Birmingham Airport Holdings Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2018

Registration number: 03312673

Birmingham Airport Holdings Limited

Contents

Company Information	1
Strategic Report	2 to 7
Directors' Report	8 to 9
Statement of Directors' Responsibilities in respect of the financial statements	10
Independent Auditors' Report to the members of Birmingham Airport Holdings Limited	11 to 16
Consolidated Income Statement	17
Consolidated Statement of Comprehensive Income	18
Consolidated Statement of Changes in Equity	19
Company Statement of Changes in Equity	20
Consolidated Statement of Financial Position	21
Company Statement of Financial Position	22
Consolidated Statement of Cash Flows	23
Notes to the Financial Statements	24 to 51

Birmingham Airport Holdings Limited

Company Information

Chairman	T Clarke
Directors	M A Bird T Chatfield S Clark T Clarke R McClean W Nazir R F Piper G E Richards G Singh D M Stanton P C Tilsley M R Toms D S Welsh W Zaffar
Company Secretary	S L C Richards
Registered office	Diamond House Birmingham Airport Birmingham West Midlands B26 3QJ
Independent Auditors	PricewaterhouseCoopers LLP Chartered accountants and statutory auditors Cornwall Court 19 Cornwall Street Birmingham West Midlands B3 2DT
Bankers	National Westminster Bank plc 2 St Philips Place Birmingham West Midlands B3 3RB
Solicitors	Eversheds LLP 115 Colmore Row Birmingham West Midlands B3 3AL

The Directors present their strategic report for the year ended 31 March 2018.

Principal activity

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations. The key operating objectives of the group can be summarised as follows:

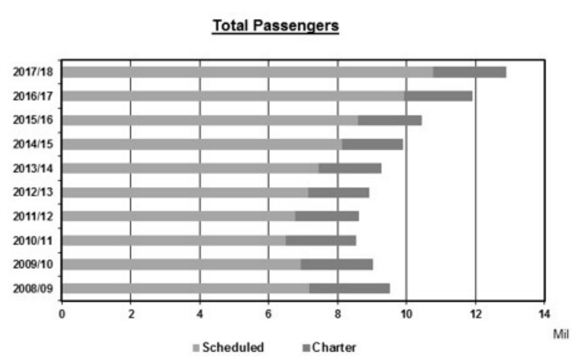
"The safe and secure processing of passengers and aircraft through the provision of facilities and infrastructure in a sustainable and efficient manner. We aim to provide a value-for-money service, recognising the efforts of our employees and our partners, which will generate a profitable future for the group. We also recognise the wider impacts of our business and aim to mitigate the impacts of our operations on the local community, whilst assisting the region to develop and grow through improved connectivity".

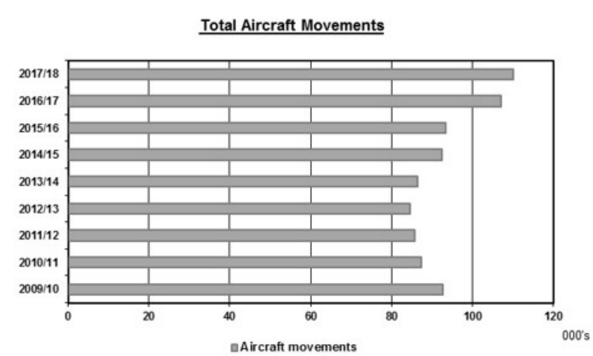
Review of the business and future outlook

Market position and business environment

During the year ended March 2018, Birmingham Airport processed 12,884,052 passengers, an increase of 8.2% on 2016/17 with the Airport seeing another first in its history as over 12 million passengers passed through the terminals. It was also the seventh consecutive year of passenger growth with Scheduled passengers up 8.6% and Charter passengers up 6.1%. This growth outperformed the average growth for the UK aviation industry of 4.8%.

Birmingham Airport recorded the busiest month in its history during August 2017 with 1,495,158 passengers passing through its terminals. The summer season continued the trend seen during 2016/17 with record passenger numbers and strong double-digit growth (17.1% for the period ending 30th September). The second half of the year, however was materially impacted when the Airport's 3rd largest carrier, Monarch Airlines was placed into administration on 2nd October 2017, with all services ceasing with immediate effect. Further activity reductions were seen from the cessation of Norwegian Airlines, United Airlines and Icelandair. The lost traffic was partially mitigated by existing carriers increasing their activity on 88% of Monarch routes, notably Jet2, Thomas Cook and TUI. The back six months of the year seeing passenger numbers down 3.2% on the same period the year before.





The 8.6% Scheduled traffic growth reflects Low Cost and flag carrier growth, partially offset by a reduction in the Long Haul sector, whilst the Charter sector experienced growth 1.3% above the UK Aviation market.

The Low Cost sector saw growth of 11.4% year on year driven by a full year of Jet2 operations who commenced operations in March 2017 including the launch of four new routes, Ryanair increasing frequencies and Eurowings increasing capacity through the operation of a larger aircraft. These gains have in part been driven by reclaim of market share and increased consumer demand for western Mediterranean destinations. The year on year growth came over the summer season but unfortunately the demise of Monarch in early October 2017 along with the cessation of Norwegian Airlines and reduced operations from Vueling over the winter suppressed this position.

The growth in flag carrier traffic was driven by increased Aer Lingus Dublin traffic, with the carrier taking the opportunity post cessation of the United Airlines transatlantic flights by increasing its frequency to Dublin whereby passengers benefit from the ETSA US Preclearance facility and receive US immigration clearance prior to arrival in the US. Increased Blue Air and Czech Airlines frequencies including the launch of Larnaca on the former, along with capacity increases being seen across KLM, Brussels Airlines and Air France.

The Long Haul sector had a challenging year at Birmingham with the full year impact of American Airlines cessation being compounded by United Airlines decision to cease direct transatlantic flights to Newark in October 2017. Growth in the sector was seen with an increase in activity from Turkmenistan Airlines, along with higher demand on Air India traffic, with the carrier commencing direct flights to Amritsar in February 2018.

Charter traffic also grew above the UK Aviation market average. The Charter market continues to be dominated by both TUI and Thomas Cook, as both carriers continue to benefit from consumer preference towards package holidays with established operators. Both also captured part of the market share following the administration of Monarch Airlines by increasing activity and increasing passenger loads.

The most popular destination remains Dublin, followed by Dubai and Amsterdam.

Looking ahead 2018/19 is set to be another challenging year as the Airport continues to recover lost traffic and deliver future growth following the demise of Monarch Airlines. The backfill of Monarch will partly come from Jet2 with the carrier operating two additional based aircraft and a further fourteen new summer destinations, along with the commencement of a brand-new airline Primera Air to both the Airport and region providing more choice to those passengers looking to travel to Malaga, Lanzarote, Tenerife and Palma. In addition the Charter sector is set to receive a boost with both Thomas Cook and TUI increasing frequencies, with the latter basing an additional aircraft at Birmingham, picking up some of the Monarch traffic. Following the success of Emirates launching its twice daily Airbus A380 service in September 2017, passengers can benefit from this on a year-round basis, whilst a double daily service to Istanbul will operate over the summer season with Turkish Airlines.

The uncertainty continues to exist in the market following the Brexit vote on 23rd June 2016 and the subsequent triggering of Article 50; however, it remains too early to tell what the impact on volumes and the pattern of travel will be as a result of this.

Future developments

The group will continue to operate from Birmingham Airport, providing facilities and infrastructure as required to maintain the successful operation of the Airport. The Group is committed to adopting a sustainable approach to the operation and future development of the Airport, whilst mitigating the impact on local communities

Financial Performance

Income

The Airport earns its income from two key revenue streams, aeronautical and commercial. Aeronautical income is generated by charges levied on airlines, for the use of airport facilities by both aircraft and passengers. Commercial income is generated from commercial activities including duty free, car parking, catering, property rental and recharges.

Aeronautical income grew by 5.5% during 2017/18, which was behind passenger growth by 2.7%. This dilution is a result of a lower yielding traffic mix during the year, core aeronautical revenue during the year grew 6.2%, whilst non-core dropped 3.2%. The reduction in non-core was driven by one-off gains during 2016/17. As a result, there was a 2.5% fall in the yield per passenger to £4.98 compared with £5.11 for the previous year.

Commercial income grew by 7.4%, 0.8% below passenger volume growth. The dilution in yields was mainly driven by Car Parking, with the continuing change in consumer behaviour and price sensitivity towards lower yielding products along with the opening of a free drop off zone a short walk from the terminal buildings.

The Duty Free benefitted from the annualisation of the store re-development with more product ranges and choices for customers. An increase in staff presence and product sampling has been key to driving increased sales, along with the introduction of a “Reserve & Collect” service. During the year the Airport improved its catering offering with the opening of Factory Bar & Grill and Bottega Prosecco Bar during winter 2017/18, along with a new Costa Coffee in South Terminal departures. Within retail a new Kurt Geiger footwear unit opened and Accessorize completed an upgrade on their unit.

There are more developments due in the coming year, with 2018/19 already seeing the opening of a refreshed Caffe Ritazza following completion of the North Terminal security works.

Operating costs

Total operating costs before exceptional items increased by 9.6% to £103.1 million in the year (2017: £94.1 million). Within this, employee costs increased by 8.7% from additional resources supporting the activity growth throughout the airport and pay increases. Non-staff costs increased by 10.0%, with increased expenditure on asset maintenance and repairs driven by demand on infrastructure from increased passengers and baggage volumes, customer service spend to support the focus on delivering exceptional customer service, targeted investment in processes and technology to support future growth along with lower business rates in 2016/17. Depreciation and other costs reduced by 5.5%, this was due to higher year on year investment property fair value gains, notably within Diamond House. This is partially offset by an increase in depreciation, up 1.6%, along with a bad debt charge for car parking revenue (Purple Parking) and Monarch Airlines in the year following both going into administration. One of the Airport's key performance measures is that of Earnings Before Interest Tax and Depreciation (EBITDA), which during year reduced by 1.5% to £75.1m (2017: £76.2m). This reduction the effect of those employee and non-staff cost increases discussed above, offsetting the 7.4% income growth in the year.

The group’s operating profit, before exceptional items, increased 1.2% to £52.4 million (2017: £51.7 million), from higher income and investment property fair value gains, partially offset by increased operating costs, depreciation and bad debts in the year. Exceptional charge of £1.8 million (2017: £1.8 million credit) reflects restructure costs following changes to The Airport’s executive team, an update of the Airport's master plan and the demolition of an obsolete building. This resulted in a group operating profit, post exceptional items, of £50.5 million (2017: £53.5 million). The group incurred an increase of £0.6 million in its net interest cost, which rose to £16.0 million (2017: £15.4 million) due to higher finance charges associated with the Airport's pension scheme.

During 2017/18, the group incurred a tax charge of £8.1 million (2017: £8.7 million), this included a corporation tax charge of £8.6 million (2017: £9.1 million) and a deferred tax credit of £0.5 million (2017: £0.4 million credit). This equates to an effective tax rate of 23.4% (2017: 22.9%) which remains higher than the ordinary rate of UK corporation tax, reflecting the removal of tax allowances for industrial buildings.

During the year, a final dividend of £17.5 million for the year ended 31 March 2017 was paid (2017: £9.5 million) and an interim dividend of £12.8 million was paid for the year ended 31 March 2018 (2017: £18.6 million). This resulted in a total dividend of £30.3 million (2017: £28.1 million).

The directors recommend a final dividend payment of £13.921 million be made in respect of the financial year ended 31 March 2018. In accordance with FRS 102 this dividend has not been recognised as a liability in the financial statements.

Cash outflow for capital projects amounted to £18.5 million (2017: £18.4 million). The main projects in the year related to the ongoing works associated with the baggage system upgrade project, along with the upgrade to the North Pier security entrance and improvements to the security search area, continuing the investment made by the Airport to increase capacity and meet the changing needs of both our airlines and improving the customer experience for its passengers. The year also saw significant investment in car parking facilities with the opening of a new premium and a new free drop off product along with additional surface parking spaces. In addition the Airport continued to invest in replacing its assets. The sale of vehicles and plant assets generated £0.007 million (2017: £0.04 million).

During the year, the group generated cash of £67.3 million from operating activities (2017: £80.3 million). Corporation tax paid increased by £1.0 million while interest paid fell by £0.9 million due to the setup costs associated with the £76 million private placement senior notes issued on 30 March 2016 being settled during 2016/17. Following capital expenditure of £18.5 million and dividend payments of £30.3 million there was a net increase in cash of £3.4 million (2017: £71.0 million reduction due to payment of special dividend in year). Looking forward, the group has strong operating cash flows and a committed bank facility to meet its ongoing liabilities as and when they fall due.

Security

Whilst the threat level for aviation remained at substantial, 2017 saw a broadening terrorist threat to aviation in the attempted deployment of a viable IED in the foiled Australia plot in July 2017 and the potential planning of using chemical powder. The UK threat level was increased to critical from 15th - 17th September following the Parson’s Green tube attack in London.

The CAA carried out a full audit of all chapters of the UK Single Consolidated Direction during the week commencing 11th September. The overall compliance score was an excellent 95.2%.

Operational performance faced some challenges due to the increase in passenger volumes presenting at security and the challenges in recruiting the required number of security officers throughout the year. It is only possible to report queue time percentages for April 2017 - January 2018 due to a new queue measurement system being installed during the lane replacements over winter. The data shows 96.9% of passengers queued less than 20 minutes for that reporting period. (2017: 98.3%).

During the winter of 2017/18, thirteen security lanes were replaced with parallel loading lanes and one conventional express lane. A large recruitment drive also took place to ensure that officer numbers were sufficient to support the passenger demand heading into Easter 2018. Extensive work was also carried out into throughput improvements as a result of the new lanes and operating processes and good results have already been demonstrated. A new queue measurement was also installed ready for summer 2018.

Health and Safety

Birmingham Airport is committed to providing a safe and secure workplace and operational environment for all who use the Airport. Health and Safety Management is executed via the Birmingham Airport Health and Safety Policy which sets out a statement and the arrangements for the management of Health and Safety. The Health and Safety Management System is accredited to OHSAS 18001, the internationally applied British Standard for occupational health and safety management systems. Birmingham Airport management system was first accredited in 2013 and has continued to successfully maintain this accreditation.

There were 89 staff accidents during the year (2017: 58), reflecting an increase of 53.4%. However lost working days from staff accidents were the same as last year, despite an increase in employees, therefore the accident frequency rate for lost working days reduced compared to last year. All staff accidents were recorded as minor or negligible and the most common injury is from ‘sharps’ in security during bag search operations. The Health & Safety Team have worked with the Security Team to improve the safety of bag search operations. There were no serious staff accidents in in the year and RIDDOR reportable staff incidents reduced to 1 (2017: 4).

Passenger accidents remain flat at 177 (2017: 177), a positive trend against a backdrop of 8.2% higher passenger numbers, which means the accident frequency rate has reduced. Most of the incidents were related to slips, trips or falls and injuries were minor or negligible. In 2017 the Company restructured the governance and new established new working Groups with a focus on safety improvement, this includes accident hot spot mapping and a companywide review of risk assessments.

Airside Safety

Once again operational safety has been the key business priority and focus for the airside team. The EASA certification was the first step in our journey with the new regulatory system and has led to a departmental restructure, to take onboard the compliance and safety roles as required through EASA. This, along with a review of the Airport’s training and compliance responsibilities has resulted in additional resources for the increase in our third party training and auditing frequency to mirror the CAA Performance Based Regulation approach.

Resource has been invested in the improvement of handling agents oversight, especially during the summer, when there was a single handling agent and increased overview of the ramp operations where required. An additional handling agent commenced operations during the year and Jet2 have elected to self-handle to provide a greater flexible service within their operation.

The ground maintenance team was bought in house to further support the airfield safety unit, this has resulted in opportunities to use the resource more effectively and for the team to be involved in winter operations and taking greater responsibility for our habitat management procedures.

As opposed to the mild winter experienced in 2016/17 the winter of 2017/18 was extremely challenging with some unusual types and patterns of persistent snowfall for the UK that along with the wind conditions proved a real operational challenge. This required the team to alter the clearance techniques previously tried and tested to achieve the goal of a safe and operational airfield. New snow equipment has been purchased in the year and a further review has commenced to ensure the Airport has a robust fleet of snow equipment to overcome the most hazardous of conditions.

Financial risk management

Objectives and policies

The group has a number of policies in place to manage its financial risks, along with a risk management programme which is reported to the Board and Audit Committee. Where actions are necessary and not covered by the policies in place, approval is sought from the Board.

Price risk, credit risk, liquidity risk and cash flow risk

Interest Rate Risk
The group's policy is to maintain an appropriate mix of credit facilities within Board approved parameters. Currently the interest cost is fixed as there has been no drawdown on the group's variable rate loan facility. The group has considered and is satisfied with the current debt structure. The group's cash is invested under strict Board approved parameters, which places a cap on the amount which can be invested in a single institution/product. Throughout the year and currently, cash is invested in the money market which, whilst exposing the group to interest rate risk, does maintain liquidity and access to funds.

Liquidity Risk
It is the group's policy to ensure continuity of funding by active management of working capital and maintaining sufficient committed facilities to meet anticipated funding requirements, whilst ensuring that the group is not exposed to excessive refinancing in any one year. The £20 million committed un-drawn loan facility and £46.4 million cash balance are considered sufficient to meet the group’s ongoing liquidity requirements.

Credit Risk
The group's policy requires appropriate credit checks of potential customers prior to the commencement of operation and regular reviews thereafter. In addition, focus has been directed at day to day reviews and management of this risk, due to the economic climate. The group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Price Risk
The group has no significant exposure to any single element of price risk. The largest single risk is wage inflation and the group has some influence through negotiations with its employees. Other exposures relate to general market inflation and building costs during periods of expansion.

Covenant Risk
The group continues to comply with the financial covenants, relating to net worth, gearing and interest cover which are included in the corporate bond, private placement senior notes and bank facility. These are monitored on an ongoing basis with formal testing reported to the Audit committee and for the bond and bank facility the year end position is certified by the auditors.

Brexit Risk
The uncertainty continues to exist in the market following the Brexit vote on 23rd June 2016 and the subsequent triggering of Article 50; however, it remains too early to tell what the impact on volumes and the pattern of travel will be as a result of this (see page 3).

Approved and authorised by the Board and signed on its behalf on 11 July 2018 by:

....
T Clarke
Chairman

....
S L C Richards
Company secretary

The Directors present their report and the audited financial statements of the group and company year ended 31 March 2018.

Future developments, dividends and financial risk management
The Strategic Report on pages 2 to 7 includes details of the Group's financial performance, dividends, future developments and financial risk management objectives and policies.

Directors of the group
The directors of the company who were in office during the year and up to the date of signing the financial statements were:

H Bills (resigned 5 June 2017)

M A Bird

T Chatfield (appointed 24 January 2018)

J M Clancy (resigned 24 January 2018)

T Clarke - Chairman (appointed 12 July 2017)

P Dransfield (resigned 5 July 2017)

N P Fleming (resigned 16 May 2018)

J L Hudson - Chairman (resigned 12 July 2017)

P Kehoe - Chief executive (resigned 12 July 2017)

R McClean (appointed 7 March 2018)

W Nazir (appointed 5 July 2017)

R F Piper

G E Richards

T Singh (resigned 4 July 2018)

S C Stacey (resigned 4 July 2018)

D M Stanton

P C Tilsley

M R Toms

D I A Vickers (appointed 5 June 2017 and resigned 4 July 2018)

D S Welsh

The following directors were appointed after the year end:

S Clark (appointed 4 July 2018)

G Singh (appointed 4 July 2018)

W Zaffar (appointed 4 July 2018)

John Hudson OBE stepped down from his role of Chairman on 12 July 2017. The Board would like to express their grateful thanks to John for the tremendous contribution he has made to Birmingham Airport during the last twenty years. Under his stewardship the Airport has expanded its route network and grown passenger numbers from 5.5 million to 12.9 million, delivered major investment in the Airport facilities, notably the runway extension and new international pier and provided significant economic value to the region.

Going concern

The directors have reviewed the prospects for the group and company for the twelve months from the date of signing. They have considered the group's trading forecasts to the end of that year, as well as the potential uncertainties of achieving such forecasts, along with a range of actions which could be taken in response. The directors remain confident that the group is well placed to take advantage of all the opportunities that such conditions present and that there are sufficient assets within the group, together with the £20 million committed un-drawn loan facility to offset the group's and company's net current liabilities and hence they continue to adopt the going concern basis in preparing the financial statements.

Political donations

There were no political donations during the year.

Employment of disabled persons

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. We continue to meet the Two Ticks Positive about Disabled People Standard. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If members of staff become disabled the group continues employment either in the same or an alternative position, where possible, with appropriate retraining being given if necessary.

Employee involvement

Employee contribution to our business is key to our success. The group commits to meet the investors in people standard, ensuring the skills and knowledge of all our employees are updated to meet changes in our industry. The group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the group is encouraged to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group. The high level of employee take up of the All Employee Share Ownership Plan has continued this year enabling all employees to have the opportunity to share in the success of the group.

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Approved and authorised by the Board and signed on its behalf on 11 July 2018 by:

T Clarke
....
T Clarke
Chairman

....
S L C Richards
Company Secretary

Birmingham Airport Holdings Limited

Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

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

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

Approved and authorised by the Board and signed on its behalf on 11 July 2018 by:

....
S L C Richards
Company Secretary

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Birmingham Airport Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2018 and of group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report which comprise: the group and parent company statements of financial position as at 31 March 2018; the group and parent company income statements and statements of comprehensive income, the group statement of cash flows and the group and paranet company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview

- Overall group materiality: £1.8 million (2017: £1.8 million), based on 2.5% of earnings before interest, tax, depreciation and amortisation.
- Overall company materiality: £1.2 million (2017: £1.3 million), based on 1% of total assets.

- Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we performed audits of the complete financial information of three reporting units.
- The Group engagement team perform all relevant audit work.

Our assessment of the risk of material misstatement also informed our views on the areas of particular focus of our work which are listed below:

- Capital Developments – including the timing of transfer from assets under construction to available to use, assignment of useful economic lives and impairment of tangible assets (Group).
- Actuarial assumptions underlying pension liabilities (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, a review of the financial statement disclosures to underlying supporting documentation and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Capital Developments – including the timing of transfer from assets under construction to available to use, assignment of useful economic lives and impairment of tangible assets Refer to the critical accounting estimates and judgements in note 3 to the accounts and note 13 (Tangible assets). Tangible assets account for 85% of the Group's total balance sheet and capital spend in the year amounted to £20m. We focussed on this area due to the complexity, and the numerous judgements taken by management throughout the process. Each capital project consists of a large number of separate invoiced costs that are recorded within the accounting system in assets under construction. The timing of project finalisation and transfer to available for use requires judgment, and the process for transfer is heavily reliant on manual intervention. Tangible assets is specialised and can require estimates from management with respect to useful economic lives and residual values (if any). Group	We gained an understanding of the Group's internal controls and performed an evaluation of these through walkthrough procedures. We noted that the controls over additions, transfers and disposals are manual in nature. We have performed detailed testing on a sample of additions confirming their existence, accuracy and their correct capitalisation within the Group's accounting policy. We performed detailed testing on the timing of transfer from assets under construction to assets available for use and depreciable. We confirmed that depreciation had commenced on transfer. We evaluated management's assessment of the useful economic lives for property, plant and equipment through lookback procedures on disposals through sale or scrap to identify any large profits or losses on disposal. For a sample of transfers we reviewed the useful economic lives assigned to them and confirmed these were consistent with both the specifications of the relevant assets, and the Group's accounting policy. We considered impairment, both due to capital additions replacing existing assets, and also for impairment triggers for property, plant and equipment based on the performance of the airport.
Actuarial assumptions underlying pension liabilities Refer to the critical accounting estimates and judgements in note 3 to the accounts and note 24 (Post employment benefits). The group has a defined benefit obligation scheme with a gross liability of £195m. We have identified a key audit matter relating to the valuation of the pensions scheme liabilities with specific focus on management judgement exercised in selecting the discount rates used to determine the pension liability. A relatively small change in assumptions could cause a material impact on the liability. Group	We used our actuarial experts to assess the key assumptions for the pension schemes. Our assessment included reviewing the assumptions ensuring these are within a reasonable range. We challenged management to understand sensitivity of changes in key assumptions and benchmarked key assumptions to identify any outliers in the data used.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which they operate.

The financially significant components which were in scope for the group audit opinion were Birmingham Airport Holdings Limited, Birmingham Airport Limited and Birmingham Airport (Finance) Plc. No other procedures were required to be performed on individual line items or balances of other subsidiairy entities.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£1.8 million (2017: £1.8 million).	£1.2 million (2017: £1.3 million).
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation.	1% of total assets.
Rationale for benchmark applied	Earnings before interest, tax, depreciation and amortisation is the primary measure used in assessing the performance of the group and, is a generally accepted auditing benchmark.	The Company is the holding Company of the group and has limited trading activity. Total assets is considered to be the primary measure used in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.2 million and £1.62 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £90,000 (Group audit) (2017: £90,000) and £60,000 (Company audit) (2017: £65,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the directors on 18 January 2006 to audit the financial statements for the year ended 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 March 2006 to 31 March 2018.

Neil Philpott

....

Neil Philpott (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditor
Birmingham

11 July 2018

Birmingham Airport Holdings Limited

Consolidated Income Statement for the Year Ended 31 March 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	155,495	145,832
Administrative expenses		(103,135)	(94,105)
Operating exceptional items	5	(1,842)	1,756
Total administrative costs		(104,977)	(92,349)
Operating profit	6	50,518	53,483
Interest receivable and similar income	10	173	266
Interest payable and similar expenses	11	(16,212)	(15,632)
Profit before taxation		34,479	38,117
Tax on profit	12	(8,078)	(8,731)
Profit for the financial year		26,401	29,386

The above results were derived from continuing operations.

Birmingham Airport Holdings Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2018

	2018 £ 000	2017 £ 000
Profit for the financial year	26,401	29,386
Remeasurement gain/(loss) on net defined benefit pension liability	10,994	(30,048)
Deferred tax effect on actuarial gain/(loss) recognised on net defined benefit pension liability	(1,869)	5,207
Other comprehensive income/(expense) for the year	9,125	(24,841)
Total comprehensive income for the year	35,526	4,545

The notes on pages 24 to 51 form an integral part of these financial statements.

Birmingham Airport Holdings Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2018

	Note	Called up Share capital £ 000	Revaluation reserve £ 000	Merger reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 April 2016		3,240	41,325	25,588	56,649	126,802
Profit for the financial year		-	-	-	29,386	29,386
Other comprehensive expense		-	-	-	(24,841)	(24,841)
Total comprehensive income		-	-	-	4,545	4,545
Dividends	27	-	-	-	(28,129)	(28,129)
Transfer of realised profits		-	(1,251)	-	1,251	-
Deferred tax on revaluation reserve movement		-	504	-	955	1,459
Net sale of own shares from share trust		-	-	-	32	32
Movement in reserves of own trust		-	-	-	(64)	(64)
At 31 March 2017		3,240	40,578	25,588	35,239	104,645
At 1 April 2017		3,240	40,578	25,588	35,239	104,645
Profit for the financial year		-	-	-	26,401	26,401
Other comprehensive income		-	-	-	9,125	9,125
Total comprehensive income		-	-	-	35,526	35,526
Dividends	27	-	-	-	(30,307)	(30,307)
Transfer of realised profits		-	(1,195)	-	1,195	-
Net sale of own shares from share trust	26	-	-	-	7	7
Movement in reserves of own trust		-	-	-	(76)	(76)
At 31 March 2018		3,240	39,383	25,588	41,584	109,795

The notes on pages 24 to 51 form an integral part of these financial statements.

Birmingham Airport Holdings Limited

Company Statement of Changes in Equity for the Year Ended 31 March 2018

	Note	Called up Share capital £ 000	Merger reserve £ 000	Retained earnings £ 000	Total Equity £ 000
At 1 April 2016		3,240	51,380	48,508	103,128
Profit for the financial year		-	-	24,223	24,223
Total comprehensive income		-	-	24,223	24,223
Dividends	27	-	-	(28,129)	(28,129)
Net sale of own shares from share trust		-	-	32	32
Movement in reserves of own trust		-	-	(64)	(64)
At 31 March 2017		3,240	51,380	44,570	99,190
At 1 April 2017		3,240	51,380	44,570	99,190
Profit for the financial year		-	-	15,888	15,888
Total comprehensive income		-	-	15,888	15,888
Dividends	27	-	-	(30,307)	(30,307)
Net sale of own shares from share trust	26	-	-	7	7
Movement in reserves of own trust		-	-	(76)	(76)
At 31 March 2018		3,240	51,380	30,082	84,702

Birmingham Airport Holdings Limited

(Registration number: 03312673)
Consolidated Statement of Financial Position as at 31 March 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Tangible assets	13	453,894	459,439
Investment property	14	11,690	8,759
		465,584	468,198
Current assets			
Inventories	16	1,095	1,174
Debtors	17	21,183	20,006
Investments	18	-	9,553
Cash at bank and in hand		46,419	42,746
		68,697	73,479
Creditors: Amounts falling due within one year	19	(76,287)	(77,663)
Net current liabilities		(7,590)	(4,184)
Total assets less current liabilities		457,994	464,014
Creditors: Amounts falling due after more than one year	19	(275,466)	(275,471)
Provisions for liabilities	23	(24,520)	(23,760)
Post employment benefits	24	(48,213)	(60,138)
Net assets		109,795	104,645
Capital and reserves			
Called up share capital	25	3,240	3,240
Revaluation reserve	26	39,383	40,578
Merger reserve	26	25,588	25,588
Retained earnings		41,584	35,239
Total equity		109,795	104,645

The financial statements on pages 17 to 51 were approved and authorised by the Board and signed on its behalf on 11 July 2018 by:

T Clarke

....

T Clarke

Chairman

Birmingham Airport Holdings Limited

(Registration number: 03312673)
Company Statement of Financial Position as at 31 March 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Investments	15	143,745	143,745
Current assets			
Debtors	17	107,264	126,762
Cash at bank and in hand		648	726
		107,912	127,488
Creditors: Amounts falling due within one year	19	(151,571)	(156,659)
Net current liabilities		(43,659)	(29,171)
Total assets less current liabilities		100,086	114,574
Creditors: Amounts falling due after more than one year	19	(15,384)	(15,384)
Net assets		84,702	99,190
Capital and reserves			
Called up share capital	25	3,240	3,240
Merger reserve	26	51,380	51,380
Retained earnings		30,082	44,570
Total equity		84,702	99,190

The financial statements on pages 17 to 51 were approved and authorised by the Board and signed on its behalf on 11 July 2018 by:

....

T Clarke

Chairman

Birmingham Airport Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 March 2018

	Note	2018 £ 000	2017 £ 000
Cash flow from operating activities	29	67,261	80,258
Income taxes paid		(9,804)	(8,762)
Net cash flow from operating activities		57,457	71,496
Cash flow from investing activities			
Interest received	10	178	262
Purchase of tangible assets		(18,478)	(18,357)
Proceeds from sale of tangible assets		7	3,560
Investments in short term deposits		9,553	(9,553)
Net cash used in investing activities		(8,740)	(24,088)
Cash flow from financing activities			
Interest paid	11	(12,906)	(13,756)
Interest on preference shares		(971)	(971)
Dividends paid		(30,307)	(102,857)
Lease/leaseback premium	32	(791)	(766)
Net sale of own shares from share trust		7	32
Movement in reserves of own trust		(76)	(64)
Net cash used in financing activities		(45,044)	(118,382)
Net increase/(decrease) in cash and cash equivalents		3,673	(70,974)
Cash and cash equivalents at the beginning of the year		42,746	113,720
Cash and cash equivalents at the end of the year	28	46,419	42,746

1 General information

The company and its subsidiaries are private companies limited by shares and incorporated in England and Scotland, United Kingdom.

The address of its registered office is:
Diamond House
Birmingham Airport
Birmingham
West Midlands
B26 3QJ

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

The group and company financial statements of Birmingham Airport Holdings Limited were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the Companies Act 2006.

Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost conventions modified to include the revaluation of certain assets in accordance with applicable accounting standards and the Companies Act 2006.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual income statement. Its profit for the financial year was £15.888 million (2017: £24.223 million)

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2018. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

A subsidiary is an entity controlled by the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2 Accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis. The directors have reviewed the prospects for the group and company for the twelve months from the date of signing. They have considered the group's trading forecasts to the end of that period, as well as potential uncertainties of achieving such forecasts, along with a range of actions which could be taken in response. The directors remain confident that the group is well placed to take advantage of all the opportunities that such conditions present and that there are sufficient assets within the group, together with the £20 million committed un-drawn loan facility to offset the group's and company's net current liabilities and hence they continue to adopt the going concern basis in preparing the group financial statements.

Revenue recognition

Turnover represents the amounts derived from the provision of services which fall within the group's principal activity of the operation and management of Birmingham Airport and its related activities. All turnover is generated in the United Kingdom. Turnover comprises:

Aeronautical income - sales related to aeronautical activities net of rebates, incentives and value added tax and is recognised at the point of passenger and aircraft departure.

Concessions and property income - concessions rentals net of value added tax relating to retail activities on the site and revenues relating to property lettings, service charges, utility recharges and usage charges for operational systems. Concessions income for car parking is recognised at the end of the parking stay and income from all other activities is recognised in the period to which it relates on an accruals basis.

Government grants

Government grants that do not impose specified future performance-related conditions are recognised in income when the grant proceeds are received or receivable. Grants that impose specified future performance-related conditions are recognised in income only when the performance-related conditions are met.

Other grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected lives of the relevant assets by equal annual instalments.

Exceptional items

The group classifies certain one-off charges or credits that have a material impact on the group’s financial results as exceptional items’. These are disclosed separately in note 5 to provide further understanding of the financial performance of the group.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

2 Accounting policies (continued)

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except where it is attributable to an item of income or expense recognised as other comprehensive income where it is recognised directly in the Statement of Comprehensive Income or in equity.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group and company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the group and company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Current and deferred tax assets and liabilities are not discounted.

Tangible assets

Land, buildings and infrastructure are revalued and carried at their fair value at the date of valuation less any accumulated depreciation and accumulated impairment losses. Due to the specialist nature of the land, buildings and infrastructure fair value is based on an income or depreciated replacement cost approach. An independent valuation was undertaken at 31 March 2016.

Tangible assets are revalued with sufficient regularity so as to ensure there are no significant differences between carrying and fair value. If an asset’s carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and the revaluation reserve. However, the increase shall be recognised in the Income Statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement. The decrease of an asset’s carrying amount as a result of revaluation is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in the revaluation reserve, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in the revaluation reserve in respect of that asset, the excess shall be recognised in the income statement.

Plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses. The cost of plant and machinery includes original purchase price and directly attributable incremental costs incurred in bringing the asset to its working condition for its intended use.

General and specific borrowing costs directly attributable to the acquisition, construction of production of qualifying assets, which are assets that necessarily take a substantial amount of time to get ready for their intended use are added to the cost of those assets. All other borrowing are recognised in the income statement in the period they are incurred.

2 Accounting policies (continued)

Depreciation

Depreciation is provided on all tangible fixed assets, other than land and investment property, at rates calculated to write off cost or valuation, less estimated residual value of each asset evenly over its expected useful life. In addition, the carrying values of tangible fixed assets are reviewed for continued applicability in future periods if events or changes in circumstances indicate the carrying value may not be recoverable. The principal useful lives are as follows:

Asset class	Depreciation method and rate
Buildings	between 5 and 50 years
Infrastructure	between 10 and 50 years
Plant and machinery	between 4 and 30 years
Motor vehicles (included in plant & machinery)	between 4 and 15 years

Investment property

Investment property including freehold land, buildings (including off site residential properties and parts of a building held to earn rental income) are held at fair value based on rental income, where the fair value can be measured reliably without undue cost or effort. Fair value is measured at each reporting date with changes in fair value recognised in the income statement.

Investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. Investments are assessed for impairment at the end of each reporting period. If there is an indication of impairment the recoverable amount of the investment is impaired to its carrying amount. The recoverable amount of the investment is the higher of fair value less cost to sell and value in use. Value in use is defined as if the recoverable amount of the investment is lower than its carrying amount an impairment is recognised in the income statement.

Current asset investments

Current asset investments comprise short term cash deposits with a maturity date of greater than three months.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade receivables

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade debtors are recognised initially at the transaction price. A provision for the impairment of trade debtors is established when there is objective evidence that the group or company will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Stores of consumable items and development land held within stock are valued at the lower of purchase cost or estimated net realisable value. At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired the impairment charge is recognised in the income statement. Costs associated with holding the land are expensed as incurred.

2 Accounting policies (continued)

Trade payables
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the group or company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at undiscounted amount of cash or consideration expected to be paid.

Borrowings
Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Income Statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the group or company as an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Provisions
Provisions are recognised when the group has a legal or constructive obligation at the reporting date as a result of a past event, it is probable that the group or company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Details of provisions are disclosed in note 23.

Leases
Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

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

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance costs in the Income Statement and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Rents receivable under operating leases are included in turnover on an accruals basis.

2 Accounting policies (continued)

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends
Dividend distributions to the company's shareholders are recognised as a liability in the financial statements in the reporting period in which the dividends are approved by the shareholders.

Employee benefits

Share incentive plan
The Birmingham Airport Holdings Limited Group has a Share Incentive Plan (SIP) which is available to all permanent employees of the group companies. The All Employees Share Ownership Plan (AESOP) was set up to enable employees to have a greater involvement in the company and share in its future success, has been approved by HM Revenue and Customs. Each year employees have the opportunity to join the plan and save to purchase Partnership shares in the group. For every three Partnership shares purchased the employee is given a Matching share by the Employee Share Trust. The shares are held in Trust for the employees and they are entitled to receive a dividend from Birmingham Airport Holdings Limited, if a dividend is declared, while the shares are held in Trust for the employee.

Defined contribution plan
A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

2 Accounting policies (continued)

Defined benefit plan
A defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Consolidated Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of the plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in sterling, and that have terms to maturity approximation to the terms of the related pension liability. The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'remeasurement of net defined benefit liability'.

The cost of the defined benefit plan is recognised in the Income Statement as employee costs and comprises, increases in the liability arising from employee service and cost of benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the Income Statement as a 'finance expense'.

3 Critical accounting judgements and estimations of uncertainty

The Group and Company makes relatively few judgments and estimates in preparing the financial statements and where the directors have had to make provisions they are reasonable and prudent. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Provisions
Provision is made for site development related liabilities and other matters as they arise. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. Details of provisions are disclosed in note 23.

3 Critical accounting judgements and estimations of uncertainty (continued)

(ii) Defined benefit pension scheme
The group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the pension obligation in the Statement of Financial Position. The assumptions reflect historical experience and current trends. Details of the pension scheme are disclosed in note 24.

(iii) Tangible assets
The Group's tangible fixed assets are carried at either their fair value at date of valuation or cost, less any accumulated depreciation. Management estimates the useful economic life of assets based on historical experience and professional guidance from suppliers and subject matter experts. Asset impairments are based on estimates of current and future development plans. Details of the tangible assets are disclosed in note13.

4 Turnover

The analysis of the group's turnover for the year by class of business is as follows:

	2018 £ 000	2017 £ 000
Aeronautical income	64,192	60,851
Concessions income	66,715	63,104
Property income and recharges	24,588	21,877
	155,495	145,832

5 Operating exceptional items

	2018 £ 000	2017 £ 000
Reorganisation or restructuring	1,150	245
Master plan	676	608
Other exceptional costs	16	33
Dilapidations	-	461
Hotel development lease	-	(3,103)
	1,842	(1,756)

During the year £1.150 million (2017: £0.245 million) restructuring costs were incurred including loss of office payments. A further £0.676 million (2017: £0.608 million) exceptional items were incurred in relation to the master plan review. Other exceptional costs include demolition costs of £0.016 million associated with time expired assets, held at nil net book value, which were beyond economic life including the outer marker beacons (2017: £0.033 million including Rapide building and former sports club). The prior year also included £0.461 million of dilapidation costs associated with Concorde House and a finance lease was granted for the site of a hotel development resulting in a net gain of £3.103 million. Included within taxation on profit is tax on exceptional items at the current UK tax rate of 19%% (2017: 20%) amounting to £0.371 million (2017: £0.269 million).

6 Operating profit

Arrived at after charging/(crediting):

	2018 £ 000	2017 £ 000
Depreciation expense (note 13)	25,773	25,368
Capital grant release	(10)	(9)
Increase in fair value of investment property (note 14)	(3,022)	(814)
Foreign exchange gains	(79)	-
Prior years rates refunds	-	(4,625)
Operating lease expense - property	-	104
Operating lease expense - plant and machinery	113	115
Profit on disposal of tangible assets	(7)	(34)
Impairment of trade receivables	562	132
Inventory recognised as an expense	435	348

7 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of company and consolidated financial statements	15	14
Audit of the financial statements of subsidiaries of the company pursuant to legislation	66	68
	81	82

Other fees to auditors

	2018 £ 000	2017 £ 000
All other non-audit services	32	10

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	27,122	24,302
Social security costs	2,643	2,481
Other pension costs, defined contribution scheme	1,083	977
Other pension costs, defined benefit scheme	1,473	1,150
	32,321	28,910

The aggregate payroll costs include exceptional items of £1.150 million (2017: £0.245 million).

8 Staff costs (continued)

The average monthly number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2018 No.	2017 No.
Engineering	51	49
Operations and security	648	551
Support services	126	103
	825	703

9 Directors' emoluments

The directors' emoluments for the year was as follows:

	2018 £ 000	2017 £ 000
Emoluments	519	369
Compensation for loss of office	426	-
	945	369
Company contributions to money purchase pension schemes	10	6

During the year the number of directors who were receiving benefits and share incentives is as follows:

	2018 No.	2017 No.
Holding shares in the employee share ownership plan	1	1
Accruing benefits under money purchase pension scheme	1	1

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Emoluments	424	297
Benefits in kind	20	22
Company contributions to money purchase pension schemes	10	6

Key management compensation

Key management includes the members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2018 £ 000	2017 £ 000
Salaries and other short term benefits	1,723	1,294
Post employment benefits	74	68
	1,797	1,362

No Directors exercised share options in the year (2017: nil).

10 Interest receivable and similar income

	2018 £ 000	2017 £ 000
Bank interest receivable	165	264
Other interest receivable	8	2
	173	266

11 Interest payable and similar expenses

	2018 £ 000	2017 £ 000
Corporate bond	6,705	6,696
Private placements senior notes interest	6,280	6,280
Interest on preference shares	971	971
Lease/leaseback interest	791	766
Bank loans and overdrafts	49	49
Pension scheme net finance charge (note 24)	1,648	1,219
Other interest payable	179	183
Less: capitalised interest	(411)	(532)
	16,212	15,632

12 Tax on profit

(a) Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	8,718	9,668
UK corporation tax adjustment to prior years	(165)	(542)
	8,553	9,126
Deferred taxation		
Arising from origination and reversal of timing differences	(161)	(812)
Arising from changes in tax rates and laws	17	86
Deferred tax adjustment to previous years	(331)	331
	(475)	(395)
Tax on profit	8,078	8,731

12 Tax on profit (continued)

(b) Tax charged/(credited) in other comprehensive income

	2018 £ 000	2017 £ 000
Arising from origination and reversal of timing difference	2,089	(6,010)
Arising from changes in tax rates and laws	(220)	803
	1,869	(5,207)

(c) Tax credited in equity

	2018 £ 000	2017 £ 000
Arising from changes in tax rates and laws	-	(1,459)
	-	(1,459)

(d) Reconciliation of tax charge

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19% (2017: 20%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	34,479	38,117
Corporation tax at standard rate	6,551	7,623
Effect of expense not deductible in determining taxable profit	2,006	1,233
Deferred tax (credit) relating to changes in tax rates or laws	17	86
Adjustment in respect of prior years	(496)	(211)
Total tax charge	8,078	8,731

(e) Tax rate changes

In his recent budgets the Chancellor the Exchequer proposed a decrease in the rate of UK corporation tax from 19% to 17% from 1 April 2020. These have been substantively enacted at the balance sheet date and are reflected in the company's financial statements.

13 Tangible assets

Group

	Land and buildings £ 000	Leasehold land and buildings £000	Infrastructure £ 000	Plant and machinery £ 000	Assets in the course of construction £ 000	Total £ 000
Cost or valuation						
At 1 April 2017	299,457	200	118,224	165,958	21,100	604,939
Additions	-	-	-	-	19,726	19,726
Capitalised interest	-	-	-	-	411	411
Disposals	-	-	-	(83)	-	(83)
Transfers to/from investment property	69	-	-	-	-	69
Transfers	3,361	-	3,633	5,258	(12,252)	-
At 31 March 2018	302,887	200	121,857	171,133	28,985	625,062
Accumulated depreciation						
At 1 April 2017	10,102	-	8,815	126,583	-	145,500
Charge for the year	11,883	-	7,444	6,446	-	25,773
Eliminated on disposal	-	-	-	(83)	-	(83)
Eliminated on transfer to investment property	(22)	-	-	-	-	(22)
At 31 March 2018	21,963	-	16,259	132,946	-	171,168
Carrying amount						
At 31 March 2018	280,924	200	105,598	38,187	28,985	453,894
At 31 March 2017	289,355	200	109,409	39,375	21,100	459,439

Included within the net book value of land and buildings above is £280.924 million (2017: £289.355 million) in respect of freehold land and buildings and £0.200 million (2017: £0.200 million) in respect of long leasehold land and buildings. Included in land and buildings is land at a value of £80.734 million (2017: £80.734 million) which is not depreciated.

13 Tangible assets (continued)

Birmingham Airport entered into a lease/leaseback arrangement with the West Midlands District Councils which covers all the land, buildings and infrastructure of the airport site. Details of the transaction are included in note 32.

Revaluation

The group's operational assets were revalued on 31 March 2016 by an independent valuer. The valuations were undertaken by Knight Frank LLP, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors and with FRS 102. Due to the specialist nature of the airport's assets, the fair value is based on income and the depreciated replacement cost methodology for land, buildings and infrastructure assets. These revaluations were incorporated into the financial statements and the resulting revaluation surplus of £43.004 million was taken to the revaluation reserve (net of deferred tax).

Historical cost

On a historical cost basis the gross cost of land and buildings assets would have been included as £299.195 million (2017: £295.897 million) and the net book value would have been £175.484 million (2017: £179.425 million). The gross cost of infrastructure assets would have been £184.991 million (2017: £181.358 million) and the net book value would have been £83.658 million (2017: £85.592 million).

Capitalised interest

Within Capitalised Interest are capitalised borrowing costs of £0.411 million (2017: £0.532 million). The capitalisation rate used to determine the amount of finance costs capitalised during the year was 6.5% (2017: 6.5%).

Company

The company had no tangible assets at 31 March 2018 (2017: £nil)

14 Investment property

Group

	2018 **£ 000**
At 1 April 2017	8,759
Transfers to and from property, plant and equipment	(91)
Fair value adjustments	3,022
At 31 March 2018	11,690

Investment properties held by Birmingham Airport Limited have been revalued at 31 March 2018, by Knight Frank LLP undertaken in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors and with FRS 102, the valuation identifies a gain of £2.727 million (2017: £0.299 million) which has been recognised in the income statement.

Investment properties held by First Castle Developments Limited have been revalued at their fair value in accordance with the appraisal and valuation manual of the Royal Institute of Chartered Surveyors on 31 March 2018 by Ruxton Chartered Surveyors and Fisher German LLP. The valuation identifies a gain of £0.296 million (2017: £0.515 million) which has been recognised in the income statement.

14 Investment property (continued)

Company

The company had no investment properties at 31 March 2018 (2017: £nil).

15 Investments

Company

	2018 £ 000	2017 £ 000
Investments in subsidiaries	143,745	143,745

Details of subsidiaries

Details of the investments that the group and company holds are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held 2018	2017
Subsidiary undertakings				
Birmingham Airport Operations Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Limited	England	Ordinary Shares	100%	100%
Birmingham Airport (Finance) plc	England	Ordinary Shares	100%	100%
First Castle Developments Limited	England	Ordinary Shares	100%	100%
BHX Fire and Rescue Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Air Traffic Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Services Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Developments Limited	England	Ordinary Shares	100%	100%
BHX (Scotland) Limited	Scotland	Ordinary Shares	100%	100%
BHX Limited Partnership	England	Capital Contribution	100%	100%
Euro-hub (Birmingham) Limited	England	Ordinary Shares	100%	100%

The registered address of these investments is the same as the parent company with the exception of BHX (Scotland) Limited whose registered address is c/o Eversheds LLP, 3 - 5 Melville Street, Edinburgh, EH3 7PE.

15 Investments (continued)

The principal activity of Birmingham Airport Operations Limited is operation and management of Birmingham Airport Limited, Birmingham Airport (Finance) plc and Euro-hub (Birmingham) Limited.

The principal activity of Birmingham Airport Limited is airport terminal management & operation.

The principal activity of Birmingham Airport (Finance) plc is financing.

The principal activity of First Castle Developments Limited is property holding company.

The principal activity of BHX Fire and Rescue Limited is airport rescue & fire fighting services.

The principal activity of Birmingham Airport Air Traffic Limited is provision of air traffic services.

The principal activity of Birmingham Airport Services Limited is provision of services at Birmingham Airport.

The principal activity of Birmingham Airport Developments Limited is site development.

The principal activity of BHX (Scotland) Limited is property holding & investment.

The principal activity of BHX Limited Partnership is property holding & investment.

The principal activity of Euro-hub (Birmingham) Limited is property holding company.

Birmingham Airport Holdings Limited is the parent undertaking of Birmingham Airport Operations Limited.

Birmingham Airport Limited, Eurohub (Birmingham) Limited and Birmingham Airport (Finance) plc are direct subsidiaries of Birmingham Airport Operations Limited. Birmingham Airport Limited is the parent undertaking of Birmingham Airport Developments Limited, BHX Fire and Rescue Limited, Birmingham Airport Air Traffic Limited, Birmingham Airport Services Limited, First Castle Developments Limited, BHX (Scotland) Limited and BHX Limited Partnership.

The company, in its role as parent company to the group, has provided a statutory guarantee to certain subsidiaries for all outstanding liabilities at 31 March 2018. This enables them to take the audit exemption from obtaining a signed statutory audit opinion under section 479A of the Companies Act 2006. For the year ending 31 March 2018 the following subsidiaries were provided with a statutory guarantee:

BHX Fire and Rescue Limited

Birmingham Airport Developments Limited

Birmingham Airport Operations Limited

First Castle Developments Limited

Birmingham Airport Services Limited

Eurohub (Birmingham) Limited

Birmingham Airport Air Traffic Limited

16 Inventories

	Group		Company	
	2018	2017	2018	2017
	£ 000	£ 000	£ 000	£ 000
Stocks	455	534	-	-
Development land	640	640	-	-
	1,095	1,174	-	-

No provision for the impairment of stocks has been provided for in the year (2017: £nil).

There is no material difference between replacement cost of inventory and its carrying amount (2017: £nil).

17 Debtors

	Group		Company	
	2018	2017	2018	2017
	£ 000	£ 000	£ 000	£ 000
Trade debtors	8,353	9,380	-	-
Amounts owed by group undertakings	-	-	106,033	125,714
Corporation tax	-	-	1,053	799
Other receivables	198	125	-	-
Prepayments and accrued income	12,632	10,501	178	249
	21,183	20,006	107,264	126,762

Trade debtors are stated after provisions for impairment of £1.044 million (2017: £0.924 million).

The amounts owed by group undertakings are unsecured and there are no formal arrangements for the repayment of the amounts and consequently this amount is strictly repayable on demand. The interest receivable on intercompany loans is based on a rate composed of the current interest rate payable on the company's bond plus 0.5 per cent.

18 Current asset investments

	2018	2017
	£ 000	£ 000
Investments	-	9,553

Investments in short term deposits have an original maturity of greater than 3 months. At the balance sheet date the average maturity of the deposits was nil (2017: 4 months) . The average interest rate was nil (2017:0.63 per cent).

19 Creditors

	Group 2018 £ 000	Group 2017 £ 000	Company 2018 £ 000	Company 2017 £ 000
Amount falling due within one year				
Trade creditors	4,711	4,949	-	-
Amounts owed to group undertakings	-	-	147,228	152,370
Corporation tax	5,580	6,830	-	-
Other taxation and social security	744	1,543	9	-
Accruals and deferred income	65,252	64,341	4,334	4,289
	76,287	77,663	151,571	156,659
Amount falling due after more than one year				
Preference shares	15,384	15,384	15,384	15,384
Loans and borrowings	259,375	259,138	-	-
Accruals and deferred income	707	949	-	-
	275,466	275,471	15,384	15,384

The amounts owed to group undertakings are unsecured and there are no formal arrangements for the repayment of the amounts and consequently this amount is strictly repayable on demand. The interest payable on intercompany loans is based on a rate composed of the current interest rate payable on the company’s bond plus 0.5 per cent.

20 Loans and borrowings

	Group 2018 £ 000	Group 2017 £ 000	Company 2018 £ 000	Company 2017 £ 000
Non-current loans and borrowings				
Loans and borrowings	254,643	254,406	-	-
Net premium arising on lease and leaseback	4,732	4,732	-	-
Preference shares	15,384	15,384	15,384	15,384
	274,759	274,522	15,384	15,384

The corporate bond is repayable within 3 years. The other non-current loans and borrowings are payable in full after five years. Loans and borrowings are shown net of £1.357 million transaction costs (2017: £1.594 million)

21 Finance lease obligations

Group

The total of future minimum lease payments is as follows:

	2018 £ 000	2017 £ 000
Not later than one year	817	791
Later than one year and not later than five years	3,268	3,162
Later than five years	104,395	101,964
Total gross payments	108,480	105,917
Less: finance charges	(103,748)	(101,185)
Carrying amount of liability	4,732	4,732

Within the above certain leases include contingent rent clauses, see note 32 for further information.

22 Financial instruments

Group

The group's principal financial instruments comprise bonds, private placement senior notes and inter-company loans. The main purpose of these financial instruments is to raise and provide finance for the parent's and its subsidiaries operations. The group does not enter into any form of derivative financial instruments.

Funding

The group’s funding is provided by its £105 million 6.25 per cent, guaranteed bond issue, due for redemption on 22 February 2021, £30 million 4.472 per cent Series A Senior Note private placement maturing on 3 December 2023, £45 million 4.557 per cent Series B Senior Notes private placement maturing on 3 December 2028, £76 million 3.8 per cent Senior Note private placement maturing on 30 March 2041, £20 million loan facility and £46.4 million cash reserves.

Interest Rate Risk

The group’s £105 million sterling bond issue is fixed at an interest rate of 6.25 per cent. This equates to a rate of 6.349 per cent if the launch discount of 1.102 per cent is amortised back into the cash flow. The interest rates on both the Series A and Series B senior notes are fixed at 4.472 per cent and 4.557 per cent. The interest rate on the £76 million senior notes is fixed at 3.8 per cent.

The group’s financial instruments are all categorised as basic financial instruments under section 11 of FRS 102. The company has chosen not to measure the basic financial instruments at fair value through the Income Statement, therefore no further disclosures are required.

Fixed rate financial liabilities	2018 Years remaining	2017 Years remaining
Sterling: Private placement senior notes series A	6	7
Sterling: Private placement senior notes series B	11	12
Sterling: Bond	3	4
Sterling: Private placement senior notes	23	24

22 Financial instruments (continued)

Financial assets and liabilities measured at amortised cost	2018 £ 000	2017 £ 000
Trade receivables	8,353	9,380
Other receivables and accrued income	11,128	8,518
Current asset investments	-	9,553
Bonds	(104,541)	(104,398)
Private placement senior notes	(150,102)	(150,008)
Preference shares	(15,384)	(15,384)
Finance leases	(4,732)	(4,732)
Trade creditors	(4,711)	(4,949)
Other taxes and social security	(744)	(1,543)
Accruals	(58,207)	(57,721)

Company

The Company has financial assets of £106.033 million (2017: £125.714 million) and financial liabilities of £166.479 million (2017: £172.043 million) measured at amortised cost.

23 Provisions for liabilities

Group

	Other provisions £ 000	Deferred taxation £ 000	Total £ 000
At 1 April 2017	2,657	21,103	23,760
Release of existing provisions	(418)	(475)	(893)
Charged through statement of comprehensive income	-	1,869	1,869
Provisions used	(216)	-	(216)
At 31 March 2018	2,023	22,497	24,520

The group is fully committed to a positive environmental policy including the provision of a defined noise insulation scheme, financial penalties to support night flying restrictions and payments under the Land Compensation Act 1973 (LCA). Provisions are made in line with foreseen liabilities and a £2 million provision has been provided in the prior year for addressing potential LCA claims. This is intended to cover the costs of legal, property and administration expertise to process and defend any claims, as well as any actual liabilities which may be due. With regards to the noise insulation scheme, the future liability for the next twelve months is estimated at £0.2 million (2017: £0.2 million) and will be charged in the year to which it relates. There are no other provisions in the company (2017: none).

23 Provisions for liabilities (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2018	**Asset £ 000**	**Liability £ 000**
Capital allowances in advance of depreciation	-	(5,027)
Other timing differences	-	(1,931)
Post employment benefits	8,196	-
Revaluation of land, buildings and infrastructure	-	(22,812)
Revaluation of investment property	-	(923)
	8,196	(30,693)

2017	**Asset £ 000**	**Liability £ 000**
Capital allowances in advance of depreciation	-	(4,954)
Other timing differences	-	(2,195)
Post employment benefits	10,223	-
Revaluation of land, buildings and infrastructure	-	(23,588)
Revaluation of investment property	-	(589)
	10,223	(31,326)

The value of deferred tax liabilities expected to reverse in the next year is £0.528 million (2017: £0.511 million).

24 Post employment benefits

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £1.083 million (2017: £0.977 million).

24 Post employment benefits (continued)

Defined benefit pension schemes
Birmingham Airport Limited Pension Scheme

A subsidiary undertaking operates a defined benefit pension arrangement called the Birmingham Airport Limited Pension Scheme (the scheme). The scheme provides benefits on a defined benefit basis. The following disclosures relate only to the scheme and to unfunded benefits supported by the company.

The most recent full actuarial valuation was carried out with an effective date of 31 October 2015 using the projected unit method. During 2017/18 members pay 5.5 per cent of pensionable earnings, and the group pays contributions so that overall contributions of 18.4 per cent of pensionable earnings are paid taking account of salary sacrifice adjustments. Scheme expenses, other than life insurance premiums, are payable by the group.

On 28 March 2013, Birmingham Airport Limited agreed an asset backed funding arrangement with the trustees of the pension scheme to help address the pension funding deficit. In connection with the arrangement, property with a fair value of £33.3 million was leased and subsequently leased back to a limited partnership established by the group. The partnership is controlled by the group. On 28 March 2013, Birmingham Airport Limited made a special contribution to the pension scheme of £25.3 million and on the same day the pension scheme used this contribution to acquire an interest in the partnership for its fair value of £25.3 million. The interest entitles the pension scheme to a distribution from the income of the partnership of £2 million per annum, increasing by 4 per cent per annum for fifteen years, with distribution payments made quarterly.

Principal actuarial assumptions

The principal actuarial assumptions at the Statement of Financial Position date are as follows:

	2018 %	2017 %
Discount rate	2.70	2.80
Future salary increases	3.05	3.20
Future pension increases (RPI)	3.30	3.45
Future pension increases (CPI)	2.30	2.45

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	22.00	23.00
Current UK pensioners at retirement age - female	24.00	25.00
Future UK pensioners at retirement age - male	24.00	25.00
Future UK pensioners at retirement age - female	26.00	27.00

24 Post employment benefits (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2018 £ 000	2017 £ 000
Fair value of scheme assets	146,663	143,340
Present value of defined benefit obligation	(194,876)	(203,478)
Defined benefit pension scheme deficit	(48,213)	(60,138)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2018 £ 000	2017 £ 000
Present value at start of year	(203,478)	(158,480)
Current service cost	(1,661)	(1,283)
Interest cost	(5,653)	(5,888)
Actuarial gains and (losses)	11,084	(42,056)
Benefits paid	4,939	4,351
Contributions by scheme participants	(107)	(122)
Present value at end of year	(194,876)	(203,478)

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Fair value at start of year	143,340	122,344
Interest income	4,005	4,669
Actuarial (losses) and gains	(90)	12,008
Employer contributions	4,240	8,548
Contributions by scheme participants	107	122
Benefits paid	(4,939)	(4,351)
Fair value at end of year	146,663	143,340

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Cash and cash equivalents	995	1,012
Debt instruments	43,109	42,434
Equity instruments	63,173	60,169
Diversified growth funds	39,386	39,725
	146,663	143,340

Diversified growth funds are predominately made up of equity and debt instruments.

24 Post employment benefits (continued)

Return on scheme assets

	2018 £ 000	2017 £ 000
Return on scheme assets	3,915	16,677

The pension scheme has not invested in any of the company's own financial instruments.

Total cost recognised as an expense totalled £1.661 million (2017: £1.283 million) for current service cost and £1.648 million (2017: £1.219 million) for interest cost. Included in the service cost is £0.188 million (2017: £0.133 million) relating to salary sacrificed.

25 Called up share capital

Allotted, called up and fully paid shares

	2018 No. 000	2018 £ 000	2017 No. 000	2017 £ 000
A Ordinary shares of £0.01 each	315,083	3,150.83	315,083	3,150.83
B Ordinary shares of £0.01 each	8,910	89.10	8,910	89.10
C Ordinary shares of £0.01 each	1	0.01	1	0.01
1 special (non participating) voting share of £1 each	-	-	-	-
	323,994	3,240	323,994	3,240

The 'B' ordinary shares carry the same rights as the 'A' ordinary shares except they have no voting rights. The 'C' ordinary shares only have voting rights relating to the appointment or removal of directors. They are not entitled to participate in any dividend or any other distribution of income declared, made or paid by the company, but have full distribution rights on winding up. Preference shares carry no voting rights (see note 19). On a winding up of the company preference shareholders have a right to receive, in preference to payments to ordinary shareholders, 1p per share plus any accrued dividend. The holder of the special voting share is not entitled to participate in any dividend or any other distribution of income declared, made or paid by the company. On winding up, the holder of the special voting share has a right to receive the nominal value following payments to preference and ordinary shareholders.

26 Reserves

The merger reserve was created in 1997 when Birmingham Airport Holdings Limited aquired its interest in Birmingham Airport Limited and Euro-hub (Birmingham) Limited. The revaluation reserve was created in March 2016 when land, buildings and infrastructure assets were revalued, details are included in note 13. The revaluation reserve transfer relating to the additional depreciation incurred in the income statement as a result of this revaluation was £1.196 million (2017: £1.251 million).

26 Reserves (continued)

ESOP Shares

Birmingham Airport Holdings Limited is the sponsoring company of an ESOP Trust. 'B' ordinary shares to the value of £2.750 million were issued on 26 March 1997 by Birmingham Airport Holdings Limited.

The financial statements of the Trust are fully consolidated in the company's financial statements because the company is deemed to have a de facto control until such time as the shares held by the Trust vest unconditionally with the employees. A scheme has been agreed with HMRC under the All Employee Share Ownership Plan (AESOP) legislation with the first shares being bought by and gifted to employees in September 2001. The Trust bears its own expenses and has waived its right to the payment of a dividend in the year.

	Own Shares Number	Own Shares £000
Investment at 1 April 2017	5,122,578	3,220
Shares vested in employees	(262,511)	(165)
Shares purchased from employees	158,212	158
Investment at 31 March 2018	5,018,279	3,213

27 Dividends

	2018 £ 000	2017 £ 000
Final dividend of 5.50p (2017: 2.99p) per 1p share	17,523	9,547
Interim dividend of 4.01p (2017: 5.83p) per 1p share	12,784	18,582
	30,307	28,129

The directors are proposing a final dividend of 4.297 pence per share (2017: 5.499 pence per share) totalling £13.921 million (2017: £17.817 million). This dividend has not been accrued in the Statement of Financial Position.

28 Cash and cash equivalents

	Group		Company	
	2018 £ 000	2017 £ 000	2018 £ 000	2017 £ 000
Cash on hand	7	4	-	-
Cash at bank	703	1,569	648	726
Short-term deposits	45,709	41,173	-	-
	46,419	42,746	648	726

29 Note to the cash flow statement

	2018 £ 000	2017 £ 000
Cash flows from operating activities		
Profit for the financial year	26,401	29,386
Adjustments to cash flows from non-cash items		
Depreciation and other grant release	25,763	25,359
Changes in fair value of investment property	(3,022)	(814)
Profit on disposal of tangible assets	(7)	(34)
Profit on exceptional disposal of tangible fixed assets	-	(3,103)
Foreign exchange gain	(79)	-
Finance income	(173)	(266)
Finance costs	16,212	15,632
Income tax expense	8,078	8,731
	73,173	74,891
Working capital adjustments		
Decrease/(increase) in inventories	78	(109)
(Increase)/decrease in trade and other receivables	(1,319)	222
(Decrease)/increase in trade and other payables	(1,515)	11,862
Decrease in retirement benefit obligation net of actuarial changes	(2,580)	(7,265)
(Decrease)/increase in provisions	(576)	657
Cash generated from operations	67,261	80,258

30 Commitments

Group

Capital commitments

The total amount contracted for but not provided in the financial statements was £6.377 million (2017: £7.796 million).

Operating leases

The total of future minimum lease payments is as follows:

	2018 £ 000	2017 £ 000
Not later than one year	73	92
Later than one year and not later than five years	51	58
	124	150

The amount of non-cancellable operating lease payments recognised as an expense during the year was £0.150 million (2017: £0.218 million).

30 Commitments (continued)

Operating lease arrangements where the group is lessor

The future minimum rentals receivable under non-cancelling operating leases are as follows:

	2018 £ 000	2017 £ 000
Not later than one year	873	923
Later than one year and not later than five years	3,597	3,616
Later than five years	41,185	42,125
	45,655	46,664

These non-cancellable leases have remaining terms of between two and ninety four years. All leases include a provision for upward rent reviews in accordance with specific lease terms at prevailing market conditions.

31 Contingent liabilities

Group

On 13 February 2001, guarantees were provided by Birmingham Airport Holdings Limited, Birmingham Airport Limited and Euro-hub (Birmingham) Limited in support of a £105 million Corporate Bond issued by Birmingham Airport (Finance) plc. The bond is for a period of 20 years maturing on the 22 February 2021 and carries a fixed interest rate of 6.25 per cent per annum.

On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £75 million private placement senior notes issued by Birmingham Airport (Finance) plc. Series A senior notes of £30 million are for a period of ten years maturing on 3 December 2023 and carry a fixed interest rate of 4.472 per cent per annum. Series B senior notes of £45 million are for a period of fifteen years maturing on 3 December 2028 and carry a fixed interest rate of 4.557 per cent per annum.

On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76 million private placement senior notes issued by Birmingham Airport (Finance) plc. The notes are for a period of twenty five years maturing on 30 March 2041 and carry a fixed interest rate of 3.8 per cent per annum.

On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees to the Royal Bank of Scotland plc and Lloyds Bank plc in support of a £20 million banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 30 March 2021, with an option to extend by two further twelve month periods. At the date of signing these financial statements, the total amount outstanding under the facility was £nil.

32 Related party transactions

Birmingham City Council, Coventry City Council, Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Solihull Metropolitan Borough Council, Walsall Metropolitan Borough Council and Wolverhampton City Council ("The Districts") are shareholders. The dividends paid to The Districts in the year amounted to £16,063 million (2017: £14.983 million).

In 1995 Birmingham Airport Limited entered into an arms length lease arrangement with Solihull Metropolitan Borough Council on behalf of The Districts, all of which were shareholders in the company at that time. Under such arrangements, the company granted a 999 year lease over land and buildings situated at Birmingham Airport in exchange for a total fair value premium of £100 million and a peppercorn rent. At the same time the shareholders granted Birmingham Airport Limited a 150 year lease over the same property for a total fair value premium of £96.5 million.

The net premium arising as adjusted for associated stamp duty and legal costs has been treated as a finance lease in the financial statements of the group and is disclosed in Note 20. Under the lease arrangement, the company pays a basic rent of £0.6 million per annum from 1 April 2007 subsequently index linked each year for the remaining lease period. In addition, a turnover based rent is payable calculated as 0.4% of turnover less the basic rent in the period. The total amount payable in the year was £0.791 million (2017: £0.766 million). The amount at the end of the year was £4.732 million (2017: £4.732 million), all of which is due after more than one year.

In February 2002 the group completed a 150 year lease agreement with Birmingham City Council for land adjacent to the airport site. A lease premium of £0.2 million was paid with a peppercorn rent for the remaining lease term along with costs of £2,000. The lease payments have been treated as a finance lease in the financial statements of the group. The amount due at the end of the year was £nil.

Solihull Metropolitan Borough Council
Solihull Metropolitan Borough Council is the local authority for the airport and transacts with the Group in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arms length basis at a full commercial rate.

Birmingham City Council
In support of the A45 transport corridor improvement scheme the airport company is contributed circa £7 million as part of the cost of the realignment of the improved A45 corridor, there was an accrued creditor of £2.567 million relating to this transaction (2017: £2.567million).

Airport Group Investments Limited
Airport Group Investments Limited (AGIL) are shareholders and received dividends of £14.862 million during the year (2017: £13.798 million). The group has paid Airport Group Investments Limited £0.769 million during the year (2017: £0.937million) in respect of consortium tax relief.

33 Parent and ultimate parent undertaking

Birmingham Airport Holdings Limited is owned by the West Midlands District Councils, who hold 49 per cent of the ordinary shares, Airport Group Investments Limited, who hold 48.25 per cent of the ordinary shares and the Employee Share Ownership Plan who hold 2.75 per cent of the shares. No party or group of parties have ultimate control of the group.