

Birmingham Airport Holdings Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2020

Birmingham Airport Holdings Limited

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Birmingham Airport Holdings Limited

Company Information

Chairman	T Clarke
Chief Executive	N Barton
Directors	N Barton M A Bird T Chatfield T Clarke R Lawrence G E Richards E Ruane T M R G Silva D M Stanton P C Tilsley M R Toms
Company Secretary	F Penhallurick
Registered office	Diamond House Birmingham Airport Birmingham West Midlands B26 3QJ
Independent Auditors	PricewaterhouseCoopers LLP Chartered accountants and statutory auditors One Chamberlain Square Birmingham West Midlands B3 3AX
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

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020

The Directors present their strategic report for the year ended 31 March 2020.

Principal activity

The principal activity of the group is the operation and management of Birmingham Airport (“The 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.

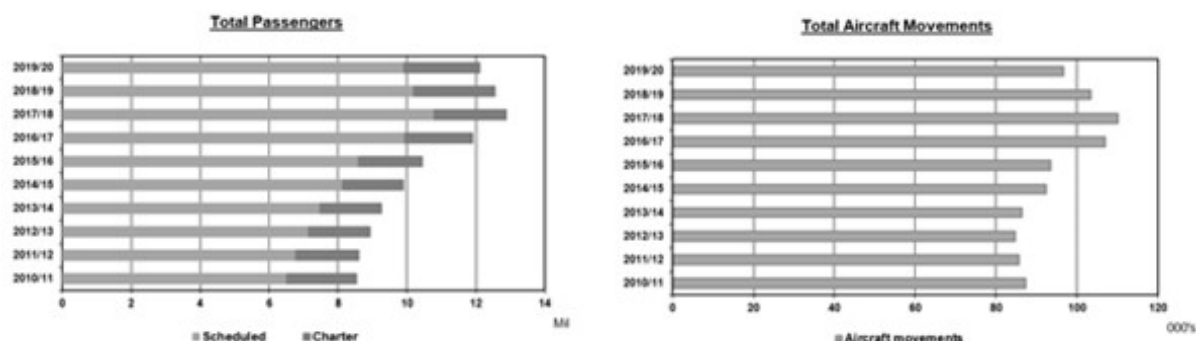
The Airport is a key economic accelerator for the Midlands region, providing the air connectivity vital for international trade, investment and employment, the growth of inbound tourism and access to outbound leisure destinations. 7,000 people are directly employed by companies located within the Airport boundary and a further 9,900 people are employed indirectly to supply goods and services to the Airport. The Airport’s net economic impact including catalytic effects in the region is estimated as £1.5 billion GVA (Gross Value Added) and 30,900 jobs.

Review of the business and future outlook

Market position and business environment

During the year, the Airport processed 12,120,236 passengers, a decrease of 3.3% on 2018/19 (12,533,727). The fall in passenger numbers was principally driven by a significant drop off in passengers in March 2020 as a result of Covid-19. In the 11 months prior to March, passenger numbers had increased 0.9% on 2018/19. The full year decline was driven by a 14.2% reduction in Charter passengers following the insolvency of Thomas Cook in September 2019, partially offset by a 1.5% growth in Low Cost passengers. The Airport was marginally ahead of the UK aviation market which saw a decrease for the same period of 3.4%.

Prior to Covid-19, the Airport grew 2.4% during the first half of the year and made substantial progress in the second half of the year to replace the passengers lost following the insolvency of Thomas Cook in September 2019, principally through Jet2 and TUI. However, Flybe went into Administration on 5 March and the UK Government advised against all foreign travel on 17th March 2020, resulting in a significant number of flight cancellations and reduced passenger numbers and leading to a full year decline against 2018/19. The most popular destination remains Dublin, followed by Dubai and Amsterdam.



Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Looking forward to 2020/21 we are forecasting a challenging year in light of the uncertainty created due to the Covid-19 pandemic for both the Airport and the Airlines operating within the Airport.

The priority throughout this pandemic is to ensure the business is able to maintain liquidity levels sufficient to support the Airport into the future, whilst ensuring we keep the Airport primed to return to full capacity as soon as travel restrictions are lifted.

A number of measures have been taken to preserve cash levels, including reduced runway operating hours, delaying the capital expansion programme, halting dividend payments and utilising the support offered by the Government through the Coronavirus Job Retention Scheme. It remains our intention to maintain a core level of operations, particularly to continue to support the Midlands region. The Airport also had a significant role in supporting the repatriation of both UK and International citizens.

Whilst the duration and impact of this pandemic is still unknown, we remain confident that at some point the pandemic will pass and the Airport will once again return to the levels of growth we have seen in previous years and be able to create a successful long term future for the Airport.

Future developments

Birmingham Airport is the preferred national and international aviation hub for the Midlands and our ambition is to build on this to become one of Europe's leading regional airports, acting as a key economic accelerator, delivering great service to passengers, and helping to showcase the region at the upcoming Coventry City of Culture in 2021 and Birmingham Commonwealth Games in 2022.

We understand that the significant social and economic benefits created by the Airport must be balanced with a sustainable operation. We take very seriously our responsibility to manage our impact on the environment and involve our local communities in the development of our significant projects through the Airport Consultative Committee, which includes resident associations and parish councils.

Our Master Plan, published in 2019, sets out £500 million of investment over the next 15 years to modernise and extend our facilities so they are fit for the future. The key elements of this investment are to expand and modernise our departure lounge, enlarge our passenger security search area and equip it with the latest x-ray equipment, introduce further self-service bag-drop technology at check-in, increase capacity in our baggage make-up hall and install additional arrivals baggage carousels.

Whilst we are still planning to carry out this investment, the impact of the Covid-19 pandemic on our passenger volume means that the investment programme will be re-appraised once the timing and rate of recovery in passenger volume becomes clear.

We published our Sustainability Strategy in November 2019 which set out the Airport's commitment to become a net zero carbon airport by the year 2033, prioritising zero carbon airport operations and minimising carbon offsets. Recognising that climate change is happening, we saw the need to set an ambitious target ahead of the UK's target, to reduce its carbon footprint further and quicker.

In addition to climate change mitigation, the strategy focuses on our priorities to reduce its other environmental impacts and make improvements in areas, such as local air quality, waste, supply chain and the circular economy, water and biodiversity.

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, retail, car parking, catering, property rental and recharges.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Aeronautical income declined by 3.5% during 2019/20 (including release of prior year provisions), with underlying income falling 1.3%. Income fell by more than passenger volume principally due to airline mix, with average Aeronautical yield per passenger declining by 0.2% to £5.21 (underlying £5.04) compared with £5.22 for the previous year.

Commercial income declined by 1.6%, but was 1.7% ahead of the decline in passenger volume. The car parking market remains highly competitive, with continuing price sensitivity in consumer behaviour and passengers maximising the use of the free drop off zone created in 2018, however passengers are taking advantage of the Airport's wide range of parking options across the estate. The food and beverage and retail estate at the Airport all traded ahead of the passenger decline, principally due to a full year benefit of the two new executive lounges opened in July and October 2018; the first airside M&S Food-to-Go store in the UK, together with Arrow Cars commencing operation as our first pre-bookable private hire operator.

Other increases in Commercial income came from a full year of carrying out hold baggage screening (HBS) labour services previously carried out by airlines, an insurance claim receipt for flood damage, increased charges for Passengers with Reduced Mobility (PRM) to drive improved service and equipment, and increased operation of our in-house aircraft refuelling facility, along with the first full year of our goods inwards Consolidation Centre.

Operating costs

Total operating costs before exceptional items increased by 5.0% to £116.3 million (2019: £110.8 million). Within this, employee costs increased by 1.3% due to salary increases and a targeted increase in staffing levels on key customer-facing processes to meet passenger demand and improve customer service levels. Non-staff costs increased by 6.7%, principally due to increased expenditure from flood remediation work (which has been recovered through an insurance claim), a full year of in-sourcing of the hold baggage screening (HBS) labour contract, increasing PRM equipment and service levels, and aviation marketing. This was partly offset by lower energy costs as a result of favourable pricing.

Depreciation increased 3.8% as a result of our capital programme. A doubtful debt provision was also made following the administration of Flybe and concerns over other operators at the Airport due to the pandemic.

One of our key performance indicators is Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA), which fell by 5.6% to £72.4m (2019: £76.6m), reflecting income decline principally driven by a significant drop off in passengers in March 2020 as a result of Covid-19, coupled with higher non-staff costs.

The group's operating profit, before exceptional items, reduced by 13.4% to £43.3 million (2019: £50.0 million), with the income decline exacerbated by higher operating costs and depreciation as well as an investment property fair value assessment decrease compared with an increase in the prior year.

The exceptional charge of £0.1 million (2019: £2.0 million) includes a charge for restructure costs. This resulted in a group operating profit, post exceptional items, of £43.2 million (2019: £48.0 million).

The group's net interest cost increased by £2.0 million to £17.9 million (2019: £15.9 million) as a result of full year impact of the 2019 private placement finance facility and the additional £85m facility entered into in January 2020.

The tax charge for the year was £6.8 million (2019: £6.4 million), including a corporation tax charge of £7.0 million (2019: £7.4 million) and a deferred tax credit of £0.2 million (2019: £1.0 million credit). This equates to an effective tax rate of 26.8% (2019: 19.9%) which is higher than the ordinary rate of UK corporation tax, reflecting the past ineligibility of industrial buildings for tax allowances.

During the year, a final dividend was paid of £14.6 million for the year ended 31 March 2019 (2019: £13.7 million) and an interim dividend of £11.4 million was paid in December 2019 for the year ended 31 March 2020 (2019: £11.8 million). This resulted in a total dividend of £26.0 million (2019: £25.5 million).

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

The directors recommend that no final dividend payment be made in respect of the financial year ended 31 March 2020 due to the uncertainty facing the Airport as a result of the Coronavirus pandemic.

Capital expenditure

Cash outflow for capital projects amounted to £32.8 million (2019: £31.5 million). The main projects in the year related to the initial works associated with the terminal extension, the outbound baggage system upgrade, and increasing arrivals baggage capacity. We have also continued to invest in the Airport's infrastructure and completed the upgrade of our IT network.

We continually invest in our vehicle fleet and purchased six ultra-low emission Volvo 7900e electric buses to provide passengers with modern transport from our car parks to the Airport terminal as well as reducing the Airport's carbon emissions. This is the latest in a series of environmental investments which has seen our carbon emissions reduce by approximately 30% since the programme started in 2012/13.

The sale of vehicles and plant assets generated £0.025 million (2019: £0.066 million).

Cash flow

During the year, the group generated cash of £62.4 million from operating activities (2019: £70.8 million). Corporation tax paid increased by £3.6 million due to being a transition year in the new payment structure, therefore paying 50% of 2018/19 and full year estimate of 2019/20, whilst interest paid increased by £2.1 million due to the interest and associated costs of the £90m private placement senior notes issued in January 2019 and £85m issued in January 2020. The overall net cash position has increased by £86.2 million (2019: £79.5 million increase) to £212.1 million (2019: £125.9m), mainly reflecting the £85m Private Placement funds and £25m Revolving Credit Facility drawdown less capital expenditure of £32.8 million, dividend payments of £26.0 million and Pension Deficit Repair Contributions of £3.2 million. Looking forward, the group has a strong liquidity position to meet its ongoing liabilities as and when they fall due.

Security

Whilst the UK threat level was downgraded in November 2019 from Severe to Substantial, work continued within the Security department to ensure our site remains safe and secure in the context of the current threat environment.

We work very closely with the Department for Transport, the Civil Aviation Authority, West Midlands Police, Border Force, the Centre for the Protection of National Infrastructure and other agencies to continuously improve our Security Excellence Culture, focussing on personnel, equipment and processes to maintain high security standards and proactively address emerging security threats.

Our security procedures are subject to rigorous internal and external audits by regulators and internal teams, to regularly test their effectiveness and identify opportunities for improvement. An accreditation was received from the CAA in recognition of our effective Security Programme and its internal quality assurance.

There was a focus on Continuous Improvement during the year, with several initiatives contributing to the overall achievement of all departmental KPIs. Further improvement work included the commencement of a review of the Operating Model within the Terminal Operations function and the full review of the Hold Baggage Screening and Airfield Security provision to ensure best value was being extracted.

Our IT system security, particularly the security of our customer data, is extremely important to us. We have extensive defences within our IT and network infrastructure and continuously review and upgrade our network to the latest security standards. During the year we have continued to build on our compliance with the General Data Protection Regulations (GDPR), adding measures to ensure compliance is robust and embedded into the culture of Birmingham Airport.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Health and Safety

Birmingham Airport is committed to providing a safe and secure workplace and operational environment for all who use the Airport. Our Occupational Health and Safety Management System is being developed in order to transition from OHSAS 18001 to the new ISO 45001 standard, with a target of achieving certification in Spring 2021.

Under our 'Safety Culture Excellence' vision statement we have delivered on our key Health, Safety and Fire objectives which included the implementation of a near-miss reporting app and we have had success reducing the number of passenger incidents associated with the use of escalators. These initiatives have resulted in us being short-listed as finalists at the prestigious Safety and Health Excellence (SHE) awards in the categories of Project of the Year and Health and Safety Team of the year. The awards are due to take place in September 2020.

There were 117 staff accidents during the year (2018/19: 105) The accident frequency rate was 7.20 accidents per 100,000 hours worked (2018/19: 6.61). The lost time injury frequency rate for the year was 0.80 lost time accidents per 100,000 hours worked (2018/19: 0.57). It is likely that the increase in accidents is down to an ongoing campaign aimed to encourage more reporting as well as an open-door policy in regard to safety concerns.

To accelerate the development of an even stronger safety culture a Control of Contractors office (CoCo) was established in the Autumn of 2019. The purpose of CoCo is to manage the Permission to Work process for all construction and maintenance activities which take place at the Airport. This requires contractors to demonstrate adequate skills, knowledge and experience, and provide risk assessments and local operating procedures prior to undertaking works.

Greenhouse Gas Emissions, Energy Consumption and Energy Efficiency Action

Birmingham Airport is committed to becoming a net zero carbon Airport by 2033, prioritising zero carbon Airport operations and minimising carbon offsets. We have voluntarily measured our carbon footprint since 2012/13 and have reduced emissions by 9,400 tonnes, or approximately 30%, since this time.

Our Greenhouse Gas (GHG) Emissions footprint has been calculated using guidance issued by the Department for Environment, Food and Rural Affairs (DEFRA). A full report on the GHG emissions calculations and more information on our carbon reduction measures can be found on our website.

Carbon footprint

Gas and electricity used by tenants and retail concessions are excluded from our calculations to avoid double counting as they are reported under the Streamlined Energy and Carbon Reporting Regulations by these third party companies.

Information provided is for the Airport's Scope 1 and Scope 2 emissions, with Scope 1 being direct emissions from sources that the Airport owns or controls and Scope 2 being indirect emissions from the generation of purchased electricity where the emissions are generated externally but attributed to energy consumption by Birmingham Airport.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Intensity ratio

Carbon emissions have also been normalised against passenger numbers as this, in our view, is the most relevant ratio for the Airport.

Energy Usage & Tonnes of CO₂e by Emissions Type				
Emissions Type	2019/20		2018/19	
	Energy Usage (kWh/ litres/kg)	Tonnes of CO ₂ e	Energy Usage (kWh/litres/kg)	Tonnes of CO ₂ e
Scope 1 (Gas)	18,265,628 kWh	3,358	17,668,983 kWh	3,250
Scope 1 (Fuel – owned transport)	258,157 litres	673	250,559 litres	662
Scope 1 (Fuel – diesel generators)	42,867 litres	111	46,948 litres	139
Scope 1 (Refrigerants)	84.4 kg	176	56 kg	117
Scope 1 (total)	-	4,319	-	4,168
Scope 2 (purchased electricity)	23,459,285 kWh	5,996	23,503,596 kWh	6,653
Totals	-	10,315	-	10,821

kg CO₂ per passenger – Scope 1 and 2 emissions				
Year	Passenger Numbers	Scope 1	Scope 2	Total
2018/19	12,533,727	0.33	0.53	0.86
2019/20	12,120,236	0.36	0.49	0.85

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Energy Efficiency Actions

A summary of our actions is set out below and more information can be found on our website.

Carbon Reduction Actions	
Investment in smart meter technology	Smart meters are the basis of our energy management system. Automatic readings are taken across the Airport site, allowing for detailed monitoring and for targeted energy reduction initiatives.
Building Management System	This allows us to monitor and review individual meters and energy usage across the airport site, giving us control over temperatures at set site areas at different times of the day and year. Through this more efficient management of our heating and cooling systems, we are able to reduce energy consumption.
LED lighting replacement programme	LED lighting has been installed across numerous areas of the airport site and car parks and we are continuing to invest in LED lighting across the site.
Fleet renewal programme	We are working to replace older, less energy-efficient vehicles with electric and hybrid vehicles.
Electric Buses	In 2019 Birmingham Airport became one of the first UK airport to employ electric buses for landside operations. These buses provide an 80% lower energy consumption in comparison to an equivalent sized diesel bus.
Working with Sustainable Aviation	We work in partnership with Sustainable Aviation, including on their CO ₂ Roadmap, which details how the aviation industry can achieve the target of halving CO ₂ emissions by 2050, compared with 2005 levels despite predicted passenger and freight growth.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Statement by the Directors on performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of Birmingham Airport Holdings Limited have acted in a way they consider to be most likely to promote the success of the group for the benefit of its members as a whole in the decisions taken during the year ended 31 March 2020.

(i) the likely consequences of any decision in the long term

The Airport's Master Plan, published in 2019, sets out our strategy for the Airport over the next 15 years within the context of the Midlands region. This important strategic document guides our internal decision-making and how we work with our many stakeholders to balance sometimes competing priorities and find mutually acceptable ways forward.

(ii) the interests of the group's employees

Our employees are fundamental to the delivery of our Master Plan and our day-to-day operations. The Health and Safety of our employees is our number one priority, supported by our dedicated Health and Safety team. Employee development is also a key factor and we have launched a number of additional training initiatives to support our employees through their development. In addition, we carry out annual employee surveys, with increasing participation levels, which have led to the implementation of additional initiatives to further improve our employee experience going forward.

(iii) the need to foster the group's business relationships with suppliers, customers and others

We know that a great customer experience is not only about our facilities but also how our staff operate every day to consistently deliver a great service. During the year, we carried out a number of customer focussed upgrades to the terminal facilities and increased staffing levels and training, all with the aim of delivering the service our passengers expect. A primary focus has been on reduced queuing times. The Airport benchmarks well against our competitors, particularly for the helpfulness of our staff and those of our Airport partners.

We work closely with the business community across the region, including major corporates, the Chambers of Commerce and travel management companies, to understand their plans and make sure we are meeting their demand for additional destinations and frequency of service. We carry out extensive analysis of the destinations flown to by residents in our catchment area but departing from other UK airports, using this to inform our future aviation strategy.

We have strong relationships with a wide range of airlines from each of the three leading airline alliances (Star Alliance, Oneworld & SkyTeam) serving domestic, short-haul and long-haul markets. We provide a diverse and balanced choice of scheduled, low cost and charter flights. Our Aviation Development team regularly engage with existing airline partners and with potential new carriers to Birmingham, raising their awareness of the Midlands and focussing their attention on the opportunities to fulfil route demand from our region.

We consider our supply chain as critical to enabling the Airport to achieve its objectives. The Procurement Strategy seeks to segment our supply chain by criticality and level of expenditure so that procurement activities can be focused on delivering best practice supply chain solutions which represent value for money, are innovative and have an emphasis on sustainability and health and safety and deliver outcomes which meet our requirements. Through the delivery of effective procurement, there is also a commitment to engaging with local small and medium enterprises with a recognition of the need to be socially responsible.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

(iv) the impact of the group's operations on the community and the environment,

We take our community responsibilities seriously and work closely with local residents, represented through our Airport Consultative Committee, on a wide range of projects and initiatives. The Airport makes annual contributions to a Community Trust Fund, and its independent trustees allocate the funds to worthwhile causes in the areas surrounding the Airport. We also have a partnership with Solihull Council on the Youth Promise Plus Programme and operate a Learning Hub in partnership with the Schools of King Edward VI in Birmingham, supporting young people in gaining valuable experience of the aviation industry.

We also take our environmental responsibilities very seriously across all areas such as noise, carbon reduction, water and waste.

Managing noise is our top priority and we have implemented a comprehensive Noise Action Plan to address issues of noise and track-keeping, noise monitoring and community complaints about aircraft noise. We listen to our neighbours to understand attitudes to aircraft noise and, in partnership with community representatives, have developed a new night flying policy which is among the most stringent in the UK.

We are striving continually to become much more carbon efficient and, building on the significant reduction in carbon emissions we have already achieved, we published our sustainability strategy in November 2019 which includes challenging targets for further reductions.

As part of this strategy we have committed to becoming a net zero carbon Airport by 2033, prioritising zero carbon Airport operations and minimising carbon offsets. A number of the proposed developments in the Master Plan will help deliver these environmental improvements.

Our strategy is to make the best use of our existing runway, in line with the Department for Transport's policy. The investment planned for the Airport focuses on ensuring that we maximise the potential of the existing site and runway.

(v) the desirability of the group maintaining a reputation for high standards of business conduct, and

The Airport is a public-private partnership that has a high profile and generates significant public interest, particularly in the Midlands region. This makes it particularly important that the standards of business conduct are maintained at a high standard. This is achieved through a suite of group policies which are regularly reviewed and subject to internal audit, reporting to the Board through the Audit Committee.

(vi) the need to act fairly as between members of the group.

The relationship between the Group and its members is primarily guided by a Shareholder Agreement and the trust deeds which govern the employee share scheme. The limited number of members also enables each to be represented on the Board of Directors.

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.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Assessment of principal risks and uncertainties

Interest Rate Risk

The group's policy is to maintain an appropriate mix of credit facilities within Board approved parameters. The interest costs are fixed for the long-term borrowings, with the only variable interest costs being on the revolving credit facility which was fully drawn down in March 2020, as part of the contingency planning as a result of the Covid-19 pandemic. The group has considered and remains satisfied with its 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. Throughout the year, cash is invested in the money market which, whilst exposing the group to interest rate risk, does maximise returns, whilst maintaining 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 cash or committed facilities to meet anticipated funding requirements, whilst ensuring that the group is not exposed to excessive refinancing in any one year. The £45 million committed Private Placement and £211.4 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 frequent 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.

Cost 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. In the current environment of Covid-19 agreement has been reached with unions and employees that there will be no inflationary increase in the coming financial year. Other cost exposures relate to general market inflation and building costs during periods of expansion, the programme for which has been significantly reduced.

Competition Risk

The key competitive risks are passengers and/or airline operators switching to other airports. These risks are mitigated by maintaining strong relationships with our airline customers and through continuous improvements targets to improve the customer experience.

Covenant Risk

The group continues to comply with its financial covenants and confirms that there has been no breach of any of the financial covenants relating to net worth, gearing and interest cover which are required by 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, with auditor certification of the year-end position for the bond and bank facility.

A prolonged period of traffic disruption from Covid-19 could cause future covenant breach and agreement has been reached with lenders to waive compliance with these covenants at the next two testing dates of 30 September 2020 and 31 March 2021. A new testing date of 30 June 2021 has been introduced along with monthly reporting and a six-month forward liquidity covenant.

Birmingham Airport Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (*continued*)

Covid-19 Risk

The Covid-19 pandemic has had a devastating impact on global aviation, and it is unclear how quickly the industry will recover from the crisis. By mid-April the number of commercial flights globally had reduced by 75% and European passenger traffic had fallen by 96%. The economic impact of the pandemic is expected to result in declining GDP for the majority of the advanced economies in 2020.

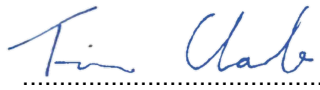
The speed of any recovery is very uncertain, with a host of factors including travel restrictions, passenger perception of safety, consumer confidence and the general economic outlook all likely to affect the demand for air travel. In addition, the financial impact of the crisis could result in more airline failures or contraction in airline capacity, with a number of airlines already announcing large redundancy programmes.

Brexit Risk

A Brexit impact on the UK economy, that could lead to a more challenging economic environment and a period of slower than expected passenger growth, remains a significant concern, although presently overshadowed by the current Covid-19 pandemic. The Board and the management team remain very aware of the risks facing the industry and are therefore working closely with the airlines and other stakeholders to actively manage these risks.

Following the exit from the EU on 31 January 2020, the UK has entered a transition period until 31 December 2020, during which the future UK-EU relationship is determined. At this stage the future relationship with the EU remains uncertain but the UK Government has previously been clear that its aim is to ensure continued transport connectivity with the EU in support of successful economic and social ties. During the transition period there are no changes to the operation of UK flights within the EU, but at this stage it has not been confirmed how air transport will operate beyond 2020.

Approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



T Clarke
Chairman



F Penhallurick
Company Secretary

Birmingham Airport Holdings Limited

Directors' Report for the Year Ended 31 March 2020

The Directors present their report and the audited financial statements of the group and company year ended 31 March 2020.

Future developments, dividends and financial risk management

The Strategic Report on pages 2 to 12 includes details of the Group's financial performance, dividends, future developments, stakeholder engagement, financial risk management objectives and policies, and its greenhouse gas emissions, energy consumption and energy efficiency action.

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, unless otherwise stated, were:

N Barton - Chief executive

M A Bird

T Chatfield

T Clarke - Chairman

J A Foster (resigned 3 July 2019)

K J Hicks (appointed 6 November 2019 and resigned 1 July 2020)

S Masters-Clark (appointed 3 July 2019 and resigned 1 July 2020)

R McClean (resigned 6 November 2019)

J D McNicholas (appointed 3 July 2019 and resigned 1 July 2020)

W Nazir (resigned 23 September 2019)

R F Piper (resigned 1 July 2020)

G E Richards

T M R G Silva

G Singh (resigned 1 July 2020)

D M Stanton

P C Tilsley

M R Toms

D S Welsh (resigned 3 July 2019)

W Zaffar (resigned 1 July 2020)

The following directors were appointed after the year end:

R Lawrence (appointed 1 July 2020)

E Ruane (appointed 1 July 2020)

Company Secretary

F Penhallurick

Directors liabilities

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained Directors' and Officers' liability insurance in respect of itself and its Directors throughout the financial year.

Birmingham Airport Holdings Limited

Directors' Report for the Year Ended 31 March 2020 (*continued*)

Going concern

The Directors have reviewed the prospects for the Group and Company to March 2022 (twenty-four months from the balance sheet date) in the context of the ongoing Covid-19 pandemic and the insolvency of Flybe in March 2020. At the balance sheet date the Group had very strong liquidity, with a cash balance of £212 million. Following the issuance of private placement notes the cash balance at 31 May 2020 had risen to £243 million. Actions taken to reduce expenditure have led to cash outflows in April and May 2020 averaging £6.8 million per month. Therefore, on a simple basis, after taking into account the maturity of the £105 million bond in February 2021, the Group has sufficient cash to operate for over 18 months from the date of signing these financial statements.

The Directors have also considered the significant uncertainties facing the Group over the next two years and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response.

In assessing the going concern position, the Directors have considered:

- the potential impact of Covid-19 on the group's cash flow and liquidity over the next 24 months, and
- the associated impact on the covenants in the Group's financing arrangements.

Due to the uncertainty over when UK and international travel restrictions will be lifted, along with the uncertainty over airlines capacity plans and passenger demand, in addition to a base case scenario of 5.9 million passengers in 2020/21 and 9.9 million passengers in 2021/22, severe but plausible scenarios assume up to 6 months of negligible activity and revenues (between April and September 2020) followed by a recovery over the following 12 months to between 55% and 85% of the annual volume up to February 2020. The lowest scenario is a prudent downside case which assumes only 14% of previous volumes in 2020/21 and 45% in 2021/22 to assess liquidity and covenants in these circumstances.

The Group and its Directors have proactively reduced cash outflows in both operating and capital expenditure and have utilised the Government's Coronavirus Job Retention Scheme to fund the cost of the two-thirds of employees who have been furloughed.

The Directors have also taken steps to secure liquidity for at least the next 12 months by fully drawing the Group's £25 million revolving credit facility in March 2020 and by bringing forward the issuance of £45 million of private placement notes from December 2020 to May 2020. The maturity of the £105 million corporate bond in February 2021 is fully funded and the Group has no further maturities.

In addition, waivers on covenant compliance have been granted by lenders to avoid events of default arising from the potential failures against the leverage and interest cover tests at September 2020 and March 2021. A new testing date has been introduced for June 2021 along with a six months forward liquidity covenant, which is tested monthly.

It is the June 2021 covenant test which therefore represents the key uncertainty in the going concern assessment because compliance relies on the timing and pace of recovery in the sector. The Group forecasts to pass this covenant test under the base case scenario with 9.9 million passengers in 2021/22. The Group forecasts to retain a satisfactory cash balance but will not comply with EBITDA-based covenant ratios unless passenger volumes and revenues recover quickly enough, as forecast in the downside scenarios. If this pace of recovery is not quick enough then a combination of a further waiver and shareholder support will be required to avoid a covenant breach or alternative funding will need to be secured, which is not certain.

The Directors have kept shareholders fully informed regarding the projected finances of the Group and the risks around the lending covenants. Shareholders are fully supportive of actions taken to date and are ready to engage in further discussion should more tangible support be required in due course.

Birmingham Airport Holdings Limited

Directors' Report for the Year Ended 31 March 2020 (*continued*)

Going concern (*continued*)

After due consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis. However, the impact of the Coronavirus pandemic on the ability of the Group to meet its covenant tests and to take corrective measures should it not be able to do so, represent material uncertainties that may cast significant doubt on the Group's and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustment that would arise if the financial statements were not drawn up on a going concern basis.

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 are committed to being a Disability Confident employer. 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.

Reappointment of auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



.....
T Clarke
Chairman



.....
F Penhallurick
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 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 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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.

Approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



F Penhallurick
Company Secretary

Birmingham Airport Holdings Limited

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 2020 and of the 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.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2020; the consolidated income statement and statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and 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.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern - Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's and Company's ability to continue as a going concern. The Group has external debt facilities in the form of a £105 million corporate bond, £326 million of private placement loan notes, and a bank loan of £25 million. The terms of the debt agreements require the Group to comply each year with various covenant tests at 30 September and 31 March. In light of the outbreak of the Covid-19 pandemic, the directors have reached agreement for covenant requirements to be waived at 30 September 2020 and 31 March 2021, with an additional testing date of 30 June 2021 being introduced. The directors have prepared a base case forecast which indicates the Group would be able to meet its covenant tests at 30 June 2021. The directors of the Group have performed sensitivity analysis on the forecasts approved by the Board to assess the potential impact of severe but plausible downside scenarios. The Group forecasts to retain a satisfactory cash balance but will not comply with EBITDA-based covenant ratios unless passenger volumes and revenues recover quickly enough, as forecast in the downside scenarios. If this pace of recovery is not quick enough then a combination of a further waiver and shareholder support will be required to avoid a covenant breach or alternative funding will need to be secured, which is not certain. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

Audit procedures performed

In concluding there is a material uncertainty, our audit procedures evaluated the Directors' assessment of the impact of Covid-19, and the effect that this would have on the availability of cash and covenant adherence. Our response to the matter was to perform the following procedures:

- Obtained from management their cash flow forecasts for a period of not less than 12 months from the date of approval of these financial statements, and discussed these forecasts to understand the base case and downside scenarios;
- Assessed the forecasts prepared by management through challenge of forecasted passenger numbers, turnover and EBITDA by corroboration with aviation experts;
- Understood mitigating actions management could initiate to ensure compliance with debt covenants and determined whether they were within the control of the directors and could be taken on a timely basis;
- Evaluated the adequacy of disclosures made in the Directors' report and financial statements in view of the requirements of relevant accounting standards.

Our audit approach

Overview



- Overall group materiality: £1.74m (2019: £1.86m), based on 2.5% of earnings before interest, tax, depreciation and amortisation.
 - Overall company materiality: £1.20m (2019: £1.30m), based on 1% of total assets constrained by the allocation of component materiality to the company.
-
- Birmingham Airport Limited is the financially significant component, upon which a full scope audit of complete financial information has been performed
 - Birmingham Airport Holdings Limited and Birmingham Airport (Finance) PLC are included to ensure adequate coverage of external balances, including debt. A full scope audit of complete financial information has been performed for both of these entities.
-
- Going concern (Group and Company)
 - Impact of Covid-19 on the financial statements (Group and Company)
 - Revaluation of tangible assets, including land and buildings, infrastructure and plant and machinery (Group)
 - 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)
-

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

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. As in all of our audits we also addressed the risk of management override of internal controls, including 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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impact of Covid-19 on the financial statements (Group and Company)</i></p> <p>Impact of Covid-19 on the financial statements (Group and Company)</p> <p>The outbreak of the Covid-19 pandemic has had an impact on the operational and financial performance of the Group.</p> <p>The UK Government advised against all foreign travel on 17th March 2020, resulting in a significant number of flight cancellations and reduced passenger numbers. Management has therefore considered the impact of Covid-19 on its financial statements and within its going concern assessment for the Group and company.</p> <p>Management considered the length and severity of the impact from Covid-19, including availability of cash and external debt facilities, as well as adherence to the covenant requirements of its external debt facilities. Forecasts have been prepared to assess the impact for the Group, with relevant disclosures being included within the financial statements.</p> <p>The Group holds land, buildings and infrastructure at valuation. These assets were revalued in FY19, however the accounting policy requires an annual assessment to confirm there is no significant difference between the carrying and fair value of these assets. In addition, investment properties are required to be annually revalued. The impact of Covid-19 had the potential to materially change the valuation of assets held under revaluation policy, and management therefore obtained advice from external valuation experts and revalued certain assets, including relevant disclosures within the financial statements. A downwards revaluation of £2.2m of tangible fixed assets and £1.6m of investment property has been recognised in the financial statements.</p> <p>The uncertainty arising within the aviation and leisure industry increased the focus on the ability of the Group to recover debtor balances outstanding at the period end. Management assess the level of allowance for doubtful debts required at each reporting date considering specific factors relating to individual debtors. There was a greater level of judgment at 31 March 2020 due to the impact of Covid-19. Provisions for trade debtor balances of £2.1m have been recognised in the financial statements.</p> <p>Please see Note 2: Accounting Policies "Going concern", "Tangible assets", "Trade debtors"; Note 3: Critical accounting judgements and estimations of uncertainty, and; Note 14: Tangible assets, Note 15: Investment property, and Note 18: Debtors.</p>	<p>Conclusions reached in respect of going concern are detailed within the "Material uncertainty related to going concern" section of this audit opinion.</p> <p>Conclusions reached in respect of asset valuations are detailed within the "Revaluation of tangible assets, including land and buildings, infrastructure and plant and machinery" key audit matter.</p> <p>Our audit procedures to assess the recoverability of trade debtors included the following:</p> <ul style="list-style-type: none">• Obtaining an understanding and assessing the Group's key internal controls over the processes of credit control, collection of trade debtors and follow up of overdue balances;• Evaluating the Group's policy for making allowances for doubtful debts with reference to the requirements of the relevant accounting standards;• Testing, on a sample basis, the collection of post year end settlement of trade debtor balances;• Challenging management's rationale to support the level of provision held against uncollected amounts. <p>Based on the above procedures, we consider the impact of Covid-19 on the financial statements to have been reflected appropriately.</p>

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

Key audit matter	How our audit addressed the key audit matter
<p><i>Revaluation of tangible assets, including land and buildings, infrastructure and plant and machinery (Group)</i></p> <p>The group has adopted a revaluation policy in respect of land and buildings and infrastructure. These categories total £384.2m. The revaluation reduction in the year to 31 March 2020 totalled £2.2m.</p> <p>We focussed on this area due to the inherent complexity and the extent of judgement required in order to assess the fair value of these tangible assets, both in respect of the underlying methodology used and the assumptions key to the calculation of the fair value.</p> <p>This represented a significant audit risk following the outbreak of Covid-19 and the potential impact on asset carrying values.</p> <p>Please see Note 2: Accounting Policies "Tangible Assets", Note 3: Critical accounting judgements and estimations of uncertainty "Tangible Assets" and Note 14: Tangible Assets.</p>	<p>We have obtained management's fair value assessment in respect of land and buildings and infrastructure.</p> <p>We have performed the following procedures in relation to the revaluation:</p> <ul style="list-style-type: none">- Gained an understanding of the Group's internal controls and performed an evaluation of these through walkthrough procedures;- Understood management's process for assessing the fair value of assets held under a revaluation policy;- Assessed the revaluation methodology adopted by management and its application to the asset categories revalued;- Assessed the professional competency of management's experts used in the revaluation of tangible assets;- Consulted with PwC property valuation experts to independently challenge the advice provided by management's expert; and- Confirmed that all required disclosures are included within Note 14: Tangible Assets <p>Based on the procedures performed we are satisfied that the revaluation of tangible assets is materially accurate, and all relevant disclosures have been included within the financial statements</p>

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

Key audit matter	How our audit addressed the key audit matter
<p><i>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</i></p> <p><i>(Group)</i></p> <p>Tangible assets total £484.3m and account for 66% of the Group's Total Assets. Capital spend in the year amounted to £37.3m.</p> <p>We focussed on this area due to the complexity, and judgements and estimates taken by management during the process.</p> <p>Major capital projects consist of a large number of separate invoiced and labour costs that are recorded within the accounting system in assets in the course of construction. The timing of project finalisation and transfer to available for use requires judgement, and the process for transfer is heavily reliant on manual intervention.</p> <p>Tangible assets are specialised and can require estimates from management with respect to useful economic lives and residual values (if any).</p> <p>Please see Note 2: Accounting Policies "Tangible Assets" and Note 14: Tangible Assets.</p>	<p>We obtained a schedule detailing tangible asset additions to Assets in the Course of Construction ("ACC") and transfers from ACC to the relevant tangible asset categories of land and buildings, infrastructure and plant and machinery.</p> <p>We gained an understanding of the Group's internal controls and performed an evaluation of these through walkthrough procedures.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none">- Detailed testing on a sample of tangible asset additions to ACC confirming their existence, accuracy and their correct capitalisation in accordance with the Group's accounting policy under FRS 102;- Performed detailed testing on the timing of transfer from ACC to the relevant tangible asset categories of land and buildings, infrastructure and plant and machinery. We confirmed that depreciation had commenced on transfer;- Evaluated management's assessment of the useful economic lives for tangible assets through lookback procedures on disposals through sale or scrap to identify any significant profits or losses on disposal;- Reviewed the useful economic lives assigned to a sample of transfers and confirmed these were consistent with both the specifications of the relevant assets, and the Group's accounting policy under FRS 102;- Performed physical asset verification to both confirm the existence of the assets and also to identify any asset impairment triggers through lack of use or damage; and- Considered impairment, both due to capital additions rendering existing assets obsolete, and also for impairment triggers for tangible assets based on the performance of the airport. <p>As a result of our procedures performed we are satisfied that the tangible asset balance carrying value, and presentation and disclosure is materially accurate.</p>

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

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.

Birmingham Airport Holdings Limited group has 13 statutory entities incorporated in England and Scotland. The group comprises one main trading entity: Birmingham Airport Limited which operates and manages Birmingham Airport, and the facilities and services associated with its operation. The remaining active entities comprise intermediate holding companies, smaller trading entities, property holding companies and Birmingham Airport (Finance) PLC which obtains external debt to distribute within the group. The group finance function is based in the UK and the operating decisions are made in the UK by the group Board of Directors.

There was only one financially significant component of the consolidation with respect to the chosen benchmark of EBITDA; Birmingham Airport Limited. Birmingham Airport Holdings Limited and Birmingham Airport (Finance) PLC were considered to be in scope due to specific external balances held within these entities. There was no use of shared service centres as the group operates as one function and all work is performed by one group engagement team.

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	£1.74m (2019: £1.86m).	£1.20m (2019: £1.30m).
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation.	1% of total assets constrained by the allocation of component materiality to the company.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, earnings before interest, tax, depreciation and amortisation is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	Total assets considered to be the primary measure used in assessing the performance of the entity, and is a generally accepted auditing benchmark.

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

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 £1.20m and £1.60m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £87,000 (Group audit) (2019: £93,000) and £60,000 (Company audit) (2019: £65,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 and Directors' Report, 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 2020 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.

Birmingham Airport Holdings Limited

Independent Auditors' Report to the members of Birmingham Airport Holdings Limited (*continued*)

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 in respect of the financial statements set out on page 16, 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.

Birmingham Airport Holdings Limited

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

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.



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

10 July 2020

Birmingham Airport Holdings Limited

Consolidated Income Statement for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	4	159,591	160,790
Administrative expenses		(116,329)	(110,813)
Exceptional administration expenses	5	<u>(105)</u>	<u>(1,974)</u>
Total administrative expenses		<u>(116,434)</u>	<u>(112,787)</u>
Operating profit	6	<u>43,157</u>	<u>48,003</u>
Interest receivable and similar income	11	1,019	375
Interest payable and similar expenses	12	<u>(18,935)</u>	<u>(16,287)</u>
Profit before taxation		25,241	32,091
Tax on profit	13	<u>(6,754)</u>	<u>(6,388)</u>
Profit for the financial year		<u><u>18,487</u></u>	<u><u>25,703</u></u>

Birmingham Airport Holdings Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2020

	2020	2019
	£ 000	£ 000
Profit for the financial year	<u>18,487</u>	<u>25,703</u>
(Deficit)/surplus on tangible assets revaluation	(2,162)	20,245
Deferred tax on tangible assets revaluation	411	(3,441)
Deferred tax change in rate on tangible asset revaluations	(3,144)	-
Remeasurement gain/(loss) on net defined benefit pension liability	9,051	(3,633)
Deferred tax effect on actuarial gain/(loss) recognised on net defined benefit pension liability	<u>(1,266)</u>	<u>618</u>
Other comprehensive income for the year	<u>2,890</u>	<u>13,789</u>
Total comprehensive income for the year	<u><u>21,377</u></u>	<u><u>39,492</u></u>

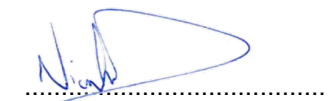
Birmingham Airport Holdings Limited

(Registration number: 3312673)

Consolidated Statement of Financial Position as at 31 March 2020

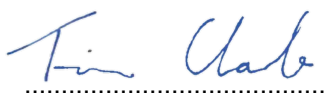
	Note	2020 £ 000	2019 £ 000
Fixed assets			
Tangible assets	14	484,266	476,186
Investment property	15	10,229	11,780
		<u>494,495</u>	<u>487,966</u>
Current assets			
Inventories	17	1,181	1,189
Debtors	18	28,592	25,342
Cash at bank and in hand	19	212,059	125,907
		<u>241,832</u>	<u>152,438</u>
Creditors: Amounts falling due within one year	20	<u>(176,806)</u>	<u>(73,868)</u>
Net current assets		<u>65,026</u>	<u>78,570</u>
Total assets less current liabilities		559,521	566,536
Creditors: Amounts falling due after more than one year	20	(372,455)	(365,203)
Provisions for liabilities	24	(29,813)	(26,005)
Post employment benefits	25	(38,092)	(51,601)
		<u>119,161</u>	<u>123,727</u>
Net assets		<u>119,161</u>	<u>123,727</u>
Capital and reserves			
Called up share capital	26	3,240	3,240
Revaluation reserve	27	50,768	55,083
Merger reserve	27	25,588	25,588
Retained earnings		<u>39,565</u>	<u>39,816</u>
Total equity		<u>119,161</u>	<u>123,727</u>

The financial statements on pages 27 to 64 were approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



N Barton

Chief Executive



T Clarke

Chairman

The notes on pages 34 to 64 form an integral part of these financial statements.

Birmingham Airport Holdings Limited

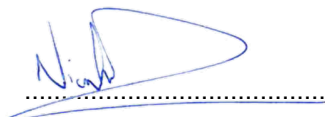
(Registration number: 3312673)

Company Statement of Financial Position as at 31 March 2020

	Note	2020 £ 000	2019 £ 000
Fixed assets			
Investments	16	<u>143,745</u>	<u>143,745</u>
Current assets			
Debtors	18	150,205	99,848
Cash at bank and in hand	19	<u>625</u>	<u>598</u>
		150,830	100,446
Creditors: Amounts falling due within one year	20	<u>(175,771)</u>	<u>(145,086)</u>
Net current liabilities		<u>(24,941)</u>	<u>(44,640)</u>
Total assets less current liabilities		118,804	99,105
Creditors: Amounts falling due after more than one year	20	<u>(40,384)</u>	<u>(15,384)</u>
Net assets		<u>78,420</u>	<u>83,721</u>
Capital and reserves			
Called up share capital	26	3,240	3,240
Merger reserve	27	51,380	51,380
Retained earnings		<u>23,800</u>	<u>29,101</u>
Total equity		<u>78,420</u>	<u>83,721</u>

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 £20.642 million (2019: £24.579million).

The financial statements on pages 27 to 64 were approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



N Barton

Chief Executive



T Clarke

Chairman

Birmingham Airport Holdings Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2020

	Note	Called up Share capital £ 000	Revaluation reserve £ 000	Merger reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 April 2018		3,240	39,383	25,588	41,584	109,795
Profit for the financial year		-	-	-	25,703	25,703
Other comprehensive income		-	16,804	-	(3,015)	13,789
Total comprehensive income		-	16,804	-	22,688	39,492
Dividends	28	-	-	-	(25,518)	(25,518)
Transfer of realised profits		-	(1,104)	-	1,104	-
Net sale of own shares from share trust		-	-	-	9	9
Movement in reserves of own trust		-	-	-	(51)	(51)
At 31 March 2019		3,240	55,083	25,588	39,816	123,727
At 1 April 2019		3,240	55,083	25,588	39,816	123,727
Profit for the financial year		-	-	-	18,487	18,487
Other comprehensive income		-	(3,078)	-	5,968	2,890
Total comprehensive income		-	(3,078)	-	24,455	21,377
Dividends	28	-	-	-	(25,963)	(25,963)
Transfer of realised profits		-	(1,237)	-	1,237	-
Net sale of own shares from share trust	27	-	-	-	67	67
Movement in reserves of own trust		-	-	-	(47)	(47)
At 31 March 2020		3,240	50,768	25,588	39,565	119,161

Birmingham Airport Holdings Limited

Company Statement of Changes in Equity for the Year Ended 31 March 2020

	Note	Called up Share capital £ 000	Merger reserve £ 000	Retained earnings £ 000	Total Equity £ 000
At 1 April 2018		3,240	51,380	30,082	84,702
Profit for the financial year		-	-	24,579	24,579
Total comprehensive income		-	-	24,579	24,579
Dividends	28	-	-	(25,518)	(25,518)
Net sale of own shares from share trust		-	-	9	9
Movement in reserves of own trust		-	-	(51)	(51)
At 31 March 2019		3,240	51,380	29,101	83,721
At 1 April 2019		3,240	51,380	29,101	83,721
Profit for the financial year		-	-	20,642	20,642
Total comprehensive income		-	-	20,642	20,642
Dividends	28	-	-	(25,963)	(25,963)
Net sale of own shares from share trust	27	-	-	67	67
Movement in reserves of own trust		-	-	(47)	(47)
At 31 March 2020		3,240	51,380	23,800	78,420

Birmingham Airport Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Cash flow from operating activities	29	62,430	70,816
Income taxes paid		<u>(12,714)</u>	<u>(9,151)</u>
Net cash flow from operating activities		<u>49,716</u>	<u>61,665</u>
Cash flow from investing activities			
Interest received	11	867	312
Purchase of tangible assets		(32,798)	(31,479)
Receipt of capital grants		2,145	-
Proceeds from sale of tangible assets		<u>25</u>	<u>66</u>
Net cash used in investing activities		<u>(29,761)</u>	<u>(31,101)</u>
Cash flow from financing activities			
Interest paid	12	(16,052)	(13,903)
Proceeds from private placements senior notes		85,000	90,000
Proceeds from bank facilities		25,000	-
Interest on preference shares		(971)	(971)
Dividends paid		(25,963)	(25,518)
Lease/leaseback premium	33	(837)	(642)
Net sale of own shares from share trust		67	9
Movement in reserves of own trust		<u>(47)</u>	<u>(51)</u>
Net cash generated from financing activities		<u>66,197</u>	<u>48,924</u>
Net increase in cash and cash equivalents		86,152	79,488
Cash and cash equivalents at the beginning of the year		<u>125,907</u>	<u>46,419</u>
Cash and cash equivalents at the end of the year	19	<u><u>212,059</u></u>	<u><u>125,907</u></u>

The notes on pages 34 to 64 form an integral part of these financial statements.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020

1 General information

The company and its subsidiaries ("the group") are private companies limited by shares and incorporated in United Kingdom.

The address of its registered office is:

Diamond House
Birmingham Airport
Birmingham
West Midlands
B26 3QJ

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.

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), taking into account updates of the 2018 triennial review 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 £20.642 million (2019: £24.579 million).

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

2 Accounting policies (continued)

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions. The company has taken advantage of the following exemptions in its individual financial statements:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the company's cash flows;
- from the financial instrument disclosures, required under FRS 102 paragraphs, 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), 12.26, 12.27, 12.29(a), 12.29(b) and 12.29A, as the information is provided in the consolidated financial statement disclosures; and
- from the requirements of FRS 102 paragraph 33.7 as the key management personnel and directors are the same.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2020. 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.

Going concern

The Directors have reviewed the prospects for the Group and Company to March 2022 (twenty-four months from the balance sheet date) in the context of the ongoing Covid-19 pandemic and the insolvency of Flybe in March 2020. They have considered the significant uncertainties facing the Company over that period and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response, as outlined in the Directors' report on page 14. After due consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis. However, the impact of the Coronavirus pandemic on the ability of the Group to meet its covenant tests represents a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustment that would arise if the financial statements were not drawn up on a going concern basis.

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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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 administrative expenses

The group classifies certain one-off charges or credits that have an 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.

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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

2 Accounting policies (continued)

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. The Directors have revalued certain operational assets where their fair value is based on income at 31 March 2020. An independent valuation of other operational assets was undertaken at 31 March 2019.

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.

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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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.

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 debtors

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, and then carried at amortised cost. 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.

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 has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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 24.

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.

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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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.

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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

3 Critical accounting judgements and estimations of uncertainty (continued)

(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 24.

(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 25.

(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 note 14.

(iv) Impairment of trade debtors

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. The provision is based on historical loss experience on a probability weighted basis to quantify.

(v) Customer rebates

The Group has accruals for expected rebates with customers. Such estimates are based on analyses of existing contractual obligations, historical trends and the Group experience. After assessment by management, the total accruals for these items are adequate, based upon currently available information and contractual positions. As these deductions are based on management estimates, the actual rebate costs might differ from these estimates.

(vi) Going concern

The Directors have considered the significant uncertainties facing the Group over the next two years and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response, as outlined in the Directors' report on page 14. In assessing the going concern position, the Directors have considered:

- the potential impact of Covid-19 on the group's cash flow and liquidity over the next 24 months, and
- the associated impact on the covenants in the Group's financing arrangements.

Due to the uncertainty over when UK and international travel restrictions will be lifted, along with the uncertainty over airlines capacity plans and passenger demand, the scenarios assume up to 6 months of negligible activity and revenues (between April and September 2020) followed by a recovery over the following 12 months to between 55% and 85% of the annual volume up to February 2020. The lowest scenario is a prudent downside case which assumes only 14% of previous volumes in 2020-21 and 45% in 2021/22 to assess liquidity and covenants in these circumstances.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

4 Turnover

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

	2020	2019
	£ 000	£ 000
Aeronautical income	63,179	65,463
Concessions income	66,842	67,931
Property income and recharges	29,570	27,396
	<u>159,591</u>	<u>160,790</u>

All turnover is generated in the United Kingdom.

5 Exceptional administrative expenses

	2020	2019
	£ 000	£ 000
Reorganisation or restructuring	105	195
GMP equalisation	-	958
Master plan	-	586
HS2 Mover	-	235
	<u>105</u>	<u>1,974</u>

During the year £0.105 million (2019: £0.195 million) restructuring costs were incurred. During the prior year pension GMP equalisation cost of £0.958 million, master plan review costs of £0.586 million and £0.235 million HS2 mover safeguarding costs were incurred. Included within taxation on profit is tax on exceptional items at the current UK tax rate of 19% (2019: 19%) amounting to £0.020 million (2019: £0.193 million).

6 Operating profit

Arrived at after charging/(crediting):	2020	2019
	£ 000	£ 000
Depreciation expense (note 14)	27,807	26,801
Capital grant release	(9)	(9)
Government grant release (note 7)	(219)	-
Decrease/(Increase) in fair value of investment property (note 15)	1,551	(90)
Operating lease expense - plant and machinery	86	107
Profit on disposal of tangible assets	(25)	(50)
Impairment of trade receivables	672	427

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

7 Government grants

The Group received a grant of £1.375 million from the Department of Transport for the deployment and operation of ultra-low emission buses, including any supporting infrastructure. The grant is conditional on quarterly data submissions of vehicle and infrastructure performance information and is being amortised to the Income Statement over the life of the assets. The group have also received the final installment of £1.353 million grant from the European Commission Innovation and Networks Executive Agency for collaborative decision making, with the grant being amortised to the Income Statement over the life of the assets.

	2020	2019
	£ 000	£ 000
Opening balance at 1 April	583	583
Utilised	(219)	-
Additions	2,145	-
Closing balance at 31 March	<u>2,509</u>	<u>583</u>

8 Auditors' remuneration

	2020	2019
	£ 000	£ 000
Audit of company and consolidated financial statements	19	20
Audit of the financial statements of subsidiaries of the company pursuant to legislation	<u>62</u>	<u>69</u>
	<u>81</u>	<u>89</u>
Other fees to auditors		
Audit-related assurance services	3	-
All other non-audit services	<u>11</u>	<u>14</u>
	<u>14</u>	<u>14</u>

Other fees includes provision of bank covenant certificates, advice on specific transactions and audit of costs for service charges and passengers with reduced mobility.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

9 Staff costs

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

	2020	2019
	£ 000	£ 000
Wages and salaries	29,582	28,740
Social security costs	2,866	2,824
Other pension costs, defined contribution scheme (note 25)	1,568	1,201
Other pension costs, defined benefit scheme (note 25)	1,526	2,323
	<u>35,542</u>	<u>35,088</u>

The aggregate payroll costs include exceptional items of £0.105million (2019: £1.153 million). Included in the prior year defined benefit pension costs is £0.958 million for GMP pay equalisation impact to the scheme.

The Company had 2 employees (2019: 2) who received wages and salaries of £0.754 million (2019 £0.847 million).

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

	2020	2019
	No.	No.
Engineering	52	52
Operations and security	669	656
Support services	189	181
	<u>910</u>	<u>889</u>

10 Directors' emoluments

The directors' emoluments for the year was as follows:

	2020	2019
	£ 000	£ 000
Emoluments	<u>503</u>	<u>278</u>

There are no Directors accruing benefits under the Defined Benefit pension scheme (2019: none).

In respect of the highest paid director:

	2020	2019
	£ 000	£ 000
Emoluments	399	94
Bonus	<u>-</u>	<u>98</u>

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

10 Directors' emoluments (continued)

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: There were 16 members of senior management in the year (2019: 14).

	2020	2019
	£ 000	£ 000
Salaries and other short term benefits	1,724	2,084
Post employment benefits	110	104
	<u>1,834</u>	<u>2,188</u>

No Directors exercised share options in the year (2019: nil).

11 Interest receivable and similar income

	2020	2019
	£ 000	£ 000
Bank interest receivable	1,019	374
Other interest receivable	-	1
	<u>1,019</u>	<u>375</u>

12 Interest payable and similar expenses

	2020	2019
	£ 000	£ 000
Corporate bond	6,723	6,713
Private placements senior notes interest	9,672	6,836
Interest on preference shares	971	971
Lease/leaseback interest	837	817
Bank loans and overdrafts	95	64
Pension scheme net finance charge (note 25)	1,220	1,282
Other interest payable	181	183
Less: capitalised interest	<u>(764)</u>	<u>(579)</u>
	<u>18,935</u>	<u>16,287</u>

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

13 Tax on profit

(a) Tax charged in the income statement

	2020	2019
	£ 000	£ 000
Current taxation		
UK corporation tax	7,082	7,610
UK corporation tax adjustment to prior years	<u>(137)</u>	<u>(218)</u>
	<u>6,945</u>	<u>7,392</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(327)	(595)
Arising from changes in tax rates and laws	343	63
Deferred tax adjustment to prior years	<u>(207)</u>	<u>(472)</u>
	<u>(191)</u>	<u>(1,004)</u>
Tax on profit	<u>6,754</u>	<u>6,388</u>

(b) Tax charged in other comprehensive income

	2020	2019
	£ 000	£ 000
Arising from origination and reversal of timing difference	1,309	3,156
Arising from changes in tax rates and laws	<u>2,690</u>	<u>(333)</u>
	<u>3,999</u>	<u>2,823</u>

(c) 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 (2019: higher than the standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

	2020	2019
	£ 000	£ 000
Profit before tax	<u>25,241</u>	<u>32,091</u>
Corporation tax at standard rate	4,796	6,097
Effect of expense not deductible in determining taxable profit	1,959	918
Deferred tax charge relating to changes in tax rates or laws	343	63
Adjustment in respect of prior years	<u>(344)</u>	<u>(690)</u>
Total tax charge	<u>6,754</u>	<u>6,388</u>

(d) Tax rate changes

In his recent budget the Chancellor of the Exchequer reversed the previously enacted decrease in the rate of UK corporation tax from 19% to 17% from 1 April 2020, with the tax rate remaining at 19%.

This has been substantively enacted at the balance sheet date and is reflected in the group's financial statements.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

14 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 2019	295,306	200	109,327	185,904	30,862	621,599
Additions	-	-	-	-	37,285	37,285
Capitalised interest	-	-	-	-	764	764
Disposals	-	-	-	(871)	-	(871)
Transfers	1,178	-	5,254	5,987	(12,419)	-
Revaluations	(2,162)	-	-	-	-	(2,162)
At 31 March 2020	<u>294,322</u>	<u>200</u>	<u>114,581</u>	<u>191,020</u>	<u>56,492</u>	<u>656,615</u>
Accumulated depreciation						
At 1 April 2019	2,537	-	2,478	140,398	-	145,413
Charge for the year	11,483	-	8,185	8,139	-	27,807
Eliminated on disposal	-	-	-	(871)	-	(871)
At 31 March 2020	<u>14,020</u>	<u>-</u>	<u>10,663</u>	<u>147,666</u>	<u>-</u>	<u>172,349</u>
Carrying amount						
At 31 March 2020	<u><u>280,302</u></u>	<u><u>200</u></u>	<u><u>103,918</u></u>	<u><u>43,354</u></u>	<u><u>56,492</u></u>	<u><u>484,266</u></u>
At 31 March 2019	<u>292,769</u>	<u>200</u>	<u>106,849</u>	<u>45,506</u>	<u>30,862</u>	<u>476,186</u>

Included within the net book value of land and buildings above is £280.302 million (2019: £292.769 million) in respect of freehold land and buildings and £0.200 million (2019: £0.200 million) in respect of long leasehold land and buildings. Included in land and buildings is land at a value of £92.076 million (2019: £94.238 million) which is not depreciated.

Birmingham Airport Limited 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 33.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

14 Tangible assets (continued)

Revaluation

Following advice from external expert support, the Directors have revalued certain operational assets, whose fair value is based on income, due to the latest changes in the market value at 31 March 2020. This revaluation has resulted in a revaluation reduction of £2.162 million and was taken to the revaluation reserve (net of £0.411 million deferred tax). The group's other operational assets which were valued in 2016, were revalued on 31 March 2019 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 £20.245 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 £306.464 million (2019: £305.286 million) and the net book value would have been £168.707 million (2019: £174.206 million). The gross cost of infrastructure assets would have been £196.139 million (2019: £190.885 million) and the net book value would have been £82.618 million (2019: £83.255 million).

Capitalised interest

Within capitalised interest are capitalised borrowing costs of £0.764 million (2019: £0.579 million). The capitalisation rate used to determine the amount of finance costs capitalised during the year was 6.5% (2019: 6.5%).

Company

The company had no tangible assets at 31 March 2020 (2019: £nil)

15 Investment property

Group

	2020
	£ 000
At 1 April 2019	11,780
Fair value adjustments	<u>(1,551)</u>
At 31 March 2020	<u>10,229</u>

Investment properties held by Birmingham Airport Limited have been revalued at 31 March 2020, 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 reduction of £1.045 million (2019: £0.004 million reduction) 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 2020 by Scanlans Chartered Surveyors and Fisher German LLP. The valuation identifies a reduction of £0.506 million (2019: £0.094 million gain) which has been recognised in the income statement.

Company

The company had no investment properties at 31 March 2020 (2019: £nil).

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

16 Investments

Company

	2020 £ 000	2019 £ 000
Investments in subsidiaries	<u>143,745</u>	<u>143,745</u>

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	
			2020	2019
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%
Euro-hub (Birmingham) Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Pension Trustees Limited	England	Ordinary Shares	100%	100%
BHX (Scotland) Limited	Scotland	Ordinary Shares	100%	100%
BHX Limited Partnership	Scotland	Capital Contribution	100%	100%

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

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

16 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 Euro-hub (Birmingham) Limited is property holding company.

The principal activity of Birmingham Airport Pension Trustees Limited is pension trustees

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

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

Birmingham Airport Holdings Limited is the parent undertaking of Birmingham Airport Operations Limited and Birmingham Airport Pension Trustees 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 2020. 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 2020 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

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

17 Inventories

	Group		Company	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Stocks	541	549	-	-
Development land	640	640	-	-
	<u>1,181</u>	<u>1,189</u>	<u>-</u>	<u>-</u>

No provision for the impairment of stocks has been provided for in the year (2019: £nil).

There is no material difference between replacement cost of inventory and its carrying amount (2019: £nil).

18 Debtors

	Group		Company	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Trade debtors	13,110	12,091	-	-
Amounts owed by group undertakings	-	-	147,997	97,711
Corporation tax	1,948	-	1,975	1,503
Other receivables	158	216	-	-
Prepayments and accrued income	13,376	13,035	233	634
	<u>28,592</u>	<u>25,342</u>	<u>150,205</u>	<u>99,848</u>

Trade debtors are stated after provisions for impairment of £2.148 million (2019: £1.476 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.

19 Cash at bank and in hand

	Group		Company	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Cash on hand	6	6	-	-
Cash at bank	212,053	125,901	625	598
	<u>212,059</u>	<u>125,907</u>	<u>625</u>	<u>598</u>

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

20 Creditors

	Group		Company	
	2020	2019	2020	2019
	£ 000	£ 000	£ 000	£ 000
Amount falling due within one year				
Loans and borrowings	104,852	-	-	-
Trade creditors	2,807	5,079	-	-
Amounts owed to group undertakings	-	-	170,494	140,091
Corporation tax	-	3,821	-	-
Other taxation and social security	903	659	31	4
Accruals and deferred income	68,244	64,309	5,246	4,991
	<u>176,806</u>	<u>73,868</u>	<u>175,771</u>	<u>145,086</u>
Amount falling due after more than one year				
Loans and borrowings	354,189	349,187	25,000	-
Preference shares	15,384	15,384	15,384	15,384
Accruals and deferred income	2,882	632	-	-
	<u>372,455</u>	<u>365,203</u>	<u>40,384</u>	<u>15,384</u>

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.

21 Loans and borrowings

	Group		Company	
	2020	2019	2020	2019
	£ 000	£ 000	£ 000	£ 000
Current loans and borrowings				
Corporate bond	<u>104,852</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current Loans and borrowings				
Loans and borrowings	349,457	344,455	25,000	-
Net premium arising on lease and leaseback	4,732	4,732	-	-
Preference shares	15,384	15,384	15,384	15,384
	<u>369,573</u>	<u>364,571</u>	<u>40,384</u>	<u>15,384</u>

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

21 Loans and borrowings (continued)

The corporate bond is repayable within 12 months. The private placement senior notes A are repayable within 4 years. The other non-current loans and borrowings are payable in full after five years. Loans and borrowings are shown net of £1.691 million transaction costs (2019: £1.545 million).

22 Finance lease obligations

Group

The total of future minimum lease payments is as follows:

	2020 £ 000	2019 £ 000
Not later than one year	859	837
Later than one year and not later than five years	3,435	3,348
Later than five years	<u>107,770</u>	<u>105,995</u>
Total gross payments	112,064	110,180
Less: finance charges	<u>(107,332)</u>	<u>(105,448)</u>
Carrying amount of liability	<u><u>4,732</u></u>	<u><u>4,732</u></u>

The above lease include contingent rent clauses, see note 33 for further information.

23 Financial instruments

Group

The group's principal financial instruments comprise bonds and private placement senior notes. 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

During the year the group raised funds by issuing £85 million of private placement Senior Notes with an interest rate of 2.44 per cent maturing on 24 January 2050. The group's other 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, £90 million 3.21 per cent senior notes maturing on 24 January 2049, £25 million bank loan and £212.1 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 interest rate on the £90 million senior notes is fixed at 3.21 per cent. The interest rate on the £85 million senior notes is fixed at 2.44 per cent. The interest rate on the loan facility is 0.7 per cent above the bank borrowing rate.

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

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

23 Financial instruments (continued)

Fixed rate financial liabilities	2020 Years remaining	2019 Years remaining
Sterling: Private placement senior notes series A	4	5
Sterling: Private placement senior notes series B	9	10
Sterling: Bond	1	2
Sterling: Private placement senior notes	21	22
Sterling: Private placement senior notes	29	30
Sterling: Private placement senior notes	<u>30</u>	<u>-</u>

24 Provisions for liabilities

Group	Other provisions £ 000	Deferred taxation £ 000	Total £ 000
At 1 April 2019	1,689	24,316	26,005
Release of existing provisions	(70)	(191)	(261)
Charged through statement of comprehensive income	-	3,999	3,999
Provisions used	<u>70</u>	<u>-</u>	<u>70</u>
At 31 March 2020	<u>1,689</u>	<u>28,124</u>	<u>29,813</u>

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 £1.687 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 £0.200 million (2019: £0.200 million) and will be charged in the year to which it relates. There are no other provisions in the company (2019: none).

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

24 Provisions for liabilities (continued)

Deferred tax

Group

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000
2020		
Capital allowances in advance of depreciation	-	(6,424)
Other timing differences	-	(1,474)
Post employment benefits	7,237	-
Revaluation of land, buildings and infrastructure	-	(26,708)
Revaluation of investment property	-	(755)
	<u>7,237</u>	<u>(35,361)</u>
2019		
Capital allowances in advance of depreciation	-	(4,890)
Other timing differences	-	(1,937)
Post employment benefits	8,772	-
Revaluation of land, buildings and infrastructure	-	(25,323)
Revaluation of investment property	-	(938)
	<u>8,772</u>	<u>(33,088)</u>

The value of deferred tax liabilities expected to reverse in the next year is £0.377 million (2019: £0.881 million).

Company

There were no deferred tax assets or liabilities in the current year (2019 none).

25 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 £1.568 million (2019: £1.201 million).

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

25 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 2018 using the projected unit method. During 2019/20 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 were paid up to January 2020, 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:

	2020	2019
	%	%
Discount rate	2.40	2.50
Future salary increases	2.65	3.25
Future pension increases (RPI)	2.90	3.50
Future pension increases (CPI)	1.90	2.50

Post retirement mortality assumptions

	2020	2019
	Years	Years
Current UK pensioners at retirement age - male	22.00	22.00
Current UK pensioners at retirement age - female	24.00	24.00
Future UK pensioners at retirement age - male	24.00	24.00
Future UK pensioners at retirement age - female	26.00	26.00

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

25 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:

	2020	2019
	£ 000	£ 000
Fair value of scheme assets	154,914	158,694
Present value of defined benefit obligation	<u>(193,006)</u>	<u>(210,295)</u>
Defined benefit pension scheme deficit	<u>(38,092)</u>	<u>(51,601)</u>

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2020	2019
	£ 000	£ 000
Present value at start of year	(210,295)	(194,876)
Current service cost	(1,669)	(1,576)
Past service cost	-	(958)
Interest cost	(5,208)	(5,235)
Actuarial gains/(losses)	18,490	(12,203)
Benefits paid	5,762	4,648
Contributions by scheme participants	<u>(86)</u>	<u>(95)</u>
Present value at end of year	<u>(193,006)</u>	<u>(210,295)</u>

Fair value of scheme assets

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

	2020	2019
	£ 000	£ 000
Fair value at start of year	158,694	146,663
Interest income	3,988	3,953
Actuarial (losses)/gains	(9,439)	8,570
Employer contributions	7,347	4,061
Contributions by scheme participants	86	95
Benefits paid	<u>(5,762)</u>	<u>(4,648)</u>
Fair value at end of year	<u>154,914</u>	<u>158,694</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2020	2019
	£ 000	£ 000
Cash and cash equivalents	4,205	914
Diversified growth funds	<u>150,709</u>	<u>157,780</u>
	<u>154,914</u>	<u>158,694</u>

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

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

25 Post employment benefits (continued)

Return on scheme assets

	2020 £ 000	2019 £ 000
Return on scheme assets	(5,451)	12,523

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

Total cost recognised as an expense totalled £1.669 million (2019: £1.576million) for current service cost and £1.220 million (2019: £1.282 million) for interest cost. Included in the service cost is £0.143 million (2018: £0.211 million) relating to salary sacrificed. On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. This resulted in a prior period charge of £0.958 million to the Income Statement. This has been recognised within exceptional administrative expenses.

26 Share capital

Allotted, called up and fully paid shares

	No. 000	2020 £ 000	No. 000	2019 £ 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	-	-	-	-
	<u>323,994</u>	<u>3,240</u>	<u>323,994</u>	<u>3,240</u>

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 20). 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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

27 Reserves

The merger reserve was created in 1997 when Birmingham Airport Holdings Limited acquired 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. These assets were revalued in March 2019 details are included in note 14. Certain operational assets whose fair value is based on income have been revalued in March 2020 details are included in note 14. The revaluation reserve transfer relating to the additional depreciation incurred in the income statement as a result of this revaluation was £1.237 million (2019: £1.104 million). The substantively enacted tax rate changed in March 2020 to 19% (2019: 17%), resulting in a £1.327 million transfer from revaluation reserve to increase the deferred tax provision (2019: £ nil).

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 2019	4,877,209	3,204
Shares vested in employees	(314,949)	(207)
Shares purchased from employees	122,252	140
Investment at 31 March 2020	<u>4,684,512</u>	<u>3,137</u>

28 Dividends

	2020 £ 000	2019 £ 000
Final dividend of 4.552p (2019: 4.297p) per 1p share	14,514	13,696
Interim dividend of 3.586p (2019: 3.706p) per 1p share	11,449	11,822
	<u>25,963</u>	<u>25,518</u>

The directors are proposing that no final dividend is paid for 2019/20 (2019: 4.297 pence per share, totalling £14.749 million for 2018/19 final dividend).

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

29 Note to the cash flow statement

	2020 £ 000	2019 £ 000
Cash flows from operating activities		
Profit for the financial year	18,487	25,703
Adjustments to cash flows from non-cash items		
Depreciation and other grant release	27,579	26,792
Changes in fair value of investment property	1,551	(90)
Profit on disposal of tangible assets	(25)	(50)
Finance income	(1,019)	(375)
Finance costs	18,935	16,287
Income tax expense	6,754	6,388
	<u>72,262</u>	<u>74,655</u>
Working capital adjustments		
Decrease/(increase) in inventories	8	(94)
Increase in trade and other receivables	(1,535)	(3,566)
(Decrease)/increase in trade and other payables	(2,627)	1,682
Decrease in retirement benefit obligation net of actuarial changes	(5,678)	(1,527)
Decrease in provisions	-	(334)
	<u>62,430</u>	<u>70,816</u>
Cash generated from operations	<u>62,430</u>	<u>70,816</u>

30 Reconciliation of changes in net debt

	At 1 April 2019 £ 000	Cash flow £ 000	non-cash changes £ 000	At 31 March 2020 £ 000
Cash and cash equivalent	125,907	86,152	-	212,059
Bond	(104,692)	-	(160)	(104,852)
Private placement notes	(239,763)	(85,000)	306	(324,457)
Bank facility	-	(25,000)	-	(25,000)
Finance lease	(4,732)	-	-	(4,732)
Preference shares	(15,384)	-	-	(15,384)
Investment at 31 March 2020	<u>(238,664)</u>	<u>(23,848)</u>	<u>146</u>	<u>(262,366)</u>

31 Commitments

Group

Capital commitments

The total amount contracted for but not provided in the financial statements was £8.667 million (2019: £6.377 million).

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

31 Commitments (continued)

Operating leases

The total of future minimum lease payments is as follows:

	2020	2019
	£ 000	£ 000
Not later than one year	80	93
Later than one year and not later than five years	55	103
	<u>135</u>	<u>196</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £0.086 million (2019: £0.107 million).

Operating lease arrangements where the group is lessor

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

	2020	2019
	£ 000	£ 000
Not later than one year	959	891
Later than one year and not later than five years	4,080	3,957
Later than five years	41,127	41,302
	<u>46,166</u>	<u>46,150</u>

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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

32 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 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90 million private placement senior notes issued by Birmingham Airport (Finance) plc on 24 January 2019. The senior notes are for a period of 30 years maturing 24 January 2049 and carry a fixed interest rate of 3.21 per cent per annum.

On 23 January 2020, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £85 million private placement senior notes issued by Birmingham Airport (Finance) plc on 24 January 2020. The senior notes are for a period of 30 years maturing 24 January 2050 and carry a fixed interest rate of 2.44 per cent per annum.

On 16 January 2019, the company along with other group members of Birmingham Airport Holdings Limited, provided a guarantees to Royal Bank of Scotland plc in support of a £25 million banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by 2 further 12 month periods. At the date of signing these financial statements, the total amount of the facility has been drawn down.

The company, in its role as parent company to the group, has provided a statutory guarantee to certain subsidiaries for all outstanding liabilities as 31 March 2020. The detail of the statutory guarantees are included in note 16.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

33 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 £12.920 million (2019: £12.705 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 21. 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 £0.837 million (2019: £0.817 million). The amount at the end of the year was £4.732 million (2019: £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 has 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 (2019: £2.567million).

Airport Group Investments Limited

Airport Group Investments Limited (AGIL) are shareholders and received dividends of £12.722 million during the year (2019: £12.511 million).

34 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.

Birmingham Airport Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (*continued*)

35 Non adjusting events after the financial period

Subsequent to the balance sheet date, the Covid-19 pandemic and continued related Government restrictions on travel has had a significant impact on trading for the Group and Company. A number of measures have been taken to support the Group and Company through this time, including use of the Government Coronavirus Job Retention Scheme (CJRS) for almost 600 staff and claiming £2.9 million between April and June, with the Group and Company continuing to utilise the CJRS support through to October. The Group and Company have proactively reduced operating costs during the pandemic and subject to a consultation period, has announced that up to 250 jobs are at risk of redundancy. The Directors have also taken steps to secure liquidity by bringing forward the issuance of £45 million of private placement notes from December 2020 to May 2020. The funds were received on 21 May 2020 and the issuance is for a period of 30 years and 7 months maturing 16 December 2050 and carry a fixed interest rate of 2.49 per cent per annum.