CABERNET LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Financial Statements
For the year ended 31 December 2016

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Company Information

Directors of the Company

J Moulton	(Resigned 31/03/2016)
R Darby	
P O'Donovan	
M Coupar	
G St Pier	(Resigned 27/05/2016)
J Kuttelwascher	(Resigned 27/05/2016)
A Haining	(Appointed 18/03/2016)

Registered office
La Planque Lane
Forest
Guernsey
GY8 0DT

Independent Auditor
KPMG Channel Islands Limited
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR

Directors' Report

For the year ended 31 December 2016

The Directors present their report and audited consolidated financial statements of Cabernet Limited (the "Company") together with Aurigny Air Services Limited and Anglo Normandy Aero Engineering Limited (the "Subsidiaries", together the "Group") for the year ended 31 December 2016. 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 Air Services Limited and Anglo Normandy Aero Engineering Limited. The principal activities of these subsidiaries are those of passenger and freight air transport services and aircraft engineering and repairing respectively.

Proposed dividend

The directors do not recommend the payment of a dividend.

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 2.

Appointment of Directors

The articles of association do not provide for the rotation of Directors, but in the interests of good corporate governance the directors consider that directors should retire by rotation each 3 years. Since there is a new director appointed during the year, no reappointments are necessary during 2017.

Statement of Directors' Responsibility

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 United Kingdom Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the United Kingdom 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 Company and of the profit or loss of the Company for that period.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' Report (continued)

For the year ended 31 December 2016

Statement of Directors' Responsibility (continued)

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company as published on the States of Guernsey's website. 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 Company'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 Company's auditor is aware of that information.

Going Concern

The directors have considered and confirmed the suitability of the going concern basis of accounting. The basis of this consideration is discussed in note 3(i) on page 13.

Auditor

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

By order of the board

Director

Date 29/3/2017

Director

Independent auditor's report to the member of Cabernet Limited

For the year ended 31 December 2016

We have audited the consolidated financial statements (the "financial statements") of Cabernet Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2016 which comprise the Consolidated Balance Sheet, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its result for the year then ended;
- are in accordance with UK accounting standards; and
- comply with the Companies (Guernsey) Law, 2008.

Independent auditor's report to the member of Cabernet Limited (continued)

For the year ended 31 December 2016

Matters on which we are required to report by exception

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:

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

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants, Guernsey
Date: 29 March 2017.

Consolidated Balance Sheet
As at 31 December 2016

	Notes	2016 £	2016 £	2015 £	2015 £
Fixed Assets					
Tangible fixed assets	9		42,992,840		43,848,021
Current Assets					
Debtors (including £743,743 (2015: £721,897) due after more than one year)	10	2,976,887		2,747,950	
Cash at bank and in hand		7,475		27,220	
Uncalled Share Capital	11	12,744		-	
Stock	13	1,201,697		976,403	
		4,198,803		3,751,573	
Creditors: amounts falling due within one year					
Bank overdraft	14	(390,779)		(696,800)	
Aircraft Loans	15	(1,260,092)		(1,108,909)	
Creditors	15	(10,338,806)		(28,305,233)	
Derivative financial instruments	17	(1,897,703)		(2,336,719)	
		(13,887,380)		(32,447,661)	
Net Current Liabilities			**(9,688,577)**		**(28,696,088)**
Creditors: amounts falling due after one year					
Aircraft Loans	16	(9,558,953)		(10,735,000)	
Creditors	16	(24,702,340)		(25,807,237)	
		(34,261,293)		(36,542,237)	
Net Liabilities			**(957,030)**		**(21,390,304)**
Capital and Reserves					
Share Capital	19		25,212,002		2
Retained Earnings			(26,169,032)		(21,390,306)
Total Equity			**(957,030)**		**(21,390,304)**

The notes on pages 11 to 26 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on: 29/3/2017

Director

Director

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	Notes	2016 £	2015 £
Turnover	*4*	44,675,512	44,894,816
Cost of Sales	*7*	(40,357,892)	(37,274,689)
Gross Profit		**4,317,620**	**7,620,127**
Administrative expenses	*8*	(7,582,195)	(7,199,194)
Other Operating Income		888	8,912
Operating (Loss)/ Profit		**(3,263,687)**	**429,845**
Aircraft introduction costs		-	(863,926)
Gain on disposal of Aircraft		10,566	-
Foreign exchange (loss)/gain		(4,669)	14,051
Interest receivable		435	10
Interest payable and similar charges		(76,391)	(247,473)
Interest payable on aircraft loan		(2,288,683)	(2,170,825)
Unrealised gain/(loss) on derivative financial instruments	*3 (j)*	439,016	(316,164)
Loss for the year		**(5,183,413)**	**(3,154,482)**

All material activities derive from continuing operations.

The notes on pages 11 to 26 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

31 December 2015		**Share Capital** £	**Retained Earnings** £	**Total Equity** £
Balance at 1 January		2	(21,931,823)	(21,931,821)
Loss for the year		-	(3,154,482)	(3,154,482)
Transaction with shareholder recorded directly in equity	*15 (viii)*	-	3,695,999	3,695,999
Balance at 31 December		2	(21,390,306)	(21,390,304)

31 December 2016		**Share Capital** £	**Retained Earnings** £	**Total Equity** £
Balance at 1 January		2	(21,390,306)	(21,390,304)
Loss for the year		-	(5,183,413)	(5,183,413)
Transaction with shareholder recorded directly in equity	*15 (viii) & (ix)*	-	404,687	404,687
Issue of shares		25,212,000	-	25,212,000
Balance at 31 December		25,212,002	(26,169,032)	(957,030)

The notes on pages 11 to 26 form an integral part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2016

	2016	2015
	£	£
Operating activities		
Loss for the year	(5,183,413)	(3,154,482)
Adjustments for:		
Depreciation	3,989,885	4,071,027
Loan interest	2,288,683	2,170,825
Increase in Stock	(225,294)	(6,429)
Increase in debtors	(119,281)	(344,794)
Increase in creditors	626,337	389,274
(Decrease)/increase in derivative financial instruments	(439,016)	316,164
Net cash inflow from operating activities	937,901	3,441,585
Investing activities		
Purchase of tangible assets	(5,704,356)	(11,201,373)
Proceeds from sale of tangible assets	2,580,218	-
Net cash outflow from investing activities	(3,124,138)	(11,201,373)
Financing activities		
Repayment of bank loans	(1,024,864)	(10,056,229)
Issue of share capital	25,199,256	-
Amount (paid to)/received from parent company	(19,873,068)	19,475,005
Loan interest paid	(1,828,811)	(1,874,224)
Net cash inflow from financing activities	2,472,513	7,544,552
Net increase/(decrease) in cash and cash equivalents	286,276	(215,236)
Cash and cash equivalents as at 1 January	(669,580)	(454,344)
Cash and cash equivalents as at 31 December	**(383,304)**	**(669,580)**
Cash at bank and in hand	7,475	27,220
Bank overdraft	(390,779)	(696,800)
	(383,304)	**(669,580)**

The notes on pages 11 to 26 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2016

1. **Reporting entity**
The Company was established on 14th February 2003 and is registered in Guernsey. The Company is governed by the provisions of the Companies (Guernsey) Law, 2008.

2. **Basis of consolidation**
The group financial statements consolidate the financial statements of the Company and its Subsidiaries for the year ended 31 December 2016. All intra-group sales have been excluded from the consolidated financial statements. All companies within the Group make up 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 United Kingdom and Republic of Ireland* ("FRS 102"). The 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 income is derived solely from its subsidiaries and is recognised as follows:

(i) *Aurigny Air Services Limited (hereafter "Aurigny")*
Passenger ticket sales 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 types are accrued in the period to which they relate.

(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
During 2010, Aurigny introduced 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. 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 by the average value of points redeemed.

EU261
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 historic claim rates and are expected to unwind across the claim window, which is 6 years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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 profit or loss.

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 section 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. 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. The Board intends to retire the Trislander fleet as soon as is practical. Accordingly, the Trislanders' values were written down to zero in 2014.

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. All Trislander stocks have been valued at zero in anticipation of the impending retirement of the fleet.

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 profit or loss.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

h) *Pension costs*
The Subsidiaries operate a joint defined contribution pension scheme and pension contributions are charged to profit or loss.

i) *Going concern*
The Group has historically operated with a combination of third party and States of Guernsey debt and asset financing. The Board had previously requested on several occasions that the Group's balance sheet be recapitalised. This was finally approved by the States of Deliberation in November 2015 and the Group's share capital was increased by £25,212,000 in April 2016, with the increase being called progressively during 2016. As at the balance sheet date £12,744 remained undrawn.
The recapitalisation provided funds to cover historical losses and anticipated losses to the end of 2017. Revised forecasts indicate that the recapitalisation will be insufficient to cover the 2017 losses and the Directors have therefore sought confirmation from the Shareholder that financial support will continue to be made available for the foreseeable future to meet the Group's debts and obligations as they fall due.
Having received this confirmation in writing 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 only of the cash flow statement.

Derivative financial instruments and hedging
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 contracts and interest rate and commodity swaps to hedge these exposures. The Group does not use derivative financial instruments for trading purposes.

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

k) *Financial instruments*

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 spot rate charged by the Group'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.

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 rate method.

States of Guernsey loans to support asset purchases which are at fixed interest rates (see note 15) 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). 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

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.

l) *Operating Leases*

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

m) *Leasing and hire purchase contracts*

Fixed assets acquired under finances leases and hire purchase contracts are capitalised in the consolidated balance sheet and depreciated over their estimated useful economic lives. The interest element of the rental obligations is charged to profit or loss account over the period of the agreement on a straight line basis.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

4. Turnover

	2016	2015
	£	£
Passenger Revenue	41,973,871	42,063,863
Other	2,701,641	2,830,953
	44,675,512	44,894,816

Other income includes revenue from ground handling, duty free sales and credit card charges among other sources. Turnover and operating profit derive wholly from continuing activities.

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

6. 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.

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.

<u>Frequent Flyer Programme</u>
Arriving at a provision for unused frequent flyer points involves assumptions around the average value of the points outstanding at the balance sheet date and the volume of points earned that will have now expired. The assumptions used in arriving at this estimated value are detailed in note 3(b).

<u>EU261 Compensation claims</u>
The primary assumption needed in arriving at a value for the EU261 compensation provision is the percentage of potential claimants who will actually submit a claim, as the amount of potential claimants and the amount per claim are both known. The percentage of the total outstanding liability that has been included as a provision in these financial statements is based on experience of claims up to 31 December 2016.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

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

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.

7. Cost of Sales

	2016	2015
	£	£
Aircraft costs	5,376,073	5,060,139
Flight crew salaries and expenses	5,898,043	4,648,624
Aircraft Maintenance	8,208,164	6,116,677
Fuel	4,418,761	4,320,045
Landing fees and aerodrome charges	15,908,287	15,015,467
Catering	115,709	121,407
Third party seat costs	432,855	1,992,330
	40,357,892	37,274,689

8. Administrative expenses

	2016	2015
	£	£
Station and ground expenses	2,759,522	2,715,905
Ticketing, sales and promotions	1,696,370	1,554,920
Depreciation	232,290	219,021
Audit fee	72,851	74,269
Other	2,821,162	2,635,079
	7,582,195	7,199,194

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

9. Tangible fixed assets

Cost	1 January 2016 £	Additions £	Written off/ Disposals £	31 December 2016 £
Aircraft	59,535,662	5,379,897	(5,693,750)	59,221,809
Tools, ground and radio equipment	1,742,655	107,470	(54,944)	1,795,181
Motor vehicles	253,212	20,250	(14,970)	258,492
Office furniture, equipment & computer equipment	749,989	129,164	(170,472)	708,681
Buildings	16,620	-	(16,620)	-
Leasehold Property	317,614	67,575	-	385,189
Total	**62,615,752**	**5,704,356**	**(5,950,756)**	**62,369,352**

Accumulated Depreciation	1 January 2016 £	Depreciation £	Written off/ Disposals £	31 December 2016 £
Aircraft	16,753,447	3,757,826	(3,124,098)	17,387,175
Tools, ground and radio equipment	1,179,690	120,390	(54,944)	1,245,136
Motor vehicles	168,317	24,175	(14,970)	177,522
Office furniture, equipment & computer equipment	613,547	67,648	(170,472)	510,723
Buildings	16,620	-	(16,620)	-
Leasehold Property	36,110	19,846	-	55,956
Total	**18,767,731**	**3,989,885**	**(3,381,104)**	**19,376,512**

Carrying Amount	1 January 2016 £	31 December 2016 £
Aircraft	42,782,215	41,834,634
Tools, ground and radio equipment	562,965	550,045
Motor vehicles	84,895	80,970
Office furniture, equipment & computer equipment	136,442	197,958
Buildings	-	-
Leasehold Property	281,504	329,233
	43,848,021	**42,992,840**

Included within aircraft additions is £3,828,083 for a new Dornier 228 that will not start being depreciated until the aircraft enters service.

An ATR 72-200 aircraft was sold during the period, with a gain of £10,566 being made on the sale.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

9. Tangible fixed assets (continued)

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

	Cost	Accumulated Depreciation	Net Book Value
	£	£	£
Office furniture, equipment & computer equipment	124,180	90,301	33,879

10. Debtors

	2016	2015
	£	£
Trade debtors	1,089,009	1,109,195
Prepayments	1,144,135	916,858
Due within one year	2,233,144	2,026,053
Lease and trade deposits	743,743	721,897
Due after more than one year	743,743	721,897
Total debtors	2,976,887	2,747,950

11. Uncalled Share Capital

The Company issued 25,212,000 ordinary £1 shares during the year, all of which were subscribed for by the Shareholder. As at the balance sheet date, £25,199,256 has been called, leaving an uncalled amount of £12,744.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

12. 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

13. Stock

	2016	2015
	£	£
Stock	1,201,697	976,403
	1,201,697	976,403

14. Bank overdraft
Aurigny has an 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 £287,618 (2015: £624,774) represents an actual positive balance as at 31 December 2016 of £56,052 (2015: £273,355) and un-cleared payments of £343,670 (2015: £351,419).

The Anglo Normandy overdraft balance of £103,161 (2015: £72,026) is made up of an actual positive balance of £1,124 (2015: £2,503) and un-cleared payments of £104,285 (2015: £74,529). Anglo Normandy does not have an agreed borrowing facility.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

15. Creditors: amounts falling due within one year

	2016	2015
	£	£
Trade creditors	2,655,933	2,634,549
Bookings paid in advance	4,308,726	3,992,602
Accruals	1,919,070	1,518,095
Amount due to shareholder	1,455,077	20,157,497
Net capital obligations under finance leases	-	2,490
	10,338,806	**28,305,233**

Included within trade creditors is £948,890 (2015: £870,246) which is payable to the States of Guernsey in relation to trading activities between the parties.

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:

	2016	2015
	£	£
Opening balance	539,574	471,591
Movement in outstanding points	188,855	310,400
Expired points	(233,827)	(242,417)
	494,602	539,574

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

	2016	2015
	£	£
Opening balance	250,000	250,000
Additons	120,407	108,270
Charges	(170,407)	(108,270)
	200,000	250,000

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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

	2016 £		2015 £	
	Current	Non-current	Current	Non-current
Aircraft Loans				
(i) ATR aircraft loan	1,260,092	9,558,953	1,108,909	10,735,000
Amount due to parent company shareholder				
(ii) Working capital loan	-	-	18,639,464	-
(iii) Embraer Jet loan	1,031,933	18,722,628	991,206	19,754,560
(iv) ATR 72 200 loan	-	-	120,598	1,689,840
(v) Dornier 228 loan	173,659	2,217,396	166,773	2,391,056
(vi) Dornier 228 NG loan	249,485	5,121,694	239,456	5,371,179
(vii) Dornier 228 NG loan 2	-	1,970,502	-	-
(viii) Fair value adjustment upon initial recognition of refinanced loans	-	(3,329,880)	-	(3,399,398)
	1,455,077	24,702,340	20,157,497	25,807,237

(i) A loan facility of £19,799,383 was entered into in 2009 with The Royal Bank of Scotland International trading as NatWest for the purposes of financing the purchase of 2 ATR Aircraft. Repayments have commenced and the outstanding balance at 31 December 2016 was £10,819,045. The loan bears interest at 0.18% per annum above LIBOR and is guaranteed by the States of Guernsey. The company has entered into an interest rate swap arrangement in respect to the aircraft loan in order to fix future cash flow requirements. The fixed interest rate for the period of the loan is 5.35% and the value of this swap is shown within "Derivative financial instruments" under current liabilities, having been calculated in accordance with note 3(j) Derivative Financial Instruments and Hedging. The loan matures in February 2019 and has a residual balance due of £8,000,000.

(ii) Aurigny entered into two loan agreements with the States of Guernsey during 2013. One is an unlimited facility for the purpose of ongoing working capital. This facility was repaid in full during 2016 as part of the recapitalisation by the Shareholder.

(iii) The other agreement is to fund the purchase of the Embraer jet and was initially a facility of £4.4m and has been extended to £22,170,805. As at the balance sheet date the entire loan had been drawn down but had reduced to £19,754,561 through scheduled repayments. This loan bears interest at 4.047% and matures in June 2024.

(iv) A further loan for £2,010,306 was entered into with the States of Guernsey in 2014 for the acquisition of an ATR72 200. This aircraft was sold during the period and this loan was paid off in full.

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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

(v) Aurigny entered into an additional 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 reduced to £2,391,055 through scheduled repayments. This loan bears interest at 4.066% and matures in March 2020.

(vi) Aurigny entered into an additional 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 £5,371,179 through scheduled repayments. The loan bears a fixed interest rate of 4.124% pa. This loan matures in November 2025.

(vii) Aurigny entered into an additional agreement with the States of Guernsey in 2016 for the purpose of purchasing a second new Dornier 228 NG aircraft. This is a £6,830,000 facility. As at the balance sheet date £1,908,978 had been drawn down, and interest and non-utilisation fees of £61,524 have been accrued. The loan bears a fixed interest rate of 3.625% pa and has a ten-year term with capital repayments beginning when the aircraft comes into service.

(viii) When the loans with the States of Guernsey were refinanced to fixed interest rate loans on 1 April 2015, a fair value adjustment upon initial recognition of £3,695,999 was recognised. This adjustment was calculated using an external market rate of 6.4% to determine the net present value of future cashflows. The effective interest rate 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 £459,871 (2015: £296,601). One of the loans was repaid in full on 31 December 2016, so the remaining unrealised gain after making the interest charge for 2016 of £71,795 has been released directly in equity as a transaction with the ultimate shareholder. As at 31 December 2016 the remaining balance was £2,867,829 (2015: £3,399,396).

(ix) The loan with the States of Guernsey taken out in 2016 described in section (vii) generated an unrealised gain on initial recognition of £476,383, which was calculated using an external market rate of 8.4% to determine the net present value of future cashflows. The effective interest rate method has increased the interest being charged during the year by £14,333. This amount is included in Fixed Assets as it forms part of the initial purchase cost of the aircraft.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

16. Creditors: amounts falling due after more than one year

	2016	2015
	£	£
Aircraft Loan	9,558,953	10,735,000
Amount due to parent company shareholder	24,702,340	25,807,237
	34,261,293	**36,542,237**

Maturity of debt:

	2016	2015
	£	£
One to two years	2,754,895	2,756,694
Two to five years	14,697,867	17,510,775
More than five years	16,808,531	16,274,768
	34,261,293	**36,542,237**

17. Derivative financial instruments

	2016	2015
	£	£
Aircraft interest rate swap	(945,525)	(1,458,126)
Fuel Forward Contracts	(184,839)	(878,593)
Foreign Currency Exchange Forward Contracts	(767,339)	-
	(1,897,703)	**(2,336,719)**

Details of the Aircraft Loan Swap are disclosed in note 15.

The Fuel Forward Contracts relate to the hedging of fuel costs and the outstanding contracts at the Balance Sheet date totalled 7,595 (2015: 6,200) tonnes. All of these contracts expire in 2017.

The Foreign Currency Exchange Forward Contracts relate to the hedging of the purchase of USD 4.8m and €3.18m (2015: nil and no open contracts). All of these contracts expire in 2017.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

18. 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 2016					
Debtors	-	2,976,887	-	-	2,976,887
Cash and cash equivalents	-	(383,304)	-	-	(383,304)
Creditors	-	-	-	(35,041,146)	(35,041,146)
Aircraft Loans	-	-	-	(10,819,045)	(10,819,045)
Derivative financial instruments		-	(1,897,703)	-	(1,897,703)
	-	**2,593,583**	**(1,897,703)**	**(45,860,191)**	**(45,164,311)**

	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 2015					
Debtors	-	2,747,950	-	-	2,747,950
Cash and cash equivalents	-	(669,580)	-	-	(669,580)
Creditors	-	-	(18,639,464)	(35,473,006)	(54,112,470)
Aircraft Loans	-	-	-	(11,843,909)	(11,843,909)
Derivative financial instruments		-	(2,336,719)	-	(2,336,719)
	-	**2,078,370**	**(20,976,183)**	**(47,316,915)**	**(66,214,728)**

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

19. Called up share capital

	Ordinary shares of £1 each £
At 1 January 2016	2
Issued during the year and paid	25,199,256
Issued during the year and unpaid	12,744
At 31 December 2016	**25,212,002**

	Ordinary shares of £1 each
At 1 January 2015	2
Issued during the year	-
At 31 December 2015	**2**

A total of 25,212,000 new ordinary shares were issued during the year at a value of £1 each. 25,199,256 had been paid up at the year, with 12,744 remaining unpaid.

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.

20. Pension costs
The Subsidiaries operate a joint defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £197,699 (2015: £172,174). The amount payable at the end of the year was £29,571 (2015: £nil). A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay any further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Notes to the Financial Statements (continued)
For the year ended 31 December 2016

21. Financial commitments

	Aircraft	Land & Buildings
	£	£
The total of future minimum lease payments under non-cancellable operating leases are:		
In less than one year	1,731,609	258,817
In one to five years	5,485,853	1,035,268
Over five years	-	2,588,170
	7,217,462	**3,882,255**

A new four year lease for an ATR 72 500 aircraft was entered into during the year.

22. Contingent liabilities
Aurigny has provided a guarantee in favour of Guernsey Customs and Excise to the value of £500 and the UK Customs and Excise to the value of £5,000, guaranteeing duty-free stock held by Aurigny.

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

23. Ultimate controlling party
The controlling party, which has interests in 100% (2015: 100%) of the issued share capital of the Company, is the States of Guernsey.

24. 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 £227,317 (2015: £227,317) were paid.

Key management personnel compensation of the Group totalled £643,463 (2015: £677,861).

25. Post Balance Sheet Events
There are no material post balance sheet events.