London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2015

Registered number: 03491213

London Luton Airport Operations Limited

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London Luton Airport Operations Limited

Company information

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

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 a consortium comprising Entidad Pública Empresarial Enaire ('Aena') and Axa Infrastructure Fund III SCA SICAR ('Ardian').

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

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

Financial performance and key performance indicators

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

Overall trading results for the year ended 31 December 2015 have increased as a result of an 17% increase in passenger volumes from 10.5 million passengers in 2014 to 12.3 million passengers in 2015, which is the highest ever recorded in the airport's history. This increase in passengers was driven primarily by growth across most major scheduled carriers, particularly easyJet and Wizz who have increased their capacity at Luton Airport significantly.

Total revenue for the year ended 31 December 2015 was £146,956k (2014: £128,994k); see note 3 for further analysis. Traffic income in 2015 represented an average of £5.66 per passenger (2014: £5.76). The modest decrease is due to a growth incentive scheme which was introduced in April 2014 and provides rebates for airlines who grow volumes at London Luton Airport. The growth incentive scheme is pivotal to the Group's passenger and profitability growth.

Operating profit for the year was £38,245k (2014: £28,296k). The Directors believe that EBITDA is the performance measure most relevant to the readers of our statutory accounts. EBITDA was £50,033k for the year (2014: £40,103k). an increase of 24.8% on 2014, which is proportionally higher than the increase in passenger numbers, due to tight cost control by management.

Future developments

Following approval of the planning application by Luton Borough Council and completion of the tender process for the airport development, construction work has commenced to expand airport capacity. This will involve investment of £110m over the next 5 years to transform the airport including redesigning the terminal to make it quicker and easier for all passengers, increasing the choice of destinations and making road and rail access easier.

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

Principal risks and uncertainties

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

Safety and security risks

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

Furthermore the Group has implemented a health and safety management system to mitigate this risk. The system incorporates the setting of standards and targets, monitoring performance, and putting plans in place for improving performance. The Groups current occupational health and safety OHSA18001 certificate will be migrated to ISO450001 in 2016.

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

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

Environment

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

Noise management

LLAOL continues to make improvements to the way in which aircraft noise is managed, actively engaging with the local community to minimise disturbance. This includes measures that respond to the planning conditions attached to our planning permission, a number of voluntary measures agreed in consultation with LLACC and measures that follow best industry practice. These are detailed in our Noise Action Plan available on the website.

Fines are enforced for airlines flying off-track, and the noise violation levels for the day and night periods have been brought down significantly to incentivise quieter operations. A quota count system has been brought into effect in the year to mirror what is in operation at other London airports. Following flight trials and a three month consultation process, the CAA approved plans to introduce Area Navigation (RNAV) technology on the Runway 26 Brookmans Park departure route which was implemented in 2015.

Capital projects

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

Changes in demand

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

Industrial relations

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

Financial risk management objectives and policies

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

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

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

Further details of the risks and uncertainties faced by the Company are provided in the accounts of its immediate parent undertaking, London Luton Airport Group Limited.

Events after the balance sheet date

The London Luton Airport Pension Scheme (LLAPS) was contracted out of the State Second Pension and as a result both the company and employees paid lower national insurance contributions. Due to a change in UK legislation, from 6 April 2016 the government ended contracting-out and introduced a new single-tier State Pension. This has caused London Luton Airport to undertake a review of the defined benefit pension scheme with the pensions trustees and employee representatives. As a result of the review London Luton Airport are proposing to make changes to the pension arrangements which will affect all qualifying employees.

The current proposal is for the defined benefit pension scheme to close to the build up of further pension. All pensions built up before 30 June 2016 will be protected and contributing employees will become deferred members. Employees will automatically be enrolled into a new defined contribution pension plan, introduced from 1 July 2016 which will provide a flexible benefits package to enable all employees regardless of age, circumstance or salary to plan for retirement and provide access to new pensions and other savings choices. This proposal is subject to a 60 day consultation period which runs from 29 February 2016 to 29 April 2016.

Approval

Approved by the Board and signed on its behalf by:

Clive Condie
Director

21st April 2016

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 2015.

Future developments and events after the balance sheet date

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

Going concern

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

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

Financial risk management objectives and policies

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

Dividends

Interim dividends of £12m paid on 24 June 2015 and £17.5m paid on 27 November 2015, make a total of £29.5m for the year (2014: £28.5m).

Directors

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

Executive directors

N Barton

E Renton

Non-executive directors

CW Condie

R Marabini Ruiz

Lord DJ Brennan

AS Liau

F Echegaray Del Pozo

Alternate Directors

MR Escrig Teigeiro (alternate to R Marabini Ruiz)	appointed 2 October 2015
J Leo Vizcaíno (alternate to F Echegaray Del Pozo)	appointed 2 October 2015

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.

London Luton Airport Operations Limited

Directors' report

Employee consultation

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

Auditor

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

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

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

Deloitte 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:

Clive Condie
Director

21st April 2016

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report including the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 "Reduced Disclosure Framework" has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

We have audited the financial statements of London Luton Airport Operations Limited for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Heather Bygrave

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

22nd April 2016

London Luton Airport Operations Limited
Income statement
For the year ended 31 December 2015

	Note	Year ended 2015 £'000	Year ended 2014 £'000
Revenue	3	146,956	128,994
Administrative expenses		(108,711)	(100,698)
Operating profit		38,245	28,296
Investment revenue	7	45	2
Finance costs	8	(2,229)	(2,465)
Profit before tax		36,061	25,833
Tax	9	(3,300)	(117)
Profit for the financial year attributable to owners of the Company	4	32,761	25,716

All results relate to continuing activities.

London Luton Airport Operations Limited
Statement of comprehensive income
For the year ended 31 December 2015

	Year ended 2015 £'000	Year ended 2014 £'000
Profit for the year	32,761	25,716
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain/(loss) on defined benefit plan	6,096	(10,984)
Deferred tax on actuarial movement	(1,472)	2,197
Other comprehensive expense for the year net of tax	4,624	(8,787)
Total comprehensive income for the year attributable to the owners of the Company	37,385	16,929

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2015

	Note	2015 £'000	2014 £'000
Non-current assets			
Property, plant and equipment	11	84,977	90,069
		84,977	90,069
Current assets			
Inventories	12	506	567
Trade and other receivables	13	26,962	15,186
Cash and bank balances		10,380	9,065
		37,848	24,818
Total assets		**122,825**	**114,887**
Current liabilities:			
Trade and other payables		(45,411)	(30,826)
Borrowings		(123)	(6,725)
	14	(45,534)	(37,551)
Net current liabilities		(7,686)	(12,733)
Non-current liabilities			
Trade and other payables	14	(5,204)	(5,501)
Defined benefit pension scheme liability	20	(17,060)	(25,445)
Deferred tax liabilities	17	(3,511)	(2,759)
		(25,775)	(33,705)
Total liabilities		**(71,309)**	**(71,256)**
Net assets		**51,516**	**43,631**
Equity			
Share capital	18	5,274	5,274
Retained earnings	19	46,242	38,357
Equity attributable to owners of the Company		**51,516**	**43,631**

The financial statements of London Luton Airport Operations Limited, registered number 03491213, were approved by the board of directors and authorised for issue on 21st April 2016. They were signed on its behalf by:

Director
Clive Condie

London Luton Airport Operations Limited
Statement of changes in equity
For the year ended 31 December 2015

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2014	**5,274**	**49,928**	**55,202**
Profit for the period	-	25,716	25,716
Other comprehensive loss for the period	-	(8,787)	(8,787)
Total comprehensive income for the period	-	**16,929**	**16,929**
Dividends	-	(28,500)	(28,500)
Balance at 31 December 2014	**5,274**	**38,357**	**43,631**
Profit for the period	-	32,761	32,761
Other comprehensive income for the period	-	4,624	4,624
Total comprehensive income for the period	-	**37,385**	**37,385**
Dividends	-	(29,500)	(29,500)
Balance at 31 December 2015	**5,274**	**46,242**	**51,516**

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 exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of London Luton Airport Group Limited. The group accounts of London Luton Airport Group Limited are available to the public and can be obtained as set out in note 23.

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

Adoption of new and revised Standards

In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRIC 21 *Levies*	The Company has adopted IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.
Annual Improvements to IFRSs: 2011-2013	The Company has adopted the various amendments to a number of standards. IFRS 3 *Business Combinations,* IFRS 13 *Fair Value Measurement and* IAS 40 *Investment Property.* The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements.

Basis of accounting

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

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

1. Accounting policies (continued)

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.

The Company made a profit for the year of £32.8m (2014: £25.7m). Although the Group headed by London Luton Airport Holdings III Limited made a loss in the period, it generated £48.8m of EBITDA (2014: £37.0m) and £45.9m (2014: £26.9m) of net cash from operating activities. The directors have considered the forecast profit and associated cash flows for 2016 and 2017. They have also considered the facilities available to the Group, which were renewed in March 2015 and which are available for the period of their forecast, and are satisfied that the Group can operate within these facilities for the relevant period.

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

Property, plant and equipment

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

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

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

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

1. **Accounting policies (continued)**

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.

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.

The prior year comparatives have been re-presented to set off deferred tax liability of £7.8m with deferred tax asset of £5.1m and show a net deferred tax asset liability of £2.8m at 31 December 2014.

Current tax and deferred tax for the year

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

Revenue

Revenue is stated net of VAT and trade discounts.

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

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

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

1. Accounting policies (continued)

Retirement benefit costs

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

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

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

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

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

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

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

Financial instruments

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

Financial assets

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

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

Loans and receivables

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

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

1. Accounting policies (continued)

Other financial liabilities

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

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

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

Leases

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

The Company as lessee

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

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

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

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

Impairment of tangible assets

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in the year to 31 December 2015. 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.

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.

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.

	2015 £'000	2014 £'000
Turnover:		
Traffic income	69,498	60,473
Commercial income	62,039	54,267
Tenant income	15,419	14,254
	146,956	128,994

Included in revenues arising from traffic income is approximately £43.6m (2014: £42.3m) from the Group's two largest customers. No other single customers contributed 10% or more to the Group's revenues in either 2015 or 2014

In addition investment revenue of £45k (2014: £2k) arose in the year (see note 7).

4. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Year ended 2015 £'000	Year ended 2014 £'000
Depreciation of tangible fixed assets:		
- Owned assets	11,588	11,607
- Held under finance leases	200	200
Staff costs (see note 6)	25,680	23,989

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

	Year ended 2015 £'000	Year ended 2014 £'000
Operating profit	38,245	28,296
Add: Depreciation on tangible assets – owned and leased assets	11,788	11,807
EBITDA	**50,033**	**40,103**

Under the terms of the concession agreement which is in place until March 2031, Luton Borough Council and London Luton Airport Limited ("LLAL") granted the Company the exclusive right to carry on the airport business in accordance with the terms of the Concession Agreement for the whole of the concession period. The Company pays a fee to LLAL based on the throughput of passengers and cargo. The concession fee for the twelve month period ended on 31 December 2015 was £35,601k (2014: £30,190k).

5. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the Company's annual accounts were £36k (2014: £36k).

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

6. Staff costs

The average monthly number of employees was:

	2015 Number	2014 Number
Operations	551	482
Management and support services	54	48
Technical services	41	43
	646	573

Their aggregate remuneration comprised:

6. Staff costs (continued)

	Year ended 2015 £'000	Year ended 2014 £'000
Wages and salaries	21,035	19,762
Social security costs	1,578	1,444
Other pension costs (note 20)	3,067	2,783
	25,680	23,989

7. Investment revenue

	Year ended 2015 £'000	Year ended 2014 £'000
Other loans and receivables	45	2

8. Finance costs

	Year ended 2015 £'000	Year ended 2014 £'000
Interest payable on bank overdrafts and loans	459	875
Interest payable to group undertakings	100	100
Other interest payable	-	15
Other finance costs arising on defined benefit pension (note 20)	835	631
Interest on obligations under finance leases	835	844
Total interest payable	2,229	2,465

9. Tax

	Year ended 2015 £'000	Year ended 2014 £'000
UK corporation tax	4,354	2,497
Adjustments in respect of prior years - UK corporation tax	(334)	(2,017)
	4,020	480
Deferred tax (note 17)	(720)	(363)
	3,300	117

Corporation tax is calculated at 20.25% (2014: 21.5%) 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 2015 £'000	Year ended 2014 £'000
Profit before tax on continuing operations	36,061	25,833
Tax at the UK corporation tax rate of 20.25% (2014: 21.5%)	7,302	5,554
Effects of:		
Group relief received for nil payment	(3,576)	(4,186)
Effects of changes in statutory tax rates	(595)	28
Adjustments to tax charge in respect of previous periods	(105)	(2,017)
Permanent adjustments and other rounding differences	274	738
Tax expense for the year	3,300	117

Corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated taxable profit for the period. Reductions in the UK Corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future tax charge accordingly. The deferred tax asset or liability at 31 December 2015 has been calculated based on these rates.

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

	Year ended 2015 £'000	Year ended 2014 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	(1,472)	(2,197)

10. Dividends

	Year ended 2015 £'000	Year ended 2014 £'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2015 (equivalent to £295 per share), (2014: £285 per share)	29,500	28,500

No final dividend has been declared in either period.

11. Property, plant and equipment

	Land and buildings £'000	Runways, taxiways and other similar structures £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2015	76,523	73,918	55,288	12,735	218,464
Additions	34	522	1,960	4,180	6,696
Disposals	(516)	(2,096)	(2,470)	-	(5,082)
Transfers	272	4,661	1,435	(6,368)	-
At 31 December 2015	76,313	77,005	56,213	10,547	220,078
Accumulated depreciation					
At 1 January 2015	47,346	40,007	41,042	-	128,395
Charge for the year	3,118	4,301	4,369	-	11,788
Eliminated on disposal	(516)	(2,096)	(2,470)	-	(5,082)
At 31 December 2015	49,948	42,212	42,941	-	135,101
Carrying amount					
At 31 December 2015	26,365	34,793	13,272	10,547	84,977
At 31 December 2014	29,177	33,911	14,246	12,735	90,069

Included within the cost of fixed assets is cumulative capitalised interest of £3,641k (2014: £3,641k). The depreciation charge for the year includes an amount of £220k (2014: £220k) representing the depreciation of capitalised interest. As at 31 December 2015 there were £10,547k of assets in the course of construction (2014: £12,735k), which have not been depreciated. As at 31 December 2015 there were runways, taxiways and other similar structure assets with a net book value of £2,672k held under a finance lease arrangement (2014: £2,872k).

12. Inventories

	2015 £'000	2014 £'000
Consumables	506	567

13. Trade and other receivables

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of services	19,008	10,264
Amounts due from group undertakings	2,023	-
Other receivables	2,227	1,911
Prepayments and accrued income	3,704	3,011
	26,962	15,186

14. Trade and other payables

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Borrowings (see note 15)	123	6,725
Finance leases (see note 16)	73	62
Trade payables	16,294	14,480
Amounts owed to group undertakings	3,194	2,000
Corporation tax	2,691	332
Other taxation and social security	1,689	855
Other creditors	5,726	4,797
Accruals and deferred income	15,744	8,300
	45,534	37,551
Amounts falling due in more than one year:		
Finance leases (see note 16)	5,204	5,501
Deferred tax liability (see note 17)	3,511	2,759
	8,715	8,260

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

15. Borrowings

	2015 £'000	2014 £'000
Borrowings falling due within one year:		
Unsecured borrowing at amortised cost		
Related party loans	2,000	2,000
Borrowings falling due within one year:		
Secured borrowing at amortised cost		
Bank loans	123	6,725
Finance leases (Note 16)	73	62
	196	6,787
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Finance lease liabilities (note 16)	5,204	5,501
Total borrowings		
Amount due for settlement within 12 months	2,196	8,787
Amount due for settlement between 2 and 5 years	782	625
Amount due for settlement after 5 years	4,422	4,876
TOTAL	**7,400**	**14,288**

At the beginning of the year bank borrowings consisted of a revolving credit facility with a syndicate comprising Caixabank S.A., Crédit Agricole Corporate, HSH Nordbank A.G., Medibanco International, Royal Bank of Canada and the Royal Bank of Scotland. Interest was charged at a rate of 6 month GBP LIBOR plus a margin of 2.5% and all facilities matured on 26 November 2018. At 31 December 2014 the total facility available was a capex facility of £50m and a revolving credit facility of £15m. £6.5m was in use by London Luton Airport Operations Limited at 31 December 2014.

On the 26 March 2015 an Amendment and Restatement Agreement was completed with the original syndicate and AIB Group (UK) PLC. From 26 March 2015, interest is charged at a rate of 6 month LIBOR plus 1.65% with an escalating margin over the 7 year term. All facilities mature on 28 March 2022. The total facility available from 26 March 2015 is a revolving capex facility of £75m and a revolving credit facility of £15m. £nil was in use by London Luton Airport Operations Limited at 31 December 2015.

During the year HSH Nordbank A.G. transferred all of their interest to Commonwealth Bank of Australia. Crédit Agricole Corporate transferred part of their interest to DBJ Europe Limited.

16. Obligations under finance leases

	2015 £'000	2014 £'000
Amounts payable under finance leases:		
Within one year	898	898
In the second to fifth years inclusive	3,870	3,754
After five years	7,453	8,691
	12,221	13,343
Less: future finance charges	(6,944)	(7,780)
Present value of lease obligations	5,277	5,563

	2015 £'000	2014 £'000
Amounts payable under finance leases:		
Within one year	73	62
In the second to fifth years inclusive	782	625
After five years	4,422	4,876
Present value of lease obligations	5,277	5,563

All lease obligations are denominated in sterling.

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

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

17. Deferred tax

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

	Accelerated tax depreciation £'000	General provisions £'000	Retirement benefit obligations £'000	Total £'000
At 1 January 2014	**(8,825)**	**25**	**3,481**	**(5,319)**
Credit/(charge) to income statement	977	(25)	(589)	363
Credit to other comprehensive income	-	-	2,197	2,197
At 31 December 2014	**(7,848)**	**-**	**5,089**	**(2,759)**
Charge to income statement	1,266	-	(546)	720
Charge to other comprehensive income	-	-	(1,472)	(1,472)
At 31 December 2015	**(6,582)**	**-**	**3,071**	**(3,511)**

18. Share capital

	2015 £'000	2014 £'000
Authorised, issued and fully paid:		
100,000 ordinary shares of £1 each	100	100
5,174,000 redeemable shares of £1 each	5,174	5,174
	5,274	5,274

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

19. Retained earnings

	£'000
Balance at 1 January 2014	**49,928**
Dividends paid	(28,500)
Net profit for the year	16,929
Balance at 31 December 2014	**38,357**
Dividends paid	(29,500)
Net profit for the year	37,385
Balance at 31 December 2015	**46,242**

20. Retirement benefit schemes

Defined benefit schemes

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

The Company participates in a group defined benefit scheme for qualifying employees. Under the scheme, the employees accrue retirement benefits of 1/80th of their average salary for each year served on attainment of the latter of a retirement age of 60 or 25 years service.

The most recent completed actuarial valuation of the scheme was at 31 March 2014. The valuation used the projected unit method and was carried out by Willis Towers Watson Limited, professionally qualified actuaries.

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

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

	2015	**2014**
	%	**%**
Key assumptions used:		
Discount rate	3.75%	3.75%
Expected rate of future pension increases	2.85%	2.85%
Rate of increase of pensions in deferment	3.00%	3.00%
Inflation	3.00%	3.00%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	22.0	22.6
Female	24.0	24.8
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	24.3	24.9
Female	26.5	27.1

* Based on A land's standard mortality table with modifications to reflect expected changes in mortality.

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

	2015	**2014**
	£'000	**£'000**
Service cost:		
Current service cost	3,029	2,783
Net interest expense	3,881	3,987
Expected return	(3,047)	(3,365)
Components of defined benefit costs recognised in profit or loss	3,863	3,405

20. Retirement benefit schemes (continued)

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

	2015 £'000	2014 £'000
The return on plan assets less than the discount rate	2,278	1,469
Actuarial losses	(8,374)	9,515
Remeasurement of the net defined benefit liability	(6,096)	10,984

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:

	2015 £'000	2014 £'000
Present value of defined benefit obligations	(101,108)	(104,325)
Fair value of plan assets	84,048	78,880
Deficit	(17,060)	(25,445)
Deferred tax asset	3,071	5,089
Net liability	(13,989)	(20,356)

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

	2015 £'000	2014 £'000
Opening defined benefit obligation	**104,325**	**89,452**
Current service cost	2,771	2,783
Interest cost	3,881	3,987
	6,652	**6,770**
Actuarial losses	**(8,374)**	**9,515**
Contributions from plan participants	813	769
Benefits paid	(2,548)	(1,745)
Expenses paid	240	(436)
	(1,495)	**(1,412)**
Closing defined benefit obligation	**101,108**	**104,325**

20. Retirement benefit schemes (continued)

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

	2015 £'000	2014 £'000
Opening fair value of plan assets	**78,880**	**72,049**
Interest income	3,047	3,365
	3,047	**3,365**
Remeasurement (loss)/gain:		
The return on plan assets (excluding amounts included in net interest expense)	(2,278)	(1,469)
	(2,278)	**(1,469)**
Contributions from employers	6,126	6,339
Contributions from plan participants	813	769
Benefits paid	(1,956)	(1,745)
Expenses paid	(584)	(428)
	4,399	**4,935**
Closing fair value of plan assets	**84,048**	**78,880**

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

	2015 £'000	2014 £'000
Equity instruments	27,736	28,397
Debt securities	3,362	11,832
Other	52,950	38,651
Total	**84,048**	**78,880**

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 £9.7m. If the discount rate is 0.5% lower the defined benefit obligation would increase by £11.3m.

21. Events after the balance sheet date

The London Luton Airport Pension Scheme (LLAPS) is currently contracted out of the State Second Pension and as a result both the company and employees pay lower national insurance contributions. Due to a change in UK legislation, from 6 April 2016 the government is ending contracting-out and is introducing a new single-tier State Pension. This has caused London Luton Airport to undertake a review of the defined benefit pension scheme with the pensions trustees and employee representatives. As a result of the review London Luton Airport are proposing to make changes to the pension arrangements which will affect all qualifying employees.

The current proposal is for the defined benefit pension scheme to close to the build up of further pension. All pensions built up before 30 June 2016 will be protected and contributing employees will become deferred members. Employees will automatically be enrolled into a new defined contribution pension plan, introduced from 1 July 2016 which will provide a flexible benefits package to enable all employees regardless of age, circumstance or salary to plan for retirement and provide access to new pensions and other savings choices. This proposal is subject to a 60 day consultation period which runs from 29 February 2016 to 29 April 2016.

22. Related party transactions

Trading transactions

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

During the year the Group companies paid £73k to Ingeniería y Economía del Transporte S.A. a company 45.85% owned by Aena S.A. for consultancy services (2014: £nil).

	2015 £'000	2014 £'000
Directors' remuneration		
Emoluments	423	800
Company contributions to defined benefit pension schemes	-	52
Company contributions to defined contribution pension schemes	35	10
Compensation for loss of office	-	312
	458	1,174

	2015 £'000	2014 £'000
Remuneration of the highest paid director:		
Emoluments	212	218
Company contributions to money purchase schemes	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 2015 (2014: £nil).

Loans to related parties
Loans to related parties in the year to 31 December 2015 consist of:

	Amounts owed to related parties 2015 £	2014 £
London Luton Airport Holdings I Limited	2,000	2,000

London Luton Airport Holdings I Limited is the immediate parent company of London Luton Airport Group Limited. The amounts outstanding are unsecured and will be settled in cash. Amounts repayable to London Luton Airport Holdings I Limited carry interest of 5% to (2014: 5%) per annum charged on the outstanding loan balances (see note 15).

23. Controlling party

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

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is a consortium comprising Entidad Pública Empresarial Enaire ('Aena') and Axa Infrastructure Fund III SCA SICAR ('Ardian'). 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 Arturo Soria 109, Madrid, Spain.