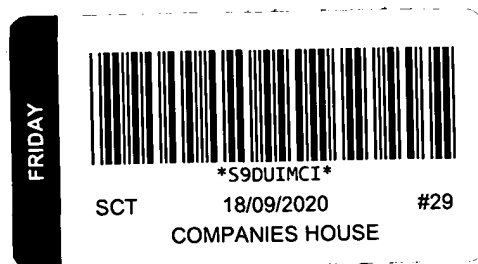


Edinburgh Airport Limited

Annual report and financial statements for the year ended 31 December 2019



Company registration number: SC096623

Edinburgh Airport Limited

Contents

Officers and professional advisers	2
Strategic report	3
Directors' report	13
Directors' responsibilities statement	18
Independent auditor's report	19
Financial statements	
Statement of comprehensive income	21
Statement of financial position	22
Statement of cash flows	23
Statement of changes in equity	24
Accounting policies	26
Significant accounting judgements and estimates	33
Notes to the financial statements	34

Edinburgh Airport Limited

Officers and professional advisers

Directors

Gordon Dewar

Sir John Elvidge

Andrew Gillespie-Smith (resigned 18 November 2019)

Andreea Luana Badiu (appointed 21 November 2019)

Scott Telesz

Michael McGhee

David Thomson

Linda Urquhart

Secretary

Stephen Swan

Registered office

Edinburgh Airport

Edinburgh

EH12 9DN

Independent auditor

Deloitte LLP

Edinburgh

EH1 2DB

Banker

The Royal Bank of Scotland plc

135 Bishopsgate

London

EC2M 3UR

Edinburgh Airport Limited

Strategic report

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006. The company has complied with the guidelines for disclosure and transparency in private equity revised July 2014 (commonly referred to as 'The Walker Guidelines').

Edinburgh Airport started life as the Royal Naval Air Service Aerodrome "Turnhouse" in March 1916. It was a key military base during World War I. After its use during World Wars I and II, it launched its first commercial services in 1947. Responsibility for Edinburgh Airport transferred from the Ministry of Defence to the Ministry of Aviation in 1960. In 1966, Edinburgh Airport was transferred to the British Airports Authority (BAA) who operated the airport until it was privatised in July 1987, becoming BAA Edinburgh. BAA continued to operate the airport until May 2012, after which it was sold to Global Infrastructure Partners.

1. General strategy

Edinburgh Airport is Scotland's busiest airport, seeing 14.7 million passengers pass through its terminal in 2019 (2018: 14.3 million). It contributes significantly to the growth of Scotland and the city of Edinburgh. Its strategy is simple but ambitious – it is where Scotland meets the world. By providing choice to its customers it will continue to grow, creating more wealth in Scotland, generating more jobs and ultimately growing the reach of our country.

The strategic objectives of Edinburgh Airport can be outlined as follows:

- I. *Delivering world class operations*
 - operating safely and securely
 - providing excellent customer service
 - optimising airport operating capacity
- II. *Growing through choice*
 - attracting new airlines and routes
 - providing an excellent customer proposition
 - growing non-aero commercial opportunities
- III. *Improving financial performance*
 - investing wisely in the business
 - maximising cash flow
 - optimising income and lowering operating cost
- IV. *Encouraging team success*
 - developing and investing in staff
 - encouraging leadership at all levels
 - supporting a high-performance culture
- V. *Driving technology solutions*
 - improving customers' experience of technology
 - deploying technology to improve how we operate
 - leading the development of innovative solutions
- VI. *Building relationships with our stakeholders*
 - developing strong partnerships with public and private sector organisations
 - operating responsibly on environmental matters
 - playing a significant part in contributing to the wider success of Edinburgh and Scotland
- VII. *Managing our risks responsibly*
 - ensuring that health and safety is at the core of everything the airport does
 - working positively and proactively with regulators and meeting all compliance standards
 - creating a culture where all staff take responsibility for risk management

Business Model

In recent years, the airport has strengthened its long-haul connectivity and increased the frequency and choice of European short-haul destinations. This is fundamental to the strength of Edinburgh Airport's future prospects as the appetite to visit Scotland's capital city grows as it becomes easier to fly to Edinburgh directly. In addition, long term contracts have been secured with all the major volume carriers which underpins and de-risks future growth.

The company will continue to build capacity selectively as well as introduce elements of rationalisation or optimisation as some key assets are utilised more intensively. The company will also continue to focus on the success of our non-aero revenue streams, such as retail and car parking.

Edinburgh Airport Limited

Strategic report (continued)

2. Review of 2019 and outlook

Successful growth

Edinburgh Airport is a key contributor to the Scottish economy. An independent economic study conducted by Biggar Economics in March 2016 showed that, at that time, Edinburgh Airport was supporting over 23,000 jobs across Scotland and contributing approximately £1 billion to the Scottish gross value added (GVA), with over £500 million of this in Edinburgh alone. In the three years since that report Edinburgh Airport has achieved sustained growth, increasing its value to the economy.

Edinburgh Airport continued its growth trajectory during 2019. Passenger numbers increased a further 3.1% from 2018 and operating profit increased by 11.3%.

In 2019 14.7 million passengers used Edinburgh airport, making Edinburgh the busiest Scottish airport.

Commercial developments

The airport has seen 5.3% annual growth in international traffic, with total annual passenger growth of 3.1%. New routes and airlines introduced in the year has contributed to the growth in passenger numbers. New long haul routes include New York JFK, Philadelphia and Boston.

2019 has seen continued improvement in our retail outlets and food and beverage units. Edinburgh Airport continues to attract premium brands, with the opening of 5 new outlets and replacement units, including Hudson Grill, Burger King, Usquabae, Caffé Nero and Wetherspoons. Investment in the departure lounge will continue into 2020 with the opening of a further 4 new retail units. A new Aspire lounge opened in November 2019.

2019 saw the launch of a new valet car parking product, FastPark, in July, which broadens the range of parking products available to passengers. Further improvements to car parking infrastructure were made in 2019 and this process will carry over into 2020.

Capital investments

Edinburgh Airport continues to invest in its infrastructure to support future growth, provide a better passenger experience and ensure there is sufficient operational resilience. The airport invested £59.4 million during 2019 across a range of projects in the terminal and across the airfield. The principal areas of focus included:

- Provision of 13 new aircraft stands to support the airport's growth;
- Continued development of an expanded and improved baggage hall to support growth in passenger numbers and ensure compliance with evolving regulatory requirements. The four year programme of investment, finishing in 2021, will transform the capability of the airport's baggage operation; and
- Development of a new taxi pick-up and drop-off facility on the east side of the airport campus to improve passenger experience, due to complete in May 2020.

Creating stronger business partner relationships

The company directly employs approximately 10% of all workers on campus. To ensure a consistent and high level of service across the more than 100 companies which operate on campus, Edinburgh Airport focuses on creating strong business partnerships and relationships.

The airport also plays a key role in Scotland with members of the Executive Committee and Leadership team encouraged to actively participate in Scotland's development and promotion through involvement on the Boards at Scottish Police Authority, Scottish Tourism Alliance and Scouts Scotland.

Members of the Leadership Team are also assigned Account Manager roles within the company to be a key point of contact for business partners on campus.

In 2019 the airport won 'Business of the Year (51+ employees)' at the Edinburgh Chamber of Commerce Awards, as well as winning 'Best Partner Relationship' with Scotland's Charity Air Ambulance (SCAA) at the Institute of Fundraising Scotland Awards. The airport won 'Best Internal Communications Campaign (Big Day Today)', at the Chartered Institute of Public Relations Scotland Awards, and the airport continued to demonstrate its focus on customer service by winning 'Best Accessibility Initiative Award' at the International Airport Review Awards.

Edinburgh Airport continues its commitment to being an airport that invests in its growth, its city and the development of its people and community.

Key financial metrics

These are provided in Section 4 of the Strategic report.

Edinburgh Airport Limited

Strategic report (continued)

Review of the year

Turnover for the year ended 31 December 2019 was £221.0 million (2018: £203.9 million). Profit for the financial year was £71.3 million (2018: £61.2 million). Total shareholders' funds at the year-end totalled £150.9 million (2018: £101.8 million) of which £51.1 million (2018: £12.2 million) related to the profit and loss account. See Statement of changes in equity on pages 24 and 25.

The company was re-financed during 2019, increasing overall third party funding facilities from £880.3 million to £980.3 million, see note 13(a). The funding consists of a combination of bank debt and longer term institutional loans. In addition, the company has a further £50.0 million capital expenditure facility, £8.0 million revolving credit facility and £4.0 million overdraft facility. At 31 December 2019, £nil (2018: £20.0 million) was drawn down on the capital expenditure facility and £nil (2018: £nil) on the bank overdraft facility.

As at 31 December 2019, drawn fixed rate debt after hedging with derivatives represented 85% (2018: 89%) of the Group's total external nominal debt. The company is funded through a mix of term loans, revolving bank debt facilities and long term institutional debt totalling £1,038.0 million (2018: £938.0 million) of which £980.0 million (2018: £900.0 million) was drawn at the year end. The company has positive cash flows with net cash flows from operating activities of £131.2 million (2018: £109.2 million). As at 31 December 2019, the company's cash and cash equivalents totalled £7.5 million (2018: £18.2 million) and available headroom under undrawn committed bank facilities was £58.0 million (2018: £38.0 million). Although there can be no certainty that financing markets will remain open at all times, debt maturities are spread over a range of dates, thereby ensuring the company is not exposed to excessive refinancing risk in any one year.

Exceptional items

Exceptional items recognised in the Statement of comprehensive income relate to:

- refinancing costs;
- consultation costs in relation to potential changes to flight paths above Edinburgh;
- restructuring and reorganisation costs;
- land and planning disputes;
- operational disruption due to major capital projects.

Developments since beginning of 2020 and future outlook

In March 2020, the World Health Organisation classified COVID-19 as a global pandemic. In response to this, countries around the world, including the UK, implemented measures to reduce the spread of the virus. The nature of these measures is currently causing unprecedented disruption to the UK and global aviation industry.

Edinburgh Airport's passengers were down 55% in March 2020, as compared to March 2019. Currently the Airport has very few passenger flights and operational hours are being limited on a daily basis to manage this. The Airport remains open to support essential services during the pandemic – cargo, mail, medical and repatriation flights. The Airport is hosting an NHS Testing Station in its long stay car park to help front line medical teams' response to the pandemic.

The principal driver of the significant reduction in passengers is the action taken by Governments around the world to limit the spread of the virus by implementing "lockdown" measures. It remains unclear when and how these lockdown measures will be relaxed and removed. It is therefore difficult to predict when the aviation industry will start recovering as there is uncertainty surrounding when passengers will be able to fly again and what restrictions may be in place.

The directors expect the COVID-19 pandemic will have a material impact on the financial performance of the Company in 2020, therefore a series of robust measures to preserve cash, reduce costs and access additional liquidity with adequate headroom have already been implemented by the Company. As at 31 March 2020, the Company had £68m of cash and £4m of undrawn committed facilities. To supplement these measures the Company has agreed to draw down a further £75m 18-month term loan from its banks and agreed with the creditor group to waive a number of financial and non-financial covenants that are potentially impacted by the COVID-19 pandemic. The financial covenants waivers have been secured for both the June 2020 and December 2020 assessment points. This is a backstop facility which provides additional resilience on top of existing liquidity.

The directors continue to carefully monitor and manage the challenging level of uncertainties associated with the pandemic regarding timing and severity of impact. Given the level of uncertainty it is not possible at the date of signing of these financial statements to quantify the impact the COVID-19 pandemic will have on the Company.

Based on the above the directors believe the company can maintain sufficient liquidity over the next 12 months and the impact of the COVID-19 pandemic does not therefore represent a material uncertainty in relation to the going concern of the company. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Edinburgh Airport Limited

Strategic report (continued)

3. S.172 Statement

During the year, in performing their duties the directors have had regard to:

(a) The likely consequences of any decision in the long term

The company has a 2040 Masterplan in place, which sets out a long-term, strategic view of the future of Edinburgh Airport. In addition, the company maintains a rolling 5-year plan, ensuring the directors are always planning in the longer term. Long-term capital projects are planned and viewed collectively at least annually by directors. This approach encourages longer-term operational decision making to support the capital plans.

(b) The interests of the company's employees

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, weekly team briefing documents and the company magazine.

Employees are consulted regularly on a wide range of matters affecting their current and future interests via staff surveys. These staff surveys are completed on an annual basis and the results are reviewed at board level. Action points are identified from this review and policies are introduced or changed directly as a result.

The company has appropriate policies for the management and fair treatment of employees in line with Advisory, Conciliation and Arbitration Service ('ACAS') guidelines and has collective bargaining agreements in place with three Trade Unions.

The company places a strong emphasis on employee wellbeing and has policies and practices in place to ensure this, including extensive Occupational Health support, free physiotherapy, mental health support and podiatry, generous pension contributions, financial education and benefits for ill health and death in service. Edinburgh Airport has achieved Disability Confident status, and works in partnership with the Department for Work and Pensions to support employment on campus for the long term unemployed.

Edinburgh Airport is also a Living Wage employer and encourages campus partners to commit to this standard.

Edinburgh Airport continues to support young people through working with schools and further education providers delivering apprenticeships, work placements, internships and career events.

(c) The need to foster the company's business relationships with suppliers, customers and others

Customers

The company ensures business relationships are constantly developed with customers through setting up and maintaining several, active communications channels. These include:

- Station Managers operating for airlines on site who deal with everyday operations issues and queries;
- The Aero team maintain regular, ongoing communication with airlines;
- Members of the Executive and Leadership team who are allocated as Account Managers for airline customers;
- Retail team meets quarterly with concessionaire customers to jointly review performance and planning, as well as maintaining ongoing, regular communications.

The company is also constantly engaged with customers striving to improve performance to the mutual benefit of airlines, retailers, passengers and Edinburgh Airport.

Suppliers

The directors ensure the company applies a consistent treatment of suppliers by operating a standard on-boarding process with suppliers to agree terms of business, including standard payment terms. This policy helps to ensure that all business dealings with suppliers are consistent and fair.

To assist the smallest suppliers, the company does offer an exemption from these standard terms to suppliers which qualify as micro businesses under the Companies Act 2006. This exemption means that these micro suppliers are paid in shorter payment terms to assist with cash flow.

The company publishes supplier payment statistics regularly, in line with section 3 of the Small Business, Enterprise and Employment Act 2015. These statistics are closely monitored on an ongoing basis to ensure suppliers are paid on a consistent basis and, where possible, within contractual terms.

Edinburgh Airport Limited

Strategic report (continued)

3. S.172 Statement (continued)

Others

As noted below regarding the need for a reputation for high standards of business conduct, the company engages with a wide range of stakeholders on a daily basis. To ensure the successful running of the airport business, the directors are fully aware of the need to foster all of the varied relationships within the airport, be that with passengers, government agencies or non-governmental organisations. These relationships are fostered with open, transparent communication channels as the company continues to work with its many stakeholders to improve the performance of the airport for the benefit of all stakeholders.

(d) The impact of the company's operations on the community and the environment

The company understands the impact it has on its local communities and works to reduce and mitigate the impact of its operations. The company is committed to being a good neighbour to the communities around the airport and regularly works with local organisations and charities to help support community projects and fundraising.

In 2019 the company continued to work closely with these communities on the issue of noise caused by aircraft. The company operates a Noise and Track System, including a publicly available Noise Lab website and a flight tracking tool. The system allows members of the public to track the flight paths of aircraft arriving and departing Edinburgh Airport as well as view the level of noise at the nearest fixed noise monitoring site. Additionally, the public are able to view noise-related information and historic data via the Noise Lab website.

A Corporate and Social Responsibility Report is published each year on the airport's website.

In 2018, following consultation with the public and key stakeholders, the company updated its Noise Action Plan (NAP) to cover 2018 to 2023. By generating a NAP, the company is able to better understand, manage and minimise aircraft related noise and work towards achieving its yearly aims and objectives.

The company continues to work closely with the Edinburgh Airport Noise Advisory Board, an independent forum of community representatives, meeting on a monthly basis to help ensure communities are involved, engaged and informed about noise matters through open dialogue and clear data.

The company is committed to understanding its impact on air quality. The company carried out an Air Quality Survey covering a 6 month period in 2018 investigating air quality at 24 locations across campus. This survey is carried out every three years.

The company is committed to encouraging use of public transport for staff and customers. This includes introducing new bus routes connecting more areas directly to Edinburgh Airport. As a result of the increasing public transport options, in 2019, 37% of passengers used public transport to reach the airport.

The company is committed to diverting waste from landfill. In particular, there has been an increased focus on the quantity of waste which is recycled. In 2018, the company diverted 100% of waste from landfill and segregated 52% of the company's onsite waste.

The company produces an annual carbon footprint report which measures the company's total greenhouse gas emissions. As a result of this reporting, the company has completed a number of energy saving initiatives during 2019, including LED lighting rollouts across terminal, car parks and road ways and use of an Energy Management System to monitor areas of inefficient energy use.

(e) The desirability of the company maintaining a reputation for high standards of business conduct

The company engages with a wide range of stakeholders on a daily basis. Edinburgh Airport is a major infrastructure asset in Scotland and the wider UK and, as such, the directors have a full awareness of the importance of the business reputation of the Airport. The company engages proactively, transparently and on an ongoing basis with government, regulators and non-governmental organisations, working collaboratively on wider issues such as information sharing, environmental protection, water quality, social and economic development.

Additionally it is important to the directors that Edinburgh Airport works proactively with media outlets to ensure that the media and public perception of Edinburgh Airport's practices is as close to reality as possible. This includes issuing responses to media requests and issuing proactive media releases.

(f) The need to act fairly between members of the company

The company's board is structured to ensure that all members of the company have fair representation on the board. The company's immediate parent member, Green Bidco Limited has two common directors on the EAL board. All ultimate parent members also have representative directors on the EAL board. All board members are invited to all board meetings and provided with regular updates regarding EAL.

Edinburgh Airport Limited

Strategic report (continued)

4. Key performance indicators (KPIs)

'We measure a number of KPIs to ensure we achieve sustainable growth over the long term and provide great service to passengers.

Metric	Definition	2019	2018	Movement (% or percentage points, 'pp')
Turnover	Total revenue of the airport	£221.0m	£203.9m	Up 8.4%
IPP	Income per passenger	£15.01	£14.26	Up 5.3%
Operating profit ¹	Per Statement of comprehensive income	£106.4m	£95.7m	Up 11.2%
Operating cost per passenger ²	Unit cost of operating the airport	£5.48	£5.41	Up 1.3%
Capital investment	Investment in assets to improve efficiency and support growth	£59.4m	£66.1m	Down 10.1%
Cash flow	Net cash flows generated from our operating activities ³	£131.2m	£109.2m	Up 20.1%
Passengers	Total number of passengers using the airport	14.75m	14.30m	Up 3.1%
Destinations	Number of destinations flown from Edinburgh airport	158	151	Up 4.6%
Punctuality	On time departure (OTP) ⁴	77.0%	74.7%	Up 2.3pp
Security performance	% of passengers waiting < 10 minutes ⁵	94.4%	93.3%	Up 1.1pp
Passengers with reduced mobility (PRM)	Notified arrival passengers - waiting < 5 minutes	93%	91%	Up 2.0pp
	Notified departing passengers - waiting < 10 minutes ⁶	100%	98%	Up 2.0pp
Customer satisfaction	Average Airport Service Quality (ASQ) scores ⁷	4.17	4.07	Up 2.5%
Health and safety	Number of RIDDOR's ⁸	3	3	No change
Complaints	Number of complaints per 10,000 passengers ⁹	2.23	2.06	Up 8.3%
Employee engagement	Airport employee survey ¹⁰	71%	73%	Down 2.0pp

¹ Operating profit is stated after operating costs and depreciation but before interest and any gains or losses on investment property.

² Operating cost per passenger is calculated before exceptional costs, depreciation and amortisation.

³ Net cash flows generated from operating activities is before capital expenditure, financing activities and interest.

⁴ OTP is within 15 minutes of scheduled push back time.

⁵ Security performance tracked from January to December. Percentage of passengers queuing at security for less than 10 minutes pre-screening.

⁶ The European Civil Aviation Conference (ECAC) has outlined standards for waiting times for passengers with reduced mobility (PRM) at airports within Europe. Where notification has been provided in advance of travel, the standard is that 80% of passengers receive assistance within 10 mins in respect of departures and 5 mins for those arriving on inbound flights.

⁷ Airport Service Quality ('ASQ') is the global industry benchmark for measuring passenger satisfaction - measured out of 5, with 5 being the highest level of satisfaction. Measured monthly via passenger surveys. This is the average score for the year.

⁸ The Reporting of Injuries, Disease and Dangerous Occurrence Regulations (RIDDOR) stipulate certain serious workplace accidents, occupational diseases and specified dangerous occurrences must be reported to the Health & Safety Executive.

⁹ Data provided reflects the volume of formal passenger complaints raised through the Edinburgh Airport website by passengers themselves. Every form submitted by individual passengers is recorded as a complaint for KPI purposes.

¹⁰ This is the airport's own employee survey based on Investor In People guidance and Health and Safety Executive standards. This is an average score across all departments covering 75 questions (2018 - 48 questions) and reflects the percentage of positive responses to each question. Response rate amongst employee was 61% (2018 - 62%).

Edinburgh Airport Limited

Strategic report (continued)

5. Principal risks and uncertainties

Risk management

Risk management is fully embedded in the company's operations, across all levels, and is supported by an Enterprise Risk Management (ERM) Framework which aims to ensure risks are identified, quantified, mitigated and escalated consistently across the business.

Risk identification

Edinburgh Airport operates both a strategic and bottom up approach in identifying its risks. Operational risk registers are maintained by all airport departments, both operational and support. A quarterly session is held with senior management as part of the airport's "Managing Responsibly Group" to review operational risks including consideration of whether any should be escalated to the corporate register.

The Executive Committee holds bi-annual risk workshops to identify new and emerging risks and consider the profiling and control mechanisms within the corporate risk register. Workshops in 2019 focussed on benchmarking risks across the wider aviation and airports industry and testing the effectiveness of key controls on the corporate risk register.

Risk profiling and mitigation

A formal classification and scoring methodology is in place to ensure a common risk language. All risks are assessed based on impact and likelihood on both an inherent and residual level, using a consistent scoring tool which clearly defines each level of likelihood and impact in the context of Edinburgh Airport operations.

Risk mitigation is a critical area of focus within the ERM and depending on the nature of the risk, Edinburgh Airport typically adopts a combination of the following mitigation techniques:

- 1) *Prevention* – where risks are preventable focus is placed on deployment of controls designed to prevent the risk from crystallising. Such control measures include implementation of formal protocols, checks and balances, training, secondary review measures and ongoing monitoring arrangements.
- 2) *Response* – where risks are dictated largely by external factors out with the control of Edinburgh Airport, focus is placed on the response in place should the risk be realised. This includes preparation and testing of contingency plans, multi-agency response planning and financial hedging.
- 3) *Insurance* – insurance is used in conjunction with the above measures as a financial protection for significant or catastrophic risks. Edinburgh Airport has a comprehensive programme of insurance in place which has been mapped against its risk profile. Insurance cover includes, property damage, business interruption, war and terrorism, cyber security, construction programme and aviation liability.

Risk governance

Oversight of the ERM framework has been delegated to the Audit and Risk sub-committee of the Board, which provides quarterly updates to the Board on its activities and matters emerging. The Audit Committee receive formal bi-annual updates on both corporate and operational risks and its quarterly agenda is focussed on key areas of risk for the business and how management is responding to these.

At both a corporate and operational level there is clear accountability for ownership of risks and mitigating actions. At an organisation-wide level the Head of HSE and Risk, along with the Risk and Assurance Manager, are responsible for the effective operation of the ERM framework, ensuring all aspects are fully embedded in day to day operations.

Edinburgh Airport Limited

Strategic report (continued)

Management has assessed the principal risks and uncertainties as follows:

Risk description	Assessment and mitigation
Safety and security Ensuring the safety and security of our people, passengers and infrastructure is central to the strategy and operations of Edinburgh Airport.	<p>Health and safety is a core value of the business and the company has invested in developing a behaviour driven, proactive safety culture, championed at a leadership level. This is underpinned by a safety management system, externally verified and accredited to OHSAS18001:2007 built around risk assessment, inspection, asset stewardship, governance and assurance.</p> <p>The company mitigates security risks by adopting and enforcing rigorous policies and procedures supported by professional training and investment in leading-edge security technology. The company works closely with government agencies, including the police, the Civil Aviation Authority (CAA) and the UK Border Agency building a framework to establish co-ordinated accountabilities for airport security and integrated ownership of risk.</p>
IT security and resilience IT infrastructure resilience and data security are critical to the effective operation of Edinburgh Airport. The risk of an IT failure or a breach of data security could cause significant disruption to operations and lead to both financial and reputational loss.	<p>In parallel with the ongoing investment programme to improve the IT infrastructure and services, Edinburgh Airport and its partners deploy predictive and real time monitoring of IT infrastructure and systems. Any discovery through monitoring would lead to intervention or enacting contingency plans which are designed to enable the early recovery of service in the event of an IT failure.</p> <p>A strong programme of activity is in place to maintain a secure IT environment including vulnerability assessments, penetration testing and detection and incident recovery processes.</p>
Operational resilience There are numerous risk factors that could cause disruption to the short and medium-term operations of Edinburgh Airport including adverse weather, terrorism, wars, environmental factors or natural disasters.	<p>Edinburgh Airport has in place a robust and extensively tested crisis management framework, which extends to on-campus partners and agencies.</p> <p>In November 2018 Edinburgh Airport ran Exercise Running Spitfire, an end-to-end test of the Airport Major Incident Response based on highest risk scenarios. The exercise provided assurance over the capability of our framework, protocols and people. Edinburgh Airport has also used the exercise to refine some of the existing arrangements and implement lessons to improve the response capabilities.</p>
Operational resilience is an ongoing area of focus for the team as Edinburgh Airport continues to refine and test the contingency and continuity plans to respond to adverse events.	<p>Along with longer term contingency and continuity arrangements, Edinburgh Airport also has in place a programme of insurance to transfer the financial risk of adverse events including fire, war, terrorism, ash cloud and other business interruption risks.</p>
Regulatory compliance The company's business and operations are subject to various regulatory requirements. Edinburgh Airport is primarily regulated by the UK Department for Transport (DfT) through the UK's aviation regulator, the CAA. This primary regulation is concerned with air safety, airspace regulation, consumer protection and the environment.	<p>The company takes a proactive approach to ensuring regulatory requirements are met, if not exceeded. Edinburgh Airport deploys formal project-based protocols to prepare for implementation of new regulatory requirements, as evidenced in 2018 by the rigorous approach to implementation of GDPR and our Network and Information Systems Directive ("NISD") preparation.</p> <p>The company's Legal Director maintains a regulatory compliance register which captures key areas of legislation and the arrangements in place to ensure compliance. The register requires at least annual review at department level to ensure processes are in place to ensure compliance with regulatory requirements.</p>
Other key areas of regulatory focus for the company include compliance with competition rules and environmental regulation.	<p>Dedicated internal assurance functions are in place for regulated elements of our operation. These include security compliance, airside compliance, fire service and data protection compliance.</p>

Edinburgh Airport Limited

Strategic report (continued)

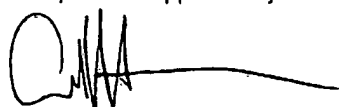
Risk description	Assessment and mitigation
<p>Capital investment and delivery Edinburgh Airport's capital development plan is critical to continue to realise the growth objectives of the company. The capital programme will provide the capacity required to support the growth of Edinburgh Airport for years to come.</p> <p>The ambitious growth objectives come with several risks relating to ability to build adequate capacity on time, effective project delivery and operational change management.</p>	<p>The airport has a dedicated capital projects team with extensive experience in the delivery of major capital programmes. The team is supported by a rigorous project governance framework which promotes ongoing scrutiny over project design, optioneering and execution.</p> <p>Projects are delivered collaboratively with the operation ensuring requirements are met and risks appropriately managed. The project management framework is underpinned by a "sponsor" model, which ensures a sponsor from the Executive Committee is accountable for the project from concept to handover.</p> <p>An ongoing programme of assurance is in place over all capital projects, utilising both in-house specialist resource and external consultants.</p>
<p>Corporate responsibility and environment The company is committed to ensuring that its operations comply with applicable environmental legislative obligations and company standards.</p> <p>The company recognises that environmental risk has the potential to impact negatively upon both the local environment, the Company's reputation and to jeopardise its ability to operate and to grow.</p>	<p>The company manages environmental risk locally by specified staff responsible for managing noise, waste, air and water quality, and carbon emissions, overseen by the Head of Health, Safety, Environment (HSE) and Risk.</p> <p>The company has retained its ISO14001 accreditation and as an additional assurance that the company's responsibilities are being fully met, an independent gap analysis review was commissioned, and all recommendations have been implemented.</p>
<p>Brexit The wider macro-economic impact of Brexit could lead to decreased consumer confidence and reduction in passengers for Edinburgh Airport, adversely impacting profitability.</p> <p>There also remains uncertainty as to the full regulatory impact of Brexit on aviation and connectivity.</p> <p>There is potential for regulatory disruption in the short term, which could lead to temporary reduction in air travel and/or increased costs of operating.</p>	<p>Management has performed a scenario planning exercise to consider the potential impacts of Brexit on Edinburgh Airport's operations and profitability. Aligned to this is a suite of measures and contingencies to respond to each including deferment of capital investment and control of variable costs.</p> <p>Discussions remain ongoing with regulators and airline partners to understand potential impact of regulatory change and develop appropriate contingency plans.</p> <p>The company welcomes the collaborative approach taken by regulators and EU governments in preparing for changes, which may impact air travel. Edinburgh Airport is confident in the commitment made by both the UK and EU to ensure a framework is in place to support continued air travel and connectivity without disruption.</p>
<p>Treasury risks The Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations.</p> <p>The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury related financial risks inherent in the company's business operations and funding.</p>	<p>Primary treasury risks facing the company are as follows:</p> <p>a) <i>Interest rate risk</i> To protect against an increase in interest rates the company maintains a mix of fixed and floating rate debt and, where necessary, uses derivative financial instruments such as interest rate swaps to generate the desired interest rate risk profile. The company's prudent interest rate risk management policy is consistent with the hedging requirements laid out in its debt financing agreements</p>

Edinburgh Airport Limited

Strategic report (continued)

Risk description	Assessment and mitigation
Treasury risks (continued)	<p><i>b) Foreign exchange currency risk</i></p> <p>The company is not materially exposed to foreign exchange currency risk as all material transactions and financial instruments are in pounds sterling. The company would consider the use of foreign exchange derivative financial instruments to hedge material capital or operating expenditure in foreign currencies once those transactions are considered highly likely to occur.</p> <p><i>c) Funding and liquidity</i></p> <p>The principal sources of the company's liquidity risk are the ability to refinance debt facilities as they fall due, ensuring cash and cash equivalents are accessible as and when required and ensuring borrowing facilities are sufficient for the future needs of the company.</p> <p><i>d) Credit risk</i></p> <p>The company performs credit worthiness checks on all potential new customers before any credit facilities are provided. The company also has procedures in place to monitor the on-going credit worthiness of key customers. The company rigorously enforces its payment policies to ensure that all its customers keep to the stated payment terms with follow up actions taken immediately if there is any divergence.</p>
<p>COVID-19 pandemic</p> <p>The aviation industry is currently experiencing an unprecedented reduction in passengers as a result of the global restrictions in place to reduce the spread of the COVID-19 virus.</p> <p>There is uncertainty over the time period for which these restrictions will remain in place and the severity of the impact the pandemic will have. The wider macro-economic impact of the pandemic may also lead to a reduction in passengers for the Airport.</p> <p>These factors will adversely impact the profitability and cash generation of Edinburgh Airport.</p>	<p>The directors have undertaken a detailed scenario planning exercise to consider the potential impacts of the COVID-19 pandemic on Edinburgh Airport's operations, profitability and cash flow. The scenario modelling assumes reduced passenger numbers and revenue as a result of COVID-19, reflecting the current period of significantly reduced activity and a subsequent recovery period.</p> <p>These scenarios incorporate the robust suite of cash preservation and cost reduction measures which have already been implemented in response to the pandemic. In each scenario modelled the directors believe the company can maintain sufficient liquidity with existing committed borrowing facilities.</p> <p>To supplement these measures the Company has agreed to draw down a further £75m 18-month term loan from its banks and agreed with the creditor group to waive a number of financial and non-financial covenants that are potentially impacted by the COVID-19 pandemic. The financial covenants waivers have been secured for both the June 2020 and December 2020 assessment points.</p> <p>The scenario planning exercise undertaken has assumed a cautious approach to the airport's recovery from the COVID-19 pandemic. It has been assumed the recovery will be gradual as the Governments around the world, including the UK, phase the removal of the enforced 'lockdown' measures.</p>

This report was approved by the Board of directors on 7h May 2020 and signed on its behalf by:



Gordon Dewar
Director
Company registration number: SC096623

Edinburgh Airport Limited

Directors' report

The Directors present their annual report and the audited financial statements for the company for the year ended 31 December 2019.

Principal activities and future developments

The company owns and is the operator of Edinburgh Airport. Details of strategic objectives, future developments, key performance metrics, risk management policies can be found in the Strategic report and form part of this report by cross reference.

Ownership

The company is a wholly-owned subsidiary of Green Bidco Limited, a United Kingdom ("UK") incorporated company, and is ultimately owned by a consortium through a number of UK and overseas holding companies and limited liability partnerships. The consortium that ultimately owns the company currently comprises the following parties:

- Global Infrastructure Partners, LP 80.90%
- Future Fund Board of Guardians 9.55%
- Q Super ("QSuper Fund") 9.55%

Global Infrastructure Partners ("GIP") is an independent infrastructure fund manager that invests in the equity and credit of infrastructure assets and businesses. GIP targets investments in OECD and select emerging market countries in single assets and portfolios of assets and companies in the energy, transport and water/waste sectors. GIP's teams are located in 10 offices globally: London, New York, Stamford (Connecticut), Sydney, Melbourne, Brisbane, Mumbai, Delhi, Singapore and Hong Kong. For more information, visit www.global-infra.com.

Future Fund Board of Guardians ("Future Fund") is Australia's sovereign wealth fund, responsible for investing for the benefit of future generations of Australians. The Future Fund was established by the Future Fund Act 2006 and aims to generate high, risk adjusted returns over the long term.

The QSuper Fund is the largest superannuation fund in Queensland and amongst the largest in Australia. The QSuper Board is established under the Superannuation (State Public Sector) Act 1990, under which the Superannuation (State Public Sector) Deed 1990 was created which governs the QSuper Fund. The QSuper Fund's interest in the company's assets is held by QSuper Investment Holdings Pty Limited as a trustee for QSuper European Infrastructure Trust.

Dividends

The company paid dividends of £18.0 million during 2019 (2018: £116.6 million). Other cash distributions totalling £109.8 million (2018: £14.4 million) were made to the parent company, Green Bidco Limited, during 2019.

Directors

Board of Directors

The company has one executive director and six non-executive directors. The following six non-executive directors oversee the company on behalf of the consortium:

Sir John Elvidge (GIP)
Andreea Luana Badiu (GIP)
Michael McGhee (GIP)
Scott Telesz (GIP)
David Thomson (QSuper Fund)
Linda Urquhart (Future Fund)

Edinburgh Airport Limited

Directors' report (continued)

Directors during the year

The directors who served during the year and since the year end are as follows:

Gordon Dewar
Sir John Elvidge
Andrew Gillespie-Smith (resigned 18 November 2019)
Andreea Luana Badiu (appointed 21 November 2019)
Michael McGhee
Scott Telesz
David Thomson
Linda Urquhart

Directors' indemnity

The company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, every director of the company may be indemnified out of the assets of the company against any liability incurred by them in connection with any negligence, default, breach of duty or breach of trust by him or her in relation to the company and may fund a director's expenditure for the purposes permitted under the Companies Act 2006.

Employment policies

For the year ended 31 December 2019 the company had 685 employees on a full-time equivalent basis (2018: 664).

Employee diversity, equal opportunities and fair treatment

The company has an Equal Opportunities Policy in place that sets out its position on equal opportunity in all aspects of employment. This includes recruitment and promotion, giving guidance and encouragement to employees at all levels to act fairly and prevent discrimination. Discrimination is defined as discriminating, either directly or indirectly, on the grounds of age, sex, sexual orientation or sexuality, race (including colour, nationality, ethnic or national origins), religion or belief, gender reassignment, marital or civil partnership status, part-time status, disability, pregnancy and maternity.

The company has appropriate policies for the management and fair treatment of employees in line with Advisory, Conciliation and Arbitration Service ('ACAS') guidelines and has collective bargaining agreements in place with three Trade Unions.

In addition the company has a 'Dignity at Work' policy. The overall aim of this policy is to ensure that all employees are treated with dignity and respect whilst at work, and are able, and encouraged, to meet their full potential by working in a non-threatening environment, free of harassment and/or bullying. Individuals should have the confidence to complain about harassment or bullying, and lack of consideration, in the knowledge that their concerns will be dealt with appropriately and fairly. This policy outlines procedures to be followed if the company's employees feel they are being harassed, bullied or victimised.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings and the company magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests via staff surveys.

Welfare and Health & Safety

The company operates policies of non-discrimination and protection from bullying or harassment. We have a comprehensive whistleblowing policy which includes the provision of a confidential third-party helpline, Safecall. The company also has comprehensive employee health and wellbeing provisions covering both physical and mental health support with onsite occupational health, physiotherapy and podiatry professionals supported by other health professionals and an employee assistance programme as required.

Training and development

All the company's employees receive an annual appraisal with opportunities to receive appropriate training and development for their role delivered both internally or externally. The company supports work experience for schools and long term unemployed, university internships and has further education and apprenticeship programmes available. The company maintains compliance with all relevant mandatory and statutory training requirements from relevant bodies including the CAA.

Recruitment

Company vacancies are filled through appropriate recruitment practices with a comprehensive pre-employment vetting process in line with the requirements to issue an airside pass and maintain effective airport security. The company uses appropriate and, where required, approved selection processes in line with legislation and standard industry practice incorporating equal opportunities and diversity requirements. The company's position in simple terms is to ensure that the application of recruitment, and on-going training and promotion policies, to all individuals will be solely on the basis of job requirements and the individual's ability and merits.

Edinburgh Airport Limited

Directors' report (continued)

Gender diversity

Edinburgh Airport recognises the great benefits of having a diverse workforce with different backgrounds, solely employed on ability and it supports this belief with policies on equality and diversity. It reports annually on its Gender Pay Gap and publishes the results on its website.

Edinburgh Airport's workforce gender diversity is broadly in line with occupational gender bias in the wider UK economy where traditionally male dominated roles in engineering, fire service and operations, for example, do not see high volumes of female applicants. The company monitors the diversity of job applicants against the wider workforce diversity and uses female role models to promote careers during recruitment campaigns and engages with schools and further education providers with a view to increasing the profile of all airport roles as careers for women. The company also uses its leadership and management development programmes to encourage and grow top female talent and support improved diversity at senior levels.

The table below shows Edinburgh Airport's gender diversity:

	31 December 2019		31 December 2018	
	Male %	Female %	Male %	Female %
Board	71.4	28.6	85.7	14.3
Senior management (top 3 grades)	73.3	26.7	76.7	23.3
All other employees	60.0	40.0	61.2	38.8

Social and community policies

Edinburgh Airport is committed to being a good neighbour and focuses on four areas:

- *Education:* the company educates its community about its business and operations, and use its various industry expertise to help the younger generation;
- *Communication:* the company will regularly communicate with its community about its business and operations, and listen to the community voice;
- *Involvement:* the company will play its part in Edinburgh and Scotland where possible; and
- *Charity:* the company will actively promote and support charity and community work.

Education

In 2019, Edinburgh Airport hosted 26 work experience placements coordinated with local councils (West Lothian, East Lothian, Edinburgh, the Borders, Clackmannanshire, Fife and Perth & Kinross). The airport held group tours focusing on education for school groups, scout groups and business people. The airport also worked in partnership with local schools, participating in school career fairs and hosted its first ever Engineering Tomorrow event, encouraging students to study STEM subjects (Science, Technology, Engineering and Mathematics). Edinburgh Airport also hosted a plane spotters event to help engage with those who have a genuine interest in knowing more about the airport and the aircraft that operate here.

Communication

In 2019 Edinburgh Airport continued to develop new, and strengthen existing, relations with the wider community. By doing so, the airport has helped provide a voice to the community and has increased the number of opportunities to meet the public face-to-face, as well as provide a dedicated point of contact to hear any concerns or respond to questions directly.

In 2019 the airport changed the format and delivery of the quarterly community newsletter in order to reach a much wider audience. The old newsletter was only distributed to those communities living closest to the airport, however, it was felt that there are many further afield who are just as interested in hearing more from the airport. The new 'Inside EDI' newsletter is now shared with communities across Edinburgh, the Lothians, Falkirk, and Fife by distributing the newsletter to local community centres and libraries, as well as sharing directly with Community Councils and Local Authorities. In addition to this, the airport now uses targeted online messaging to ensure a much broader reach is achieved when engaging with communities.

Additionally, the airport publishes a Corporate and Social Responsibility Report each year to report on its achievements on several areas including charity, utility usage, noise and access etc. The company also lights its iconic air traffic control tower for community awareness on national issues.

Involvement

Edinburgh Airport understands that it has a part to play in Edinburgh and in Scotland. The company is not just an airport but a large employer and economic contributor to the nation; its aim is not to just be a great airport but also a great business. To do this, it gets involved in initiatives where possible.

The company spent £47,000 in 2019 on sponsorship to support smaller but valuable Scottish organisations such as The International Science Festival, Hidden Doors Art & Music Festival and Street Soccer. The company helps bring Edinburgh to Edinburgh Airport with joint initiatives with Marketing Edinburgh, Festivals Edinburgh, The Fringe, VisitScotland and Edinburgh Tourism Action Group.

Edinburgh Airport Limited

Directors' report (continued)

Charity

During 2019, Edinburgh Airport made £143,000 worth of charitable donations through its Community Board (2018: £136,000). This was awarded to 74 (2018: 66) charities and community groups throughout Scotland to help with local projects. The Yard, our corporate charity partner for 2019, also received a £146,000 donation (2018: £96,000 Scotland's Charity Air Ambulance) made up from donations, foreign currency collections in the terminal and staff charity initiatives.

The company recognises the benefit community and charity work can have on an individual and encourages them to participate in local initiatives. The company made £25,000 (2018: £20,000) worth of donations to match fund the work its people did locally, helping 18 local charity and community groups (2018: 26), and provided a further £3,600 (2018: £5,000) worth of funding to charities at its annual Celebrating Success Awards Dinner, recognising the work throughout the year.

In total, through charitable initiatives, the Airport provided charitable donations of £318,000 (2018: £257,000).

Human rights

Edinburgh Airport firmly supports and carries out its business in a manner compatible with the protection of individuals' human rights. The Airport does this through its compliance with relevant legislation and through an insistence on ethical business practices. Where relevant the Airport has company policies that reflect the rights granted to individuals under the Human Rights Act 1998, such as in the areas of fair treatment and non-discrimination, data protection, dignity at work and health and wellbeing. Furthermore, the Airport has formalised policies and procedures to combat modern slavery as it may affect the business.

Environmental management

Environmental aspects and impacts are identified and managed at a departmental level through the Managing Responsibly System (MRS). Environmental risks are identified through the departmental and business wide risk registers with policies and measures put in place to mitigate the risks.

There is a long term environmental strategy in place, which aims to achieve Edinburgh Airport becoming carbon neutral and resilient to the effects of climate change. Environmental performance against set targets is measured on a regular basis and reported on internally on a monthly basis as well as on an annual basis through the Corporate Responsibility Report, which is externally verified.

Edinburgh Airport corporate responsibility & environment policy

As part of Edinburgh Airport's commitment to corporate responsibility, the company works hard to be a good corporate citizen. Though its aspirations are global, its roots are very much in the communities in Edinburgh, the Lothians, Fife and Falkirk. Whilst encouraging the development and growth of the business, the airport strives to be a good neighbour to those communities impacted by our operations. The business actively manages its impact on the environment and local communities and is committed to growing the airport as sustainably and responsibly as possible. By designing and implementing policies, processes and solutions that achieve sustainable operations we are able to create a sustainable future for the local community, the city and Scotland.

Energy policy

Energy use is a key impact and resource which Edinburgh Airport can control. The company makes every effort to use energy efficiently and reduce usage where possible to save money and reduce its carbon footprint and is also Energy Savings Opportunity Scheme ('ESOS') compliant.

Noise

Edinburgh Airport recognises that whilst air travel provides many benefits, aircraft noise can impact on people who live or work near airports and under flight paths. Edinburgh Airport is working to reduce the impact of aviation noise. Aircraft have been getting progressively quieter as designs and engine technology have advanced and it is expected that airlines will be operating even quieter models in the future. However, Edinburgh Airport is committed to explaining what noise is heard and why. The company works hard to engage with communities and is investing in how it measures, reports on, and discusses noise with them. In 2018 Edinburgh Airport invested in a new noise and track keeping system (NTK) and a dedicated noise website, the new system came online in April 2018 and provides live data to the public. It can be found at www.edinburghairport.com/about-us/community-and-environment/edinburgh-airport-noise-lab. Updated HTML versions of both the Noise Lab and Flight Tracking websites were introduced during 2019. In December 2019 we received Capital approval for a further two fixed noise monitoring sites which will feed into the NTK system and further improve our ability to provide robust and accurate data to our communities and regulators.

Following the introduction of the Edinburgh Airport Noise Advisory Board ("Noise Board") in 2017, we worked with the Noise Board in 2019 to commission independent noise analysis reports from several acoustic consultancies including CAA Environmental Research and Consultancy Department ("ERCD") and To70. In 2019 our 5-year Noise Action Plan (NAP), which we consulted with the public on to ensure that the plans we have in place to manage, monitor and mitigate noise are transparent and accessible received final approval and were adopted by the Scottish and European Governments in March 2019. Our full and summary NAP 2018-2023 documents became publicly available on our noise website March 2019.

Edinburgh Airport also works collaboratively with the CAA, who set airspace policy, Air Traffic Control (ATC), who advise the aircraft where to fly and our airline partners to encourage compliance with any procedures which impact noise.

Edinburgh Airport Limited

Directors' report (continued)

Noise (continued)

Edinburgh Airport is a member of Sustainable Aviation, a coalition of UK aviation stakeholders spanning aircraft manufacturers, airlines, airports and National Air Traffic Services (NATS), the principal air navigation provider in the UK. The company works together with these partners to promote continuous descents and continuous climbs to airlines operating from Edinburgh Airport.

Going concern

During the year, the company was successfully refinanced and this has increased overall debt facilities from £880 million to £980 million. The funding consists of a combination of bank debt and longer term institutional loans. In addition, the company has a further £50 million capital expenditure facility, £8 million revolving credit facility and £4 million overdraft facility. At 31 December 2019, £nil (2018: £20.0 million) was drawn down on the capital expenditure facility and £nil (2018: £nil) was drawn down on the bank overdraft facility.

The directors have undertaken a scenario planning exercise to consider the potential impacts of the COVID-19 pandemic on Edinburgh Airport's operations, profitability and cash flow. The scenario modelling assumes reduced passenger numbers and revenue as a result of COVID-19, reflecting the current period of significantly reduced activity and a subsequent recovery period. These scenarios incorporate the robust suite of cash preservation and cost reduction measures which the Company has already implemented in response to the pandemic. These scenarios assume profitability and cash generation in 2020 reduces significantly compared to previous expectations prior to the COVID-19 pandemic.

The scenarios have taken into consideration the bank facilities currently available, as noted above. In each scenario modelled the directors believe the company can maintain sufficient liquidity with existing committed borrowing facilities. As at 31 March 2020, the Company had £68m of cash and £4m of undrawn committed facilities. To supplement these measures the company has agreed to draw down a further £75m 18-month term loan from its banks and agreed with the creditor group to waive a number of financial and non-financial covenants that are potentially impacted by the COVID-19 pandemic. The financial covenants waivers have been secured for both the June 2020 and December 2020 assessment points.

The scenario planning exercise undertaken has assumed a cautious approach to the airport's recovery from the COVID-19 pandemic. It has been assumed the recovery will be gradual as the Governments around the world, including the UK, phase the removal of the enforced 'lockdown' measures.

Based on the scenarios analysis, the directors believe the company can maintain sufficient liquidity over the next 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the accounting policies in the financial statements.

Auditor

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor, Deloitte LLP, will be proposed within the period set out in section 485.

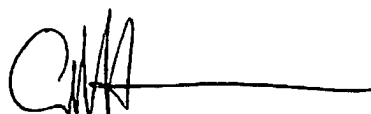
Statement of disclosure of information to the Auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

This report was approved by the Board of directors on 7 May 2020 and signed on its behalf by:



Gordon Dewar
Director
Company registration number: SC096623

Edinburgh Airport Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 – 'The Financial Reporting Standard in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report to the members of Edinburgh Airport Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Edinburgh Airport Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the statement of accounting policies;
- significant accounting judgements and estimates; and
- the related notes 1 to 21.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Edinburgh Airport Limited

Auditor's 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 auditor's 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

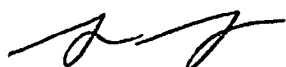
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



James Boyle CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
7 May 2020

Edinburgh Airport Limited

Statement of comprehensive income for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	1	221,046	203,912
Operating costs before exceptional costs, depreciation & amortisation	2	(80,796)	(77,340)
Other income – capital grant income	13(b)	388	-
<i>Profit before exceptional costs, depreciation & amortisation</i>		<i>140,638</i>	<i>126,572</i>
Operating costs – exceptional (net)	4	(1,449)	(1,649)
<i>Profit before depreciation & amortisation</i>		<i>139,189</i>	<i>124,923</i>
Operating costs – depreciation	8	(32,757)	(29,399)
Operating costs – amortisation of capital grants	13(b)	-	134
Operating costs - total		(115,002)	(108,254)
Operating profit		106,432	95,658
Fair value gains and losses on investment property	9	18,075	12,616
Interest receivable and similar income	5	168	111
Net interest payable and similar charges	6	(33,190)	(29,430)
Profit before taxation	2	91,485	78,955
Taxation on profit	7	(20,213)	(17,803)
Profit for the financial year		71,272	61,152
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension scheme	19	(2,541)	1,061
Fair value (losses)/gains on interest rate swaps	14	(2,986)	7,090
Total other comprehensive income		(5,527)	8,151
Taxation on other comprehensive income	15	583	(1,293)
Total comprehensive income for the year		66,328	68,010

The results recognised during the current and prior year were from continuing operations.

The notes on pages 26 to 45 form an integral part of these financial statements.

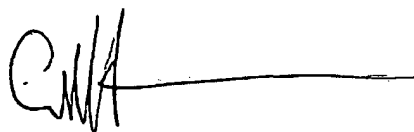
Edinburgh Airport Limited

Statement of financial position as at 31 December 2019

		31 December 2019	31 December 2018
	Note	£'000	£'000
Fixed assets			
Tangible fixed assets	8	559,799	534,476
Investment properties	9	298,488	281,525
Total fixed assets		858,287	816,001
Current assets			
Stocks	10	1,068	905
Debtors:			
- due within one year	11	16,337	15,962
- due after one year	11	376,977	266,664
Total debtors		393,314	282,626
Cash at bank		7,464	18,202
Total current assets		401,846	301,733
Current liabilities			
Creditors: amounts falling due within one year	12	(61,314)	(75,083)
Net current assets		340,532	226,650
Total assets less current liabilities		1,198,819	1,042,651
Creditors: amounts falling due after more than one year	13	(1,005,085)	(903,927)
Provisions for liabilities	15	(44,947)	(41,437)
Net assets excluding pension asset		148,787	97,287
Defined benefit pension asset	19	2,074	4,491
Net assets including pension asset		150,861	101,778
Capital and reserves			
Called up share capital	16	6,500	6,500
Other reserves:			
Capital contribution reserve		922	167
Non-distributable reserve		116,821	102,334
Hedging reserve		(16,443)	(13,726)
Pension reserve		(7,994)	(5,726)
Profit and loss account		51,055	12,229
Shareholder's funds		150,861	101,778

The notes on pages 26 to 45 form an integral part of these financial statements.

The financial statements of Edinburgh Airport Limited (company registration number: SC096623) were approved by the Board of Directors and authorised for issue on 7 May 2020. They were signed on its behalf by:



Gordon Dewar
Director

Edinburgh Airport Limited

Statement of cash flows for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Net cash generated from operating activities	21	131,190	109,233
Cash flows from investing activities			
Interest received		44	19
Purchase of tangible fixed assets		(60,674)	(62,077)
Net proceeds from sale of plant, property and equipment		2,353	1
Net cash used in investing activities		(58,277)	(62,057)
Cash flows from financing activities			
Net receipts from re-financing		80,000	132,000
Interest paid		(33,195)	(29,444)
Movement in intercompany borrowings		(112,456)	(14,807)
Dividends paid		(18,000)	(116,604)
Net cash used in financing activities		(83,651)	(28,855)
Net (decrease)/increase in cash and cash equivalents		(10,738)	18,321
Cash and cash equivalents at beginning of year		18,202	(119)
Cash and cash equivalents at end of year	21	7,464	18,202

Edinburgh Airport Limited

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital £'000	Capital contribution reserve £'000	Hedging reserve £'000	Non- distributable reserve £'000	Pension reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2018	6,500	130	(19,469)	91,706	(6,586)	78,054	150,335
Profit for the year ended 31 December 2018	-	-	-	-	-	61,152	61,152
Transfer of non-distributable gain on investment property	-	-	-	12,616	-	(12,616)	-
Transfer of deferred tax on gain on investment property	-	-	-	(2,243)	-	2,243	-
Other comprehensive income:							
Actuarial gains on defined benefit plans	-	-	-	-	1,061	-	1,061
Fair value gains on effective hedges	-	-	7,090	-	-	-	7,090
Deferred tax on other comprehensive income	-	-	(1,347)	255	(201)	-	(1,293)
Total comprehensive income for the year	-	-	5,743	10,628	860	50,779	68,010
Transactions with owners in their capacity as owners:							
Dividends	18	-	-	-	-	(116,604)	(116,604)
Capital contribution	-	37	-	-	-	-	37
Balance at 31 December 2018	6,500	167	(13,726)	102,334	(5,726)	12,229	101,778

Edinburgh Airport Limited

Statement of changes in equity for the year ended 31 December 2019 (continued)

	Called up share capital £'000	Capital contribution reserve £'000	Hedging reserve £'000	Non- distributable reserve £'000	Pension reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2019	6,500	167	(13,726)	102,334	(5,726)	12,229	101,778
Profit for the year ended 31 December 2019	-	-	-	-	-	71,272	71,272
Transfer of non-distributable gain on investment property	-	-	-	18,075	-	(18,075)	-
Transfer of deferred tax on gain on investment property	-	-	-	(3,629)	-	3,629	-
Other comprehensive income:							
Actuarial gains on defined benefit plans	-	-	-	-	(2,541)	-	(2,541)
Fair value gains on effective hedges	-	-	(2,986)	-	-	-	(2,986)
Deferred tax on other comprehensive income	-	-	269	41	273	-	583
Total comprehensive income for the year	-	-	(2,717)	14,487	(2,268)	56,826	66,328
Transactions with owners in their capacity as owners:							
Dividends	18	-	-	-	-	(18,000)	(18,000)
Capital contribution	-	755	-	-	-	-	755
Balance at 31 December 2019	6,500	922	(16,443)	116,821	(7,994)	51,055	150,861

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

General information

Edinburgh Airport Limited is a limited company domiciled and incorporated in the United Kingdom and registered in Scotland.

The address of the company's registered office and principal place of business is: Edinburgh Airport, Edinburgh, Scotland, EH12 9DN.

The company's principal activities are detailed in the Directors' report.

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

Basis of accounting for the year ended 31 December 2019

The financial statements of the company prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102).

Ultimate parent undertaking and controlling party

The immediate parent company of Edinburgh Airport Limited is Green Bidco Limited, a company registered in the United Kingdom.

The company's ultimate parent company is Green Luxco I S.ar.l., a company registered in Luxembourg. The registered office of Green Luxco I S.ar.l. is 78-80, rue Mühlenweg, L-2155 Luxembourg. Green Luxco I S.ar.l. is the smallest and largest company to consolidate these financial statements for the year.

Copies of the financial statements for Green Bidco Limited and Green Luxco I S.ar.l. may be obtained by writing to The Company Secretary, Edinburgh Airport, Edinburgh, Scotland, EH12 9DN, United Kingdom.

The directors are of the opinion that the ultimate controlling party is a group of investment funds managed by Global Infrastructure Partners, LP.

Investments

During the year, the company acquired 100% of the share capital in a newly incorporated subsidiary company, Edinburgh Airport Services Limited ('EASL'). EASL incorporated in the United Kingdom on 13 November 2019 and has the registered address Edinburgh Airport, Edinburgh, Scotland, EH12 9DN. EASL did not trade in the year to 31 December 2019.

Reduced disclosures

In accordance with FRS 102 (and the Application Guidance to FRS 100 'Application of Financial Reporting Requirements') the company has taken advantage of the exemptions from the following disclosure requirements as they are disclosed in the financial statements of the ultimate parent company, Green Luxco I S.ar.l:

- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' –
 - Details of collateral, loan defaults or breaches; and
 - Details of hedges.
- Section 26 'Share based payment':
 - Share-based payment expense charged to profit or loss;
 - Reconciliation of opening and closing number and weighted average exercise price of share options;
 - How the fair value of options granted was measured;
 - Measurement and carrying amount of liabilities for cash-settled share-based payments; and
 - Explanation of modifications to arrangements.
- Section 33 'Related party disclosures':
 - Compensation for key management personnel.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Going concern

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

Consequently the directors have reviewed the cash flow projections taking into account:

- the forecast passenger numbers
- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities and its forecast financial ratios.

The directors have undertaken a scenario planning exercise to consider the potential impacts of the COVID-19 pandemic on Edinburgh Airport's operations, profitability and cash flow. The scenario modelling assumes reduced passenger numbers and revenue as a result of COVID-19, reflecting the current period of significantly reduced activity and a subsequent recovery period. These scenarios incorporate the robust suite of cash preservation and cost reduction measures which the Company has already implemented in response to the pandemic. These scenarios assume profitability and cash generation in 2020 reduces significantly compared to previous expectations prior to the COVID-19 pandemic.

The scenarios have taken into consideration the bank facilities currently available, see note 13(a). In each scenario modelled the directors believe the company can maintain sufficient liquidity with existing committed borrowing facilities. To supplement these measures the company has an agreement in place with banks for an additional committed term loan of £75m as a backstop facility which provides additional resilience on top of existing liquidity. Existing debt facility lenders have also agreed to waive a number of financial and non-financial covenants that are potentially impacted by the COVID-19 pandemic. The financial covenants waivers have been secured for both the June 2020 and December 2020 assessment points.

The scenario planning exercise undertaken has assumed a cautious approach to the airport's recovery from the COVID-19 pandemic. It has been assumed the recovery will be gradual as the Governments around the world, including the UK, phase the removal of the enforced 'lockdown' measures.

Based on the scenarios analysis, the directors believe the company can maintain sufficient liquidity over the next 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Functional and presentational currencies

The financial statements are presented in sterling which is also the functional currency of the company.

Foreign currency

The company is not materially exposed to foreign exchange currency risk as all material transactions and financial instruments are in pounds sterling. Transactions denominated in foreign currencies are translated into sterling using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to profit or loss.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of:

Aeronautical

- Passenger charges based on the number of departing passengers on departure, recognised on departure;
- Aircraft landing charges levied according to noise, emissions and weight, recognised on landing;
- Aircraft parking charges based on a combination of weight and time parked, recognised on landing; and
- Other charges levied for passenger and baggage operation when these services are rendered.

Retail

- Concession fees from retail and commercial concessionaires at or around the airport are based upon turnover certificates supplied by concessionaires and are recognised in the period to which they relate; and
- Car parking income for both roll up and pre-book customers is recognised from date of entering the car park to earlier of customer exit date or period end.

Property and operational facilities

- Property letting sales, recognised on a straight-line basis over the term of the rental period;
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale;
- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided; and
- Other invoiced sales, recognised on the performance of the service.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Operating costs - exceptional

The company presents, on the face of the Statement of comprehensive income, disclosure of exceptional items. Exceptional items are items of income and expense that, because of their size or incidence merit separate presentation to allow an understanding of the company's financial performance. Additional details of exceptional items are provided as and when required as set out in note 4.

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. The company took the option under FRS 102 section 35 "Transition to this FRS" to revalue fixed assets to their fair value at the transition date of 1 January 2014 and treat this as deemed cost.

Operational assets

Terminal complexes, airfield assets, plant and equipment and other land and buildings are stated at cost less accumulated depreciation and impairment losses.

Assets in the course of construction

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the company. The company reviews these projects on a regular basis to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Depreciation

Depreciation is provided on operational assets, other than land and assets in the course of construction, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as set out below. The company assesses, at each reporting date, whether there is an indication that an asset's residual value and/or useful life may not be appropriate. If such indication exists, the useful lives and residual values are reviewed, and adjusted if appropriate.

Terminal complexes

Terminal building, pier and satellite structures	20 – 60 years
Terminal fixtures and fittings	5 – 20 years
Airport plant and equipment:	
Baggage systems	2 – 15 years
Screening equipment	3 – 7 years
Lifts, escalators, travellers	5 – 20 years
Other plant and equipment, including runway lighting and building plant	5 – 20 years
Tunnels, bridges and subways	50 – 100 years

Airfields

Runway surfaces	10 – 15 years
Runway bases	10 – 100 years
Taxiways and aprons	10 – 50 years

Other land and buildings

Other land	Not depreciated
Other landscaping	10 – 75 years
Buildings and structures	5 – 50 years
Roads and surfaces	5 – 15 years
Miscellaneous fixtures and fittings	5 – 20 years

Plant and equipment

Motor vehicles	4 – 8 years
Office equipment	5 – 10 years
Computer equipment	4 – 5 years
Computer software	3 – 7 years

Land and buildings are accounted for separately even when acquired together.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Tangible fixed assets (continued)

Impairment of assets

The company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. Where the asset does not generate cash flows that are independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to profit or loss over the expected useful lives concerned. Other grants are recognised as income over the periods when the related costs are incurred.

Borrowing costs

All finance costs are charged in the Statement of comprehensive income in the period in which they are incurred.

Investment properties

Investment properties (including properties rented out under an operating lease) are initially measured at cost and subsequently measured at fair value where a reliable measure of fair value is available without undue cost or effort. Changes in fair value are recognised in profit or loss.

The Companies Act 2006 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in FRS102. The directors consider that, because investment properties are not held for consumption but for their investment potential, to depreciate them would not give a true and fair view.

If this departure from the Companies Act 2006 had not been made in order to give a true and fair view, the profit for the financial year would have been reduced by depreciation. However the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the annual valuation and the amount relating to the depreciation of the property cannot be separately identified or quantified.

Stocks

Raw materials and consumables consist of engineering spares and other consumable stores (fuel and anti-freeze media) and are valued at the lower of cost and current value.

At each reporting date, the company assesses whether stocks are impaired or if an impairment loss recognised in prior periods has reversed.

Reversals of any impairment losses are also recognised in profit or loss.

Cash at bank

Cash comprises cash deposits repayable on demand.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Current and deferred taxation

The tax expense for the year represents the sum of the current tax expense and deferred tax expense. Current tax liabilities are recognised when tax payable exceeds the tax paid.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on differences between the value of assets and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax.

For non-depreciable assets measured using the revaluation model and investment properties measured at fair value (except investment property with a limited useful life held by the company to consume substantially all of its economic benefits), deferred tax is measured using the tax rates and allowances that apply to the sale of the asset or property.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities (or, separately, deferred tax assets and deferred tax liabilities) are offset, if and only if, there is a legally enforceable right to set off the amounts and the intention is either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a lessee

Operating leases are identified during agreement of the initial contracts. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

If lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Company as a lessor

Leases where the company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as the rental income.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are capitalised as part of a tangible fixed asset.

Retirement benefits

Defined contribution plans

For defined contribution schemes the amount charged to profit or loss in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the Statement of financial position.

Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method.

The net defined benefit asset/liability represents the present value of the defined benefit obligation minus the fair value of plan assets out of which obligations are to be settled. Any asset resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the plan.

The rate used to discount the benefit obligations to their present value is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

Gains or losses recognised in profit or loss

- The change in the net defined benefit liability arising from employee service during the year is recognised as an employee cost;
- The cost of plan introductions, benefit changes, settlements and curtailments are recognised as incurred; and
- Net interest on the net defined benefit asset/liability comprises the interest cost on the defined benefit obligation and interest income on the plan assets, calculated by multiplying the fair value of the plan assets at the beginning of the period by the rate used to discount the benefit obligations.

Gains or losses recognised in other comprehensive income

- Actuarial gains and losses; and
- The difference between the interest income on the plan assets and the actual return on the plan assets.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS102, in full, to all its financial instruments.

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument, and are offset only when the company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Trade debtors

Trade debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

A provision for impairment of trade debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in the Statement of comprehensive income for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in profit and loss.

Financial liabilities and equity

Financial instruments are classified as liabilities and equity instruments according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all its liabilities.

Trade creditors

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value, at each reporting date. Fair value gains and losses are recognised in the Statement of comprehensive income unless hedge accounting is applied and the hedge is a cash flow hedge.

To qualify for hedge accounting, the company documents the hedged item, the hedging instrument and the hedging relationship between them as well as the causes of hedge ineffectiveness such as different maturities, nominal amounts or variable rates or counterparty credit risk.

The company elects to adopt hedge accounting for interest rate swaps where:

- The interest rate swap is a qualifying hedging instrument with an external party that hedges interest rate risk on a loan, part of the nominal amount of a loan, or a group of loans managed together that share the same risk and that qualify as a hedged item;
- The hedging relationship between the interest rate swap and the interest rate risk on the loan is consistent with the risk management objectives for undertaking hedges (i.e. to manage the risk that fixed interest rates becomes unfavourable in comparison to current market rates or the variability in cash flows arising from floating interest rates); and
- The change in the fair value of the interest rate swap is expected to move inversely to the change in the fair value of the interest rate risk on the loan.

Where an interest rate swap that converts floating rate debt into fixed rate debt qualifies for hedge accounting, it is accounted for as a cash flow hedge. The cumulative change in the fair value of the interest rate swap is recognised in other comprehensive income up to the amount of the cumulative fair value movement on the floating rate debt that is attributable to the floating interest rate risk. Any excess fair value gains or losses on the interest rate swap not recognised in other comprehensive income are recognised in profit or loss. The gains and losses recognised in other comprehensive income are recorded as a separate component of equity – the hedging reserve.

Net cash settlements on interest rate swaps are recognised in profit or loss in the period(s) when the net cash settlement accrues. The hedging reserve is reclassified to profit or loss when the fixed rate interest is recognised in profit or loss.

Hedge accounting is discontinued when a floating to fixed interest rate swap expires, is sold, terminated or exercised or when the conditions for hedge accounting are no longer met if the company documents its election to discontinue hedge accounting. Any fair value gains or losses accumulated in the hedging reserve are reclassified to profit or loss, either when the variable interest rate expense is recognised in profit or loss, or immediately on discontinuation of hedge accounting if future variable interest rate cash flows are no longer expected to occur.

Edinburgh Airport Limited

Accounting policies for the year ended 31 December 2019 (continued)

Borrowings

Borrowings are initially recognised at the transaction price and subsequently measured at amortised cost using the effective interest method, net of direct issue costs. Interest expense is recognised on the basis of the effective interest method and is included in net interest payable and other similar charges.

Commitments to receive a loan are measured at cost less impairment.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Deferred income

Contractual income is treated as deferred income and released to profit and loss as earned.

Share capital

The company is limited by shares.

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Dividends

Dividends are recognised as liabilities once they are no longer at the discretion of the company.

Share-based payments

The company grants share options ("equity-settled share-based payments") in the form of a long-term incentive plan ("LTIP") to members of its Executive Committee. The LTIP relates to equity instruments of Green Bidco Limited, the entity which owns the company.

The value of these equity instruments will be based on the Internal Rate of Return ("IRR") achieved by the company's controlling shareholder from acquisition to sale of their investment in the company. Below a minimum IRR threshold, these equity instruments will have no value. Above a ceiling IRR, the value of these equity instruments are capped. These equity instruments will vest over a two to six year period from the date of issue.

Payments will be measured with reference to their value for taxation purposes and recognised in profit and loss in the period in which they are made.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions (the 'original fair value') and under the modified terms and conditions (the 'modified fair value') are both determined at the date of modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

Edinburgh Airport Limited

Significant accounting judgements and estimates for the year ended 31 December 2019

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.

The company makes estimates and assumptions concerning the future. Actual results may, however, differ from the estimates calculated and management believe that the following area presents the greatest level of uncertainty.

Investment properties – estimate

Investment properties were valued at fair value at 31 December 2019 by Ryden, Chartered Surveyors (2018: Ryden, Chartered Surveyors). The valuations were prepared in accordance with relevant accounting standards and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Independent valuations have been obtained for 100% of the investment properties. Approximately 58% (2018: 58%) of the investment properties comprise car parks and airside assets at the airport that are considered less vulnerable to market volatility than the overall market.

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019

1. Turnover

All of the company's turnover arises in the United Kingdom and relates to continuing operations. Additional details of the turnover generated by each of the company's key activities are given below:

	2019 £'000	2018 £'000
Aeronautical	114,444	107,848
Retail	83,441	77,097
Operational facilities and utilities	14,704	12,430
Property rental	6,461	5,378
Other	1,996	1,159
	221,046	203,912

2. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2019 £'000	2018 £'000
Staff costs (Note 3)	34,125	32,270
Depreciation of tangible fixed assets (Note 8)	32,757	29,399
Capital grant income (Note 13(b))	(388)	-
Amortisation of capital grants (Note 13(b))	-	(134)
Loss/(profit) on disposal of assets	59	(1)
Other operating leases	41	51

Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	48	47
Non-audit fees payable to the company's auditor for other services		
Audit related assurance services	5	5
Tax advisory services	42	79
Tax compliance services	65	63
Total non-audit fees	112	147
Total fees	160	194

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Employees

The average monthly number of persons (including directors) employed, on a full-time equivalent basis, by the company during the year was:

	2019 No.	2018 No.
Office and management	82	74
Airside, security and operations	537	531
Retail and commercial	66	59
	685	664

Staff costs for the above employees

	2019 £'000	2018 £'000
Wages and salaries	26,577	25,607
Social security	2,868	2,736
Other pension costs and current service cost	-	108
Defined contribution pension cost	2,873	2,357
Other employment costs	1,807	1,462
	34,125	32,270

Directors

In respect of the directors of Edinburgh Airport Limited:

	2019 £'000	2018 £'000
Directors' remuneration		
Aggregate emoluments	743	718
Value of company pension contributions to defined contribution scheme	7	7
	750	725

One director is a member of the defined contribution pension scheme.

Details of other transactions made with directors during the year are disclosed in note 20.

Highest paid director's remuneration

	2019 £'000	2018 £'000
Aggregate emoluments	623	623
Value of company pension contributions to defined contribution scheme	7	7
	630	630

An amount of £557 (2018: £588) was accrued in relation to the highest paid director's entitlements under the defined contribution pension scheme.

The highest paid director of the company held shares in a parent company, through a long-term incentive plan, throughout both 2019 and 2018.

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

4. Operating costs – exceptional (net)

	2019 £'000	2018 £'000
Restructuring and reorganisation costs ¹	-	81
Refinancing costs ²	201	206
Consultation costs in respect of potential changes to flight paths ³	535	421
Land and planning disputes ⁴	130	-
General Data Protection Regulation ("GDPR") implementation costs ⁵	-	290
Operational disruption due to major capital projects ⁶	583	-
GMP equalisation adjustment in the defined benefit pension scheme ⁷	-	377
Adjudication costs ⁸	-	274
Total	1,449	1,649

¹ Procurement and redundancy costs in respect of restructuring aspects of the company's business.

² During 2019, the company undertook a refinancing transaction, paying associated legal fees. The company also undertook such an exercise during 2018.

³ During 2016, the company launched a consultation process seeking views on the potential impact of altering flight paths above Edinburgh. This process has continued through to 2019.

⁴ Costs incurred as a result of disputes in respect of land and planning.

⁵ Costs relating to the company ensuring it is compliant with GDPR in advance of and following implementation of the regulations on 25 May 2018.

⁶ Operational costs due to disruption caused by major capital projects, including expansion of the baggage hall.

⁷ Following a significant legal judgement confirming the legal requirement for pension schemes to equalise Guaranteed Minimum Pensions (GMP), a reserve has been added to the obligation for the company's defined benefit pension scheme during the year. This reserve is expected to cover any future rectification of members' benefits (including back payments) that may have to be undertaken as a result of the judgement.

⁸ Legal and consultancy costs of an adjudication and settlement with a construction contractor on a capital investment project.

5. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable on bank deposits	44	19
Net interest on the net defined benefit pension asset	124	92
	168	111

6. Net interest payable and similar charges

	2019 £'000	2018 £'000
Interest on borrowings	32,865	29,212
Amortisation of debt costs	370	738
Facilities fees	239	166
Hedge effectiveness	(284)	(686)
	33,190	29,430

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

7. Taxation on profit on ordinary activities

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits of the period	16,468	15,169
Adjustment in respect of previous periods:		
- UK corporation tax	(348)	(101)
Total current tax	16,120	15,068
Deferred tax		
Origination and reversal of timing differences	4,592	3,043
Adjustment in respect of previous periods	167	5
Effect of changes in tax rates	(666)	(313)
Total deferred tax	4,093	2,735
Taxation charge on profit on ordinary activities	20,213	17,803

Reconciliation of taxation charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2018: 19%). The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	2019 £'000	2018 £'000
Profit before taxation	91,485	78,955
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	17,382	15,001
Effect of:		
Expenses not deductible for tax purposes	3,969	3,272
Income not taxable	(74)	(18)
Deferred tax not provided	(217)	(43)
Adjustment in respect of previous periods	(181)	(96)
Tax rate changes	(666)	(313)
Taxation charge for the year	20,213	17,803

In addition to the amount charged to profit or loss, a credit of £583,000 (2018: charge of £1,293,000) has been recognised in other comprehensive income.

A reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in the UK Finance Act 2016. However, the UK Government included a pledge in their election manifesto, which has not been substantively enacted as at the balance sheet date, that the enacted tax rate cut may not go ahead and the UK corporation tax rate will remain at 19%. If this pledge is substantively enacted in the future we would expect the overall deferred tax liability to increase by £5.3m.

There is no expiry date on timing differences, unused tax losses or tax credits.

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

8. Tangible fixed assets

	Terminal complexes £'000	Airfield £'000	Other land and buildings £'000	Plant, equipment & other assets £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation						
1 January 2019	319,289	176,035	82,688	67,690	26,246	671,948
Additions	-	-	-	-	59,380	59,380
Transfers to/(from) assets in course of construction	4,972	35,153	7,620	1,247	(48,992)	-
Transfers (to)/from investment property (note 9)	-	433	-	-	(1,733)	(1,300)
31 December 2019	324,261	211,621	90,308	68,937	34,901	730,028
Depreciation						
1 January 2019	(51,651)	(30,002)	(29,646)	(26,173)	-	(137,472)
Charge for the year	(13,767)	(7,990)	(5,453)	(5,547)	-	(32,757)
31 December 2019	(65,418)	(37,992)	(35,099)	(31,720)	-	(170,229)
Net book value 31 December 2019	258,843	173,629	55,209	37,217	34,901	559,799
Net book value 31 December 2018	267,638	146,033	53,042	41,517	26,246	534,476

Assets in the course of construction

Assets in the course of construction comprise capital expenditure on on-going capital projects under the company's capital investment programme.

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

9. Investment properties

	2019 £'000	2018 £'000
At 1 January	281,525	256,458
Transfers from owner-occupied property (note 8)	1,300	12,451
Disposals	(2,412)	-
Fair value gains	18,075	12,616
At 31 December	298,488	281,525

Investment property includes land held for development. The fair value of the company's investment property and land held for development at 31 December 2019 has been arrived at on the basis of a valuation carried out by Ryden, Chartered Surveyors, on an open market value basis (2018: Ryden, Chartered Surveyors). Ryden is not connected with the company. The valuation was arrived at by reference to market evidence of transaction prices for similar properties, or where not available, to market yields.

If investment properties were stated on an historical cost basis rather than a fair value basis, the amounts would have been included as follows:

	2019 £'000	2018 £'000
Cost	52,320	55,541

As noted in note 1, rental income earned during the year was £6,461,000 (2018: £5,378,000). At the balance sheet date, the company had contracted with tenants for the following future minimum lease receipts: £15,683,000 (2018: £8,282,000).

10. Stocks

	2019 £'000	2018 £'000
Raw materials and consumables	1,068	905

The replacement cost of raw materials and consumables at 31 December 2019 and 31 December 2018 was not materially different from the amount at which they are included in the Statement of financial position.

11. Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	7,686	6,411
Accrued income	5,901	6,786
Prepayments	2,556	2,024
Amounts receivable from group undertakings	66	620
Other debtors	128	121
Total	16,337	15,962
Amounts falling due after more than one year:		
Amounts receivable from group undertakings – non-interest bearing ¹	376,465	266,664
Amounts receivable from group undertakings – interest bearing ²	512	-
Total	376,977	266,664
Total debtors	393,314	282,626

¹ Non-interest bearing amounts receivable from group undertakings due after more than one year relate to amounts owed by the immediate parent company, Green Bidco Limited. Included within this balance is accrued interest of £2,863,000 (2018: £2,863,000) which is payable on full settlement of the outstanding balance. Following the refinancing in May 2014, interest ceased to be charged on the loan. The loan is not repayable for at least 5 years.

² Interest-bearing amounts receivable from group undertakings due after more than one year relate to a £500,000 (2018: £nil) loan amount owed by a group company, Crosswind Developments Limited. Interest is accrued on the loan at Bank of England Base Rate plus a fixed margin. Total interest accrued as at 31 December 2019 was £12,000 (2018: £nil). The loan is repayable in 2024.

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued).

12. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loans and overdrafts	-	20,000
Fair value of floating to fixed interest rate swaps (note 14)	-	470
Trade creditors	3,551	2,833
Capital creditors	12,419	13,713
Deferred finance charges	(138)	(331)
Accruals and deferred income	34,509	30,680
Other creditors	287	248
Corporation tax payable	7,490	6,993
Other taxes and social security costs	3,196	477
Total	61,314	75,083

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

	2019 £'000	2018 £'000
Financing liabilities		
External borrowings (a)	980,300	880,300
Deferred finance charges	(369)	(479)
Fair value of floating to fixed interest rate swaps (note 14)	21,577	18,429
Total financing liabilities	1,001,508	898,250
Amounts payable to group undertakings	1,300	2,758
Accruals and deferred income (b)	2,277	2,919
Total	1,005,085	903,927

(a) External borrowings

Borrowings are repayable in instalments as follows:

	2019 £'000	2018 £'000
Between two and five years	275,300	115,300
Between five and ten years	555,000	615,000
Greater than ten years	150,000	150,000
Total	980,300	880,300

The company has term loans with a number of banks and institutions. These loans are secured through a floating charge over the company's assets and a fixed charge over the company's share capital. There are no additional securities granted following the refinancing activity in the year. Interest is charged at either fixed rate or at a margin above LIBOR.

At 31 December 2019 the average interest rate payable on borrowings was 3.36% p.a. (2018: 3.64%), inclusive of the effect of interest rate swaps used to hedge floating interest rates on the underlying debt.

At 31 December 2019 the company had £58 million undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date (2018 - £38 million).

(b) Accruals and deferred income

The company has received capital grants which are classified as deferred income and are amortised over the expected useful lives of the assets concerned.

Analysis of capital grants within deferred income is as follows:

	2019 £'000	2018 £'000
Balance brought forward at 1 January	3,053	3,187
Amortised in the year	(388)	(134)
31 December	2,665	3,053
<i>Represented by:</i>		
Due within one year	388	134
Due after more than one year	2,277	2,919
Total capital grants	2,665	3,053

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

14. Financial Instruments

The company uses interest rate swaps to manage its exposure to interest rate movements on its bank and institutional borrowings. Contracts with nominal values of £250 million (2018: £370 million) fix interest on variable rate debts at an average rate of 2.66% (2018: 2.48%) for periods up until 2027.

The fair values of interest rate swaps are determined using market values of equivalent instruments at the Statement of financial position date.

All interest rate swaps meet the conditions for hedge accounting, as set out in the accounting policies.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Maturity date	2019		2018	
	Notional value £'000	Fair value £'000	Notional value £'000	Fair value £'000
Less than one year	-	-	120,000	(470)
Two to five years	160,000	(13,340)	-	-
Over five years	90,000	(8,237)	250,000	(18,429)
	250,000	(21,577)	370,000	(18,899)

The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is six months' LIBOR. The company will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the company's cash flow exposure resulting from variable interest rates on borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

A loss of £2,986,000 (2018: £7,090,000 gain) was recognised in other comprehensive income. A gain of £284,000 (2018: £686,000) was recognised in profit and loss in relation to hedge effectiveness.

15. Provisions for liabilities – deferred tax

	2019 £'000	2018 £'000
Provision at start of the year	41,437	37,409
Adjustment in respect of prior years	167	5
Charged to income statement	3,926	2,730
Credited / (charged) to other comprehensive income	(583)	1,293
Provision at end of the year	44,947	41,437

Deferred tax is provided as follows:

	2019 £'000	2018 £'000
Fixed asset timing differences	48,576	44,343
Short term timing differences	(3,629)	(3,591)
Pensions	-	685
Total	44,947	41,437

Deferred tax assets:

	2019 £'000	2018 £'000
Recoverable within 12 months	-	-
Recoverable after 12 months	3,629	2,906
Total	3,629	2,906

Deferred tax liabilities:

	2019 £'000	2018 £'000
Payable within 12 months	-	-
Payable after 12 months	48,576	44,343
Total	48,576	44,343

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

15. Provisions for liabilities – deferred tax (continued)

The UK corporate tax rate is currently 19%. A reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in the UK Finance Act 2016. However, the UK Government included a pledge in their election manifesto, which has not been substantively enacted as at the balance sheet date that the enacted tax rate cut may not go ahead and the UK corporation tax rate will remain at 19%. If this pledge is substantively enacted in the future we would expect the overall deferred tax liability to increase by £5.3m.

Deferred tax should be measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. As a result, consideration has been given to the likely reversal of underlying timing differences on which deferred tax is recognised to determine the appropriate rate to apply to these balances. Deferred tax has been recognised at the following rates:

Fixed asset timing differences – Land & investment properties	17%	Assumption that timing difference will reverse after April 2020.
Fixed asset timing differences – assets qualifying for capital allowances	17%	Assumption that timing difference will reverse after April 2020.
Short term timing differences	19%	Assumption that timing difference will reverse before April 2020.

Deferred tax assets and liabilities are offset only where the company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The company has an unrecognised deferred tax asset of £104,000 at 31 December 2019 (2018: £323,000).

16. Called-up share capital

Called up, allotted and fully paid:	2019 £'000	2018 £'000
At 1 January and 31 December	6,500	6,500

17. Dividends paid

	2019 £'000	2018 £'000
Dividend for the year: £2.77 (2018: £17.94) per ordinary share	18,000	116,604

18. Commitments and other contractual obligations

Commitments for capital expenditure

Contracted capital expenditure commitments amount to £14,627,000 (2018: £9,898,000).

Commitments under operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2019 Other leases £'000	2018 Other leases £'000
Lease payments payable:		
Within one year	-	29
	-	29

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

19. Retirement benefit schemes

Defined contribution scheme

The company operates a defined contribution pension scheme for all qualifying employees. The total cost charged to profit and loss in the year of £2,873,000 (2018: £2,357,000) represents contributions payable to this scheme by the company at rates specified in the rules of the plan. As at 31 December 2019, £325,000 (2018: £210,000) was due in respect of the current period remain unpaid to the scheme. Such amounts were paid in January 2020 when they fell due for payment.

Defined benefit scheme

The company operates a defined benefit scheme for certain qualifying employees. Under the scheme, the employees are entitled to retirement benefits varying between 1.85 and 67 per cent of final salary on attainment of a retirement age of 60. No other post-retirement benefits are provided. The scheme is funded.

The assets of the plan are held in a separate trustee administered fund. The plan was established on 31 May 2012 following a bulk transfer of the pension obligations and corresponding assets from the BAA Airports pension scheme when the company ceased to be a component of the BAA group.

Following consultation with its members and trustees, the defined benefit pension scheme was closed to future accrual with effect from midnight on 30 April 2016. The members of the scheme were thereafter entitled to participate in the company's defined contribution scheme, details of which are noted above. The estimated amount of total employer contributions expected to be paid to the plan during 2020 is £nil (2019: £nil).

The valuation used has been based on the most recent full actuarial valuation at 31 March 2016 and was updated by Spence & Partners for the scheme assets and the present value of the defined benefit obligation for 31 December 2019. The full actuarial valuation date is 31 March 2016. The full actuarial valuation at 31 March 2019 is currently subject to finalisation.

The current surplus in relation to this scheme is estimated to be £2,074,000 (2018: £4,491,000).

Key assumptions used	2019	2018
Discount rate	2.0% pa	2.8% pa
Inflation measured by:		
Retail Prices Index (RPI)	3.0% pa	3.2% pa
Consumer Prices Index (CPI)	2.0% pa	2.2% pa
Salary increases	N/A	N/A
Pension increases	2.9% pa	3.0% pa
Life expectancy of male aged 60	25.8 years	25.6 years
Life expectancy of male aged 60 in 2036	27.6 years	27.5 years

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	2019 £'000	2018 £'000
Discount rate + 0.1%	1,900	1,700
Inflation assumptions +0.1%	(1,700)	(1,500)
Life expectancy + 1 year	(2,700)	(2,500)
Equity market falls by 5%	(1,100)	(900)

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

19. Retirement benefit schemes (continued)

The movement in the net defined benefit asset is as follows:

	2019 £'000	2018 £'000
Opening net defined benefit asset	4,491	3,823
Credit/(débit) in profit and loss	124	(393)
Amounts recognised in other comprehensive income	(2,541)	1,061
Closing net defined benefit asset	2,074	4,491

Amounts recognised in the statement of comprehensive income in respect of the defined benefit scheme are as follows:

	2019 £'000	2018 £'000
Running costs paid by plan	-	192
Contributions paid in 2016 by the Company in respect of Plan running costs	-	(84)
Past service costs	-	377
Interest income	(124)	(92)
Total expense recognised in Statement of comprehensive income	(124)	393

Of the charge for the year, £nil (2018: £108,000) has been included within operating expenses and £124,000 (2018: £92,000) has been included within finance income in note 5. Guaranteed Minimum Pension ("GMP") equalisation adjustments of £nil (2018: £377,000) have been included within Operating costs – exceptional in note 4.

The actual return on scheme assets was a gain of £9,059,000 (2018: loss of £2,143,000).

The amount included within the statement of financial position arising from the company's obligations in respect of its defined benefit retirement benefit scheme is as follows:

	2019 £'000	2018 £'000
Present value of defined benefit obligation	(84,547)	(75,867)
Fair value of scheme assets	86,621	80,358
Net asset recognised within the Statement of financial position	2,074	4,491

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

	2019 £'000	2018 £'000
Opening defined benefit obligation	75,867	85,204
Past service costs	-	377
Interest expense	2,063	2,001
Actuarial losses	9,413	(5,297)
Benefits paid	(2,796)	(6,418)
Closing defined benefit obligation	84,547	75,867

Movements in the fair value of scheme assets were as follows:

	2019 £'000	2018 £'000
Opening fair value of scheme assets	80,358	89,027
Interest income	2,187	2,093
Actual return on plan assets less interest income	6,872	(4,236)
Administration costs	-	(108)
Benefits paid	(2,796)	(6,418)
Closing fair value of scheme assets	86,621	80,358

Edinburgh Airport Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

19. Retirement benefit schemes (continued)

The analysis of scheme assets at fair value at the balance sheet date was as follows:

	2019 £'000	2018 £'000
Equity instruments	22,077	18,660
Multi-asset credit	33,110	31,478
Diversified growth funds (DGF)	17,061	15,909
Property	4,399	4,651
Liability driven investment	7,669	9,048
Cash	2,305	612
Closing fair value of scheme assets	86,621	80,358

The pension plans have not invested in any of the company's own financial instruments nor in properties or other assets used by the company.

20. Related party transactions

The company is exempt under the terms of FRS 102 Section 33 "Related Party Disclosures" from disclosing related party transactions with entities that are part of the Green Luxco I S.a.r.l. Group, as all subsidiaries within the group are wholly-owned.

At 31 December 2019 there is a loan to one of the directors of £82,000 (2018: £82,000). The balance is included in the other debtors balance in Note 11. £22,000 of this loan balance was granted in relation to the tax costs associated with the Long Term Incentive Plan (LTIP).

21. Notes to the Statement of cash flows

Net cash flows from operating activities:

	2019 £'000	2018 £'000
Profit for the financial year per Statement of comprehensive income	71,272	61,152
Depreciation charge	32,757	29,399
Taxation	20,213	17,803
Interest payable	33,190	29,430
Interest receivable	(168)	(111)
Fair value gain on investment property	(18,075)	(12,616)
Loss / (profit) on disposal of fixed assets	59	(1)
Amortisation of capital grants	(388)	(134)
Increase in stock	(163)	(62)
Increase in debtors	(929)	(1,353)
Increase/(decrease) in creditors	7,805	(2,077)
Cash portion of pension scheme contributions	-	485
Cash from operations	145,573	121,915
Income taxes paid	(14,383)	(12,682)
Net cash generated from operating activities	131,190	109,233

Components of cash and cash equivalents:

	2019 £'000	2018 £'000
Cash	7,464	18,202
	7,464	18,202