Docklands Aviation Group Limited

Directors' report and financial statements

Registered number 5879149

31 December 2010

Contents

Directors' report

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2010

Results and dividends

The results for the year and financial position of the company and the group are as shown in the annexed financial statements The company has recommended and paid a dividend of £17 4m for the year ended 31 December 2010 (2009 – £15 0m)

Principal activity

The principal activity of the group continued to be that of an airport operator

In the opinion of the directors the financial statements give a fair view of the development of the business during the period and of its position at the end of the year There have been no significant events outside the normal course of business since the balance sheet date

The directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Use of forward-looking statements

This following review of the business has been prepared solely to provide additional information to shareholders and should not be relied upon by any other party or for any other purpose The review contains certain forward looking statements with respect to the principal risks and uncertainties facing the company

These statements have been made by the directors in good faith based on the information available to them up to the time of their approval of the report They should be treated with caution due to the inherent uncertainties arising because they relate to events and depend on circumstances that may or may not occur in the future

Review of the business

The group, branded London City Airport, operates London City Airport (LCY) LCY is the UK's leading business airport serving over 30 destinations across the UK and Europe and connections to the rest of the world through major European hubs The only airport actually in London, London City Airport is just two miles from the site of the 2012 Olympic Games, three miles from Canary Wharf and six miles from the City of London

The airport's location on the doorstep of London's financial district is considered vital to business and plays an integral part in contributing to the eastbound growth of the UK's capital city London City Airport receives considerable support from the business community who recognise the convenient location and ease of use with faster check-in times than any other London airport

The aviation industry and London City Airport in particular are indicators of general economic conditions and, after many years of unparalleled growth at the airport, it has not remained immune to the current economic climate In 2010 the airport handled 2 8m passengers, approximately the same amount as the prior year Corporate aviation movements handled by the airport were nearly 7,400 in the year ended 31 December 2010, representing a 4% decrease on 2009

Principal route network changes in the year were the introduction of premium leisure summer routes to Majorca and Ibiza by BA and to Brive and Deauville by Cityjet along with the cessation of the Dusseldorf route by Lufthansa and the Plymouth/Newquay service by Air South West The British Airways all business service connecting London City Airport and New York JFK, which started in September 2009, continued throughout the year

During 2010 LCY undertook a £7m expansion of its terminal building to provide a significantly enlarged security search area as well as additional space and comfort for passengers in the departure lounge This facility was completed in February 2011 and fully operational in March 2011

In July 2009, the London Borough of Newham (LBN) approved the airport's planning application, increasing the number of permitted flight movements from 80,000 to 120,000 per annum Two environmental groups (Fight the Flights and Friends of the Earth) challenged LBN's approval process under a Judicial Review in 2010 which was unsuccessful Their application to the High Court for leave to appeal in early 2011 was also dismissed in February 2011 In March 2011 they applied to the Appeal Court for permission to appeal against the result of the Judicial Review which was rejected in May 2011 They have until mid June 2011 to request an oral hearing of their application to appeal

Key financial and other performance indicators

	Year ended 31/12/2010	**Year ended 31/12/2009**
Total passenger (000's)	2,793	2,802
Aircraft movements (scheduled and general)	67,917	75,678
Group turnover (£m)	75 2	77 4
(Loss) / profit before tax (£m)	(5 6)	0 6

Group turnover decreased by 3% reflecting the impact of the reduced activity levels in the year

Future prospects

In early 2011 the airport continues to feel the impact of reductions in the winter 2010/11 schedules Balanced against this British Airways have converted options on a further two Embraer E190 aircraft which will come into service at LCY in H2 2011 In 2011 the impact of the factors above is expected to result in overall scheduled aircraft movement volumes broadly flat at 60,000 movements With continued strong load factors we expect passenger numbers to grow to c2 9m in 2011 and that EBITDA performance should show some marginal growth over the 2010 actual level of performance

Employees

The group regularly reviews employment practices to ensure good working relations and equal opportunity based on fairness, equality and inclusiveness The group continues to invest in training to ensure that they have the necessary management, technical and commercial skills to provide the best possible service to our customers and passengers

LCY continue to maintain a positive relationship with all of its employees and actively encourages communication through a variety of channels The Staff Association structure and regular management and team briefings form a major part of the communication channel with employees

Additionally the regular Chronicle staff newsletter and a dedicated Intranet site play important roles in our communications with employees LCY continues to recruit locally, with over 70% of staff living within 5 miles of the site, providing socio-economic benefits in a deprived part of London

Environmental

LCY is dedicated to providing its customers with efficient airport services while at the same time managing programmes to limit the impact of its operations on its neighbours and the environment LCY works closely with its neighbours to maximise the positive impact of its operation for local communities, creating exciting career opportunities and developing transport links with surrounding areas

At the same time the airport is determined to minimise any negative environmental impacts for people living and working in the area and continually implements and reviews schemes and processes such as Noise & Track Keeping, Sound Insulation, Waste Management, Air Quality Management and Safeguarding to achieve this

Social and community

Since opening in 1987 London City Airport has developed a wealth of relationships with local communities and contributed significantly to the regeneration of the Docklands area Through regular and voluntary interaction with community partners – residents, schools, colleges, charities, local businesses, landowners, developers and other stakeholders, as well as local boroughs – the airport works towards accomplishing its goal – to maintain constructive relationships with its neighbours and support local initiatives, whilst at the same time developing its business

The airport's communities are encouraged to take an active interest in the operation It is realised that neighbours are interested in the impact the airport's operation has on their lives and so communication and consultation with them is a priority LCY delivers a quarterly community newsletter to 33,000 local homes to ensure local people are able to keep abreast of airport developments This is also available on the group's website

The airport has developed and implemented a comprehensive community relations programme that focuses primarily on local education and employment initiatives, but also includes staff volunteering and health and fitness programmes A hands-on approach is taken alongside sponsorship to ensure that the knowledge, expertise and experience of airport staff at all levels contribute to the further development of the local area

For example, during 2010, airport volunteers spent over 100 days delivering education activities alone Investing in the local area, working to minimise the impacts of our business and maintaining an open dialogue with the community is key to shaping the future of London City Airport and the community in which we operate Further details are available on the group's website

In 2010 LCY won the Lord Mayor of London's Dragon Award which recognises the significant contribution and commitment the airport has made to the economic regeneration of London through one of its employment initiatives

Efforts to employ the long-term unemployed have also been successful through LCY's award-winning into-work training programme LCY also maintain a relationship with the London Health Commission and local Primary Care Trust and are dedicated to ensuring we support the ongoing good health of our teams

Health and safety matters

With regard to Health and Safety, it is the policy of the group to seek to prevent all personal injuries, dangerous occurrences and damage to property The group seeks to achieve this by ensuring that the Board and management recognise their commitment to the safety of LCY employees, and those who may be affected by operations under the group's control

It is also the group's policy to ensure that all employees are aware that they have a legal and moral responsibility, for their own safety, for the safety of those who might be affected by their actions, and to co-operate with their employer in Health and Safety matters

In order to monitor the group's Health and Safety policy, data is collected and monitored on the number, types and frequency of accidents and incidents in the workplace Accident investigation is undertaken in the event of loss or damage to property and injury to persons to ensure root cause and corrective action is identified

Regular internal audits, inspections and validations are undertaken of the airport's facilities, infrastructure and operating equipment together with periodic audits and inspections from external regulatory bodies

Significant contractual and other relationships

The group has a number of important relationships with its customers, suppliers and bankers These relationships are managed by key managers and directors of the individual businesses The two primary areas of concentration of key relationships are,

a) Revenue - Scheduled aviation revenue is principally derived from the three major airline alliances in Europe, namely Sky Team (Air France- KLM), oneworld (British Airways) and Star Alliance (Lufthansa/Swiss)

b) Debt finance - The group has arranged its debt finance through a syndicate of banks to access the level of funding required for its leveraged structure For details of the finance accessed by the group see Note 20 of the financial statements

Principal risks and uncertainties

The group's principal risks can broadly be defined as competitive, legislative and financial

Competitive risks and market

The key competitive risks are derived from,

a) Passenger switching to other airports – Passengers can opt to fly from other London airports that serve similar destinations to LCY

b) Airline operators switching to other airports – Airline operators may choose to move operations to other airports, subject to operating slot availability at other locations

Legislative and planning risks

Specific legislative risks exist in areas covering the operations of the business from a health and safety, passenger screening and security and aerodrome operations perspective Robust compliance and legal monitoring controls promote best practice throughout the organisation and minimise the group's exposure to non-compliance The key bodies that regulate the operation of the airport are the Civil Aviation Authority and the Department for Transport

Additionally, planning risks exist in relation to the ability of the airport to secure planning permissions to facilitate future growth Changes to the planning legislation, national aviation policy and the impact of anti-aviation pressure groups could impact the airport's ability to deliver the growth vision set out in its 2006 Master Plan With its planning experience and resources, LCY is well placed to respond to these risks

Financial risks

The group has established financial management control processes whose objective is to monitor the group's financial performance and risks and to ensure sufficient working capital exists

a) Risk relating to leverage - As at 31 December 2010 the group had external debt of £440 million and is exposed to interest rate risk, liquidity risk and cash flow risk in respect of these borrowings Throughout 2010 the group was compliant with its various financial agreements and maintained comfortable headroom over all financial covenant ratios

The group is exposed to interest rate risk on its debt which bears interest at variable rates Increases in these rates result in increased interest expense and increased interest payment The group controls these interest rate risks through the use of derivatives, specifically interest rate swaps

The application of these derivatives economically converts the hedged portions of variable-interest debt from variable to fixed interest As at 31 December 2010 78% of the corporate borrowings were hedged

Liquidity risk is the risk that an entity may encounter difficulties in meeting obligations associated with financial liabilities The group aims to mitigate liquidity risk by having a strong positive cash flow and has un-drawn overdraft facilities to manage liquidity risk

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability such as future interest payments The group manages this risk through regular cash flow forecasts, monitoring and strict management of its working capital and planning for known significant cash flow movements

b) **Exposure to credit risk** - Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation Group policies are aimed at minimising such a risk by conducting credit checks where appropriate and by other established credit control procedures Details of the group's debtors are shown in notes 15 and 16

c) **Other risk** - The group places all its insurance with leading insurance companies Obligatory insurances are placed as necessary at competitive rates All other risks are assessed and identified and where appropriate, insurance cover is purchased, where available, to mitigate these risks Insurances are reviewed, assessed and renewed on an annual basis

Political and charitable contributions

The group has been a strong supporter of the local community and made charitable contributions of £67k during the year (2009 - £35k) The group did not make any political contributions

Employment of disabled persons

The group continues its policy regarding the employment of disabled persons and of giving full and fair consideration to applications for employment made by disabled persons having regard to their aptitudes and abilities Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Corporate governance

The Board comprises of a non-executive Chairman, six non-executive Directors and two Executive Directors from the company, being the Chief Executive Officer and Chief Finance Officer

The Board meets regularly, normally monthly, and in addition, separate strategic discussions take place Matters of significance are reserved for confirmation by the full Board Matters not reserved for the Board may be delegated to senior management within clearly defined financial parameters

The company has an Audit Committee which comprises of one Non Executive director from each shareholder and the non-executive Chairman, one of whom is appointed as Chairman The Committee normally meets once a year External auditors are invited to attend the meeting The Committee has the authority to examine any matters relating to the financial affairs and internal controls of the group

Group internal controls are monitored at management reviews which cover all operational and health and safety aspects of the company, independent audits, monthly business reviews, monthly reporting with performance measured against budgets and a comprehensive annual budget process which requires Board and business approval In addition to the annual budget, a long term plan is continuously updated to reflect current performance and strategic aspirations

In November 2008 the Walker Report was published, following a request by the British Venture Capital Association and certain major private equity firms This report provided 'best practice' disclosure guidelines in the annual report and financial statements for those companies defined as UK portfolio companies and private equity firms For this purpose LCY does not meet the definition of a UK portfolio company however the directors have welcomed this report and have adopted many of the disclosure recommendations

Ownership

Docklands Aviation Group Limited is the UK parent company for the operations of London City Airport London City Airport is owned by two infrastructure funds as follows,

- Global Infrastructure Partners 75%
- Highstar Capital 25%

Directors

The directors who held office during the year were as follows

RE Gooding
DG Thomson
J Kowalishin
M Noorani
S Hatton
R Rao
A Gold
R Griffins
A Colman (appointed 1/4/2010, resigned 20/04/2011)
None of the directors had any interest in the shares of the company

There were no contracts or arrangements in which the directors of the company had interests which are required to be disclosed under the Companies Act 2006 Directors' biographies are set out on the LCY website

Auditors

A resolution to reappoint KPMG LLP as auditors will be put to the members at the Annual General Meeting

By order of the board

Richard E Gooding
Director

The Royal Docks
London City Airport
London
E16 2PB

30 June 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 Docklands Aviation Group Limited

We have audited the financial statements of Docklands Aviation Group Limited for the year ended 31 December 2010 set out on pages 11 to 29 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 9, 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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's loss 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

Ian Griffiths (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

4 July ~~June~~ 2011

Consolidated profit and loss account
for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £000**	**Year ended 31 December 2009 £000**
Turnover	*4*	**75,245**	**77,397**
Cost of sales		**(9,136)**	**(8,811)**
Gross profit		**66,109**	**68,586**
Administrative expenses		**(52,081)**	**(50,259)**
Operating profit	*5*	**14,028**	**18,327**
Interest received	*6*	**1,024**	**1,001**
Interest paid	*7*	**(20,672)**	**(18,759)**
(Loss) / profit on ordinary activities before taxation		**(5,620)**	**569**
Taxation charge on (loss)/profit on ordinary activities	*10*	**(2,142)**	**(3,390)**
Loss for the financial year		**(7,762)**	**(2,821)**

Amounts reported in the profit and loss account above relate to continuing operations

There were no recognised gains or losses other than the loss for the period

Registered number 5879149

Consolidated balance sheet
as at 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Goodwill	*11*	**152,683**	**162,283**
Tangible assets	*12*	**437,339**	**435,756**
		590,022	**598,039**
Current assets			
Stock		**208**	**192**
Debtors (amounts falling due within one year)	*15*	**7,987**	**14,955**
Debtors (amounts falling due after one year)	*16*	**15,523**	**11,584**
Cash at bank and in hand		**8,548**	**11,548**
		32,266	**38,279**
Creditors: amounts falling due within one year	*18*	**(32,481)**	**(28,474)**
Net current (liabilities)/assets		**(215)**	**9,805**
Total assets less current liabilities		**589,807**	**607,844**
Creditors amounts falling due after more than one year	*19*	**(437,051)**	**(431,254)**
Deferred taxation	*17*	**(2,051)**	**(723)**
Net assets		**150,705**	**175,867**
Capital and reserves			
Called up share capital	*24*	**245,782**	**245,782**
Profit and loss account	*25*	**(95,077)**	**(69,915)**
Equity shareholders' funds		**150,705**	**175,867**

The notes on pages 16 to 29 form part of the financial statements

These financial statements were approved by the board of directors on 30 June 2011 and were signed on its behalf by

Richard E Gooding
Director

Company balance sheet
as at 31 December 2010

	Note	2010 £000	2009 £000
Tangible fixed assets			
Tangible assets	*13*	409,943	413,672
Investments	*14*	379,550	379,550
		789,493	793,222
Current assets			
Debtors (amounts falling due within one year)	*15*	323,309	303,747
Debtors (amounts falling due after one year)	*16*	-	13,976
Cash at bank and in hand		55	40
Deferred tax	*17*	-	1,874
		323,364	319,637
Creditors amounts falling due within one year	*18*	(18,132)	(10,225)
Net current assets		305,232	309,412
Total assets less current liabilities		1,094,725	1,102,634
Creditors: amounts falling due after more than one year	*19*	(848,517)	(842,557)
Net assets		246,208	260,077
Capital and reserves			
Called up share capital	*24*	245,782	245,782
Profit and loss account	*25*	426	14,295
Equity shareholders' funds		246,208	260,077

Consolidated cash flow statement

for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Net cash inflow from operating activities		41,400	11,533
Returns on investments and servicing of finance			
Interest received	6	1,024	1,001
Interest paid	7	(19,146)	(17,233)
Net cash outflow from servicing of finance		(18,122)	(16,232)
Taxation			
Corporation tax paid		(3,205)	(2,957)
Capital expenditure			
Payments to acquire fixed assets		(12,698)	(12,196)
Net cash outflow from capital expenditure		(12,698)	(12,196)
Financing			
Bank loans drawn		4,500	-
Issue of share capital	25	-	35,000
Dividends paid	25	(17,400)	(15,000)
Capital element of finance lease payments		(84)	(78)
Net cash (outflow) / inflow from financing		(12,984)	19,922
(Decrease)/increase in cash and cash equivalents		(3,000)	70
Cash and cash equivalents brought forward		11,548	11,478
Cash and cash equivalents carried forward		8,548	11,548

The reconciliation on page 15 should be read in conjunction with the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities
for the year ended 31 December 2010

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Operating profit	14,028	18,327
Depreciation charges	11,115	10,128
Decrease in stocks	(16)	(32)
(Decrease) / increase in debtors	(3,079)	2,575
Increase / (decrease) in creditors	9,752	(29,054)
Amortisation of goodwill	9,600	9,589
Net cash inflow from operating activities	41,400	11,533

Analysis of changes in cash and cash equivalents
for the year ended 31 December 2010

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
At start of year	11,548	11,478
Net cash (outflow)/inflow	(3,000)	70
At 31 December	8,548	11,548

Reconciliation of movement in net debt
for the year ended 31 December 2010

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
At start of year	418,475	417,097
Net cash outflow/(inflow)	3,000	(70)
Amortisation of debt issue costs	1,526	1,526
Increase in net loans	4,500	-
Net movement in finance leases	(84)	(78)
Net debt at 31 December 2010	427,417	418,475
Analysis of net debt		
Cash at bank and in hand	(8,548)	(11,548)
Finance leases	415	499
Unamortised amount of debt issue costs	(4,450)	(5,976)
Bank loans	440,000	435,500
	427,417	418,475

Notes *(forming part of the financial statements)*

1 Basis of preparation of accounts

The accounts are prepared under the historical cost convention as modified to include the revaluation of certain land and buildings and in accordance with the accounting policies described in note 2 below

2 Accounting policies

The following policies have been applied consistently in dealing with items considered material to the Group's accounts

Basis of consolidation

These financial statements consolidate the financial statements of the Company and all of its subsidiaries, as listed in note 14

Turnover

Turnover is calculated on the basis of the invoiced value of goods and services supplied during the trading period and excludes value added tax Turnover includes deferred and accrued income due to the terms and conditions of the Group's contracts with its customers

Goodwill

Goodwill arising on acquisition of investments in subsidiaries is amortised over its useful economic life of twenty years

Tangible fixed assets

Recognised at cost on initial acquisition Land and buildings are revalued periodically Depreciation is applied to the revalued amount

Tangible fixed assets and depreciation

Depreciation is provided on a straight line basis in order to write off the value of the assets over their estimated useful lives as follows

Leasehold land	- 75 years
Buildings	- 10 to 25 years
Runway and apron	- 20 to 60 years
Plant, machinery and vehicles	- 3 to 15 years

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less impairment

Stocks

Stocks are stated at the lower of cost and net realisable value

Borrowings

All borrowings are initially stated at the fair value of the consideration received after the deduction of issue costs Issue costs together with the deferred finance costs are charged to the profit and loss account over the term of the borrowings pro rata to the balance of capital outstanding

Finance and operating leases

Assets which are the subject of finance leases together with the corresponding lease obligations are capitalised The assets are depreciated as described above and the finance charge element of each lease payment representing a constant interest rate on the reducing obligation is charged against profits All other leases are accounted for as operating leases and the rental charges are charged against the profit and loss account on a straight line basis over the life of the lease

Pensions

The Group operates a defined contribution Group Private Pension Scheme, whereby a percentage of base salary is paid to private pension arrangements for certain employees

Notes *(continued)*

2 Accounting policies (continued)

Taxation

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

Provision is made for any consideration payable to or receivable from other group undertakings for the surrender of losses under group relief provisions

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

Government Grants

Government Grants and other contributions to the cost of tangible fixed assets are deferred and recognised in the profit and loss over the life of the asset Revenue Grants are credited to the profit and loss account so as to match them to the expenditure to which they relate

Financial instruments

The net interest paid or received under interest rate swaps is recorded in net interest in the profit and loss account The notional value of any such contracts is recorded off balance sheet

Going Concern

The financial statements have been prepared on the going concern basis, notwithstanding the Group's net current asset deficiency, which the directors believe to be appropriate for the following reasons The Company is dependent for its working capital on funds provided to it by Clover BidCo Limited, the Company's parent undertaking Clover BidCo Limited has provided the Company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available

This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment As with any Company placing reliance on its parent undertaking for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31st December 2010 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

3 Related parties

At the year end, the group was owed £1,508k *(2009 £2,909k)* by North Woolwich Properties Limited and was owed £3k (2009 £3k) by Gallions Properties Limited

The group owed £3,155k *(2009 £1,221k)* to KGV Dock Properties Limited, owed £667k *(2009 £11,591k receivable)* to West Silvertown Properties Limited, owed £14,342k *(2009 £4,208k)* to City Aviation Properties Limited, owed £310k *(2009 £nil)* to AMI Property Holdings Limited and owed £753k *(2009 £1,314k)* to Clover

Notes *(continued)*

Bidco Limited All of these companies are under common control by the ultimate parent undertaking, Clover Equityco Limited, which owed the group £290k *(2009 £271k)*

During the year the group paid interest on loans of £932k *(2009 £855k)* to West Silvertown Properties Limited and property rentals to City Aviation Properties Limited, West Silvertown Properties Limited and KGV Dock Properties Limited amounting to £10,321k *(2009 £10,240k)*

The company has taken advantage of the exemption under FRS 8 from related party disclosures from other group companies

4 Turnover

Turnover is derived from operating lease rentals, solely in the United Kingdom

5 Operating profit

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Operating profit is stated after charging:		
Auditors' remuneration		
Audit fees*	83	83
Tax services	7	-
Depreciation	11,115	9,986
Hire of plant and machinery – operating lease rentals	206	198
Other operating lease rentals	2,716	10,240
Amortisation of goodwill	9,600	9,589

*The audit fee includes £4,500 (*2009 £4,500*) in respect of the Company

6 Interest received and similar income

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Interest on group loans	932	855
Bank interest	92	146
	1,024	1,001

7 Interest paid and similar charges

	Year ended 31 December 2010	Year ended 31 December 2009 £000
Bank interest payable	19,107	17,189
Amortisation of finance costs	1,526	1,526
Finance lease interest	39	44
	20,672	18,759

Notes *(continued)*

8 Directors' remuneration

	Year ended 31 December 2010	Year ended 31 December 2009
		£000
Directors' emoluments	816	803

The aggregate pension contributions paid on behalf of the directors were £106k *(2009 £379k)*

Chairman's emoluments were £64k *(2009 £64k)* for the year The emoluments of the highest paid director in the group were £406k *(2009 £383k)*

Directors' costs are recharged to companies within the immediate parent company's group structure

9 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows

	Number of employees	
	Year ended 31 December 2010	Year ended 31 December 2009
Operational	371	329
Administration	46	49
	417	378

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Wages and salaries	11,453	11,700
Social security costs	1,022	1,200
Other pension costs	501	800
	12,976	13,700
Subcontractor labour costs	1,855	800
	14,831	14,500

Notes *(continued)*

10 Taxation on ordinary activities

Analysis of charge in the year	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
UK corporation tax		
Current tax on income for the year at 28% *(2009 28%)*	1,116	3,047
Prior year adjustment	(302)	-
	814	3,047
Deferred taxation		
Origination and reversal of timing differences	1,404	343
Effect of decreased tax rate	(76)	-
Tax charge on profit on ordinary activities	2,142	3,390

Current tax reconciliation	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
(Loss)/profit on ordinary activities before taxation	(5,620)	569
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of corporation tax of 28% *(2009 28%)*	(1,574)	159
Capital allowances in excess depreciation	(463)	78
Offset of losses brought forward	(1,805)	(2)
Expenses not deductible for tax	2,236	186
Transfer pricing adjustments on group items	26	67
Other including consolidation adjustments	2,696	2,559
Prior year adjustment	(302)	-
	814	3,047

Factors that may affect future tax charges

The company is not aware of any factors that could have a material effect on future tax charges

Finance (no 2) Act 2010 enacted the reduction in corporation tax rate from 28% to 27% with effect from April 2011 In addition, the UK Government announced three further annual 1% cuts to reduce the rate to 24% from April 2014

At Budget 2011 on 23rd March 2011 the UK Government announced that the corporation tax rate would instead reduce to 26% from April 2011 with three further annual 1% cuts to 23% by April 2014

Other than the enacted change to 27%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2010 as they have not yet been enacted and the impact has not yet been estimated

Notes *(continued)*

11 Intangible fixed assets – Goodwill

	2010 £000	2009 £000
1 January 2010	162,283	171,872
Amortised in year	(9,600)	(9,589)
At 31 December	152,683	162,283

12 Tangible fixed assets – Group

	Long leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2010	439,000	25,279	464,279
Additions	4,458	8,240	12,698
At 31 December 2010	443,458	33,519	476,977
Accumulated depreciation			
At 1 January 2010	23,605	4,918	28,523
Charge for year	8,550	2,565	11,115
At 31 December 2010	32,155	7,483	39,638
Net book value			
At 31 December 2010	411,303	26,036	437,339
At 1 January 2010	415,395	20,361	435,756

On 30 November 2006 Drivers Jonas, Chartered Surveyors, revalued the Group's land and buildings at £427 5m In addition the fair value of the London City Airport Jet Centre buildings was determined to be equal to their book value of £1 3m on 30 November 2006 when the group acquired London City Airport Limited and its associated companies The valuation was prepared on the basis of market value as defined in the Appraisal and Valuation manual issued by the Royal Institute of Chartered Surveyors

The directors have assessed the asset value as at 31 December 2010 and are satisfied that the value is not less than the aggregate amount shown above

Included within tangible fixed asset are assets held under finance leases with a cost of £0 7m *(2009 £0 7m)* and net book value of £0 6m (*2009 £0 5m*) The depreciation charge in the year in respect of these assets was £0 1m (*2009 £0 1m*)

Notes *(continued)*

13 Tangible fixed assets – Company

	Long leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2010	463,092	1,998	465,090
Additions	4,275	-	4,275
Reclassification	(23,909)	-	(23,909)
At 31 December 2010	443,458	1,998	445,456
Accumulated depreciation			
At 1 January 2010	49,444	1,974	51,418
Charge for year	7,992	12	8,004
Reclassification	(23,909)	-	(23,909)
At 31 December 2010	33,527	1,986	35,513
Net book value			
At 31 December 2010	409,931	12	409,943
At 1 January 2010	413,648	24	413,672

On 1 of April 2009, Docklands Aviation Group Limited (DAG) acquired a long lease on the airport site from its subsidiary Marketspur Limited and all fixed assets were transferred from Marketspur Limited to DAG at this date

All tangible fixed assets stated above are held for use

Fixed assets include capitalised interest of £0 3m *(2009 £0 3 million)*

Notes *(continued)*

14 Fixed asset investments – Company

	2010 £000	2009 £000
Investment at cost	741,085	741,085
Provision for investment	(361,535)	(361,535)
	379,550	379,550

Details of subsidiary undertakings

All subsidiaries have been consolidated in these accounts and the subsidiary undertakings at 31 December 2010 were as follows

Name	Ordinary Share capital held	Nature of the business
Marketspur Limited (registered in England and Wales)	100%	Non Trading
London City Airport Limited (registered in England and Wales)	100%	Airport operator
City Aviation Holdings Limited (registered in England and Wales)	100%	Holding company

Other subsidiaries held indirectly within the group

Name	Ordinary Share capital held	Nature of the business
City Aviation Finance Limited (registered in the Cayman Islands)	100%	Dormant
London City Airport Jet Centre Limited (registered in England and Wales)	100%	Corporate and general aviation
London City Airport Travel Services Limited (registered in England and Wales)	100%	Dormant
City Aviation Investments Limited (registered in the Cayman Islands)	100%	Dormant

Notes *(continued)*

15 Debtors: amount falling due within one year

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Trade debtors	3,468	-	3,781	-
Amounts owed by parent undertaking	-	-	561	-
Amounts owed by fellow group undertakings	1,511	322,891	5,965	301,903
Other debtors	1,001	-	997	-
Prepayments and accrued income	2,007	418	3,651	1,844
	7,987	323,309	14,955	303,747

16 Debtors: amount falling due after one year

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Amounts owed by group undertakings	15,523	-	11,584	13,976

17 Deferred Taxation

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Deferred Tax assets/ (liabilities)	(2,051)	-	(723)	1,874

At 31 December 2010 there are unprovided deferred tax assets of £702k (*2009 £723k*) in respect of accelerated capital allowances and provisions unlikely to be utilised in the foreseeable future

The deferred tax assets and liabilities held by the Group at the start of the year that are expected to be realised after 31 March 2011 have been revalued at a tax rate of 27%, being the corporation tax rate that was substantively enacted at the balance sheet date, with effect from 1 April 2011

See also notes 10 and 21

Notes *(continued)*

18 Creditors. amounts falling due within one year

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Trade creditors	3,312	-	2,232	-
Corporation tax	74	-	2,198	-
Finance leases	149	-	84	-
Amounts owed to fellow group undertakings	18,763	15,898	9,495	7,409
Other creditors	1,128	845	1,992	243
Accruals and deferred income	9,055	1,389	12,473	2,573
	32,481	18,132	28,474	10,225

19 Creditors: amounts falling due after more than one year

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Bank loans	440,000	440,000	435,500	435,500
Unamortised cost of raising loan	(4,450)	(4,450)	(5,976)	(5,976)
Finance leases	748	-	416	-
Amounts owed to fellow group undertakings	-	411,653	-	411,719
Amounts owed to parent undertaking	753	1,314	1,314	1,314
	437,051	848,517	431,254	842,557

Notes *(continued)*

20 Loans and finance leases

The Group has adopted the requirements of Financial Reporting Standard Number 13 Derivatives and Other Financial Instruments disclosures ("FRS 13")

The Group has taken advantage of the exemption under FRS 13 that short term debtors and creditors be excluded from the following disclosures

	Group Finance Lease 2010 £m	Group and Company Bank Loans 2010 £m	Group Finance Lease 2009 £m	Group and Company Bank Loans 2009 £m
Less than one year	0.1	-	0 1	-
Between one and two years	0 1	-	0 1	-
Between two and five years	0.2	440 0	0 3	435 5
	0 4	440.0	0 5	435 5

As at 31 December 2010 the Group had four bank loans drawn The first two are facilities of £320m and £85m drawn to complete the acquisition of London City Airport group of companies on 30 November 2006 The third is a working capital facility of £10m of which £5m had been drawn at the year end The fourth is a capital expenditure facility of £75m of which £30m had been drawn at the year end All loans are repayable in October 2013 and bear interest at LIBOR plus a variable margin dependent on the ratio of Net debt EBITDA Floating to fixed rate interest swap contracts covering £345m of the drawn facilities are in place which fix the interest payable on this amount of loan at approximately 4 5% per annum plus the variable margin noted above Based on the fair value of the derivatives at 31 December 2010, they represent a liability to the Group of £44 7m

21 Provisions for liabilities and charges

	Group 2010 £000	Group 2009 £000
The liabilities for deferred tax are as follows -		
Accelerated capital allowances	2,051	723
The unprovided deferred tax in respect of revaluation surpluses is as follows	85,218	92,160

	2010 £000	2009 £000
At the start of year	723	380
Deferred tax charge to the profit and loss account for the year	1,404	343
Effect of decreased tax rate	(76)	-
At 31 December	2,051	723

Notes *(continued)*

At 31 December 2010 there were unrecognised deferred tax assets of £0 9m (*2009 £0 9m*) within the Group in respect of accelerated capital allowances and provisions unlikely to be utilised in the foreseeable future

22 Potential future obligations arising from planning approval to expand airport's operations

In July 2009 the London Borough of Newham (LBN) approved the airport's planning application to increase the permitted number of aircraft movements up to 120,000 per annum As part of this approval the airport entered into a s106 Town and Country Planning Act agreement with LBN which sets out the conditions attached to the grant of the planning approval These conditions represent a number of positive contributions, both monetary and non-monetary, that the airport will make in the local community and environment The financial contributions that the airport could be required to make cover a wide range of areas such as contributions to local community projects and initiatives, education and training, transport infrastructure, landscaping, environmental improvements and noise insulation and development value compensation At 31 December 2010 there are two categories of future monetary payments that are payable under the s106 agreement,

- Specific payments – Funding towards local community projects and initiatives covering education and training, transport infrastructure and environmental improvements of c£5m The timing of elements of these payments is conditional upon the timing of projects and activities being undertaken by third parties to whom the contributions relate
- Variable payments – For some of the obligations it is not possible to accurately estimate the potential cost or timing of the payment of these amounts as they are dependent on a variety of factors around the airport's own development and the future development of the local environment specifically in relation to development value compensation, noise insulation and other environmental improvements

Details of the progress, funding and support provided by the airport to date is contained in the Annual Performance Report compiled under the agreement with LBN which can be found on the airport's website – www londoncityairport com

Notes *(continued)*

23 Other financial commitments

	2010 £000	2009 £000
Capital Expenditure		
Contracted for	3,200	-
Authorised but not contracted for	1,500	8,600
	4,700	8,600

The annual commitments under non-cancellable operating leases are as follows

	2010 Land and buildings	2010 Other	2010 Total	2009 Land and buildings £000	2009 Other £000	2009 Total £000
Leases expiring in 2-5 years	-	206	206	-	152	152
Leases expiring in over 5 years	3,452	-	3,452	20,196	-	20,196
	3,452	206	3,658	20,196	152	20,348

Notes *(continued)*

24 Share capital

	2010	2009
Authorised		
Equity Ordinary shares of £1 each	**245,782,100**	**245,782,100**
Allotted, called up and fully paid		
Equity Ordinary shares of £1 each	**245,782,100**	**245,782,100**

25 Reserves

	Share capital	Profit and loss account	Total
	£000	£000	£000
Group			
At 1 January 2010	**245,782**	**(69,915)**	**175,867**
Loss for the year	-	(7,762)	(7,762)
Dividend paid	-	(17,400)	(17,400)
At 31 December 2010	**245,782**	**(95,077)**	**150,705**
Company			
At 1 January 2010	**245,782**	**14,295**	**260,077**
Profit for the year	-	3,531	3,531
Dividend paid	-	(17,400)	(17,400)
At 31 December 2010	**245,782**	**426**	**246,208**

26 Parent undertakings

The immediate parent undertaking is Clover Bidco Limited, a company registered in Jersey The ultimate and controlling parent undertaking is Clover Equityco Limited, a company registered in Jersey