London Luton Airport Operations Limited

Financial statements

for the year ended 31 December 2021

Registered number: 03491213

London Luton Airport Operations Limited

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DIRECTORS:	R Marabini Ruiz A Khan G Ferguson A Martin J Leo Vizcaíno J I Ascacibar M De Los Reyes Escrig Teigeiro A L Zuleta Perez De Guzman K Ludeman B Landínez González-Valcárcel M Andrés Hermán D M Noyes D Rees R M McCord M Nunez
COMPANY SECRETARY:	M Skeffington
REGISTERED OFFICE:	Percival House 134 Percival Way London Luton Airport Luton LU2 9NU
AUDITOR:	KPMG LLP Challenge House Sherwood Drive Milton Keynes MK3 6DP
BANKER:	Barclays Bank plc Capability Green Luton Bedfordshire LU1 3US
SOLICITOR	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 users of the financial statements 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 Holdings I Limited. The ultimate parent undertaking and controlling party is Entidad Pública Empresarial Enaire ('Aena').

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 and to operate in a safe and environmentally sustainable manner. The Company has taken steps in 2021 to ensure, to the extent possible, that the airport is COVID-19 safe for its passengers and staff. The Company is aware of the importance of its position in the community which, generates valuable economic benefits for the region and also the need to manage the Company's impact on the local area.

Financial performance and key performance indicators

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

Trading results for the year ended 31 December 2021 have been impacted by the COVID-19 pandemic. As a result passengers volumes have decreased by 16% versus prior year (2020: 70%) with passenger volumes of 4.6m in 2021 (2020: 5.5m).

Total revenue for the year ended 31 December 2021 was £101,301k (2020: £91,217k); see note 3 to the financial statements for further analysis. Traffic income in 2021 represented an average of £8.89 per passenger (2020: £7.57). The increase is due to a change in the mix of income due to the COVID-19 pandemic with income relating to passengers decreasing and fixed income such as rents forming a greater proportion of total revenue.

The Operating Loss for the year was £2,089k (2020: £11,728k). The Directors believe that EBITDA is the performance measure most relevant to the readers of the statutory accounts. EBITDA (See note 4) was £28,450k for the year (2020: £21,383k) an increase of 33% versus prior year (2020: decrease 76%). The increase was a result of additional cost saving measures taken in 2021, as well as the full year impact of cost mitigations taken in 2020 in response to the COVID-19 pandemic.

Future developments

Luton Rising ("LR", rebranded from London Luton Airport Limited ("LLAL") in 2021) is proposing an expansion of the airport up to 32 million passengers per annum, which is due to go to public consultation in 2022. If the expansion project proceeds it will provide new jobs and additional economic activity to Luton and the surrounding areas, with an expected increase of up to around 12,000 jobs.

The Company entered into a Supplemental Agreement to the Concession Agreement with LR in 2017 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 has undertaken some enabling works on behalf of LR which were funded on a pound-for-pound basis by LR. The DART will significantly improve the rail connectivity of the airport and is expected to become operational in 2022. LLA, in partnership with Ethos Farm, will manage the DART passenger service under contract with LR. LR will maintain ownership of the asset and responsibility for the maintenance of the physical infrastructure.

Principal risks and uncertainties

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

COVID-19 pandemic and liquidity risk

The COVID-19 pandemic continues to add significant uncertainty to the travel industry and broader economy, both nationally and internationally. Policies implemented because of the pandemic including national lockdowns, travel bans, and quarantine requirements all restrict travel and we expect to continue to reduce passenger numbers in 2022 below 2019 levels. The Company entered the crisis in a strong financial position. However the severe and prolonged nature of the pandemic has required robust measures to protect the Company.

The Company implemented a cost reduction process covering both operational and capital expenditure to preserve cash. In 2020, the Company undertook a consultation and redundancy programme which resulted in staff leaving the company. The Company has also used the UK Government furlough scheme and the Airport and Ground Operator Support Scheme (AGOSS) during 2020 and 2021.

On 30 June 2021 the Company obtained approval from its lenders and note holders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2021 and for an amended loan covenant test as at 30 June 2022. Additionally, shareholders have committed £40m of support to the Company to provide additional liquidity, in the form of £20m commitment and £20m as cash. The Company is currently forecasting to meet the amended loan covenant as at 30 June 2022 and the standard covenants as at 31 December 2022.

The Company also reached agreements with the Trustees of the London Luton Airport Pension Scheme on the triennial valuation as at 31 March 2020. The deficit repair profile agreed resulted in a payment by the Company to the pension scheme of £20.6m in 2021.

Macroeconomic environment

Due to COVID-19 passenger numbers in 2020 (5.5m) and 2021 (4.6m) were significantly lower than 2019 (17.9m) and the Group's 2022 forecast anticipates a partial recovery in passengers to approximately 70% of pre-COVID-19 levels. Over the mid term, demand for air travel coupled with the shortage of airport capacity in the London region should enable the airport to recover passenger numbers to 2019 levels and indeed beyond.

Safety and security risks

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

In 2021 the Company was audited on and successfully retained its ISO 45001 Occupational Health & Safety Management certification. The Company is committed to promoting a proactive safety culture and to achieving safety excellence.

The ongoing assessment of risk is managed through our risk governance process.

The CAA aerodrome standards department visit each aerodrome periodically as part of their Performance Based Regulation (PBR) programme. The CAA inspectors assess compliance against UK (EU) 139/2014 Certification requirements, audit the effectiveness of aerodrome's Operational Safety Management System and assess the competence of those responsible for safety. During 2021 the CAA Aerodrome Inspectors undertook two onsite audits the first in April and the second in November. The April audit resulted in 3 Observations and had 7 ADQ (Aerodrome Data Quality) findings carried over from 2018. The November audit resulted in 4 Observations and 1 new finding. Of the 7 ADQ findings carried over, 5 were closed during the November audit. The April observations have been closed and the November observations have been submitted for closure. The 2 remaining open ADQ Findings from 2018 are being reviewed by the Aerodrome Inspectors and are likely to be closed in 2022 making the airport fully compliant with ADQ requirements ahead of the 2023 deadline.

2021 was another strong year in security, given the difficult operating conditions experienced. The department has continued to build on the excellent performance of 2020 with progress made across all disciplines. Despite the downturn in passenger numbers, staff currency and high levels of compliance were maintained.

In 2021 the Company was audited on its compliance with the NIS Regulations, and cyber security remains an important area of focus for management.

Principal risks and uncertainties (continued)

Governance, Social and Environmental Issues

The Company's Responsible Business Strategy (RBS) sets out a 2020-2025 plan on environmental, social and governance issues. The RBS outlines our current performance and commitments to making London Luton Airport a champion in sustainable aviation.

Despite its challenges, 2021 has presented an opportunity for us to lay the foundations for a better future, and further integrate responsible business practices into our core strategy. Following the creation of a Head of Sustainability role and the RBS Committee with representation from senior leaders across the business, in 2021 the Company created a Sustainability Board Committee to work on ESG issues with shareholders and airport owners.

The Company has made good progress in 2021, the second year in the five-year plan. The Airport Carbon Accreditation (ACA) level 3 was achieved within just 18 months of joining the ACA scheme alongside the development of a Carbon Reduction Plan. From 2021, we also switched to purchasing 100% of our electricity from renewable sources and in 2022 we're looking to carry out an enabling study to lay the path for generating renewable energy on site.

We continue to contribute to the national economy, generated both directly and through our partners and suppliers. We are one of the biggest employers in the region, and local businesses and suppliers account for over 30% of our supply chain expenditure. To further engage our supply chain in our sustainability journey, we started work on developing a sustainable supply chain charter which will be launched in 2022.

The next step in our strategy is our commitment to develop a roadmap to achieve net zero emissions by 2040, an Air Quality Strategy as well as further work to better understand and address the risks and opportunities associated with climate change. By evolving our approach, we will continue to drive positive outcomes for our communities, customers, supply chain, our people and the environment, including the universal challenge of climate change.

Noise management

The Company continues to make improvements to the way in which aircraft noise is managed, actively engaging with the local community to minimise disturbance. This includes measures that respond to the planning conditions placed on the airport. A number of voluntary measures have also been agreed and implemented based on best practice and in consultation with the airport's Consultative Committee, made up of local representatives. These are detailed in full in the airport's Noise Action Plan, available on its website;

https://www.london-luton.co.uk/corporate/community/noise/noise-action-plan

In 2017 through to March 2020, LLA breached the night-time contour limit. In 2019, the daytime limit was also breached. However, due to the reduction in movements, there was no breach of either contour limit in 2021. However, we continue to seek an increase in the noise contour limit as part of the application to grow to 19 million passengers per annum, as this will allow the airport to continue operating whilst allowing time for new modern aircraft to be introduced into the operation.

Furthermore, throughout 2021 the Flight Operations team continued to work with NATS, towards an airspace change proposal for changes to LLA's arrival routes. A full public consultation ran until 5 February 2021 and had record levels of engagement for an airspace change consultation. The proposal was approved by the Civil Aviation Authority (CAA) in November 2021, which will be implemented in February 2022. This gives LLA a dedicated holding stack and arrival routes, which were previously shared with Stansted.

Passenger cap

The Airports planning conditions limit the airport to a maximum capacity of 18m commercial passengers per year. This capacity cap was reached in December 2019. The Company applied for an extension to this cap on 11 January 2021 to enable further growth. In December 2021, the local planning authority voted to approve the planning application to increase to 19m passengers per annum subject to conditions and a signed S106 agreement.

Capital projects

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

Principal risks and uncertainties (continued)

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 Company. The Company recognises the trade union Unite and seeks to resolve any issues through discussion and negotiation. There is the potential for adverse financial impacts if industrial action is taken within suppliers of key services (e.g. air traffic controllers) or by employees of key clients (e.g. airlines). The Company monitors this closely.

Brexit

The UK left the European Union as of 31 December 2020. Given the severe drop in passenger numbers because of COVID-19, it has not been possible to quantify the immediate impact of Brexit on demand for air travel. From a legal and operational point of view, the Company has taken the necessary steps to implement new rules introduced since 1 January 2021 and has policies in place to monitor risks as the new relationship with the EU is embedded.

Financial risk management objectives and policies

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

Specifically, the Company has implemented policies that require appropriate credit checks on potential customers before any business is transacted and has a credit risk insurance policy to further mitigate bad debt risk. The Company refinanced its debt facilities in 2017 to ensure that it has sufficient funds for operations. The Directors monitor the appropriateness of this arrangement should the Company's operations change in size or nature. To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance.

Given the size of the Company, 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 Company's Finance Department.

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

Risk	Impact on Company	Assessment of change in risk year-on-year	Mitigation of risk
Liquidity risk	The Company's ability to maintain sufficient cash to pay its obligations as they fall due.	The reduction on passenger numbers and continued impact of COVID-19 has decreased revenue against a semi-fixed cost base, resulting in increased liquidity risk.	The Company received £40m of support from its shareholders in 2021 in the form of a £20m commitment and £20m in cash, currently held by the immediate parent company London Luton Airport Holdings I Limited. It drew-down fully on its £80m revolving credit facility in 2020 and has taken action to reduce costs substantially to preserve liquidity. The Company had cash on hand of £13m at year end (excluding £20m committed capital and £20m loan from shareholders). Processes are in place to monitor liquidity on a regular basis.

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Strategic report (continued)

Financial risk management objectives and policies (continued)

Risk	Impact on Company	Assessment of change in risk year-on-year	Mitigation of risk
Compliance with financing documents	The Company's ability to remain in compliance with the terms of 3rd party loans	The reduction on passenger numbers and continued impact of COVID-19 places strain on banking covenants.	The Company requested and received waiver letters from its lenders in 2020 and 2021 to ensure it remained in compliance with its financing documents, which include an amended covenant test for June 2022. The Company is forecasting to meet the amended ratios for June 2022 and to meet all future ratios as prescribed in the original financing agreements. In a scenario where covenants are breached discussions would be held with the lenders in relation to covenant waivers for the impacted period and the directors are confident, based on past experience, that they will be able to secure these waivers.
Credit risk	The risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.	Credit risk has improved year on year as customers in the airline and retail industries start to recover from the COVID-19 pandemic. Trade receivables that are not yet due is now 50% (2020: 29%).	Debtor balances are regularly monitored and reported to the board to ensure that risks are highlighted. As a result of COVID-19, contract amendments have been negotiated to assist customers' financial stability. The Company has implemented policies that require potential counterparties to undertake credit checks before any business is transacted and uses proforma invoicing where appropriate. Working capital is financed through a revolving credit facility to mitigate dependency on any one customer. Credit insurance insures 40% (2020: 45%) of the trade receivables.

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Strategic report (continued)

Financial risk management objectives and policies (continued)

Risk	Impact on Company	Assessment of change in risk year-on-year	Mitigation of risk
Interest rate risk	The Company's ability to fund interest payments, on external and related party loans.	The Company has either fixed interest rates or 100% interest rate hedging (2020: 100%) in place on all debt except for its £80m revolving credit facility, which has a variable interest rate.	The fixed rate facilities and interest rate hedging significantly mitigate interest rate risk in the Company. Loans and hedges which were priced in LIBOR were successfully transitioned to SONIA in 2021 with no change to the Company's interest risk profile.
Retirement benefit obligations	The Company's ability to support the defined benefit pension scheme.	The retirement benefit obligations which represent the net liability from the defined benefit pension scheme have decreased to £9.3m (2020: £23.5m). Significant contributions in 2021 of £20.6m and the completion of the triennial valuation as at 31 March 2020 has reduced the uncertainty on future cash contributions from the Company.	A schedule of contributions has been agreed as part of the triennial valuation as at 31 March 2020, to fully fund the pension scheme by 31 March 2023. Cash flow forecasts include these contributions with a further £9.4m payable over this period.
Noise management risk	The Company has noise contours agreed as part of its planning permission.	In 2017 through to March 2020, the Company exceeded its night-time noise contours by 8%. Due to the COVID-19 pandemic there have been no noise breaches from April 2020. However, the Company is seeking an increase to the noise contour limit as part of the planning consent for 19m passengers.	The Company adopts a package of measures to mitigate noise impacts and remain compliant with planning requirements. In addition, aircraft fleet modernisation provides a natural reduction in noise levels due to quieter more modern aircraft, which mitigates the impact of airport expansion.

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Strategic report (continued)

Financial risk management objectives and policies (continued)

Risk	Impact on Company	Assessment of change in risk year-on-year	Mitigation of risk
Passenger cap risk	The Company has a current passenger cap of 18m agreed as part of its planning permission. In 2021 Luton Borough Council approved an extension to 19m passengers from 2022. This is subject to legal enactment which is expected in Q1 2022.	The Company achieved 17.9m passengers in December 2019 reaching the cap. Due to the COVID-19 pandemic, passenger volumes of 4.6m (2020: 5.5m) were significantly below the passenger cap of 18m. The risk of breaching this cap in 2022-2023 as passenger volumes continue to recover has significantly reduced and the expected increase of the cap to 19m further reduces this risk.	The Company monitors passengers on a daily basis in order to manage the number of passengers against the cap.

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006

Throughout these financial statements, we provide examples of how we take into account the likely consequences of long term decisions; build relationships with stakeholders; understand the importance of engaging our employees; understand the impact of our operations on the communities in the regions in which our airports operate and the environment we depend upon; and attribute importance to behaving as a responsible business.

The Board of Directors are aware of and consider they have acted in accordance with their statutory duties under s172(1) of the Companies Act 2006. Consistent with these duties, the directors have acted in good faith, seeking to promote the long-term success of the Company for the benefit of shareholders and in so doing have had regard to their duties to:

- the likely consequences of any decisions in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and environment.
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as shareholders of the Company.

London Luton Airport Operations Limited

Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

The following paragraphs summarise how they fulfil those duties, with references, where appropriate, to the other parts of the financial statements where further information is available.

Stakeholder Group	Form of engagement	How this stakeholder Group influenced Board decision making
Passengers With more than 143 destinations and 181 routes served from the airport (prior to COVID-19), we provide the vital connections to allow people to travel for business, leisure and visiting family and friends. Providing the right services and destinations for passengers is critical to our success and continued growth strategy.	Feedback from passengers is carefully reviewed and reported to management on a weekly basis.	In 2020 and 2021, additional safety measures were implemented to ensure that, to the extent possible, the airport was COVID-19 safe for passengers. Passenger satisfaction surveys are monitored and amendments made as necessary. A customer experience journey was started in 2019 and will continue into 2022 as one of our key strategic pillars.
Local communities When the airport prospers, it also brings benefits to the local communities, including employment, supporting local groups, education and skills. Impacts from the airport and aircraft operations, including noise, emissions and congestion can negatively affect communities near our airports and need careful management.	Regular and long-term engagement with local communities occurs, including formal consultative committees.	Community views are important to the Company and have been a key factor in noise and passenger planning cap applications made in 2020 and 2021. Further views are being sought from the community currently for LR's DCO process.

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Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

Stakeholder Group	**Form of engagement**	**How this stakeholder Group influenced Board decision making**
Employees Employees are fundamental to the Company's success. We aim to be a fair and responsible employer in our approach to the pay and benefits our employees receive; we seek to provide an environment where our colleagues can fulfil their potential and safeguard their health, safety and well-being.	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, online tools such as Yammer and through email communication. 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.	In 2020 and 2021, the Company took additional steps to protect employees, to the extent possible, from COVID-19 risks. All office-based employees worked for the majority of 2020 and 2021 from home. Risk based assessments were undertaken on home-working environments. For employees that must work on-site at the airport, measures were taken to ensure, to the extent possible, that the workplace is COVID-19 safe. Additional efforts were made in 2020 and 2021 and will continue in 2022 to recognise the impact on mental health caused by COVID-19. The Company is also aware that many employees were on furlough for large parts of during 2020 and 2021. Efforts were made to ensure furloughed employees felt like they remained part of the business.
Pensions Trustees The defined benefit scheme was created in 1988 under trust and is governed by the Scheme's Deed of Variation as amended dated, 18 April 2008. The trustees are responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in consultation with the Company.	The Company has regular meetings with the pensions trustees including routinely providing business updates to the wider trustee group and being actively involved in the Investment Sub-Committee.	The Company has had regular contact with the trustees and their advisors during the COVID-19 pandemic. The triennial valuation as at 30 March 2020 was agreed in October 2021 and an updated schedule of contributions to the scheme was agreed to ensure that the scheme is fully funded by 31 March 2023, as is required under the scheme rules.

Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

Stakeholder Group	Form of engagement	How this stakeholder Group influenced Board decision making
Customers, partners and suppliers Establishing, developing and maintaining strong business relationships with our customers, business partners and suppliers is fundamental to the long-term stability and success of our business. We always seek to conduct business in a professional and collaborative manner.	Engagement with customers and business partners is critically important. The Company holds collaborative forums and with all our business partners – including airlines, retailers, tenants and aviation service partners. Our Airport Consultative Committees bring these customer groups together with passenger and community representatives. Our approach to procurement is accredited to the Corporate Certification Standard of the Chartered Institute of Procurement and Supply. This incorporates practices to make responsible procurement decisions which treat suppliers fairly, mitigate modern slavery, and ensure prompt payment.	In 2020 and 2021 the Board have reacted swiftly to requests for help from our Customers and Suppliers to ensure that the pain of COVID-19 had been shared. This included renegotiations of terms where appropriate. This is crucial to ensure that the Company and its trading partners are well positioned to take advantage of the recovery.
Industry, regulatory bodies, government and government agencies We help national and regional government to formulate and deliver their policies. We actively contribute to industry associations and promote the legitimate interests of our industry.	The Company regularly meets with national government and elected representatives including Government officials across a wide range of departments, members of both the House of Commons and the House of Lords, ministers and shadow ministerial teams, scrutiny committees like the Transport Select Committee and policy making bodies. The Company also holds relationships with regulators (the CAA) and is a member of several trade associations linked to its interests including the CBI and AOA. At a more local level, Corporate Affairs teams hold local MP relationships, as well as with councillors, LEPs and local government agencies.	The board receives regular updates on the work of the Company with local government and agencies working with the airport to support long term growth and to bring economic benefits to the local area. During 2020 and 2021 and because of COVID-19, the Company has been in close contact with industry bodies for example the Airport Operators Association, the CAA and the Government to ensure a joined-up approach to managing through the pandemic.

Statement by the Directors in Performance of their Statutory Duties in Accordance with s172(1) Companies Act 2006 (continued)

Stakeholder Group	Form of engagement	How this stakeholder Group influenced Board decision making
Shareholders Our shareholders invest in the Company as a long-term strategic asset with significant future growth potential. By taking a long term view they underpin the sustainable growth of the business.	The Company holds ten Board meetings each year and the Board is supported by sub-committees in strategically important areas including Audit and Remuneration. Shareholder representatives meet regularly with the Executive team to ensure they are closely briefed, and they are supported by a team of experienced non-executive directors. As a result of COVID-19, the shareholders and the Executive team have met frequently as the changing nature of the pandemic has required.	During COVID-19, the shareholders have provided direction and support to help the Executive team manage through the pandemic. In addition, the shareholders committed to an additional loan of £40m to provide liquidity support, with £20m of this being received in cash and the remainder as a commitment.

Taking a long-term view of risks and opportunities

The Company operates a systematic process to identify risks and opportunities. In 2020 and 2021, the principal risk was managing the Company through the COVID-19 pandemic with all the challenges that brings. Outside of COVID-19, key risks include whether or not the airport can continue to grow, the need to maintain a safe and secure operation, manage the Company within a highly regulated sector, manage the changes in passenger levels (and in particular in the recovery in passenger numbers) and the need to attract and retain talented people. Our assessment of risk is regularly reported to the Board through Audit and Risk Committee meetings held at least 3 times a year, to allow the long-term consequences of decisions to be assessed.

Maintaining a reputation for high standards of business conduct

It is important that the Company operates to high standards of business conduct and appropriate policies, including the prevention of bribery and corruption have been implemented, with supporting training for those colleagues whose work is most likely to expose them to relevant risks. All colleagues have access to an anonymous whistleblowing service to report any instances where high standards of business conduct have not been adhered to and this is available on the corporate website for external parties.

Corporate Governance

The Company is committed to maintaining the highest standards of corporate governance. The Company has not formally adopted a corporate governance code, however it is considering the implementation of Wates Principles in 2022.

Corporate and social responsibility

A new Community Engagement Approach was launched within the Responsible Business Strategy which outlines the airport's community programme focus on supporting the overall strategy of the airport around Healthy Today, Skilled Tomorrow, Alleviating Poverty. The Company's operations are intrinsically linked to the community. Its proximity to residential areas means that impacts such as noise (produced by aircraft and airport operations) has the potential to adversely impact the life of people living nearby and under its flight paths. Whilst schemes exist to mitigate operational impacts such as noise, they cannot be completely eliminated. Our new Community Engagement approach and programmes therefore aim to ensure those living close by also see the greatest benefits.

Strategic report (continued)

Corporate and social responsibility (continued)

In 2021 the airport invested £228k in 27 community groups and charities across 7 local authority regions. This investment through the Community Trust Fund includes the annual £150k funding, as well as £63k underspend from 2020, plus a further £15k through noise and track fines.

In 2021 two new charity partners were selected: East Anglian Air Ambulance (EAAA) and Luton Foodbank, who received a shared donation of £19k through employee fundraising and customer donations. Unfortunately, due to the COVID-19 pandemic the school programs had to be put on hold. However, in the 2019/2020 academic year we engaged with 10 schools, focusing on the more deprived wards across Luton & Beds and supported developing work-related skills such as communication and problem-solving skills. This covered 164 students, of whom 93% felt it was useful. The Community team is working to have these programs back in place in 2022 and will look to introduce a new focus on STEM (Science, Technology, Engineering, and Mathematics). The airport is working in partnership with the Prince's Trust to re-ignite the 'Get into Airports' programme for 2022 which has been on hold through the pandemic. The Company also supported a number of award ceremonies in the local area celebrating the achievements of neighbouring businesses, organisations and individuals.

In 2021 the Company continued to support the national effort in the fight against COVID-19 including remaining open throughout the period to accommodate medical and military flights, along with cargo flights delivering vital supplies including personal protective equipment for the NHS. In addition, the airport provided space in unused car parks for COVID-19 testing centres. During the pandemic, LLA was recognised by the British Chambers of Commerce as a UK Business Hero. The UK Business Hero stamp was created by the British Chambers of Commerce to recognise the businesses and individuals that have gone the extra mile to support local communities, innovate and meet new demands during the Coronavirus pandemic. LLA was nominated by the Bedfordshire Chamber of Commerce for its re-deployment of staff to the East of England Ambulance Service. Colleagues have volunteered with local community organisations and surplus food has been donated to homeless charities.

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

Approval

Approved by the Board and signed on its behalf by:

K Ludeman
Chairman
16 February 2022

London Luton Airport Operations Limited

Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2021.

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 prepared the financial statements on a going concern basis. In assessing the going concern position of the Company, the directors have considered the potential impact of COVID-19 on the cash flow and liquidity of the Company, over the next 12 months, together with the corresponding impact on the covenants associated with the Company's financing arrangements leading up to the next covenant test on 30 June 2022 which will be reported to lenders by 30 September 2022.

The ongoing COVID-19 pandemic continues to add uncertainty to the industry, causing significant reduction in air travel. Restrictions imposed as a result of the pandemic, including lockdowns, travel bans, self-isolations and quarantine requirements all restricted passenger numbers in 2021 and 2020 and this is expected to continue albeit to a lesser extent during 2022, where recovery to c.a. 70% of pre-pandemic passenger volumes is forecast. The Company went into the pandemic in a strong position with sufficient financing for the business requirements. It has put in place a strong response to the COVID-19 pandemic, including mitigating the cash impact by restricting all expenditure (capital and operational) that is not required for passenger processing or for health, safety, legal or compliance reasons.

Special Force Majeure

Under the terms of the Concession Agreement, the Company served notice to Luton Rising of a Special Force Majeure Event ("SFM") in March 2020, to partially recover losses from the COVID-19 pandemic. A Settlement Agreement was reached with LR in November 2021. Under the terms of the Settlement Agreement, LLA will benefit from £45m reduction in its concession fee payments to LR, plus an extension of the Concession Agreement by 16.5 months to 15 August 2032.

The £45m settlement has been and will be recognised as follows:

1) £9.0m was recognised in the P&L in 2020 as a reduction in concession fee, which was not paid from 1 April 2020;

2) £15.0m was allocated as an increase in the lease liability on the balance sheet in 2021; and

3) £21.0m to be recognised in the P&L over the period covered by the Settlement Agreement: 2021-2026. £4.2m of the £21.0m has been recognised in the P&L in 2021.

Company borrowings and liabilities

The directors acknowledge the Company balance sheet at 31 December 2021 has net current liabilities of £72.1m (2020: £69.3m) and net assets of £71.2m (2020: £90.1m) as at 31 December 2021. The Company made a loss for the year of £4.7m (2020: £13.5m) and £4.2m (2020: (£0.1m)) of net cash inflow/(outflow) from operating activities. The loss and cash flows in 2021 are directly related to the COVID-19 pandemic with forecasts prior to this showing the Company making a strong profit and having strong cash inflows.

The Company has a committed revolving credit facility of £80.0m which was fully drawn at 31 December 2021. This facility matures on 17 August 2024. The debt is subject to covenants which are assessed at 31 December and 30 June but reported to the lenders in the form of compliance certificates by 30 June and 30 September, respectively. On 30 June 2021 the Company obtained a waiver from its lenders of the requirement to perform loan covenant testing as at 30 June and 31 December 2021 and agreement to use an amended loan covenant test as at 30 June 2022. Additionally, shareholders have committed £40m of support to the Company to provide additional liquidity, in the form of £20m commitment and £20m as cash held in London Luton Airport Holdings I Limited.

The Company is forecasting to meet the financial ratios for its amended covenant test at the 30 June 2022 measurement date, which is required to be submitted to the lenders by 30 September 2022 in the form of an amended Compliance Certificate. The Company is forecasting to meet the financial ratios for its covenant test at the 31 December 2022 measurement date, which is required to be submitted to the lenders by 30 June 2023 and is forecasting to meet all future covenants tests as prescribed in the original financing agreements.

Directors' report (continued)

Going concern (continued)

The directors have considered severe but plausible downside scenarios in their forecasting. The pinch point on the financial covenants is the EBITDA headroom on the leverage ratio as at 30 June 2022. This headroom could be absorbed by a decrease in passenger volumes of circa 3m per annum (or circa 25% of forecast) which would increase the risk of a covenant breach at 30 June 2022. In a scenario where covenants are breached discussions would be held with the lenders in relation to covenant waivers for the impacted period and the directors are confident, based on past experience, that they will be able to secure these waivers.

Conclusion

Based on the above indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, a material uncertainty exists in a severe but plausible downside scenario that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would be necessary if the going concern basis was inappropriate.

Financial risk management objectives and policies

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

Dividends

A dividend of £5.0m was paid on 16 February 2021, and a dividend f £5.0m was paid on 16 August 2021 (2020: £5.0m).

Directors

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

J Leo Vizcaíno	
R Marabini Ruiz	
R M McCord	appointed 16 March 2021
B R Hunter	resigned 16 March 2021
J I Ascacibar	
M De Los Reyes Escrig Teigeiro	
A Martin	
A L Zuleta Perez De Guzman	
K Ludeman	
E Rotondo Inclán	resigned 28 April 2021
B Landínez González-Valcárcel	
M Andrés Hermán	
G Ferguson	
D M Noyes	
D Rees	
A Khan	appointed on 26 May 2021
M Nunez	appointed 28 April 2021

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

Executive directors

A Martin

Directors' report (continued)

Directors (continued)

Non-executive directors

J Leo Vizcaíno

R Marabini Ruiz

M De Los Reyes Escrig Teigeiro

K Ludeman

B Landínez González-Valcárcel

G Ferguson

D M Noyes

D Rees

Alternate Directors

B R Hunter (alternate to A Martin)	resigned 16 March 2021
R M McCord (alternate to A Martin)	appointed 16 March 2021
J I Ascacibar (alternate to R Marabini Ruiz)	
A L Zuleta Perez De Guzman (alternate to M De Los Reyes Escrig Teigeiro)	
E Rotondo Inclán (alternate to J Leo Vizcaíno)	resigned 28 April 2021
M Nunez (alternate to J Leo Vizcaíno)	appointed 28 April 2021
M Andrés Hermán (alternate to B Landínez González-Valcárcel)	
A Khan (alternate to G Ferguson, D Rees and D M Noyes)	appointed on 26 May 2021

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes 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. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee profit share scheme has been running successfully and is open to all qualifying employees.

Political contributions

The Company did not make any political donations or incur any political expenditure during the year (2020: £nil).

London Luton Airport Operations Limited

Directors' report (continued)

Energy use and the associated greenhouse gas emissions

		2021	2020
Energy use	Electricity (kWh)	16,385,994	14,564,520
	Gas (kWh)	8,147,055	7,336,812
	Fuel (litres)	237,308	247,124
Associated GHG emissions (tCO2e)	Electricity	3,479	3,396
	Gas	1,389	1,349
	Fuel	643	1,043
Total Carbon		5,511	5,788
Passengers		4,588,874	5,472,826
Intensity Ratio	kgCO2e/pax	1.20	1.06

Methodology used GHG Protocol and ISO 14064-1

Energy management

In 2021, the Company has maximised the energy efficiency of operations, as it continued to adapt to COVID-19 restrictions. The airport has taken the opportunity to invest in energy efficiency projects including:

Green Electricity - transition into a green electricity provision through a 100% REGO (Renewable Energy Guarantees of Origin) renewable electricity contract, which includes solar, wind and hydro sources.

- Escalator Improvement - We upgraded the escalators in the New Terminal Building, installing more efficient motors and automatic start/stop functionality. The improvements will save 100,000 kWh of electricity every year, the equivalent to 23 t CO2 a year.
- Lighting Replacement - continuation of the replacement of older inefficient lighting with LED equivalents. This investment will reduce annual lighting costs as well as carbon emissions of 30.54 t CO2 a year.

In addition, the airport manages energy and environmental impacts, risks and opportunities through energy management system (EnMS), which are certified to the ISO 50001 and ISO 14001 standards respectively. We have energy and environmental policies, as well as clear processes and controls for each of our major areas of energy and environmental impact and to ensure we comply with all applicable legislation and compliance obligations.

Auditor

Each of the persons who is a director at the date of approval of this annual 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 s487 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:

K Ludeman
Chairman
16 February 2022

London Luton Airport Operations Limited

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of London Luton Airport Operations Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Total 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 2021 and of its loss 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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that the ability of the Company to continue as a going concern is dependent on the lenders not calling in the amount owing should the Company breach its financial covenants. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue may be understated through recording revenues in the incorrect period.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included unusual revenue combinations, unusual cash combinations and journal entries containing key words.
- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate.

We identified the following areas as those most likely to have such an effect: aviation regulations, health and safety, anti-bribery, employment, environmental, and certain aspects of company legislation recognising the regulated nature of the Company's activities. Aviation regulations are issued by the Civil Aviation Authority in the UK (CAA). These are specific to the industry and enable the airport to operate as a licensed facility which is permitted to handle aircraft movements. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

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

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 19, 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.

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
Challenge House
Sherwood Drive
Milton Keynes
MK3 6DP
18 February 2022

London Luton Airport Operations Limited
Profit and loss account
For the year ended 31 December 2021

	Note	Year ended 2021 £'000	Year ended 2020 £'000
Revenue	3	90,653	91,217
Other operating income	3	10,648	-
Administrative expenses		(103,390)	(102,945)
Operating loss		(2,089)	(11,728)
Finance income	7	2	22
Finance costs	8	(3,369)	(3,786)
Loss before tax		(5,456)	(15,492)
Tax	9	784	1,964
Loss for the financial year attributable to owners of the Company	4	(4,672)	(13,528)

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 2021

	Year ended 2021 £'000	Year ended 2020 £'000
Loss for the year	(4,672)	(13,528)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss)/profit on defined benefit plan	(5,610)	7,268
Deferred tax on actuarial movement	1,402	(1,381)
Other comprehensive (expense)/income for the year net of tax	(4,208)	5,887
Total comprehensive (expense) for the year attributable to the owners of the Company	(8,880)	(7,641)

The accompanying notes form part of the financial statements.

London Luton Airport Operations Limited
Balance sheet
As at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Property, plant and equipment	11	177,209	196,508
Deferred tax assets	17	7,473	4,610
		184,682	201,118
Inventories	12	557	555
Trade and other receivables	13	43,187	17,968
Cash and bank balances		13,236	31,062
		56,980	49,585
Total assets		241,662	250,703
Trade and other payables	14	(43,802)	(28,098)
Borrowings	15	(85,014)	(83,033)
Provisions	18	(272)	(7,773)
		(129,088)	(118,904)
Net current liabilities		(72,108)	(69,319)
Non-current liabilities			
Borrowings	15	(31,319)	(17,313)
Defined benefit pension scheme liability	21	(9,270)	(23,530)
Provisions	18	(756)	(847)
		(41,345)	(41,690)
Total liabilities		(170,433)	(160,594)
Net assets		71,229	90,109
Equity			
Share capital	19	5,274	5,274
Retained earnings	20	65,955	84,835
Equity attributable to owners of the Company		71,229	90,109

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 16 February 2022. They were signed on its behalf by:

K Ludeman
Chairman

London Luton Airport Operations Limited
Statement of changes in equity
For the year ended 31 December 2021

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 31 December 2020	5,274	97,476	102,750
Loss for the period	-	(13,528)	(13,528)
Other comprehensive income for the period	-	5,887	5,887
Total comprehensive expense for the period	-	(7,641)	(7,641)
Dividends	-	(5,000)	(5,000)
Balance at 31 December 2020	5,274	84,835	90,109
Loss for the year	-	(4,672)	(4,672)
Other comprehensive expense for the year	-	(4,208)	(4,208)
Total comprehensive expense for the year	-	(8,880)	(8,880)
Dividends	-	(10,000)	(10,000)
Balance at 31 December 2021	5,274	65,955	71,229

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.

Adoption of new and revised Standards

In the current year, the Company 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 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	In response to the COVID-19 coronavirus pandemic, the International Accounting Standards Board has issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. Previously under IFRS 16, rent concessions often met the definition of a lease modification, unless they were envisaged in the original lease agreement. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss. The practical expedient will only apply if: • the revised consideration is substantially the same or less than the original consideration; • the reduction in lease payments relates to payments due on or before 30 June 2022; and • no other substantive changes have been made to the terms of the lease. Lessees applying the practical expedient are required to disclose: • that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and • the amount recognised in profit or loss for the reporting period arising from application of the practical expedient. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. A lessee applies the amendments retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied. The Company early adopted this amendment and applied it retrospectively. The amendment has no impact on retained earnings at 1 January 2020. The Company has applied the practical expedient in relation to the airside bus leases which fall within the scope and it resulted in a decrease in the lease liability of £109k in 2020 which was recognised in profit and loss for the year ended 31 December 2020. There has been no effect on the 31 December 2021 profit and loss.

1. Accounting policies (continued)

Adoption of new and revised Standards (continued)

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The Phase 2 amendments will be effective from 1 January 2021 and principally address the following issues. Practical expedient for modifications Under the detailed rules of IFRS 9 Financial Instruments, modifying a financial contract can require recognition of a significant gain or loss in the income statement. However, the amendments introduce a practical expedient if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform. The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting. For example, a company will not need to discontinue existing hedging relationships because of changes to hedge documentation required solely by IBOR reform. Therefore, when a hedged risk changes due to benchmark reform, a company may update the hedge documentation to reflect the new benchmark rate and the hedge may be able to continue without interruption. However, similar to the Phase 1 amendments, there is no exception from the measurement requirements that apply for the hedged items and hedging instruments under IFRS 9 or IAS 39 Financial Instruments: Recognition and Measurement. Once the new benchmark rate is in place, the hedged items and hedging instruments are remeasured based on the new rate and any hedge ineffectiveness will be recognised in profit or loss. So that users of financial statements can understand the effect of the reform on a company's financial instruments and risk management strategy, a company will need to provide additional information about: • the nature and extent of risks to which the company is exposed arising from financial instruments subject to IBOR reform and how it manages those risks; and • the company's progress in completing its transition to alternative benchmark rates and how it is managing that transition. The amendments apply retrospectively with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the reform will be reinstated if certain conditions are met. The Company currently has an £80m revolving credit facility which was transitioned from LIBOR related rates to SONIA related rates in 2021.

Basis of accounting

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

1. Accounting policies (continued)

Basis of accounting (continued)

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of London Luton Airport Group Limited. The consolidated accounts of London Luton Airport Group Limited are available to the public and can be obtained as set out in note 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 directors have prepared the financial statements on a going concern basis. In assessing the going concern position of the Company, the directors have considered the potential impact of COVID-19 on the cash flow and liquidity of the Company, over the next 12 months, together with the corresponding impact on the covenants associated with the Company's financing arrangements leading up to the next covenant test on 30 June 2022 which will be reported to lenders by 30 September 2022.

The ongoing COVID-19 pandemic continues to add uncertainty to the industry, causing significant reduction in air travel. Restrictions imposed as a result of the pandemic, including lockdowns, travel bans, self-isolations and quarantine requirements all restricted passenger numbers in 2021 and 2020 and this is expected to continue albeit to a lesser extent during 2022, where recovery to c.a. 70% of pre-pandemic passenger volumes is forecast. The Company went into the pandemic in a strong position with sufficient financing for the business requirements. It has put in place a strong response to the COVID-19 pandemic, including mitigating the cash impact by restricting all expenditure (capital and operational) that is not required for passenger processing or for health, safety, legal or compliance reasons.

Special Force Majeure

Under the terms of the Concession Agreement, the Company served notice to Luton Rising of a Special Force Majeure Event ("SFM") in March 2020, to partially recover losses from the COVID-19 pandemic. A Settlement Agreement was reached with LR in November 2021. Under the terms of the Settlement Agreement, LLA will benefit from £45m reduction in its concession fee payments to LR, plus an extension of the Concession Agreement by 16.5 months to 15 August 2032.

3. Significant accounting policies (continued)

Going concern (continued)

The £45m settlement has been and will be recognised as follows:

1) £9.0m was recognised in the P&L in 2020 as a reduction in concession fee, which was not paid from 1 April 2020;

2) £15.0m was allocated as an increase in the lease liability on the balance sheet in 2021; and

3) £21.0m to be recognised in the P&L over the period covered by the Settlement Agreement: 2021-2026. £4.2m of the £21.0m has been recognised in the P&L in 2021.

Company borrowings and liabilities

The directors acknowledge the Company balance sheet at 31 December 2021 has net current liabilities of £72.1m (2020: £69.3m) and net assets of £71.2m (2020: £90.1m) as at 31 December 2021. The Company made a loss for the year of £4.7m (2020: £13.5m) and £4.2m (2020: (£0.1m)) of net cash inflow/(outflow) from operating activities. The loss and cash flows in 2021 are directly related to the COVID-19 pandemic with forecasts prior to this showing the Company making a strong profit and having strong cash inflows.

The Company has a committed revolving credit facility of £80.0m which was fully drawn at 31 December 2021. This facility matures on 17 August 2024. The debt is subject to covenants which are assessed at 31 December and 30 June but reported to the lenders in the form of compliance certificates by 30 June and 30 September, respectively. On 30 June 2021 the Company obtained a waiver from its lenders of the requirement to perform loan covenant testing as at 30 June and 31 December 2021 and agreement to use an amended loan covenant test as at 30 June 2022. Additionally, shareholders have committed £40m of support to the Company to provide additional liquidity, in the form of £20m commitment and £20m as cash held in London Luton Airport Holdings I Limited.

The Company is forecasting to meet the financial ratios for its amended covenant test at the 30 June 2022 measurement date, which is required to be submitted to the lenders by 30 September 2022 in the form of an amended Compliance Certificate. The Company is forecasting to meet the financial ratios for its covenant test at the 31 December 2022 measurement date, which is required to be submitted to the lenders by 30 June 2023 and is forecasting to meet all future covenants tests as prescribed in the original financing agreements.

The directors have considered severe but plausible downside scenarios in their forecasting. The pinch point on the financial covenants is the EBITDA headroom on the leverage ratio as at 30 June 2022. This headroom could be absorbed by a decrease in passenger volumes of circa 3m per annum (or circa 25% of forecast) which would increase the risk of a covenant breach at 30 June 2022. In a scenario where covenants are breached discussions would be held with the lenders in relation to covenant waivers for the impacted period and the directors are confident, based on past experience, that they will be able to secure these waivers.

Conclusion

Based on the above indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, a material uncertainty exists in a severe but plausible downside scenario that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would be necessary if the going concern basis was inappropriate.

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

For Traffic income and Commercial income, the Company applies the five-step model established by IFRS 15 to the accounting for revenue from contracts with customers:

- Stage 1: Identify the contract (or contracts) with the customer
- Stage 2: Identify performance obligations in the contract
- Stage 3: Determine the price of the transaction
- Stage 4: Assign the price of the transaction between the performance obligations of the contract
- Stage 5: Recognise revenue from ordinary activities when (or as) the entity satisfies a performance obligation

Traffic income and Commercial income are earned from movements of aircraft and people and revenue is recognised as the Company satisfies the related performance obligations in line with these movements. The transaction price is constrained where appropriate in order that revenue recognised reflect the most likely amount of consideration to which the entity expects to be entitled in exchange for satisfying the performance obligations related to those goods or services. This is recognised net of any actual or expected trade discounts. Any differences between the amount invoiced and the most likely amount is recognised as a contract liability in Contract Liabilities – IFRS 15.

Tenant income is earned based on contractually agreed terms which is normally on a straight-line basis over the contract period in line with lessor accounting as established by IFRS 16.

Where specific services are invoiced after the performance obligation has been satisfied turnover will be accrued as accrued income and recognised as the performance obligation is satisfied. Where specific services are invoiced in advance of the performance obligation is satisfied turnover is deferred as deferred income and recognised when the performance obligation is satisfied.

All Revenue is stated net of VAT

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.

1. Accounting policies (continued)

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment in accordance with IFRS 9.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1. Accounting policies (continued)

Financial instruments (continued)

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Hedges directly affected by interest rate benchmark reform

As a result of adopting the Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform, the following temporary exceptions have been applied retrospectively to hedging relationships that existed at 1 January or were designated thereafter and that are directly affected by interest rate benchmark reform.

For the purpose of hedge accounting, it has been assumed that:

- the benchmark interest rate is not altered as a result of interest rate benchmark reform; and
- the interest rate benchmark cash flows designed as a hedge will not be altered as a result of interest rate benchmark reform in relation to assessing whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur.

The Company will cease to apply these temporary exceptions prospectively to a specific hedged item or hedging instrument when:

- the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; or

3. Significant accounting policies (continued)

Financial instruments (continued)

- the hedging relationship is discontinued (applies for hedging instruments only). The Company has adopted the Phase 2 amendments and retrospectively applied them from 1 January. When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Company amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:
- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
- updating the description of the hedging instrument.

If changes are made in addition to those changes required by IBOR reform described above, then the Company first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Company amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Significant accounting policies (continued)

Financial instruments (continued)

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company as lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

From 1 January 2021, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Company remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

3. Significant accounting policies (continued)

Leases (continued)

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company as lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their internal use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their internal use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment of tangible assets

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

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

1. Accounting policies (continued)

Impairment of tangible assets (continued)

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.

Grants

Government grants are included within deferred government grants in the balance sheet and credited to the profit and loss account on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate.

In 2021 the Company has elected to present grants of £10.6m related to income as other income. In 2020 the Company elected to present grants of £5.1m related to income as a reduction to the related expense line. See note 6 for details.

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. With respect to the rate of inflation, this is also considered to be sensitive to the valuation of the defined benefit obligation. See also note 21.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

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

3. Revenue

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

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

	Year ended 2021 £'000	Year ended 2020 £'000
Traffic income	40,771	41,432
Commercial income	34,581	35,367
Tenant income	15,301	14,418
Operating income	**90,653**	**91,217**
Other operating income	10,648	-
	101,301	**91,217**
Finance income (see note 7)	2	22
	101,303	**91,239**

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

Included in revenues arising from traffic income is approximately £18.0m (2020: £27.4m) from the Company's largest customer. No other single customers contributed 10% or more to the Company's revenues in either 2021 or 2020.

In 2021 the Company has elected to present grants related to the Job Retention Scheme (JRS) and Airport and Ground Operators Support Scheme (AGOSS) of £10.6m related to income as other operating income. In 2020 the Company elected to present grants related to JRS and AGOSS, of £5.1m related to income as a reduction to the related expense line. See note 4 for details.

4. Loss for the year

Loss for the year has been arrived at after charging:

	Year ended 2021 £'000	Year ended 2020 £'000
Depreciation of tangible fixed assets:		
- Owned assets	28,818	31,358
- Held under leases	1,721	1,753
Loss on disposal of tangible fixed assets	43	42
Staff costs (see note 6)	26,625	23,158

4. Loss for the year (continued)

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

	Year ended 2021 £'000	Year ended 2020 £'000
Operating loss	(2,089)	(11,728)
Add: Depreciation of property, plant and equipment – owned and leased assets	30,539	33,111
EBITDA	28,450	21,383
Less: Reduction in Concession Fee	(4,183)	(8,980)
Less: Furlough grant (recognised as other income in 2021, offset against staff costs in 2020)	(2,898)	(5,051)
Less AGOSS grant (recognised as other income in 2021)	(7,750)	-
EBITDA before exceptional items	**13,619**	**7,352**

Under the terms of the Concession Agreement which is in place until March 2031, Luton Borough Council and Luton Rising ("LR") 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 LR based on the throughput of passengers and cargo. The concession fee for the year ended 31 December 2021 was £15,864k (2020: £9,485k).

Under the terms of the Concession Agreement, the Company served notice to Luton Rising of a Special Force Majeure Event ("SFM") in March 2020, to partially recover losses from the COVID-19 pandemic. A Settlement Agreement was reached with LR in November 2021. Under the terms of the Settlement Agreement, LLA will benefit from £45m reduction in its concession fee payments to LR, plus an extension of the Concession Agreement by 16.5 months to 15 August 2032.

The £45m settlement has been and will be recognised as follows:

1) £9.0m was recognised in the P&L in 2020 as a reduction in concession fee, which was not paid from 1 April 2020;

2) £15.0m was allocated as an increase in the lease liability on the balance sheet in 2021; and

3) £21.0m to be recognised in the P&L over the period covered by the Settlement Agreement: 2021-2026. £4.2m of the £21.0m has been recognised in the P&L in 2021.

5. Auditor's remuneration

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

	Year ended 2020 £'000	Year ended 2020 £'000
Fees payable to the company's auditor and their associates for the audit of the company's annual accounts	114	121
Total audit fees	114	121
- Other assurance services	22	22
Total non-audit fees	22	22
Total fees	136	143

No services were provided pursuant to contingent fee arrangements.

6. Staff costs

The average monthly number of employees was:

	2021 Number	2020 Number
Operations	574	707
Management and support services	55	58
Technical services	34	38
	663	803

Their aggregate remuneration comprised:

	Year ended 2020 £'000	Year ended 2020 £'000
Wages and salaries	21,257	17,705
Social security costs	2,129	2,244
Other pension costs (note 21)	3,239	3,209
	26,625	23,158

The Company has taken advantage of the Government Coronavirus Job Retention Scheme in 2021 and 2020. The staff costs above in 2020 are shown net of the claims made of £5.1m, including £4.8m claim against wages and salaries, £0.2k against social security costs and £0.1m against pension costs. In 2021 the grant received from the scheme of £2.9m has been recognised as other operating income.

7. Finance income

	Year ended 2021 £'000	Year ended 2020 £'000
Other loans and receivables	2	22

8. Finance costs

	Year ended 2020 £'000	Year ended 2020 £'000
Interest payable on bank overdrafts and loans	1,439	1,535
Interest payable to group undertakings	100	100
Other finance costs arising on defined benefit pension (note 21)	163	578
Interest on obligations under leases	1,667	1,573
Total interest payable	3,369	3,786

9. Tax

	Year ended 2021 £'000	Year ended 2020 £'000
Corporation tax		
Current year	474	9
Prior period adjustments	203	(50)
	677	(41)
Deferred tax (note 17)	(1,461)	(1,923)
	(784)	(1,964)

Corporation tax is calculated at 19% (2020: 19%) of the estimated taxable profit for the period. Deferred tax balances at 31 December 2020 were based on this rate.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. Deferred tax balances for the year ended 31 December 2021 have been calculated based on these rates.

The credit for the year can be reconciled to the loss in the income statement as follows:

	Year ended 2021 £'000	Year ended 2020 £'000
Loss before tax on continuing operations	(5,456)	(15,492)
Tax at the UK corporation tax rate of 19%	(1,037)	(2,943)
Effects of:		
Group relief received for nil payment	(695)	(627)
Effects of changes in statutory tax rates	(1,162)	(459)
Adjustments to tax charge in respect of previous periods	70	117
Non-deductible expenditure	2,040	1,948
Tax credit for the year	(784)	(1,964)

9. Tax (continued)

In addition to the amount credited to the profit and loss account, the following amounts relating to tax have been (credited)/charged in other comprehensive income:

	Year ended 2021 £'000	Year ended 2020 £'000
Deferred tax:		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial and other movements on post-employment benefits	(1,402)	1,381

10. Dividends

	Year ended 2021 £'000	Year ended 2020 £'000
Amounts recognised as distributions to equity holders in the period:		
Dividend for the year ended 31 December 2021 (£100.00 per share), (2020: £50.00 per share)	10,000	5,000

A dividend of £5.0m was paid on 16 February 2021, and a dividend of £5.0m was paid on 16 August 2021 (2020: £5.0m). No final dividend has been proposed.

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 2020	185,816	125,466	91,595	5,621	408,498
Additions	1,483	948	2,427	3,284	8,142
Disposals	(17,990)	(3,262)	(11,639)	-	(32,891)
Transfers	420	831	1,989	(3,240)	-
Lease reassessment	(15,665)	-	-	-	(15,665)
At 31 December 2020	154,064	123,983	84,372	5,665	368,084
Additions	1,323	1,528	1,551	2,993	7,395
Disposals	-	(42)	(462)	-	(504)
Transfers	468	375	1,430	(2,273)	-
Lease modification	3,888	-	-	-	3,888
At 31 December 2021	159,743	125,844	86,891	6,385	378,863
Accumulated depreciation					
At 1 January 2020	66,127	57,167	48,020	-	171,314
Charge for the year	10,294	10,076	12,741	-	33,111
Eliminated on disposal	(17,991)	(3,246)	(11,612)	-	(32,849)
At 31 December 2020	58,430	63,997	49,149	-	171,576
Charge for the year	10,214	8,424	11,901	-	30,539
Eliminated on disposal	-	(42)	(419)	-	(461)
Transfers	-	(3)	3	-	-
At 31 December 2021	68,644	72,376	60,634	-	201,654
Carrying amount					
At 31 December 2021	91,099	53,468	26,257	6,385	177,209
At 31 December 2020	95,634	59,986	35,223	5,665	196,508

Under the terms of the Concession Agreement which is in place until March 2031, Luton Borough Council and Luton Rising ("LR") 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 LR based on the throughput of passengers and cargo. Previously, this was recognised as an operating lease under IAS 17. As of 1 January 2019 the minimum value of the lease payments of £27.4m was recognised as a right of use asset, presented as land and buildings within property, plant and equipment. In March the Company instigated the Special Force Majeure (SFM) clause in the existing concession agreement and the lease payments were reassessed as a result which decreased the right of use assets for land and buildings by £15.7m in 2020 with a corresponding decrease in the lease liability. In December 2021 a final agreement was reached on the SFM, as part of this agreement the concession length was extended from 31 March 2031 to 15 August 2032. To account for this lease modification the right of use asset was therefore adjusted in 2021 to reflect this concession extension resulting in an increase in the right of use asset of £3.9m.

11. Property, plant and equipment (continued)

The Company held a lease for coaches until August 2021. The minimum value of the lease payments of £598k were previously recognised as an operating lease under IAS 17. As of 1 January 2019, these were reclassified to plant and machinery within property, plant and equipment. The IFRS 16 COVID-19 practical expedient was taken for rent payment concessions received in 2020 and therefore there has been no impact on the right of use asset balance but an adjustment was made to the lease liability of £109k in 2020. This lease ended in 2021, however the leased assets have been retained on a monthly rolling lease pending replacement or renewal of the lease. As a result the value of the right of use asset is still include within Plant and Equipment though it is fully depreciated.

Included within the cost of fixed assets is capitalised interest of £3,641k (2020: £3,641k). As at 31 December 2021 this is fully depreciated. As at 31 December 2021 there were £6,385k (2020: £5,665k) of assets in the course of construction. The assets under construction have not been depreciated. As at 31 December 2021 there were runways, taxiways and other similar structure assets with a net book value of £1,648k held under a finance lease arrangement (2020: £1,826k).

Capital expenditure contracted at the end of the reporting period but not recognised as liabilities, in relation to the expansion of the airport is £nil (2020: £nil).

At 31 December 2021 and 2020 assets were subject to a registered debenture that forms security for third party borrowings (see note 15).

12. Inventories

	2021 £'000	2020 £'000
Consumables	557	555

13. Trade and other receivables

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of services	24,034	14,198
Amounts owed from group undertakings	69	-
Other receivables	535	562
Prepayments and accrued income	18,549	2,979
Operating lease receivable (see note 16)	-	229
	43,187	17,968

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The average credit period taken is 30 days on the provision of services. No interest is charged on the receivables for the first 30 days from the date of the invoice. The Company has recognised an allowance for doubtful debts against the majority of receivables over 90 days because historical experience has been that receivables that are past due beyond 90 days are not recoverable. Allowances against doubtful debts are recognised against trade receivables between 30 days and 90 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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

Of the trade receivables balance at the end of the period, £5.5m (2020: £2.1m) is due from Wizz Air UK Limited and Wizz Air Hungary Limited, £1.5m (2020: £5.2m) is due from EasyJet Airline Company Limited. There are five other customers who represent more than 5 per cent of the total balance of trade receivables totalling £5.8m (2020: £5.1m).

Prepayments and accrued income of £18.5m have increased significantly (2020: £3.0m), reflecting the SFM compensation agreed as part of the settlement which is being held on the balance sheet and will be recognised in the P&L in the period covered by the settlement agreement: 2021-2026.

The Company does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

13. Trade and other receivables (continued)

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Included within current liabilities is a liability of £5.0m (2020: £7.7m) which has been recognised in the period. This includes £3.0m (2020 £0.9m) against overdue invoices (see note 22) which are expected to be credited post year end. A further £1.5m relates to overdue income and £0.5m to current income which may be credited in 2022 pending COVID-19 discount negotiations. In 2020 £2.7m related to overdue invoices which were expected to be paid in full once the negotiation is completed.

Ageing of past due but not impaired receivables (see note 18)	2021 £'000	2020 £'000
Up to 30 days	6,249	1,602
31-60 days	2,516	1,471
61-90 days	15	2,663
91+ days	2,865	3,975
Total	11,645	9,711

Movement in the allowance for doubtful debts	2021 £'000	2020 £'000
Balance at the beginning of the period	(325)	(77)
Released in the period	253	17
Recognised in the period	(310)	(265)
Balance at the end of the period	(382)	(325)

In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing of impaired trade receivables	2021 £'000	2020 £'000
Current	132	-
1-30 days	37	-
31-60 days	43	-
61-90 days	29	-
91-120 days	47	126
Over 120 days	94	199
Total	382	325

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

14. Trade and other payables

	2020 £'000	2020 £'000
Amounts falling due within one year:		
Trade payables	12,313	7,379
Corporation tax	643	194
Other taxation and social security	523	1,501
Other creditors	4,306	3,051
Accruals and deferred income	11,962	15,973
Contract liability – IFRS 15	14,055	-
	43,802	28,098

15. Borrowings

	2020 £'000	2020 £'000
Borrowings falling due within one year:		
Unsecured borrowing at amortised cost		
Related party loans	1,935	2,378
Borrowings falling due within one year:		
Secured borrowing at amortised cost		
Bank loans	80,294	80,348
Lease liabilities (note 16)	2,785	307
	83,079	80,655
Borrowings falling due after more than one year:		
Secured borrowing at amortised cost		
Lease liabilities (note 16)	31,319	17,313
	31,319	17,313
Total borrowings		
Amount due for settlement within 12 months	85,014	83,033
Amount due for settlement between 2 and 5 years	13,279	672
Amount due for settlement after 5 years	18,040	16,641
TOTAL	116,333	100,346

Borrowings consist of a revolving credit facility with a syndicate comprising Royal Bank of Scotland, Barclays Bank, Mediobanca International and Royal Bank of Canada. Interest from 17 November 2021 is charged at a rate of 3 month compounded SONIA and prior to this at a rate of 3 month LIBOR, plus an original margin of 1.35% escalating over the 7 year term. All facilities mature on 17 August 2024. The total facility available from 17 August 2017 is a revolving credit facility of £80m (2020: £80m). £80m (2020: £80m) of the revolving credit facility was in use by London Luton Airport Operations Limited at 31 December 2021.

At 31 December 2020 and 2021 assets were subject to a registered debenture that forms security for third party borrowings (see note 11).

On 31 July 2020 the Company obtained approval from its lenders and note holders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2020 and for an amended loan covenant test as at 30 June 2021 to be based on the results for the first 6 months of 2021 annualised. Additionally, Shareholders committed £13m of funds for the Company to utilise if required.

15. Borrowings (continued)

On 30 June 2021 the Company obtained further approval from its lenders and note holders for the waiver of the requirement to perform loan covenant testing as at 30 June and 31 December 2021 and for an amended loan covenant test as at 30 June 2022 to be based on the results for the first 6 months of 2022 annualised. Additionally, Shareholders committed £40m (inclusive of the £13m agreed in 2020) of funds for the Company to utilise if required. £20m of this is the form of a commitment and £20m as a cash drawdown by the immediate parent company London Luton Airport Holdings I Limited, received in July 2021.

The maturity dates for these loans are 17 August 2024. However, they have been classified as current liabilities as of 31 December 2021 because the Company would have breached the covenants as at 31 December 2020 and 31 December 2021 if waivers had not been obtained. The waivers are in place at the covenant measurement dates from 31 December 2020 to 31 December 2021. The next measurement date being 30 June 2022, due for submission by 30 September 2022 and therefore the Company does not have the unconditional right to defer payment for a period of 12 months from the balance sheet dates. The Company is forecasting to meet the adjusted financial ratio for its covenant test as at 30 June 2022 measurement date and due for submission by 30 September 2022 based on the latest forecasts and is forecast to meet the financial ratios as per the financing agreements from 31 December 2022 onwards. The directors are forecasting that these financial ratios will be met.

16. Leases

Leases as a lessee (IFRS 16)

Under the terms of the Concession Agreement which is in place until March 2031, Luton Borough Council and Luton Rising ("LR") 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 LR based on the throughput of passengers and cargo. Previously, this was recognised as an operating lease under IAS 17. As of 1 January 2019 the minimum value of the lease payments of £27.4m was recognised as a right of use asset, presented as land and buildings within property, plant and equipment. In March the Company instigated the Special Force Majeure (SFM) clause in the existing concession agreement and the lease payments were reassessed as a result which decreased the right of use assets for land and buildings by £15.7m in 2020 with a corresponding decrease in the lease liability. In December 2021 a final agreement was reached on the SFM, as part of this agreement the concession length was extended from 31 March 2031 to 15 August 2032. To account for this lease modification the right of use asset was therefore adjusted in 2021 to reflect this concession extension resulting in an increase in the right of use asset of £3.9m. A lease reassessment was also recorded to account for the reinstatement of the minimum lease payments following agreement that COVID-19 would no longer be considered a SFM event. The lease liability was therefore increased by £15m.

The Company held a lease for coaches until August 2021. The minimum value of the lease payments of £598k were previously recognised as an operating lease under IAS 17. As of 1 January 2019, these were reclassified to plant and machinery within property, plant and equipment. The IFRS 16 COVID-19 practical expedient was taken for rent payment concessions received in 2020 and therefore there has been no impact on the right of use asset balance but an adjustment was made to the lease liability of £109k in 2020. This lease ended in 2021, however the leased assets have been retained on a monthly rolling lease pending replacement or renewal of the lease. As a result the value of the right of use asset is still include within Plant and Equipment though it is fully depreciated.

During 2019, the Company entered into a lease for a property. This was recognised as an addition in 2019 and is presented as land and buildings within property, plant and equipment. The lease expires in 2031.

The Company leases other equipment with contract terms of one to three years. These leases are short term and/or leases of low value items. The Company has elected not to recognise right of use assets and lease liabilities for these leases.

16. Leases (continued)

Information about leases for which the Company is a lessee is presented below.

i. Right of use assets

Right of use assets relate to leased properties and equipment and are presented as property, plant and equipment.

	Land and Buildings £'000	Runways taxiways and other similar structures £'000	Plant and machinery £'000	Total £'000
Balance at 1 January 2020	27,925	2,004	374	30,303
Lease reassessment	(15,665)	-	-	(15,665)
Depreciation charge for the year	(1,352)	(178)	(224)	(1,754)
Balance at 31 December 2020	**10,908**	**1,826**	**150**	**12,884**
Lease modification	3,888	-	-	3,888
Depreciation charge for the year	(1,393)	(178)	(150)	(1,721)
Balance at 31 December 2021	**13,403**	**1,648**	**-**	**15,051**

ii. Lease liability

The lease liability relating to the leased properties and equipment and are presented as property, plant and equipment.

	Lease liability/ (asset) (current) £'000	Lease liability (non-current) £'000	Total £'000
Balance at 1 January 2020	**2,624**	**32,546**	**35,170**
Lease reassessment	(2,268)	(13,397)	(15,665)
Lease modification – practical expedient	(103)	(6)	(109)
Cash paid less interest expense	278	(916)	(638)
Balance at 31 December 2020	**531**	**18,227**	**18,758**
Lease reassessment	2,158	-	2,158
Lease modification	54	16,791	16,845
Cash paid less interest expense	263	(3,006)	(2,743)
Balance at 31 December 2021	**3,006**	**32,012**	**35,018**

iii. Amounts recognised in profit or loss

	2021 £'000	2020 £'000
Leases under IFRS 16		
Interest on lease liabilities	1,443	821

iv. Amounts recognised in statement of cash flows

	2021 £'000	2020 £'000
Total cash outflow for leases		
Interest on lease liabilities	3,957	1,247

16. Leases (continued)

It is the Company's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 26 years. For the year ended 31 December 2021, the average effective borrowing rate was 4.08% (2020: 4.08%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

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

The Company's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 11.

17. Deferred tax

The following are the major deferred tax assets/(liabilities) 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 2020	(1,922)	5,990	4,068
Charge to profit or loss	1,544	379	1,923
Credit to other comprehensive income	-	(1,381)	(1,381)
At 31 December 2020	**(378)**	**4,988**	**4,610**
Credit to income statement	2,044	(583)	1,461
Charge to other comprehensive income	-	1,402	1,402
At 31 December 2021	**1,666**	**5,807**	**7,473**

18. Provisions

	2021 £'000	2020 £'000
Provisions falling due within one year	272	7,773
Provisions falling due after more than one year	756	847
Total	1,028	8,620

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

	2021 £'000	2020 £'000
Balance at the beginning of the year	8,620	1,272
Released in the year	(7,592)	(337)
Recognised in the year	-	7,685
Balance at the end of the year	1,028	8,620

18. Provisions (continued)

A noise insulation provision has been recognised of £847k (2020: 935k). This represents the discounted future cash flows relating to a commitment to provide noise insulation equipment to eligible residential and non-residential properties. The commitment is a condition of the planning consent granted in 2014 by Luton Borough Council (LBC) and is in place for the length of the concession period ending March 2031. The cost of this has been recognised through the profit and loss.

A credit note provision of £7.0m has been utilised in the period. This included £0.9m against overdue invoices in 2020 (see note 13) which were credited post year end.

19. Share capital

	2021 £'000	2020 £'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 2020	97,476
Dividends paid	(5,000)
Total comprehensive expense for the year	(7,641)
Balance at 31 December 2020	**84,835**
Dividends paid	(10,000)
Total comprehensive expense for the year	(8,880)
Balance at 31 December 2021	**65,955**

21. Retirement benefit schemes

Defined benefit schemes

The London Luton Airport Pension Scheme ('LLAPS') closed to future accrual with effect from 31 January 2017. As of this date, 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).

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 2020. The valuation used the projected unit method and was carried out by Willis Towers Watson Limited, professionally qualified actuaries.

21. Retirement benefit schemes

Defined benefit schemes

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.

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

	2020 %	2020 %
Key assumptions used:		
Discount rate	1.80%	1.25%
Expected rate of future pension increases	3.13%	2.50%
Rate of increase of pensions in deferment	3.13%	2.50%
Inflation	3.23%	2.60%
Average longevity at retirement age for current pensioners (65 years)*	Years	Years
Male	21.5	21.1
Female	24.1	23.5
Average longevity at retirement age for current employees (future pensioners) (currently aged 45 years)*		
Male	22.8	22.1
Female	25.5	24.8

* Based on SAPS "S2PA" mortality table with modifications to reflect expected changes in mortality.

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

	2021 £'000	2020 £'000
Service cost:		
Interest expense	1,992	3,118
Interest income	(1,874)	(2,540)
Interest income on the asset ceiling	45	-
Components of defined benefit expenses recognised in profit or loss	163	578

Also included as a defined benefit expenses under administration expenses recognised in the profit or loss are service costs amounting to £1,053k (2020: £808k).

21. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

	2021 £'000	2020 £'000
The return on plan assets greater than the discount rate	(12,383)	(15,496)
Actuarial (loss)/gain arising from changes in demographic assumptions	2,778	(12,625)
Actuarial loss arising from changes in financial assumptions	3,432	17,460
Actuarial (loss)/gain arising from experience adjustments	1,546	(225)
Changes in the effect of the asset ceiling excluding interest income	10,247	3,618
Remeasurement of the net defined benefit liability	5,610	(7,268)

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

	2021 £'000	2020 £'000
Present value of defined benefit obligations	(167,706)	(161,791)
Fair value of plan assets	172,335	141,878
Surplus/deficit	4,629	(19,913)
Adjustment in respect of asset ceiling and minimum funding requirement	(13,899)	(3,617)
Deficit	(9,270)	(23,530)
Deferred tax asset (note 17)	5,807	4,989
Net liability	(3,463)	(18,541)

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

	2021 £'000	2020 £'000
Opening defined benefit obligation	161,791	158,553
Interest cost	1,992	3,118
Service costs	1,053	808
	3,045	3,926
Actuarial loss	7,756	4,610
Benefits paid	(4,886)	(5,298)
Closing defined benefit obligation	167,706	161,791

21. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

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

	2021 £'000	2020 £'000
Opening fair value of plan assets	141,878	128,775
Interest income	1,874	2,539
	1,874	2,539
Remeasurement loss:		
The return on plan assets (excluding interest income)	12,383	15,496
	12,383	15,496
Contributions from employers	21,080	360
Benefits paid	(3,827)	(4,484)
Expenses paid	(1,053)	(808)
	16,200	(4,932)
Closing fair value of plan assets	172,335	141,878

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

	2021 £'000	2020 £'000
Equity instruments	-	8,316
Debt securities	-	10,441
Other	172,335	123,121
Total	172,335	141,878

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 of the assumption occurring at the end of the reporting period, while holding all other assumptions constant. The discount rate used of 1.80% has increased since 2020 rate of 1.25%. This reflects that the corporate bond yields have increased in the year and reflects the Merrill Lynch AA yield curve.

If the discount rate is 0.5% higher the defined benefit obligation would decrease by £14.8m (2020: £15.7m). If the discount rate is 0.5% lower the defined benefit obligation would increase by £16.3m (2020: £17.9m).

If the inflation rate is 0.5% higher the defined benefit obligation would increase by £16.0m (2020: £13.4m). If the discount rate is 0.5% lower the defined benefit obligation would decrease by £14.7m (2020: £13.9m).

The inflation risk premium has been set at 0.3% (reflecting an assumed inflation risk premium of 0.2% pa before 2030 (2020: 0.3%) and 0.5% pa after 2030 (2020: 0.6%)), compared with 0.5% in the prior year.

The mortality rate is based on publicly available mortality tables for the UK. COVID-19 has caused a short-term increase in deaths in the UK. It is the Company's view that COVID-19 has (and will have) a negative impact on the life expectancies of members of UK pension schemes, and if this is not reflected then liabilities could be overstated. A bespoke analysis to quantify the potential impact of COVID-19 was carried out for the year ending 31 December 2020 and resulted in a reduction in liabilities of just under 2%. The resulting life expectancies from this analysis were relatively low when benchmarked to other companies and as such for the year ending 31 December 2021 we have removed the adjustment for COVID-19, which has resulted in an increase in liabilities of £2.8m. The Company will continue to review the appropriateness of the mortality assumption going forwards in light of emerging information from COVID-19 and its implications on life expectancies.

21. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

For the 31 December 2020 disclosures the Directors adjusted the derivation of the RPI inflation assumption, in particular increasing the inflation risk premium to reflect additional market distortions caused by the RPI reform proposals. The calculation of an inflation risk premium is somewhat subjective and whilst the Directors feel the 31 December 2020 inflation assumption was perfectly justifiable, when benchmarked to other companies the inflation assumption was relatively low. As such, the Directors have reduced the inflation risk premium for the disclosures as at 31 December 2021 which has consequently increased the liabilities by £9.9m.

On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The scheme has experienced significant historical transfers out which will be subject to adjustment as a result of this second ruling. At this stage the trustees are not yet in a position to obtain a reliable estimate of the impact of the backdated benefits and related interest A provision of 0.5% of liabilities has been included within these disclosures and an allowance of £38k has been made in respect of the equalisation of historic transfers which is consistent across 2021 and 2020.

The Scheme should have sufficient and appropriate assets to cover its technical provisions. To eliminate the deficit the Company has agreed to pay contributions into the Scheme up to £9.4m, payable as 5 quarterly payments of £1.9m from 31 March 2022 – 31 March 2023. The Company will continue to pay monthly contributions to the Scheme of at least £40k as an allowance for administrative expenses.

Defined contribution schemes

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

The total cost charged to income of £1.1m (2020: £2.0m) represents contributions payable to the scheme by the Company at rates specified in the rules of the scheme. As at 31 December 2021, contributions of £nil (2020: £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 Company has no further payment obligations once the contributions have been paid.

22. Events after the balance sheet date

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

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.

23. Related party transactions (continued)

	Year ended 2021 £'000	Year ended 2020 £'000
Directors' remuneration		
Emoluments	755	732
Termination benefits	285	-
Company contributions to defined contribution pension schemes	32	45
	1,072	777

	Year ended 2020 £'000	Year ended 2020 £'000
Remuneration of the highest paid director:		
Emoluments	490	419
Company contributions to money purchase schemes	7	25

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 2021 (2020: £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 Percival House, Percival Way, London Luton Airport, Luton, Bedfordshire LU2 9NU.

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Entidad Pública Empresarial Enaire ('Aena'). The largest group in which the results of the Company are consolidated is Entidad Pública Empresarial Enaire ('Aena'). Copies of these financial statements can be obtained from Peonías, 12. 28042, Madrid, Spain.