

Aberdeen International Airport Limited Annual report and financial statements for the year ended 31 December 2016



THURSDAY



Company registration number SC096622

Aberdeen International Airport Limited

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Aberdeen International Airport Limited

Officers and professional advisers

Directors

Gonzalo Velasco Zabalza (appointed 24 May 2016)
Ignacio Aitor Garcia Bilbao
John Bruen
Carol Benzie
Simon Geere (appointed 8 March 2016)

Registered office

Aberdeen Airport
Dyce
Aberdeen
Scotland
AB21 7DU

Independent auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
110 Queen Street
Glasgow
G1 3BX

Bankers

The Royal Bank of Scotland plc
280 Bishopsgate
London
EC2M 4RB

Aberdeen International Airport Limited

Strategic report

The Company is the owner and operator of Aberdeen International Airport and forms part of the AGS Airports Holdings Group.

This strategic report is presented under two sections:

Management review – overview of the year ended 31 December 2016, along with the key factors likely to impact the Company in 2017.

Internal controls and risk management – outline of the Company's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the Group Executive Committee.

Management Review

Review of business and future developments

Key events occurring during the year and developments since the beginning of 2017 are detailed below.

Passenger traffic

In the year ended 31 December 2016, passenger traffic decreased 11.4% to 3.1 million (2015: 3.5 million). The performance reflects a 14.7% fall in domestic traffic and a 6.0% fall in International traffic.

The lower passenger levels were driven by reduced rotations across typical oil and gas market related routes which have been adversely impacted by the downturn in the Energy sector.

¹ Calculated using rounded numbers

Financial Overview

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Turnover	55,901	63,417
Adjusted operating costs ¹	(35,542)	(38,461)
Adjusted EBITDA ²	20,359	24,956
Non-recurring items	3,664	-
Fair value (loss)/gain on investment properties	(9,724)	7,023
Depreciation	(5,329)	(5,883)
Operating profit	8,970	26,096
Interest receivable and similar income	6,592	4,246
Interest payable and similar charges	(2,751)	(1,463)
Profit before tax	12,811	28,879
Taxation	(2,077)	(3,664)
Profit for the year	10,734	25,215

¹ Adjusted operating costs are stated before depreciation and non-recurring items.

² Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and certain re-measurements.

In the year ended 31 December 2016, turnover decreased 11.9% to £55,901k (2015: £63,417k) due to a fall in passengers numbers.

In the year ended 31 December 2016 adjusted operating costs decreased by 7.6% to £35,542k (2015: £38,461k). The main drivers include a decrease in employment costs, general expenses and maintenance expenditure.

Adjusted EBITDA in the year ended 31 December 2016 was £20,359k and decreased 18% on the prior year (2015: £24,956k) as a result of lower turnover driven from reduced passenger levels, being partially offset by the reduction in operating costs.

Non-recurring items

During the period, the Company agreed changes to the defined benefit pension scheme effective from 1 September 2016. The changes included the introduction of an annual cap on future and past increases to pensionable pay. The changes resulted in a one-off reduction of £4.5 million in the scheme's liabilities, as measured under IAS19, and is classified as non-recurring item in the profit and loss account. There is no immediate cash flow impact of these changes. The company also incurred £0.9 million of costs in relation to the defined benefit pension scheme changes.

Aberdeen International Airport Limited

Strategic report *continued*

Fair value movements on investment properties

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors. Investment properties comprise mainly car parks, third party occupied facilities and airside assets. The investment property valuation as at 31 December 2016 resulted in a loss of £9,724k (2015: gain of £7,023k), driven in the main by a lower valuation of car parking facilities.

Dividend

No dividend was paid or declared in the year ended 31 December 2016 (2015: £nil).

Pension scheme

At 31 December 2016, AGS Airports Limited defined benefit pension scheme had a deficit of £9,849k (2015: surplus £9,497k) as measured under IAS 19. The Company's share of this deficit amounts to £2,858k (2015: surplus of £2,746k). The movement mainly reflects the changes in the discount rate partly offset by the changes implemented in 2016.

Investment in airport facilities

During the year ended 31 December 2016 Aberdeen International Airport capitalised £12 million (2015: £5 million) of costs. Major projects included construction works for phase one of the terminal transformation project, increasing the electrical capacity and resilience of the airport to cope with the terminal expansion, taxiway resurfacing and a new fire service helicopter training and compliance simulator.

Construction of the main extension as part of the terminal expansion and redevelopment is expected to be complete in Q3 2017. This includes new international and domestic reclaim facilities and new executive lounges.

Service standards

The Company continues to focus on delivering consistently high service standards across its airport, a key strategic priority.

Punctuality levels (as measured by the proportion of aircraft departing within 15 minutes of schedule) decreased 2.5% to 86.9% (2015: 89.1%) although this is still considered to be a high standard level of punctuality.

Aberdeen Airport participates in the Airport Council International's Airport Service Quality benchmarking survey which includes over 90 European airports and hundreds worldwide. Aberdeen Airport saw its average overall passenger satisfaction scores in the quarterly Airport Service Quality ('ASQ') survey decrease to 3.74 out of 5 (2015: 3.77). Categories measuring interaction with airport staff – at 'check-in', security and generally within the airport – were the best performing areas of the survey. The terminal transformation project is expected to drive overall improvement in passenger satisfaction upon completion. Aberdeen Airport will continue to focus on improving the service quality throughout its operations.

Development since beginning of 2017

During the first two months of 2017 passenger traffic at Aberdeen Airport was 2.4% lower than 2016 levels for the same period. This reflects a 1.6% reduction due to the leap year impact and a lower level of helicopter traffic, whilst fixed wing passenger levels experienced moderate growth.

Outlook

The Company expects the passenger levels in 2017 to be broadly in line with 2016 actual performance. The demand from the Energy market is anticipated to remain at the lower level experienced from Q3 2016 due to the continuation of low oil prices. However, the Company expects increased international passenger traffic, as a consequence of additional leisure capacity introduced in 2017. Ryanair has announced new flights to three destinations – Malaga, Alicante and Faro.

Aberdeen International Airport Limited

Strategic report - Internal controls and risk management

Internal control and risk management is the responsibility of the AGS Airports Holdings Group. The Executive Committee, Board and Audit and Risk Committee ('ARC') referred to below relate to the Executive Committee, Board and ARC of AGS Airport Holdings Group.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company and for reviewing the effectiveness of the system. This is implemented by applying the Group internal control procedures, supported by a Code of Professional Conduct Policy, appropriate segregation of duties, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the Company's internal control and risk management systems in relation to the financial reporting process include:

- a Company-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- the ARC review of financial results press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items;
 - compliance with accounting, legal, regulatory and lending requirements
 - critical accounting policies and the going concern assumption
 - significant areas of judgement;
- independent review of controls by the Internal Audit function; and
- a confidential whistleblowing process.

In addition, the ARC:

- considers the appointment of the external auditor, making appropriate recommendations to the Board, and assesses the independence of the external auditor;
- ensures that the provision of non-audit services does not impair the external auditor's independence or objectivity;
- discusses with the external auditor, before the audit commences, the nature and the scope of the audit and reviews the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- reviews external auditor management letters and responses from management;
- has a standing agenda to meet privately with the external auditor independent of the executive directors; and
- reviewed the scope, operations and reports of the Company's Internal Audit function on the effectiveness of systems for internal financial control, financial reporting and risk management.

Principal Risks and Uncertainties and Risk Management

The Company's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the Company's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that day-to-day activities are managed effectively and all significant business decisions are risk-informed.

Risk is locally overseen by the Company's Managing Responsibly Governance Group ('MRGG') which meets on a monthly basis, is chaired by the Managing Director and consists of functional heads. The MRGG is linked with the key strategic intent to 'Run our Airport Responsibly'.

The risk management process is evidenced in risk registers which are used as the basis for regular review of risks and their management, up to AGS Airports Holdings Limited Board level. The risk registers are also used to inform decisions relating to the procurement of insurance cover. The risk management process also supports clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the risk management process, including the individual risk registers are subject to periodic review through the use of Internal Standards. The Company is currently certificated to ISO's 14001; 9001; 55001 and 18001. The primary responsibility is to provide independent assurance that the controls put in place by management to mitigate risks are working effectively.

Assurance is provided through the management reporting processes and reports to the AGS Airports Limited Executive Committee.

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Strategic report – Internal controls and risk management (*continued*)

Principal Risks and Uncertainties and Risk Management continued

The principal corporate and reputational risks as identified by the Executive Committee are:

Safety risks

Health and safety is a core value of the business and the Company actively promotes the role of safety leadership in creating a safety culture that is intolerant of accidents and incidents.

The Company's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the Company's business. The Company also operates robust asset management processes to ensure property and equipment remains safe.

Governance, led by the Managing Responsibly Governance Group (MRGG), and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

Security risks

Security risks are regarded as critical risks to manage. The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company works closely with government agencies, including the police and the UK Border Force building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

Regulatory environment, legal and other reputational risks

Civil Aviation Authority ('CAA') regulation

The Company's operations are currently subject to regulation by the CAA. The CAA is concerned with air safety, economic and airspace regulation, consumer protection and environmental research and consultancy. The CAA also advises the government on aviation issues and ensures that consumer interests are represented. Consequently the Company is exposed to the risk of changes in day to day operations resulting from regulatory guidelines issued by the CAA and mitigates this as far as possible. The airport is represented by dedicated AGS Airports Group staff that ensures full compliance with regulatory requirements, establish a sound relationship with the regulator and advise the Executive Committee and Board on regulatory matters.

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the Company breaching these regulations.

Environmental risks

Environmental risk is managed throughout the AGS Airports Group as it has the potential to impact negatively upon the AGS Airports Group's reputation and jeopardise the airports licences to operate and to grow. The Company has a dedicated Sustainability Assurance resource whose remit covers noise, waste, air and water quality, and carbon emissions. This role ensures that Aberdeen International Airport's operations comply with legislative obligations and Company standards. In addition, the Company has a defined CO2 strategy which takes Aberdeen International Airport up until 2020 and links in with the Scottish Government's published policy. Strategies are being put in place to ensure full compliance with the Climate Change Act 2009. An independently audited corporate social responsibility report is published annually covering all areas of environmental performance.

Slavery and human trafficking risks

The Company is committed to ensuring that there is no modern-day slavery or human trafficking in its supply chains or in any part of its business. AGS Airports Group's Sustainable & Ethical Procurement Policy has been updated to include anti-slavery legislation. The Company's supplier base has been reviewed to identify slavery and human trafficking risks and processes have been established to mitigate those risks. The Company's supplier base is mainly UK companies and branches. The Company expects these entities to comply with the Modern Slavery Act 2015 and have suitable anti-slavery and human trafficking policies and processes in place and has updated its sourcing process to ensure suitable evidence of this is provided.

Commercial and financial risks

Operational disruption

There are a number of circumstances that can pose short-term risks to the normal operations of Aberdeen International Airport such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from the location of the airport. Where possible the Company seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

Aberdeen International Airport Limited

Strategic report – Internal controls and risk management (*continued*)

Principal Risks and Uncertainties and Risk Management continued

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to a shortfall in turnover and misaligned operational capacity within the Company. Since it is not possible to identify the timing or period of such an effect, the Company carries out evaluations through a series of scenario planning exercises.

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions.

Treasury

The Company's financial risk management objectives are aligned with its parent Company, AGS Airports Limited (the 'AGS Group'), which is the parent undertaking of the group to consolidate these financial statements and the entity where external funds are borrowed and lent on to the Company and the level at which financial risks for the Company are managed. The Company's treasury policies are in compliance with the wider AGS Group and are set out below.

The Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the AGS Group Finance Team. Senior management directly control day-to-day treasury operations on a centralised basis.

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 AGS Group's business operations and funding. To achieve this, the AGS Group enters into interest rate swaps, to protect against interest rate risks.

The primary treasury related financial risks faced by the AGS Group are:

(a) Interest rates

The AGS Group maintains a mix of fixed and floating rate debt. The risk is managed through use of interest rate hedging instruments.

(b) Funding and liquidity

The AGS Group is financed through bank facilities totalling £617 million and a £30 million bond. The AGS Group is cash positive after capital expenditure and interest on external debt. As at 31 December 2016, cash was £31 million (2015: £23 million) and undrawn headroom under bank credit facilities was £80 million (2015: £116 million).

Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the Executive Committee, ARC and the Board.

In February 2017, the Group was re-financed increasing its bank debt facilities to £763 million plus £30 million to refinance the debenture loan that matures in July 2017.

(c) Counterparty credit

The AGS Group exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

The AGS Group maintains a prudent split of cash and cash equivalents across market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short-term and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F1.

On behalf of the Board



Carol Benzie
Director

31 March 2017

Company registration number: SC096622

Aberdeen International Airport Limited

Directors' report

The Directors present their Annual report and the audited financial statements for Aberdeen International Airport Limited for the year ended 31 December 2016.

Principal activities

The Company is the owner and operator of Aberdeen Airport and forms part of AGS Airports Limited group. The Company's financial activities are aligned with AGS Airports Limited and also with its immediate parent company, Airport Holdings NDH1 Limited. AGS Airports Limited is the parent undertaking of the smallest group to consolidate these financial statements.

Results and dividends

The profit after taxation for the financial year amounted to £10,734k (2015: £25,215k). No dividends were proposed or paid during the year (2015: £nil). The statutory results are set out on page 11.

Directors

The Directors who served during the year and to the date of this report, except as noted, are as follows:

Carol Benzie
Ignacio Aitor Garcia Bilbao
John Bruen
Simon Geere (appointed on 8 March 2016)
Gonzalo Velasco Zabalza (appointed on 24 May 2016)
Richard Abel (resigned on 8 March 2016)
Fidel Lopez Soria (resigned on 24 May 2016)

Employment policies

The Company has defined a set of guiding principles to ensure fair recruitment and selection. The Company continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles.

The Company is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Company actively encourages a diverse range of applicants and commits to fair treatment of all applicants. The Company's investment in learning and development is guided by senior line managers who ensure that the Company provides the learning opportunities to support the competencies that are seen as key to the Company's success.

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Company has further procedures to ensure that disabled colleagues are fairly treated and that their training and career development needs are carefully managed. Where employees have become disabled during the course of employment, the Company endeavours to ensure continuing employment through the arrangement of appropriate training.

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, road shows and an intranet, while collective consultation takes place with the unions such as Unite and Prospect for those employee groups where unions are recognised. The Company also operates frameworks for consultation and is committed to managing people fairly through change.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. In addition, some senior management participate in a long-term incentive plan which also rewards based on group performance.

Supplier payment policy

The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should:

- agree payment terms at the outset of a transaction and adhere to them;
- provide suppliers with clear guidance on payment procedures;
- pay bills in accordance with any contract agreed or as required by law; and
- advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 18 days purchases outstanding at 31 December 2016 (2015: 12 days) based on the average daily amount invoiced by suppliers during the year.

Aberdeen International Airport Limited

Directors' report (*continued*)

Going concern

The Company finances its activities through funds generated from operations and has access to inter group funding from its parent companies.

The Company's trading and cash flow projections identify that the business will be cash generative through the period ended 31 March 2018. The bank borrowings of the AGS Airports Holdings Limited group are secured over the assets. The directors having considered and made appropriate enquiries of management as to the assumptions underlying the projections have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. Accordingly the going concern basis continues to be adopted in the preparation of the financial statements.

Political donations

The rules surrounding what may be classified as a political donation under the Political Parties, Elections and Referendums Act 2000 and Part 14 of the Companies Act 2006 are complex. No political donations have been made in the year (2015: £nil).

Internal controls and risk management

The Company actively manages identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Company's internal controls and risk management policies can be found on pages 4 to 6 in the internal controls and risk management section of the Strategic Report.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies, along with the Company's exposure to risk has been disclosed in the internal controls and risk management section of the Strategic Report.

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgement is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

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, or Deloitte LLP will be re-appointed following the period set out in section 485 where no such resolution is proposed, in accordance with section 487.

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.

On behalf of the Board



Carol Benzie
Director

31 March 2017

Company registration number: SC096622

Aberdeen International Airport Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report including 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 Financial Reporting Standard 101 Reduced Disclosure Framework. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed; 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.

Aberdeen International Airport Limited

Independent auditor's report to the members of Aberdeen International Airport Limited

We have audited the financial statements of Aberdeen International Airport Limited for the year ended 31 December 2016 which comprise of the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Accounting policies, the Critical accounting judgements and key sources of estimation uncertainty, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

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

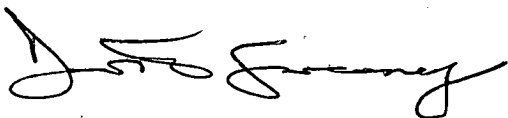
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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 and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



David Sweeney, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, UK
3 April 2017

Aberdeen International Airport Limited

Profit and loss account for the year ended 31 December 2016

Year ended 31 December 2016				Year ended 31 December 2015			
		Before certain re- measurements	Certain re- measurements	Total	Before certain re- measurements	Certain re- measurements	Total
	Note	£000	£000	£000	£000	£000	£000
Turnover	1	55,901	-	55,901	63,417	-	63,417
Operating costs	2	(40,871)	3,664	(37,207)	(44,344)	-	(44,344)
Fair value (loss)/ gain on investment properties	7	-	(9,724)	(9,724)	-	7,023	7,023
Operating profit		15,030	(6,060)	8,970	19,073	7,023	26,096
Analysed as:							
<i>Operating profit before non-recurring items</i>							
		15,030	(9,724)	5,306	19,073	7,023	26,096
<i>Non-recurring items</i>	3	-	3,664	3,664	-	-	-
Financing							
Interest receivable and similar income	4	6,592	-	6,592	4,246	-	4,246
Interest payable and similar charges	4	(2,751)	-	(2,751)	(1,463)	-	(1,463)
Profit on ordinary activities before tax		18,871	(6,060)	12,811	21,856	7,023	28,879
Taxation (charge)/credit	5	(4,550)	2,473	(2,077)	(2,522)	(1,142)	(3,664)
Profit for the year		14,321	(3,587)	10,734	19,334	5,881	25,215

The notes on pages 15 to 31 form an integral part of these financial statements.

Aberdeen International Airport Limited

Statement of comprehensive income for the year ended 31 December 2016

		Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
	Note		
Profit for the year	17	10,734	25,215
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Return on plan assets excluding interest income	18	2,942	(1,171)
Actuarial movements on defined benefit pension	18	(13,187)	1,382
Deferred tax on defined benefit pensions		1,770	13
Other comprehensive (expense)/income for the year net of tax		(8,475)	224
Total comprehensive income for the year		2,259	25,439

The notes on pages 15 to 31 form an integral part of these financial statements.

Aberdeen International Airport Limited

Statement of financial position as at 31 December 2016

	Note	31 December 2016 £000	31 December 2015 £000
ASSETS			
Fixed assets			
Property, plant and equipment	6	72,594	65,812
Investment properties	7	107,088	116,781
Pension asset	18	-	2,746
		179,682	185,339
Current assets			
Stocks	8	351	310
Debtors due within one year	9	107,770	86,170
Cash at bank and in hand	10	-	-
		108,121	86,480
Total assets		287,803	271,819
LIABILITIES			
Creditors: Amounts falling due after more than one year			
Borrowings	11	21,764	20,301
Deferred tax liabilities	12	16,690	19,945
Pension Liability	18	2,857	-
		41,311	40,246
Creditors: Amounts falling due within one year			
Bank overdraft	10	1	5
Borrowings	11	11,768	144
Provisions	13	-	17
Trade and other payables	14	21,432	20,375
		33,201	20,541
Total liabilities		74,512	60,787
Net assets		213,291	211,032
Capital and reserves			
Share capital	15	12,000	12,000
Revaluation reserve	16	85,778	85,778
Profit and loss account	17	115,513	113,254
Total shareholders' funds		213,291	211,032

The notes on pages 15 to 31 form an integral part of these financial statements.

The financial statements of Aberdeen International Airport Limited (Company registration number: SC096622) were approved by the Board of Directors and authorised for issue on 31 March 2017. They were signed on its behalf by:

Carol Benzie

Carol Benzie
Director

31 March 2017

Aberdeen International Airport Limited

Statement of changes in equity as at 31 December 2016

	Attributable to the owners of the Company			
	Share capital	Revaluation Reserve ¹	Profit and loss account	Total
	£000	£000	£000	£000
Balance at 1 January 2015	12,000	85,778	87,815	185,593
Comprehensive income:				
Profit for the year	-	-	25,215	25,215
Other comprehensive income	-	-	224	224
Total comprehensive income	-	-	25,439	25,439
Balance at 1 January 2016	12,000	85,778	113,254	211,032
Comprehensive income:				
Profit for the year	-	-	10,734	10,734
Other comprehensive expense	-	-	(8,475)	(8,475)
Total comprehensive income	-	-	2,259	2,259
Balance at 31 December 2016	12,000	85,778	115,513	213,291

¹ The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the profit and loss account.

The notes on pages 15 to 31 form an integral part of these financial statements.

Aberdeen International Airport Limited

Accounting policies for the year ended 31 December 2016

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Basis of accounting

Aberdeen International Airport Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic review on pages 2 and 3.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of AGS Holdings Limited. Details of the parent in whose consolidated financial statements the Company is included are shown in note 20 to the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash-flow statement, standards not yet effective, impairment of assets, the requirements of IFRS 7 Financial Instruments: Disclosures, the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement, related party transactions and the requirement set out in IAS 1.38 to present comparative information in respect of property, plant and equipment and investment properties.

Primary financial statements format

A columnar approach has been adopted in the profit and loss account and the impact of two principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:

- i fair value gains and losses on investment property revaluations and disposals;
- ii the associated tax impacts of the items in (i) above.
- iii defined benefit scheme changes.

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. The financial risks for the Company are managed at AGS Airports Group level.

Consequently the Directors have reviewed the cash flow projections of the AGS Airports Group taking into account:

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall AGS Airports Group liquidity position, including the projected upstream of cash remaining committed and uncommitted facilities available to it, its scheduled debt maturities and its forecast financial ratios and ability to access the debt markets.

As a result of the review, having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

Aberdeen International Airport Limited

Accounting policies for the year ended 31 December 2016 (*continued*)

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Aeronautical

- Passenger charges based on the number of departing passengers.
- Aircraft departure charges levied according to weight of departing aircraft.
- 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 as provided.
- Other charges levied for passenger and baggage operation when these services are rendered.

Retail

- Concession fees from retail and commercial concessionaires at or around airports are based upon turnover certificates supplied by concessionaires and are recognised in the period to which they relate.
- Car parking income is recognised at the time of exiting the car park in accordance with operator management fee arrangements.

Property and operational facilities

- Property letting rentals, 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.
- Other invoiced sales, recognised on the performance of the service.

Other

- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery.

Grants and contributions

On occasion, the Company may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. Grants received are treated as a reduction in the cost of the related fixed assets.

Non-recurring items

On the face of the profit and loss account, the Company presents non-recurring items separately. Non-recurring items are material items of income or expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Company's financial performance.

Such events may include gains or losses on the disposal of businesses or assets that do not qualify as discontinued operations, major reorganisation of businesses, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project.

In the year ended 31 December 2016 the Company agreed changes to the defined benefit pension scheme resulting in a net non-recurring pension credit.

Additional details of non-recurring items are provided as and when required as set out in note 3.

Operating profit

Operating profit is stated after charging restructuring costs and fair value gain on investment properties but before financing.

Interest

Interest receivable is recognised when it is probable that the economic benefits will flow to the Company and the amount of turnover can be measured reliably. Interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Interest charges directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and available for use. Such costs are capitalised whilst projects are in progress.

Where assets in the course of construction are financed by specific facilities, the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise; otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

All other interest costs are recognised in the profit and loss account in the year in which they are incurred.

Aberdeen International Airport Limited

Accounting policies for the year ended 31 December 2016 (continued)

Property, plant and equipment

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 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 and the asset is available for use. Where appropriate, cost includes interest payable capitalised, own labour costs of construction-related project management and directly attributable overheads. 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:

<i>Terminal complexes</i>	<i>Fixed asset lives</i>
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travellers	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–100 years
<i>Airfields</i>	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
<i>Plant and equipment</i>	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Computer software	3–7 years
Fixtures and fittings	5–10 years
Other plant and equipment	5–10 years
<i>Other land and buildings</i>	
Short leasehold properties	Over period of lease
Leasehold improvements	Lower of useful economic life or lease period

The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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 independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal 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 a cash-generating unit exceeds its recoverable amount, the cash-generating unit is considered impaired and is written down to its recoverable amount.

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.

Aberdeen International Airport Limited

Accounting policies for the year ended 31 December 2016 *(continued)*

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, are initially measured at cost and subsequently measured at fair value at the reporting date, as determined by the Directors and by external valuers every year. Gains or losses arising from changes in the fair value of investment property are recognised in the profit and loss account in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the profit and loss account on the unconditional completion of the sale.

Capitalisation of interest

Interest costs resulting from financing tangible fixed assets that are in the course of construction is capitalised whilst projects are in progress. Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

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

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Interest payable are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

In the event that 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, 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 amount of the leased asset and recognised over the lease term on the same basis as rental income.

Stocks

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value and include all costs to bring inventories to their present location and condition.

Deferred income

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings with a maturity date are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the profit and loss account.

Aberdeen International Airport Limited

Accounting policies for the year ended 31 December 2016 (continued)

Pension costs

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Company is a participating employer in the AGS Airports defined benefit pension scheme.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The Company determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA which have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxation is determined using the tax rates and laws that have been enacted or substantively enacted, by the reporting date, and are expected to apply when the related deferred tax asset or liability is realised or settled.

Income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

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

Dividend distribution

A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established. Interim dividends are recognised when paid.

Aberdeen International Airport Limited

Critical accounting judgements and key sources of estimation uncertainty for the year ended 31 December 2016

In applying the Company's accounting policies, management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated and management believe that the following areas present the greatest level of uncertainty.

Investment properties

Investment properties were valued at fair value by CBRE Limited. The valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. 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 were obtained for 100% of the investment properties. Approximately 35% of the investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility than the overall market.

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at period end and charges to the profit and loss account. The factors have been determined in consultation with the Company's actuary, taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. Actuarial gains and losses due to the change in actuarial assumptions are recorded in other comprehensive income. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the non-recurring item-pension line in the profit and loss account. Further details are available in note 18.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. If there were significant changes in the expected useful lives of the assets management would realign the policies which would result in a different level of depreciation being charged to the profit and loss account.

Capitalisation

Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Examples where judgement has been exercised in the year include capitalised interest, where judgement is exercised in relation to the applicable interest rate and the assessment of assets in the course of construction, including expansion costs, projects on hold and operational activities where judgement is exercised to determine costs that are directly attributable to the assets under construction.

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

1 Segment information

The Directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and relates to continuing operations.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Turnover from the rendering of services	55,901	63,417
Other operating income		
Interest receivable and similar income (note 4)	6,592	4,246
Total revenue	62,493	67,663

2 Operating costs

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Operating costs (including non-recurring items) include the following:		
Employment costs		
Wages and salaries	10,161	11,215
Social security	1,022	1,032
Pensions	1,853	2,482
Other staff related:		
Non-recurring pension credit	(3,664)	-
Other	979	513
Employment costs	10,351	15,242
Depreciation of property, plant and equipment	5,329	5,883
Gain on disposal of fixed assets	(13)	-
Other operating costs	21,540	23,219
Total operating costs	37,207	44,344
Analysed as:		
Adjusted operating costs	35,542	38,461
Depreciation	5,329	5,883
Non-recurring items (note 3)	(3,664)	-
Total operating costs	37,207	44,344

Auditor remuneration

Audit fees and non-audit fees for the current financial year were borne by AGS Airports Limited and recharged in accordance with the Shared Services Agreement.

For the year ended 31 December 2016, the fees payable to the Company's auditor for the audit of the Company's annual accounts was £20k (2015: £24k). No non audit fees payable to the Company's auditor were incurred in 2016 (2015: nil).

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

2 Operating costs (continued)

Employee numbers

The average monthly number of employees (including executive directors) during the year was:

	Year ended 31 December 2016	Year ended 31 December 2015
	Number	Number
Office and management	35	44
Airside, security and operations	224	245
Retail and commercial	6	7
	265	296

This does not include headcount relating to central support functions for the Company which are rendered by AGS Airports Limited and charged as intra-group charges in accordance with the Shared Service Agreement.

Director's remuneration

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Director's and highest paid director's remuneration		
Aggregate emoluments	186	255
Value of company pension contributions to defined benefit scheme	31	43
	217	268

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Number of directors who: are members of a defined benefit pension scheme	-	1

The directors participate in various Long Term Incentive Performance Cash Plans operated by AGS Airports Limited. The AGS Airports Limited plan was introduced in 2015, a cash amount is granted which could vest in 2018, contingent on achieving or surpassing adjusted EBITDA and other operational targets over a three year period.

3 Non-recurring items

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Pension credit ¹	(3,664)	-
Non-recurring items	(3,664)	-

¹ During 2016 there was a net non-recurring pension credit of £3,664K. This includes the Company's share of the past service cost, offset by the costs incurred in relation to the changes made to the AGS Airports Limited defined benefit pension scheme, as described in note 18.

4 Interest

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Interest receivable and similar income		
AGS pension scheme	1,563	126
Interest receivable from group undertakings ¹	5,029	4,120
	6,592	4,246
Interest payable and similar charges		
AGS pension scheme	(1,431)	-
Interest payable to group undertakings ²	(1,320)	(1,463)
	(2,751)	(1,463)

¹ These amounts relate to interest accrued on balances owed by Airport Holdings NDH1 Limited and AGS Airports Limited (Note 9).

² These amounts relate to interest accrued on balances owed to Airport Holdings NDH1 Limited and AGS Airports Limited (Note 11).

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

5 Taxation

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Current tax		
Group tax relief payable	3,757	4,796
Adjustments in respect of prior years	(195)	303
Total current tax charge	3,562	5,099
Deferred tax		
Current year (credit)/charge	(419)	163
Adjustments in respect of prior years	(47)	565
Change in tax rate - impact on deferred tax balances	(1,019)	(2,163)
Total deferred tax credit	(1,485)	(1,435)
Taxation charge for the year	2,077	3,664

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit on ordinary activities before tax	12,811	28,879
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 20% (2015:20.5%)	2,562	5,848
Adjustments in respect of current income tax of previous years	(195)	303
Adjustments in respect of deferred tax of previous years	(47)	565
Change in tax rate	(1,019)	(2,163)
Non-deductible expenses/(non-taxable income)	776	(889)
Taxation charge for the year	2,077	3,664

6 Property, plant and equipment

	Terminal complexes £000	Airfields £000	Plant and equipment £000	Other land and buildings ¹ £000	Assets in the course of construction £000	Total £000
Cost						
At 1 January 2016	50,214	47,841	16,034	3,571	5,806	123,466
Additions	-	3	59	-	12,080	12,142
Transfer to completed assets	267	4,328	1,794	105	(6,494)	-
Transfer to investment properties	-	-	-	-	(32)	(32)
Disposals	-	-	(25)	-	-	(25)
At 31 December 2016	50,481	52,172	17,862	3,676	11,360	135,551
Depreciation						
At 1 January 2016	(24,142)	(20,063)	(11,943)	(1,506)	-	(57,654)
Charge for the year	(2,121)	(2,012)	(1,074)	(121)	-	(5,328)
Disposals	-	-	25	-	-	25
At 31 December 2016	(26,263)	(22,075)	(12,992)	(1,627)	-	(62,957)
Net book value at 31 December 2016	24,218	30,097	4,870	2,049	11,360	72,594
Net book value at 31 December 2015	26,072	27,778	4,091	2,065	5,806	65,812

¹ Other land and buildings are all freehold.

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

6 Property, plant and equipment continued

Assets in the course of construction

Assets in the course of construction comprise capital expenditure on on-going developments under the Company's capital investment programme. Projects in progress at 31 December 2016 at Aberdeen International Airport include construction works for the development of the terminal, runway resurfacing, stand capacity and HBS equipment.

Borrowing costs capitalised

£182k (2015: £50k) has been capitalised in the year at an average capitalisation rate of 2.23% (2015: 2.83%) based on a weighted average cost of borrowings.

7 Investment properties

	Investment properties £000
<u>Fair value</u>	
At 1 January 2016	116,781
Transfers from property, plant and equipment	32
Valuation loss	(9,724)
At 31 December 2016	<u>107,088</u>

Details of valuations performed are provided below:

	31 December 2016 £000	31 December 2015 £000
<u>CBRE Limited</u>	<u>107,088</u>	<u>116,781</u>

Investment properties, which are all freehold, were valued to fair value at 31 December 2016 by CBRE Limited, Chartered Surveyors. All valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence relevant to each specific property or class of properties. There were no restrictions on the realisability or remittance of income or proceeds on disposal. The fair value measurement hierarchy used in calculating fair value has been classified as Level 3. The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

The Company historically had a low level of void properties.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation.

8 Stocks

	31 December 2016 £000	31 December 2015 £000
<u>Consumables</u>	<u>351</u>	<u>310</u>

The total amount of stock consumed in the year relating to continuing operations was £473k (2015: £662k).

There is no material difference between the statement of financial position value of stocks and their replacement cost.

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

9 Debtors

	31 December 2016 £000	31 December 2015 £000
Due within one year		
Trade receivables	6,673	7,836
Less: allowance for doubtful debts	(15)	(24)
Trade receivables - net	6,658	7,812
 Amounts owed by group undertakings - interest bearing ¹	80,298	62,524
Interest receivable from group undertakings	10,912	5,883
Trade receivables from group undertakings	9,629	9,521
Prepayments	274	227
Other receivables	(1)	203
	107,770	86,170

¹ Amounts owed by group undertakings - interest bearing mainly relate to cash sweeps transferred to Airport Holdings NDH1 Limited and AGS Airports Limited. Cash is swept between the companies on a regular basis. As at 31 December 2016, the balance accrues interest at a rate of 7% per annum (2015: 7%).

The fair value of trade and other receivables is not materially different from the carrying value.

Unless otherwise stated, trade and other receivables do not contain impaired assets.

Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security.

10 Bank overdraft

	31 December 2016 £000	31 December 2015 £000
Bank overdraft	(1)	(5)

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk.

11 Borrowings

	31 December 2016 £000	31 December 2015 £000
Current		
Amounts owed to group undertakings	11,768	144
Non-current		
Unsecured		
Amounts owed to group undertakings - interest bearing	21,764	20,301
	33,532	20,445

Accrued interest is included as a non-current borrowings balance. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair values of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

12 Deferred tax

The net movement on the deferred tax liability is as follows:

	31 December 2016 £000	31 December 2015 £000
1 January	19,945	21,393
(Credited)/charged to profit and loss account	(466)	728
Credited to profit and loss account – change in tax rate	(1,019)	(2,163)
Tax credited to equity		
Credited to equity - defined benefit pensions	(1,770)	(13)
31 December	16,690	19,945

The amounts of deferred tax provided are detailed below:

Deferred tax liabilities

	Investment Properties Fair Value £000	IBA's £000	Other £000	Total £000
1 January 2015	13,914	6,142	1,337	21,393
(Credited)/Charged to profit and loss account	(251)	171	(1,355)	(1,435)
Credited to equity	-	-	(13)	(13)
1 January 2016	13,663	6,313	(31)	19,945
(Credited)/Charged to profit and loss account	(1,939)	(264)	718	(1,485)
Credited to equity	-	-	(1,770)	(1,770)
31 December 2016	11,724	6,049	(1,083)	16,690

Deferred tax credited to equity during the year is as follows:

	31 December 2016 £000	31 December 2015 £000
Defined benefit pension scheme	(1,770)	(13)

The UK Corporation Tax rate will reduce from 18% to 17% from 1 April 2020, this is an additional 1% cut on top of the cut previously announced. This change has been substantially enacted at the balance sheet date and, therefore the deferred tax assets and liabilities as at 31 December 2016 have been measured using the rates that apply in the periods when the underlying timing differences, on which deferred tax is recognised, are expected to unwind.

13 Provisions

	Total £'000
1 January 2016	17
Released to profit and loss	(17)
31 December 2016	-

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

14 Creditors due within one year

	31 December 2016 £000	31 December 2015 £000
Accruals	2,913	3,133
Deferred income	1,470	1,372
Trade payables	1,174	2,662
Other tax and social security	290	316
Other payables	726	1,119
Capital payables	4,053	1,614
Group tax relief payables	10,806	7,845
Amounts owed to group undertakings - interest free ¹	-	2,314
Creditors due within one year	21,432	20,375

Trade payables are non-interest bearing and are generally on 30-day terms.

¹ Amounts owed to group undertakings - interest free largely related to external payments made by AGS Airports Limited.

15 Share capital

	31 December 2016 £000	31 December 2015 £000
Allocated, called-up and fully-paid	12,000	12,000
12,000,002 ordinary shares of £1 each		

16 Revaluation reserve

	31 December 2016 £000	31 December 2015 £000
Balance at 31 December	85,778	85,778

The revaluation reserve relates to the historic revaluation of investment properties and is non-distributable to the shareholders. Current revaluations of investment properties are included in the profit and loss account.

17 Profit and loss account

	31 December 2016 £000	31 December 2015 £000
1 January	113,254	87,815
Profit for the year	10,734	25,215
Return on plan assets excluding interest income	2,942	(1,171)
Actuarial gain on pension scheme	(13,187)	1,382
Deferred tax on pension scheme	1,770	13
31 December	115,513	113,254

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

18 Employee benefits

Pension plans

Defined benefit scheme

The Company is a participating employer in the AGS Airports Limited defined benefit pension scheme.

The Group's defined benefit pension fund is a self-administered defined benefit scheme (the "AGS Airports Pension Scheme" or the "Scheme") and is closed to new employees. The Scheme is based on a final salary arrangement. As required by UK pension law, a Pension Trustee's Board has been established which together with the Group, is responsible for governance of the Scheme. The Trustee Board is comprised of Company and employee nominated Trustees. Employee Trustees will be nominated and elected by the employees who are members of the Scheme.

In this initial period since the Scheme came into existence on 18 December 2014, the employer's contributions have been calculated based on initial advice received from the Scheme's actuaries, KPMG LLP, on the amount of the bulk transfer of assets and liabilities transferred into the Scheme from the former owners Scheme (BAA Pension Scheme) and assumptions determined by the Trustee and agreed by the Group.

The Scheme's Trustees in conjunction with the Trustees of the BAA Pension scheme finalised the bulk transfer values in respect of the pension entitlements of those employees who transferred over to the new Group on July 2015. The pension fund will be subject to triennial valuations and the defined obligation or surplus calculated twice a year by the Scheme's actuaries.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	31 December 2016	31 December 2015
	£000	£000
Fair value of plan assets	45,235	40,200
Defined benefit obligation	(48,092)	(37,454)
Net (Liability)/asset for defined benefit obligations (see following table)	(2,857)	2,746

Movements in net defined benefit

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	£000	£000	£000	£000	£000	£000
Balance at 1 January	(37,454)	(35,614)	40,200	38,113	2,746	2,499
Current service cost	(1,305)	(1,980)	-	-	(1,305)	(1,980)
Past service cost	4,534	-	-	-	4,534	-
Interest cost / income	(1,431)	(1,321)	1,563	1,446	132	125
Scheme administration	-	-	(30)	-	(30)	-
Included in SOCI						
Actuarial (loss)/gain	(13,187)	1,382	-	-	(13,187)	1,382
Return on plan assets excluding interest income	-	-	2,942	(1,171)	2,942	(1,171)
Other						
Employee contributions	(204)	(260)	204	260	-	-
Employer contributions	-	-	1,311	1,891	1,311	1,891
Benefits paid out	955	339	(955)	(339)	-	-
Balance at 31 December	(48,092)	(37,454)	45,235	40,200	(2,857)	2,746

1 The Company agreed changes to the defined benefit pensions scheme effective from 1 September 2016. The changes included the introduction of an annual cap on future and past increases to pensionable pay. The changes resulted in a one-off reduction of £4.5 million in the scheme's liabilities, as measured under IAS19, and are classified as an exceptional item in the income statement. There is no immediate cash flow impact of these changes

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

18 Employee benefits (continued)

Fair value of plan assets

	31 December 2016	31 December 2015
	£000	£000
Equity	1,031	10,871
Property	2,086	1,995
Bonds	8,689	19,869
Cash	88	219
Liability Driven Investment	14,280	-
DGF	16,718	7,246
Direct Lending	2,343	-
Total	45,235	40,200

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	31 December 2016	31 December 2015	31 December 2014
	%	%	%
Discount rate at 31 December	2.55	3.85	3.70
Future salary increases (before 1 Sept 2016)	2.25	3.35	3.30
Future salary increases (after 1 Sept 2016)	2.00	n.a.	n.a.
RPI Inflation	3.25	3.35	3.30
Pension increases in payment	3.10	3.15	3.15

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60-year old to live for a number of years as follows:

Current pensioner aged 60: 27 years (male), 29 years (female).

Future retiree upon reaching 60: 29 years (male), 31 years (female).

The accounting standard requires that the discount rate used to discount the liability determined by reference to market yields at the reporting date on high quality corporate bond investments. The currency and terms of these should be consistent with the currency and estimated term of the post-employment obligations. The discount rate has been based on the yield on AA rated corporate bonds of a term similar to the liabilities.

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds.

As required under the accounting standard, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate as discussed above.

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions:

Impact on overall Liabilities	Change in assumption	31 December 2016	31 December 2015
		%	%
Discount rate	Decrease by 0.1%	2.4%	2.4%
Rate of inflation	Increase by 0.1%	1.6%	2.4%
Life expectancy	Increase by 1 year	2.3%	2.1%

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

18 Employee benefits (continued)

Funding

The defined benefit plan is fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of the plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Employees contribute to the plan based on a percentage of salary.

The Company expects to pay £0.4 million in contributions to its defined benefit plans in 2017 (2016: £1.7m). The weighted average duration of the defined benefit obligation at the end of the reporting period is 24 years (2015: 25 years).

Defined contribution plans

The Company operates a defined contribution pension plan for all employees who joined the Company (under the former ownership) after 15 June 2008. The total cost of defined contribution pension arrangements are fully expensed as employment costs.

The total expense relating to these plans in the year was £534k (2015: £451k).

19 Commitments

The Company, together with AGS Airports Limited and each of its fellow subsidiaries (other than BAA Lynton Limited), together, have granted security over their assets to secure their obligations to the lenders under the Senior Facilities Agreement dated 15 October 2014.

Non-cancellable operating lease commitments – Company as a lessee

Total future minimum rentals payable as at the year-end are as follows:

	31 December 2016 £000	31 December 2015 £000
Within one year	257	29
Within two to five years	124	212
Total	381	241

The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases plant and machinery under non-cancellable operating leases.

Non-cancellable operating lease commitments – Company as a lessor

Total future minimum rentals receivable as at the year-end are as follows:

	31 December 2016 £000	31 December 2015 £000
Within one year	4,723	4,731
Within two to five years	13,568	14,585
After five years	27,849	22,670
Total	46,140	41,986

The Company uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, standalone premises, e.g. cargo sheds, longer leases of multiples of three years are used. A number of the larger property leases such as helicopter complexes are built on ground leases which have a longer term i.e. 20-25 years plus.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Concession contracts on the public car parks have been replaced by operator management fee arrangements.

Company commitments for capital expenditure

Contracted capital expenditure commitments amount to £2,135k (2015: £19k).

Aberdeen International Airport Limited

Notes to the Company financial statements for the year ended 31 December 2016

20 Ultimate parent undertaking

The shares of the Company are held by Airport Holdings NDH1 Limited.

As described in the strategic report, the ownership of Airport Holdings NDH1 Limited changed on 18 December 2014.

The ultimate parent entity is AGS Airports Holding Limited. The shareholders of AGS Airports Holdings Limited are AGS Ventures Airports Limited (a subsidiary of Macquarie European Infrastructure Fund 4 LP) (50%) and Faero UK Holding Limited (an indirect subsidiary of Ferrovial, S.A., Spain) (50%).

The Company's results are included in the audited consolidated financial statements of AGS Airports Limited for the year ended 31 December 2016, which is the parent undertaking of the smallest group to consolidate these financial statements. AGS Airports Holdings Limited is the largest Group to consolidate these financial statements.