statements.

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	11	237,184	211,279
Deferred tax assets	18	4,068	3,329
		241,252	214,608
Inventories	12	590	552
Trade and other receivables	13	26,164	25,779
Cash and bank balances		13,132	16,762
		39,886	43,093
Total assets		281,138	257,701
Trade and other payables		(72,203)	(97,482)
Borrowings	15	(63)	(54)
	14	(72,266)	(97,536)
Net current liabilities		(32,380)	(54,443)
Non-current liabilities			
Borrowings	15	(75,409)	(47,701)
Defined benefit pension scheme liability	22	(29,778)	(33,301)
Provisions	19	(935)	(1,022)
		(106,122)	(82,024)
Total liabilities		(178,388)	(179,560)
Net assets		102,750	78,141
Equity			
Share capital	20	5,274	5,274
Retained earnings	21	97,476	72,867
Equity attributable to owners of the Company		102,750	78,141

The accompanying notes form part of the financial statements.

The financial statements of London Luton Airport Operations Limited, registered number 03491213, were approved by the board of directors and authorised for issue on 19 February 2020. They were signed on its behalf by:

M Brown
Director
19 February 2020

London Luton Airport Operations Limited
Statement of changes in equity
For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	5,274	34,062	39,336
Profit for the period	-	39,305	39,305
Other comprehensive expense for the period	-	(500)	(500)
Total comprehensive income for the period	-	38,805	38,805
Balance at 31 December 2018	5,274	72,867	78,141
Profit for the period	-	47,060	47,060
Other comprehensive expense for the period	-	(5,715)	(5,715)
Total comprehensive income for the period	-	41,345	41,345
Dividends	-	(16,736)	(16,736)
Balance at 31 December 2019	5,274	97,476	102,750

The accompanying notes form part of the financial statements.

1. Accounting policies

General information

London Luton Airport Operations Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is included in the group accounts of London Luton Airport Group Limited. The group accounts of London Luton Airport Group Limited are available to the public and can be obtained as set out in note 25.

Adoption of new and revised Standards

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 16 Leases	IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Company has completed an assessment of the impact on its consolidated financial statements. This involved a review to identify all of the operating leases within the business, detailed analysis of the agreements to identify the applicable costs within the agreements, the lease term, calculation of an appropriate cost of debt and related lease asset/liability calculations. The Company has chosen to take advantage of the practical expedient in the identification of leases applying IFRS 16 to all contracts classed as leases previously under IAS 17 and IFRIC 4. The Company has chosen to apply the Cumulative catch-up transition option for lease accounting, applying IFRS 16 retrospectively with the effect of initially applying the standard at the date of initial application i.e. 1 January 2019. The most significant impact identified is that the Company will recognise new assets and liabilities for its operating lease in connection with the concession agreement from Luton Borough Council and London Luton Airport Limited, of the land and buildings on the Luton Airport site and also leased coaches. As at 1 January 2019 a lease asset and liability of £28.0m have been recognised based on the minimum lease payments of £3.2m per annum and an assumed company borrowing rate of 5.2%. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense of £3.2m for 2019 with a depreciation charge for right-of-use assets of £2.5m and interest expense on lease liabilities of £1.4m. No impact has been identified for the Company's finance leases.

1. Accounting policies (continued)

Adoption of new and revised Standards (continued)

Annual Improvements to IFRSs – 2015-2017 Cycle	The Company will adopt the amendments to IFRSs included in the Annual Improvements to IFRSs 2015-2017 Cycle from 1 January 2019. Along with amendments to IFRS 16 – Leases becoming effective on periods commencing on or after 1 January 2019, this cycle of improvements amends; IFRS 3 *Business Combinations* to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. IFRS 11 *Joint Arrangements* to clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. IAS 12 *Income Taxes* amendments clarify that the requirements to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised apply to all income tax consequences of dividends. IAS 23 *Borrowing Costs* amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The adoption of these amendments is not expected to have an effect on the Company's consolidated financial statements.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has prepared its financial statements in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of London Luton Airport Group Limited. The consolidated accounts of London Luton Airport Group Limited are available to the public and can be obtained as set out in note 25.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

1. Accounting policies (continued)

Basis of accounting (continued)

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Going concern

The Company's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Strategic Report. The Strategic Report also describes the financial position of the Company, its cash flows, liquidity position and borrowing facilities as well as policies and processes for managing working capital requirements.

The directors acknowledge the net current liabilities of £32.4m (2018: £54.4m). Current liabilities include £26m (2018: £27m) of deferred income in relation to commercial activities which is released to revenue over the period of service and therefore will not result in a cash outflow and a £2.4m (2018: £28.1m) intercompany loan with London Luton Airport Holdings I Limited which is forecast to be repaid in full in 2020.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements, including considering the facilities available to the Company as described in the Strategic Report. The Company has made a profit for the year of £47.1m (2018: £39.3m) and forecasts to continue to be profit making in the future. These forecasts indicate, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

The Company has a committed revolving credit facility of £80.0m, of which £44.0m (2018: £43.0m) was drawn down at 31 December 2019 and at the date of signing these accounts £34.0m remains unutilised. This facility matures on 17 August 2022, with the option to extend to 17 August 2024, which is at the discretion of the Company. As part of these forecasts, the directors have also considered the possible impact of the £11.0m contingent liability, despite being assessed as unlikely to crystallise, as detailed in the contingent liabilities note 17.

Consequently, the directors are confident that the Company has adequate resources to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing annual financial statements.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised on a straight-line basis to write off the cost of assets to estimated residual values over their estimated useful economic lives, subject to the remaining life of the Concession Agreement, as follows:

Runways, taxiways and other similar structures	5 to 30 years
Short leasehold land and buildings	5 to 30 years
Plant and machinery	2 to 25 years

Inventories

Inventories, which comprise primarily consumables, are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and any adjustment to tax payable in respect of previous years. The tax currently payable is based on taxable profit for the year.

1. Accounting policies (continued)

Taxation (continued)

Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, it's carrying amount is the present value of those cash flows (when the effect of the time value on money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the reimbursement can be measured reliably.

Revenue

Revenue is stated net of VAT and trade discounts.

Traffic income and Commercial income are earned from movements of aircraft and people and are recognised when it transfers control over the services rendered to a customer. Tenant income is earned based on contractually agreed terms which is normally on a straight line basis over the contract period.

Income for the rendering of services is recognised when it is probable that the benefits from the transaction will be received by the Company and can be reliably quantified.

Where specific services are invoiced after the service has been provided turnover will be accrued as accrued income and recognised as the service is provided. Where specific services are invoiced in advance of the service being provided turnover is deferred as deferred income and recognised when the services are provided.

1. Accounting policies (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net-interest expense or income; and
- remeasurement.

The Company presents the first two components of defined benefit costs within cost of sales and administrative expenses in its income statement. Curtailments gains and losses are accounted for as past-service gains and costs. Net-interest expense or income is recognised within finance costs.

The retirement benefit obligation recognised in the balance sheet represents the deficit or surplus in the Company's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

The Company participates in a group-wide defined benefit scheme, which is the legal responsibility of the Company as the sponsoring employer.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment in accordance with IFRS 9.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances

Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL

1. Accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

The Company as lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

1. Accounting policies (continued)

Leases (continued)

The Company as lessee (continued)

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company as lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

1. Accounting policies (continued)

Leases (continued)

The Company as lessor (continued)

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their internal use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their internal use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

1. Accounting policies (continued)

Borrowing costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment of tangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Contingent liability

There is significant judgement in relation to whether it is possible that the £11m contingent liability (see note 17) will be payable. The Company has assessed the liability and are of the view that it is unlikely that the liability will crystallise. Professional advice is being taken with regards to the issue.

Discount rate used to determine the carrying amount of the Company's defined benefit obligation

The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year, are discussed below.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is provided on the basis of being the lower of useful economic life and the remaining life of the Concession Agreement. Given the nature of the Agreement lifecycle, there is uncertainty as to whether the useful economic life may extend beyond the life of the concession agreement.

Assumptions on discounted cash flow

In assessing value in use of tangible and intangible assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. Revenue

The Company's revenue and operating profit relate entirely to its principal activity and arise in the United Kingdom.

An analysis of the Company's turnover by class of business is set out below.

	Year ended 2019 £'000	Year ended 2018 £'000
Turnover:		
Traffic income	101,886	89,891
Commercial income	106,796	93,568
Tenant income	18,191	17,856
	226,873	201,315

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer.

Included in revenues arising from traffic income is approximately £71.2m (2018: £64.3m) from the Company's two largest customers. No other single customers contributed 10% or more to the Company's revenues in either 2019 or 2018

In addition finance income of £66k (2018: £53k) arose in the year (see note 7).

4. Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 2019 £'000	Year ended 2018 £'000
Depreciation of tangible fixed assets:		
- Owned assets	26,881	20,014
- Held under leases (2018: finance leases)	2,639	178
Loss on disposal of tangible fixed assets	47	226
Staff costs (see note 6)	35,701	36,510

The reconciliation of operating profit to EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is shown below:

4. Profit for the year (continued)

	Year ended 2019 £'000	Year ended 2018 £'000
Operating profit	58,434	49,855
Add: Depreciation on tangible assets – owned and leased assets	29,520	20,192
EBITDA after exceptional items	87,954	70,047
Add: Employee bonuses funded by capital contribution	-	3,669
Add: Past service cost on amendments to defined benefit pension scheme (See note 22)	-	700
EBITDA before exceptional items	87,954	74,416

Under the terms of the concession agreement which is in place until March 2031, Luton Borough Council and London Luton Airport Limited ("LLAL") granted the Company the exclusive right to carry on the airport business in accordance with the terms of the Concession Agreement for the whole of the concession period. The Company pays a fee to LLAL based on the throughput of passengers and cargo. The concession fee for the year ended on 31 December 2019 was £57,493k (2018: £51,429k).

5. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	Year ended 2019 £'000	Year ended 2018 £'000
Fees payable to the company's auditor and their associates for the audit of the company's annual accounts	34	30
Total audit fees	34	30
- Other assurance services	12	12
Total non-audit fees	12	12
Total fees	46	42

No services were provided pursuant to contingent fee arrangements.

6. Staff costs

The average monthly number of employees was:

	2019 Number	2018 Number
Operations	750	689
Management and support services	58	60
Technical services	39	39
	847	788

Axa Infrastructure Fund III SCA SICAR ('Ardian') completed the sale of their 49% stake in the Group on 26 June 2018. As part of the transaction Ardian made a payment of £3m by way of capital contribution (without any concurrent issue of shares or other form of consideration) to the Group to distribute as a bonus to all eligible employees for their contribution to growing the business and contributing to its success. The total amount paid to employees was £3.7m gross of the corporation tax reduction.

6. Staff costs (continued)

Their aggregate remuneration comprised:

	Year ended 2019 £'000	Year ended 2018 £'000
Wages and salaries	29,647	27,066
Social security costs	2,815	2,605
Other pension costs (note 22)	3,239	3,170
Employee bonuses funded by capital contribution	-	3,669
	35,701	36,510

7. Finance income

	Year ended 2019 £'000	Year ended 2018 £'000
Other loans and receivables	66	53

8. Finance costs

	Year ended 2019 £'000	Year ended 2018 £'000
Interest payable on bank overdrafts and loans	1,065	799
Interest payable to group undertakings	577	2,089
Other finance costs arising on defined benefit pension (note 22)	917	1,065
Interest on obligations under leases (2018: finance leases)	2,169	815
Total interest payable	4,728	4,768

9. Tax

	Year ended 2019 £'000	Year ended 2018 £'000
UK corporation tax	7,027	7,414
Adjustments in respect of prior years - UK corporation tax	(747)	17
	6,280	7,431
Deferred tax (note 18)	432	(1,596)
	6,712	5,835

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year.

9. Tax (continued)

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	Year ended 2019 £'000	Year ended 2018 £'000
Profit before tax on continuing operations	53,772	45,140
Tax at the UK corporation tax rate of 19% (2018: 19%)	10,217	8,577
Effects of:		
Group relief received for nil payment	(3,535)	(3,065)
Effects of changes in statutory tax rates	(79)	176
Adjustments to tax charge in respect of previous periods	(977)	(78)
Permanent adjustments and other rounding differences	1,086	227
Tax expense for the year	6,712	5,837

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the period. A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and further reduction to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2019 has been calculated based on these rates.

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	Year ended 2019 £'000	Year ended 2018 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	1,171	102

10. Dividends

	Year ended 2019 £'000	Year ended 2018 £'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2019 (£167.36 per share), (2018: £nil per share)	16,736	-

Dividends of £16.7m were paid in 2019 (2018: £nil).

11. Property, plant and equipment

	Land and buildings £'000	Runways, taxiways and other similar structures £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2018	76,338	134,610	58,133	61,200	330,281
Additions	288	4,008	4,395	35,278	43,969
Disposals	(725)	(6,063)	(8,636)	-	(15,424)
Transfers	46,693	(25,068)	19,046	(40,656)	15
At 31 December 2018	122,594	107,487	72,938	55,822	358,841
Recognition of right of use asset on initial application of IFRS 16	27,406	-	598	-	28,004
At 1 January 2019	150,000	107,487	73,536	55,822	386,845
Additions	5,937	3,691	5,082	12,758	27,468
Disposals	(822)	(856)	(4,137)	-	(5,815)
Transfers	30,701	15,144	17,114	(62,959)	-
At 31 December 2019	185,816	125,466	91,595	5,621	408,498
Accumulated depreciation					
At 1 January 2018	54,005	45,528	43,020	-	142,553
Charge for the year	3,767	9,839	6,586	-	20,192
Eliminated on disposal	(700)	(5,947)	(8,551)	-	(15,198)
Transfers	70	-	(55)	-	15
At 31 December 2018	57,142	49,420	41,000	-	147,562
Charge for the year	9,806	8,602	11,112	-	29,520
Eliminated on disposal	(821)	(855)	(4,092)	-	(5,768)
At 31 December 2019	66,127	57,167	48,020	-	171,314
Carrying amount					
At 31 December 2019	119,689	68,299	43,575	5,621	237,184
At 31 December 2018	65,452	58,067	31,938	55,822	211,279

Under the terms of the Concession Agreement which is in place until March 2031, Luton Borough Council and London Luton Airport Limited granted the Group the exclusive right to carry on the airport business in accordance with the terms of the Concession Agreement for the whole of the concession period. The Company pays a fee to LLAL based on the throughput of passengers and cargo. Previously, this was recognised as an operating lease under IAS 17. As of 1 January 2019 the minimum value of the lease payments of £27.4m have been recognised as a right of use asset, presented as land and buildings within property, plant and equipment.

The Company holds a lease for coaches until August 2021. The minimum value of the lease payments of £598k were previously recognised as an operating lease under IAS 17. As of 1 January 2019, this has been reclassified to plant and machinery within property, plant and equipment.

During 2019, the Company entered into a lease for a property. This has been recognised as an addition and is presented as land and buildings within property, plant and equipment. The lease expires in 2031.

Included within the cost of fixed assets is cumulative capitalised interest of £3,641k (2018: £3,641k). The depreciation charge for the year includes an amount of £nil (2018: £nil) representing the depreciation of capitalised interest.

11. Property, plant and equipment (continued)

As at 31 December 2019 there were £5,621k (2018: £55,822k) of assets in the course of construction. These are largely to do with the expansion of the airport as disclosed on page 3 in the strategic report. The assets under construction have not been depreciated. As at 31 December 2019 there were runways, taxiways and other similar structure assets with a net book value of £2,004k held under a finance lease arrangement (2018: £2,182k).

Capital expenditure contracted at the end of the reporting period but not recognised as liabilities, in relation to the expansion of the airport is £nil (2018: £17.2m).

At 31 December 2019 and 2018 assets were subject to a registered debenture that forms security for third party borrowings (see note 15).

12. Inventories

	2019 £'000	**2018 £'000**
Consumables	590	552

13. Trade and other receivables

	2019 £'000	**2018 £'000**
Amounts falling due within one year:		
Amounts receivable for the sale of services	17,654	19,694
Other receivables	2,189	2,882
Prepayments and accrued income	6,321	3,203
	26,164	25,779

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The average credit period taken on sales of goods is 30 days. No interest is charged on the receivables for the first 30 days from the date of the invoice. The Company has recognised an allowance for doubtful debts against the majority of receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowances against doubtful debts are recognised against trade receivables between 30 days and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

New customers are sometimes required to pay a deposit towards their credit limit or to pay on a proforma basis to mitigate credit risk.

Of the trade receivables balance at the end of the period, £3.8m (2018: £3.6m) is due from EasyJet Airline Company Limited. There are four other customers who represent more than 5 per cent of the total balance of trade receivables totalling £8.1m (2018: £9.6m).

The Company does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

13. Trade and other receivables (continued)

Ageing of past due but not impaired receivables	2019 £'000	2018 £'000
Up to 30 days	2,370	1,047
31-90 days	-	106
Total	2,370	1,153

Movement in the allowance for doubtful debts	2019 £'000	2018 £'000
Balance at the beginning of the period	(195)	(191)
Released in the period	167	-
Recognised in the period	(49)	(4)
Balance at the end of the period	(77)	(195)

In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing of impaired trade receivables	2019 £'000	2018 £'000
Current	8	27
1-30 days	1	39
31-90 days	-	39
91-120 days	27	30
Over 120 days	41	60
	77	195

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

14. Trade and other payables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Borrowings (see note 15)	63	54
Leases (2018: Finance leases) (see note 16)	2,399	223
Trade payables	24,693	26,538
Amounts owed to group undertakings	2,392	28,054
Corporation tax	2,124	3,106
Other taxation and social security	1,564	701
Other creditors	10,332	11,721
Accruals and deferred income	28,362	26,953
Provisions	337	186
	72,266	97,536

14. Trade and other payables (continued)

	2019 £'000	2018 £'000
Amounts falling due in more than one year:		
Leases (2018: Finance leases) (see note 16)	31,409	4,701
Provisions	935	1,022
	32,344	5,723

All amounts owed to group undertakings classified within one year are unsecured and repayable on demand.

15. Borrowings

	2019 £'000	2018 £'000
Borrowings falling due within one year:		
Unsecured borrowing at amortised cost		
Related party loans	2,392	28,054
Borrowings falling due within one year:		
Secured borrowing at amortised cost		
Bank loans	63	54
Lease liabilities (2018: Finance lease liabilities) (Note 16)	2,399	223
	2,462	277
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Bank loans	44,000	43,000
Lease liabilities (2018: Finance leases liabilities) (Note 16)	31,409	4,701
	75,409	47,701
Total borrowings		
Amount due for settlement within 12 months	4,854	28,331
Amount due for settlement between 2 and 5 years	54,667	44,462
Amount due for settlement after 5 years	20,742	3,239
TOTAL	80,263	76,032

Borrowings consist of a revolving credit facility with a syndicate comprising Royal Bank of Scotland, Barclays Bank, Mediobanca International and Royal Bank of Canada. Interest is charged at a rate of 1 month LIBOR plus an original margin of 1.35% escalating over the 7 year term. All facilities mature on 17 August 2022 with an optional 2 year extension to 17 August 2024 which the Company intends to utilise. The total facility available from 17 August 2017 is a revolving credit facility of £80m. £44m (2018: £43m) of the revolving credit facility was in use by London Luton Airport Operations Limited at 31 December 2019.

16. Leases

Leases as a lessee (IFRS 16)

Under the terms of the Concession Agreement which is in place until March 2031, Luton Borough Council and London Luton Airport Limited granted the Group the exclusive right to carry on the airport business in accordance with the terms of the Concession Agreement for the whole of the concession period. The Company pays a fee to LLAL based on the throughput of passengers and cargo. Previously, this was recognised as an operating lease under IAS 17. As of 1 January 2019 the minimum value of the lease payments of £27.4m have been recognised as a right of use asset, presented as land and buildings within property, plant and equipment.

16. Leases (continued)

Leases as a lessee (IFRS 16) (continued)

The Company holds a lease for coaches until August 2021. The minimum value of the lease payments of £598k were previously recognised as an operating lease under IAS 17. As of 1 January 2019, this has been reclassified to plant and machinery within property, plant and equipment.

During 2019, the Company entered into a lease for a property. This has been recognised as an addition and is presented as land and buildings within property, plant and equipment. The lease expires in 2031.

The Company leases other equipment with contract terms of one to three years. These leases are short term and/or leases of low value items. The Company has elected not to recognise right of use assets and lease liabilities for these leases.

Information about leases for which the Company is a lessee is presented below.

i. Right of use assets

Right of use assets relate to leased properties and equipment and are presented as property, plant and equipment.

	Land and Buildings £'000	Plant and machinery £'000	Total £'000
2019			
Balance at 1 January	27,406	598	28,004
Depreciation charge for the year	(2,237)	(224)	(2,461)
Additions to right of use assets	2,756	-	2,756
Balance at 31 December	**27,925**	**374**	**28,299**

ii. Lease Liability

The lease liability relating to the leased properties and equipment and are presented as property, plant and equipment.

	Lease liability (current) £'000	Lease liability (non-current) £'000	Total £'000
2019			
Balance at 1 January	1,860	26,144	28,004
New leases	225	2,532	2,757
Cash paid less interest expense	20	(1,959)	(1,939)
Balance at 31 December	**2,105**	**26,717**	**28,822**

iii. Amounts recognised in profit or loss

	Total £'000
2019 – Leases under IFRS 16	
Interest on lease liabilities	1,379

iv. Amounts recognised in statement of cash flows

	Total £'000
Total cash outflow for leases	
Interest on lease liabilities	3,240

16. Leases (continued)

Finance leases

	2019 £'000	2018 £'000
Amounts payable under finance leases:		
Within one year	1,013	1,013
In the second to fifth years inclusive	4,234	4,155
After five years	3,634	4,473
	8,881	9,641
Less: future finance charges	(3,926)	(4,717)
Present value of lease obligations	4,955	4,924

	2019 £'000	2018 £'000
Amounts payable under finance leases:		
Within one year	262	223
In the second to fifth years inclusive	1,801	1,462
After five years	2,892	3,239
Present value of lease obligations	4,955	4,924

It is the Company's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 26 years. For the year ended 31 December 2019, the average effective borrowing rate was 4.08% (2018: 4.08%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Company's lease obligations is approximately equal to their carrying amount.

The Company's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 11.

17. Contingent liabilities

The Company has a possible liability of £11m relating to works performed on the development and expansion of the airport which was completed in 2018. The Company's opinion is that this liability is unlikely to crystallise and are taking the appropriate advice and measures to resolve this issue.

18. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Total £'000
At 1 January 2018	(5,983)	7,614	1,631
Credit/(charge) to income statement	2,258	(662)	1,596
Credit to other comprehensive income	-	102	102
At 31 December 2018	(3,725)	7,054	3,329
(Charge)/credit to income statement	1,803	(2,235)	(432)
Credit to other comprehensive income	-	1,171	1,171
At 31 December 2019	**(1,922)**	**5,990**	**4,068**

19. Provisions

	2019 £'000	2018 £'000
Provisions falling due within one year	337	186
Provisions falling due after more than one year	935	1,022
Total	1,272	1,208

Movements in provisions during the financial year are set out below;

	2019 £'000	2018 £'000
Balance at the beginning of the year	1,208	835
Released in the year	(186)	-
Recognised in the year	250	373
Balance at the end of the year	1,272	1,208

A noise insulation provision has been recognised of £1,022k (2018: £1,208k) This represents the discounted future cash flows relating to a commitment to provide noise insulation equipment to eligible residential and non-residential properties. The commitment is a condition of the planning consent granted in 2014 by Luton Borough Council (LBC) and is in place for the length of the concession period ending March 2031. The cost of this has been recognised through the profit and loss.

20. Share capital

	2019 £'000	2018 £'000
Authorised, issued and fully paid:		
100,000 ordinary shares of £1 each	100	100
5,174,000 redeemable shares of £1 each	5,174	5,174
	5,274	5,274

20. Share capital (continued)

The redeemable shares carry rights equal to those of the ordinary shares in respect of dividends and on a return of capital on liquidation or otherwise. The redeemable shares carry no voting rights but the shareholders are entitled to receive notice of, to attend, and speak at general meetings. The Company may redeem all or some of the redeemable shares at any time by serving notice on the redeemable shareholders, and must redeem all of the redeemable shares prior to listing of the Company on any stock exchange. The holders of the redeemable shares may require the redemption of their shares should a loan become payable before its maturity date or be the subject of a demand for payment, or redemption monies remain unpaid. The shares are redeemable at their nominal value plus any premium unpaid.

21. Retained earnings

	£'000
Balance at 1 January 2018	34,062
Total comprehensive income for the year	38,805
Balance at 31 December 2018	72,867
Dividends paid	(16,736)
Total comprehensive income for the year	41,345
Balance at 31 December 2019	**97,476**

22. Retirement benefit schemes

Defined benefit schemes

The London Luton Airport Pension Scheme ('LLAPS') closed to future accrual with effect from 31 January 2017. This gives rise to a curtailment event, which results in the financial impact on the defined benefit obligation at the closure date being recognised as a past service cost in the P&L.

On 31 January 2017, all remaining active members became deferred members of the LLAPS. The benefits for active members in the LLAPS increase in the same way as they would when the member leaves the scheme and becomes deferred (increasing in-line with RPI inflation).

The LLAPS is a funded defined benefit scheme and its assets are held in separate trustee-administered funds. Under the scheme, the employees accrue retirement benefits of 1/80th of their average salary for each year served on attainment of the latter of a retirement age of 60 or 25 years service.

The most recent completed actuarial valuation of the scheme was at 31 March 2017. The valuation used the projected unit method and was carried out by Willis Towers Watson Limited, professionally qualified actuaries.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and other.
Interest risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2019 %	2018 %
Key assumptions used:		
Discount rate	2.00%	2.80%
Expected rate of future pension increases	2.75%	2.90%
Rate of increase of pensions in deferment	2.75%	2.90%
Inflation	2.85%	3.10%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	21.7	21.9
Female	24.1	24.2
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	23.1	23.2
Female	25.6	25.7

* Based on SAPS "S2" mortality table with modifications to reflect expected changes in mortality.

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2019 £'000	2018 £'000
Service cost:		
Past service cost – plan amendments/augmentations	-	700
Net interest expense	3,877	3,688
Expected return	(3,100)	(2,623)
Components of defined benefit costs recognised in profit or loss	777	1,765

Amounts recognised in the statement of comprehensive income are as follows:

	2019 £'000	2018 £'000
The return on plan assets (greater)/less than the discount rate	(6,985)	7,763
Actuarial gain arising from changes in demographic assumptions	(1,066)	(753)
Actuarial loss/(gain) arising from changes in financial assumptions	19,519	(12,079)
Actuarial gain arising from experience adjustments	412	816
Changes in the effect of the asset ceiling excluding interest income	(4,994)	4,855
Remeasurement of the net defined benefit liability	6,886	602

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2019 £'000	2018 £'000
Present value of defined benefit obligations	(158,553)	(141,757)
Fair value of plan assets	128,775	113,311
Deficit	(29,778)	(28,446)
Adjustment in respect of asset ceiling and minimum funding requirement	-	(4,855)
Deficit	(29,778)	(33,301)
Deferred tax asset	5,990	7,054
Net liability	(23,788)	(26,247)

Movements in the present value of defined benefit obligations in the year were as follows:

	2019 £'000	2018 £'000
Opening defined benefit obligation	141,757	157,447
Past service cost – plan amendments/augmentations	-	700
Interest cost	3,877	3,688
	3,877	4,388
Actuarial loss	18,865	(12,016)
Benefits paid	(6,652)	(8,302)
Expenses paid	706	240
	(5,946)	(8,062)
Closing defined benefit obligation	158,553	141,757

The maturity profile of the defined benefit obligation is as follows:

	£'000
Expected benefit payments during fiscal year ending 31 December 2020	2,698
Expected benefit payments during fiscal year ending 31 December 2021	2,782
Expected benefit payments during fiscal year ending 31 December 2022	2,868
Expected benefit payments during fiscal year ending 31 December 2023	2,957
Expected benefit payments during fiscal years ending 31 December 2024 through 31 December 2028	16,217

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

Movements in the fair value of plan assets in the year were as follows:

	2019 £'000	2018 £'000
Opening fair value of plan assets	113,311	112,660
Interest income	3,100	2,623
	3,100	2,623
Remeasurement loss/(gain):		
The return on plan assets (excluding amounts included in net interest expense)	6,985	(7,763)
	6,985	(7,763)
Contributions from employers	12,025	14,087
Benefits paid	(5,940)	(7,662)
Expenses paid	(706)	(634)
	5,379	5,791
Closing fair value of plan assets	128,775	113,311

The major categories and fair values of plan assets at the end of the reporting period for each category are as follows:

	2019 £'000	2018 £'000
Equity instruments	4,887	25,691
Debt securities	4,551	3,897
Other	119,337	83,723
Total	128,775	113,311

The significant actuarial assumption for the determination of the defined benefit obligation is the discount rate. The sensitivity analysis below has been determined based on reasonably possible changes in the assumption occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 0.5% higher the defined benefit obligation would decrease by £15.4m (2018: £13.6m). If the discount rate is 0.5% lower the defined benefit obligation would increase by £17.5m (2018: £15.5m).

The Scheme should have sufficient and appropriate assets to cover its technical provisions. To eliminate the deficit the Company has agreed to pay annual contributions into the Scheme until 31 March 2023. The next deficit payment is £11.8m to be paid into the Scheme by 31 March 2020.

Defined contribution schemes

From 1 February 2017, following the closure of the defined benefit pension scheme to future accrual, the Company has operated a defined contribution retirement scheme for all qualifying employees. The defined contribution pension scheme is run by a third party supplier who was selected after undergoing a full procurement process. The assets of the schemes are held separately from those of the Company in individual savings funds. Employees pay contributions into an individual savings fund up to a maximum 6% of their basic salary. Employees can decide how much they choose to contribute to the pension fund and how to invest it. The Company matches employee contributions by 2:1, up to a maximum 12% of their basic pay.

The total cost charged to income of £2.2m (2018: £2.0m) represents contributions payable to the scheme by the Company at rates specified in the rules of the scheme. As at 31 December 2019, contributions of £nil (2018: £nil) due in respect of the current reporting period had not been paid over to the scheme.

22. Retirement benefit schemes (continued)

Defined contribution schemes (continued)

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. The Company has no further payment obligations once the contributions have been paid.

23. Events after the balance sheet date

There have been no identified events after the balance sheet date.

24. Related party transactions

Trading transactions

The Company is exempt under the terms of FRS 101 "Related party transactions" from disclosing related party transactions with subsidiaries within the same group, provided that both subsidiaries are wholly-owned by a member of that group.

During the year the Company accrued £nil to Aena S.A. for insurance (2018: £12k).

	Year ended 2019 £'000	Year ended 2018 £'000
Directors' remuneration		
Emoluments	663	694
Company contributions to defined contribution pension schemes	28	40
	691	734

	Year ended 2019 £'000	Year ended 2018 £'000
Remuneration of the highest paid director:		
Emoluments	334	412
Company contributions to money purchase schemes	21	21

The Executive Directors of London Luton Airport Operations Limited are remunerated through London Luton Airport Holdings I Limited, which has a master services agreement with London Luton Airport Operations Limited to recharge costs and services on a quarterly basis. Non-executive directors are remunerated through other related parties.

Directors' transactions
There are no transactions with directors in the year to 31 December 2019 (2018: £nil).

25. Controlling party

The Company's immediate parent undertaking is London Luton Airport Group Limited, registered in England and Wales, which is the smallest UK group in which the results of the Company are consolidated. Copies of these financial statements can be obtained from Percival House, Percival Way, London Luton Airport, Luton, Bedfordshire LU2 9NU.

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Entidad Pública Empresarial Enaire ('Aena'). The largest group in which the results of the Company are consolidated is Entidad Pública Empresarial Enaire ('Aena'). Copies of these financial statements can be obtained from Peonías, 12. 28042, Madrid, Spain.