

City Airport Rail Enterprises PLC

**Directors' report and financial
statements**

Registered number 04411523

15 month period to 31 March 2009

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Directors' report

The directors present their annual report and the audited financial statements for the fifteen month period ended 31 March 2009.

Principal activities

On 25 February 2003, the company entered into a Private Finance Initiative (PFI) concession contract with Docklands Light Railway Limited to design, build, finance and maintain a 4.4km extension to the Docklands Light Railway from Canning Town to London City Airport.

Business review

The railway became operational on 2 December 2005. Following completion of the construction of the railway, the company now provides maintenance services and makes the railway available to Docklands Light Railway Limited.

Proposed dividend

The profit for the year amounted to £1,924,000 (2007: loss £1,064,000). The directors do not recommend the payment of a dividend (2007: £Nil).

Policy and practice on payment of creditors

The company's policy is to pay suppliers and service providers thirty days from the date of the invoice, unless otherwise contractually agreed. This policy is made known to suppliers and service providers upon request.

At the period end, there were 16 days purchases in trade creditors (2007: 15).

Directors and directors' interests

The directors who held office during the period and subsequently were as follows:

RI Bartlett	Resigned 8 January 2009
M Pensa	Appointed 8 January 2009
PJ Hall	Resigned 8 January 2009
JP Chamberlain	Resigned 12 January 2009
PJ Dodd	
A Birch	Appointed 12 January 2009
H Pownall	Appointed 12 January 2009
R Nihalini	Appointed 8 January 2009; resigned 21 May 2009
K Maddick	Appointed 21 May 2009

Political and charitable contributions

The company made no political or charitable contributions during the period (2007: £Nil).

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



PHILIP DODD
Director

24 September 2009

140 London Wall
London
EC2Y 5DN

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

100 Temple Street
Bristol
BS1 6AG
United Kingdom

Independent auditors' report to the members of City Airport Rail Enterprises PLC

We have audited the financial statements of City Airport Rail Enterprises PLC for the 15 month period ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds/Deficit and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of City Airport Rail Enterprises PLC
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the period then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

24 September 2009

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account

for the fifteen months ended 31 March 2009

	Note	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
Turnover	1	5,243	3,123
Cost of sales		(2,060)	(1,009)
Gross profit		3,183	2,114
Administrative expenses		(771)	(1,063)
Operating profit		2,412	1,051
Other interest receivable and similar income	4	12,673	10,388
Interest payable and similar charges	5	(13,161)	(10,635)
Profit on ordinary activities before taxation	2	1,924	804
Tax on profit on ordinary activities	6	-	(1,868)
Profit/(loss) for the financial period/year		1,924	(1,064)

All results relate to continuing operations.

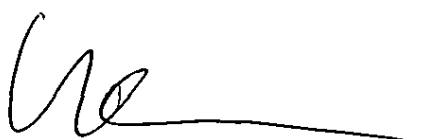
There were no recognised gains or losses in either the current period or prior year other than those reported above.

Balance sheet

at 31 March 2009

	Note	31 March 2009 £000	31 March 2009 £000	31 December 2007 £000	31 December 2007 £000
Current assets					
Debtors (including £145,502,000 (2007: £148,812,000) due after more than one year)	7	157,091		157,968	
Cash at bank and in hand		12,362		8,648	
		<u>169,453</u>		<u>166,616</u>	
Creditors: amounts falling due within one year	8	(6,741)		(3,809)	
		<u></u>		<u></u>	
Net current assets			162,712		162,807
			<u></u>		<u></u>
Creditors: amounts falling due after more than one year	9		(162,382)		(164,401)
			<u></u>		<u></u>
Net assets/(liabilities)			330		(1,594)
			<u></u>		<u></u>
Capital and reserves					
Called up share capital	11		4,061		4,061
Profit and loss account	12		(3,731)		(5,655)
			<u></u>		<u></u>
Shareholders' funds/(deficit)			330		(1,594)
			<u></u>		<u></u>

These financial statements were approved by the board of directors on 24 September and were signed on its behalf by:


MARIO PENSA
Director

Reconciliation of movements in shareholders' funds/deficit
for the 15 month period ended 31 March 2009

	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
Profit/(loss) for the financial year	1,924	(1,064)
Net increase/(reduction) in shareholders' funds	1,924	(1,064)
Opening shareholders' deficit	(1,594)	(530)
Closing shareholders' funds/(deficit)	330	(1,594)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The directors consider the company has access to sufficient long term funding and adequate current assets to enable them to prepare the accounts on a going concern basis.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of City Airport Enterprises (Holdings) Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of City Airport Enterprises (Holdings) Limited within which this company is included, can be obtained from the address given in note 14.

Turnover

Turnover is recognised in accordance with the Finance Debtor accounting policy. Turnover represents the value of the work done and is stated net of sales and related taxes

Finance debtor

Costs incurred in the construction of the railway have been accounted for under Financial Reporting Standard ('FRS') 5 Application Note F. Applying the guidance within the Application Note the underlying asset is not deemed to be a tangible asset of the company as the project's principal agreements transfer substantially all the risks and rewards of ownership to Docklands Light Railway Limited.

As such, all attributable construction costs incurred on the project, including interest on finance up to the date of commission and incidental costs, were recorded as amounts recoverable under contract during the construction phase of the project. On the service commencement date, the amounts outstanding under the contract were transferred from amounts recoverable under contract into the finance debtor. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS5 Application Note G. The company recognises income in respect of the services it provides as it fulfils its contractual obligations in respect of those services. Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of those services is recognised when the services are performed.

Capitalisation of interest

Loan interest incurred during the construction of the railway was capitalised into the finance debtor.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

- Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

2 Profit on ordinary activities before taxation

	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit of these financial statements	12	11
Amounts receivable by auditors and their associates in respect of:		
Services relating to taxation	5	5
	<hr/>	<hr/>

3 Staff numbers and costs

The company does not have any direct employees. Staff are seconded from one of the shareholders of the parent company. The directors received no remuneration during the year for their services to this company (2007: £Nil).

4 Other interest receivable and similar income

	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
Interest receivable on cash balances at bank	654	598
Finance debtor interest receivable	12,019	9,790
	<hr/>	<hr/>
	12,673	10,388
	<hr/>	<hr/>

Notes (continued)

5 Interest payable and similar charges

	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
Interest payable on secured senior loan	11,916	9,636
Commitment fees payable on secured senior loan	18	12
Interest payable on Shareholder Subordinated Loan	1,076	867
Amortisation of loan arrangement costs	151	120
	<u>13,161</u>	<u>10,635</u>

6 Taxation

Analysis of charge in period

	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Total current tax	-	-
<i>Deferred tax (see note 7)</i>		
Origination/reversal of timing differences	-	(1,868)
Tax charge on profit on ordinary activities	-	(1,868)

Notes (continued)

6 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the year is lower (2007: lower) than the standard rate of corporation tax in the UK (28% (2007:30%)). The differences are explained below.

	15 month period ended 31 March 2009 £000	Year ended 31 December 2007 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	1,924	804
Current tax at 28% (2007: 30%)	(538)	(241)
<i>Effects of:</i>		
Finance Debtor Amortisation	(508)	(31)
Losses not utilised	(1,526)	(2,913)
Timing difference arising on tax and accounting treatment of the financed asset	2,653	3,249
Movement in timing difference on capitalised interest	(81)	(64)
Total current tax charge (see above)	-	-

Factors that may affect current and total tax charge

The rate of UK corporation tax reduced from 30% to 28% with effect from 1 April 2008. Deferred tax assets and liabilities at 31 March 2009 have been calculated at 28%.

Factors that may affect future tax charges

The company has deferred tax assets of £2,923,000 (2007: £3,048,000) in relation to losses which have not been recognised as the directors do not believe that the availability of suitable future taxable profits is sufficiently certain.

7 Debtors

	31 March 2009 £000	31 December 2007 £000
Trade debtors	175	-
Finance debtor receivable	148,172	151,281
Other debtors	3,879	3,774
Prepayments and accrued income	1,965	13
Shareholder loan	2,900	2,900
	157,091	157,968

Debtors include the finance debtor receivable of £148,172,000 of which £12,999,000 (2007: £12,999,000) relates to cumulative capitalised interest. Amounts included in the finance debtor falling due within one year are £2,670,000 (2007: £2,469,000).

Loans of £2,900,000 (2007: £2,900,000) has been made to the controlling parties. The loans do not attract interest and do not have a fixed repayment date.

Notes (continued)

7 Debtors (continued)

Deferred tax asset (liability)

	31 March 2009 £000	31 December 2007 £000
At beginning of year	-	1,868
Charge to the profit and loss account for the year	-	(1,868)
At end of year	-	-

The elements of deferred taxation are as follows:

	31 March 2009 £000	31 December 2007 £000
Difference between accumulated depreciation and amortisation and capital allowances	(11,205)	(9,556)
Tax Losses	11,205	9,556
	-	-

8 Creditors: amounts falling due within one year

	31 March 2009 £000	31 December 2007 £000
Debenture Loan Repayment (note 10)	2,054	1,761
Trade creditors	347	558
Other creditors	59	371
Accruals and deferred income	4,281	1,119
	6,741	3,809

Notes (continued)

9 Creditors: amounts falling due after more than one year

	31 March 2009 £000	31 December 2007 £000
Debenture loan repayment (note 10)	152,680	154,572
Shareholder subordinated loan	9,702	9,829
	<u>162,382</u>	<u>164,401</u>

Amounts owing on shareholder subordinated debt bear an interest rate of 9%. The subordinated debt is repayable to the extent that these are permitted by the Loan Facility agreement which sets out repayment priorities over available monies.

10 Debenture loans

	31 March 2009 £000	31 December 2007 £000
Debenture loans	157,350	159,101
Less: Unamortised FRS4 costs	(2,616)	(2,768)
	<u>154,734</u>	<u>156,333</u>
Analysis of debt:	£000	£000
Debt can be analysed as falling due:		
In one year or less	2,054	1,761
Between one and two years	2,521	2,055
Between two and five years	8,665	8,125
In five years or more	144,110	147,160
	<u>157,350</u>	<u>159,101</u>

The secured senior loans represent amounts borrowed under facility agreements with a syndicate of banks. The bank loans bear interest at a margin of 0.9% over LIBOR and are repayable in instalments between 2009 and 2030. The loan is secured by fixed and floating charges over the undertaking, property, assets and rights of the company and has certain covenants attached. The company's shares were held by Project and Export Finance (Nominees) Limited and National Westminster Bank plc as part of the senior lenders' security arrangements.

In order to reduce the company's exposure to interest rate variations on its senior loan, the company has entered into interest rate swap agreements whereby at monthly and other intervals sums are exchanged reflecting the difference between floating and fixed interest rates, calculated on a predetermined notional principal amount.

Notes (continued)

11 Called up share capital

	31 March 2009 £000	31 December 2007 £000
<i>Authorised</i>		
20,000,000 ordinary shares of £1 each	20,000	20,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
4,061,498 ordinary shares of £1 each	4,061	4,061
	<hr/>	<hr/>

12 Reserves

	Profit and loss account £000
At beginning of period	(5,655)
Profit for the financial period	1,924
	<hr/>
At end of period	(3,731)
	<hr/>

13 Related party disclosures

The company is controlled by its parent company, City Airport Rail Enterprises (Holdings) Limited. The ultimate controlling parties are Semperian PPP Holdings Limited (formerly Trillium PPP Holdings Limited) and Royal Bank Project Investments Limited, which hold equal shares in City Airport Rail Enterprises (Holdings) Limited.

14 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of City Airport Rail Enterprises (Holdings) Limited incorporated in England.

The largest group in which the results of the company are consolidated is that headed by City Airport Rail Enterprises (Holdings) Limited incorporated in England. The consolidated accounts of this company are available to the public and may be obtained from The Company Secretary at the company's registered office, 140 London Wall, London, EC2Y 5DN.