

CABERNET LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

CABERNET LIMITED

Financial Statements

For the year ended 31 December 2014

Contents	Page
Report of the Directors	1-2
Independent Auditor's Report	3-4
Consolidated Profit and Loss Account	5
Consolidated Balance Sheet	6
Consolidated Cash Flow Statement	7
Notes to the Financial Statements	8-19

CABERNET LIMITED

Report of the Directors

For the year ended 31 December 2014

The Directors present their report and audited 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 2014. These comprise the consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement and notes to the financial statements, which have been prepared in accordance with the Companies (Guernsey) Law, 2008.

Principal activity

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.

Registered Office:

La Planque Lane
Forest
Guernsey
GY8 0DT

Results and Dividends

The results of the Group for the year are set out in detail on page 5. The Directors do not recommend payment of a dividend for the year (31 December 2013: Nil).

Directors

The Directors who served during the year and up to the date of this report were:

J Moulton
G St Pier
J Kuttelwascher
P O'Donovan
M Coupar
R Darby

Directors' responsibilities

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and UK Accounting Standards. Company Law requires the Directors to prepare financial statements for each financial year which 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 and are in accordance with applicable laws and regulations. In preparing those 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.

CABERNET LIMITED

Report of the Directors (continued)

For the year ended 31 December 2014

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 Company and to enable them 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.

Appointment of Directors

The articles of association do not provide for the rotation of Directors, but in the interests of corporate governance the Directors consider that Directors should retire by rotation. Accordingly it is proposed that Jan Kuttelwascher and Gavin St Pier will stand for re-election.

Disclosure of information to auditors

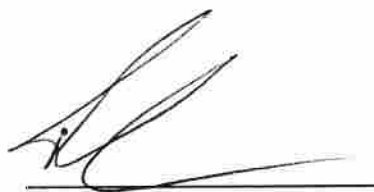
The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a director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

Auditor

Our auditor, KPMG Channel Islands Limited, have indicated their willingness to continue in office and a resolution re-appointing them will be proposed at the forthcoming Annual General Meeting.



Director



Director

Date: *8th July 2015*

Independent Auditor's Report to the Members of Cabernet Limited

For the year ended 31 December 2014

We have audited the consolidated financial statements ("the financial statements") of Cabernet Limited (the "Company") together with its subsidiaries (together the "Group") for the year ended 31 December 2014 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, 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.

This report is made solely to the Company's members, 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 1 and 2, 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 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 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 2014 and of its loss for the year then ended;
- are in accordance with UK Accounting Standards; and
- comply with the requirements of the Companies (Guernsey) Law, 2008.

Independent Auditor's Report to the Members of Cabernet Limited (continued)

For the year ended 31 December 2014

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 and returns; 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.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2(k) to the financial statements concerning the Group's ability to continue as a going concern. The Group returned a net loss of £3,502,018 (2013: £3,919,937) during the year ended 31 December 2014 and, at that date, the Group's liabilities exceeded its total assets by £19,911,267 (2013: £16,409,249). This condition, along with the other matters explained in note 2(k) to the financial statements, specifically the Group's ability to continue operating within its borrowing facilities and the continued support of the States of Guernsey, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants
Guernsey

13 July 2015

CABERNET LIMITED

Consolidated Profit and Loss Account

For the year ended 31 December 2014

	<i>Notes</i>	2014 £	2013 £
Turnover	3	40,719,887	31,427,941
Cost of sales		(33,999,894)	(27,578,635)
Gross Profit		6,719,993	3,849,306
Administrative expenses		(7,503,832)	(6,226,439)
Other operating profit		6,516	9,354
Operating Loss	3	(777,323)	(2,367,779)
Exchange (loss)/gain		(2,870)	161
Interest receivable		25	3
Interest payable and similar charges		(1,309,190)	(929,587)
Profit/(Loss) on sale of assets		3,654	(1,037)
Reorganisation Costs	2l	(200,000)	(275,093)
Stock write-down	2f	-	(108,944)
Aircraft introduction costs	2m & 23	(1,216,314)	-
Trislander fleet write-down	2e	-	(237,661)
Loss for the year	13	(3,502,018)	(3,919,937)

All material activities derive from continuing operations.

There are no recognised gains or losses other than the loss for the financial year.

There are no movements in shareholder's funds during the year other than the loss for the financial year.

The notes on pages 8 to 19 form an integral part of these financial statements.


CABERNET LIMITED

Consolidated Balance Sheet

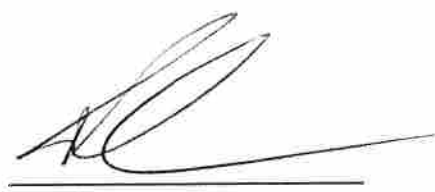
For the year ended 31 December 2014

	Notes	2014		2013	
		£	£	£	£
Fixed Assets					
Tangible fixed assets	5		35,678,779		17,913,691
			<u>35,678,779</u>		<u>17,913,691</u>
<i>Current Assets</i>					
Cash at bank and in hand		13,843		13,843	
Debtors	8	2,393,728		1,717,107	
Stock and work in progress	7	2,008,868		811,023	
		<u>4,416,439</u>		<u>2,541,973</u>	
<i>Current Liabilities</i>					
Bank overdraft	9	(468,188)		(650,423)	
Creditors	10	(47,694,387)		(23,198,227)	
		<u>(48,162,575)</u>		<u>(23,848,650)</u>	
Net Current Liabilities			<u>(43,746,136)</u>		<u>(21,306,677)</u>
			<u>(8,067,357)</u>		<u>(3,392,986)</u>
Non-current Liabilities	11		<u>(11,843,910)</u>		<u>(13,016,263)</u>
Net Liabilities			<u>(19,911,267)</u>		<u>(16,409,249)</u>
Capital and Reserves					
Called up share capital	12		2		2
Profit and loss account	13		(19,911,269)		(16,409,251)
Shareholders' Funds			<u>(19,911,267)</u>		<u>(16,409,249)</u>

The financial statements on pages 5 to 18¹ were approved by the Board of Directors on 8th July 2015



Director



Director

The notes on pages 8 to 19 form an integral part of these financial statements.

CABERNET LIMITED

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	<i>Notes</i>	2014 £	2013 £
Net cash inflow/(outflow) from operating activities	14	572,113	(962,486)
Returns on investments and servicing of finance	15	(1,309,165)	(929,587)
Capital expenditure and financial investment	15	(20,551,429)	(5,816,320)
		<u>(21,288,481)</u>	<u>(7,708,393)</u>
Financing	15	21,470,716	7,997,435
Increase in Cash for the year		<u>182,235</u>	<u>289,042</u>
 Reconciliation of Net Cash Flow to Movement in Net Debt			
Increase in cash in the year		182,235	289,042
Net cash outflow from decrease in debt and lease financing		(21,470,716)	(7,997,435)
Change in net debt resulting from cash flows		<u>(21,288,481)</u>	<u>(7,708,393)</u>
Net debt at start of year	18	(30,972,562)	(23,264,167)
Net debt at end of year	18	(52,261,043)	(30,972,562)

The notes on pages 8 to 19 form an integral part of these financial statements.

CABERNET LIMITED

Notes to the Financial Statements

For the year ended 31 December 2014

1. Basis of consolidation

The group financial statements consolidate the financial statements of the Group and its Subsidiaries for the year ended 31 December 2014. 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.

2. Principal accounting policies

The financial statements give a fair and true view and have been prepared in accordance with applicable UK Accounting Standards. The particular accounting policies adopted are described below.

a) *Accounting convention*

The financial statements are prepared under the historical cost convention and have been prepared in accordance with applicable UK Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

b) *Income recognition*

The company's income is derived solely from its subsidiaries and is recognised as follows:

(i) *Aurigny Air Services Limited*

Passenger ticket and cargo waybill sales net of discounts are recorded as current liabilities in the "bookings paid in advance" account until recognised as revenue when the transportation service is provided. During 2010 the Company 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 based on the anticipated fair value redemption levels of rewards earned in accordance with UK Accounting Standards, which is reassessed each year depending on flights accrued and forecast redemption levels.

(ii) *Anglo Normandy Aero Engineering Limited*

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.

c) *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation.

d) *Depreciation – excluding aircraft*

Depreciation is calculated to write down the cost or valuation 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
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
Computer equipment	25% straight line

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

2. Principal accounting policies (continued)

e) *Aircraft depreciation*

In accordance with the requirements of Financial Reporting Standard 15 – Tangible Fixed Assets, 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 and reviewed regularly. The Board intends to replace the Trislander fleet as soon as is practical. Accordingly the Trislanders values have been written down to zero.

f) *Stock and work in progress*

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 £108,944 additional stock write down in the prior year represents the cost of writing the Trislander spares down to nil.

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

Work in progress is valued at cost plus attributable profit less foreseeable losses and payments on account. The cost of work in progress includes labour and cost of parts utilised.

Where the cost plus attributable profit less foreseeable losses is in excess of payments on account the excess is included as “work in progress” under stock and work in progress in the balance sheet.

Where payments on account are in excess of cost plus attributable profit less foreseeable losses the excess is included as “excess payments on account” under sundry creditors in the balance sheet.

The stock balance held by Aurigny Air Services Limited consists of Embraer spare parts held on site. The value of the stock is released over a 15 period on a straight line basis.

g) *Financial Instruments*

The company does not hold or issue financial instruments for speculative purposes but utilised forward contracts to protect itself against future market movements. Gains or losses are not recognised in the profit and loss until realisation. Open contracts at year end are disclosed in note 20.

h) *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 dealt with in the profit and loss account.

i) *Pension costs*

The group operate a defined contribution pension scheme and pension contributions are charged to the profit and loss account as incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

2. Principal accounting policies (continued)

j) *Leasing and hire purchase contracts*

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

k) *Going concern*

In assessing the suitability of the going concern basis of accounting the Directors have considered detailed budgeted profitability and cash flows of the company for the year to 31 December 2015, together with a 5 year forecast to 2020.

As detailed in notes 10 and 11, the Group has borrowings of £29,889,127 from the States of Guernsey, and £12,900,138 from third parties guaranteed by the States of Guernsey.

The group operates with significant external debt financing and no equity and the Board of Cabernet Limited had previously requested that its balance sheet should be recapitalised by the shareholder. This decision was deferred by the shareholder and funds have continued to be provided by way of the guarantee of bank borrowings or direct loans. The States of Guernsey debated its capital expenditure requirements for the next five years in the September 2013 State's meeting and the recapitalisation was approved in principle. This will go back to the States for full approval in the second half of 2015. The States of Guernsey has confirmed its intention to continue to support the Group.

The Directors have prepared the financial statements on a going concern basis.

l) *Reorganisation Costs*

This section has been redacted for confidentiality reasons.

m) *Aircraft Introduction Costs*

During 2014 the company introduced an Embraer 195 and commenced the introduction of Dornier 228s to replace the Trislander fleet. These costs represent the direct and indirect costs of these introductions which are non-reoccurring. A breakdown is included in note 22.

3. Turnover and operating loss

Turnover and operating loss derive wholly from continuing activities.

4. Taxation

The Group is taxed at the standard rate of 0%.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

5. Tangible fixed assets

	1 January 2014	Additions	Written off/ Disposals	31 December 2014
	£	£	£	£
<i>Cost</i>				
Aircraft	27,403,157	19,948,866	-	47,352,023
Plant tool & equipment	1,188,502	501,648	(9,936)	1,680,214
Motor vehicles	202,411	38,000	(16,360)	224,051
Furniture, fittings & computer equipment	623,261	69,550	-	692,811
Leasehold Improvements	319,026	-	-	319,026
Total	29,736,357	20,558,064	(26,296)	50,268,125
	1 January 2014	Charge for the year	Written off/ Disposals	31 December 2014
	£	£	£	£
<i>Depreciation</i>				
Aircraft	10,209,321	2,584,760	-	12,794,081
Plant tool & equipment	933,315	123,856	(9,590)	1,047,581
Motor vehicles	138,252	21,775	(13,725)	146,302
Furniture, fittings & computer equipment	520,658	43,925	-	564,583
Leasehold Improvements	21,120	15,679	-	36,799
Total	11,855,666	2,789,995	(23,315)	14,589,346
Net book value	17,913,691			35,678,779

Notes to this section have been redacted due to commercial sensitivity.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

5. Tangible fixed assets (continued)

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

	Cost	Accumulated Depreciation	Net Book Value
	£	£	£
Plant, tools and equipment	124,180	71,244	52,936

6. Investment in subsidiary undertakings

The subsidiaries of Cabernet Limited, which are incorporated within these consolidated financial statements, are as follows:

	<i>Place of incorporation</i>	<i>Percentage of equity share capital held</i>	<i>Principal activity</i>
Aurigny Air Services Limited	Jersey	100%	Air transport services
Anglo Normandy Aero Engineering Limited	Guernsey	100%	Aircraft engineering

7. Stock and work in progress

	2014 £	2013 £
Stock	2,007,779	899,004
Additional stock write down	-	(108,944)
Work in progress	1,089	20,963
	<u>2,008,868</u>	<u>811,023</u>

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

8. Debtors

	2014 £	2013 £
Trade debtors	1,050,277	1,065,417
Lease and trade deposits	232,174	264,993
Prepayments	1,111,277	386,697
	<u>2,393,728</u>	<u>1,717,107</u>

9. Bank overdraft

Aurigny Air Services Limited 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 book balance of £362,029 represents an actual overdraft balance as at 31 December 2014 of £120,603 and un-cleared payments of £241,426.

Anglo Normandy Aero Engineering Limited has an overdraft balance of £106,159 which is made up of an actual positive balance of £37,543 and un-cleared payments of £143,702.

10. Creditors

	2014 £	2013 £
Trade creditors	2,405,400	2,207,839
Bookings paid in advance	3,590,678	2,750,945
Accruals	1,735,521	919,724
Loans	10,056,228	10,001,499
Amount due to the States of Guernsey	29,889,127	7,284,210
Net capital obligations under finance lease and hire purchase contracts	17,433	34,010
	<u>47,694,387</u>	<u>23,198,227</u>

Included within trade creditors is £884,423 (2013: £641,370) which was payable to the States of Guernsey (note 21) in relation to trading activities between the parties.

Included in accruals is £472,000 (2013: £417,029) in respect of estimated liabilities under the frequent flyer scheme.

A loan facility of £19,799,383 was entered into by Aurigny Air Services Limited in 2009 for the purposes of financing the purchase of 2 ATR Aircraft. Repayments have commenced and the outstanding balance at 31 December 2014 was £12,900,138. 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

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

10. Creditors (continued)

respect to the aircraft loan in order to fix future cashflow requirements. The fixed interest rate for the period of the loan is 5.35%.

Aurigny Air Services Limited subsequently entered into two new loan agreements with the States of Guernsey during 2013. One is an unlimited facility for the purpose of ongoing working capital requirements against which £5,487,408 has been drawn at the balance sheet date. The other agreement is for the purchase of the Embraer jet and was initially a facility of £4.4m. This was extended to £23,577,200 during 2014, and the purpose was expanded to include the purchase of the ATR 72 200 that the Company has previously leased. As at the balance sheet date, £22,113,218 had been drawn for the purchase of the Embraer, and £1,842,000 for the purchase of the ATR. Both of these facilities bear interest at the States Treasurer's Rate.

Aurigny Air Services Limited 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 £2,003,669 facility, of which £446,501 has been drawn at the balance sheet date. This facility bears interest at the States Treasurer's Rate.

Cabernet Limited has entered into loan agreements totalling £9 million in order to support the working capital requirements of the Group. At the balance sheet date all of the facilities had been drawn down (2013: £9m). The loans bear interest at 1.125% above LIBOR, and are guaranteed by the States of Guernsey and are repayable on demand and, therefore, presented as less than a year.

11. Creditors (amounts falling due after more than one year)

	2014	2013
	£	£
<u>Aircraft Loan</u>		
Due between one and two years	1,108,909	1,056,228
Due between two and five years	10,735,001	3,524,759
Due in more than five years	-	8,435,276
	<u>11,843,910</u>	<u>13,016,263</u>

12. Called up share capital

	2014	2013
	£	£
Authorised		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Issued and Fully Paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

13. Profit and loss account

	2014 £
Balance at start of year	(16,409,251)
Loss for financial year	(3,502,018)
Balance at end of year	(19,911,269)

14. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £	2013 £
Operating loss	(777,323)	(2,367,779)
Exchange profit	(2,870)	161
Depreciation on tangible fixed assets	2,789,995	2,089,184
(Increase)/decrease in stock and work in progress	(1,197,845)	77,449
Increase in operating debtors	(639,071)	(12,513)
Increase/(decrease) in operating creditors	1,815,541	(473,895)
Reorganisation costs	(200,000)	(275,093)
Aircraft introduction costs	(1,216,314)	-
Net cash inflow/(outflow) from operating activities	572,113	(962,486)

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

15. Analysis of cash flows for headings netted in the cash flow statement

	2014	2013
	£	£
<i>Returns on Investments and Servicing of Finance</i>		
Interest element of finance lease repayments	(4,072)	(4,103)
Interest element of Aircraft Loan repayments	(1,050,866)	(755,823)
Interest received	25	3
Interest paid	(254,252)	(169,664)
<i>Net Cash Outflow</i>	(1,309,165)	(929,587)
 <i>Capital Expenditure and Financial Investment</i>		
Purchase of tangible fixed assets	(20,558,064)	(5,816,320)
Sale of Fixed Assets	6,635	-
<i>Net Cash Outflow</i>	(20,551,429)	(5,816,320)
 <i>Financing</i>		
Capital element of finance lease payments	(1,134,201)	(833,478)
Fixed Asset Financing	-	(23,804)
Loan borrowings	22,604,917	8,854,717
<i>Net Cash Inflow</i>	21,470,716	7,997,435

16. Pension costs

Cabernet Limited operates a group defined contribution pension scheme. The assets of the scheme are held separately in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £176,399 (2013:£168,020). There was no amount payable as at 31 December 2014 (2013: nil).

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

17. Financial commitments

	Land and Buildings £
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:	
In one to two years	-
Over five years	31,486
	<u>31,486</u>

In September 2014 Aurigny Air Services Limited contracted to buy a Dornier 228 from Aviation Capital Group for the sum of €1,500,000. As at 31 December 2014 the Company had paid deposits of €500,000. Delivery was made in April 2015 at which point the balance of the payment was paid.

In November 2014 Aurigny Air Services Limited contracted to buy a Dornier 228 from DAO Aviation for the sum of \$1,300,000. As at 31 December 2014 the Company had paid deposits of \$700,000. Delivery was made in March 2015 when the balance of the payment was made.

18. Analysis of changes in net debt

	1 January 2014 £	Cash flow £	31 December 2014 £
Cash at bank	13,843	-	13,843
Bank overdraft	(650,423)	182,235	(468,188)
Bank loan	(9,000,000)	-	(9,000,000)
Aircraft loan	(14,017,762)	1,117,624	(12,900,138)
Shareholder Loan	(7,284,210)	(22,604,917)	(29,889,127)
Obligation under finance leases	(34,010)	16,577	(17,433)
Total	<u>(30,972,562)</u>	<u>(21,288,481)</u>	<u>(52,261,043)</u>

19. Contingent liabilities

Aurigny Air Services Limited has provided a guarantee in favour of the 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 the company.

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

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

20. Foreign exchange contracts

Aurigny Air Services Limited had no foreign exchange contracts outstanding at the year end.

As at 31 December 2013 Aurigny Air Services Limited had forward exchange contracts in place for the purchase of \$27,800,000 in 2014. The unrealised loss at 31 December 2013 was £489,564.

21. Ultimate controlling party

The controlling party, which has interests in 100% (2013: 100%) of the issued share capital of the parent 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 £227,317 (2013: £210,000) were paid.

The following amounts were payable to the States of Guernsey, the ultimate controlling party of the Company:

	2014	2013
Landing fees and passenger taxes	£4,943,862	£4,031,469
Social insurance employer and employee	£863,079	£694,785
ETI payroll tax deductions	£998,050	£745,515

23. Aircraft introduction costs

	2014	2013
	£	£
Embraer crew costs incurred prior to introduction ^a	313,718	-
Embraer acceptance/introduction costs	173,222	-
Wet lease costs ^b	579,956	-
Dornier crew costs incurred prior to introduction ^c	149,418	-
Total	1,216,314	-

^aCrew costs include the cost of employment, training and relocation where applicable

^bPrior to the introduction of the Aurigny owned Embraer 195 a Flybe aircraft was wet leased to cover the operation. The wet lease cost represents the additional cost of the wet lease above notional cost of our own operation had that been in place from the beginning

^cDornier crew costs reflects the recruitment of additional crews and the retention and retraining of Trislander crews in anticipation of introducing the Dornier 228

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

24. Post Balance Sheet Events

In March 2015 the company signed a lease for an ATR 42, primarily to service the London City route, replacing VLM who had previously operated on the Company's behalf with a wet leased Fokker 50. The aircraft was delivered and entered service in April 2015.