

Docklands Aviation Group Limited

**Directors' report and financial
statements**

Registered number 5879149

31 December 2009

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Contents

Directors' report	3-8
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	9
Independent auditors' report to the members of Docklands Aviation Group Limited	10
Consolidated profit and loss account	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated cashflow statement	14
Reconciliation of operating profit to net cash inflow from operating activities	15
Analysis of changes in cash and cash equivalents during the year	15
Reconciliation of movements in net debt	15
Notes	16-29

Directors' report

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2009

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 £15.0m for the year ended 31 December 2009 (2008 – £40.0m).

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 2009 the airport handled 2.8m passengers compared to 3.3m in the same period in the prior year, a reduction of 14%. Corporate aviation movements handled by the airport have reduced by 21% from 9,839 in 2008 to 7,729 in 2009.

During the year there have been a number of changes to routes and route frequencies as airline operators have adapted their schedules to meet the expected demand in the tighter economic conditions in 2009. Principal route additions have been Billund (British Airways), Plymouth & Newquay (Air SouthWest), Nantes (Cityjet) and New York (British Airways). Routes that have ceased in the same period are Berlin (Lufthansa), Oslo (SAS), Stockholm (SAS), Manchester (VLM), Brussels (VLM) and Strasbourg (Cityjet).

British Airways commenced an all business service connecting London City Airport and New York JFK in September. British Airways uses Airbus A318s fitted with 32 seats for these services which is the first ever transatlantic scheduled service from London City Airport. The westbound service stops at Shannon, Ireland for refuelling and passengers clear US Customs and Immigration there. Eastbound flights operate nonstop.

In addition to the Airbus 318 arriving at LCY, airline operators also commenced the introduction of new aircraft as they updated their aircraft fleets. Most notable of these are the Embraer E-Jets which some of the principal airline alliances at LCY are starting to introduce. From the environmental point-of-view, the E-Jets will have up to 56% lower emissions than the Avro RJs they are replacing.

During 2008 the airport completed the new aircraft stands, pier and gate lounges together with the extension of the departure lounge area in May 2008. In 2009 the airport completed the refurbishment of the other existing departure lounge areas to enhance the facilities available for passengers. Additionally LCY commenced a multi million pound reconfiguration of its terminal building to provide a significantly enlarged passenger search area as well as additional space and comfort for passengers in the departure lounge.

In July 2009, the London Borough of Newham approved the airport's planning application, increasing the number of permitted flight movements from 80,000 to 120,000 per annum. The approval of the planning consent by the London Borough of Newham is currently being contested by a local environmental action group, Fight the Flights, and is subject to a Judicial Review hearing that is expected to be heard later in 2010.

During the year, Docklands Aviation Group Limited acquired the long lease on the airport site from its subsidiary, Marketspur Limited, and the trade and assets were transferred from Marketspur Limited to Docklands Aviation Group Limited.

Key financial and other performance indicators

	Year ended 31/12/2009	Year ended 31/12/2008
Total passenger (000's)	2,802	3,272
Aircraft movements	75,678	94,763
Group turnover (£m)	77.4	79.7
Profit before tax (£m)	0.6	0.3

Group turnover decreased by 3% reflecting the impact of the reduced activity levels in the year. The impact on profit before tax was mitigated by tight cost control procedures and the effect of lower interest rates on the amount of interest paid in the year.

Future prospects

After 22 years of operation the airport is now a well established business on a stable financial footing and is well placed to weather the current economic downturn. Whilst the general economic outlook does point to limited growth in overall aviation traffic in the near term the airport will continue to develop new facilities and offerings and to raise the profile of the airport to attract new business, such as the new British Airways service to New York JFK.

These developments will also position the airport favourably to deal with future growth as the economy recovers.

Employees

The group regularly reviews its 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. In 2009 LCY won the Docklands Business Club Award for Training & Development.

LCY continue to maintain a positive relationship with all of its employees and actively encourages communication through a variety of channels with all our employees. 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. 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.

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.

During 2009 LCY launched the public consultation for its Noise Action Plan (NAP). The objective of the NAP is to limit and, where possible, reduce the number of people significantly affected by aircraft noise. Further details are available on the group's website.

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 2009, 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.

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 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), One World (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 utilised 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 the group had external debt of £435.5 million and is exposed to interest rate risk, liquidity risk and cash flow risk in respect of these borrowings. Throughout 2009 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 and swaps. The application of these derivatives economically converts the hedged portions of variable-interest debt from variable to fixed interest. As at 31 December 2009 79% 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 £35,000 during the year (2008 - £43,000). 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/she 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.

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	
M McGhee	(resigned 11/12/2009)
J Kowalishin	
M Noorani	
W Woodburn	(resigned 16/12/2009)
S Hatton	(appointed 3/12/2009)
R Rao	(appointed 3/12/2009)
J Parker	(resigned 15/09/2009)
A Gold	(appointed 16/09/2009)
R Griffins	

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

David G Thomson
Director



The Royal Docks
London City Airport
London
E16 2PB

30th March 2010

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 auditors' 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 2009 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 auditors' 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

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 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 web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group and parent company's affairs as at 31 December 2009 and the 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, 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.



June Awty
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square, London, EC4Y 8BB

Consolidated profit and loss account
for the year ended 31 December 2009

	<i>Note</i>	Year ended 31 December 2009	Year ended 31 December 2008
		£000	£000
Turnover	<i>4</i>	77,397	79,671
Cost of sales		(8,811)	(10,558)
		<hr/>	<hr/>
Gross profit		68,586	69,113
Administrative expenses		(50,259)	(47,060)
		<hr/>	<hr/>
Operating profit	<i>5</i>	18,327	22,053
Interest received	<i>6</i>	1,001	2,088
Interest paid	<i>7</i>	(18,759)	(23,882)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		569	259
Taxation charge on profit on ordinary activities	<i>10</i>	(3,390)	(4,584)
		<hr/>	<hr/>
Loss for the financial year		(2,821)	(4,325)
		<hr/>	<hr/>

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

Consolidated balance sheet
as at 31 December 2009

	<i>Note</i>	2009 £000	2008 £000
Fixed assets			
Goodwill	<i>11</i>	162,283	171,872
Tangible assets	<i>12</i>	435,756	433,688
		<hr/>	<hr/>
		598,039	605,560
Current assets			
Stock		192	160
Debtors (amounts falling due within one year)	<i>15</i>	14,955	14,247
Debtors (amounts falling due after one year)	<i>16</i>	11,584	14,867
Cash at bank and in hand		11,548	11,478
		<hr/>	<hr/>
		38,279	40,752
Creditors amounts falling due within one year	<i>18</i>	(28,474)	(15,114)
		<hr/>	<hr/>
Net current assets		9,805	25,638
		<hr/>	<hr/>
Total assets less current liabilities		607,844	631,198
Creditors amounts falling due after more than one year	<i>19</i>	(431,254)	(472,130)
Deferred taxation	<i>17</i>	(723)	(380)
		<hr/>	<hr/>
Net assets		175,867	158,688
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	<i>24</i>	245,782	210,782
Profit and loss account	<i>25</i>	(69,915)	(52,094)
		<hr/>	<hr/>
Equity shareholders' funds		175,867	158,688
		<hr/>	<hr/>

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

These financial statements were approved by the board of directors on its behalf by

30 March 2010 and were signed on

Richard E Gooding
Director



David G Thomson
Director



Company balance sheet
as at 31 December 2009

	<i>Note</i>	2009 £000	2008 £000
Tangible fixed assets			
Tangible assets		413,672	-
Investments		379,550	741,085
		793,222	741,085
Current assets			
Debtors (amounts falling due within one year)	15	303,747	82,872
Debtors (amounts falling due after one year)	16	13,976	76,295
Cash at bank and in hand		40	341
Deferred tax	17	1,874	-
		319,637	159,508
Creditors amounts falling due within one year	18	(10,225)	(1,931)
Net current assets		309,412	157,577
Total assets less current liabilities		1,102,634	898,662
Creditors amounts falling due after more than one year	19	(842,557)	(673,618)
Net assets		260,077	225,044
Capital and reserves			
Called up share capital	24	245,782	210,782
Profit and loss account	25	14,295	14,262
Equity shareholders' funds		260,077	225,044

Consolidated cash flow statement
for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Net cash inflow from operating activities		11,533	49,407
Returns on investments and servicing of finance			
Interest received	6	1,001	2,088
Interest paid	7	(17,233)	(22,356)
Net cash outflow from servicing of finance		(16,232)	(20,268)
Taxation			
Corporation tax paid		(2,957)	(2,096)
Capital expenditure			
Payments to acquire fixed assets		(12,196)	(13,423)
Receipts from the disposal of fixed assets		-	-
Net cash outflow from capital expenditure		(12,196)	(13,423)
Financing			
Bank loans drawn			25,500
Issue of share capital	25	35,000	-
Dividends paid	25	(15,000)	(40,000)
Capital element of finance lease payments		(78)	(78)
Net cash inflow from financing		19,922	(14,578)
(Decrease)/increase in cash and cash equivalents		70	(958)
Cash and cash equivalents brought forward		11,478	12,436
Cash and cash equivalents carried forward		11,548	11,478

The notes 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 2009

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Operating profit	18,327	22,053
Depreciation charges	10,128	9,228
Decrease in stocks	(32)	15
Increase in debtors	2,575	15,777
Decrease in creditors	(29,054)	(7,255)
Profit on disposal of fixed assets	-	-
Amortisation of goodwill	9,589	9,589
Net cash inflow from operating activities	<u>11,533</u>	<u>49,407</u>

Analysis of changes in cash and cash equivalents
for the year ended 31 December 2009

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
At start of year	11,478	12,436
Net cash (outflow)/inflow	70	(958)
At 31 December	<u>11,548</u>	<u>11,478</u>

Reconciliation of movement in net debt
for the year ended 31 December 2009

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
At start of year	424,599	397,564
Net cash outflow/(inflow)	(70)	958
Increase in net loans	-	25,500
Net (decrease)/increase in finance leases	(78)	577
Net debt at 31 December 2009	<u>424,451</u>	<u>424,599</u>
Analysis of net debt		
Cash at bank and in hand	(11,548)	(11,478)
Finance leases	499	577
Bank loans	435,500	435,500
	<u>424,451</u>	<u>424,599</u>

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

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

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

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

3 Related parties

At the year end, the group was owed £2,909,000 (2008 £2,715,000) by North Woolwich Properties Limited, was owed £11,591,000 (2008 £10,254,000) by West Silvertown Properties Limited, was owed £nil (2008 £1,703,000) by Stratfield Limited, was owed £3,000 (2008 £3000) by Gallions Properties Limited, and was owed £nil (2008 £nil) by AMI Property Holdings Limited. The group owed £1,221,000 (2008 £4,227,000) to KGV Dock Properties Limited, owed £4,208,000 (2008 £4,697,000) to City Aviation Properties Limited, owed £1,314,000 (2008 £35,753,000) to Clover Bidco Limited. All of these companies are under common control by the ultimate parent undertaking, Clover Equity Co Limited to which the group owed £271,000 (2008 £290,000)

During the year the group paid interest on loans of £855,000 (2008 £795,000) to West Silvertown Properties Limited and property rentals to City Aviation Properties Limited, West Silvertown Properties Limited and KGV Dock Properties Limited amounting to £10,240,000 (2008 £10,089,000)

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

Notes (continued)

4 Turnover

Turnover is derived from airport operations, solely in the United Kingdom

5 Operating profit

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
<i>Operating profit is stated after charging</i>		
Auditors' remuneration		
Audit fees*	83	72
Depreciation	9,986	9,228
Hire of plant and machinery – operating lease rentals	198	122
Other operating lease rentals	10,240	10,089
Amortisation of goodwill	9,589	9,589
	<u> </u>	<u> </u>

*The audit fee includes £4,500 (2008 £4,500) in respect of the Company

6 Interest received and similar income

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Interest on group loans	855	795
Interest receivable from group undertakings	-	1,293
Bank interest	146	-
	<u> </u>	<u> </u>
	1,001	2,088
	<u> </u>	<u> </u>

7 Interest paid and similar charges

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Interest payable on securitized loan notes	-	-
Bank interest payable	17,189	22,326
Other interest payable	-	-
Amortisation of finance costs	1,526	1,526
Finance lease interest	44	30
	<u> </u>	<u> </u>
	18,759	23,882
	<u> </u>	<u> </u>

Notes (continued)

8 Directors' remuneration

	Year ended 31 December 2009	Year ended 31 December 2008
	£000	£000
Directors' emoluments	803	778

The aggregate pension contributions paid on behalf of the directors were £378,690 (2008 £88,000)

Chairman's emoluments were £63,780 (2008 £61,260) for the year. The emoluments of the highest paid director in the group were £383,068 (2008 £363,000)

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 2009	Year ended 31 December 2008
Operational	329	339
Administration	49	46
	378	385

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2009	Year ended 31 December 2008
	£000	£000
Wages and salaries	11,700	10,900
Social security costs	1,200	1,100
Other pension costs	800	400
	13,700	12,400
Subcontractor labour costs	800	1,400
	14,500	13,800

Notes (continued)

10 Taxation on ordinary activities

	Year ended 31 December 2009	Year ended 31 December 2008
	£000	£000
<i>Analysis of charge) in the year</i>		
UK corporation tax		
Current tax on income for the year at 28% (2008 28%)	3,047	4,204
Prior year adjustments		
	<u>3,047</u>	<u>4,204</u>
Deferred taxation		
Origination and reversal of timing differences	343	380
	<u>3,390</u>	<u>4,584</u>

	Year ended 31 December 2009	Year ended 31 December 2008
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before taxation	569	259
	<u>159</u>	<u>73</u>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax of 28% (2008 28%)	78	(376)
Capital allowances in excess depreciation	(2)	-
Offset of losses brought forward	186	1,770
Expenses not deductible for tax	67	52
Transfer pricing adjustments on group items	2,559	2,685
Other including consolidation adjustments	<u>3,047</u>	<u>4,204</u>

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

Notes *(continued)*

11 Intangible fixed assets – Goodwill

	2009 £000	2008 £000
1 January	171,872	181,461
Amortised in year	(9,589)	(9,589)
At 31 December	162,283	171,872

Notes (continued)

12 Tangible fixed assets – Group

	Long leasehold land and buildings £000	Plant and machinery £000	Total £000
<i>Cost or Valuation</i>			
At 1 January 2009	436,547	15,536	452,083
Additions	2,453	9,743	12,196
At 31 December 2009	439,000	25,279	464,279
<i>Accumulated depreciation</i>			
At 1 January 2009	15,761	2,634	18,395
Charge for year	7,844	2,284	10,128
At 31 December 2009	23,605	4,918	28,523
<i>Net book value</i>			
At 31 December 2009	415,395	20,361	435,756
At 1 January 2009	420,786	12,902	433,688

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 2009 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 (2008: £0.7m) and net book value of £0.5m (2008: £0.6m). The depreciation charge in the year in respect of these assets was £0.1m (2008: £0.1m).

13 Tangible fixed assets – Company

	Long leasehold land and buildings £000	Plant and machinery £000	Total £000
<i>Cost or Valuation</i>			
At 1 January 2009	-	-	-
Transfer from subsidiary	460,853	1,998	462,851
Additions	2,239	-	2,239
	<hr/>	<hr/>	<hr/>
At 31 December 2009	463,092	1,998	465,090
	<hr/>	<hr/>	<hr/>
<i>Accumulated depreciation</i>			
At 1 January 2009	-	-	-
Transfer from subsidiary	43,823	1,965	45,788
Charge for year	5,621	9	5,630
	<hr/>	<hr/>	<hr/>
At 31 December 2009	49,444	1,974	51,418
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2009	413,648	24	413,672
	<hr/>	<hr/>	<hr/>
At 1 January 2009	-	-	-
	<hr/>	<hr/>	<hr/>

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

All tangible fixed assets stated above are held for use

Fixed assets include capitalised interest of £0.3 million (2008 £0.4 million)

Notes (continued)

14 Fixed asset investments – Company

	2009 £000	2008 £000
At 1 January 2009	741,085	890,400
Impact of dormant subsidiary liquidations	-	(149,315)
Write down of investment in subsidiary undertaking	(361,535)	-
	<u>379,550</u>	<u>741,085</u>

Details of subsidiary undertakings

All subsidiaries have been consolidated in these accounts and the subsidiary undertakings at 31 December 2009 were as follows

Name	Share capital held	Nature of the business
Marketspur Limited (registered in England and Wales)		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	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%	Not trading

Notes *(continued)*

15 Debtors: amount falling due within one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Trade debtors	3,781	-	4,734	-
Amounts owed by parent undertaking	561	-	561	-
Amounts owed by group undertakings	5,965	301,903	6,955	82,734
Other debtors	997	-	1,853	-
Prepayments and accrued income	3,651	1,844	144	138
	<u>14,955</u>	<u>303,747</u>	<u>14,247</u>	<u>82,872</u>

16 Debtors: amount falling due after one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Amounts owed by group undertakings	<u>11,584</u>	<u>13,976</u>	<u>14,867</u>	<u>76,295</u>

17 Deferred Taxation

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Deferred Tax assets/ (liabilities)	<u>(723)</u>	<u>1,874</u>	<u>(380)</u>	<u>-</u>

Docklands Aviation Group Limited recognised a deferred tax asset on the £6.7m losses carried forward at 31 December 2009 of £1.9m. It is management's expectation that the company will generate sufficient rental profits in the future to utilise these losses.

Notes (continued)

18 Creditors: amounts falling due within one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Trade creditors	2,232	-	1,738	-
Corporation tax	2,198	-	2,108	-
Finance leases	84	-	78	-
Amounts owed to fellow group undertakings	9,495	7,409	591	202
Other creditors	1,992	243	3,429	1,729
Accruals and deferred income	12,473	2,573	7,170	-
	<u>28,474</u>	<u>10,225</u>	<u>15,114</u>	<u>1,931</u>

19 Creditors: amounts falling due after more than one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Bank loans	435,500	435,500	435,500	435,500
Unamortised cost of raising loan	(5,976)	(5,976)	(7,502)	(7,502)
Finance leases	416	-	499	-
Amounts owed to fellow group undertakings	-	411,719	7,029	209,306
Amounts owed to parent undertaking	1,314	1,314	36,604	36,314
	<u>431,254</u>	<u>842,557</u>	<u>472,130</u>	<u>673,618</u>

Notes (continued)

20 Loans and finance leases

	Group Finance Lease 2009 £m	Group and Company Bank Loans 2009 £m	Group Finance Lease 2008 £m	Group and Company Bank Loans 2008 £m
Less than one year	0.1	-	0.1	-
Between one and two years	0.1	-	0.1	-
Between two and five years	0.3	435.5	0.4	435.5
	<u>0.5</u>	<u>435.5</u>	<u>0.6</u>	<u>435.5</u>

As at 31 December 2009 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 £5.0m had been drawn at the year end. The fourth is a capital expenditure facility of £75m of which £25.5m 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.

21 Provisions for liabilities and charges

	Group 2009 £000	Group 2008 £000
The liabilities for deferred tax are as follows -		
Accelerated capital allowances	<u>723</u>	<u>380</u>
 The unprovided deferred tax in respect of revaluation surpluses is as follows	 <u>92,160</u>	 <u>92,144</u>
	 2009	 2008
	 £000	 £000
At the start of year	380	-
Deferred tax charge to the profit and loss account for the year	343	380
	<u>723</u>	<u>380</u>
At 31 December		

At 31 December 2009 there were unrecognised deferred tax assets of £0.5m (2008: £4.3m) within the Group in respect of accelerated capital allowances and provisions unlikely to be utilised in the foreseeable future.

Notes (continued)

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, noise insulation and development value compensation.

The directors have considered the recognition criteria of FRS 12 Provisions, Contingent Liabilities and Contingent Assets. 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. Additionally the planning consent is currently subject to a judicial review which is expected to take place later in 2010. In light of these factors no provision has been raised for any obligations under the new planning consent as at 31 December 2009.

23 Other financial commitments

	2009 £000	2008 £000
Capital Expenditure		
Contracted for	-	-
Authorised but not contracted for	8,600	5,200
	<u>8,600</u>	<u>5,200</u>
	<u><u>8,600</u></u>	<u><u>5,200</u></u>

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

	2009			2008		
	Land and buildings £000	Other £000	Total £000	Land and buildings £000	Other £000	Total £000
Leases expiring in 2-5 years	-	152	152	-	122	122
Leases expiring in over 5 years	20,196	-	20,196	10,089	-	10,089
	<u>20,196</u>	<u>152</u>	<u>20,348</u>	<u>10,089</u>	<u>122</u>	<u>10,211</u>
	<u><u>20,196</u></u>	<u><u>152</u></u>	<u><u>20,348</u></u>	<u><u>10,089</u></u>	<u><u>122</u></u>	<u><u>10,211</u></u>

24 Share capital

	2009	2008
<i>Authorised</i>		
Equity Ordinary shares of £1 each	245,782,100	210,782,100
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity Ordinary shares of £1 each	245,782,100	210,782,100
	<hr/>	<hr/>

25 Reserves

	Share capital	Profit and loss account	Total
	£000	£000	£000
Group			
At 1 January 2009	210,782	(52,094)	158,688
Loss for the year	-	(2,821)	(2,821)
Dividend paid	-	(15,000)	(15,000)
Share issue	35,000	-	35,000
	<hr/>	<hr/>	<hr/>
At 31 December 2009	245,782	69,915	175,867
	<hr/>	<hr/>	<hr/>
Company			
At 1 January 2009	210,782	14,262	225,044
Profit for the year	-	15,033	15,033
Dividend paid	-	(15,000)	(15,000)
Share issue	35,000	-	35,000
	<hr/>	<hr/>	<hr/>
At 31 December 2009	245,782	14,295	260,077
	<hr/>	<hr/>	<hr/>

During the year, the Company issued 35,000,000 shares at £1 each to its parent company, Clover Bidco Limited, to restructure the group of companies

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.