London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2020

Registered number: 03491213

London Luton Airport Operations Limited

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London Luton Airport Operations Limited

Company information

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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 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).

Trading results for the year ended 31 December 2020 have been impacted by the COVID-19 pandemic. As a result passenger volumes have decreased by 70% (2019: 9% increase) with passenger volumes of 5.5m (2019: 17.9m).

Total revenue for the year ended 31 December 2020 was £91,217k (2019: £226,873k); see note 3 to the financial statements for further analysis. Traffic income in 2020 represented an average of £7.57 per passenger (2019: £5.66). The increase is due to a change in the mix of income due to the COVID-19 pandemic with income relating to passengers decreasing and fixed income such as rents remaining relatively stable.

Operating loss for the year was £11,728k (2019 profit: £58,434k). The Directors believe that EBITDA is the performance measure most relevant to the readers of the statutory accounts. EBITDA was £21,383k for the year (2019: £87,954k) a decrease of 76%. The substantial decrease was a result of the COVID-19 pandemic.

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. The DART will significantly improve the rail connectivity of the airport and is expected to become operational in 2022.

Principal risks and uncertainties

COVID-19 pandemic

The COVID-19 pandemic continues to add significant uncertainty to the travel industry and broader economy, both nationally and internationally. Policies implemented because of the pandemic including national lockdowns, travel bans, and quarantine requirements all restrict travel and will continue to severely reduce passenger numbers 2021. The Company entered the crisis in a strong financial position however the severe and prolonged nature of the pandemic has required robust measures to protect the Company.

The Company implemented a cost reduction process covering both operation and capital expenditure to preserve cash. In 2020, the Company undertook a consultation and redundancy programme which resulted in staff leaving the company. The Company has also used the UK Government furlough scheme during 2020 and will continue to do so in 2021.

On 31 July the Company obtained approval from its lenders and note holders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2020 and for an amended loan covenant test as at 30 June 2021. Additionally, shareholders have committed £13m of support to the Company to provide additional liquidity. The Company is currently in discussions with the lenders and note holders for loan covenant test waivers for 2021.

The Company also reached agreements with the Trustees of the London Luton Airport Pension Scheme to defer contributions due to the scheme to preserve liquidity. These amounts are now due during 2021.

Macroeconomic environment

Whilst passenger numbers have decreased significantly in 2020 and is forecast remain low in 2021 due to the pandemic, the overall demand for air travel and the shortage of airport capacity in the south east of the UK is expected to ensure that sufficient demand exists for the airport as the economy recovers from COVID-19.

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.

In 2020 the Company was audited on and successfully retained our ISO 45001 Occupational Health & Safety Management certification 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 and commenced roll out in 2020. 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 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 Health Safety and Environmental management at London Luton Airport. This was refreshed in 2019 and rolled out in 2020 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. Due to COVID-19 restrictions the Company had two audits in 2020, a desktop audit was conducted in April 2020 and was followed with an onsite audit in October 2020. The CAA reported no instances of non-compliance. The inspectors were complimentary of how safety was managed on the airfield, particularly in the light of restrictions in place due to the current COVID-19 pandemic. There were 4 observations all of which have been addressed and closed by the CAA. There are open findings on ADQ (Aerodrome Data Quality) outstanding from the 2018 audit, the year by which these must be resolved is 2023 however the Company has submitted a response and requested closure once the CAA have considered if the actions satisfy the requirements set out in the regulation.

2020 was another strong year in security, given the difficult operating conditions experienced the department has continued to build on the excellent performance of 2019 with progress made across all disciplines. Despite the downturn in passenger numbers, staff currency and high levels of compliance was maintained.

Principal risks and uncertainties (continued)

Governance, Social and Environmental Issues

The Company published its Responsible Business Strategy (RBS) which sets out a 2020-2025 plan on environmental, social and governance issues. The strategy sets out our current performance and commitments to making London Luton Airport a champion in sustainable aviation. It outlines our ambitions in the areas of environment, community, people, customers, suppliers and health and safety.

In 2020, the Company created a new role, Head of Sustainability to build a Sustainability department and further develop the broader strategy. An RBS committee with representation from senior leaders across the business has been created and this governance mechanism, alongside regular updates to the Board, ensures that the sustainability strategy is appropriately managed and reviewed.

The Company has made good progress in 2020, the first year in the five-year plan. The Airport Carbon Accreditation level 1 was achieved ahead of schedule with level 2 expected to be achieved in in 2021 alongside the development of a Carbon Reduction Plan. We continue to contribute to the national economy, generated both directly and through our partners and suppliers. We are one of the biggest employers in the region, and local businesses and suppliers account for over 30% of our supply chain expenditure.

The next step in our strategy is our commitment to better understand and address the risks and opportunities associated with sustainability. By evolving our approach, we will continue to drive positive outcomes for our communities, customers, supply chain, our people and the environment, including the universal challenge of climate change.

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

In 2017 through to March 2020 LLA breached the night-time contour limit. In 2019, the daytime limit was also breached. However, due to the reduction in movements, there was no breach of either contour limit in 2020. However, we continue to seek a temporary increase in the noise contour limit until 2024 as part of the application to grow to 19 million passengers per annum, as this will allow the airport to continue operating whilst allowing time for the new modern aircraft to be introduced into the operation.

Furthermore, throughout 2020 the Flight Operations team continued to work with NATS, towards an airspace change proposal for changes to LLA's arrival routes. A full public consultation was launched in October 2020; this consultation includes two options for the lower level airspace and a new holding stack for Luton arrivals in the upper airspace. This proposal is expected to assure the safety of the airspace and reduce delay for arriving aircraft. The consultation will run until 5th February 2021 and has so far had record levels of engagement for an airspace change consultation.

Passenger cap

The Airports planning conditions limit the airport to a maximum capacity of 18m commercial passengers per year. This capacity cap was reached in December 2019. The Company applied for an extension to this cap on 11 January 2021 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. The Company has a capital project committee to provide additional rigour and scrutiny.

Principal risks and uncertainties (continued)

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 discussion and negotiation. There is the potential for adverse financial impacts if industrial action is taken within suppliers of key services (e.g. air traffic controllers) or by employees of key clients (e.g. airlines). The Company monitors this closely.

Brexit

The UK left the European Union as of 31 December 2020. Given the severe drop in passenger numbers because of COVID-19, it has not been possible to quantify the immediate impact of Brexit on demand for air travel. From a legal and operational point of view, the Company has taken the necessary steps to implement new rules introduced since 1st January 2021 and has policies in place to monitor risks as the new relationship with the EU is embedded.

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.

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**
Liquidity risk	The Company's ability to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments.	The severe reduction on passenger numbers and therefore revenue because of COVID-19 has increased liquidity risk.	The Company drew-down fully on its £80m revolving credit facility in 2020 and has taken action to reduce costs substantially to preserve liquidity. Processes are in place to monitor liquidity on a regular basis. In addition, the Company agreed a shareholder loan to provide an additional £13m of support if required.
Compliance with financing documents	The Company's ability to remain in compliance with the financing documents and to prevent a breach in obligations under those documents.	The severe reduction on passenger numbers and therefore profitability because of COVID-19 increased the risk associated with compliance with financing documents.	The Company requested and received waiver letters from its lenders in 2020 to ensure it remained in compliance with its financing documents. The Company has taken action to seek further waivers for 2021.

Financial risk management objectives and policies (continued)

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 has increased year on year as customers in the airline and retail industries being significantly impacted by the COVID-19 pandemic and the reduction in trade that this has resulted in 29% (2019: 86%) of trade receivables not yet due..	Debtor balances are regularly monitored and reported to the board to ensure that risks are highlighted. As a result of COVID-19, contract amendments have been negotiated to preserve the financial stability and to try, to the extent possible, ensure that remain robust until a sustained recovery begins. The Company has implemented policies that require potential counterparties to undertake credit checks 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 45% (2019: 90%) of the trade receivables.
Interest rate risk	The Company's ability to maintain interest payments, on external and related party loans.	The £80m revolving credit facility has a variable interest rate. The interest risk profile is unchanged from 2019.	The fixed rate facilities and interest rate hedging significantly mitigate interest rate risk in the Company.
Retirement benefit obligations	The Company's ability to support the defined benefit pension scheme.	The retirement benefit obligations which represent the net liability from the defined benefit pension scheme have decreased to £23.5m in 2020 (2019: £29.8m). Uncertainty due to the COVID-19 pandemic has increased the risk as the Company has deferred contributions to minimise the impact on cash flows.	An amended schedule of contributions has been negotiated (subject to agreement), which defers the contributions from March 2020 and March 2021 on a contingent basis across 2021 to better match the forecast cash flows of the company with a total of £15.6m expected to be paid by the end of 2021.

Strategic report (continued)

Financial risk management objectives and policies (continued)

Risk	Impact on company	Assessment of change in risk year-on-year	Mitigation of risk
Noise management risk	The Company has noise contours agreed as part of its planning permission.	In 2017 through to March 2020, the Company exceeded its night-time noise contours by 8%. Due to the COVID-19 pandemic there have been no noise breaches from April 2020. However, LLAOL is seeking an increase to the noise contour limit for when passenger volumes recover.	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 is seeking to vary the noise contours supported by an additional package of noise reduction measures.
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. Due to the COVID-19 pandemic, passenger volumes of 5.5m were significantly below the passenger cap of 18m in 2020. The risk of breaching this cap in 2020 and 2021 substantially reduced.	The Company monitors passengers on a daily basis in order to manage the number of passengers against the cap. In addition, the Company submitted an application on 11 January 2021 to increase to this cap to 19m passengers.

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006

Throughout these financial statements, we provide examples of how we take into account the likely consequences of long term decisions; build relationships with stakeholders; understand the importance of engaging our employees; understand the impact of our operations on the communities in the regions in which our airports operate and the environment we depend upon; and attribute importance to behaving as a responsible business.

The Board of Directors are aware of and consider they have acted in accordance with their statutory duties under s172(1) of the Companies Act 2006. Consistent with these duties, the directors have acted in good faith, seeking to promote the long-term success of the company for the benefit of shareholders and in so doing have had regard to their duties to:

- the likely consequences of any decisions in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others; and
- the impact of the Company's operations on the community and environment.
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as shareholders of the Company.

Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

The following paragraphs summarise how they fulfil those duties, with references, where appropriate, to the other parts of the financial statements where further information is available.

Stakeholder group	Form of engagement	How this stakeholder group influenced Board decision making
Passengers With more than 143 destinations and 181 routes served from the airport (prior to COVID-19), we provide the vital connections to allow people to travel for business, leisure and visiting family and friends. Providing the right services and destinations for passengers is critical to our success and continued growth strategy.	Feedback from passengers is carefully reviewed and reported to management on a weekly basis.	In 2020, additional safety measures were implemented to ensure that, to the extent possible, the airport was COVID-19 safe for passengers. Passenger satisfaction surveys are monitored and amendments made as necessary. A customer experience journey was started in 2019 and will continue into 2021.
Local communities When the airport prospers, it also brings benefits to the local communities, including employment, supporting local groups, education and skills. Impacts from the airport and aircraft operations, including noise, emissions and congestion can negatively affect communities near our airports and need careful management.	Regular and long-term engagement with local communities occurs, including formal consultative committees.	Community views are important to the Company and have been a key factor in noise and passenger planning cap applications made in 2020 and 2021.
Employees Employees are fundamental to the Company's, success. We aim to be a fair and responsible employer in our approach to the pay and benefits our employees receive, seek to provide an environment our colleagues can fulfil their potential and safeguard their health, safety and well-being.	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, online tools such as Yammer and through email communication. 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.	In 2020, the Company has taken additional steps to protect employees, to the extend possible, from COVID-19 risks. All office-based employees have worked for the majority of 2020 from home. Risk based assessments have been undertaken on home-working environments. For employees that must work on-site at the airport, measures have been taken to ensure, to the extent possible, that the workplace is COVID-19 safe. Additional efforts were made in 2020 and will continue in 2021 to recognise the impact on mental health caused by COVID-19. The Company is also very aware that many employees have been on furlough during 2020. Efforts have been made to ensure furloughed employees feel like they remain part of the business and are current in their training.

Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

Stakeholder group	Form of engagement	How this stakeholder group influenced Board decision making
Pensions Trustees The defined benefit scheme was created in 1988 under trust and is governed by the Scheme's Deed of Variation as amended dated, 18 April 2008. The trustees are responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in consultation with the Company.	The Company has regular meetings with the pensions trustees including routinely providing business updates to the wider trustee group and taking an active interest in the Investment Sub-Committee.	The Company has had regular contact with the trustees and their advisors during the COVID-19 pandemic. The schedule of contributions to the scheme has been renegotiated to mitigate the cash flow impact of the pandemic on the company. Further, discussions around the triennial valuation as at 31 March 2020 have started with a view to reaching a conclusion by 30 June 2021
Customers, partners and suppliers Establishing, developing and maintaining strong business relationships with our customers, business partners and suppliers is fundamental to the long-term stability and success of our business. We always seek to conduct business in a professional and collaborative manner.	Engagement with customers and business partners is critically important. The Company holds collaborative forums and with all our business partners – including airlines, retailers, tenants and aviation service partners. Our Airport Consultative Committees bring these customer groups together with passenger and community representatives. Our approach to procurement is accredited to the Corporate Certification Standard of the Chartered Institute of Procurement and Supply. This incorporates practices to make responsible procurement decisions which treat suppliers fairly, mitigate modern slavery, and ensure prompt payment.	This year the Board have reacted swiftly to requests for help from our Customers and Suppliers to ensure that, to the extent possible, all our counterparties survive the COVID-19 pandemic. This included renegotiations of terms where appropriate. This is crucial to ensure that the Company is well positioned to take advantage of the recovery.

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

Stakeholder group	Form of engagement	How this stakeholder group influenced Board decision making
Industry, regulatory bodies, government and government agencies We help national and regional government to formulate and deliver their policies. We actively contribute to industry associations and promote the legitimate interests of our industry.	The Company regularly meets with national government and elected representatives including Government officials across a wide range of departments, members of both the House of Commons and the House of Lords, ministers and shadow ministerial teams, scrutiny committees like the Transport Select Committee and policy making bodies. The Company also holds relationships with regulators (the CAA) and is a member of several trade associations linked to its interests including the CBI and AOA. At a more local level, Corporate Affairs teams hold local MP relationships, as well as with councillors, LEPs and local government agencies.	The board receives regular updates on the work of the Company with local government and agencies working with the airport to support long term growth and to bring economic benefits to the local area. During 2020 and because of COVID-19, the Company has been in close contact with industry bodies for example the Airport Operators Association, the CAA and the Government to ensure a joined-up approach to managing through the pandemic.
Shareholders Our shareholders invest in the Company as a long-term strategic asset with significant future growth potential. By taking a long term view they underpin the sustainable growth of the business.	The Company holds ten board meetings each year and the Board is supported by sub-committees in strategically important areas including Audit and Remuneration. Shareholder representatives meet regularly with the executive team to ensure they are closely briefed, and they are supported by a team of experienced non-executive directors. As a result of COVID-19, the shareholders and the executive team have met frequently as the changing nature of the pandemic has required.	During COVID-19, the shareholders have provided direction and support to help the executive team manage through the pandemic. In addition, the shareholders committed to an additional loan of £13m to provide liquidity support.

Taking a long-term view of risks and opportunities

The Company operates a systematic process to identify risks and opportunities. In 2020 and into 2021, the principal risk was and will continue to be managing the Company through the COVID-19 pandemic with all the challenges that brings. Outside the immediate risk of COVID-19, key risks include the need to maintain a safe and secure operation, manage the Company within a highly regulated sector, manage the changes in passenger levels (and in particular in the recovery in passenger numbers as we emerge from the pandemic) and the need to attract and retain talented people. Our assessment of risk is regularly reported to the Board through Audit and Risk Committee meetings held at least 3 times a year, to allow the long-term consequences of decisions to be assessed.

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

Maintaining a reputation for high standards of business conduct

It is important that the Company operates to high standards of business conduct and appropriate policies, including the prevention of bribery and corruption have been implemented, with supporting training for those colleagues whose work is most likely to expose them to relevant risks. All colleagues have access to an anonymous whistleblowing service to report any instances where high standards of business conduct have not been adhered to and this is available on the corporate website for external parties.

Corporate Governance

The Company is committed to maintaining the highest standards of corporate governance. The Company has not formally adopted a corporate governance code, however it is considering the implementation of Wates Principles in 2021.

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 2020 funding for the airport's Community Trust Fund was a total of £150k. In addition £50k has been dedicated to support the COVID-19 recovery fund which supports the community in a post-COVID-19 world, with issues such as; Mental Health – Young People; Elderly; Social Exclusion, alleviating Poverty - Employment and Retraining (focus on Young People); Homelessness; Advice, Information, Guidance and Equity - Educational Disadvantage (Young People).

In 2021 two new charity partners were selected; East Anglian Air Ambulance (EAAA) and Luton Foodbank. Unfortunately due to the current pandemic in 2020 the school programs had to be put on hold, however, In 2019/2020 academic year we engaged with 10 schools, focusing on the more deprived wards across Luton & Beds and supported developing work-related skills such as communication and problem solving skills. This covered 164 students, of whom 93% felt the info was useful. The Company is working to have these programs back in place in 2021. The Company also continued working in partnership with the Prince's Trust and the Launch Group though activities had to be put on hold due to the pandemic. The Company is working to restart the 'Get into Airports' programme for Q3 2021. 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 has been launched within the Responsible Business Strategy for 2020.

The Group has supported the national effort in the fight against COVID-19 including remaining open throughout the period to accommodate medical and military flights, along with cargo flights delivering vital supplies including personal protective equipment for the NHS. In addition, the airport provided space in unused car parks for COVID-19 testing centres.

LLA was recognised by the British Chambers of Commerce as a UK Business Hero. The UK Business Hero stamp was created by the British Chambers of Commerce to recognise the businesses and individuals that have gone the extra mile to support local communities, innovate and meet new demands during the Coronavirus pandemic. LLA was nominated by the Bedfordshire Chamber of Commerce for its re-deployment of staff to the East of England Ambulance Service. Staff have volunteered with local community organisations and surplus food has been donated to homeless charities.

More than 100 LLA employees have volunteered to help with the region's mass vaccination roll out programme. LLA employees have assisted with a number of roles to ensure the smooth running of local vaccination centres, including car park marshalling and administration tasks.

Events after the balance sheet date

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

Strategic report (continued)

Approval

Approved by the Board and signed on its behalf by:

K Ludeman
Chairman
18 February 2021

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 2020.

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 ongoing COVID-19 pandemic continues to add uncertainty to the industry, causing significant reduction in air travel. Restrictions imposed as a result of the pandemic, including lockdowns, travel bans, self-isolations and quarantine requirements all further restrict passenger numbers in 2020 and this is expected to continue during 2021. The Company went into the pandemic in a strong position with sufficient financing for the business requirements. It has put in place a strong response to the COVID-19 pandemic, including mitigating the cash impact by stopping all expenditure (capital and operational) that is not required for passenger processing or for health, safety, legal or compliance reasons.

In addition, the Company served notice of a Force Majeure Event and a Special Force Majeure Event in March 2020 under the terms of the Concession Agreement due to the effects of the COVID-19 pandemic. This has resulted in the Company not paying Concession fees since 1 April 2020. There is a dispute about the applicability of the Special Force Majeure clause. The directors believe that they will be successful in upholding the applicability of the Special Force Majeure clause and that no amounts will be payable in respect of the concession fee for the year ended 31 December 2020.

The directors acknowledge the Company balance sheet at 31 December 2020 has net current liabilities of £69.3m (2019: £32.4m) and net assets of £90.1m (2019: £102.8m) as at 31 December 2020. The Company made a loss for the year of £13.5m (2019 profit: £47.1m) and (£0.1m) (2019: £69.2m) of net cash (outflow)/inflow from operating activities. The loss and cash flows in 2020 are directly related to the COVID-19 pandemic with forecasts prior to this showing the Company making a strong profit and having strong cash inflows.

The Company has a committed revolving credit facility of £80.0m which was fully drawn at 31 December 2020. This facility matures on 17 August 2022, with the option to extend to 17 August 2023 then 17 August 2024 (subject to conditions) at the discretion of the Company. The debt is subject to covenants which are assessed at 31 December and 30 June but reported to the lenders in the form of compliance certificates by 30 June and 30 September, respectively. On 31 July 2020 the Company obtained approval from its lenders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2020 and for an amended loan covenant test as at 30 June 2021.

As a result of the anticipated continued impact of COVID-19 on the Company including through 2021 and beyond the Company is forecast to breach the financial ratios for its covenant test at 30 June 2021 measurement date, which is required to be submitted to the lenders by 30 September 2021 in the form of a Compliance Certificate. The Company is currently in discussions with the lenders for loan covenant test waivers for 2021 and the directors are confident that they will be able secure these waivers.

Based on the above indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would be necessary if the going concern basis was inappropriate.

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

A dividend of £5.0m was paid on 13 August 2020 (2019: £16.7m).

Directors' report (continued)

Directors

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

J Leo Vizcaíno	
R Marabini Ruiz	
B R Hunter	
M Campomanes Camino	
B Pahari	resigned on 24 June 2020
M Brown	resigned on 24 June 2020
J I Ascacibar	
M De Los Reyes Escrig Teigeiro	
N Aguilar Iglesias	
A Martin	
A L Zuleta Perez De Guzman	
K Ludeman	
P A Coates	resigned on 24 June 2020
E Rotondo Inclán	
B Landínez González-Valcárcel	
M Andrés Hermán	
G Ferguson	appointed on 24 June 2020
D M Noyes	appointed on 24 June 2020
D Rees	appointed on 24 June 2020

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

Non-executive directors

J Leo Vizcaíno	
R Marabini Ruiz	
M Campomanes Camino	
B Pahari	resigned on 24 June 2020
M Brown	resigned on 24 June 2020
M De Los Reyes Escrig Teigeiro	
N Aguilar Iglesias	
A Martin	
K Ludeman	
P A Coates	resigned on 24 June 2020
B Landínez González-Valcárcel	
G Ferguson	appointed on 24 June 2020
D M Noyes	appointed on 24 June 2020

Directors (continued)

D Rees	appointed on 24 June 2020

Alternate Directors

B R Hunter (alternate to A Martin)

J I Ascacibar (alternate to R Marabini Ruiz)

A L Zuleta Perez De Guzman
(alternate to M De Los Reyes Escrig Teigeiro)

E Rotondo Inclán
(alternate to J Leo Vizcaíno)

M Andrés Hermán
(B Landínez González-Valcárcel)

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 (2019: nil).

Energy use and the associated greenhouse gas emissions

		2020	**2019**
Energy use	Electricity (kWh)	14,564,520	19,488,468
	Gas (kWh)	7,336,812	8,494,560
	Fuel (litres)	247,124	492,832
	Fuel (MWh)	2,642	5,269
Associated GHG emissions (tCO2e)	Electricity	3,396	4,981
	Gas	1,349	1,562
	Fuel	1,043	1,334
Total Carbon		5,788	7,877
Passengers		5,472,826	17,999,978
Intensity Ratio	kgCO2e/pax	1.06	0.44
Methodology used	GHG Protocol and ISO 14064-1		

Energy efficiency action taken

Replacement of lighting to LED lights

LLA continued with site-wide lighting replacement to LED light. In 2020, LLA replaced emergency lighting in baggage dock and undercroft. 110W fittings were replaced with 40 watt LED versions, providing equivalent or improved lighting levels. Approximately 150 fittings have been replaced reducing overall electricity consumption in these areas.

Directors' report (continued)

Energy use and the associated greenhouse gas emissions (continued)

Replacement of belt driven motors with direct drive system

Upgrades to check in/ OTC AHU fans to direct drive fans and installation of over door heater fans reducing the hot air being lost from the building. Savings calculated as 248,784 kWh per annum.

Additional efficiencies gained through switching-off of energy / equipment in parts of the terminal that were not used due to lower passenger traffic.

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 s487 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:

K Ludeman
Chairman
18 February 2021

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 2020 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 2020 and of its loss 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.

Material uncertainty related to going concern

We draw attention to note 1 of the financial statements which indicates that the ability of the Company to continue as a going concern is dependent on the lender not calling in the amount owing should the Company breach its financial covenants. These events and conditions, along with the other matters explained in note 1, constitutes a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern.

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company’s high-level policies and procedures to prevent and detect fraud including the Company’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment , we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that traffic, commercial and tenant revenue streams may be recorded in the wrong period and the risk that Company management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included unusual revenue combinations, unusual cash combinations and journal entries containing key words.

Independent auditor's report to the members of London Luton Airport Operations Limited (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and they also have aviation regulations as issued by the Civil Aviation Authority in the UK (CAA). These are specific to the industry and enable the airport to operate as a licensed facility which is permitted to handle aircraft movements. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: aviation regulations, health and safety, anti-bribery, employment, environmental, and certain aspects of company legislation recognising the regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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;
- 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.

Independent auditor's report to the members of London Luton Airport Operations Limited (continued)

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 18, 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.

M 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
19 February 2021

London Luton Airport Operations Limited
Profit and loss account
For the year ended 31 December 2020

	Note	Year ended 2020 £'000	Year ended 2019 £'000
Revenue	3	91,217	226,873
Administrative expenses		(102,945)	(168,439)
Operating (loss)/profit		(11,728)	58,434
Finance income	7	22	66
Finance costs	8	(3,786)	(4,728)
(Loss)/profit before tax		(15,492)	53,772
Tax	9	1,964	(6,712)
(Loss)/profit for the financial year attributable to owners of the Company	4	(13,528)	47,060

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 2020

	Year ended 2020 £'000	Year ended 2019 £'000
(Loss)/profit for the year	(13,528)	47,060
Items that will not be reclassified subsequently to profit or loss:		
Actuarial profit/(loss) on defined benefit plan	7,268	(6,886)
Deferred tax on actuarial movement	(1,381)	1,171
Other comprehensive income/(expense) for the year net of tax	5,887	(5,715)
Total comprehensive (expense)/income for the year attributable to the owners of the Company	(7,641)	41,345

The accompanying notes form part of the financial statements.

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	11	196,508	237,184
Deferred tax assets	18	4,610	4,068
		201,118	241,252
Inventories	12	555	590
Trade and other receivables	13	17,968	26,164
Cash and bank balances		31,062	13,132
		49,585	39,886
Total assets		250,703	281,138
Trade and other payables	14	(28,098)	(67,075)
Borrowings	15	(83,033)	(4,854)
Provisions	19	(7,773)	(337)
		(118,904)	(72,266)
Net current liabilities		(69,316)	(32,380)
Non-current liabilities			
Borrowings	15	(17,313)	(75,409)
Defined benefit pension scheme liability	22	(23,530)	(29,778)
Provisions	19	(847)	(935)
		(41,690)	(106,122)
Total liabilities		(160,594)	(178,388)
Net assets		90,109	102,750
Equity			
Share capital	20	5,274	5,274
Retained earnings	21	84,835	97,476
Equity attributable to owners of the Company		90,109	102,750

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 18 February 2021. They were signed on its behalf by:

K Ludeman
Chairman

London Luton Airport Operations Limited
Statement of changes in equity
For the year ended 31 December 2020

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	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
Loss for the period	-	(13,528)	(13,528)
Other comprehensive income for the period	-	5,887	5,887
Total comprehensive expense for the period	-	(7,641)	(7,641)
Dividends	-	(5,000)	(5,000)
Balance at 31 December 2020	5,274	84,835	90,109

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 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to Conceptual Framework in IFRS Standards (continued)	The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures including the following changes; • New 'bundles of rights' approach to assets: A physical object can be 'sliced and diced' from an accounting perspective. For example, in some circumstances a company would book as an asset a right to use an aircraft, rather than an aircraft itself. The challenge will be determining to what extent an asset can be split into different rights and the impact on recognition and derecognition. • New 'practical ability' approach for recognising liabilities: The old recognition thresholds are gone – a liability will be recognised if a company has no practical ability to avoid it. This may bring some liabilities on the balance sheet earlier than at present. However, if there is uncertainty over existence and measurement or a low probability of outflows, then this may result in no or delayed recognition in some cases. The challenge will be determining which future actions/costs a company has no 'practical ability' to avoid. • New control-based approach to derecognition: A company will take an asset off balance sheet when it loses control over all or part of it – i.e. the focus is no longer on the transfer of risks and rewards. The challenge will be determining what to do if the company retains some rights after the transfer. The adoption of these amendments has not had a material effect on the Company's consolidated financial statements.
Definition of Material (Amendments to IAS 1 and IAS 8)	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective from 1 January 2020. The adoption of these amendments has not had a material effect on the Company's consolidated financial statements.
Interest rate benchmark reform (amendments to IFRS 9, IAS 39 and IFRS 7)	Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. No material impact has been identified for the Company's accounts.

1. Accounting policies (continued)

Adoption of new and revised Standards (continued)

<table>
<tr><td>COVID-19-Related Rent Concessions (Amendment to IFRS 16)</td><td>
In response to the COVID-19 coronavirus pandemic, the International Accounting Standards Board has issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions.
Previously under IFRS 16, rent concessions often met the definition of a lease modification, unless they were envisaged in the original lease agreement.
The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.
The practical expedient will only apply if:

the revised consideration is substantially the same or less than the original consideration;
the reduction in lease payments relates to payments due on or before 30 June 2021; and
no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. A lessee applies the amendments retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied.
The Company has early adopted this amendment and applied it retrospectively. The amendment has no impact on retained earnings at 1 January 2020. The Company has applied the practical expedient in relation to the airside bus leases which fall within the scope and it has resulted in a decrease in the lease liability of £109k which has been recognised in profit and loss for the year ended 31 December 2020.
</td></tr>
</table>

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.

1. Accounting policies (continued)

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
- 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 ongoing COVID-19 pandemic continues to add uncertainty to the industry, causing significant reduction in air travel. Restrictions imposed as a result of the pandemic, including lockdowns, travel bans, self-isolations and quarantine requirements all further restrict passenger numbers in 2020 and this is expected to continue during 2021. The Company went into the pandemic in a strong position with sufficient financing for the business requirements. It has put in place a strong response to the COVID-19 pandemic, including mitigating the cash impact by stopping all expenditure (capital and operational) that is not required for passenger processing or for health, safety, legal or compliance reasons.

In addition, the Company served notice of a Force Majeure Event and a Special Force Majeure Event in March 2020 under the terms of the Concession Agreement due to the effects of the COVID-19 pandemic. This has resulted in the Company not paying Concession fees since 1 April 2020. There is a dispute about the applicability of the Special Force Majeure clause. The directors believe that they will be successful in upholding the applicability of the Special Force Majeure clause and that no amounts will be payable in respect of the concession fee for the year ended 31 December 2020.

The directors acknowledge the Company balance sheet at 31 December 2020 has net current liabilities of £69.3m (2019: £32.4m) and net assets of £90.1m (2019: £102.8m) as at 31 December 2020. The Company made a loss for the year of £13.5m (2019 profit: £47.1m) and (£0.1m) (2019: £69.2m) of net cash (outflow)/inflow from operating activities. The loss and cash flows in 2020 are directly related to the COVID-19 pandemic with forecasts prior to this showing the Company making a strong profit and having strong cash inflows.

1. Accounting policies (continued)

Going concern (continued)

The Company has a committed revolving credit facility of £80.0m which was fully drawn at 31 December 2020. This facility matures on 17 August 2022, with the option to extend to 17 August 2023 then 17 August 2024 (subject to conditions) at the discretion of the Company. The debt is subject to covenants which are assessed at 31 December and 30 June but reported to the lenders in the form of compliance certificates by 30 June and 30 September, respectively. On 31 July 2020 the Company obtained approval from its lenders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2020 and for an amended loan covenant test as at 30 June 2021.

As a result of the anticipated continued impact of COVID-19 on the Company including through 2021 and beyond the Company is forecast to breach the financial ratios for its covenant test at 30 June 2021 measurement date, which is required to be submitted to the lenders by 30 September 2021 in the form of a Compliance Certificate. The Company is currently in discussions with the lenders for loan covenant test waivers for 2021 and the directors are confident that they will be able secure these waivers.

Based on the above indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would be necessary if the going concern basis was inappropriate.

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.

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.

1. Accounting policies (continued)

Taxation (continued)

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.

The Company applies the five-step model established by IFRS 15 to the accounting for revenue from contracts with customers:

- Stage 1: Identify the contract (or contracts) with the customer
- Stage 2: Identify performance obligations in the contract
- Stage 3: Determine the price of the transaction
- Stage 4: Assign the price of the transaction between the performance obligations of the contract
- Stage 5: Recognise revenue from ordinary activities when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Company will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The determination of the moment in which said control is transferred (at a point in time or over a period of time) requires the making of judgements by the Company.

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.

Grants

Government grants are included within deferred government grants in the balance sheet and credited to the profit and loss account on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate.

The Company has elected to present grants related to income as a reduction to the related expense line.

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 £9m contingent liability (see note 20) 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.

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

Special force majeure

There is judgement in relation to the period that the Special Force Majeure clause in the Concession Agreement will be effective and therefore the impact on the related lease liability and the right of use asset.

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. With respect to the rate of inflation, this is also considered to be sensitive to the valuation of the defined benefit obligation. See also note 22.

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.

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 2020 £'000	Year ended 2019 £'000
Turnover:		
Traffic income	41,432	101,886
Commercial income	35,367	106,796
Tenant income	14,418	18,191
	91,217	226,873

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 £27.4m (2019: £71.2m) from the Company's two largest customers. No other single customers contributed 10% or more to the Company's revenues in either 2020 or 2019.

In addition finance income of £22k (2019: £66k) arose in the year (see note 7).

4. (Loss)/profit for the year

Profit for the year has been arrived at after charging:

	Year ended 2020 £'000	Year ended 2019 £'000
Depreciation of tangible fixed assets:		
- Owned assets	31,358	26,881
- Held under leases	1,753	2,639
Loss on disposal of tangible fixed assets	42	47
Staff costs (see note 6)	23,158	35,701

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

	Year ended 2020 £'000	Year ended 2019 £'000
Operating (loss)/profit	(11,728)	58,434
Add: Depreciation on tangible assets – owned and leased assets	33,111	29,520
EBITDA	21,383	87,954

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 2020 was £9,458k (2019: £57,493k).

The Company served notice of a Force Majeure Event and a Special Force Majeure Event in March 2020 under the terms of the Concession Agreement due to the effects of the COVID-19 pandemic. This has resulted in the Company not recording or paying Concession fees for the period since 1 April 2020. There is a dispute as to the applicability and effect of the Special Force Majeure clause. Management believe that they will be successful in upholding the applicability of the Special Force Majeure clause and that no amounts will be payable in respect of the concession fee for the year ended 31 December 2020. If the Special Force Majeure clause is found not to apply, the unpaid concession fees would amount to £9.0m.

5. Auditor's remuneration

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

	Year ended 2020 £'000	Year ended 2019 £'000
Fees payable to the company's auditor and their associates for the audit of the company's annual accounts	121	34
Total audit fees	121	34
- Other assurance services	22	12
Total non-audit fees	22	12
Total fees	143	46

No services were provided pursuant to contingent fee arrangements.

6. Staff costs

The average monthly number of employees was:

	2020 Number	2019 Number
Operations	707	750
Management and support services	58	58
Technical services	38	39
	803	847

Their aggregate remuneration comprised:

	Year ended 2020 £'000	Year ended 2019 £'000
Wages and salaries	17,705	29,647
Social security costs	2,244	2,815
Other pension costs (note 22)	3,209	3,239
	23,158	35,701

The Company has taken advantage of the Government Coronavirus Job Retention Scheme in 2020. The staff costs above are shown net of the claims made of £5.1m, including £4.8m claim against wages and salaries, £0.2k against social security costs and £0.1m against pension costs.

7. Finance income

	Year ended 2020 £'000	Year ended 2019 £'000
Other loans and receivables	22	66

8. Finance costs

	Year ended 2020 £'000	Year ended 2019 £'000
Interest payable on bank overdrafts and loans	1,535	1,065
Interest payable to group undertakings	100	577
Other finance costs arising on defined benefit pension (note 22)	578	917
Interest on obligations under leases	1,573	2,169
Total interest payable	3,786	4,728

9. Tax

	Year ended 2020 £'000	Year ended 2019 £'000
UK corporation tax	9	7,027
Adjustments in respect of prior years - UK corporation tax	(50)	(747)
	(41)	6,280
Deferred tax (note 18)	(1,923)	432
	(1,964)	6,712

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the period. A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016 and deferred tax balances for the year ended 31 December 2019 were calculated based on these rates.

During 2020 the UK government announced and subsequently substantively enacted that the corporation tax main rate would remain at 19% (effective 1 April 2020). The reporting and deferred tax balances as of 31 December 2020 have been calculated based on this rate.

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

	Year ended 2020 £'000	Year ended 2019 £'000
(Loss)/profit before tax on continuing operations	(15,492)	53,772
Tax at the UK corporation tax rate of 19%	(2,943)	10,217
Effects of:		
Group relief received for nil payment	(627)	(3,535)
Effects of changes in statutory tax rates	(459)	(79)
Adjustments to tax charge in respect of previous periods	117	(977)
Non-deductible expenditure	1,948	1,086
Tax (credit)/charge for the year	(1,964)	6,712

In addition to the amount (credited)/charged to the profit and loss account, the following amounts relating to tax have been (charged)/credited in other comprehensive income:

	Year ended 2020 £'000	Year ended 2019 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	(1,381)	1,171

10. Dividends

	Year ended 2020 £'000	Year ended 2019 £'000
Amounts recognised as distributions to equity holders in the period:		
Dividend for the year ended 31 December 2020 (£50.00 per share), (2019: £167.36 per share)	5,000	16,736

A dividend of £5.0m was paid on 13 August 2020 (2019: £16.7m). No final dividend has been proposed.

11. Property, plant and equipment

	Land and buildings £'000	Runways, taxiways and other similar structures £'000	Plant and machinery £'000	Assets under construc-tion £'000	Total £'000
Cost					
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
Additions	1,483	948	2,427	3,284	8,142
Disposals	(17,990)	(3,262)	(11,639)	-	(32,891)
Transfers	420	831	1,989	(3,240)	-
Lease reassessment	(15,665)	-	-	-	(15,665)
At 31 December 2020	154,064	123,983	84,372	5,665	368,084
Accumulated depreciation					
At 1 January 2019	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
Charge for the year	10,294	10,076	12,741	-	33,111
Eliminated on disposal	(17,991)	(3,246)	(11,612)	-	(32,849)
At 31 December 2020	58,430	63,997	49,149	-	171,576
Carrying amount					
At 31 December 2020	95,634	59,986	35,223	5,665	196,508
At 31 December 2019	119,689	68,299	43,575	5,621	237,184

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. 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. In March the Company instigated the Special Force Majeure clause in the existing concession agreement and the lease payments have been reassessed as a result which has decreased the right of use assets for land and buildings by £15.7m with a corresponding decrease in the lease liability.

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 was reclassified to plant and machinery within property, plant and equipment. The IFRS 16 COVID-19 practical expedient has been taken for rent payment concessions received in 2020 and therefore there has been no impact on the right of use asset balance.

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

11. Property, plant and equipment (continued)

Included within the cost of fixed assets is capitalised interest of £3,641k (2019: £3,641k). As at 31 December 2020 this is fully depreciated. As at 31 December 2020 there were £5,665k (2019: £5,621k) of assets in the course of construction. The assets under construction have not been depreciated. As at 31 December 2020 there were runways, taxiways and other similar structure assets with a net book value of £1,826k held under a finance lease arrangement (2019: £2,004k).

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 (2019: £nil).

At 31 December 2020 and 2019 assets were subject to a registered debenture that forms security for third party borrowings (see note 15).

12. Inventories

	2020 £'000	2019 £'000
Consumables	555	590

13. Trade and other receivables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of services	14,198	17,654
Other receivables	562	2,189
Prepayments and accrued income	2,979	6,321
Operating lease receivable (see note 16)	229	-
	17,968	26,164

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, £5.2m (2019: £3.8m) is due from EasyJet Airline Company Limited. There are five other customers who represent more than 5 per cent of the total balance of trade receivables totalling £5.1m (2019: £8.1m).

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.

Included within current liabilities is a credit note provision of £7.7m which has been recognised in the period. This includes £0.9m against overdue invoices (see note 23) which are expected to be credited post year end. A further £2.7m relates to overdue invoices which are expected to be paid in full once the negotiation is completed.

13. Trade and other receivables (continued)

Ageing of past due but not impaired receivables (see note 19)	2020 £'000	2019 £'000
Up to 30 days	1,602	2,370
31-60 days	1,471	-
61-90 days	2,663	-
91+ days	3,975	-
Total	9,711	2,370

Movement in the allowance for doubtful debts	2020 £'000	2019 £'000
Balance at the beginning of the period	(77)	(195)
Released in the period	17	167
Recognised in the period	(265)	(49)
Balance at the end of the period	(325)	(77)

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	2020 £'000	2019 £'000
Current	-	8
1-30 days	-	1
91-120 days	126	27
Over 120 days	199	41
	325	77

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

14. Trade and other payables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade payables	7,379	24,693
Corporation tax	194	2,124
Other taxation and social security	1,501	1,564
Other creditors	3,051	10,332
Accruals and deferred income	15,973	28,362
	28,098	67,075

15. Borrowings

	2020 £'000	2019 £'000
Borrowings falling due within one year:		
Unsecured borrowing at amortised cost		
Related party loans	2,378	2,392
Borrowings falling due within one year:		
Secured borrowing at amortised cost		
Bank loans	80,348	63
Lease liabilities (note 16)	307	2,399
	80,655	2,462
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Bank loans	-	44,000
Lease liabilities (note 16)	17,313	31,409
	17,313	75,409
Total borrowings		
Amount due for settlement within 12 months	83,033	4,854
Amount due for settlement between 2 and 5 years	672	54,667
Amount due for settlement after 5 years	16,641	20,742
TOTAL	100,346	80,263

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 5 year term. All facilities mature on 17 August 2022 with the option to extend to 17 August 2023 then 17 August 2024 (subject to conditions) at the discretion of the Company. The total facility available from 17 August 2017 is a revolving credit facility of £80m (2019: £80m). £80m (2019: £44m) of the revolving credit facility was in use by London Luton Airport Operations Limited at 31 December 2020.

On 31 July the Company obtained approval from its lenders and note holders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2020 and for an amended loan covenant test as at 30 June 2021 to be based on the results for the first 6 months of 2021 annualised. Additionally, Shareholders have committed £13m of funds for the Company to utilise if required.

The maturity dates for these loans are between 2022 and 2024. However, they have been reclassified to current liabilities as of 31 December 2020 because the Company would have breached the covenants as at 31 December 2020 if waivers had not been obtained. The Company is forecast to breach the financial ratios for its covenant test as at 30 June 2021 measurement date and due for submission by 30 September 2021 based on the latest forecasts including downsides directly related to the COVID-19 pandemic. The Company is currently in discussions with the lenders and note holders for loan covenant test waivers for 2021 and the directors are confident that they will be able to secure these waivers.

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 ("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. 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 were recognised as a right of use asset, presented as land and buildings within property, plant and equipment. In March the Company instigated the Special Force Majeure clause in the existing concession agreement and the lease payments have been reassessed as a result which has decreased the right of use assets for land and buildings by £15.7m with a corresponding decrease in the lease liability.

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, these were reclassified to plant and machinery within property, plant and equipment. The IFRS 16 COVID-19 practical expedient has been taken for rent payment concessions received in 2020 and therefore there has been no impact on the right of use asset balance but an adjustment has been made to the lease liability of £109k.

During 2019, the Company entered into a lease for a property. This was recognised as an addition in 2019 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**
Balance at 1 January 2019	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 2019	**27,925**	**374**	**28,299**
Lease reassessment	(15,665)	-	(15,665)
Depreciation charge for the year	(1,352)	(224)	(1,576)
Balance at 31 December 2020	**10,908**	**150**	**11,058**

16. Leases (continued)

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
Balance at 1 January 2019	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 2019	**2,105**	**26,717**	**28,822**
Lease reassessment	(2,268)	(13,397)	(15,665)
Lease modification – practical expedient	(103)	(6)	(109)
Cash paid less interest expense	37	(386)	(349)
Balance at 31 December 2020	**(229)**	**12,928**	**12,699**

Amounts recognised in profit or loss

	2020 £'000	2019 £'000
Leases under IFRS 16		
Interest on lease liabilities	821	1,379

Finance leases

	2020 £'000	2019 £'000
Amounts payable under finance leases:		
Within one year	1,013	1,013
In the second to fifth years inclusive	4,339	4,234
After five years	2,516	3,634
	7,868	8,881
Less: future finance charges	(3,176)	(3,926)
Present value of lease obligations	4,692	4,955

	2020 £'000	2019 £'000
Amounts payable under finance leases:		
Within one year	307	262
In the second to fifth years inclusive	2,229	1,801
After five years	2,156	2,892
Present value of lease obligations	4,692	4,955

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 2020, the average effective borrowing rate was 4.08% (2019: 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.

16. Leases (continued)

Finance leases (continued)

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 served notice of a Force Majeure Event and a Special Force Majeure Event in March 2020 under the terms of the Concession Agreement due to the effects of the COVID-19 pandemic. This has resulted in the Company not recognising or paying Concession fees for the period since 1 April 2020. There is a dispute as to the applicability and effect of the Special Force Majeure clause. Management believe that they will be successful in upholding the applicability of the Special Force Majeure clause and that no amounts will be payable in respect of the concession fee for the year ended 31 December 2020. If the Special Force Majeure clause is found not to apply, the unpaid concession fees would amount to £9.0m.

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 2019	(3,725)	7,054	3,329
(Charge)/credit to profit or loss	1,803	(2,235)	(432)
Credit to other comprehensive income	-	1,171	1,171
At 31 December 2019	**(1,922)**	**5,990**	**4,068**
Credit/(charge) to profit or loss	1,544	379	1,923
Charge to other comprehensive income	-	(1,381)	(1,381)
At 31 December 2020	**(378)**	**4,988**	**4,610**

19. Provisions

	2020 £'000	**2019 £'000**
Provisions falling due within one year	7,773	337
Provisions falling due after more than one year	847	935
Total	8,620	1,272

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

	2020 £'000	**2019 £'000**
Balance at the beginning of the year	1,272	1,208
Released in the year	(337)	(186)
Recognised in the year	7,685	250
Balance at the end of the year	8,620	1,272

19. Provisions (continued)

A noise insulation provision has been recognised of £935k (2019: £1,022k) 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.

A credit note provision of £7.7m has been recognised in the period. This includes £0.9m against overdue invoices (see note 17) which are expected to be credited post year end.

20. Share capital

	2020 £'000	2019 £'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

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 2019	72,867
Dividends paid	(16,736)
Total comprehensive income for the year	41,345
Balance at 31 December 2019	**97,476**
Dividends paid	(5,000)
Total comprehensive expense for the year	(7,641)
Balance at 31 December 2020	**84,835**

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.

22. Retirement benefit schemes

Defined benefit schemes

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.

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

	2020 %	2019 %
Key assumptions used:		
Discount rate	1.25%	2.00%
Expected rate of future pension increases	2.50%	2.75%
Rate of increase of pensions in deferment	2.50%	2.75%
Inflation	2.60%	2.85%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	21.1	21.7
Female	23.5	24.1
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	22.1	23.1
Female	24.8	25.6

* Based on SAPS "S2PA" mortality table with modifications to reflect expected changes in mortality.

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

	2020 £'000	2019 £'000
Service cost:		
Interest expense	3,118	3,877
Interest income	(2,540)	(3,100)
Components of defined benefit expenses recognised in profit or loss	578	777

Also included as a defined benefit expenses under administration expenses recognised in the profit or loss are service costs amounting to £808k (2019: £706k)

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

	2020 £'000	2019 £'000
The return on plan assets greater than the discount rate	(15,496)	(6,985)
Actuarial gain arising from changes in demographic assumptions	(12,625)	(1,066)
Actuarial loss arising from changes in financial assumptions	17,460	19,519
Actuarial (loss)/gain arising from experience adjustments	(225)	412
Changes in the effect of the asset ceiling excluding interest income	3,618	(4,994)
Remeasurement of the net defined benefit liability	(7,268)	6,886

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:

	2020 £'000	**2019 £'000**
Present value of defined benefit obligations	(161,791)	(158,553)
Fair value of plan assets	141,878	128,775
Deficit	(19,913)	(29,778)
Adjustment in respect of asset ceiling and minimum funding requirement	(3,617)	-
Deficit	(23,530)	(29,778)
Deferred tax asset (note 18)	4,989	5,990
Net liability	(18,541)	(23,788)

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

	2020 £'000	**2019 £'000**
Opening defined benefit obligation	158,553	141,757
Interest cost	3,118	3,877
Service costs	808	706
	3,926	4,583
Actuarial loss	4,610	18,865
Benefits paid	(5,298)	(6,652)
Closing defined benefit obligation	161,791	158,553

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

	2020 £'000	2019 £'000
Opening fair value of plan assets	128,775	113,311
Interest income	2,539	3,100
	2,539	3,100
Remeasurement loss:		
The return on plan assets (excluding interest income)	15,496	6,985
	15,496	6,985
Contributions from employers	360	12,025
Benefits paid	(4,484)	(5,940)
Expenses paid	(808)	(706)
	(4,932)	5,379
Closing fair value of plan assets	141,878	128,775

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

	2020 £'000	2019 £'000
Equity instruments	8,316	4,887
Debt securities	10,441	4,551
Other	123,121	119,337
Total	141,878	128,775

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 £15.7m (2019: £15.4m). If the discount rate is 0.5% lower the defined benefit obligation would increase by £17.9m (2019: £17.5m).

If the inflation rate is 0.5% higher the defined benefit obligation would increase by £13.4m (2019: £13.1m). If the discount rate is 0.5% lower the defined benefit obligation would decrease by £13.9m (2019: £13.6m).

The inflation risk premium has been set at 0.5% (reflecting an assumed inflation risk premium of 0.3% pa before 2030 and 0.6% pa after 2030), compared with 0.3% in the prior year. This reflects the current UK government consultation process on changes to align the RPI measure of inflation with the lower CPIH measure of inflation by no earlier than 2030. If the RPI inflation assumption had not changed from the 2019 derivation then the value of the defined benefit obligation would be £168.8m.

On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The scheme has experienced significant historical transfers out which will be subject to adjustment as a result of this second ruling. At this stage the trustees are not yet in a position to obtain a reliable estimate of the impact of the backdated benefits and related interest. A provision of 0.5% of liabilities has been included within these disclosures and an allowance of £38k has been made in respect of the equalisation of historic transfers.

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

The Scheme should have sufficient and appropriate assets to cover its technical provisions. To eliminate the deficit the Company has agreed to pay contributions into the Scheme on a contingent basis in 2021 up to £15.6m. The next schedule of contributions is due to be agreed as part of the triennial valuation as of 31 March 2020 which is due to be completed by 30 June 2021. The Company will continue to pay monthly contributions to the Scheme of at least £20k as an allowance for administrative expenses.

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 £2.0m (2019: £2.2m) represents contributions payable to the scheme by the Company at rates specified in the rules of the scheme. As at 31 December 2020, contributions of £nil (2019: £nil) due in respect of the current reporting period had not been paid over to the scheme.

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.

	Year ended 2020 £'000	Year ended 2019 £'000
Directors' remuneration		
Emoluments	732	663
Company contributions to defined contribution pension schemes	45	28
	777	691

	Year ended 2020 £'000	Year ended 2019 £'000
Remuneration of the highest paid director:		
Emoluments	419	334
Company contributions to money purchase schemes	25	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 2020 (2019: £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.