London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2018

Registered number: 03491213

London Luton Airport Operations Limited

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London Luton Airport Operations Limited

Company information

DIRECTORS:	M Campomanes Camino R Marabini Ruiz H G Rees B R Hunter M Brown A Martin B Pahari J Leo Vizcaíno J I Ascacibar M De Los Reyes Escrig Teigeiro N Aguilar Iglesias
COMPANY SECRETARY:	Squire Patton Boggs Secretarial Services Limited
REGISTERED OFFICE:	Navigation House Airport Way London Luton Airport Luton Bedfordshire LU2 9LY
AUDITOR	KPMG LLP Altius House One North Fourth Street Milton Keynes MK9 1NE
BANKERS:	Barclays Bank plc Capability Green Luton Bedfordshire LU1 3US

London Luton Airport Operations Limited

Company information (continued)

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

London Luton Airport Operations Limited

Strategic report

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

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

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

The business model

The Company is a subsidiary of London Luton Airport Group Limited. The ultimate parent undertaking and controlling party is Entidad Pública Empresarial Enaire ('Aena'). The Group changed CEO in 2018 with Alberto Martin replacing Nick Barton following his resignation.

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. 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. 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 2018 have increased as a result of a 5% (2017: 9%) increase in passenger volumes from 15.8 million passengers in 2017 to 16.6 million passengers in 2018. This increase in passengers was driven primarily by growth across most major scheduled carriers notably easyJet, Wizz and Ryanair.

Total revenue for the year ended 31 December 2018 was £201,315k (2017: £180,221k); see note 3 for further analysis. Traffic income in 2018 represented an average of £5.42 per passenger (2017: £5.24). The increase is due to a reduction in the growth incentive scheme which was introduced in 2014 and provides rebates for airlines who grow passenger volumes at London Luton Airport.

Operating profit for the year was £49,855k (2017: £39,651k). The Directors believe that EBITDA is the performance measure most relevant to the readers of our statutory accounts. EBITDA before exceptional items was £74,416k for the year (2017: £56,325k) an increase of 32.1%. EBITDA growth did not fully track passenger growth primarily as a result of the phasing of the terminal development programme and the corresponding impact on trading.

Future developments

The airport reached Substantial Completion on Phase One of its construction works. This has involved investment to transform the airport including the construction of a multi-storey car park, expanding and redesigning the terminal and making road access easier. This development will, in line with planning approval, allow the airport to expand capacity to 18 million passengers. The airport is progressing with the next phase of the construction which includes additional taxiways and de-icing facilities.

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

Principal risks and uncertainties

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

Safety and security risks

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

The Company is committed to running London Luton Airport in a proactive, positive, safe and responsible manner and has implemented a robust health and safety management system. The system incorporates the setting of standards and targets, monitoring performance, and putting plans in place for continuously improving performance. In 2018 the Company's health and safety management system was certified to ISO 45001.

Assurance over safety and security risks is provided through management reporting processes and a specialist compliance audit function. The Company 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 Performance Based Regulation (PBR) programme. The CAA inspectors assess compliance against EASA Certification requirements, audit the effectiveness of aerodrome's Operational Safety Management System and assess the competence of those responsible for safety. The last audit was in May 2018 and the CAA reported no significant instances of non-compliance. The next audit is expected end of April 2019.

Governance, Social and Environmental Issues

In 2018 the Company started working on the development of a broader strategy to incorporate environmental, social and governance topics, capturing current activities and ensuring the Company acts responsibly in all areas of work. An in-depth analysis of the Company's activities was carried out, collating input from a broad mix of stakeholders. An extensive consultation with partners and departments across the Company was also undertaken, as well as benchmarking against sector peers. A Responsible Business Committee was formed to oversee the delivery of improvements in six key areas, supporting it through a governance and sustainability management structure. Following further consultation, the Company will be launching its Responsible Business Strategy in 2019.

Environment

Environmental risks need to be mitigated in order to protect the environment and to avoid any adverse impacts on the Company's reputation and ability to operate and grow. The Company controls these risks at a number of levels including the use of an environmental management system (ISO 14001 certified) and energy management system (ISO 50001 certified). Both management systems provide a systematic framework to identify, manage, monitor and control environmental and energy issues in a holistic manner. In 2018 the Company achieved a certification in the new version of ISO 14001, in which it was required to demonstrate an increased prominence of environmental management within the strategic planning processes, greater input from leadership and a stronger commitment to proactive initiatives that boost environmental performance.

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 summer 2017, the airport exceeded, by 4%, one of its planning conditions related to the size of its night-time noise contours. The breach was driven by two factors, firstly the growth of the airport which outstripped projections made in 2012, and secondly, the growth in aircraft movements arriving sooner than the introduction of newer, quieter aircraft, scheduled to be delivered between 2019 and 2024. In addition, there were also factors outside the Company's control, including off-schedule activity as a result of adverse weather patterns in Europe.

In response, during 2018, the Company introduced restrictions for aircraft operating during the night time. These measures reduced the number of movements during the night time period but again, due to factors mainly outside the

Principal risks and uncertainties (continued)

Noise management

Company's control - including air traffic delays across Europe - the night-time noise contour was exceeded in 2018 by 8%. As passenger growth is forecast to continue through 2019 the Company has submitted an application to vary the noise contour limits in conjunction with a series of additional noise reduction measures.

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 seeks to resolve any issues through sensible discussion and negotiation. Additionally, there is the potential for adverse financial impacts in the event that industrial action is taken within suppliers of key services (e.g. air traffic controllers) or by employees of key clients (e.g. airlines) that the Company monitors closely.

Macroeconomic environment

The shortage of airport capacity in the south east of the UK is expected to drive growth in the short term in spite of any potential effects of Brexit.

Brexit

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. It is not possible to quantify the impact of this on demand for air travel however the Company monitors economic factors to ensure the Group's resilience against any changes. The following risks have been considered in the preparation of these financial statements, though ultimately the magnitude and likelihood of identified risks is subject to the negotiation process between the British government and the European Union to determine the conditions of its exit:

- Brexit discussions could cause a reduction in passenger volumes, either because of lack of confidence and/or confusion by the travelling public or because of a fall in the value of the pound making travel less affordable. Scenario analysis has been performed for varying degrees of passenger downturn to ensure that the company can react to any changes.

- From a legal and operational point of view, air travel between the UK and EU is highly regulated. The airlines that operate from the airport have all obtained the relevant EU and UK operating licences and have also put in place contingency measures with regards their shareholding structures to allow them to continue to operate. Even in the event of a "No-deal" Brexit, the UK and EU have agreed emergency legislation to allow air travel to continue.

- The United Kingdom (UK) currently has border controls in place as they are not part of the Schengen Treaty, single jurisdiction for international travel purposes. However, the UK do currently maintain a Common travel Area, so there may be an impact on time/resource for immigration control and therefore passenger experience. Discussions are held regularly between LLA and Border Force to ensure that they are ready to adapt to the post Brexit conditions.

- Activity could be reduced as a result of restrictions on the free movement of persons or economic developments in the United Kingdom, given that a high percentage of its traffic is international. Scenario analysis has been performed for varying degrees of passenger downturn to ensure that the company can react to any changes.

- Investments, expenses and operational difficulties may be caused by the reconfiguration of passenger flows at airports. It is not yet possible to predict what effect this may have on LLA. However there is headroom in the current financing structure to enable LLA to react as appropriate.

- The Group reviewed possible scenarios arising from the Brexit concluding that the risk of impairment is remote.

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

Strategic report (continued)

Financial risk management objectives and policies

The Group 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 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 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 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 93% (2017: 89%) of trade receivables not yet due.	The airport has a large customer base and key balances are regularly monitored and reported to the shareholders to ensure that risks are highlighted. The 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. Credit insurance insures 90% of the trade receivables.
Liquidity risk	The Group's ability to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments.	Funding is in place to support the infrastructure development project to increase airport capacity (see note 15 for details). The total facility available is £80m (2017: £80m)	The Group uses an £80m revolving credit facility with a maturity date of 17 August 2022 to finance infrastructure development and manage working capital.
Interest rate risk	The Group's ability to maintain interest payments, on external and related party loans.	The Group has interest rate hedging for 100% (2017: 100%) of the finance incurring variable interest rates, therefore minimising interest rate risk.	The Group has interest rate hedging for 100% of the finance incurring variable interest rates, therefore minimising interest rate risk.

Financial risk management objectives and policies (continued)

Risk	Impact on group	Assessment of change in risk year-on-year	Mitigation of risk
Development capital expenditure risk	The Company's ability to control costs, maintain health and safety standards on-site as the airport expansion development project is completed.	The Company is nearing completion on the development project to expand the airport's capacity therefore the majority of significant capital cost overspend risk has been mitigated or eliminated. Health and safety on-site remains of paramount importance.	The "Curium Committee" was established as a sub-committee of the board to monitor and approve all development cost expenditure. In addition it monitors all other aspects of the project including health and safety on-site.
Noise management risk	The Company has noise contours agreed as part of its planning permission.	In 2018, the Company exceeded its night-time noise contours by 8%. As passenger growth is forecast to continue through 2019 the Company intends to submit an application to vary the noise contour limits in conjunction with a series of additional noise reduction measures.	The Company has recommended a package of measures to the board to mitigate noise through restriction of certain activities on a cost-neutral basis. In addition, the Company will submit an application to vary the noise contours supported by an additional package of noise reduction measures.

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 2018 funding for the airport's Community Trust Fund was increased to £100,000, supporting 13,287 beneficiaries across Hertfordshire, Bedfordshire and Buckinghamshire. The Company commenced a new two-year charity partnership with Macmillan Cancer Support. A school engagement programme ran until July 2018, reaching 164 students in 11 schools. The Company also continued working in partnership with the Prince's Trust and the Launch Group delivering two 'Get into Airports' programmes for unemployed people aged 18-30. In 2018 over 70% of participants secured paid employment. The Company also supported a number of award ceremonies in the local area celebrating the achievements of neighbouring businesses, organisations and individuals. A new Community Engagement Strategy is under development and will be launched in 2019.

Events after the balance sheet date

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

London Luton Airport Operations Limited

Strategic report (continued)

Approval

Approved by the Board and signed on its behalf by:

M Brown
Director
25 April 2019

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 2018.

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, interest rate risk, development capital expenditure risk and noise management risk. Further details can be found in the Strategic Report.

Dividends

There were no dividends paid in 2018 (2017: £35.7m).

Directors

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

N Barton	resigned 14 December 2018
J Leo Vizcaíno	
R Marabini Ruiz	
J M Fernández Bosch	resigned 28 February 2019
B R Hunter	resigned 14 December 2018 appointed 25 February 2019
M Campomanes Camino	appointed 24 May 2018 resigned 15 November 2018 appointed 13 December 2018
B Pahari	appointed 27 July 2018
H G Rees	appointed 26 June 2018
J J Alvarez-Gallego	appointed 26 March 2018 resigned 15 November 2018 appointed 12 December 2018 resigned 28 February 2019
M Brown	appointed 26 June 2018
M J Leal De Carlos	appointed 26 March 2018 resigned 15 November 2018
J I Ascacibar	appointed 26 March 2018
M De Los Reyes Escrig Teigeiro	appointed 26 March 2018
F J Marín San Andrés	appointed 26 March 2018 resigned 15 November 2018
J C Alfonso	appointed 26 March 2018 resigned 15 November 2018
C W Condie	resigned 26 June 2018
M Garcia Duarte	resigned 5 March 2018

Directors' report (continued)

Directors (continued)

J Angoitia Grijalba	resigned 26 June 2018
A S Liau	resigned 26 June 2018
Lord D J Brennan	resigned 26 June 2018
N Aguilar Iglesias	appointed 13 December 2018
A Martin	appointed 25 February 2019

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

Executive directors

N Barton	resigned 14 December 2018
A Martin	appointed 25 February 2019

Non-executive directors

J Leo Vizcaíno	
R Marabini Ruiz	
J M Fernández Bosch	resigned 28 February 2019
M Campomanes Camino	appointed 24 May 2018 resigned 15 November 2018
B Pahari	appointed 27 July 2018
H G Rees	appointed 26 June 2018
J J Alvarez-Gallego	resigned 15 November 2018 appointed 12 December 2018
M Brown	appointed 26 June 2018
M De Los Reyes Escrig Teigeiro	appointed 13 December 2018
F J Marín San Andrés	appointed 26 March 2018 resigned 15 November 2018
J C Alfonso	appointed 26 March 2018 resigned 15 November 2018
C W Condie	resigned 26 June 2018
M Garcia Duarte	resigned 5 March 2018
A S Liau	resigned 26 June 2018
Lord D J Brennan	resigned 26 June 2018
N Aguilar Iglesias	appointed 13 December 2018

Alternate Directors

J Angoitia Grijalba (alternate to A S Liau)	resigned on 26 June 2018
B R Hunter (alternate to N Barton)	resigned 14 December 2018
B R Hunter (alternate to A Martin)	appointed 25 February 2019
M Leal De Carlos (altenate to J Leo Vizcaíno)	appointed 26 March 2018 resigned 15 November 2018
J I Ascacibar (alternate to R Marabini Ruiz)	appointed 26 March 2018
M De Los Reyes Escrig Teigeiro (alternate to J M Fernández Bosch)	appointed 26 March 2018 resigned 13 December 2018

London Luton Airport Operations Limited

Directors' report (continued)

Directors (continued)

Alternate Directors (continued)

J J Alvarez-Gallego (alternate to F J Marín San Andrés)	appointed 26 March 2018 resigned 15 November 2018
J J Alvarez-Gallego (alternate to J M Fernández Bosch)	appointed 12 December 2018 resigned 28 February 2019
M Campomanes Camino (alternate to M De Los Reyes Escrig Teigeiro)	appointed 13 December 2018

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.

Auditor

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

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

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

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

Approved by the Board and signed on its behalf by:

M Brown
Director
25 April 2019

London Luton Airport Operations Limited

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 2018 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

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

Going concern

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

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

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

Strategic report and directors' report

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

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

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

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

Strategic report and directors' report (continued)

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

K Tasker

Karen Tasker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Altius House
One North Fourth Street
Milton Keynes
MK9 1NE

26 April 2019

London Luton Airport Operations Limited
Profit and loss account
For the year ended 31 December 2018

	Note	Year ended 2018 £'000	Year ended 2017 £'000
Revenue	3	201,315	180,221
Administrative expenses		(151,460)	(140,570)
Operating profit		49,855	39,651
Finance income	7	53	824
Finance costs	8	(4,768)	(5,758)
Profit before tax		45,140	34,717
Tax	9	(5,835)	(3,079)
Profit for the financial year attributable to owners of the Company	4	39,305	31,638

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 2018

	Year ended 2018 £'000	Year ended 2017 £'000
Profit for the year	39,305	31,638
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on defined benefit plan	(602)	(855)
Deferred tax on actuarial movement	102	145
Other comprehensive expense for the year net of tax	(500)	(710)
Total comprehensive income for the year attributable to the owners of the Company	38,805	30,928

The accompanying notes form part of the financial statements.

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	11	211,279	187,728
Deferred tax assets	18	3,329	1,631
		214,608	189,359
Inventories	12	552	528
Trade and other receivables	13	25,779	19,358
Cash and bank balances		16,762	16,708
		43,093	36,594
Total assets		257,701	225,953
Trade and other payables		(97,482)	(122,014)
Borrowings	15	(54)	(14,152)
	14	(97,536)	(136,166)
Net current liabilities		(54,443)	(99,572)
Non-current liabilities			
Borrowings	15	(47,701)	(4,922)
Defined benefit pension scheme liability	22	(33,301)	(44,787)
Provisions	19	(1,022)	(742)
		(82,024)	(50,451)
Total liabilities		(179,560)	(186,617)
Net assets		78,141	39,336
Equity			
Share capital	20	5,274	5,274
Retained earnings	21	72,867	34,062
Equity attributable to owners of the Company		78,141	39,336

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 25 April 2019. They were signed on its behalf by:

M Brown
Director
25 April 2019

London Luton Airport Operations Limited
Statement of changes in equity
For the year ended 31 December 2018

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	5,274	38,834	44,108
Profit for the period	-	31,638	31,638
Other comprehensive expense for the period	-	(710)	(710)
Total comprehensive income for the period	-	30,928	30,928
Dividends	-	(35,700)	(35,700)
Balance at 31 December 2017	5,274	34,062	39,336
Profit for the period	-	39,305	39,305
Other comprehensive expense for the period	-	(500)	(500)
Total comprehensive income for the period	-	38,805	38,805
Balance at 31 December 2018	5,274	72,867	78,141

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 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 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 9 Financial Instruments	The new standard is effective from 1 January 2018. The standard replaces IAS 39 Financial Instruments: recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. Management have reviewed all of the financial instruments across the Group and determined the move to IFRS 9 will directly affect the Group as it deals with compensation on the prepayment of a financial liability which has not arisen and is unlikely to arise in the future. The simplified approach has been applied to the impairment of trade receivables. The main difference on this is that allowances for bad debts is made at the inception of the debt based on expected credit losses, rather than on an incurred loss model, as an impairment trigger is no longer required before impairment is recognised. This affects the accounts by making the bad debt provision larger and more volatile, however given the low level of bad debt history for LLA, this is not material in 2018. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements. IFRS 9 requires extensive new disclosures, in particular about Expected Credit Losses (ECL). Management have reviewed all of the financial instruments across the Group and the move to IFRS 9 has not materially effected the financial statements of the Group.
IFRS 15 Revenue from Contracts with Customers	The new standard is effective from 1 January 2018. The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue Barter Transactions involving Advertising Services. Management have reviewed all of the revenue arrangements across the Group and the move to IFRS 15 has not materially effected the value or timing of revenue recognition of any of the revenue types of the Group.

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)

Basis of accounting (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 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.

As at 31 December 2018 the Group balance sheet reflected net current liabilities of £54.4m. Current liabilities include a £28m intercompany loan with London Luton Airport Holdings I Limited which is forecast to be repaid in full in H1 2019 and £27m of deferred income for which the cash has been received. The Group has been profit making in the year and forecasts to continue to be profit making in the future to reduce the net liability position.

The Company made a profit for the year of £39.3m (2017: £31.6m). The Group headed by London Luton Airport Holdings III Limited generated £74.0m of EBITDA before exceptional items (2017: £57.7m) and £57.5m (2017: £59.2m) of net cash from operating activities. The directors have considered the forecast profit and associated cash flows for 2019 and 2020. 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.

1. Accounting policies (continued)

Going concern (continued)

They have also considered the impact if the £25m penalty was required to be paid as detailed in the contingent liability note and are forecasting that they can still continue to operate within the available facilities for the period of at least 12 months from the approval of the financial statements. The Group have assessed that it is unlikely that the termination of the concession agreement will be instigated by London Luton Airport Limited ("LLAL"), the Council entity that has granted the concession on the basis that in the Group's opinion, it is in compliance with the Supplemental Agreement to the Concession Agreement and therefore LLAL are unlikely to be able to trigger the process to terminate the Concession Agreement. No formal dispute process has been commenced by LLAL to date. In the unlikely scenario where LLAL pursued and obtained termination of the Concession Agreement, the Group would be entitled to a compensation payment. The Group maintains a good working relationship with LLAL and it is the intention of the Group and its shareholders to continue to operate the airport under the Concession Agreement.

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.

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.

1. Accounting policies (continued)

Taxation (continued)

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

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.

IFRS 15 did not have a material impact on the Group's accounting policies.

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.

1. Accounting policies (continued)

Retirement benefit costs (continued)

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.

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.

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

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

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.

1. Accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

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

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. 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.

1. Accounting policies (continued)

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.

Liability to pay penalty

There is significant judgement in relation to whether it is probable or not that the £25m penalty (see note 17) will be payable based on the Group's assessment of whether the Dispute process would find in their favour. The Group has assessed the merits of the points raised by London Luton Airport Limited ("LLAL"), the Council entity which has granted the concession, against the contact terms of the Supplemental Agreement and are of the view that it is unlikely that the claim by LLAL will be successful. Legal advice has also been obtained by the Group to support this assessment.

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.

Assumptions on discounted cash flow

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

3. Revenue

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

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

	Year ended 2018 £'000	Year ended 2017 £'000
Turnover:		
Traffic income	89,891	82,804
Commercial income	93,568	79,866
Tenant income	17,856	17,551
	201,315	180,221

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

Included in revenues arising from traffic income is approximately £64.3m (2017: £58.4m) from the Group's two largest customers. No other single customers contributed 10% or more to the Group's revenues in either 2018 or 2017

In addition finance income of £53k (2017: £824k) arose in the year (see note 7).

4. Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 2018 £'000	Year ended 2017 £'000
Depreciation of tangible fixed assets:		
- Owned assets	20,014	9,451
- Held under finance leases	178	178
Loss on disposal of tangible fixed assets	226	853
Staff costs (see note 6)	36,510	37,150

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

	Year ended 2018 £'000	Year ended 2017 £'000
Operating profit	49,855	39,651
Add: Depreciation on tangible assets – owned and leased assets	20,192	9,629
EBITDA after exceptional items	70,047	49,280
Add: Employee bonuses funded by capital contribution	3,669	-
Add: Past service cost on amendments to defined benefit pension scheme (See note 21)	700	7,045
EBITDA before exceptional items	74,416	56,325

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 2018 was £51,429k (2017: £47,333k).

5. Auditor's remuneration

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

	Year ended 2018 £'000	Year ended 2017 £'000
Fees payable to the company's auditor and their associates for the audit of the company's annual accounts	30	20
Total audit fees	30	20
- Audit-related assurance services	-	20
- Other assurance services	12	23
Total non-audit fees	12	43
Total fees	42	63

No services were provided pursuant to contingent fee arrangements.

6. Staff costs

The average monthly number of employees was:

	2018 Number	2017 Number
Operations	689	644
Management and support services	60	65
Technical services	39	40
	788	749

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

Their aggregate remuneration comprised:

	Year ended 2018 £'000	Year ended 2017 £'000
Wages and salaries	27,066	24,833
Social security costs	2,605	2,340
Other pension costs (note 22)	3,170	9,977
Employee bonuses funded by capital contribution	3,669	-
	36,510	37,150

7. Finance income

	Year ended 2018 £'000	Year ended 2017 £'000
Other loans and receivables	53	824

8. Finance costs

	Year ended 2018 £'000	Year ended 2017 £'000
Interest payable on bank overdrafts and loans	799	345
Interest payable to group undertakings	2,089	3,501
Other finance costs arising on defined benefit pension (note 22)	1,065	1,099
Interest on obligations under finance leases	815	813
Total interest payable	4,768	5,758

9. Tax

	Year ended 2018 £'000	Year ended 2017 £'000
UK corporation tax	7,414	5,421
Adjustments in respect of prior years - UK corporation tax	17	(166)
	7,431	5,255
Deferred tax (note 18)	(1,596)	(2,176)
	5,835	3,079

Corporation tax is calculated at 19% (2017: 19.25%) 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 2018 £'000	Year ended 2017 £'000
Profit before tax on continuing operations	45,140	34,717
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	8,577	6,683
Effects of:		
Group relief received for nil payment	(3,065)	(4,938)
Effects of changes in statutory tax rates	176	160
Adjustments to tax charge in respect of previous periods	(78)	(1,134)
Permanent adjustments and other rounding differences	227	2,308
Tax expense for the year	5,837	3,079

Corporation tax is calculated at 19% (2017: 19.25%) of the estimated taxable profit for the period. A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and further reduction to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2018 has been calculated based on these rates.

9. Tax (continued)

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 2018 £'000	Year ended 2017 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	102	145

10. Dividends

	Year ended 2018 £'000	Year ended 2017 £'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2018 (equivalent to £nil per share), (2017: £357 per share)	-	35,700

No dividends have been paid in 2018 (2017: £35.7m).

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 2018	76,338	134,610	58,133	61,200	330,281
Additions	288	4,008	4,395	35,278	43,969
Disposals	(725)	(6,063)	(8,636)	-	(15,424)
Transfers	46,693	(25,068)	19,046	(40,656)	15
At 31 December 2018	122,594	107,487	72,938	55,822	358,841
Accumulated depreciation					
At 1 January 2018	54,005	45,528	43,020	-	142,553
Charge for the year	3,767	9,839	6,586	-	20,192
Eliminated on disposal	(700)	(5,947)	(8,551)	-	(15,198)
Transfers	70	-	(55)	-	15
At 31 December 2018	57,142	49,420	41,000	-	147,562
Carrying amount					
At 31 December 2018	65,452	58,067	31,938	55,822	211,279
At 31 December 2017	22,333	89,082	15,113	61,200	187,728

Included within the cost of fixed assets is cumulative capitalised interest of £3,641k (2017: £3,641k). The depreciation charge for the year includes an amount of £nil (2017: £nil) representing the depreciation of capitalised interest.

As at 31 December 2018 there were £55,822k (2017: £61,200k) of assets in the course of construction. These are related to the expansion of the airport as disclosed on page 3 in the strategic report. The assets under construction have not been depreciated.

11. Property, plant and equipment (continued)

As at 31 December 2018 there were runways, taxiways and other similar structure assets with a net book value of £2,182k held under a finance lease arrangement (2017: £2,360k).

Capital expenditure contracted at the end of the reporting period but not recognised as liabilities, in relation to the expansion of the airport is £17.2m (2017: £16.1m).

At 31 December 2018 and 2017 assets were subject to a registered debenture that forms security for third party borrowings (see note 15).

12. Inventories

	2018 £'000	2017 £'000
Consumables	552	528

13. Trade and other receivables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of services	19,694	12,903
Other receivables	2,882	3,073
Prepayments and accrued income	3,203	3,382
	25,779	19,358

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 Group has recognised an allowance for doubtful debts against the majority of receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowances against doubtful debts are recognised against trade receivables between 30 days and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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

Of the trade receivables balance at the end of the period, £3.6m (2017: £3.1m) 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 £9.6m (2017: £5.3m).

The Group 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 Group 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 Group 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.

Ageing of past due but not impaired receivables	2018 £'000	2017 £'000
Up to 30 days	1,047	1,383
31-90 days	106	-
Total	1,153	1,383

13. Trade and other receivables (continued)

Movement in the allowance for doubtful debts	2018 £'000	2017 £'000
Balance at the beginning of the period	(191)	(262)
Recognised in the period	(4)	71
Balance at the end of the period	(195)	(191)

In determining the recoverability of a trade receivable the Group 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	2018 £'000	2017 £'000
Current	27	18
1-30 days	39	12
31-90 days	39	47
91-120 days	30	64
Over 120 days	60	50
	195	191

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

14. Trade and other payables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Borrowings (see note 15)	54	14,152
Finance leases (see note 16)	223	198
Trade payables	26,538	30,360
Amounts owed to group undertakings	28,054	63,637
Corporation tax	3,106	2,256
Other taxation and social security	701	24
Other creditors	11,721	6,352
Accruals and deferred income	26,953	19,094
Provisions	186	93
	97,536	136,166
Amounts falling due in more than one year:		
Finance leases (see note 16)	4,701	4,922
Provisions	1,022	742
	5,723	5,664

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

15. Borrowings

	2018 £'000	2017 £'000
Borrowings falling due within one year:		
Unsecured borrowing at amortised cost		
Related party loans	28,054	2,000
Borrowings falling due within one year:		
Secured borrowing at amortised cost		
Bank loans	54	14,152
Finance lease liabilities (Note 16)	223	198
	277	14,350
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Bank loans	43,000	-
Finance leases liabilities (Note 16)	4,701	4,922
	47,701	4,922
Total borrowings		
Amount due for settlement within 12 months	28,331	16,350
Amount due for settlement between 2 and 5 years	44,462	1,181
Amount due for settlement after 5 years	3,239	3,741
TOTAL	76,032	21,272

Borrowings consist of a revolving credit facility with a syndicate comprising Royal Bank of Scotland, Barclays Bank, Mediobanca International and Royal Bank of Canada. Interest is charged at a rate of 1 month LIBOR plus an original margin of 1.35% escalating over the 7 year term. All facilities mature on 17 August 2022. The total facility available from 17 August 2017 is a revolving credit facility of £80m. £43m (2017: £14m) of the revolving credit facility was in use by London Luton Airport Operations Limited at 31 December 2018.

16. Obligations under finance leases

	2018 £'000	2017 £'000
Amounts payable under finance leases:		
Within one year	1,013	991
In the second to fifth years inclusive	4,155	3,964
After five years	4,473	5,470
	9,641	10,425
Less: future finance charges	(4,717)	(5,305)
Present value of lease obligations	4,924	5,120

	2018 £'000	2017 £'000
Amounts payable under finance leases:		
Within one year	223	198
In the second to fifth years inclusive	1,462	1,181
After five years	3,239	3,741
Present value of lease obligations	4,924	5,120

16. Obligations under finance leases (continued)

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. Contingent liabilities

The Group is in discussions with London Luton Airport Limited ("LLAL"), the Council entity which has granted the concession, with regards the completion of Phase One of the construction works in relation to the terminal building. LLAL have asserted that the Group did not reach Substantial Completion on Phase One of the works, as defined in the Supplemental Agreement, by the date specified in the Supplemental Agreement. The Group's opinion, based on its interpretation of the Supplemental Agreement and independent legal advice, is that the basis for LLAL's assertion is incorrect and that Substantial Completion was reached. For further details of the basis of this judgement see note 3 – *Going Concern*.

LLAL have yet to trigger the construction dispute mechanism set out in the Supplemental Agreement. If the mechanism is triggered and the Group's defence against the assertions is unsuccessful, the Group would be liable to pay LLAL the sum of £25m. On conclusion of any dispute process, LLAL would also have the option, but not the obligation, to serve notice to terminate the Concession Agreement, which relates to the operation of the airport. If LLAL pursued this option, the Group would be entitled to a compensation payment from LLAL. The calculation of this payment is judgemental and is based on the financial position of the Group at the point of termination. The value of such a payment is therefore subject to uncertainty.

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 2017	(7,135)	6,445	(690)
Credit to income statement	1,152	1,024	2,176
Credit to other comprehensive income	-	145	145
At 31 December 2017	(5,983)	7,614	1,631
Credit/(charge) to income statement	2,258	(662)	1,596
Credit to other comprehensive income	-	102	102
At 31 December 2018	(3,725)	7,054	3,329

19. Provisions

	2018 £'000	2017 £'000
Provisions falling due within one year	186	93
Provisions falling due after more than one year	1,022	742
Total	1,208	835

19. Provisions (continued)

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

	2018 £'000	2017 £'000
Balance at the beginning of the year	835	-
Recognised in the year	373	835
Balance at the end of the year	1,208	835

A noise insulation provision has been recognised of £1,208k (2017: 835k) This represents the discounted future cash flows relating to a commitment to provide noise insulation equipment to eligible residential and non-residential

properties. The commitment is a condition of the planning consent granted in 2014 by Luton Borough Council (LBC)and is in place for the length of the concession period ending March 2031. The cost of this has been recognised through the profit and loss.

20. Share capital

	2018 £'000	2017 £'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 2017	38,834
Dividends paid	(35,700)
Total comprehensive income for the year	30,928
Balance at 31 December 2017	34,062
Total comprehensive income for the year	38,805
Balance at 31 December 2018	72,867

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).

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 had the impact of increasing the defined benefit obligation by £6.9m recognised as a past service cost under IAS19 in the year ending 31 December 2017.

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

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

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

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

	2018	**2017**
	%	**%**
Key assumptions used:		
Discount rate	2.80%	2.40%
Expected rate of future pension increases	2.90%	2.90%
Rate of increase of pensions in deferment	2.90%	3.10%
Inflation	3.10%	3.10%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	21.9	21.9
Female	24.2	24.1
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	23.2	23.6
Female	25.7	26.0

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

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

	2018 £'000	2017 £'000
Service cost:		
Current service cost	-	762
Past service cost – plan amendments/augmentations	700	7,045
Net interest expense	3,688	3,809
Expected return	(2,623)	(2,710)
Components of defined benefit costs recognised in profit or loss	1,765	8,906

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

	2018 £'000	2017 £'000
The return on plan assets less/(greater) than the discount rate	7,763	(4,417)
Actuarial gain arising from changes in demographic assumptions	(753)	-
Actuarial (gain)/loss arising from changes in financial assumptions	(12,079)	3,711
Actuarial gain arising from experience adjustments	816	1,561
Changes in the effect of the asset ceiling excluding interest income	4,855	-
Remeasurement of the net defined benefit liability	602	855

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:

	2018 £'000	2017 £'000
Present value of defined benefit obligations	(141,757)	(157,447)
Fair value of plan assets	113,311	112,660
Deficit	(28,446)	(44,787)
Adjustment in respect of asset ceiling and minimum funding requirement	(4,855)	-
Deficit	(33,301)	(44,787)
Deferred tax asset	7,054	7,614
Net liability	(26,247)	(37,173)

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

	2018 £'000	2017 £'000
Opening defined benefit obligation	157,447	143,922
Current service cost	-	513
Past service cost – plan amendments/augmentations	700	7,045
Interest cost	3,688	3,809
	4,388	11,367
Actuarial loss	(12,016)	5,272
Contributions from plan participants	-	75
Benefits paid	(8,302)	(3,438)
Expenses paid	240	249
	(8,062)	(3,114)
Closing defined benefit obligation	141,757	157,447

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

	£'000
Expected benefit payments during fiscal year ending 31 December 2019	2,617
Expected benefit payments during fiscal year ending 31 December 2020	2,698
Expected benefit payments during fiscal year ending 31 December 2021	2,782
Expected benefit payments during fiscal year ending 31 December 2022	2,868
Expected benefit payments during fiscal year ending 31 December 2023	2,957
Expected benefit payments during fiscal years ending 31 December 2024 through 31 December 2028	16,217

22. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

	2018 £'000	2017 £'000
Opening fair value of plan assets	112,660	106,008
Interest income	2,623	2,710
	2,623	2,710
Remeasurement gain:		
The return on plan assets (excluding amounts included in net interest expense)	(7,763)	4,417
	(7,763)	4,417
Contributions from employers	14,087	2,882
Contributions from plan participants	-	75
Benefits paid	(7,662)	(2,903)
Expenses paid	(634)	(529)
	5,791	(475)
Closing fair value of plan assets	113,311	112,660

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

	2018 £'000	2017 £'000
Equity instruments	25,691	36,051
Debt securities	3,897	4,506
Other	83,723	72,103
Total	113,311	112,660

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 £13.6m. If the discount rate is 0.5% lower the defined benefit obligation would increase by £15.5m.

The Scheme should have sufficient and appropriate assets to cover its technical provisions. To eliminate the deficit the Company has agreed to pay annual contributions into the Scheme until 31 March 2023. The next deficit payment is £11.8m to be paid into the Scheme by 31 December 2019.

Defined contribution schemes

From 1 February 2017, following the closure of the defined benefit pension scheme to future accrual, the group have 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 group 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 group matches employee contributions by 2:1, up to a maximum 12% of their basic pay.

The total cost charged to income of £2.0m (2017: £2.0m) represents contributions payable to the scheme by the group at rates specified in the rules of the scheme. As at 31 December 2018, contributions of £nil (2017: £nil) due in respect of the current reporting period had not been paid over to the scheme.

22. Retirement benefit schemes (continued)

Defined contribution schemes (continued)

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

23. Events after the balance sheet date

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

24. Related party transactions

Trading transactions

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

During the year the Group companies accrued £12k to Aena S.A. for insurance (2017: £nil).

	Year ended 2018 £'000	Year ended 2017 £'000
Directors' remuneration		
Emoluments	694	726
Company contributions to defined contribution pension schemes	40	38
	734	764

	Year ended 2018 £'000	Year ended 2017 £'000
Remuneration of the highest paid director:		
Emoluments	412	260
Company contributions to money purchase schemes	21	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 2018 (2017: £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 Navigation House, Airport Way, London Luton Airport, Luton, Bedfordshire LU2 9LY.

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.