

Docklands Aviation Group Limited

Annual Report and financial statements

Registered number 5879149

31 December 2022

THURSDAY



AC7NGMZD

A13

13/07/2023

#188

COMPANIES HOUSE

Contents

Strategic Report	3-6
Directors' report	7
Statement of directors' responsibilities in respect of the financial statements	8
Independent auditors' report to the members of Docklands Aviation Group Limited	9-11
Profit and loss account	12
Statement of comprehensive income	13
Balance sheet	14
Statement of changes in equity	15
Notes	16-27

Strategic Report

Principal activities

The principal activity of the Company, Docklands Aviation Group Limited ("DAG") is to own and develop the key assets of London City Airport upon which it receives rental income.

Significant contractual and other relationships

The key contractual relationships of DAG are between other Group companies, including the airport leases and intercompany loans. The "Group" consists of Londonia Topco Limited, and its subsidiaries.

The Group is owned by a consortium of established long term infrastructure investors. The shareholders are OMERS (25%), Ontario Teachers' Pension Plan (25%), Wren House Infrastructure Management (25%) and AIMCo, on behalf of its clients (25%).

City Airport Development Programme ('CADP')

In response to the impact of Covid on aviation, the Board decided in spring 2020 to pause the CADP development, completing key capacity enhancing elements of the overall development programme. This was primarily the parallel taxiway, additional aircraft stands, immigration and baggage handling facilities. The completion of the complex piling and decking also delivered the "deck" which will provide the foundation for the pier and terminal extensions. Whilst the majority of this work was completed in 2021, a small level of expenditure will continue to be incurred relating to the overall programme, £0.1m (2021:£45m). In the year £nil (2021: £69m) of assets were brought into use.

Other developments

During 2022, total fixed asset additions were £4.3m (2021:£11.9m) see Note 9.

Financial derivatives

As part of the wider Group financing project completed in December 2022, the historic £345m swap was amended and restated to reduce the number of participants and to extend the mandatory break from March 2023 to March 2026, in line with the broader financing restructuring.

Future Developments

Despite the return to travelling in 2022, the impact of Covid continues to have a significant impact on the whole aviation industry. This, combined with the increasing concerns about the economy and the cost-of-living crisis continues to cause near term uncertainty as to the timing of the recovery of passenger numbers to previous levels. This is continuing to impact the levels of investment that will be funded in the short to medium term.

Strategic report (continued)

However, in December 2022, London City Airport submitted a planning application to London Borough of Newham, to increase the pre-existing passenger cap and to increase operating hours to include a Saturday afternoon. The application includes an outline programme for the completion of the development programme as passengers' numbers recover to those previously anticipated.

Principal risks and uncertainties

Safety risks

Risk assessments are undertaken for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by our business. The Company also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe.

Security risks

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

Planning risks

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 its growth aspirations. Specialist planning advisors, involvement with the industry level lobbying and an experienced team work together to pre-empt and address any issues arising.

The CADP planning consent is subject to comprehensive planning controls including 97 planning conditions and a Section 106 Planning Agreement covering topics such as environment; surface access; employment; education; design and construction. Full compliance has been achieved and confirmed by the London Borough of Newham.

Strategic report (continued)

Financial risks

Hedge effectiveness risk

The Company continues to hold financial derivatives on behalf of the Group and continues to apply hedge accounting. The interest exposure of the company is offset by the interest receivable by an intermediate holding company, Londonia Bidco Limited. The company entered into a number of interest rate swap contracts (hedged instruments) in relation to the £345m bank loan (hedged item) to receive interest at 3-month GBP LIBOR and pays interest at a fixed rate 5.5%. In 2016, Docklands Aviation Group Limited ("DAG") de-designated and re-designated their existing swaps in accounting hedges, under FRS 102 Section 12. This included a mandatory break in March 2023. The swaps were out of the money at the time of the re-designation, therefore a portion of the fair value movement of the swap is ineffective and is immediately recognised through interest payable. As part of the Group's refinancing process completed in December 2022, the existing swap contract was amended and extended to include an extension on the break clause to 2026 and a reduction in counterparties. The existing accounting treatment continues to be appropriate with regard to ineffectiveness.

Liquidity

The Company mitigates liquidity risk by maintaining sufficient cash flow to meet external liabilities as they fall due. The Company is dependent for its working capital on funds provided to it by the Group which 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.

Other risks

The Company places 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 and assessed annually.

Going concern

Notwithstanding the company's net current liability position the Directors have prepared the financial statements on a going concern basis. In assessing the going concern position, the Directors have considered:

- The Company's recovery from impacts of Covid-19 on the Company's cash flow and liquidity to 31 December 2024,
- the risk of breaching any banking covenants in this period.

The financing arrangements available to the Company are from its ultimate parent, Londonia Topco Limited (the 'Group') which itself is funded by external lenders and shareholders.

The Company relies on the financial support of its ultimate parent, to continue as a going concern and to meet its liabilities as they fall due. The availability of this financial support in turn depends on the continued availability of these externally funded loans. These loans were refinanced in December 2022 by way of a 3 year extension to the original term to March 2026, including a £115m reduction in debt. None of the revised £595m facilities is due for repayment within the next 24 months.

The financial statements have been prepared on a going concern basis as Londonia Topco Limited, the ultimate parent company has indicated that it will support the Company to ensure it can meet its obligations as they fall due for at least one year after the financial statements were approved.

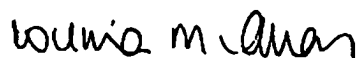
Londonia Topco Limited's financial modelling assumes a post pandemic base case recovery profile back to 2019 passenger numbers and corresponding revenues by 2025. This reflects the recovery seen in passenger numbers across the aviation industry as a whole due to the removal of travel restrictions and border closures.

Due to the uncertainty around the recovery profile and the wider economic uncertainties, the Group has modelled several scenarios reflecting different recovery curves through 2023 and beyond to assess the adequacy of headroom in liquidity and covenants should the recovery differ from that modelled.

The Company and its Directors continue to manage liquidity by controlling both operating and capital expenditures while protecting the Company's ability to operate in a compliant and safe manner.

After consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis.

On behalf of the board



Wilma Allan, Director

Docklands Aviation Group Limited
City Aviation House
Royal Docks
London
E16 2PB

4 April 2023

Directors' report

The directors present their report with the audited financial statements for the year ended 31 December 2022.

Results and dividends

The profit for the year of £17.5m (2021 restated: £6.5m loss) is arrived at after taking into account a tax charge of £3.5m (2021 restated: £16.0m). No dividend was declared or paid in the year (2021: £nil). There are no plans for a future dividend.

Ownership

Londonia Bidco Limited is the immediate parent company for Docklands Aviation Group Limited.

Directors

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

R Sinclair	Chief Executive Officer
W Allan	Chief Finance Officer

Directors' Insurance and Indemnities

The company has made qualifying third-party indemnity provisions for the benefit of the respective directors which were in place throughout the year, and which remain in place at the date of the report. The company also purchased and maintained throughout the year Directors and Officers liability insurance in respect of itself and its directors.

Future developments

Future developments are discussed in the Strategic Report on page 3. There are no other subsequent events requiring disclosure.

Going concern

Going concern is discussed in the Strategic Report on page 3.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board



Wilma Allan, Director

4 April 2023

Docklands Aviation
Group Limited
Royal Docks
City Aviation House
London
E16 2PB

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual report and financial statements and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

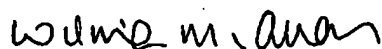
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



Wilma Allan, Director

4 April 2023

Independent auditors' report to the members of Docklands Aviation Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, Docklands Aviation Group Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practices (United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the 'Annual Report') which comprise: the Balance sheet as at 31 December 2022; the Profit and loss account; and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

- **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

- **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

- **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to corporate taxation legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the manipulation of financial statement line items through manual journal postings and potential management bias in determining critical accounting estimates. Audit procedures performed by the engagement team included:

- Inquiries of management with consideration of known and suspected instances of non-compliance with laws and regulations and fraud;
- Review of legal and professional expenses to identify any undisclosed legal matters;
- Challenging assumptions and judgements made by management in respect of critical accounting estimates and assumptions;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Reviewing the financial statement disclosures and agreeing to underlying supporting documentation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

- **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 April 2023

Profit and loss account

for the year ended 31 December 2022

	Note	2022 £000	2021 (restated) £000
Turnover	3	22,676	22,675
Administrative expenses		(19,246)	(17,792)
Operating profit	4	3,430	4,883
Interest receivable and similar income	6	48,142	31,829
Interest payable and similar expenses	7	(30,511)	(27,212)
Profit before taxation		21,061	9,500
Tax on profit	8	(3,526)	(15,974)
Profit/(loss) for the financial year		17,535	(6,474)

The Profit/(loss) for the current and prior years is derived from continuing operations.

The notes on pages 16 to 27 form part of the financial statements.

See note 21 for further details on the prior year adjustment.

**Statement of comprehensive income
for the year ended 31 December 2022**

	Note	2022	2021
		£000	(restated) £000
Profit/(loss) for the financial year		17,535	(6,474)
Other comprehensive income/(expense)			
Changes in fair value of cash flow hedges	14	120,267	49,941
Deferred tax on other comprehensive income		(30,066)	1,203
Total comprehensive income for the year		107,736	44,670

The notes on pages 16 to 27 form part of the financial statements.

See note 21 for further details on the prior year adjustment.

Docklands Aviation Group Limited
Annual report and financial statements
31 December 2022

**Balance Sheet
as at 31 December**

Registered number 5879149

	Note	2022 £000	2021 (restated) £000
Fixed assets			
Tangible assets	9	1,075,837	1,090,865
		<u>1,075,837</u>	<u>1,090,865</u>
Current assets			
Debtors: amounts falling due within one year	10	72	51
Debtors: amounts falling due after more than one year	11	345,000	345,000
Cash at bank and in hand		148	274
		<u>345,220</u>	<u>345,325</u>
Total current assets		345,220	345,325
Creditors: amounts falling due within one year	12	(468,428)	(489,184)
		<u>(123,208)</u>	<u>(143,859)</u>
Net current liabilities		(123,208)	(143,859)
		<u>952,629</u>	<u>947,006</u>
Total assets less current liabilities		952,629	947,006
Creditors: amounts falling due after more than one year	13	(565,432)	(698,464)
		<u>(42,661)</u>	<u>(11,742)</u>
Provisions for liabilities			
Deferred taxation	16	(42,661)	(11,742)
		<u>344,536</u>	<u>236,800</u>
Net assets		344,536	236,800
		<u>340,523</u>	<u>340,523</u>
Capital and reserves			
Called up share capital	18	340,523	340,523
Capital reserve		245,782	245,782
Cashflow hedge		(43,441)	(133,642)
Profit and loss account		(198,328)	(215,863)
		<u>344,536</u>	<u>236,800</u>
Total shareholders' funds		344,536	236,800

The notes on pages 16 to 27 form part of the financial statements.

See note 21 for further details on the prior year adjustment.

These financial statements on pages 12 to 27 were approved by the board of directors on 4 April 2023 and were signed on its behalf by:

Wilma M. Allan

Wilma Allan, Director

Statement of changes in equity

	Share capital	Profit & loss account	Cashflow hedge	Capital Reserve	2022 Total
	£000	£000	£000	£000	£000
As at 1 January 2022	340,523	(215,863)	(133,642)	245,782	236,800
Profit for the year	-	17,535	-	-	17,535
Gain on movement in cashflow hedge in the year	-	-	120,267	-	120,267
Deferred tax on cashflow hedge	-	-	(30,066)	-	(30,066)
At 31 December 2022	340,523	(198,328)	(43,441)	245,782	344,536

	Share capital	Profit & loss account (restated)	Cashflow hedge	Capital Reserve	2021 Total (restated)
	£000	£000	£000	£000	£000
As at 1 January 2021 (previously reported)	340,523	(189,910)	(184,786)	245,782	211,609
Prior year adjustment (note 21)	-	(19,479)	-	-	(19,479)
As at 1 January 2021 (restated)	340,523	(209,389)	(184,786)	245,782	192,130
Loss for the year	-	(6,474)	-	-	(6,474)
Gain on movement in cashflow hedge in the year	-	-	49,941	-	49,941
Deferred tax on cashflow hedge	-	-	1,203	-	1,203
At 31 December 2021	340,523	(215,863)	(133,642)	245,782	236,800

The notes on pages 16 to 27 form part of the financial statements.

See note 21 for further details on the prior year adjustment.

Notes

1 Basis of preparation of financial statements

The principal activity of the Company is to own and develop the key assets of London City Airport.

The company is a private company limited by shares and incorporated in England. The address of its registered office is City Aviation House, Royal Docks, London, E16 2PB.

Copies of the consolidated financial statements for the immediate and ultimate parent undertakings can be obtained from the company's registered address, 44 Esplanade, St. Helier, Jersey, JE4 9WG.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Statement of compliance

The financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), taking into account updates of the 2018 triennial review and Companies Act 2006.

Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention as modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss.

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

Disclosure exemption in the accounting policies

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102.

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 33 Related Party Disclosures paragraph 33.1A

Going concern

The financing arrangements available to the Company are from its ultimate parent, Londonia Topco Limited (the 'Group') which itself is funded by external lenders and shareholders. The Company relies on the financial support of its ultimate parent, to continue as a going concern and to meet its liabilities as they fall due.

During 2022 the Group successfully completed a refinancing of a significant proportion of its senior debt that was due for repayment in March 2023. An amend and extend (A&E) was completed at the start of December 2022 which extended the term to March 2026 and, as a result, this has ensured that none of the debt facilities financing the Company are due for repayment over the next 24 months.

The refinancing/A&E delivered a reduced term loan of £533.5m and an increased RCF facility of £61.6m. This debt reduction, achieved by Shareholder equity contributions, reduces leverage and resultant interest costs.

The Group's financial forecast over the next 18-24 months reflects a continuation of the passenger recovery seen in 2022 where passenger levels averaged 62% of 2019 and management are expecting full recovery to 2019 levels by 2025.

Notes (continued)

1 Basis of preparation of financial statements (continued)

The Group has produced forecasts which demonstrate liquidity over the next 24 months and more than sufficient headroom against bank covenants.

The Company and its Directors continue to manage liquidity by controlling both operating and capital expenditures while protecting the Company's ability to operate in a compliant and safe manner.

Notwithstanding the Company's net current liability position, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis.

2 Accounting policies

Turnover

Turnover is calculated on the basis of the invoiced value of goods and services supplied during the trading year and excludes value added tax. Turnover consists of rental income from other group companies.

Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation. Assets under construction are stated at cost. Assets under construction are not depreciated until they are available for use.

Where parts of an item of tangible assets have different useful lives, they are accounted for as separate items of tangible assets, for example land is treated separately from buildings.

The Company assesses at each reporting date whether tangible assets are impaired. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Freehold land is not depreciated.

The estimated useful lives are as follows:

Buildings	- 10 to 60 years
Plant and machinery	- 3 to 15 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Borrowings

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Operating leases

Operating leases are accounted for against the profit and loss account on a straight-line basis over the life of the lease.

Financial instruments

The Company adopted the phase 2 IBOR amendments to FRS102 issued in December 2020. The company has chosen to apply the provisions of FRS102 Section 11 and 12 in full.

Note 15 Financial instruments provides the required disclosures arising from LIBOR reform.

Notes (continued)

2 Accounting policies (continued)

Derivative and hedging - Interest rate swaps

The Company has entered into a number of interest rate swap contracts (hedged instruments) in relation to the £345m intercompany loan (hedged item) to receive interest at 3-month GBP SONIA and pay interest at a fixed rate of 5.47% to March 2023. The swap contracts mature in December 2036, and prior to the Amend & Extend (A&E) of the loan facility (hedged item) completed in December 2022, had a mandatory break at March 2023. This break has now been extended to March 2026 in line with the extended term of the intercompany loan. The break extension increases the fixed swap rate from 5.47% to 6.14% effective from March 2023.

As a result of LIBOR reforms, during 2021 these swap contracts were restated to reflect the change from LIBOR to SONIA. This included a credit adjustment spread which is applied to SONIA, from the 1 April 2022, in order to remain on an economically equivalent basis to LIBOR.

Derivative financial instruments are recognised at fair value under FRS102. Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below). As the valuation is based on forward looking rates an appropriate basis of valuation should be determined for the MTM and hypothetical valuation. SONIA has therefore been used as the basis of both the hypothetical and MTM valuation.

Hedging arrangement - Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Taxation

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

Deferred taxation

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, associates, branch, joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Capital reserves

The capital reserve forms part of the company's distributable reserves.

Notes (continued)

2 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting principles

Management is required to make judgements in relation to the capitalisation of costs in relation to assets in the course of construction. This relates to both when amounts may begin to be capitalised and where there may be doubt about the ultimate completion of the asset, for example as a consequence of regulatory requirements such as planning consents.

(b) Critical accounting estimates and assumptions

In the application of the Company's accounting policies, which are described in note above, the Directors are required to make certain judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended where necessary to reflect current estimates. See note 9 for the carrying amount of the Land, plant and machinery, and note above for the useful economic lives of each class of assets.

Recognition of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the timing differences can be utilised. The amount of the deferred tax asset considered realisable could be adjusted if estimates of future taxable income are reduced or decreased. The value of the deferred tax asset is re-assessed annually.

Fair Value of Derivative Financial Instruments

The fair value of derivative financial instruments is determined by using valuation techniques. These techniques require judgement and make assumptions that are mainly based on market conditions existing at each reporting date. The valuation technique used is a discounted cash flow methodology. The valuation is sensitive to the forward estimate of SONIA, which is the critical market input to the valuation.

Notes (continued)

3 Turnover

The directors consider that the business has only one segment. The Company's turnover is derived from operating lease rentals, solely in the United Kingdom.

	2022 £000	2021 £000
Rental income	22,676	22,675

4 Operating profit

	2022 £000	2021 £000
<i>Operating profit is stated after charging/(crediting):</i>		
Fees payable to the Company's auditors		
- for the audit of the Company's financial statements	24	20
Depreciation – owned assets	18,733	17,434
Amortisation of Government grants	(4)	(4)

5 Employees and directors

Directors

There are two directors in the Company (2021: Two). There are no employees other than the two directors (2021: Two). None of the directors received any emoluments from the Company during the year (2021: £nil). The directors were remunerated by Londonia Bidco Limited and provide services to a number of group companies, it is not practical to determine the element of their remuneration which relates to their qualifying services as directors of this company. Full disclosures are included within the Londonia Bidco Limited consolidated financial statements.

6 Interest receivable and similar income

	2022 £000	2021 £000
Interest receivable from group undertakings	18,889	18,889
Hedge ineffectiveness movements	29,253	12,940
	48,142	31,829

7 Interest payable and similar expenses

	2022 £000	2021 £000
Bank interest payable	14,023	18,652
Interest payable to group undertakings	16,488	8,560
	30,511	27,212

Notes (continued)

8 Tax on profit

Total tax credit recognised in the profit and loss account

	2022	2021 (restated)
	£000	£000
Current tax		
Current tax on income for the year	2,795	2,680
Adjustment in respect of prior periods	(121)	(247)
Current tax on income for the year charge/(credit)	2,673	2,433
Deferred tax		
Origination and reversal of timing differences	1,514	258
Adjustment in respect of prior periods- deferred tax	(661)	(258)
Impact of change in UK tax rate	-	13,541
Deferred tax charge/(credit)	853	13,541
Total tax charge/(credit) on loss	3,526	15,974
	2022	2021
	£000	£000
Reconciliation of standard effective tax rate		
Profit/(loss) before taxation	21,061	9,500
Tax using the UK corporation tax rate of 19% (2021: 19%)	4,002	1,805
Effects of:		
Impact of difference between CT & DT rate	363	-
Expenses not deductible	(55)	4,841
Transfer pricing adjustments	-	(3,636)
Non-taxable income	-	(72)
Adjustment in respect of prior periods	(784)	(505)
Impact of change in UK tax rate	-	13,541
Deferred tax not recognised	-	-
Total tax charge/(credit) included in profit and loss	3,526	15,974

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax liability at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary timing differences (2021: 25%).

See note 21 for further details on the prior year adjustment.

Notes (continued)

9 Tangible assets

	Assets under construction	Long leasehold land	Buildings	Plant and Machinery	Total
	£'000	£000	£'000	£'000	£'000
<i>Cost or valuation</i>					
At 1 January 2022	196,522	483,568	537,255	20,365	1,237,710
Transfer from group company	4,309	-	-	-	4,309
Disposals	-	-	(615)	-	(615)
At 31 December 2022	200,831	483,568	536,640	20,365	1,241,404
<i>Accumulated depreciation</i>					
At 1 January 2022	-	-	134,355	12,490	146,845
Charge for year	-	-	17,888	845	18,733
Disposals	-	-	(11)	-	(11)
At 31 December 2022	-	-	152,232	13,335	165,567
<i>Net book value</i>					
At 31 December 2022	200,831	483,568	384,408	7,030	1,075,837

	Assets under construction	Long leasehold land	Buildings	Plant and Machinery	Total
	£'000	£'000	£'000	£'000	£'000
<i>Cost or valuation</i>					
At 1 January 2021	249,879	483,568	474,868	13,149	1,221,464
Additions in the year	11,855	-	-	-	11,855
Transfer	(69,603)	-	62,387	7,216	-
Transfer from group company	4,391	-	-	-	4,391
At 31 December 2021	196,522	483,568	537,255	20,365	1,237,710
<i>Accumulated depreciation</i>					
At 1 January 2021	-	-	117,612	11,799	129,411
Charge for year	-	-	16,743	691	17,434
At 31 December 2021	-	-	134,355	12,490	146,845
<i>Net book value</i>					
At 31 December 2021	196,522	483,568	402,900	7,875	1,090,865

Notes (continued)

10 Debtors: amounts falling due within one year

	2022 £000	2021 £000
Other debtors	28	5
Prepayments and accrued income	44	46
	<u>72</u>	<u>51</u>

11 Debtors: amounts falling due after more than one year

	2022 £000	2021 (restated) £000
Amounts owed by group undertakings	345,000	345,000
	<u>345,000</u>	<u>345,000</u>

The amounts owed by group undertakings represents a loan facility with Londonia Bidco Limited for a principal of £345m (2021: £345m). This loan is due and receivable on 9 March 2026. Interest is charged at a rate of 5.4749% (2021: 5.4749%) per annum.

See note 21 for further details on the prior year adjustment.

12 Creditors: amounts falling due within one year

	2022 £000	2021 £000
Amounts owed to group undertakings	468,374	489,093
Other creditors	26	29
Accruals and deferred income	28	62
	<u>468,428</u>	<u>489,184</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are payable on demand.

Notes (continued)

13 Creditors: amounts falling due after more than one year

	2022 £000	2021 £000
Cashflow hedge – swap	64,638	214,158
Amounts owed to group undertakings	500,794	484,306
	<u>565,432</u>	<u>698,464</u>

The company has a loan facility with Londonia Bidco Limited, a fellow group undertaking. At the year-end date, a principal of £459,814k (2021: £459,814k) and interest of £40,980k (2021: £24,492k) is included in amounts owed to group undertakings due after more than one year. This loan is due and payable on 9 March 2026. Interest is charged at a rate of SONIA plus 2.15% per annum.

14 Loans

The maturity profile of the Company's financial liabilities under loans and secured notes at 31 December are:

	2022 £000	2021 £000
Not later than one year	-	-
Later than one year and not later than five years	64,638	214,158
	<u>64,638</u>	<u>214,158</u>

Derivative financial instruments – Interest rate swaps

The Company has entered into a number of interest rate swap contracts (hedged instruments) in relation to the £345m intercompany loan (hedged item) to receive interest at 3-month GBP SONIA and pay interest at a fixed rate of 5.47% to March 2023. The swap contracts mature in December 2036, and prior to the Amend & Extend (A&E) of the loan facility (hedged item) completed in December 2022, had a mandatory break at March 2023. This break has now been extended to March 2026 in line with the extended term of the intercompany loan. The break extension increases the fixed swap rate from 5.47% to 6.14% effective from March 2023.

The purpose of these transactions is to manage the interest rate risk. The instrument is used to hedge the company's exposure to interest rate movements on the loan facility. The fair value of the hedged instruments at 31 December 2022 is £64.6m (2021: £214.2m). As a result of LIBOR reforms, during 2021 these contracts were restated to reflect the change from LIBOR to SONIA. This included a credit adjustment spread (CAS) which is applied to SONIA in order to remain on an economically equivalent basis to LIBOR.

Cash flows on both the loan and the interest rate swaps are paid quarterly. During 2022, a hedging profit of £149.6m (2021: £62.9m profit) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £29.3m (2021: £12.9m) was reclassified from the hedge reserve to profit and loss. As the valuation is based on forward looking rates an appropriate basis of valuation should be determined for the MTM and hypothetical valuation. SONIA has therefore been used as the basis of both the hypothetical and MTM valuation.

Notes (continued)

15 Financial Instruments

As a result of the interest rate benchmark reform, the London Interbank Offered Rate (LIBOR) was discontinued on 31 December 2021. The Company had several LIBOR linked interest rate swaps and interest rate caps, all of which were restated during 2021 to reflect the change from LIBOR to SONIA. This included a fixed credit spread adjustment which is applied to SONIA in order to remain on an economically equivalent basis to LIBOR.

Below are details of the hedging instrument and hedged item in scope of the FRS102 Interest Rate Benchmark Reform amendments. The terms of the hedged item match those of the corresponding hedging instrument. The 3 month GBP LIBOR was replaced by a 3-month cumulative compounded SONIA rate plus the credit adjustment spread which took effect from 1 April 2022.

Hedge Type	Instrument Type	Maturing in	Nominal	Hedged Item
Cashflow hedge	Receive 3-month GBP SONIA, pay GBP fixed interest rate swap	March 2026	£345m	Intercompany loan

16 Deferred Tax

	2022	2021 (restated)
	£000	£000
The liabilities for deferred tax are as follows:		
Accelerated capital allowances	(1,271)	(1,001)
Provided deferred tax in respect of revaluation surpluses	(60,673)	(64,885)
Deferred tax in respect of cashflow hedge	16,159	53,539
Tax losses	3,124	605
Total	(42,661)	(11,742)

	2022	2021 (restated)
	£000	£000
At 1 January	(11,742)	596
Credited/(debited) to income statement	(853)	(13,541)
(Debited)/credited to other comprehensive income	(30,066)	1,203
Liability at 31 December	(42,661)	(11,742)

Any taxable losses incurred from the reversal of temporary differences, along with existing losses, are eligible to be offset against profits within other group entities as the Company pays for group relief. It is forecast that the group will make sufficient profits in the future to offset taxable losses and therefore the deferred tax asset is considered to be recoverable. No material amount of the deferred tax balance is expected to reverse in 2023.

See note 21 for further details on the prior year adjustment.

Notes (continued)

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

The City Airport Development Programme (CADP) planning application (13/01228/FUL) was granted planning permission by the Secretaries of State for Communities and Local Government and Transport in July 2016 following an appeal and public inquiry which was held in March/April 2016. CADP includes a c.£500m investment to deliver extended passenger facilities and new airfield infrastructure at London City Airport which will enable the airport to operate up to 111,000 annual flight movements per annum and process up to 6.5 million passengers.

As a result of Covid-19 the Board paused the CADP development but agreed to complete those projects that were near to completion and would deliver capacity enhancing infrastructure for the future. The project will be restarted when passenger numbers recover.

The CADP planning permission is subject to comprehensive planning controls including 97 planning conditions and legal obligations.

The legal obligations attached to the CADP permission are listed in the Section 106 Agreement (S106) that the airport entered into with the London Borough of Newham, the Greater London Authority and Transport for London. There are two categories of future monetary payments that are payable under the CADP S106 agreement:

- Specific payments – for which the amounts are known. The precise timing of some payments is prescribed by the S106, whilst the timing of other 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.

The 2016 CADP Planning Permission included a comprehensive mitigation package which was estimated at that time to have a maximum liability of around £26m. Since then, the airport has spent £16.2m against the original estimate. It is estimated that a further c.£7m will be spent between 2023 and 2025 (subject to take up rates of sound insulation; indexed payments and the review of other mitigation strategies that have yet to be agreed with the Local Authority).

Subject to securing consent for growth beyond our current passenger limits, it is assumed that the CADP Section 106 Agreement would be superseded by a new S106 from 2025.

Some of the S106 payments have been deferred following negotiations with the London Borough of Newham and some of the works have been paused but the obligations still exist.

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 – <http://www.londoncityairport.com/aboutandcorporate/page/oureenvironment>.

Notes (continued)

18 Called up share capital

	2022 £	2021 £
<i>Authorised, allotted, called up and fully paid</i>		
340,523,086 (2021: 340,523,086) ordinary shares of £1 each	340,523,086	340,523,086

19 Related parties

The directors are the key management personnel. See note 5 for disclosure of the directors' remuneration and key management compensation.

Other than the transactions disclosed in note 5, the Company's other related party transactions were with wholly owned subsidiaries

20 Ultimate and controlling parent undertakings

The immediate parent undertaking is Londonia Bidco Limited, and the ultimate parent undertaking is Londonia Topco Limited both registered in Jersey. The registered office is 44 Esplanade, St Helier, Jersey, JE4 9WG. Copies of the consolidated financial statements of Londonia Bidco Limited and Londonia Topco Limited are available to the public and may be obtained from 44 Esplanade, St Helier, Jersey, JE4 9WG.

21 Prior period adjustment

The accounts have been restated to incorporate the impact of a misstatement of deferred tax related to timing differences between the accounting and tax consequences for tangible assets. This was due to errors in the underlying calculation of the tax consequences. Deferred tax in the prior period has been adjusted by £25,671k from an asset of £13,929k to a liability of £11,742k. In the prior period there was a £6,192k impact to the tax charge, with the balance of £19,479k occurring in periods prior to 2021. Therefore the profit and loss account has been restated as at 1 January 2021 from £189,910k to £209,389k as well as the loss in 2021 from £282k to £6,474k. The 2021 restated deferred tax liability now reflects the tax base correctly at the 2021 balance sheet date.

Notes (continued)

21 Prior period adjustment (continued)

	2021	Profit Increase/(Decrease)	2021 (Restated)
	£000	£000	£000
Profit and loss account (extract)			
Tax on profit	(9,782)	(6,192)	(15,974)
Profit/(loss) for the financial year	(282)	(6,192)	(6,474)

Statement of comprehensive income (extract)			
Profit/(loss) for the financial year	(282)	(6,192)	(6,474)
Total comprehensive income/(expense) for the year	50,862	(6,192)	44,670

	2021	Profit Increase/(Decrease)	2021 (Restated)
	£000	£000	£000
Balance sheet (extract)			
as at 31 December			
Debtors: amounts falling due after more than one year	358,929	(13,929)	345,000
Total current assets	359,254	(13,929)	345,325
Net current liabilities	(129,930)	(13,929)	(143,859)
Total assets less current liabilities	960,935	(13,929)	947,006
Provisions for liabilities			
Deferred taxation	-	(11,742)	(11,742)
Net assets	262,471	(25,671)	236,800
Capital and reserves			
Profit and loss account	(190,192)	(25,671)	(215,863)
Total shareholders' funds	262,471	(25,671)	236,800