London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2016

Registered number: 03491213

London Luton Airport Operations Limited

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London Luton Airport Operations Limited

Company information

DIRECTORS:	CW Condie R Marabini Ruiz Lord DJ Brennan E Renton AS Liau F Echegaray Del Pozo N Barton J Angoitia Grijalba J Leo Vizcaíno J M Fernandez Bosch M Garcia Duarte
COMPANY SECRETARY:	Elemental Company Secretary Limited
REGISTERED OFFICE:	Navigation House Airport Way Luton Bedfordshire LU2 9LY
AUDITOR	Deloitte LLP St Albans
BANKERS:	Barclays Bank plc Capability Green Luton Bedfordshire LU1 3US
SOLICITORS:	Freeths LLP Routeco Office Park Davy Avenue Knowlhill Milton Keynes Buckinghamshire MK5 8HJ

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 a consortium comprising Entidad Pública Empresarial Enaire and Axa Infrastructure Fund III SCA SICAR.

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, to significantly increase the size of the airport and to operate at all times in a safe and environmentally sustainable manner. The key strategy that will allow the Company to deliver these objectives is the injection of substantial capital investment, which will expand airport capacity to 18 million passengers per year. This investment will lead to new and better facilities, providing an airport which airlines will find easy to use and passengers easy to choose. Furthermore, the Company is committed to growing passenger volumes responsibly, generating valuable economic benefits for the region whilst managing its impact on communities and at the same time providing a competitive return on investment for its shareholders.

Financial performance and key performance indicators

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

Overall trading results for the year ended 31 December 2016 have increased as a result of an 19% increase in passenger volumes from 12.3 million passengers in 2015 to 14.6 million passengers in 2016, which is the highest ever recorded in the airport's history. This increase in passengers was driven primarily by growth across most major scheduled carriers, particularly easyJet and Wizz who have increased their capacity at London Luton Airport significantly.

Total revenue for the year ended 31 December 2016 was £162,855k (2015: £146,956k); see note 3 for further analysis. Traffic income in 2016 represented an average of £5.29 per passenger (2015: £5.66). The decrease is due to a growth incentive scheme which was introduced in 2014 and provides rebates for airlines who grow volumes at London Luton Airport. The growth incentive scheme is pivotal to the Group's passenger and profitability growth.

Operating profit for the year was £45,648k (2015: £38,245k). The Directors believe that EBITDA is the performance measure most relevant to the readers of our statutory accounts. EBITDA was £55,117k for the year (2015: £50,033k). an increase of 10.2%. EBITDA growth did not fully track passenger growth primarily as a result of the phasing of the terminal development programme and the impact on trading.

Future developments

Following approval of the planning application by Luton Borough Council and completion of the tender process for the airport development, construction work is well underway to expand airport capacity. This involves investment to transform the airport including construction of a multi-storey car park, redesigning the terminal to make it quicker and easier for all passengers, increasing the choice of destinations and making road and rail access easier.

The shareholders are committed to the development of the infrastructure of London Luton Airport which, in line with planning approval, will expand airport capacity to 18 million passengers per annum.

London Luton Airport Operations Limited

Strategic report

Principal risks and uncertainties

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

Safety and security risks

The Group mitigates safety and security risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Group works closely with government agencies, the police and the Armed Forces to match security measures to a level commensurate with the current elevated threat level.

Furthermore the Group has a health and safety management system to mitigate this risk. The system incorporates the setting of standards and targets, monitoring performance, and putting plans in place for improving performance. The Groups current occupational health and safety OHSA18001 certificate will be migrated to ISO450001 when it is released in 2017.

Assurance over safety and security risks is provided through management reporting processes and a specialist compliance audit function. The Group has controls to manage the risks associated with works undertaken by contractors and has controls and systems to ensure that appropriate measures are in place during the tender phase of projects.

The CAA aerodrome standards department visit each aerodrome periodically as part of their audit/inspection programme. The CAA inspectors assess compliance with the licensing requirements of aerodromes, audit the aerodrome's management safety and assess the competence of those responsible for safety. The last audit was in November 2014 and the CAA reported no serious instances of non-compliance. The next audit is expected in the first half of 2017.

Environment

Environmental risks need to be mitigated as they have the potential to impact the Group's reputation and licence to operate and to grow, as well as the environment. The Group mitigates these risks at a number of levels including the use of an environmental management system, which incorporates a legal register to understand what legislation applies to the business objectives and targets around significant environmental impacts; monitoring performance against targets; internal audit; training programmes; and the influencing of third parties on site to improve their performance. The Group works proactively with stakeholders to ensure that it effectively manages the challenges posed to the environment by the Airport's operation.

Noise management

LLAOL 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 attached to our planning permission, a number of voluntary measures agreed in consultation with LLACC and measures that follow best industry practice. These are detailed in our Noise Action Plan available on the website.

Fines are enforced for airlines flying off-track, and the noise violation levels for the day and night periods have been brought down significantly to incentivise quieter operations. A quota count system has been brought into effect to mirror what is in operation at other London airports and CAA approved plans for Area Navigation (RNAV) technology on the Runway 26 Brookmans Park departure route are in place.

Capital projects

The Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The Group mitigates this risk through adherence to a rigorous project process, and by systems of project reviews before approval, during construction and after project completion.

Changes in demand

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

Industrial relations

Industrial action by key groups of employees that affects critical services or curtails operations could have potentially adverse financial and/or reputational impacts on the Group. The Group recognises the trade union Unite and emphasis has been placed on resolving issues at a departmental level thereby avoiding escalation. Additionally there is the potential for adverse financial impacts in the event that industrial action is taken within suppliers of key services (e.g. air traffic controllers) or by employees of key clients (e.g. airlines) that the airport monitors closely.

Macroeconomic environment

The outcome of the referendum in June 2016 for the UK to leave the EU has created increased uncertainty and reduced confidence in the long term economic outlook, UK growth predictions have been downgraded following the result. It is not possible to quantify the impact of this on demand for air travel so the Group continues to regularly monitor economic factors and undertakes regular scenario analysis to ensure the Groups resilience against any changes.

The long term business plan has been updated following the referendum with growth due to the expansion of the airport expected over the next 5 years. The shortage of airport capacity in the south east of the UK is expected to drive growth in the short term in spite of any potential effects of the referendum.

Financial risk management objectives and policies

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

Specifically, the Group has implemented policies that require appropriate credit checks on potential customers before any business is transacted. In addition, the Group has access to debt finance that is designed to ensure that it has sufficient funds for operations. The Directors will revisit the appropriateness of this arrangement should the Group's operations change in size or nature. To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term and short-term debt finance.

Given the size of the Group, 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 Group's finance department.

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

Risk	**Impact on group**	**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 Group.	Credit risk is well managed with 98% of trade receivables not yet due. The airport has a large customer base and key balances are regularly monitored and reported to the shareholders to ensure that the risk is highlighted.	The Group has implemented policies that require credit checks where required on potential customers before any business is transacted and uses proforma invoicing where appropriate. Working capital is financed through a revolving credit facility to mitigate dependency on any one customer.
Liquidity risk	The Group's ability to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments.	There have been no changes to the Group financing arrangements in the year. The funding is in place to support the infrastructure development project to increase airport capacity (see note 15 for details).	The Group uses bank debt including a £75m capex facility to finance infrastructure development and a £15m revolving credit facility to manage working capital with a maturity date of 28 March 2022.

Risk	Impact on group	Assessment of change in risk year-on-year	Mitigation of risk
Interest rate risk	The Group's ability to maintain interest payments, on external and related party loans.	There have been no changes to the Group financing arrangements in the year. Fixed interest rates and interest rate risk remains stable	There have been no changes to the Group financing arrangements in the year. Fixed interest rates and interest rate risk remains stable

Events after the balance sheet date

The London Luton Airport Pension Scheme (LLAPS) has 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 charge. As the event occurred after 31 December 2016, there is no impact on the financial position reported at that date but the impact will be recognised in the year ending 31 December 2017.

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). As such, there is no financial impact on the defined benefit obligation for the Scheme closure.

As part of the Scheme closure, the commutation rates written into the Scheme Rules and used to convert pension into tax free cash lump sums at retirement were increased from 9:1 to 15:1. This change will have the impact of increasing the defined benefit obligation by £6.9m and will be recognised as a past service cost under IAS19. This impact will be effective at 31 January 2017.

Approval

Approved by the Board and signed on its behalf by:

Clive Condie
Director

23rd March 2017

London Luton Airport Operations Limited

Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2016.

Future developments and events after the balance sheet date

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

Going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

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

Financial risk management objectives and policies

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

Dividends

Interim dividends of £13.5m paid on 27 May 2016 and £11.8m paid on 25 November 2016, make a total of £25.3m for the year (2015: £29.5m).

Directors

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

CW Condie	
R Marabini Ruiz	
Lord DJ Brennan	
E Renton	
AS Liau	
F Echegaray Del Pozo	
N Barton	
J Angoitia Grijalba	appointed 11 July 2016
J Leo Vizcaíno	
J M Fernandez Bosch	appointed 11 July 2016
M Garcia Duarte	appointed 11 July 2016
MR Escrig Teigeiro	resigned 11 July 2016

Directors include executive, non-executive and alternate directors. Alternate directors have been appointed by certain non-executive 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	
N Barton	
E Renton	resigned 11 July 2016
Non-executive directors	
CW Condie	
J Leo Vizcaíno	appointed 11 July 2016
R Marabini Ruiz	
Lord DJ Brennan	

Directors' report

Directors (continued)

Non-executive directors (continued)

AS Liau	
F Echegaray Del Pozo	
M Garcia Duarte	appointed 11 July 2016
J M Fernandez Bosch	appointed 11 July 2016

Alternate Directors

MR Escrig Teigeiro (alternate to R Marabini Ruiz)	resigned 11 July 2016
J Leo Vizcaíno (alternate to F Echegaray Del Pozo)	resigned 11 July 2016
J Angoitia Grijalba (alternate to AS Liau)	appointed 11 July 2016
E Renton (alternate to N Barton)	appointed 11 July 2016

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

Auditor

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

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

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

Following an audit tender conducted during the year, KPMG was selected as auditor for London Luton Airport Operations Limited. Accordingly, it is intended that KPMG will be appointed to replace Deloitte LLP as auditor for the year ending 31 December 2017.

Approved by the Board and signed on its behalf by:

Clive Condie
Director

23rd March 2017

London Luton Airport Operations Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report including 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 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 judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 "Reduced Disclosure Framework" has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the financial statements of London Luton Airport Operations Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Heather Bygrave

Heather Bygrave FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
St Albans, United Kingdom

24th March 2017

London Luton Airport Operations Limited
Income statement
For the year ended 31 December 2016

	Note	Year ended 2016 £'000	Year ended 2015 £'000
Revenue	3	162,855	146,956
Administrative expenses		(117,207)	(108,711)
Operating profit		45,648	38,245
Investment revenue	7	489	45
Finance costs	8	(1,899)	(2,229)
Profit before tax		44,238	36,061
Tax	9	(7,402)	(3,300)
Profit for the financial year attributable to owners of the Company	4	36,836	32,761

All results relate to continuing activities.

London Luton Airport Operations Limited
Statement of comprehensive income
For the year ended 31 December 2016

	Year ended 2016 £'000	Year ended 2015 £'000
Profit for the year	36,836	32,761
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss)/gain on defined benefit plan	(22,601)	6,096
Deferred tax on actuarial movement	3,657	(1,472)
Other comprehensive (expense)/income for the year net of tax	(18,944)	4,624
Total comprehensive income for the year attributable to the owners of the Company	17,892	37,385

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Property, plant and equipment	11	91,103	84,977
Current assets			
Inventories	12	513	506
Trade and other receivables	13	53,229	26,962
Cash and bank balances		10,736	10,380
		64,478	37,848
Total assets		**155,581**	**122,825**
Current liabilities:			
Trade and other payables		(58,646)	(45,411)
Borrowings	15	(9,103)	(123)
	14	(67,749)	(45,534)
Net current liabilities		(3,271)	(7,686)
Non-current liabilities			
Borrowings	15	(5,120)	(5,204)
Defined benefit pension scheme liability	20	(37,914)	(17,060)
Deferred tax liabilities	17	(690)	(3,511)
		(43,724)	(25,775)
Total liabilities		**(111,473)**	**(71,309)**
Net assets		**44,108**	**51,516**
Equity			
Share capital	18	5,274	5,274
Retained earnings	19	38,834	46,242
Equity attributable to owners of the Company		**44,108**	**51,516**

The financial statements of London Luton Airport Operations Limited, registered number 03491213, were approved by the board of directors and authorised for issue on 23rd March 2017. They were signed on its behalf by:

Director
Clive Condie

London Luton Airport Operations Limited
Statement of changes in equity
For the year ended 31 December 2016

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015	**5,274**	**38,357**	**43,631**
Profit for the period	-	32,761	32,761
Other comprehensive income for the period	-	4,624	4,624
Total comprehensive income for the period	-	**37,385**	**37,385**
Dividends	-	(29,500)	(29,500)
Balance at 31 December 2015	**5,274**	**46,242**	**51,516**
Profit for the period	-	36,836	36,836
Other comprehensive expense for the period	-	(18,944)	(18,944)
Total comprehensive income for the period	-	**17,892**	**17,892**
Dividends	-	(25,300)	(25,300)
Balance at 31 December 2016	**5,274**	**38,834**	**44,108**

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 23.

The Company has applied FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016

Adoption of new and revised Standards

In the current year, the Group 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 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 Disclosure Initiative	The Group has adopted the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The amendments also address the structure of the financial statements by providing examples of systematic ordering or grouping of the notes. The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

1. Accounting policies (continued)

Adoption of new and revised Standards (continued)

Annual Improvements to IFRSs 2012-2014 Cycle	The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2012-2014 Cycle for the first time in the current year. The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued. The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The adoption of these amendments has had no effect on the Group's consolidated financial statements.

Basis of accounting

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of London Luton Airport Group Limited. The consolidated accounts of London Luton Airport Group Limited are available to the public and can be obtained as set out in note 23.

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;

1. Accounting policies (continued)

Basis of accounting (continued)

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

The Company made a profit for the year of £36.8m (2015: £32.8m). The Group headed by London Luton Airport Holdings III Limited generated £53.6m of EBITDA (2015: £48.8m) and £51.2m (2015: £45.9m) of net cash from operating activities. The directors have considered the forecast profit and associated cash flows for 2017 and 2018. They have also considered the facilities available to the Group, as described in the Strategic Report, and which are available for the period of their forecast, and are satisfied that the Group can operate within these facilities for the relevant period.

The directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing annual financial statements.

Property, plant and equipment

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

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

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

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

Inventories

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

Taxation

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

1. Accounting policies (continued)

Taxation (continued)

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

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

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

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

Current tax and deferred tax for the year

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

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 the service is rendered. 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.

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

1. Accounting policies (continued)

Retirement benefit costs (continued)

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

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Where the Company holds financial assets in such categories, the accounting policy for these is described below.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Leases

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

1. Accounting policies (continued)

Leases (continued)

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. 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.

Impairment of tangible assets

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

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

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

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Company's accounting policies

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

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

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.

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.

Growth incentive scheme rebates

Provisions have been made for rebates on the basis of forecast passenger growth for the airlines which qualify for the growth incentive scheme. The end date of the current growth period is the 12 months ending 31 March 2017 and therefore there is uncertainty as to the annual growth which will be recorded and the final rebate which will be payable.

Assumptions on discounted cashflow

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

3. Revenue

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

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

	Year ended 2016 £'000	Year ended 2015 £'000
Turnover:		
Traffic income	76,957	69,498
Commercial income	70,430	62,039
Tenant income	15,468	15,419
	162,855	146,956

Included in revenues arising from traffic income is approximately £49.3m (2015: £43.6m) from the Group's two largest customers. No other single customers contributed 10% or more to the Group's revenues in either 2016 or 2015

In addition investment revenue of £489k (2015: £45k) arose in the year (see note 7).

4. Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 2016 £'000	Year ended 2015 £'000
Depreciation of tangible fixed assets:		
- Owned assets	9,335	11,588
- Held under finance leases	134	200
Loss on disposal of tangible fixed assets	258	-
Staff costs (see note 6)	28,222	25,680

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

	Year ended 2016 £'000	Year ended 2015 £'000
Operating profit	45,648	38,245
Add: Depreciation on tangible assets – owned and leased assets	9,469	11,788
EBITDA	**55,117**	**50,033**

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 twelve month period ended on 31 December 2016 was £42,583k (2015: £35,601k).

5. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the Company's annual accounts were £32k (2015: £36k).

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent company are required to disclose such fees on a consolidated basis.

6. Staff costs

The average monthly number of employees was:

	2016 Number	2015 Number
Operations	618	551
Management and support services	64	54
Technical services	41	41
	723	646

6. Staff costs (continued)

Their aggregate remuneration comprised:

	Year ended 2016 £'000	Year ended 2015 £'000
Wages and salaries	23,064	21,035
Social security costs	1,984	1,578
Other pension costs (note 20)	3,174	3,067
	28,222	25,680

7. Investment revenue

	Year ended 2016 £'000	Year ended 2015 £'000
Other loans and receivables	489	45

8. Finance costs

	Year ended 2016 £'000	Year ended 2015 £'000
Interest payable on bank overdrafts and loans	444	459
Interest payable to group undertakings	100	100
Other finance costs arising on defined benefit pension (note 20)	530	835
Interest on obligations under finance leases	825	835
Total interest payable	1,899	2,229

9. Tax

	Year ended 2016 £'000	Year ended 2015 £'000
UK corporation tax	5,515	4,354
Adjustments in respect of prior years - UK corporation tax	1,051	(334)
	6,566	4,020
Deferred tax (note 17)	836	(720)
	7,402	3,300

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated taxable profit for the year.

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

	Year ended 2016 £'000	Year ended 2015 £'000
Profit before tax on continuing operations	44,238	36,061
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	8,848	7,302
Effects of:		
Group relief received for nil payment	(3,818)	(3,576)
Effects of changes in statutory tax rates	(408)	(595)
Adjustments to tax charge in respect of previous periods	2,730	(105)
Permanent adjustments and other rounding differences	50	274
Tax expense for the year	7,402	3,300

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated taxable profit for the period. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on these rates.

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

	Year ended 2016 £'000	Year ended 2015 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	3,657	(1,472)

10. Dividends

	Year ended 2016 £'000	Year ended 2015 £'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2016 (equivalent to £253 per share), (2015: £295 per share)	25,300	29,500

Interim dividends of £13.5m paid on 27 May 2016 and £11.8m paid on 25 November 2016, make a total of £25.3m for the year (2015: £29.5m). No final dividend has been declared in either period.

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 2016	76,313	77,005	56,213	10,547	220,078
Additions	181	89	1,179	14,404	15,853
Disposals	(162)	(384)	(2,778)	-	(3,324)
Transfers	199	(1,406)	3,412	(2,205)	-
At 31 December 2016	76,531	75,304	58,026	22,746	232,607
Accumulated depreciation					
At 1 January 2016	49,948	42,212	42,941	-	135,101
Charge for the year	2,317	3,883	3,269	-	9,469
Eliminated on disposal	(111)	(224)	(2,731)	-	(3,066)
At 31 December 2016	52,154	45,871	43,479	-	141,504
Carrying amount					
At 31 December 2016	24,377	29,433	14,547	22,746	91,103
At 31 December 2015	26,365	34,793	13,272	10,547	84,977

Included within the cost of fixed assets is cumulative capitalised interest of £3,641k (2015: £3,641k). The depreciation charge for the year includes an amount of £55k (2015: £220k) representing the depreciation of capitalised interest.

As at 31 December 2016 there were £27,746k (2015: £10,547k) of assets in the course of construction. These are largely to do with the expansion of the airport as disclosed on page 2 in the strategic report. The assets under construction have not been depreciated.

As at 31 December 2016 there were runways, taxiways and other similar structure assets with a net book value of £2,538k held under a finance lease arrangement (2015: £2,672k).

12. Inventories

	2016 £'000	2015 £'000
Consumables	513	506

13. Trade and other receivables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of services	14,570	19,008
Amounts due from group undertakings	31,261	2,023
Other receivables	3,632	2,227
Prepayments and accrued income	3,766	3,704
	53,229	26,962

14. Trade and other payables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Borrowings (see note 15)	9,103	123
Finance leases (see note 16)	84	73
Trade payables	19,755	16,294
Amounts owed to group undertakings	11,466	3,194
Corporation tax	2,340	2,691
Other taxation and social security	16	1,689
Other creditors	6,060	5,726
Accruals and deferred income	18,925	15,744
	67,749	45,534
Amounts falling due in more than one year:		
Finance leases (see note 16)	5,120	5,204
Deferred tax liability (see note 17)	690	3,511
	5,810	8,715

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

London Luton Airport Operations Limited
Notes to the financial statements
For the year ended 31 December 2016

15. Borrowings

	2016 £'000	2015 £'000
Borrowings falling due within one year:		
Unsecured borrowing at amortised cost		
Related party loans	2,000	2,000
Borrowings falling due within one year:		
Secured borrowing at amortised cost		
Bank loans	9,103	123
Finance leases (Note 16)	84	73
	9,187	196
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Finance lease liabilities (note 16)	5,120	5,204
Total borrowings		
Amount due for settlement within 12 months	11,187	2,196
Amount due for settlement between 2 and 5 years	1,012	782
Amount due for settlement after 5 years	4,108	4,422
TOTAL	**16,307**	**7,400**

Bank borrowings consist of a revolving credit facility with a syndicate comprising Caixabank S.A., Crédit Agricole Corporate, Commonwealth Bank of Australia, Medibanco International, Royal Bank of Canada, the Royal Bank of Scotland. DBJ Europe Limited and AIB Group (UK) PLC. Interest is charged at a rate of 6 month LIBOR plus an original margin of 1.65% escalating over the 7 year term. All facilities mature on 28 March 2022. The total facility available from 26 March 2015 is a revolving capex facility of £75m and a revolving credit facility of £15m. £9m (2015: £nil) of the revolving credit facility was in use by London Luton Airport Operations Limited at 31 December 2016.

16. Obligations under finance leases

	2016 £'000	2015 £'000
Amounts payable under finance leases:		
Within one year	898	898
In the second to fifth years inclusive	3,964	3,870
After five years	6,461	7,453
	11,323	12,221
Less: future finance charges	(6,119)	(6,944)
Present value of lease obligations	5,204	5,277

	2016 £'000	2015 £'000
Amounts payable under finance leases:		
Within one year	84	73
In the second to fifth years inclusive	1,012	782
After five years	4,108	4,422
Present value of lease obligations	5,204	5,277

All lease obligations are denominated in sterling.

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

Finance leases are secured against the assets to which they relate.

17. 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 2015	**(7,848)**	**5,089**	**(2,759)**
Credit/(charge) to income statement	1,266	(546)	720
Charge to other comprehensive income	-	(1,472)	(1,472)
At 31 December 2015	**(6,582)**	**3,071**	**(3,511)**
Charge to income statement	(553)	(283)	(836)
Credit to other comprehensive income	-	3,657	3,657
At 31 December 2016	**(7,135)**	**6,445**	**(690)**

18. Share capital

	2016 £'000	2015 £'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.

19. Retained earnings

	£'000
Balance at 1 January 2015	**38,357**
Dividends paid	(29,500)
Net profit for the year	37,385
Balance at 31 December 2015	**46,242**
Dividends paid	(25,300)
Net profit for the year	17,892
Balance at 31 December 2016	**38,834**

20. Retirement benefit schemes

Defined benefit schemes

The Company operates a defined benefit pension scheme, London Luton Airport Pension Scheme ("LLAPS"). The LLAPS is a funded defined benefit scheme and its assets are held in separate trustee-administered funds.

The Company participates in a group defined benefit scheme for qualifying employees. 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 2014. The valuation used the projected unit method and was carried out by Willis Towers Watson Limited, professionally qualified actuaries.

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

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

	2016 %	2015 %
Key assumptions used:		
Discount rate	2.55%	3.75%
Expected rate of future pension increases	2.95%	2.85%
Rate of increase of pensions in deferment	3.15%	3.00%
Inflation	3.15%	3.00%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	21.8	22.0
Female	23.9	24.0
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	23.5	24.3
Female	25.8	26.5

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

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

	2016 £'000	2015 £'000
Service cost:		
Current service cost	3,174	3,029
Net interest expense	3,759	3,881
Expected return	(3,229)	(3,047)
Components of defined benefit costs recognised in profit or loss	3,704	3,863

20. Retirement benefit schemes (continued)

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

	2016 £'000	2015 £'000
The return on plan assets (greater)/less than the discount rate	(15,389)	2,278
Actuarial loss/(gain) arising from changes in demographic assumptions	2,289	(2,206)
Actuarial loss/(gain) arising from changes in financial assumptions	35,877	(281)
Actuarial gain arising from experience adjustments	(176)	(5,887)
Remeasurement of the net defined benefit liability	22,601	(6,096)

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

	2016 £'000	2015 £'000
Present value of defined benefit obligations	(143,922)	(101,108)
Fair value of plan assets	106,008	84,048
Deficit	(37,914)	(17,060)
Deferred tax asset	6,445	3,071
Net liability	(31,469)	(13,989)

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

	2016 £'000	2015 £'000
Opening defined benefit obligation	**101,108**	**104,325**
Current service cost	2,880	2,771
Interest cost	3,759	3,881
	6,639	**6,652**
Actuarial loss/(gain)	**37,990**	**(8,374)**
Contributions from plan participants	886	813
Benefits paid	(2,995)	(2,548)
Expenses paid	294	240
	(1,815)	**(1,495)**
Closing defined benefit obligation	**143,922**	**101,108**

20. Retirement benefit schemes (continued)

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

	£'000
Expected benefit payments during fiscal year ending 31 December 2017	2,031
Expected benefit payments during fiscal year ending 31 December 2018	2,095
Expected benefit payments during fiscal year ending 31 December 2019	2,161
Expected benefit payments during fiscal year ending 31 December 2020	2,229
Expected benefit payments during fiscal year ending 31 December 2021	2,299
Expected benefit payments during fiscal years ending 31 December 2022 through 31 December 2026	12,626

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

	2016 £'000	2015 £'000
Opening fair value of plan assets	**84,048**	**78,880**
Interest income	3,229	3,047
	3,229	**3,047**
Remeasurement gain/(loss):		
The return on plan assets (excluding amounts included in net interest expense)	15,389	(2,278)
	15,389	**(2,278)**
Contributions from employers	5,443	6,126
Contributions from plan participants	886	813
Benefits paid	(2,503)	(1,956)
Expenses paid	(484)	(584)
	3,342	**4,399**
Closing fair value of plan assets	**106,008**	**84,048**

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

	2016 £'000	2015 £'000
Equity instruments	31,802	27,736
Debt securities	4,240	3,362
Other	69,966	52,950
Total	**106,008**	**84,048**

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 £15.6m. If the discount rate is 0.5% lower the defined benefit obligation would increase by £18.4m.

The Scheme should have sufficient and appropriate assets to cover its technical provisions. To eliminate the deficit the Company has agreed to pay annual contributions into the Scheme until 31 March 2023. The next deficit payment is £2.3m to be paid into the Scheme by 31 December 2017, with an additional £1.7m to be paid into an Escrow account (or directly into the Scheme at the discretion of the employer).

21. Events after the balance sheet date

The London Luton Airport Pension Scheme (LLAPS) has 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 charge. As the event occurred after 31 December 2016, there is no impact on the financial position reported at that date but the impact will be recognised in the year ending 31 December 2017.

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). As such, there is no financial impact on the defined benefit obligation for the Scheme closure.

As part of the Scheme closure, the commutation rates written into the Scheme Rules and used to convert pension into tax free cash lump sums at retirement were increased from 9:1 to 15:1. This change will have the impact of increasing the defined benefit obligation by £6.9m and will be recognised as a past service cost under IAS19. This impact will be effective at 31 January 2017.

22. Related party transactions

Trading transactions

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

During the year the Group companies paid £63k to Ingeniería y Economía del Transporte S.A. a company 45.85% owned by Aena S.A. for consultancy services (2015: £73k).

	Year ended 2016 £'000	Year ended 2015 £'000
Directors' remuneration		
Emoluments	674	423
Company contributions to defined contribution pension schemes	35	35
	709	458

	Year ended 2016 £'000	Year ended 2015 £'000
Remuneration of the highest paid director:		
Emoluments	314	212
Company contributions to money purchase schemes	20	20

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 2016 (2015: £nil).

23. 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 Navigation House, Airport Way, Luton, Bedfordshire LU2 9LY.

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is a consortium comprising Entidad Pública Empresarial Enaire and Axa Infrastructure Fund III SCA SICAR. The largest group in which the results of the Company are consolidated is Entidad Pública Empresarial Enaire. Copies of these financial statements can be obtained from Arturo Soria 109, Madrid, Spain.