London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2017

Registered number: 03491213

London Luton Airport Operations Limited

Contents

London Luton Airport Operations Limited

Company information

DIRECTORS:	C W Condie R Marabini Ruiz Lord DJ Brennan B R Hunter A S Liau N Barton J Angoitia Grijalba J Leo Vizcaíno J M Fernández Bosch M Leal De Carlos J I Ascacibar M De Los Reyes Escrig Teigeiro J J Alvarez-Gallego F J Marín San Andrés J C Alfonso
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

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 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 2017 have increased as a result of a 9% (2016:19%) increase in passenger volumes from 14.6 million passengers in 2016 to 15.8 million passengers in 2017. This increase in passengers was driven primarily by growth across most major scheduled carriers, particularly easyJet and Wizz who have increased their capacity at London Luton Airport significantly.

Total revenue for the year ended 31 December 2017 was £180,221k (2016: £162,855k); see note 3 for further analysis. Traffic income in 2017 represented an average of £5.24 per passenger (2016: £5.29). The decrease is due to a growth incentive scheme which was introduced in 2014 and provides rebates for airlines who grow volumes at London Luton Airport. The growth incentive scheme is pivotal to the Company's passenger and profitability growth.

Operating profit for the year was £39,651k (2016: £45,648k). The Directors believe that EBITDA is the performance measure most relevant to the readers of our statutory accounts. EBITDA before exceptional items was £56,325k for the year (2016: £55,117k) an increase of 2.2%. 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 construction work on expanding the airport's capacity is nearing completion. 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 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 will undertake 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.

Strategic report (continued)

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 security technology. Security risks include both the risk to physical security and cyber security risk. The Group works closely with government agencies and the police to match security measures to a level commensurate with the current elevated threat level.

Furthermore the Group has a health and safety management system to mitigate risk. The system incorporates the setting of standards and targets, monitoring performance, and putting plans in place for improving performance. The Groups current occupational health and safety OHSA18001 certificate will be migrated to ISO450001 when it is released in 2018.

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

The CAA aerodrome standards department visit each aerodrome periodically as part of their audit/inspection programme. The CAA inspectors assess compliance with the licensing requirements of aerodromes, audit the aerodrome's management safety and assess the competence of those responsible for safety. The last audit was in February 2017 and the CAA reported no significant instances of non-compliance. The next audit is expected in the first half of 2018.

Environment

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

Noise management

London Luton Airport Operations Limited ('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 London Luton Airport Consultative Committee and measures that follow best industry practice. These are detailed in our Noise Action Plan available on the website.
https://www.london-luton.co.uk/corporate/community/noise/noise-action-plan

The Company's noise contours were established by planning permission at the time of the 2012 Environmental Statement based on predicted growth at the airport at the time and the introduction of newer, quieter aircraft. In Summer 2017, the Company exceeded its night-time noise contours by 4%. The reason for this breach was that the growth of the airport has significantly exceeded projections made in 2012, earlier than the delivery of the quieter aircraft scheduled to be delivered between 2019 and 2024. There were also factors outside the Company's control including off-schedule activity as a result of weather patterns in Europe.

The Company is forecast to exceed the night-time contours in Summer 2018 and also to reach the day-time contour limit. 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.

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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within London Luton 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 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 Group monitors economic factors to ensure the Groups resilience against any changes.

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

Financial risk management objectives and policies

The Group's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk, interest rate risk, development capital expenditure risk and noise management 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 purchase a credit risk insurance policy to further mitigate bad debt risk. The Group 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.

London Luton Airport Operations Limited

Strategic report (continued)

Financial risk management objectives and policies (continued)

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 89% (2016: 98%) of trade receivables not yet due. In 2017 credit insurance has been implemented to further reduce credit risk.	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 implemented in 2017 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.	The Group financing arrangements have been updated in the year to create additional funding with improved terms and maturity dates which better reflect the length of the concession, further reducing the liquidity risk. The funding is in place to support the infrastructure development project to increase airport capacity (see note 15 for details).	The Group uses a £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 financing arrangements have been updated in the year and includes interest rate hedging for 100% (2016: 70%) of the finance incurring variable interest rates, therefore minimising interest rate risk.	The Group financing arrangements have been updated and includes interest rate hedging for 100% (2016: 70%) of the finance incurring variable interest rates therefore minimising interest rate risk.

Strategic report (continued)

Risk	Impact on group	Assessment of change in risk year-on-year	Mitigation of risk
Development capital expenditure risk	The Group's ability to control costs, maintain health and safety standards on-site as the airport expansion development project is completed.	The Group 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 Group has noise contours agreed as part of its planning permission.	In Summer 2017, the Group exceeded its night-time noise contours by 4%. The Group is forecast to exceed the night-time contours in Summer 2018 and also to reach the day-time contour limit.	The Group 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 Group will submit an application to vary the noise contours supported by an additional package of noise reduction measures.

Events after the balance sheet date

On the 20 April 2018 Ardian agreed to sell its 49% stake in London Luton Airport Holdings III Limited to AMP Capital, the Australian specialist global investment manager. London Luton Airport Holdings III Limited directly and indirectly holds 100% of the equity of the UK Group consisting of; London Luton Airport Holdings II Limited, London Luton Airport Holdings I Limited, London Luton Airport Group Limited and London Luton Airport Operations Limited.

Approval

Approved by the Board and signed on its behalf by:

Clive Condie
Director

24 April 2018

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 2017.

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

Interim dividends of £19.5m paid on 26 May 2017 and £16.2m paid on 15 December 2017, make a total of £35.7m for the year (2016: £25.3m).

Directors

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

N Barton	
C W Condie	
J Leo Vizcaíno	
R Marabini Ruiz	
Lord D J Brennan	
A S Liau	
F Echegaray Del Pozo	resigned 15 June 2017
M Garcia Duarte	resigned 5 March 2018
J M Fernández Bosch	
J J Alvarez-Gallego	appointed 4 December 2017
J Angoitia Grijalba (alternate to A S Liau)	
E Renton (alternate to N Barton)	resigned 5 September 2017
B R Hunter (alternate to N Barton)	appointed 7 September 2017
M Leal De Carlos	appointed 26 March 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
J C Alfonso	appointed 26 March 2018

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:

Directors' report (continued)

Directors (continued)

Executive directors

N Barton	

Non-executive directors

C W Condie	
J Leo Vizcaíno	
R Marabini Ruiz	
Lord D J Brennan	
A S Liau	
F Echegaray Del Pozo	resigned 15 June 2017
M Garcia Duarte	resigned 5 March 2018
J M Fernández Bosch	
J J Alvarez-Gallego	appointed 4 December 2017
	resigned 26 March 2018
F J Marín San Andrés	appointed 26 March 2018
J C Alfonso	appointed 26 March 2018

Alternate Directors

J Angoitia Grijalba (alternate to A S Liau)	
E Renton (alternate to N Barton)	resigned 5 September 2017
B R Hunter (alternate to N Barton)	appointed 7 September 2017
M Leal De Carlos (altenate to J Leo Vizcaíno)	appointed 26 March 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
J J Alvarez-Gallego (alternate to F J Marín San Andrés)	appointed 26 March 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

Directors' report (continued)

Auditor

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

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

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

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

Approved by the Board and signed on its behalf by:

Clive Condie
Director

24 April 2018

Statement of Directors' responsibilities in respect of the Strategic Report, 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK 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

Opinion

We have audited the financial statements of London Luton Airport Operations Limited ("the company") for the year ended 31 December 2017 which comprise 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 2017 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.

Going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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, 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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 2018

London Luton Airport Operations Limited
Profit and loss account
For the year ended 31 December 2017

	Note	Year ended 2017 £'000	Year ended 2016 £'000
Revenue	3	180,221	162,855
Administrative expenses		(140,570)	(117,207)
Operating profit		39,651	45,648
Finance income	7	824	489
Finance costs	8	(5,758)	(1,899)
Profit before tax		34,717	44,238
Tax	9	(3,079)	(7,402)
Profit for the financial year attributable to owners of the Company	4	31,638	36,836

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 2017

	Year ended 2017 £'000	Year ended 2016 £'000
Profit for the year	31,638	36,836
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on defined benefit plan	(855)	(22,601)
Deferred tax on actuarial movement	145	3,657
Other comprehensive expense for the year net of tax	(710)	(18,944)
Total comprehensive income for the year attributable to the owners of the Company	30,928	17,892

The accompanying notes form part of the financial statements.

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	11	187,728	91,103
Deferred tax assets	17	1,631	-
		189,359	91,103
Inventories	12	528	513
Trade and other receivables	13	19,358	53,229
Cash and bank balances		16,708	10,736
		36,594	64,478
Total assets		**225,953**	**155,581**
Current liabilities:			
Trade and other payables		(122,014)	(58,646)
Borrowings	15	(14,152)	(9,103)
	14	(136,166)	(67,749)
Net current liabilities		(99,572)	(3,271)
Non-current liabilities			
Borrowings	15	(4,922)	(5,120)
Defined benefit pension scheme liability	21	(44,787)	(37,914)
Deferred tax liabilities	17	-	(690)
Provisions	18	(742)	-
		(50,451)	(43,724)
Total liabilities		**186,617**	**(111,473)**
Net assets		**39,336**	**44,108**
Equity			
Share capital	19	5,274	5,274
Retained earnings	20	34,062	38,834
Equity attributable to owners of the Company		**39,336**	**44,108**

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 24 April 2018. 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 2017

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	**5,274**	**46,242**	**51,516**
Profit for the period	-	36,836	36,836
Other comprehensive expense for the period	-	(18,944)	(18,944)
Total comprehensive income for the period	-	**17,892**	**17,892**
Dividends	-	(25,300)	(25,300)
Balance at 31 December 2016	**5,274**	**38,834**	**44,108**
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**

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 24.

The Company has applied FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2016 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2016 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2017

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.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	The Company has adopted the amendments to IAS 12 Deferred tax assets for unrealised losses for the first time in the current year. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and should resolve the significant diversity in practice. The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Company.
Disclosure Initiative – Amendments to IAS 7	The Company has adopted the amendments to IAS 7 Disclosure initiative amendments for the first time in the current year. The amendments require disclosures that enable evaluation of changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The adoption of these amendments has had no effect on the Company's financial statements.
Annual Improvements to IFRSs – 2014-2016 Cycle	The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. Along with amendments to two other Standards becoming effective on periods commencing on or after 1 January 2018, this cycle of improvements amends IFRS 12 *Disclosure of Interests in Other Entities* to specify that the requirement to disclose interests in other entities also apply to interests that are classified as held for sale or distribution. The adoption of these amendments has had no effect on the Company's consolidated financial statements.

Basis of accounting

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

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

1. Accounting policies (continued)

Basis of accounting (continued)

consolidated accounts of London Luton Airport Group Limited are available to the public and can be obtained as set out in note 24.

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 £31.6m (2016: £36.8m). The Group headed by London Luton Airport Holdings III Limited generated £57.7m of EBITDA before exceptional items (2016: £53.6m) and £59.2m (2016: £51.2m) of net cash from operating activities. The directors have considered the forecast profit and associated cash flows for 2018 and 2019. They have also considered the facilities available to the Group, as described in the Strategic Report, and which are available for the period of their forecast, and are satisfied that the Group can operate within these facilities for the relevant period.

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

Property, plant and equipment

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

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

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

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

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.

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.

1. Accounting policies (continued)

Revenue

Revenue is stated net of VAT and trade discounts.

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

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

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

Retirement benefit costs

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

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

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

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

The retirement benefit obligation recognised in the balance sheet represents the deficit or surplus in the Company's 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.

1. Accounting policies (continued)

Financial assets (continued)

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

Loans and receivables

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

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities

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

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

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

Leases

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

The Company as lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in 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.

1. Accounting policies (continued)

Impairment of tangible assets

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.

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

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

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

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

Growth incentive scheme rebates

Provisions have been made for rebates on the basis of forecast passenger growth for the airlines which qualify for the growth incentive scheme. The end date of the current growth period is the 12 months ending 31 March 2018 and therefore there is uncertainty as to the annual growth which will be recorded and the final rebate which will be payable.

2. Critical accounting judgements and key sources of estimation uncertainty

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 2017 £'000	Year ended 2016 £'000
Turnover:		
Traffic income	82,804	76,957
Commercial income	79,866	70,430
Tenant income	17,551	15,468
	180,221	162,855

Included in revenues arising from traffic income is approximately £58.4m (2016: £49.3m) from the Group's two largest customers. No other single customers contributed 10% or more to the Group's revenues in either 2017 or 2016

In addition finance income of £824k (2016: £489k) arose in the year (see note 7).

4. Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 2017 £'000	Year ended 2016 £'000
Depreciation of tangible fixed assets:		
- Owned assets	9,451	9,335
- Held under finance leases	178	134
Loss on disposal of tangible fixed assets	853	258
Staff costs (see note 6)	37,150	28,222

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

4. Profit for the year (continued)

	Year ended 2017 £'000	Year ended 2016 £'000
Operating profit	39,651	45,648
Add: Depreciation on tangible assets – owned and leased assets	9,629	9,469
EBITDA after exceptional items	**49,280**	**55,117**
Add: Past service cost on amendments to defined benefit pension scheme (See note 21)	7,045	-
EBITDA before exceptional items	**56,325**	**55,117**

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 2017 was £47,333k (2016: £42,583k).

5. Auditor's remuneration

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

	Year ended 2017 £'000	Year ended 2016 £'000
Fees payable to the company's auditor and their associates for the audit of the company's annual accounts	20	32
Total audit fees	20	32
- Audit-related assurance services	20	19
- Other assurance services	23	12
Total non-audit fees	43	31
Total fees	**63**	**63**

No services were provided pursuant to contingent fee arrangements.

6. Staff costs

The average monthly number of employees was:

	2017 Number	2016 Number
Operations	644	618
Management and support services	65	64
Technical services	40	41
	749	723

6. Staff costs (continued)

Their aggregate remuneration comprised:

	Year ended 2017 £'000	Year ended 2016 £'000
Wages and salaries	24,833	23,064
Social security costs	2,340	1,984
Other pension costs (note 21)	9,977	3,174
	37,150	28,222

7. Finance income

	Year ended 2017 £'000	Year ended 2016 £'000
Other loans and receivables	824	489

8. Finance costs

	Year ended 2017 £'000	Year ended 2016 £'000
Interest payable on bank overdrafts and loans	345	444
Interest payable to group undertakings	3,501	100
Other finance costs arising on defined benefit pension (note 21)	1,099	530
Interest on obligations under finance leases	813	825
Total interest payable	5,758	1,899

9. Tax

	Year ended 2017 £'000	Year ended 2016 £'000
UK corporation tax	5,421	5,515
Adjustments in respect of prior years - UK corporation tax	(166)	1,051
	5,255	6,566
Deferred tax (note 17)	(2,176)	836
	3,079	7,402

Corporation tax is calculated at 19.25% (2016: 20%) 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:

9. Tax (continued)

	Year ended 2017 £'000	Year ended 2016 £'000
Profit before tax on continuing operations	34,717	44,238
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	6,683	8,848
Effects of:		
Group relief received for nil payment	(4,938)	(3,818)
Effects of changes in statutory tax rates	160	(408)
Adjustments to tax charge in respect of previous periods	(1,134)	2,730
Permanent adjustments and other rounding differences	2,308	50
Tax expense for the year	3,079	7,402

Corporation tax is calculated at 19.25% (2016: 20%) 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 2017 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 2017 £'000	Year ended 2016 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	145	3,657

10. Dividends

	Year ended 2017 £'000	Year ended 2016 £'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2017 (equivalent to £357 per share), (2016: £253 per share)	35,700	25,300

Interim dividends of £19.5m paid on 26 May 2017 and £16.2m paid on 15 December 2017, make a total of £35.7m for the year (2016: £25.3m). 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 2017	76,531	75,304	58,026	22,746	232,607
Additions	-	31,350	2,194	73,563	107,107
Disposals	(193)	(4,772)	(4,454)	(14)	(9,433)
Transfers	-	32,728	2,367	(35,095)	-
At 31 December 2017	76,338	134,610	58,133	61,200	330,281
Accumulated depreciation					
At 1 January 2017	52,154	45,871	43,479	-	141,504
Charge for the year	2,032	4,069	3,528	-	9,629
Eliminated on disposal	(181)	(4,412)	(3,987)	-	(8,580)
At 31 December 2017	54,005	45,528	43,020	-	142,553
Carrying amount					
At 31 December 2017	22,333	89,082	15,113	61,200	187,728
At 31 December 2016	24,377	29,433	14,547	22,746	91,103

Included within the cost of fixed assets is cumulative capitalised interest of £3,641k (2016: £3,641k). The depreciation charge for the year includes an amount of £nil (2016: £55k) representing the depreciation of capitalised interest.

As at 31 December 2017 there were £61,200k (2016: £22,746k) 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.

As at 31 December 2017 there were runways, taxiways and other similar structure assets with a net book value of £2,360k held under a finance lease arrangement (2016: £2,538k).

Capital expenditure contracted at the end of the reporting period but not recognised as liabilities, in relation to the expansion of the airport is £16.1m (2016: £49.3m).

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

12. Inventories

	2017 £'000	2016 £'000
Consumables	528	513

13. Trade and other receivables

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of services	12,903	14,570
Amounts due from group undertakings	-	31,261
Other receivables	3,073	3,632
Prepayments and accrued income	3,382	3,766
	19,358	53,229

14. Trade and other payables

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Borrowings (see note 15)	14,152	9,103
Finance leases (see note 16)	198	84
Trade payables	30,360	19,755
Amounts owed to group undertakings	63,637	11,466
Corporation tax	2,256	2,340
Other taxation and social security	24	16
Other creditors	6,352	6,060
Accruals and deferred income	19,094	18,925
Provisions	93	-
	136,166	67,749
Amounts falling due in more than one year:		
Finance leases (see note 16)	4,922	5,120
Deferred tax liability (see note 17)	-	690
Provisions	742	-
	5,664	5,810

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

15. Borrowings

	2017 £'000	2016 £'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	14,152	9,103
Finance leases (Note 16)	198	84
	14,350	9,187
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Finance lease liabilities (note 16)	4,922	5,120
Total borrowings		
Amount due for settlement within 12 months	16,350	11,187
Amount due for settlement between 2 and 5 years	1,181	1,012
Amount due for settlement after 5 years	3,741	4,108
TOTAL	**21,272**	**16,307**

At the beginning of the year bank borrowings consist of a revolving credit facility with a syndicate comprising Caixabank S.A., Crédit Agricole Corporate, Commonwealth Bank of Australia, Mediobanca International, Royal Bank of Canada, the Royal Bank of Scotland, DBJ Europe Limited and AIB Group (UK) PLC. Interest was charged at a rate of 6 month LIBOR plus an original margin of 1.65% escalating over the 7 year term. All facilities mature on 28 March 2022. The total facility available from 26 March 2015 was a revolving capex facility of £75m and a revolving credit facility of £15m.

On the 17 August 2017 a new financing arrangement was put in place and the existing facilities repaid in full. The financing arrangement from 17 August 2017 consists 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. £14m (2016: £9m) of the revolving credit facility was in use by London Luton Airport Operations Limited at 31 December 2017.

16. Obligations under finance leases

	2017 £'000	2016 £'000
Amounts payable under finance leases:		
Within one year	991	898
In the second to fifth years inclusive	3,964	3,964
After five years	5,470	6,461
	10,425	11,323
Less: future finance charges	(5,305)	(6,119)
Present value of lease obligations	5,120	5,204

	2017 £'000	2016 £'000
Amounts payable under finance leases:		
Within one year	198	84
In the second to fifth years inclusive	1,181	1,012
After five years	3,741	4,108
Present value of lease obligations	5,120	5,204

All lease obligations are denominated in sterling.

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

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

17. Deferred tax

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

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Total £'000
At 1 January 2016	**(6,582)**	**3,071**	**(3,511)**
Charge to income statement	(553)	(283)	(836)
Credit to other comprehensive income	-	3,657	3,657
At 31 December 2016	**(7,135)**	**6,445**	**(690)**
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**

18. Provisions

	2017 £'000	2016 £'000
Provisions falling due within one year	93	-
Provisions falling due after more than one year	742	-
Total	835	-

18. Provisions (continued)

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

	2017 £'000	2016 £'000
Balance at the beginning of the year	-	-
Recognised in the year	835	-
Balance at the end of the year	835	-

In 2017 a noise insulation provision has been recognised of £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.

19. Share capital

	2017 £'000	2016 £'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.

20. Retained earnings

	£'000
Balance at 1 January 2016	**46,242**
Dividends paid	(25,300)
Total comprehensive income for the year	17,892
Balance at 31 December 2016	**38,834**
Dividends paid	(35,700)
Total comprehensive income for the year	30,928
Balance at 31 December 2017	**34,062**

21. 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.

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 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:

	2017 %	2016 %
Key assumptions used:		
Discount rate	2.40%	2.55%
Expected rate of future pension increases	2.90%	2.95%
Rate of increase of pensions in deferment	3.10%	3.15%
Inflation	3.10%	3.15%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	21.9	21.8
Female	24.1	23.9
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	23.6	23.5
Female	26.0	25.8

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

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

21. Retirement benefit schemes (continued)

	2017 £'000	2016 £'000
Service cost:		
Current service cost	762	3,174
Past service cost – plan amendments/augmentations	7,045	-
Net interest expense	3,809	3,759
Expected return	(2,710)	(3,229)
Components of defined benefit costs recognised in profit or loss	8,906	3,704

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

	2017 £'000	2016 £'000
The return on plan assets (greater)/less than the discount rate	(4,417)	(15,389)
Actuarial loss arising from changes in demographic assumptions	-	2,289
Actuarial loss arising from changes in financial assumptions	3,711	35,877
Actuarial loss/(gain) arising from experience adjustments	1,561	(176)
Remeasurement of the net defined benefit liability	855	22,601

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:

	2017 £'000	2016 £'000
Present value of defined benefit obligations	(157,447)	(143,922)
Fair value of plan assets	112,660	106,008
Deficit	(44,787)	(37,914)
Deferred tax asset	7,614	6,445
Net liability	(37,173)	(31,469)

21. Retirement benefit schemes (continued)

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

	2017 £'000	2016 £'000
Opening defined benefit obligation	**143,922**	**101,108**
Current service cost	513	2,880
Past service cost – plan amendments/augmentations	7,045	-
Interest cost	3,809	3,759
	11,367	**6,639**
Actuarial loss	**5,272**	**37,990**
Contributions from plan participants	75	886
Benefits paid	(3,438)	(2,995)
Expenses paid	249	294
	(3,114)	**(1,815)**
Closing defined benefit obligation	**157,447**	**143,922**

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

	£'000
Expected benefit payments during fiscal year ending 31 December 2018	2,538
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 years ending 31 December 2023 through 31 December 2027	15,732

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

	2017 £'000	2016 £'000
Opening fair value of plan assets	**106,008**	**84,048**
Interest income	2,710	3,229
	2,710	**3,229**
Remeasurement gain:		
The return on plan assets (excluding amounts included in net interest expense)	4,417	15,389
	4,417	**15,389**
Contributions from employers	2,882	5,443
Contributions from plan participants	75	886
Benefits paid	(2,903)	(2,503)
Expenses paid	(529)	(484)
	(475)	**3,342**
Closing fair value of plan assets	**112,660**	**106,008**

21. Retirement benefit schemes (continued)

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

	2017 £'000	2016 £'000
Equity instruments	36,051	31,802
Debt securities	4,506	4,240
Other	72,103	69,966
Total	**112,660**	**106,008**

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 £17.2m. If the discount rate is 0.5% lower the defined benefit obligation would increase by £20.3m.

The Scheme should have sufficient and appropriate assets to cover its technical provisions. To eliminate the deficit, the Company has agreed to pay annual contributions into the Scheme until 31 March 2023. The next deficit payment is £2.3m to be paid into the Scheme by 31 December 2018, with an additional £1.7m to be paid into an Escrow account (or directly into the Scheme at the discretion of the employer).

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 (2016: £0.1m) represents contributions payable to the scheme by the group at rates specified in the rules of the scheme. As at 31 December 2017, contributions of £nil (2016: £nil) due in respect of the current reporting period had not been paid over to the scheme.

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

22. Events after the balance sheet date

On the 20 April 2018 Ardian agreed to sell its 49% stake in London Luton Airport Holdings III Limited to AMP Capital, the Australian specialist global investment manager. London Luton Airport Holdings III Limited directly and indirectly holds 100% of the equity of the UK Group consisting of; London Luton Airport Holdings II Limited, London Luton Airport Holdings I Limited, London Luton Airport Group Limited and London Luton Airport Operations Limited.

23. 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 no payments to Ingeniería y Economía del Transporte S.A. a company 45.85% owned by Aena S.A. for consultancy services (2016: £63k).

23. Related party transactions (continued)

	Year ended 2017 £'000	Year ended 2016 £'000
Directors' remuneration		
Emoluments	726	674
Company contributions to defined contribution pension schemes	38	35
	764	709

	Year ended 2017 £'000	Year ended 2016 £'000
Remuneration of the highest paid director:		
Emoluments	260	314
Company contributions to money purchase schemes	20	20

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

Directors' transactions
There are no transactions with directors in the year to 31 December 2017 (2016: £nil).

24. 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 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.