# CABERNET LIMITED

## ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2020

# CABERNET LIMITED

## Annual report and audited financial statements

For the year ended 31 December 2020

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## Company Information

**Directors of the Company**

| | |
|---|---|
| K George | Chairman (appointed 21st September 2020) |
| A Haining | Chairman (resigned 30th September 2020) |
| R Darby | Chief Executive (resigned 2nd December 2020) |
| N Bezuidenhout | Chief Executive (appointed 5th November 2020) |
| C Simpson | Finance Director |
| M Coupar | Commercial Director |

**Registered office**

La Planque Lane
Forest
Guernsey
GY8 0DT

**Independent Auditor**

BDO Limited
Place Du Pre
Rue Du Pre
St Peter Port
Guernsey
GY1 3LL

## Directors' Report

For the year ended 31 December 2020

The Directors present their annual report and audited consolidated financial statements of Cabernet Limited (the "Company") together with Aurigny Air Services Limited ("Aurigny") and Anglo Normandy Aero Engineering Limited ("Anglo Normandy") (the "Subsidiaries", together the "Group") for the year ended 31 December 2020. These comprise the Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the financial statements, which have been prepared in accordance with the Companies (Guernsey) Law, 2008.

**Principal activities**

The Company is the 100% holding company for Aurigny and Anglo Normandy. The principal activities of these subsidiaries are those of passenger and freight air transport services and aircraft engineering and repair respectively.

**Proposed dividend**

The Directors do not recommend the payment of a dividend (2019: £nil).

**Results**

The results for the year are shown in the Consolidated Statement of Comprehensive Income on page 8.

**Directors**

The Directors who held office during the year and up to the date of this report are stated on page 1.

**Appointment of Directors**

The articles of association do not provide for the rotation of Directors, but in the interests of good corporate governance the Board consider that Directors should retire by rotation every 3 years.

**Statement of Directors' responsibilities**

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, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

## Directors' Report (continued)

For the year ended 31 December 2020

**Statement of Directors' responsibilities (continued)**

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They 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, and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Aurigny website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditor**

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

**Going concern**

The Directors have prepared the financial statements on a going concern basis, which requires the Directors to have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. The Directors consider that the Group has resilience with a strategic shareholder and an experienced Board and management. The Directors have considered and reviewed cash flow forecasts prepared by management which include an assessment of the recovery in demand for flights from and to Guernsey and Alderney in the wake of the Covid-19 pandemic. Based on those forecasts, the resolutions passed by the States of Guernsey on 15 October 2021 and described in Note 3i), an assessment of the committed banking facilities available to the Aurigny Group and further support from the States of Guernsey, it has been considered appropriate to prepare the financial statements of the Group on a going concern basis.

**Independent Auditor**

BDO Limited has indicated its willingness to continue in office and a resolution for their re-appointment as auditor of the Company and the Group is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

| Kevin George | Christopher Simpson |
|---|---|
| Director | Director |

26th November 2021

## Independent Auditor's Report to the Member of Cabernet Limited

**Opinion on the financial statements**

In our opinion, the consolidated financial statements of Cabernet Limited (individually, the "Company", together with its subsidiaries, the "Group"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the consolidated financial statements of Cabernet Limited for the year ended 31 December 2020 which comprise the Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the consolidated financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("United Kingdom Generally Accepted Accounting Practice").

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

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.

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 or Group'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.

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

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

## Independent Auditor's Report to the Member of Cabernet Limited
**(continued)**

We have nothing to report in this regard.

**Other Companies (Guernsey) Law, 2008 reporting**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

**Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities within the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 and Group'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.

**Auditor's 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 auditor's 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.

*Extent to which the audit was capable of detecting irregularities, including fraud*

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:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company. We determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those relating to the Companies (Guernsey) Law, 2008, FRS 102, relevant UK aviation legislation and taxation laws.
- We obtained an understanding of how the Company is complying with those legal and regulatory frameworks by making enquiries of management and those responsible for compliance. We corroborated our enquiries through our review of Board minutes and other management reports.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by assessing the control environment which was supported by enquiries of management to understand where it is considered there was a susceptibility to fraud. We considered the controls that the

## Independent Auditor's Report to the Member of Cabernet Limited
**(continued)**

Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how management monitors those controls.

- We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that management have the opportunity to misstate the financial statements through the incorrect application of key judgements and estimation uncertainty. We focused our audit work on management's judgements and estimates made in the preparation of the financial statements, specifically regarding impairment of aircraft.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available at the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Company's member, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

BDO Limited

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

26th November 2021

## Consolidated Balance Sheet

As at 31 December 2020

| | Notes | 2020 £ | 2020 £ | 2019 £ | 2019 £ |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Tangible fixed assets | *9* | | 68,618,585 | | 84,578,251 |
| **Current Assets** | | | | | |
| Debtors (including £329,061 (2019: £572,695) due after more than one year) | *10* | 2,407,342 | | 2,839,862 | |
| Derivative financial instruments | *15* | - | | 356,626 | |
| Cash at bank and in hand | | 1,171,335 | | 287,887 | |
| Stock | | 1,233,836 | | 1,192,662 | |
| | | 4,812,513 | | 4,677,037 | |
| **Creditors: amounts falling due within one year** | | | | | |
| Bank overdraft | *12* | (21,508) | | (364,142) | |
| Aircraft loans | *13* | (2,223,780) | | (7,090,669) | |
| Creditors | *13* | (53,356,276) | | (33,393,664) | |
| Derivative financial instruments | *15* | (3,612,343) | | (2,003,132) | |
| | | (59,213,907) | | (42,851,607) | |
| **Net Current Liabilities** | | | (54,401,394) | | (38,174,570) |
| **Creditors: amounts falling due after more than one year** | | | | | |
| Aircraft loans | *13, 14* | | (40,804,758) | | (43,028,538) |
| Creditors | *13, 14* | | (21,873,675) | | (23,186,793) |
| | | | (62,678,433) | | (66,215,331) |
| **Net Liabilities** | | | (48,461,242) | | (19,811,650) |
| **Capital and Reserves** | | | | | |
| Share Capital | *17* | | 25,212,002 | | 25,212,002 |
| Retained Earnings | | | (73,673,244) | | (45,023,652) |
| **Total Equity** | | | (48,461,242) | | (19,811,650) |

The notes on pages 11 to 29 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 26th November 2021

Kevin George

Director

Christopher Simpson

Director

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

| | Notes | 2020 £ | 2019 £ |
|---|---|---|---|
| Passenger revenue | | 10,650,060 | 40,904,564 |
| Other revenue | | 1,458,954 | 4,106,938 |
| **Turnover** | *4* | 12,109,014 | 45,011,502 |
| Fuel | | (2,892,831) | (4,970,472) |
| Station and ground expenses | | (3,581,978) | (4,320,382) |
| Flight crew salaries and expenses | | (5,633,498) | (7,201,566) |
| Landing fees, aerodrome charges and navigation | | (3,822,016) | (14,657,517) |
| Aircraft maintenance | | (5,052,658) | (7,364,398) |
| Ticketing, sales and promotions | | (1,119,388) | (1,898,980) |
| Aircraft insurance | | (486,212) | (423,235) |
| Aircraft leases | | (1,147,466) | (1,619,837) |
| Other costs | | (3,671,042) | (4,120,098) |
| **EBITDA*** | | (15,298,075) | (1,564,983) |
| Government grants received | *5* | 339,307 | - |
| Other income | *6* | 434,771 | - |
| Impairment of fixed assets | *9* | (4,150,000) | (1,140,323) |
| Loss on sale of fixed assets | | (461,370) | - |
| Depreciation | *9* | (4,527,870) | (4,859,298) |
| **Operating Loss** | | (23,663,237) | (7,564,604) |
| Interest payable and similar charges | | (353,680) | (330,605) |
| Interest payable on aircraft loans | | (2,816,289) | (2,002,285) |
| Interest receivable | | 128 | 110,925 |
| **Net finance charges** | | (3,169,841) | (2,221,965) |
| Movement in loss on derivative financial instruments | *15* | (1,965,835) | (641,536) |
| Movement on provision for onerous lease | *13* | 149,321 | 696,485 |
| **Loss for the year** | | (28,649,592) | (9,731,620) |

All material activities derive from continuing operations.

The Group has no recognised gains or losses other than those included in the above statement. No separate statement of other comprehensive income has been presented.

The notes on pages 11 to 29 form an integral part of these financial statements.

*EBITDA is a group specific measure which is earnings before finance expenses (interest), taxes, depreciation, amortisation, impairment and other gains or losses.



## Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

| 2019 | Share Capital | Retained Earnings | Total Equity |
|---|---|---|---|
| | £ | £ | £ |
| Balance at 1 January 2019 | 25,212,002 | (35,292,032) | (10,080,030) |
| Loss for the year | - | (9,731,620) | (9,731,620) |
| Balance at 31 December 2019 | 25,212,002 | (45,023,652) | (19,811,650) |

| 2020 | Share Capital | Retained Earnings | Total Equity |
|---|---|---|---|
| | £ | £ | £ |
| Balance at 1 January 2020 | 25,212,002 | (45,023,652) | (19,811,650) |
| Loss for the year | - | (28,649,592) | (28,649,592) |
| Balance at 31 December 2020 | 25,212,002 | (73,673,244) | (48,461,242) |

The notes on pages 11 to 29 form an integral part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2020

| | Notes | 2020 £ | 2019 £ |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the year | | (28,649,592) | (9,731,620) |
| Adjustments for: | | | |
| Depreciation | *9* | 4,527,870 | 4,859,298 |
| Loan interest | | 2,816,289 | 2,002,285 |
| (Increase)/decrease in Stock | | (41,174) | 138,629 |
| Movement in unrealised loss on derivative financial instruments | *15* | 1,965,835 | 638,773 |
| Decrease in debtors | *10* | 449,984 | 265,367 |
| Decrease in creditors | *13* | (3,014,051) | (954,663) |
| Net cash ouflow from operating activities | | (21,944,839) | (2,781,931) |
| **Investing activities** | | | |
| Purchase of tangible assets | *9* | (782,164) | (40,743,968) |
| Disposal of tangible assets | *9* | 11,526,378 | 15,187 |
| Net cash inflow/(outflow) from investing activities | | 10,744,214 | (40,728,781) |
| **Financing activities** | | | |
| Repayment of bank loans | | (21,090,669) | (3,529,709) |
| New loans raised | | - | 49,365,347 |
| Amount received from parent company shareholder | | 35,068,088 | (1,510,263) |
| Loan interest paid | | (1,550,712) | (1,398,848) |
| Net cash inflow from financing activities | | 12,426,707 | 42,926,527 |
| Net increase/(decrease) in cash and cash equivalents | | 1,226,082 | (584,185) |
| Cash and cash equivalents as at 1 January | | (76,255) | 507,930 |
| **Cash and cash equivalents as at 31 December** | | 1,149,827 | (76,255) |
| Cash at bank and in hand | | 1,171,335 | 287,887 |
| Bank overdraft | | (21,508) | (364,142) |
| | | 1,149,827 | (76,255) |

The notes on pages 11 to 29 form an integral part of these financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

**1. Reporting entity**

The Company was established on 14th February 2003 and is registered in Guernsey. The Company is limited by shares and is governed by the provisions of the Companies (Guernsey) Law, 2008. The address of the Company's registered office is given on the Company Information page.

**2. Basis of consolidation**

The group financial statements consolidate the financial statements of the Company and its Subsidiaries identified in Note 11 for the year ended 31 December 2020. All intra-group transactions have been excluded from the consolidated financial statements. All companies within the Group compile their financial statements to the same date.

**3. Basis of accounting**

These financial statements give a true and fair view, comply with the Companies (Guernsey) Law, 2008 and were prepared in accordance with United Kingdom accounting standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102"). The functional and presentation currency of these financial statements is sterling.

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

a) *Revenue recognition*

The Group's revenue is derived solely from the activities of its subsidiaries and is recognised as follows:

(i) *Aurigny Air Services Limited (hereafter "Aurigny")*

Passenger ticket sales, and sales ancillary thereto, exclusive of any applicable GST/VAT, are recorded as current liabilities in the "bookings paid in advance" account until recognised as revenue when the transportation service is provided. All other revenue and income types are accrued in the period to which they relate.

During the year, there were a large volume of flight cancellations where customers were entitled to a refund from Aurigny. In some cases, at the reporting date, the customer had not confirmed the type of refund they wished to receive. Such liabilities are held in the bookings paid in advance creditor, held against income, to be released when the refund has been fulfilled.

(ii) *Anglo Normandy Aero Engineering Limited (hereafter "Anglo Normandy")*

Turnover is expressed as a combination of completed work, which has been invoiced and part completed work, which is accounted for as work in progress. Any turnover billed in advance of work being performed is carried forward and not recognised as turnover in the period.

b) *Provisions*

Frequent Flyer Programme

Aurigny operates a frequent flyer programme, a loyalty programme to reward customers with free flights subject to the payment of taxes and surcharges. A provision for unused points is made in accordance with FRS 102.21. This provision is based on the anticipated fair value of rewards earned, which is calculated by multiplying the total number of points outstanding at the year-end which are expected to be redeemed by the average value of points.

EU261 compensation claims

Provision is made for passenger compensation claims when Aurigny has an obligation to recompense customers under regulation EU261 where technical issues have caused flights departing France or the United Kingdom to be delayed by more than 3 hours. Provisions are measured based on known eligible flight delays and the Aurigny's historic claim rates and are expected to unwind across the claim window, which is 6 years.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**3. Basis of accounting (continued)**

b) *Provisions (continued)*

Onerous lease

In accordance with FRS102.21 provision is made against onerous lease contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. When measuring a provision, the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it, less the reasonably expected income/benefits during the same period. An appropriate discount rate is applied when making the provision.

c) *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. The gain or loss on disposal of tangible fixed assets after deducting any costs associated with selling, disposing of or retiring the relevant asset is recognised in the consolidated statement of comprehensive income.

Estimated residual values are reviewed annually at each period end, with reference to current market conditions. Where estimated residual values are found to have changed significantly, this is accounted for prospectively as a change in estimate and depreciation charges over the remaining useful life of the asset are adjusted to take account of the revised estimate of residual value.

d) *Depreciation – Excluding aircraft*

Depreciation is calculated to write down the cost of tangible fixed assets to their estimated residual values over the period of their estimated useful economic lives, at the following annual rates:

| Asset | Depreciation per annum |
|---|---|
| Leasehold Property | 5% straight line |
| Ground equipment | 20% reducing balance |
| Plant, tools, equipment, office furniture and fittings | 20% reducing balance |
| Motor vehicles | 25% straight line / 25% reducing balance |
| Airport buildings and fittings | 20% straight line |
| Radio equipment | 10% straight line |

e) *Aircraft depreciation*

In accordance with the requirements of FRS 102.17.6, the cost of each aircraft is split into its main components and each component is depreciated over the remaining useful economic life of that component. The remaining useful economic life of each component is expressed either as flying hours or aircraft landings and the annual depreciation charge is calculated by reference to the number of hours flown or landings made by each aircraft during the accounting period. Depreciation charge commences following the first full month of an aircraft's service. The cost of major maintenance inputs is also capitalised and depreciated over the length of time until the input needs repeating. The depreciation of the core hull value is based on future valuations obtained when the aircraft were acquired. These are reviewed regularly. Where a contract to sell an aircraft has been entered into, the contracted value will become the residual value and depreciation will be adjusted accordingly.

Where a review of future valuations indicates that an impairment in aircraft value may be necessary, the impairment policy as defined in Note 8 is applied. Aircraft values are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit (CGU) to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**3. Basis of accounting (continued)**

e) *Aircraft depreciation (continued)*
costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Fixed assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

f) *Stock*
Stock is stated at the lower of cost and estimated net realisable value after making due provision for damaged, obsolete and slow-moving items. Stock items will usually be purchased as required rather than held.

The core value of rotable parts is written down in a straight line over ten years.

g) *Foreign currency translation*
Monetary assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the historic rate ruling on the date of the transaction. Transactions during the year have been translated at the rates of exchange ruling at the date of the transaction. Foreign currency profits and losses are recognised in the consolidated statement of comprehensive income.

h) *Pension costs*
Throughout the year the Subsidiaries operated a joint defined contribution pension scheme for their Channel Islands resident employees and a Group Personal Pension Plan arrangement for their United Kingdom resident employees. Aurigny pays contributions into the personal pension plans of its United Kingdom resident employees unless they have opted out. Obligations for contributions to defined contribution pension plans and personal pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

i) *Going concern*
As set out in the Directors' Report, the Directors have considered detailed budgeted profitability and cash flow forecasts of the Company for the 12 months following the date on which these financial statements were approved by the Board of Directors, which include an assessment of the recovery in demand for flights from and to Guernsey and Alderney in the wake of the Covid-19 pandemic. Based on those forecasts and an assessment of the Company's committed banking facilities and support from the States of Guernsey, it has been considered appropriate to prepare the financial statements of the Company on a going concern basis.

The Group has historically operated with a combination of third party and States of Guernsey debt and asset financing. The Group has continued to sustain losses in recent years and in particular during the coronavirus (Covid-19) pandemic and therefore the Directors have taken the following action: (i) secured an overdraft facility of £53m (increased on 26 October 2021 to £56m) with the States of Guernsey; (ii) secured a working capital overdraft facility of £1m with a commercial bank which is supported by a guarantee from the States of Guernsey; (iii) secured credit and loan facilities with both the States of Guernsey and a commercial bank (with the States of Guernsey acting as guarantor) for the purchase of aircraft; (iv) sought written confirmation from the Policy & Resources Committee of the States of Guernsey that it will continue to make available financial support for the foreseeable future to meet the Group's debts and obligations as they fall due.

Subsequent to the year end, the Company has secured through its shareholder the States of Guernsey, a balance sheet recapitalisation and package of measures designed to procure the long term financial sustainability of the Group. On 15 October 2021, having considered a Policy Letter 'The Aurigny Group – Financial Sustainability' dated 3 September 2021, the States of Guernsey approved Resolution P.2021/102 (the 'Resolution').

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**3. Basis of accounting (continued)**

i) *Going concern (continued)*

The Resolution:

1. noted the Air Policy Framework which includes the Shareholder Objectives for the Group;
2. approved the recapitalisation of the Group in respect of its cumulative losses up to 31 December 2020, in the sum of £46.8m, in accordance with the provisions of section 6 of that policy letter and in accordance with such terms as the Policy and Resources Committee and the States' Trading Supervisory Board shall deem appropriate;
3. approved the recapitalisation of the Group in respect of its losses for the year-ending 31 December 2021, in accordance with the provisions of section 6 of that policy letter and in accordance with such terms as the Policy and Resources Committee and the States' Trading Supervisory Board shall deem appropriate;
4. authorised the Policy & Resources Committee to provide or guarantee overdraft facilities to the Group in accordance with the provisions of sections 5 and 6 of that policy letter and on such terms as the Policy and Resources Committee shall deem appropriate.

The Directors anticipate that part 2 of the Resolution will be completed before the end of 2021 and that part 3 will be completed within the first half of 2022.

Whilst it is not possible to determine with any accuracy the rate of recovery in demand from the Covid-19 pandemic, the Group has completed stress-testing over the budget setting period, to 31 December 2022, and the Directors have concluded that in all reasonable scenarios tested there are adequate cash reserves and funding available to enable the Group to continue operating for at least 12 months from the date of approving these financial statements. Having given consideration to all of the matters outlined above, and noting that the Group has resilience with a strategic shareholder and an experienced Board and management, the Directors have prepared the financial statements on a going concern basis.

j) *Financial instruments*

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement only.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices and it uses forward foreign exchange and commodity contracts and interest rate swaps to hedge these exposures. The Group does not use derivative financial instruments for trading purposes.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**3. Basis of accounting (continued)**

j) *Financial instruments (continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The following describes the items subject to this re-measurement and the methods used for determining fair value:

| | |
|---|---|
| Interest swap deals - | The fair value has been estimated by calculating the difference between the interest payments due under the swap deal, and those that would be due using the year end interest charged by Aurigny's bankers. |
| Fuel forward contracts- | The fair value has been estimated by calculating the difference between the total cost of the contracts (number of tonnes of fuel contracted to purchase multiplied by the contracted rate) and the cost of the equivalent amount of fuel had it been purchased at the forward rate available at the year end. |
| Foreign exchange forward contracts- | The fair value has been estimated by calculating the difference between the total cost of the contracts (quantity of foreign currency contracted to purchase multiplied by the contracted rate) and the cost of the equivalent amount of foreign currency had it been purchased at the forward rate charged by Aurigny's bankers at the year end. |

Loans at amortised cost

Loans at amortised cost are initially measured at fair value, net of transaction costs, then subsequently measured at amortised cost using the effective interest method.

States of Guernsey loans to support asset purchases at fixed interest rates (see Note 13) fall into this category. Acquiring these loans on the open market would have generated a higher interest rate of approx. 6.4% for the 2015 loans, then 8.4% for the subsequent loan taken out in 2016 at the date the loans were taken out (Source: local bank) (This rate was subsequently revised to 7.21 % - see Note 13(ix)). Accordingly, a fair value of the loans has been calculated using this rate (discounted for future cash flows), and the interest charge has been increased to release the unrealised gain over the life of the loan.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

k) *Operating Leases*

Rental charges on operating leases are charged to profit or loss as incurred over the life of the lease.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**3. Basis of accounting (continued)**

l) *Vouchers*
The Group recognises a voucher liability when a voucher is issued either (i) as a gift certificate purchased by a customer; or (ii) in connection with passenger disruption caused by Covid-19; or (iii) under its "Aurigny Assurance" scheme (details of which can be found on the Aurigny website). Vouchers are valid for one year from date of issue. If the voucher is redeemed before the expiry date the voucher liability is derecognised. If the voucher expires, unless the Group has agreed under certain limited circumstances to extend its validity, the voucher liability is derecognised and released against income.

m) *Government grants*
Grants of a revenue nature are recognised as "Government grants received" within profit or loss in the same period as the related expenditure. This includes the UK Government Coronavirus Job Retention Scheme ('furlough'). The Group has not directly benefited from any other form of UK government assistance.

**4. Turnover**

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Passenger revenue | 10,650,060 | 40,904,564 |
| Other revenue | 1,458,954 | 4,106,938 |
| Turnover | 12,109,014 | 45,011,502 |

Other income includes, but is not limited to, revenue from: services ancillary to the carriage of passengers; sales of refreshments, snacks and duty-free goods on board aircraft; ground handling services performed for other airlines; carriage of cargo and mail; aircraft charter; and medevac flights.

Other income is derived from two specific sources: a commercial settlement from a supplier relating to a prior year transaction, and income from the UK government under the payroll furlough scheme related to the covid pandemic.

Turnover and operating profit/loss derive wholly from continuing activities.

**5. Government grants received**
This income is received under the UK Government Coronavirus Job Retention scheme and is accounted for in accordance with note 3 m).

**6. Other income**
Other income relates to a commercial settlement from a supplier relating to a prior year transaction.

**7. Taxation**
The Group is taxed at a standard rate of 0% under Guernsey tax regulation.

**8. Critical accounting judgements and key sources of estimation uncertainty**
In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make 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.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**8. Critical accounting judgements and key sources of estimation uncertainty (continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Aircraft residual values

The ultimate residual value of commercial aircraft is impacted by numerous factors in addition to usual market demand. These include the life remaining in major components before overhaul, cumulative hull hours and cycles, the cost of fuel and exchange rates. In formulating its depreciation policy, the Board uses third party valuation information, where available, and estimates based on similar fleets where there is no third party information.

Aircraft Impairment

At the reporting date there were indications of an impairment of the Group's fleet of aircraft, which resulted in the Directors performing an impairment review in accordance with Note 3e) as required by FRS102.

The critical judgements made by the Directors when performing the impairment review were as follows for each applicable aircraft:

- An assessment of the probability, extent and timing of future cash inflows and outflows that are directly attributable to the aircraft;
- An assessment of the fair value less costs to sell of the aircraft as at the reporting date;
- Calculating an appropriate discount rate to apply to the cashflows used in the value in use model.

The key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of the fleet within the next financial year are:

- Forward looking cash flow forecasts that relate to the aircraft in question given the uncertainty surrounding air travel in the Channel Islands and UK due to the impact of the COVID-19 pandemic. The Directors have based these forecasts on the most recent financial forecasts prepared by management in 2021.
- Estimating the fair value of the asset at the reporting date and the terminal value of the asset in the value in use model. The Directors have estimated the aircraft's value with reference to an amount derived from an independent third party valuation where available or the Directors estimates based on similar fleets where there is no third party information. In particular in the current climate values are subject to increased levels of uncertainty due to reduced transactional volumes in the market.
- Estimating the appropriate discount rate which takes into account the risk which reflects the current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. A discount rate is a statistical tool used by the Directors and by its nature is a sensitive input in the impairment review. The Directors have assessed the sensitivity of the discount rate in their value in use model and have concluded that 2.5% is the most suitable rate for the calculation. If this rate were to change by a factor of two percentage points the impairment charge would change by approximately £0.7 million.

The estimates reflect the best estimate of the Directors at the reporting date, using all available information. Estimates of future cashflows and discount rates are by their very nature subjective and there is no guarantee that the estimates made by the Directors will be achieved when they occur. Any differences could be significant and will be recorded in the period in which they occur. The impairment and carrying value of the aircraft is shown in Note 9.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 9. Tangible fixed assets

| Cost | 31 December 2019 £ | Additions £ | Written off/ Disposals £ | Impairment £ | 31 December 2020 £ |
|---|---|---|---|---|---|
| Aircraft | 111,766,403 | 4,784,330 | (28,408,487) | (4,150,000) | 83,992,246 |
| Tools, ground and radio equipment | 2,064,475 | 141,521 | - | - | 2,205,996 |
| Motor vehicles | 496,045 | - | (4,000) | - | 492,045 |
| Office furniture, equipment & computer equipment | 1,037,380 | 6,313 | - | - | 1,043,693 |
| Buildings | 14,757 | - | - | - | 14,757 |
| Leasehold Property | 552,843 | - | - | - | 552,843 |
| Total | 115,931,903 | 4,932,164 | (28,412,487) | (4,150,000) | 88,301,580 |

| Accumulated Depreciation | 31 December 2019 £ | Depreciation £ | Written off/ Disposals £ | Impairment £ | 31 December 2020 £ |
|---|---|---|---|---|---|
| Aircraft | 28,581,371 | 4,238,402 | (16,198,527) | - | 16,621,246 |
| Tools, ground and radio equipment | 1,560,161 | 103,782 | - | - | 1,663,943 |
| Motor vehicles | 296,382 | 47,764 | - | - | 344,146 |
| Office furniture, equipment & computer equipment | 784,402 | 107,027 | - | - | 891,429 |
| Buildings | 3,211 | 2,951 | - | - | 6,162 |
| Leasehold Property | 128,125 | 27,944 | - | - | 156,069 |
| Total | 31,353,652 | 4,527,870 | (16,198,527) | - | 19,682,995 |

| Carrying Amount | 31 December 2019 £ | 31 December 2020 £ |
|---|---|---|
| Aircraft | 83,185,032 | 67,371,000 |
| Tools, ground and radio equipment | 504,314 | 542,053 |
| Motor vehicles | 199,663 | 147,899 |
| Office furniture, equipment & computer equipment | 252,978 | 152,264 |
| Buildings | 11,546 | 8,595 |
| Leasehold Property | 424,718 | 396,774 |
| | 84,578,251 | 68,618,585 |

Included within the carrying amount of aircraft at 31 December 2019 were two ATR72-500 aircraft both of which have been sold during the year in accordance with an agreement to sell them to a third party for a price calculated in accordance with an agreed formula. A loss on sale of £461,370 has been recognised in 2020 following additional work carried out on the aircraft before sale.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**9. Tangible fixed assets (continued)**

During the year, assets with a carrying value of £15,833,369 (2019: £15,663,991) were subject to impairment partly due to a deterioration in the inherent value of these aircraft as well as anticipated losses on disposal of specific aircraft. This carrying value before impairment was determined to be higher than the recoverable amount of £11,683,369, and consequently an impairment loss of £4,150,000 was recognized during the year.

Subsequent to the year-end one Dornier 228 Classic aircraft, included within the carrying amount of aircraft at the balance sheet date, was sold.

Included within tangible fixed assets are assets acquired under finance leases as follows:

| | Cost<br>£ | Accumulated Depreciation<br>£ | Carrying Amount<br>£ |
|---|---|---|---|
| Plant and equipment | 108,449 | 75,070 | 33,378 |

**10. Debtors**

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Trade debtors | 1,255,806 | 1,485,078 |
| Prepayments | 822,475 | 782,089 |
| Due within one year | 2,078,281 | 2,267,167 |
| Lease and trade deposits | 329,061 | 572,695 |
| Due after more than one year | 329,061 | 572,695 |
| Total debtors | 2,407,342 | 2,839,862 |

**11. Investment in subsidiary undertakings**

The Subsidiaries of the Company, which are incorporated within these consolidated financial statements, are as follows:

| | *Place of incorporation* | *Percentage of equity share capital held* | *Principal activity* |
|---|---|---|---|
| Aurigny Air Services Limited | Guernsey | 100% | Air transport services |
| Anglo Normandy Aero Engineering Limited | Guernsey | 100% | Aircraft engineering |

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

**12. Bank overdraft**

Aurigny has an unsecured overdraft facility of £1m supported by a guarantee from the States of Guernsey. The overdraft bears interest at 1.125% above the Bank of England base rate. The bank overdraft of £nil (2019: £364,142) represents an actual balance as at 31 December 2020 of £nil (2019: £214,267) and uncleared payments of £nil (2019: £149,875).

The Anglo Normandy overdraft balance of £21,508 (2019: £nil) is made up of an actual balance of £nil (2019: £nil) and uncleared payments of £21,508 (2019: £nil). Anglo Normandy does not have an agreed borrowing facility.

**13. Creditors: amounts falling due within one year**

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Trade creditors | 1,115,546 | 2,412,039 |
| Bookings paid in advance | 1,633,017 | 5,025,833 |
| Vouchers | 2,541,209 | - |
| Air passenger duty paid in advance | 5,486 | 428,861 |
| Other Loans (see note 13 (iii)) | - | 14,000,000 |
| Deposits received | - | 6,019,417 |
| Accruals | 1,055,610 | 1,903,868 |
| Amount due to shareholder | 47,005,408 | 3,603,646 |
| **Creditors: amounts falling due within one year** | 53,356,276 | 33,393,664 |

Included within trade creditors is £139,240 (2019: £511,606) which was payable to the States of Guernsey in relation to trading activities between the parties.

As discussed in Note 9, Aurigny entered into an agreement to sell two ATR 72-500 aircraft during 2019. In accordance with the terms of the agreement, a part payment of the price was received during 2019 and was included within Deposits received. Both aircraft were sold during the year.

A significant voucher liability has arisen during the year as result of involuntary schedule changes and cancellations arising from Covid-19 related travel restrictions. The Group's accounting policy for these vouchers is detailed in note 3 k).

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 13. Creditors: amounts falling due within one year (continued)

Included in accruals is a provision in respect of estimated future liabilities under Aurigny's frequent flyer scheme, the movement on which is reconciled as follows:

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Opening balance | 437,195 | 376,701 |
| Movement in outstanding points | (25,025) | 79,778 |
| Expired points | - | (19,284) |
| | 412,170 | 437,195 |

Aurigny frequent flyer points normally expire after 2 years. As part of the Group's response to the Covid-19 pandemic, this condition has been suspended. Reinstatement of the expiry rules is kept under regular review.

Included in accruals is a provision in respect of retrospective liabilities under EU 261 regarding flight delay compensation, the movement on which is reconciled as follows:

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Opening balance | 280,000 | 255,000 |
| Additions | 14,197 | 93,728 |
| Charges | (270,833) | (68,728) |
| | 23,364 | 280,000 |

Included in accruals in the prior year is an onerous lease provision. Aurigny had obligations under an aircraft lease agreement which the Directors considered to be onerous and therefore they recognised a provision, the balance of which at 31 December 2019 was £149,321. In measuring the provision, the Directors used a discount rate of 5.08%. The lease agreement expired during 2020, therefore there is no remaining balance. The movement on this provision is therefore as follows:

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Opening balance | 149,321 | 845,806 |
| Charge to provision | - | - |
| Release of provision | (149,321) | (696,485) |
| | - | 149,321 |

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 13. Creditors: amounts falling due within one year (continued)

| | 2020 £ | | 2019 £ | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Aircraft loans | | | | |
| (i) ATR 72-500 loan | - | - | 4,855,288 | - |
| (ii) ATR 72-600 loan | 2,223,780 | 40,804,758 | 2,235,381 | 43,028,538.0 |
| | 2,223,780 | 40,804,758 | 7,090,669 | 43,028,538 |
| Other Loans | | | | |
| (iii) Working capital facility | - | - | 14,000,000 | - |
| Amount due to parent company shareholder | | | | |
| (iii) Working capital facility | 43,526,821 | - | - | - |
| (iv) Embraer jet loan | 1,212,276 | 14,153,112 | 1,164,432 | 15,365,387 |
| (v) Dornier 228 loan | 1,652,209 | - | 1,848,275 | - |
| (vi) Dornier 228 NG loan 1 | 293,980 | 4,014,798 | 282,163 | 4,308,777 |
| (vii) Dornier 228 NG loan 2 | 320,122 | 5,981,823 | 308,776 | 6,301,946 |
| (viii), (ix) Fair value adjustment upon initial recognition of refinanced loans | - | (2,276,058) | - | (2,789,317) |
| | 47,005,408 | 21,873,675 | 3,603,646 | 23,186,793 |

(i) A loan facility of £19,799,383 was entered into in 2009 with a commercial bank for the purposes of financing the purchase of two ATR72-500 aircraft. In February 2019, the residual balance which was £8,000,000 was refinanced with a commercial bank at an interest rate of 0.5% per annum over LIBOR which has been capped at 1.25%. The loan was repaid on 5 March 2020.

(ii) Aurigny entered into a loan facility of up to £51m with a commercial bank in 2018 to finance the purchase of three ATR72-600 aircraft which were acquired in 2019. The loan was repaid in part out of the proceeds of sale of two ATR72-500 sold during the year. Capital repayments on the remaining loan balance commenced in March 2020 and will end in December 2028 when the outstanding balance is expected to be approximately 50% of the original borrowing. The loan, which is guaranteed by the States of Guernsey, bears interest at 0.62% per annum above LIBOR. Aurigny has entered into interest rate swap arrangements in respect of loan repayments to fix the future cash flow requirements. The fixed interest rate was 1.58% until 31 December 2019 and then becomes 2.23% for the remainder of the period of the loan. Both swaps include a buy back of the 0% floor included within the loan facility. The value of these swaps is shown within “derivative financial instruments” under current liabilities, having been calculated in accordance with Note 3(j) derivative financial instruments and hedging.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 13. Creditors: amounts falling due within one year (continued)

(iii) At the beginning of the year, an overdraft facility with a commercial bank was in place for up to £25.7m (£14m of which had been drawn) which was supported by a guarantee from the States of Guernsey. During the year this facility has been replaced by an overdraft facility with the States of Guernsey of up to £53m for working capital purposes. £43.5m had been drawn by the balance sheet date. The facility bears interest at a variable rate. Subsequent to the year end, the facility was increased to £56m and this renewed facility expires on 31st December 2021 and will be replaced by the recapitalisation and package of measures set out in note 3 i).

(iv) Aurigny entered into an agreement with the States of Guernsey in 2014 for the purpose of funding the purchase of one new Embraer jet. This was a £4.4m facility which was subsequently extended, also in 2014, to £22,170,805. As at the balance sheet date, the entire loan had been drawn down but had been reduced to £15,365,388 (2019: £16,529,819) through scheduled repayments. This loan bears interest at 4.047% pa, matures in June 2024 and has a residual balance of £10,900,000.

(v) Aurigny entered into an agreement with the States of Guernsey in 2014 for the purpose of purchasing two used Dornier 228 aircraft. This is a £2,678,555 facility. As at the balance sheet date, the entire loan had been drawn down but had been reduced to £1,652,209 (2019: £1,848,275) through scheduled repayments. This loan bears interest at 4.066% pa and was scheduled to mature in December 2020. Subsequent to the year end this loan has been repaid in full.

(vi) Aurigny entered into an agreement with the States of Guernsey in 2015 for the purpose of purchasing a new Dornier 228 NG aircraft. This is a £5,630,216 facility. As at the balance sheet date, the entire loan had been drawn down but had reduced to £4,308,778 (2019: £4,590,940) through scheduled repayments. The loan bears a fixed interest rate of 4.124% pa. This loan matures in November 2025 and has a residual balance of £2,740,000.

(vii) Aurigny entered into an agreement with the States of Guernsey in 2016 for the purpose of purchasing a second new Dornier 228 NG aircraft which was delivered in August 2018. This is a £6,981,347 facility. As at the balance sheet date the entire loan had been drawn down but had been reduced to £6,301,945 (2019: £6,610,722) though scheduled repayments. The loan bears a fixed interest rate of 3.625% pa. This loan matures in September 2028 and has a residual balance of £3,490,000.

(viii) When the loans with the States of Guernsey (referenced in (iv), (v), and (vi) above) were refinanced to fixed interest rate loans on 1 April 2015, a fair value adjustment upon initial recognition of £3,695,999 was recognised. £129,793 of this amount was released in full in 2016 as it related to an aircraft that was sold in that year. This adjustment was calculated using an external market rate of 6.4% pa to determine the net present value of future cashflows. The effective interest method has increased the interest being charged through profit or loss to unwind this unrealised gain over the life of the loans. This increased the interest charged during the year by £369,182 (2019: £408,283).

(ix) When the loan with the States of Guernsey referenced in (vii) above was made available in 2016 a fair value adjustment upon initial recognition of £1,640,003 was recognised. The adjustment was calculated using an external market rate of 7.21% pa to determine the net present value of future cash flows. The effective interest method has increased the interest being charged through profit or loss to unwind this unrealised gain over the life of the loan. This increased the interest charged during the year by £144,078 (2019: £144,861).

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 14. Creditors: amounts falling due after more than one year

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| Aircraft Loans: | | |
| - From 3rd Party | 40,804,758 | 43,028,538 |
| - From parent company shareholder | 21,873,675 | 23,186,793 |
| **Creditors: amounts falling due after more than one year** | **62,678,433** | **66,215,331** |

**Maturity of debt:**

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| One to two years | 10,850,619 | 10,546,541 |
| Two to five years | 23,533,430 | 24,963,104 |
| More than five years | 28,294,384 | 30,705,686 |
| | **62,678,433** | **66,215,331** |

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 15. Derivative financial instruments

| *Current Assets* | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Foreign currency exchange forward contracts | - | 356,626 |
| | - | 356,626 |

| *Creditors: amounts falling due within one year* | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Aircraft interest rate swap | (3,322,708) | (1,838,905) |
| Fuel forward contracts | (205,239) | (164,227) |
| Foreign currency exchange forward contracts | (84,396) | - |
| | (3,612,343) | (2,003,132) |

***Statement of Comprehensive Income***

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Realised loss on derivative financial instruments | - | (2,763) |
| Movement in unrealised loss on derivative financial instruments | (1,965,835) | (638,773) |
| **Movement in loss on derivative financial instruments** | (1,965,835) | (641,536) |

Details of the aircraft loan interest rate swap are disclosed in Note 13.

The fuel forward contracts relate to the hedging of fuel costs and the outstanding contracts at the balance sheet date totalled 4,075 (2019: 7,575) metric tonnes. All of these contracts expire in 2021.

The foreign currency exchange forward contracts relate to the hedging of the purchase of USD 3.4m (2019: USD 9.3m). All of these contracts expire in 2021.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 16. Categories of financial instruments

| | Financial assets at fair value through profit or loss | Debt instruments at amortised cost | Financial liabilities measured at fair value through profit or loss | Other financial liabilities measured at amortised cost | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **31 December 2020** | | | | | |
| Debtors | - | 1,584,867 | - | - | 1,584,867 |
| Cash and cash equivalents (net of overdrafts) | - | 1,149,827 | - | - | 1,149,827 |
| Creditors | - | - | - | (75,229,951) | (75,229,951) |
| Aircraft loans | - | - | - | (43,028,538) | (43,028,538) |
| Derivative financial instruments (Current Assets) | - | - | - | - | - |
| Derivative financial instruments (Creditors: amounts falling due within one year) | - | - | (3,612,343) | - | (3,612,343) |
| | - | 2,734,694 | (3,612,343) | (118,258,489) | (119,136,138) |

| | Financial assets at fair value through profit or loss | Debt intruments at amortised cost | Financial liabilities measured at fair value through profit or loss | Other financial liabilities measured at amortised cost | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **31 December 2019** | | | | | |
| Debtors | - | 2,057,773 | - | - | 2,057,773 |
| Cash and cash equivalents (net of overdrafts) | - | (76,255) | - | - | (76,255) |
| Creditors | - | - | - | (56,580,457) | (56,580,457) |
| Aircraft loans | - | - | - | (50,119,207) | (50,119,207) |
| Derivative financial instruments (Current Assets) | 356,626 | - | - | - | 356,626 |
| Derivative financial instruments (Creditors: amounts falling due within one year) | - | - | (2,003,132) | - | (2,003,132) |
| | 356,626 | 1,981,518 | (2,003,132) | (106,699,664) | (106,364,652) |

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 17. Called up share capital

| | 2020<br>£ | 2019<br>£ |
|---|---|---|
| **Authorised and issued ordinary shares of £1 each** | | |
| At 1 January | 25,212,002 | 25,212,002 |
| **At 31 December** | 25,212,002 | 25,212,002 |

The ordinary shares have the right to participate in the profits of the Company and on a return of capital are entitled to repayment, in full, of the nominal amount. Further, the ordinary shares carry rights to attend and vote at general meetings of the Company. All these shares are fully paid.

As set out in Note 3 i), subsequent to the year end the States of Guernsey, the sole shareholder of the Company:

a) approved the recapitalisation of the Group in respect of its cumulative losses up to 31 December 2020 in the sum of £46.8m. It is anticipated that this recapitalisation, intended to take place during 2021, will include the issue of 46.8m new ordinary shares of £1 each to the States of Guernsey.
b) approved the recapitalisation of the Group in respect of its losses for the year-ending 31 December 2021. It is anticipated that this recapitalisation, intended to take place during the first half of 2022, will include the issue of new ordinary shares of £1 each to the States of Guernsey.

### 18. Pension costs

Throughout the year the Subsidiaries operated a joint defined contribution pension scheme for their Channel Islands resident employees and a Group Personal Pension Plan arrangement for their United Kingdom resident employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £286,244 (2019: £306,688). The amount payable at the end of the year was £6,584 (2019: £48,424). A defined contribution plan and a personal pension plan are post-employment benefit plans under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay any further amounts.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 19. Financial commitments

| | Leases of Aircraft | | Land & Buildings | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | £ | £ | £ | £ |
| In less than one year | 804,771 | 1,086,667 | 235,080 | 267,981 |
| In one to five years | - | 786,667 | 940,320 | 940,320 |
| Over five years | - | - | 1,410,480 | 1,645,560 |
| | 804,771 | 1,873,334 | 2,585,880 | 2,853,861 |

Aurigny operates one (2019: two) leased aircraft. The lease expires in November 2021. Leases of aircraft represents the total of future minimum lease payments under non-cancellable operating leases.

Cabernet Limited has been granted a lease to occupy the hangar at La Planque Lane in which Anglo Normandy conducts its business. The lease term is 21 years ending on 31 December 2031. The annual rent is paid in advance by equal monthly payments on the first day of every month. The amount of £235,080 (2019: £225,080) is borne by Anglo Normandy and paid via Cabernet to the States of Guernsey

### 20. Contingent liabilities

Aurigny has provided a guarantee in favour of Guernsey Customs and Excise to the value of £500 (2019: £500) and the UK Customs and Excise to the value of £5,000 (2019: £5,000), guaranteeing duty-free stock held by Anglo Normandy.

Anglo Normandy has provided a guarantee in favour of Guernsey Customs and Excise to the value of £40,000 (2019: £40,000), guaranteeing duty-free stock held by Anglo Normandy.

The Company is party to an unlimited inter-company guarantee between Anglo Normandy, Aurigny and a commercial bank as security for loans and overdrafts provided.

### 21. Ultimate controlling party

The controlling and ultimate controlling party, which has interests in 100% (2019: 100%) of the issued share capital of the Company, is the States of Guernsey.

### 22. Related party transactions

On 22 July 2011 Cabernet Limited signed a 21 year lease agreement, commencing on 1 January 2011 and ending on 31 December 2031, with the States of Guernsey for the hangar and land situated at La Planque Lane, Forest. Rents of £235,080 (2019: £235,080) were paid.

Key management personnel compensation for the Group totalled £906,854 (2019: £979,802).

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

### 23. Post Balance Sheet Event

*Recapitalisation*

Details of the recapitalisation of the Company, approved by a resolution of the States of Guernsey on 15 October 2021, are disclosed in Note 3i).