

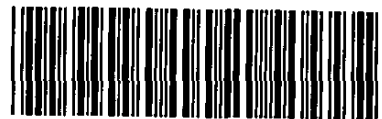
**City Airport Rail Enterprises PLC**

**Directors' report and financial  
statements**

**Registered number 04411523**

**Year ended 31 March 2011**

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## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

### **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

### **Key performance indicators ('KPIs')**

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities such as profit before tax, performance against budget and the financial model and future profit forecasts as projected by the financial model. The directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business

### **Proposed dividend**

The profit for the year amounted to £1,768,000 (*2010 profit of £1,919,000*). The directors do not recommend the payment of a dividend (*2010 £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 year end, there were 24 days purchases in trade creditors (*2010 15*)

### **Directors and directors' interests**

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

P J Dodd  
A E Birch  
C M Exford  
T R Elliot  
H Pownall (alternate to A E Birch)

### **Political and charitable contributions**

The company made no political or charitable contributions during the year (*2010 £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



On behalf of Semperian Secretariat Services Limited  
Company Secretary

KIM CLEAR

St Martins House  
1 Gresham Street  
London  
EC2V 7BX

29 July

2011

## **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 year. 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)

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 estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

## **Independent auditor's report to the members of City Airport Rail Enterprises PLC**

We have audited the financial statements of City Airport Rail Enterprises PLC for the year ended 31 March 2011 set out on pages 5 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 set out on page 3, 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **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 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **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.



A Moses (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
100 Temple Street, Bristol, BS1 6AG, United Kingdom

8 August 2011

**Profit and loss account**  
*for the year ended 31 March 2011*

	<i>Note</i>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Turnover</b>	<i>1</i>	<b>4,072</b>	<b>3,947</b>
Cost of sales		<b>(1,817)</b>	<b>(1,650)</b>
<b>Gross profit</b>		<b>2,255</b>	<b>2,297</b>
Administrative expenses		<b>(385)</b>	<b>(349)</b>
<b>Operating profit</b>		<b>1,870</b>	<b>1,948</b>
Other interest receivable and similar income	<i>4</i>	<b>9,394</b>	<b>9,592</b>
Interest payable and similar charges	<i>5</i>	<b>(9,496)</b>	<b>(9,621)</b>
<b>Profit on ordinary activities before taxation</b>	<i>2</i>	<b>1,768</b>	<b>1,919</b>
Tax on profit on ordinary activities	<i>6</i>	<b>-</b>	<b>-</b>
<b>Profit for the financial year</b>	<i>12</i>	<b>1,768</b>	<b>1,919</b>

All results relate to continuing operations

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

**Balance sheet**  
**at 31 March 2011**

	<i>Note</i>	<b>2011 £000</b>	<b>2011 £000</b>	<b>2010 £000</b>	<b>2010 £000</b>
<b>Current assets</b>					
Debtors (including £139,592,000 (2010 £145,502,000) due after more than one year)	7	157,950		155,637	
Cash at bank and in hand		9,733		12,779	
		<u>167,683</u>		<u>168,416</u>	
<b>Creditors</b> amounts falling due within one year	8	(6,859)		(6,432)	
		<u></u>		<u></u>	
<b>Net current assets</b>			<b>160,824</b>		<b>161,984</b>
			<u></u>		<u></u>
<b>Creditors:</b> amounts falling due after more than one year	9		(156,807)		(159,735)
			<u></u>		<u></u>
<b>Net assets</b>			<b>4,017</b>		<b>2,249</b>
			<u></u>		<u></u>
<b>Capital and reserves</b>					
Called up share capital	11		4,061		4,061
Profit and loss account	12		(44)		(1,812)
			<u></u>		<u></u>
<b>Shareholders' funds</b>			<b>4,017</b>		<b>2,249</b>
			<u></u>		<u></u>

These financial statements were approved by the board of directors on 29 JULY 2011 and were signed on its behalf by

HARVEY BOWNALL  
Director



**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 March 2011*

	2011 £000	2010 £000
<b>Profit for the financial year</b>	<b>1,768</b>	<b>1,919</b>
<b>Net increase in shareholders' funds</b>	<b>1,768</b>	<b>1,919</b>
Opening shareholders' funds	2,249	330
<b>Closing shareholders' funds</b>	<b>4,017</b>	<b>2,249</b>

## 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 are wholly owned by the group. 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 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

#### *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

## Notes (continued)

### 2 Notes to the profit and loss account

	2011 £000	2010 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements	12	12
Amounts receivable by auditors and their associates in respect of Services relating to taxation	3	5
	<u>15</u>	<u>17</u>

### 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 (2010 £Nil)

### 4 Other interest receivable and similar income

	2011 £000	2010 £000
Interest receivable on cash balances at bank	95	159
Finance debtor interest receivable	9,299	9,433
	<u>9,394</u>	<u>9,592</u>

### 5 Interest payable and similar charges

	2011 £000	2010 £000
Interest payable on secured senior loan	8,539	8,664
Commitment fees payable on secured senior loan	12	6
Interest payable on Shareholder Subordinated Loan	824	830
Amortisation of loan arrangement costs	121	121
	<u>9,496</u>	<u>9,621</u>

## Notes (continued)

### 6 Taxation

#### Analysis of charge in year

	2011 £000	2010 £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	-	-
Tax charge on profit on ordinary activities	-	-

#### Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2010 lower) than the standard rate of corporation tax in the UK of 28% (2010 28%). The differences are explained below

	2011 £000	2010 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	1,768	1,919
Current tax at 28*% (2010 28%)	(495)	(537)
<i>Effects of</i>		
Finance debtor amortisation	(465)	(436)
Losses not utilised	101	(375)
Timing difference arising on tax and accounting treatment of the financed asset	933	1,417
Movement in timing difference on capitalised interest	(74)	(69)
Total current tax charge (see above)	-	-

#### Factors that may affect future tax charges

The company has deferred tax assets of £2,589,000 (2010 £2,412,000) 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

## Notes (continued)

### 7 Debtors

	2011 £000	2010 £000
Trade debtors	1,542	1,439
Finance debtor receivable	142,651	145,497
Other debtors	4,755	4,445
Prepayments and accrued income	1,346	1,356
Shareholder loan	7,656	2,900
	<u>157,950</u>	<u>155,637</u>

Debtors include the finance debtor receivable of £142,651,000 (2010 £145,497,000) Amounts included in the finance debtor falling due within one year are £3,059,000 (2010 £2,801,000)

Loans of £7,656,000 (2010 £2,900,000) have been made to the controlling parties The loans do not attract interest and do not have a fixed repayment date

#### Deferred tax asset

	2011 £000	2010 £000
At beginning of year	-	-
Charge to the profit and loss account for the year	-	-
	<u>-</u>	<u>-</u>
At end of year	<u>-</u>	<u>-</u>

The elements of deferred taxation are as follows

	2011 £000	2010 £000
Difference between accumulated depreciation and amortisation and capital allowances	(11,811)	(12,092)
Tax losses	11,811	12,092
	<u>-</u>	<u>-</u>

## Notes (continued)

### 8 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Debenture loan repayment (note 10)	2,812	2,521
Trade creditors	173	96
Other creditors	-	59
Amounts due to parent company	200	221
Accruals and deferred income	3,674	3,535
	<u>6,859</u>	<u>6,432</u>

### 9 Creditors: amounts falling due after more than one year

	2011 £000	2010 £000
Debenture loan repayment (note 10)	147,583	150,277
Shareholder subordinated loan	9,224	9,458
	<u>156,807</u>	<u>159,735</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

	2011 £000	2010 £000
Debenture loans	152,771	155,293
Less: Unamortised loan arrangement costs	(2,376)	(2,495)
	<u>150,395</u>	<u>152,798</u>
<i>Debt can be analysed as falling due</i>		
In one year or less	2,812	2,521
Between one and two years	2,796	2,813
Between two and five years	10,717	9,589
In five years or more	136,446	140,370
	<u>152,771</u>	<u>155,293</u>

## Notes (continued)

### 10 Debenture loans (continued)

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 2011 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.

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.

### 11 Called up share capital

	2011 £000	2010 £000
<i>Called up and fully paid</i>		
4,061,498 ordinary shares of £1 each	4,061	4,061

### 12 Reserves

	Profit and loss account £000
At beginning of year	(1,812)
Profit for the financial year	1,768
At end of year	(44)

### 13 Related party disclosures

Fees for staff, office and accounting services are payable by the Company to related parties. During the year this amounted to £277,000 (2010 £267,000). Amounts invoiced and unpaid at 31 March 2011 totalled £Nil (2010 £Nil). As at 31 March 2011, the amount owing in respect of staff and office services, included in accruals is £Nil (2010 £Nil).

During the year the Company paid £25,000 (2010 £24,000) to each of the controlling parties in respect of directors' fees.

Subsidiaries of The Royal Bank of Scotland Group plc provide interest rate hedging arrangements to the Company and are the lead arranger and Agency Bank in a syndicate of senior lenders to the Company. Royal Bank Project Investments Limited is also a subsidiary of The Royal Bank of Scotland Group plc.

The balance outstanding on the senior loan is disclosed in note 11. The interest and commitment fees payable in the year in relation to the senior loan is disclosed in note 5.

The Royal Bank of Scotland plc also provides banking facilities to the Company. During the year, the Company received interest on its account balances as disclosed in note 4.

During the year Semperian PPP Holdings Limited and Royal Bank Project Investments Limited were each entitled to 50% of £824,000 (2010 £830,000) in Shareholder Subordinated Loan Stock interest of which £297,000 was accrued at 31 March 2011 (2010 £221,000). Loan Stock principal of £532,000 (2010 £244,000) was redeemed in the year.

**Notes** *(continued)*

**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 and Wales. 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, St Martins House, 1 Gresham Street, London, EC2V 7BX

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