

London Luton Airport Limited

Annual report and financial statements

for the year ended 31 March 2016

Registered number: 2020381

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London Luton Airport Limited

Contents

Page

Strategic report for the year ended 31 March 2016	1
Directors' report for the year ended 31 March 2016	3
Independent auditors' report to the members of London Luton Airport Limited	6
Profit and Loss account for the year ended 31 March 2016	9
Statement of Comprehensive Income for the year ended 31 March 2016	10
Balance Sheet as at 31 March 2016	11
Statement of Changes in Equity for the year ended 31 March 2016	12
Notes to the Financial Statements for the year ended 31 March 2016	13

London Luton Airport Limited

Strategic Report for the year ended 31 March 2016

The directors present their strategic report on the company for the year ended 31 March 2016.

Principal activities

The company's principal activities until August 1998 were the ownership, operation and management of London Luton Airport. In August 1998 the company granted a concession contract to an unrelated company, London Luton Airport Operations Limited ("LLAOL") to operate the airport on its behalf in return for a concession fee. The company continues to own the land, buildings and infrastructure at the airport.

Review of the business

LLAL's principal source of income continued to be the Concession Fee, The Concession Fee which is based on work-load units, each unit being one passenger or 100kg of freight. Growth in passenger numbers was particularly strong, reaching a number in excess of 12.8 million in the year to March 2016, an increase of some 19.9% over the previous year.

During the year LLAOL commenced the development works to increase the passenger capacity up to 18 million passengers per annum, and accelerated the pace of construction to meet demand.

The company continued to diversify its property investment portfolio by acquiring land at Century Park, Stirling Place and Vauxhall Road.

Principal risks and uncertainties

The key business risks and uncertainties for the company are considered to relate to fluctuations in passenger throughput, the key determinant of the concession income. Passenger numbers are subject to competition between airlines, airport operators, the selection of routes and destinations, and underlying passenger demand for air travel which can be influenced by the general economic environment and consumer confidence. There is a risk that the decision to leave the European Union may diminish passenger demand for leisure related air travel. The concessionaire is deemed to be in the best position to manage this risk by its contractual relationships with Airline operators.

Plans are currently being developed in the light of the UK's decision to leave the European Union; early indications are that the company's business plans remain deliverable, and no material change is expected in the company's prospects.

Review of business and future developments

At the financial year end the company's financial position was strong and its future prospects are good.

The company continues to operate profitably and will share in the future success of the airport via the concession fee receivable from LLAOL.

The company is likely to continue to diversify its property portfolio by acquiring suitable properties adjacent to or nearby the airport, where it can be shown that these not only have a long-term strategic value to the company but are also capable of making a reasonable return on investment in the short to medium-term.

Much of the company's landholdings now form part of the London Luton Airport Enterprise Zone, announced by the former Chancellor of the Exchequer, the Rt. Hon. George Osborne MP, in November 2015.

In April 2016, the Chair of the Board announced that LLAL had authorised the start of the procurement process for a mass passenger transit system to provide a fast, frequent and efficient transfer from London Luton Airport Parkway station to the central terminal area. The £200m construction is expected to begin mid-2017, and the system be fully operational by the end of 2020.

Key performance indicators (KPI's)

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not currently necessary for an understanding of the development, performance or position of the business.

London Luton Airport Limited

Strategic report for the year ended 31 March 2016 (continued)

Financial risk management

The company does not have any external financial relationships with banks or finance houses. The debenture loans to the company are from Luton Borough Council, the shareholder, and are held at fair value at inception. No repayments are scheduled until the end of the concession period. It is not, therefore, exposed to any financial risks resulting from changes in debt market prices, credit risk, and liquidity risk. The company does not use finance derivatives and as such no hedge accounting is required.

Price risk

The company is not currently exposed to commodity price risk as a result of its operations.

Credit risk

The company is only exposed to credit risk in respect of London Luton Airport Operations Limited who pays a concession fee to the company on a quarterly basis in arrears. LLAOL is bound by an open book policy with the company and therefore its internal auditors have access to monitor performance and viability. An annual internal audit is undertaken to ensure that the liquidity and financial position of LLAOL is sufficient to meet its obligations under the concession agreement. The company utilises the facilities of its parent, Luton Borough Council, in ensuring minimal risk with its cash and investments.

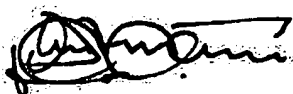
Liquidity risk

The company receives its concession income at four agreed dates on a quarterly basis. It actively manages its short term investments and cash holdings to ensure sufficient funds are available for its activities.

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, all of which earn interest at a fixed rate. The company maintains its debt at a mixture of fixed and variable rates reducing exposure to fluctuating interest rates. The directors will revisit the appropriateness of this and determine a policy should the company's operations change in size or nature.

By order of the Board



M Turner
For the Company Secretary, Luton Borough Council

1st August 2016

London Luton Airport Limited

Directors' report for the year ended 31 March 2016

The directors present their report and the audited financial statements for the year ended 31st March 2016.

Future developments

Future developments for the company are set out in the Strategic report.

Results and dividends

The company's profit for the financial year is £29.7 m (2015: £65.4m). The company's distributable profit, excluding fair value adjustments on investment properties, is £8.9m (2015: £12.7m). The members at a General Meeting held on 31st March 2016 approved a dividend for the financial year of 13.39 pence per ordinary share (amounting to £6m), this being the total dividend payable for the year (2015: 2.79p, £1.25m).

Directors

The directors who held office during the year and up to the date of signing the financial statements were:

M Ashraf	(resigned 17 th May 2016)
I Chowdhury	
D Franks	
F Green	(appointed 17 th May 2016)
T Khan	
A Malcolm	Chairman
J Rowlands	
A Skepelhorn	
J Taylor	
J Young	

Lord McKenzie of Luton and Dr Romano Pagliari of Cranfield University attend Board meetings in an advisory capacity. They are not Directors of the company and have no voting rights.

Employees

The company has no employees (2015: nil). Services to London Luton Airport Limited are carried out by employees of Luton Borough Council and the company is charged for these as set out in note 7.

Corporate Social Responsibility

The year ended 31st March 2016 saw the continuation of the company's Community Funding Policy, which sets out the ways in which the company will contribute to the social, environmental and economic wellbeing of the communities surrounding London Luton Airport. Details of the Community Funding Policy are available on the company's website at lla.org.uk.

Financial Risk Management

This has been documented within the Strategic Report at page 1.

London Luton Airport Limited

Directors' report for the year ended 31 March 2016(continued)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report and 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 the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 Company's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The directors confirm that so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

London Luton Airport Limited

Directors' report for the year ended 31 March 2016 (continued)

Charitable donations

The company has, through its Community Funding Programme, made donations during the financial year amounting to £14.823m (2015: £13.029m) to local charitable organisations based or operating in Luton and the surrounding area. Payments are analysed across the seven Funding Themes of the Programme as follows:

	2016 £000	2015 £000
Children, Families & Young People	4,087	2,895
Citizen Enablement	945	659
Community Involvement	940	340
Community Safety	626	706
Environment & Economy	236	186
Health & Wellbeing	1,304	1,367
Leisure & Culture	6,685	6,876
	14,823	13,029

Independent Auditors

PricewaterhouseCoopers LLP have acted as auditors to the company in the financial year and will be reappointed automatically as the company passed an elective resolution to that effect at its Annual General Meeting on 10 June 2006.

By order of the Board



M Turner
For the Company Secretary, Luton Borough Council

1st August 2016

London Luton Airport Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONDON LUTON AIRPORT LIMITED

Report on the financial statements

Our opinion

In our opinion, London Luton Airport Limited's financial statements (the "financial statements"):

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

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 March 2016;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

London Luton Airport Limited

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

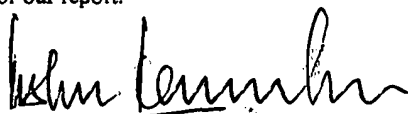
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.



Deshan Karunaratne (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

2 August 2016

London Luton Airport Limited

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London Luton Airport Limited

Profit and loss account for the year ended 31 March 2016

		2016	2015
	Note	£'000	£'000
Turnover	6	34,878	29,902
Administrative expenses		(20,201)	(16,861)
Change in fair value of investment properties		19,438	65,000
Operating profit	7	34,115	78,041
Interest receivable and similar income	9	92	87
Interest payable and similar charges	10	(3,266)	(2,033)
Profit on ordinary activities before taxation		30,941	76,095
Tax on profit on ordinary activities	11	(1,202)	(10,652)
Profit for the financial year		29,739	65,443

London Luton Airport Limited

Statement of comprehensive income for the year ended 31 March 2016

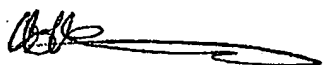
	Note	2016 £'000	2015 £'000
Profit for the financial year		29,739	65,443
Re-measurements of net defined benefit obligation	22	174	(9)
Current tax deductions relating to net defined benefit obligation		(34)	2
Impact of change in tax rates		6	-
Total comprehensive income for the financial year		29,885	65,436

London Luton Airport Limited

Balance sheet as at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Investment properties	13	519,525	482,014
Current assets			
Debtors	14	5,580	5,487
Cash and cash equivalents		12,404	11,959
Total current assets		17,984	17,446
Creditors: amounts falling due within one year	15	(9,150)	(8,235)
Net current assets/(liabilities)		8,834	9,211
Total assets less current liabilities		528,359	491,225
Creditors: amounts falling due after more than one year	16	(42,921)	(27,921)
Provisions – deferred tax liability	18	(52,806)	(54,298)
Net assets excluding pension deficit		432,632	409,006
Pension deficit	22	(2,087)	(2,346)
Net assets including pension deficit		430,545	406,660
Capital and reserves			
Called up share capital	19	44,837	44,837
Retained earnings	20	385,708	361,823
Total shareholders' funds		430,545	406,660

The financial statements on pages 9 to 27 were approved by the Board of Directors on 1st August 2016 and were signed on its behalf by:



A Malcolm, Director

1st August 2016

Registered Number 2020381

London Luton Airport Limited

Statement of changes in equity for the year ended 31 March 2016

	Called-up Share Capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 2014	44,837	297,637	342,474
Profit for the financial year		65,443	65,443
Other comprehensive income for the financial year		(7)	(7)
Total comprehensive income for the financial year		65,436	65,436
Total transactions with owners - dividends		(1,250)	(1,250)
Balance at 31 March 2015	44,837	361,823	406,660
Balance at 1 April 2015	44,837	361,823	406,660
Profit for the financial year		29,739	29,739
Other comprehensive income		146	146
Total comprehensive income for the financial year		29,885	29,885
Total transactions with owners - dividends		(6,000)	(6,000)
Closing shareholders' funds at 31 March 2016	44,837	385,708	430,545

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016

1. General Information

London Luton Airport Limited ("the company") is the owner of London Luton Airport, together with a number of other investment properties and parcels of land. The company operates entirely in the UK. The airport is leased to London Luton Airport Operation Limited ("LLAOL") as set out in note 5.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Hart House Business Centre, Kimpton Road, Luton, LU2 0LA.

2. Statement of Compliance

The individual financial statements of London Luton Airport Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

Basis of Accounting Policy

The accounting policies have been applied consistently other than where new policies have been adopted.

Accounting convention

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investment properties and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Exemptions for qualifying entities under FRS 102

The company has taken advantage of the exemptions, under FRS 102 paragraph 1.12, from preparing a statement of cash flows, from disclosing the compensation of key management personnel, and the disclosure of related party transactions, on the basis that it is a qualifying entity and its ultimate parent company, Luton Borough Council, includes these statements in its own consolidated financial statements.

Turnover

Turnover relating to concession income is recognised in line the the concession contract, see note 5 for further details. Other property income represents amounts falling due under rental agreements.

Leased assets

As a lessee rental costs under operating leases are charged to the profit and loss account on a straight line basis over the periods of the leases.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Financial Instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, and loans from banks and other third parties.

(i) Financial assets

Basic financial assets, including trade and other receivables, and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest, and thereafter measured at amortised cost.

These are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Accounting policies (continued)

Pension costs

Certain employees of the airport business prior to the granting of the Concession Contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the financial year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire Local Government Pension Scheme in respect of former employees' entitlement to pension augmentations arising on redundancy.

This provision has been assessed in accordance with the advice of an independent actuary using the following principal assumptions.

	% pa
Pensions increase rate	2.1
Discount rate	3.4

A formal actuarial valuation is carried out by the administering authority, Bedford Borough Council, and is due every 3 years. The most recent formal actuarial valuation was at 31 March 2010. The results of this valuation have been projected forward by the authority's advisers to 31 March 2016 and reflected in these financial statements. The scheme is a defined benefits scheme.

Investment properties

The company includes investment properties at their fair value at the balance sheet date on the basis of the external valuer's valuation. Any gains or losses through the change in fair value are recorded through the income statement.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2015 (continued)

Given the rapid growth in passenger numbers at the airport over the past two years, and the acquisition by the company of a number of strategic property assets adjacent to or connected with the airport, the Board has commissioned a full valuation as at 31st March 2016.

4. Critical accounting judgements and estimation uncertainty

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain former employees now employed by LLAOL. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 22 for the disclosures relating to the defined benefit pension scheme.

Investments

The valuation, undertaken by Deloitte LLP, took into account forecast future cash flows based primarily on passenger growth and was discounted using a discount rate of 10.75% being an estimate of the company's long term weighted average cost of capital. The DCF analysis assumes a reversionary value of the airport at the expiry of the concession on 31st March 2031. The valuation was made in accordance with the RICS Appraisal and Valuation Manual.

5. Concession contract

On 20 August 1998 ('the concession date') the company entered into a concession contract with an unrelated entity, London Luton Airport Operations Limited ('LLAOL').

Under the terms of this contract LLAOL was granted a concession to operate the airport for a period of 30 years ('the concession period') and a lease over the company's land and buildings. In return LLAOL undertook to pay an annual concession fee to the company comprising of £3 million as a minimum fixed payment or a greater amount based on workload units (being each departing and arriving passenger and each 100 tonnes of freight) as prescribed in the concession agreement and, subject to the continuing growth of passenger numbers, fund an extensive capital investment programme. At the end of the concession period the assets, liabilities and operations of the airport revert to the ownership and use of the company.

In August 2012 a supplemental agreement to the concession contract was reached between LLAL and LLAOL. This agreement commits the operators to undertake a significant programme of development works to increase the Airport's capacity to handle throughput of up to 18 million passengers per year, in return for an extension of the Concession Period to March 31st 2031. The concession agreement was further amended in January 2014 to provide for a scheme to rebate the Concession Fee Rate payable by the airport operator in certain circumstances, in order to encourage passenger growth.

At the concession date the trading assets and liabilities of the company were transferred to LLAOL at book value. No profit or loss arose on the transfer of these assets and liabilities. The employees of the company were also transferred to LLAOL.

As the company no longer operates the airport itself, the land and buildings have become investment properties. At the instruction of London Luton Airport Limited, Deloitte LLP have valued the freehold interest in London Luton

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

Airport as at 31 March 2016. The next valuation is due to be undertaken as at 31 March 2020; it has, however, been agreed that, given the rate at which passenger numbers are currently growing, and the other developments currently being carried out by the company, the valuation will be reviewed annually in the intervening periods to ensure the investment properties are reflected at fair value.

6. Turnover

	2016	2015
	£'000	£'000
Concession Income	34,355	29,574
Other Property Income	523	328
Total Investment income	34,878	29,902

All turnover is generated and originates in the United Kingdom. The future minimum rental amounts are £3,000,000 per annum.

7. Operating profit

	2016	2015
	£'000	£'000
Operating profit is stated after the following amounts have been charged:		
Operating leases - land and buildings	1,950	1,950
Charge for enhanced pension payments	167	172
Charitable donations	14,823	13,029
Auditors' remuneration:		
Audit services	33	30
Non-audit services – tax	24	80

The shareholder, Luton Borough Council, provides professional services to the company. Charges to the company for these services amounted to £634,860 (2015: £617,740) and are on commercial terms. £1,924,547 (2015: £1,924,547) of the operating lease charge for a car park on the airport premises is with Luton Borough Council on commercial terms. Luton Borough Council is the company's controlling party by virtue of its majority shareholding.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

8. Directors' emoluments

Directors' emoluments for the financial year amounted to £nil (2015: £nil). All of the directors are council members and therefore do not qualify for remuneration.

9. Interest receivable and similar income

	2016	2015
	£'000	£'000
Interest receivable	92	87

10. Interest payable and similar charges

	2016	2015
	£'000	£'000
Interest on debenture loans - repayable after more than 5 years (note 16)	(3,266)	(2,033)

11. Tax on profit on ordinary activities

	2016	2015
	£'000	£'000
Current tax		
United Kingdom corporation tax on profits of the financial year	2,617	2,427
Adjustments in respect of prior years	5	(4,446)
	2,622	(2,019)
Deferred tax :		
Origination and reversing of timing differences	4,395	13,278
Adjustments in respect of prior years	2	24
Change in tax rates	(5,817)	(632)
	(1,420)	12,671
Total tax charge on profit on ordinary activities	1,202	10,652

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

11. Tax on profit on ordinary activities (continued)

The tax assessed for the financial year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	30,941	76,095
Profit on ordinary activities multiplied by standard rate in the UK of 20% (2014: 21%)	6,158	15,980
Effects of:		
Expenses non-deductible for tax purposes	401	134
Income not taxable	-	(22)
Deferred tax not recognised	1,128	-
Indexation on revalued properties	(625)	(385)
Adjustments in respect of prior years	7	(4,423)
Tax rate changes		(632)
	(5,867)	
Total tax charge	1,202	10,652

Factors that may affect future tax rate

Changes to the UK Corporation tax rates were substantially enacted as part of the Finance Bill 2013 on 2nd July 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. It has been announced that the rate of corporation tax will reduce to 19% from 1 April 2017 and reduce again to 18% from 1 April 2020. These changes in rates were substantively enacted on 18 November 2015 when they received royal assent and so 18% has been applied to the company's timing differences in calculating the deferred tax balances at the end of the year.

12. Dividends

	2016 £'000	2015 £'000
On ordinary equity shares		
Approved 31 March 2016: 13.39p (2015: 2.79p) per share	6,000	1,250

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

13. Investment properties

Fixed asset investments	Other		Total £'000
	Airport £'000	Properties £'000	
Balance at 1 April 2015	475,000	7,014	482,014
Acquisitions in the year		18,073	18,073
Fair value adjustments	25,000	(5,562)	19,438
Balance at 31 st March	500,000	19,525	519,525

The interest in investment property has been valued in accordance with the circumstances and principles set out in note 3.

The "Other Properties" category includes an addition of £17,904,000 representing the acquisition of land at Century Park, Stirling Place and Vauxhall Road during the year. The fair value adjustment charge recognised relates primarily to Stirling Place, a brownfield site adjacent to Luton Airport Parkway. The motivation for the purchase of the site was its suitability as the hub of the proposed mass passenger transport system for which the planning application is due to be submitted shortly. However, given the inherent planning risk, Stirling Place has been valued at its current open market value, which has resulted in a significant impairment charge being recognised.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

14. Debtors

	2016	2015
	£'000	£'000
Deferred tax (note 17)	392	493
Prepayments and accrued income	5,188	4,994
	5,580	5,487

15. Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Corporation tax	1,532	2,819
Other taxation and social security payable	955	682
Dividends	6,000	4,250
Other creditors	663	484
	9,150	8,235

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

16. Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Debenture loans. Maturity loans non-instalment		
Debenture loan 1 – interest fixed at 12%	3,153	3,153
Debenture loans 2,3, and 6 – interest at 4% over three months LIBOR	8,878	8,878
Debenture loan 4 – interest 4% over six months LIBOR	1,788	1,788
Debenture loan 5 – interest fixed at 12.125%	3,102	3,102
Debenture loan 7 – interest at 7.58% over three months LIBOR	11,000	11,000
Debenture loan 8 – interest fixed at 11.5%	12,000	-
Debenture loan 9 – interest fixed at 11.5%	3,000	-
	42,921	27,921

The debenture loans are from Luton Borough Council, the shareholder. The repayment in full in a single payment of the principal in respect of debenture loans 1 to 6 is scheduled for 28th March 2028 and of debenture loans 7 to 9 for 1st April 2031. The debentures are secured on the total assets of the company.

17. Deferred tax asset

The deferred tax asset represents the following:

	2016	2015
	£'000	£'000
Owned fixed assets realised through use	2	8
Short term timing differences	14	16
Deferred tax in relation to pensions liability	376	469
Deferred tax asset at 31 March	392	493
Deferred tax at 1 April	493	26
Deferred tax charge in the profit and loss account	(101)	(2)
Deferred tax asset at 31 March	392	24

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

18. Provisions - deferred tax liability

The deferred tax liability arises wholly in relation to investment properties.

	2016	2015
	£'000	£'000
Balance at 1 April	54,298	41,665
Deferred tax in respect of fair value adjustments in year	4,375	13,265
Change in tax rate	(5,867)	(632)
Balance at 31 March	52,806	54,298

19. Called up share capital

	2016	2015
	£'000	£'000
60,000,000 (2015: 60,000,000) Authorised ordinary shares £1 each	60,000	60,000
44,837,002 (2015: 44,837,002) Allotted and fully paid	44,837	44,837

20. Retained earnings

	Distributable	Non-distributable	Total
	£'000	£'000	£'000
Balance at 1 April 2015	14,125	347,698	361,823
Total comprehensive income	9,027	20,858	29,885
Dividends payable	(6,000)		(6,000)
Balance at 31 March 2016	17,006	368,556	385,708

Included within the non-distributable total comprehensive income for the year are £19,438,000 of fair value adjustments, and £1,420,000 of deferred tax liability adjustments.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

21. Operating lease commitments and contingencies

At 31 March 2016 the company was committed to making the following total payments in respect of operating leases relating to land and buildings.

	2016	2015
	£'000	£'000
Leases which expire after five years	1,950	1,950

22. Pension commitments

Certain employees of the airport business prior to the granting of the concession contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the financial year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire Local Government Pension Scheme (LGPS) in respect of former employees' entitlement to pension augmentations arising on redundancy. The LGPS is a defined benefit statutory scheme. The cost charged to the company is based on the actual cost attributable to the former employees.

a) Defined benefit scheme

An actuarial valuation of the Bedfordshire Pension Fund for the purposes of settling London Luton Airport Limited's actual contributions was carried out at 31 March 2010 using the projected unit basis, by Hymans Robertson LLP, independent consulting actuaries. The results of this valuation have been projected forward to 31 March 2016 by Hymans Robertson LLP. The major assumptions used by the actuary were:

	2016	2015
	%	%
Pension increase rate	2.1	2.1
Discount rate	3.4	3.1

The mortality assumptions used were as follows:

	2016 years	2015 years
Longevity at age 65 for current pensioners:		
– Men	22.4	22.4
– Women	24.3	24.3

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

22. Pension commitments (continued)

a) Defined benefit scheme (continued)

	2016 £'000	2015 £'000
Present value of scheme liabilities	(2,087)	(2,346)

b) Reconciliation of present value of scheme liabilities

	2016 £'000	2015 £'000
At 1 April	2,346	2,406
Interest cost	70	95
Unfunded benefits paid	(155)	(164)
Re-measurements of net defined benefit obligation	(174)	9
At 31 March	2,087	2,346

23. Parent entity and ultimate controlling party

The immediate and ultimate parent undertaking and controlling party is Luton Borough Council. Luton Borough Council is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2016. The consolidated financial statements of Luton Borough Council are available from Town Hall, George Street, Luton, LU1 2BQ.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

24. Transition to FRS 102

This is the first year that the company has presented its results under FRS102. The last financial statements under the UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Profit for the financial year	Note	2015 £'000	
UK GAAP – as previously reported			13,076
Fair value adjustments to investment property	A	65,000	
Total adjustment to profit before tax for the financial year			65,000
Deferred tax impact of fair value adjustments	B	(13,265)	
Change in tax rates	B	632	
Total adjustment to tax expense			(12,633)
Total adjustment to profit for the year			52,637
FRS 102			65,443
		2015 £'000	
Other comprehensive income			
UK GAAP – as previously reported			64,993
Revaluation of investment property	A		(65,000)
FRS102			(7)
		01-Apr-14 £'000	31-Mar-15 £'000
Total equity			
UK GAAP – as previously reported		384,139	460,958
Deferred tax impact of fair value adjustments	B	(41,665)	(54,298)
FRS102		342,474	406,660

There have also been changes in the presentation of balance sheet items as follows:

	Note	As previously reported £'000	Effect of transition £'000	FRS 102 (restated) £'000
Balance sheet as at 31 March 2015				
Cash at bank and in hand	C	9,889	2,070	11,959
Investments	C	2,070	(2,070)	0
Deferred tax	D	24	469	493
Pension deficit	D	(1,877)	(469)	(2,346)

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March 2016 (continued)

- A. The treatment of revaluation gains on freehold investment property has changed in the transition between UK GAAP and FRS 102, this has had the effect of increasing the profit for the financial year by £65,000,000 for the year to 31 March 2015.
- B. The treatment of deferred tax has changed in the transition between UK GAAP and FRS 102. The net assets of the company were reduced by £41,665,000 at 1 April 2014 as a result of this change in treatment and this has also had the effect of decreasing the profit for the financial year by £12,633,000 for the year to 31 March 2015, offsetting the increase described in note A above.
- C. Items previously classified as 'Current investments' have been included as 'Cash and cash equivalents' at 31 March 2015 in the transition between UK GAAP and FRS 102. The total value of these items is £2,070,000.
- D. Due to the change in the treatment of deferred tax in the transition between UK GAAP and FRS 102, the deferred tax asset associated with the pension deficit has been included as part of a separate deferred tax asset, whereas it was previously disclosed within the pension deficit. The total value of this item is £469,000.

25. Post balance sheet event – EU Referendum

On 23 June 2016 the UK electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy and real estate markets, with increased volatility expected in financial markets. This does not impact the fair value of assets and liabilities, including investment property, reported at the balance sheet date of 31 March 2016.

Prior to the balance sheet date the company has appointed Arup to carry out the detailed design, leading into a planning application and a procurement process for the build contract. The cost of the contract is estimated at £2,000,000.

Additionally the company has also appointed Capita to advise on the development of Stirling Place at an estimated cost of £1,000,000.