FR Aviation Limited

Annual report and financial statements for the year ended 31 December 2020

Registered number 00845310



FR Aviation Limited

Annual report and financial statements

for the year ended 31 December 2020

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FR Aviation Limited

Directors' report for the year ended 31 December 2020

The directors have pleasure in submitting their report, together with the strategic report and the audited financial statements of FR Aviation Limited ("the Company") for the year ended 31 December 2020. The Company is a private company limited by shares and is registered, incorporated and domiciled in England, number 00845310. The address of the registered office of the Company is Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE.

On 25 September 2020, the Company and its subsidiaries were acquired by Draken UK Bidco Limited, having previously been owned by FR Aviation Group Limited (part of the Cobham Limited Group). The Company now trades under the name "Draken Europe" (formerly "Cobham Aviation Services") and has a branch in the Royal Kingdom of Saudi Arabia. Draken UK Bidco Limited and its subsidiaries together form the Draken Europe Group ("the Group"). The Company's parent, Draken UK Bidco Limited, is owned by Draken International LLC, and the wider group, being Draken International LLC and its subsidiaries (including Draken Europe) are referred to as the "Draken US Group" in this annual report and financial statements.

Results and dividends

The Company's results for the year are set out in the income statement on page 11 showing a loss for the financial year after tax of £30,102,000 (2019: profit of £14,058,000) due to two significant non-cash charges, impairment of investments in subsidiaries and the exit from the Company's participation in Cobham's defined benefit pension scheme following its acquisition. At 31 December 2020, the Company had net assets of £60,579,000 (2019: £63,098,000).

A review of the Company's business during the year and future developments, together with information on risks and uncertainties and financial risk management are provided in the strategic report on pages 6 to 7.

In July 2020 the Company acquired all other former Cobham Aviation Services UK entities from its former immediate parent undertaking FR Aviation Group ("FRAG") for consideration of £86,398,000 (note 13). The Company also acquired Précision Aviation Industries from another Cobham entity for consideration of €6,400,000 (£5,853,000) but this entity was subsequently distributed back to FRAG in the form of a dividend in specie of an equivalent value prior to the Company's acquisition by Draken UK Bidco Limited (note 10). No other dividends were paid in the year (2019: final dividend of £1,000,000).

Directors

The following directors held office during the year and up to the date of signing these financial statements:

P Armstrong	
R Stoate	
S Harrison	Appointed 16 October 2020
Lord Houghton of Richmond	Appointed 16 October 2020, Resigned 1 September 2021
M Parry	Resigned 31 March 2020

The directors benefited from a Directors' and Officers' liability insurance policy which was in place during the financial year and at the date of this report.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101) and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that year.

Directors' report for the year ended 31 December 2020 (continued)

Statement of directors' responsibilities (continued)

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

In considering the going concern status of the Company, the directors have also considered the going concern position of the Draken Europe Group, as it controls the resources of the entire Group (with banking cross guarantees in place) as well as the Draken US Group to the extent it applies to guarantee arrangements in place impacting the Company.

The COVID-19 pandemic became a worldwide crisis during 2020 and, at the date of this report, the situation was still evolving. The Group has implemented a series of prevention and protection measures and is constantly monitoring compliance with decisions and recommendations from local public authorities. To date, the Group has managed to maintain operational output and has not had to rely on Government support schemes, such as furloughing of employees.

COVID-19 reinforces uncertainties in the global economic context and markets; the long-term impact for the Group is difficult to assess and will depend on the magnitude, duration and geographic extent of this pandemic and extent to which Government authorities decide to make budgetary changes to aid economic recovery.

When assessing the going concern status of the Company and the Group, the directors have:

- Considered the cash position of the Group being £26 million as at the year-end date and £18 million as at August 2021. Also, considered the cash generative nature of the business model, revenues which are secured by long-term contracts and credit worthiness of the Group's customer base.
- Reviewed the Group's cash reserves and forward-looking cashflow forecast, taking into account the strategic forward-looking plan (with the base case taking into account only revenue already secured under contract through 2021 and 2022) and applying stress tests on its cash position. These have also included assuming the most severe but plausible scenarios, such as significantly reduced flying hours on contracts with variable revenue and the loss of a key customer contract which combined would result in the Group's gross margin reducing by 25%, with administrative expenses remaining constant. In these cases, the Directors have confirmed that the Group would be able to continue to operate and settle liabilities as they fall due for a period of at least 12 months through to 30 September 2022 (the "going concern period"). For cash reserves to be depleted, the Group would need to see both its most significant contract and several smaller contracts end in the going concern period. This combination is considered to have a remote probability and is before taking any controllable mitigating actions (such as restructuring and sale of surplus assets).

Directors' report for the year ended 31 December 2020 (continued)

Going concern (continued)

- Considered the likelihood of guarantees in place of the broader Draken US Group's banking and credit facilities (note 26), to which the Company and certain subsidiaries are guarantors, being called in the going concern period. The Directors are satisfied that the likelihood of these guarantees being called during this period is remote based on their understanding of the cashflow projections of the Draken US Group and the continued support provided to the Draken US Group by its shareholders.

On this basis, the Directors have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Streamlined energy and carbon reporting

In compliance with UK reporting requirements (Streamlined energy and carbon reporting), the directors provide the Company's UK energy and greenhouse ("GHG") emissions data in the table below:

Energy consumption used to calculate emissions (Scope 1) (tCO_2e)	976.5
Energy consumption used to calculate emissions (Scope 2) (tCO_2e)	314.6
Total energy consumption (Scope 1 & 2) (tCO_2e)	1,291.1
Intensity ratio (tCO_2e/employee)	3.5

The energy reported covers electricity, gas, aviation fuel and car fleet fuel as purchased by the Company. Most of the Company's flying activities are paid for by customers and therefore not included in this report (classed as Scope 3). Collected data is converted to greenhouse gas emissions by using annual Government-published conversion figures. This is the Company's first energy and carbon report, therefore no comparative figures are reported.

Activity	Source of information
Electricity	Total kilowatt hours recorded on meter
Gas	Total used from invoice
Aircraft fuel	Fuel used as recorded from meter
Company vehicles	Mileage from vehicle journey logbook

The methodology used is The Greenhouse Gas Reporting Protocol – Corporate Standard.

Energy savings

FR Aviation will always consider emission reduction when fleets are renewed with purchases of new aircraft or vehicles. A new aircraft has been bought in the year which demonstrates this, as it is more fuel efficient than the current older fleet.

Travel has been very limited in 2020 due to COVID-19 but the Company has invested in remote meeting facilities to reduce travel between sites for future use.

Directors' report for the year ended 31 December 2020 (continued)

Stakeholder engagement and Section 172 statement

The directors of a company must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, taking into account the factors as listed in Section 172 of the Companies Act 2006.

Engagement with our stakeholders plays a vital role throughout our business. By understanding our stakeholders, we can factor into the boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

The Company seeks to maintain a reputation for high standards of business conduct across its whole stakeholder population to ensure that the Company enhances its reputation as an employer and supplier of choice in air defence training and aircraft engineering.

Employees

Our employees are our most valuable asset. The Company recognises the importance of regularly engaging with employees. This supports the cultural change within the Company and helps attract and retain talented employees, which is critical to future growth.

Engagement occurs in different ways and at different levels. The Company holds regular 'all hands' meetings with employees to instil a sense of common purpose, to update on relevant news and developments and to respond to questions. The Chief Executive Officer and other members of the senior management team also undertake all hands meetings when visiting Company sites.

All employees have access to the Company intranet site, where they can find news, policies and procedures and a range of other materials of interest.

The Company's corporate communications department compiles and distributes various materials to employees including a quarterly employee magazine, online news items and senior management 'blogs'. Dovetailing with this, certain functions undertake more specialist engagement relevant to specific functions such as engineering or procurement.

The Company is committed to providing all its employees with equal opportunities in a workplace free from discrimination and during the year established an Equity, Diversity and Inclusion committee. Applications for employment from persons with a disability are welcomed and given full and fair consideration. With regard to employees who become disabled during their employment, the Company takes all reasonable steps, including retraining, to enable them to continue their employment and career development within the Company.

During the past year, particular care has been taken to ensure the safety, health and well-being of the Company's employees during the Covid-19 pandemic.

Customers

The Company provides services to Governments and prime defence contractors on a worldwide basis. Our customers are important as they play vital roles in protecting national defences.

The Company engages with customers through structured senior management reviews on a regular basis and at a service delivery team level on a working basis. This level of engagement has resulted in the establishment of a better collaborative discussion and quicker route to resolving any issues arising. This provides increased opportunities for revenue generation.

Directors' report for the year ended 31 December 2020 (continued)

Stakeholder engagement and Section 172 statement (continued)

Suppliers

The Company relies on an extensive supply chain of local and international suppliers to maintain aircraft and provide services to its customers. The Company engages with suppliers through short and long-term contracts and through ongoing dialogue designed to ensure aircraft availability, to assure that parts and spares are secured to manage obsolescence risks on ageing platforms. The Company undertakes to pay suppliers in line with government payment practice guidelines and contractual requirements.

Regulators

The Company operates in a heavily regulated environment, focussed primarily on aviation safety. The Company maintains a proactive, open and regular dialogue with all regulators and fully supports all independent audit activities conducted.

Investors

During the current year, the Company has undergone two changes in shareholders. The Company forms a group of companies and the ultimate investor is the parent company and its shareholders. The Company undertakes weekly dialogue with the parent company through a structure senior leadership team review. Formal Board meetings are held with the investors at least quarterly. The Company reports results on a regular monthly basis with a particular focus on safety, customer and supplier relationships and financial performance.

Independent auditors

Ernst & Young LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

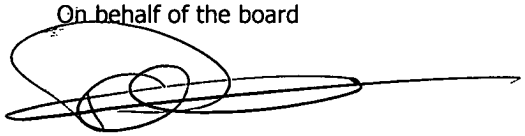
Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board



P Armstrong
Director

24 September 2021

Strategic report for the year ended 31 December 2020

Business review

The results for the year and financial position at the year end are set out in the Directors' Report on page 1. The principal activity of the Company is the provision of air defence training and aircraft engineering.

The Company recorded revenue of £47,722,000 (2019: £71,599,000). The reduction in revenue and profit compared to 2019 primarily related an international air defence training customer contract which expired in December 2019 and has not yet been renewed, along with the reduced activity following the Company's sale of its development engineering value stream (which comprised a number of ongoing customer contracts) to former fellow Cobham Limited subsidiary Chelton Limited in December 2019. The Company commenced a new five-year contract with the UK Ministry of Defence for the provision of operational readiness training effective from 1 January 2020.

The Company recorded an operating loss of £29,293,000 due to two notable non-cash transactions. The first a charge arising from the cessation of the Company's obligations in connection with the defined benefit pension plan (note 24) together with an impairment of the Company's investments in subsidiaries (note 13) of £39,300,000. These charges were partly offset by dividend income from subsidiaries of £6,500,000. The comparative period recorded an operating profit of £16,705,000 which included a one-off gain of £4,760,000 on disposal of the Company's development engineering value stream.

The result for the year was in line with the directors' expectations. The directors continue to take steps to controls costs, safeguard cash and manage working capital.

The key performance indicators of the Company are:

	2020 £000	2019 £000
Revenue	**47,722**	71,599
Adjusted EBITDA (page 11)	**7,043**	15,461

Future developments

The directors are confident that the Company will continue to show a strong and profitable underlying performance consistent with that of the year under review.

The COVID-19 pandemic continues to affect the UK and global economy, although it has had no material impact on the position of the Company's operations to date, nor is it expected to in the short term as the Company's core activities remain of strategic importance to its key defence customers.

As highlighted in note 13, two of the Company's subsidiaries, FB Heliservices Limited and FR Aviation Services Limited, have experienced more recent impacts from COVID-19 including budgetary cuts impacting customer contracts. This has resulted in a non-cash impairment of the Company's investments in those entities being recorded in the 2020 financials.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to Government intentions and policy regarding the likelihood and extent of constraints or reductions in budgeted defence spending along with their decisions made regarding key contract awards.

Financial risk management

The Company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate cash flow risk and foreign currency exchange rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company.

Strategic report for the year ended 31 December 2020 (continued)

Financial risk management (continued)

During the year, the directors have followed the policies set by the board of directors of Cobham Limited which were managed by the Cobham group finance department. The Cobham Limited group had a written treasury policy and risk management programme that sought to limit the adverse effects on the financial performance of the group which was applied by the Company. This included the use of foreign currency financial instruments, debt and other instruments. The Company does not trade in financial instruments.

The directors have revisited the appropriateness of these policies following the Company's acquisition by Draken UK Bidco Limited in September 2020 and determined that the policies remain appropriate for the time being. These risk management requirements will be revisited should the Company's operations change in size or nature, or become further integrated with the broader Draken US group.

Price risk

The Company is not naturally exposed to price risk as a result of its operations due to the nature of its trading operations and contract arrangements. The Company has no exposure to equity securities price risks as it holds no listed or other equity investments.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before contracts are signed and sales are made. The Company also monitors existing customer accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk. Customers include government agencies with long term trading relationships. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

The Company retains sufficient cash to ensure it has available funds for operations and planned expansions. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate cash flow risk

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assetsare bank balances, which earn interest at a floating rate. The interest-bearing liabilities relate to finance leases and intercompany long-term payables. In order to ensure stability of cash outflows and hence manage interest rate risk, the Company has access to fixed interest rate loans from its ultimate parent undertaking. The Company does not use derivative financial instruments to manage interest rate costs.

Foreign currency exchange rate risk

The Company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange rate contracts with the previous immediate parent undertaking Cobham Limited. These contracts with Cobham Limited were settled on acquisition by Draken UK BidCo Limited in September 2020. The Company has no foreign exchange rate contracts at present.

On behalf of the board

P Armstrong
Director

24 September 2021

Independent auditors' report to the members of FR Aviation Limited

Opinion

We have audited the financial statements of FR Aviation Limited for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 30, 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 FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company'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 prepared in accordance with the requirements of the Companies Act 2006.

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 the 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 ability to continue as a going concern for a period until 30 September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained with the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 there is 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report to the members of FR Aviation Limited (continued)

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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, 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 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.

Explanation as to what extent the audit was considered 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Independent auditors' report to the members of FR Aviation Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those relating to the reporting framework (United Kingdom Generally Accepted Accounting Practice and Companies Act 2006) and the relevant direct and indirect tax compliance regulations in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its customers, including aviation regulations, health and safety, data protection, anti-bribery and corruption.
- We understood how FR Aviation Limited is complying with those frameworks by making enquiries with management to understand how the Company maintains and communicated its policies and procedures in these areas, and corroborated this by reviewing board minutes, verifying the employee policies, employee handbooks and communications with the employees. We also reviewed correspondence with HMRC regarding tax compliance and legal counsel, where relevant.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur through internal team discussions and enquiry of management and those charged with governance. We considered the risk of management override and assessed revenue as a fraud risk which could be perpetrated through the misallocation of costs to contracts (where revenue is recognised on a cost-plus basis) or by revenue transactions at or near to the year end ('cut-off').
- To address our fraud risk around allocation of costs to contracts, we tested revenue contracts identified as key items by size or risk. For those contracts selected, we tested that costs were allocated to the appropriate contracts and performance obligation.
- To address our fraud risk on revenue cut off, we selected samples of revenue transactions around the year end date and performed detailed testing, including understanding the nature of the revenue transactions and agreeing to source documentation to validate that the revenue had been recognized in the appropriate period.
- We incorporated data analytics into our testing of manual journals, including segregation of duties, and into our testing of revenue recognition, investigating journals posted to revenue as part of our journal entry testing work, with focus on transactions recorded at or close to the year-end date.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation including tax computations and returns.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://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 members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

Ernst & Young LLP

Ryan Squires (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
27 September 2021

FR Aviation Limited

Income statement for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Revenue	2	**47,722**	71,599
Cost of sales		**(34,709)**	(49,944)
Gross profit		**13,013**	21,655
Selling and distribution costs		**(1,110)**	(2,887)
Administrative expenses		**(5,953)**	(6,823)
Income from subsidiary undertakings	3	**6,500**	-
Impairment of investments	13	**(39,300)**	-
Exceptional item – loss on exit from pension scheme	24	**(2,443)**	-
Exceptional item - profit on sale of business		**-**	4,760
Operating (loss) / profit	3	**(29,293)**	16,705
Finance income	4	**791**	363
Finance costs	5	**(685)**	(546)
(Loss) / profit on activities before taxation		**(29,187)**	16,522
Tax on (loss) / profit on ordinary activities	6	**(915)**	(2,464)
(Loss) / profit after taxation for the year		**(30,102)**	14,058

All the Company's activities are classed as continuing in the current and comparative year.

Non-GAAP information

Adjusted EBITDA, a non-GAAP measure (see note 1), is calculated as follows (comparative information has been added as per the current year):

	2020 £000	2019 £000
Operating loss	**(29,293)**	16,705
Depreciation – owned assets	**559**	3,347
Depreciation – right of use assets	**459**	133
Amortisation	**75**	36
Dividend income	**(6,500)**	-
Impairment of investments	**39,300**	-
Exceptional item – loss on exit from pension scheme	**2,443**	-
Exceptional item – profit on sale of business	**-**	(4,760)
Adjusted EBITDA	**7,043**	15,461

FR Aviation Limited

Statement of comprehensive income for the year ended 31 December 2020

	Note	2020 £000	2019 £000
(Loss) / profit after taxation for the year		**(30,102)**	14,058
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	24	**4,372**	1,264
Tax effects	6	**(936)**	(240)
Other comprehensive income for the year		**3,436**	1,024
Total comprehensive (loss) / income for the year		**(26,666)**	15,082

FR Aviation Limited

Balance sheet as at 31 December 2020

	Note	2020 £000	2019 £000
Assets			
Non-current assets			
Intangibles	11	**1**	28
Property, plant and equipment	12	**10,985**	6,248
Investments	13	**47,098**	-
Trade and other receivables	16	**21,117**	1,889
		79,201	8,165
Current assets			
Inventories	14	**3,141**	2,329
Contract assets	15	**566**	3,524
Trade and other receivables	16	**4,850**	4,226
Cash and cash equivalents		**9,901**	72,517
		18,458	82,596
Liabilities			
Current liabilities			
Contract liabilities	18	**(9,404)**	(8,031)
Trade and other payables	19	**(16,319)**	(13,666)
Lease obligations	21	**(522)**	(54)
		(26,245)	(21,751)
Non-current liabilities			
Trade and other payables	20	**-**	(12)
Contract liabilities	18	**(6,285)**	-
Lease obligations	21	**(4,464)**	(3,329)
Provisions	22	**(86)**	(88)
Retirement benefit obligations	24	**-**	(2,483)
		(10,835)	(5,912)
Net assets		**60,579**	63,098

Balance sheet as at 31 December 2020 (continued)

	Note	2020 £000	2019 £000
Equity			
Share capital	25	**301**	1
Share premium	25	**29,700**	-
Other reserve	25	**-**	4,818
Retained earnings		**30,578**	58,279
Total equity		**60,579**	63,098

The financial statements on pages 11 to 46 were approved by the board on 24 September 2021 and were signed on its behalf by:

S Harrison
Director

FR Aviation Limited

Statement of changes in equity
for the year ended 31 December 2020

	Share capital	Share premium	Other reserve (note 25)	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Total equity at 1 January 2019	1	-	3,945	44,197	48,143
Profit for the year	-	-	-	14,058	14,058
Other comprehensive income	-	-	-	1,024	1,024
Total comprehensive income for the year	-	-	-	15,082	15,082
Share based payments - capital contribution (note 9)	-	-	595	-	595
Tax charge relating to share based payments	-	-	278	-	278
Dividends paid (Note 10)	-	-	-	(1,000)	(1,000)
Total equity at 31 December 2019 and 1 January 2020	**1**	**-**	**4,818**	**58,279**	**63,098**
Loss for the year	**-**	**-**	**-**	**(30,102)**	**(30,102)**
Other comprehensive income	**-**	**-**	**-**	**3,436**	**3,436**
Total comprehensive expense for the	**-**	**-**	**-**	**(26,666)**	**(26,666)**
Transfer from other reserves re share based payments			**(4,818)**	**4,818**	**-**
Issue of shares (Note 25)	**300**	**29,700**	**-**	**-**	**30,000**
Dividends paid (Note 10)	**-**	**-**	**-**	**(5,853)**	**(5,853)**
Total equity at 31 December 2020	**301**	**29,700**	**-**	**30,578**	**60,579**

Notes to the financial statements for the year ended 31 December 2020

1. Statement of accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101).

The financial statements have been prepared on the going concern basis, under the historical cost convention unless otherwise stated and as modified to include the revaluation of certain derivative financial assets and liabilities measured at fair value through profit or loss and in accordance with the Companies Act 2006 as applicable to companies applying FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a cash flow statement and related notes (IAS 7, Statement of Cash Flows and paragraphs 10(d) and 111 of IAS 1, Presentation of Financial Statements);
- Paragraph 38 of IAS 1, Presentation of Financial Statements comparative period reconciliations in respect of:
    i. paragraph 79(a)(iv) of IAS 1 (number of shares outstanding);
    ii. paragraph 73(e) of IAS 16, Property, plant and equipment;
    iii. paragraph 118(e) of IAS 38, Intangible assets; and
    iv. paragraphs 76 and 79(d) of IAS 40, Investment property.
- additional comparative information as required by paragraphs 38A to 38D of IAS 1, Presentation of Financial Statements;
- capital management disclosures required by paragraphs 134 to 136 of IAS 1;
- the requirements of paragraph 10(f) and 40A-D of IAS 1 (prior period balance sheet following a restatement);
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors concerning the effects of new but not yet effective IFRSs;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)–(c), 120–127 and 129 of IFRS 15, Revenue from Contracts with Customers;
- the requirements of paragraphs 52 and 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, Leases;
- details of compensation of key management personnel required by paragraph 17 and 18A of IAS 24, Related Party Disclosures; and
- the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group.

Notes to the financial statements (continued) for the year ended 31 December 2020

1. Statement of accounting policies (continued)

Basis of preparation (continued)

In addition, as the consolidated financial statements of Cobham plc include the equivalent disclosures, the following exemptions under FRS 101 have also been taken:

- share based payment disclosures under paragraphs 45(b) and 46 to 52 of IFRS 2, Share Based Payment in respect of group settled share based payments;
- details of assumptions as required by paragraphs 134 (d) to (f) and 135 (c) to (e) of IAS 36, Impairment of Assets; additional details where recoverable amount is fair value less costs of disposal as required by s 130(f)(ii) and 130(f)(iii) of IAS 36, Impairment of Assets;
- the cash flow disclosure requirements of paragraph 33 (c) of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations; and
- Financial instrument information required by IFRS 7, Financial Instruments: Disclosures and paragraphs 91 to 99 of IFRS 13, Fair value measurement except those which are relevant for the financial instruments which are held at fair value are and neither held as part of a trading portfolio or derivatives.

The financial statements contain information about FR Aviation Limited as an individual company and do not contain consolidated financial information as the parent undertaking of a group. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it, and its subsidiary undertakings, are included by full consolidation in the consolidated financial statements of its former ultimate parent company (Cobham Limited, for the period to 25 September 2020) and ultimate parent company at the year end, Draken UK Bidco Limited (for the period after 25 September 2020), which are publicly available (see note 28).

Accounting developments

There were a number of narrow scope amendments to existing standards which were effective from 1 January 2020. None of these had a material impact on the Company. There were no changes to previously published accounting policies or other adjustments required on the adoption of these standards, amendments and interpretations.

Non-GAAP measure

In addition to the information required by IFRS and to assist with the understanding of earnings trends, the Group has included within its financial statements a non-IFRS measure referred to as Adjusted EBITDA. The Directors consider that Adjusted EBITDA reflects the trading performance of the Company's operations as it focuses on the underlying trading activity of the Company by excluding the impact of financing and capital expenditure. Adjusted EBITDA is Operating Profit/(Loss) before depreciation, amortisation, non-cash charges such as asset impairments, acquisition related expenditure and exceptional costs. Exceptional costs are defined as those material either by size or nature or non-recurring. Adjusted EBITDA is reconciled to Operating Loss on page 11. Comparatives for the prior year have also been presented for the first time.

Going concern

In considering the going concern status of the Company, the directors have also considered the going concern position of the Draken Europe Group, as it controls the resources of the entire Group (with banking cross guarantees in place) as well as the Draken US Group to the extent it applies to guarantee arrangements in place impacting the Company.

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Going concern (continued)

The COVID-19 pandemic became a worldwide crisis during 2020 and, at the date of this report, the situation was still evolving. The Group has implemented a series of prevention and protection measures and is constantly monitoring compliance with decisions and recommendations from local public authorities. To date, the Group has managed to maintain operational output and has not had to rely on Government support schemes, such as furloughing of employees.

COVID-19 reinforces uncertainties in the global economic context and markets; the long-term impact for the Group is difficult to assess and will depend on the magnitude, duration and geographic extent of this pandemic and extent to which Government authorities decide to make budgetary changes to aid economic recovery.

When assessing the going concern status of the Company and the Group, the directors have:

- Considered the cash position of the Group being £26 million as at the year-end date and £18 million as at August 2021. Also, considered the cash generative nature of the business model, revenues which are secured by long-term contracts and credit worthiness of the Group's customer base.
- Reviewed the Group's cash reserves and forward-looking cashflow forecast, taking into account the strategic forward-looking plan (with the base case taking into account only revenue already secured under contract through 2021 and 2022) and applying stress tests on its cash position. These have also included assuming the most severe but plausible scenarios, such as significantly reduced flying hours on contracts with variable revenue and the loss of a key customer contract which combined would result in the Group's gross margin reducing by 25%, with administrative expenses remaining constant. In these cases, the Directors have confirmed that the Group would be able to continue to operate and settle liabilities as they fall due for a period of at least 12 months through to 30 September 2022 (the "going concern period"). For cash reserves to be depleted, the Group would need to see both its most significant contract and several smaller contracts end in the going concern period. This combination is considered to have a remote probability and is before taking any controllable mitigating actions (such as restructuring and sale of surplus assets).
- Considered the likelihood of guarantees in place of the broader Draken US Group's banking and credit facilities (note 26), to which the Company and certain subsidiaries are guarantors, being called in the going concern period. The Directors are satisfied that the likelihood of these guarantees being called during this period is remote based on their understanding of the cashflow projections of the Draken US Group and the continued support provided to the Draken US Group by its shareholders.

On this basis, the Directors have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Management judgement and estimation uncertainty

The preparation of financial statements requires the use of judgements and estimates that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.

These judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting judgements and estimates, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Management judgement and estimation uncertainty (continued)

Significant judgements in applying accounting policies

There were no significant judgements, apart from those involving estimations, that the directors made in the process of applying the Company's accounting policies which require separate disclosure in these financial statements.

Assumptions and estimation uncertainties

The directors consider that there are a number of assumptions concerning the future and other major sources of estimation uncertainty at the balance sheet date, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The key assumptions and estimation uncertainties are as follows:

- Revenue recognition (note 2) (refer to Revenue policy below);
- Valuation of investments (note 13) (assumptions are made in assessing the carrying value of investments by reference to future discounted estimated cash flows);
- Valuation of pension assets and liabilities (note 24) (assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates, up to the date that the Company ceased to be a participating employer following its sale to Draken UK Bidco Limited in the year);
- Inventory provisions (note 14) (recognition and measurement of provisions for obsolete, slow moving and defective items of inventory).

Significant accounting policies

The principal accounting policies, which have been applied consistently throughout the year are set out below.

Revenue

Under IFRS 15, Revenue from Contracts with Customers, a five-step process must be applied before revenue can be recognised:

1. identify contracts with customers;
2. identify the separate performance obligations;
3. determine the transaction price of the contract;
4. allocate the transaction price to each of the separate performance obligations; and
5. recognise the revenue as each performance obligation is satisfied.

Contracts are assessed to identify each promise to transfer either a distinct service or a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract.

The transaction price is measured based on the consideration specified in a contract with a customer other than when variable consideration is relevant, as referred to in the table below. Where a transaction price has to be allocated between multiple performance obligations, this is generally achieved through allocating a proportion of total price against each using estimated costs plus a margin methodology.

Where revenue is recognised in advance of customer billings, this is reported as a contract asset (described as unbilled amounts). Where cash is received from the customer in advance of recognising revenue under a contract, a contract liability is recorded (advance payments from customers).

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Revenue (continued)

In practice, the Company has the following categories of contracts (where further details were given below for step 2 and 5 or each category):

Performance obligations	Recognition method	Level of estimation / judgement
Provision of flight operation and engineering services (including single-sourced contracts) Performance obligations can include: - Provision of aircraft availability (stand-ready obligation); and - Customer-funded mobilisation activities (during the early stages of new contracts); and - Delivery of flying services (aircraft operated by Draken employees).	Revenue for the provision of aircraft availability or mobilisation activities is recorded over-time as the customer simultaneously receives and consumes the benefits provided by Draken's performance (for example by the aircraft being maintained and kept available, the customer can use the aircraft as and when required). Revenue recognised over time is measured in accordance with the input method (i.e. based on costs). Under most of the Company's contracts, the customer pays in accordance with a prearranged payment schedule or once milestones have been met. These contracts typically have allowable costs and a profit rate agreed with the customer at inception, with gain share mechanisms whereby excess additional profits (or losses) at the end of the contract are shared with the customer in line with contractually agreed levels. Some also have KPI regimes which can result in deductions being applied to customer billings. On these contracts, revenue is recorded at the initially approved levels which is based on cost incurred plus the contractual margin, until such time that it is probable that the profit outturn of the contract will be different to the as-bid position, considering likely gain shares payable back to the customer where necessary. KPI deductions are recorded as a reduction to revenue as incurred. Variable revenue for flying services (where Draken are operating the aircraft) are recorded as the services are performed. These flying hours are normally billed separately to the customer in the month following the services.	The key judgements in recognising revenue on these contracts are appropriate allocation and recording of allowable costs, and likelihood of gain share mechanisms being triggered. There is minimal judgement for variable flying revenue or KPI deductions as they are agreed with the customer monthly (for the preceding month) and billed (or adjusted for as a deduction) in the month following service delivery.
Other contracts Performance obligations typically relate to provision of engineering services.	These contracts generally have a fixed fee agreed with the customer (often billed monthly) and no gain share mechanisms. Revenue is recognised over time, as the service is delivered to the customer.	There are limited judgements on these contracts as revenue is recorded per the contracted amounts.

Current and deferred taxation

The tax expense is the sum of current tax and deferred tax. Tax is charged or credited to the income statement except when it relates to items recognised in other comprehensive income (OCI) or directly in equity, in which case the tax is also recognised in OCI or directly in equity respectively.

Current tax is provided at the amounts expected to be paid using rates that have been enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Current and deferred taxation (continued)

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. It is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply in the period in which the asset is realised or liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Intangible assets

Intangible assets such as licences, patents and know-how are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs have been amortised over their estimated useful lives of three to five years, with this amortisation included within administrative expenses in the income statement. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at historic cost, less accumulated depreciation and any recognised impairment losses. Cost comprises the purchase price and any costs directly attributable to the asset.

All property, plant and equipment, is depreciated on a straight-line basis to the estimated residual values over estimated useful lives. These lives are as follows:

Leasehold properties (long lease)	50 years
Plant and machinery (including aircraft and vehicles)	3 to 10 years
Fixtures, fittings, tools and equipment	3 to 8 years

Estimated residual values and the estimated useful lives are reviewed annually and adjusted where necessary. Assets under construction are held at cost and transferred to the appropriate category of property, plant and equipment once construction is complete and they enter into service. They are depreciated from this point in accordance with the policies described above.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Right-of-use assets

Right-of-use assets are reported within property, plant and equipment on the balance sheet.

The initial cost of right-of-use assets includes the amounts of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term (ranging from three years up to 75 years) and the useful economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Investments

Investments are stated at cost, less any provision for impairment in value.

The carrying amounts of the investments are reviewed at least annually to determine whether there is any indication of impairment. Where there is an indication of impairment, the recoverable amount is estimated. This is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. This is prepared with reference to cash flow forecasts prepared by management and reviewed by Board. The growth rates used after this period are based on long term GDP projections of the primary market for each investment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

Pension costs

During the year the Company contributed to the Cobham Pension Plan (CPP), a multi-employer defined benefit pension scheme operated by Cobham Limited, the assets of which are held separately in trustee administered funds. The assets and liabilities of the CPP have been allocated to the contributing companies based on the proportional number of members. The Company also contributed to a defined contribution scheme operated by Cobham Limited during the year. Following the sale to Draken UK Bidco Limited, the Company left the Cobham Pension Plan and now contributes and operates a replica defined contribution scheme. The defined benefit obligations remain with Cobham Limited and the Company was not required to make any payment on exit.

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Pension costs (continued)

For the defined benefit scheme in the period to 25 September 2020, current service costs and costs related to the administration of the scheme are charged to operating profit. Past service costs are recognised in the income statement. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements up to the date of cessation have been recognised immediately in OCI. On cessation of the Company's participation in the plan, the net liability at the date of exit was transferred to the income statement and charged to operating profit. The Company estimated the net liability at 25 September 2020 by apportioning the full year IAS 19 returns prepared by the Actuary for the relevant time period on a straight line basis.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. There is no defined benefit asset or liability at the year end, since the Company is no longer a member of the Cobham Pension Plan.

For the defined contribution scheme, contributions are charged to the income statement as they fall due.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and where the amount can be reliably measured.

No provision is recognised where the existence of an obligation is possible but will only be confirmed by uncertain future events.

Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, Financial Instruments, and are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value at trade date. All financial assets and liabilities are classified as current or non-current dependent upon the maturity date of the instruments. Financial assets and liabilities are presented on an offset basis when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets

On initial recognition, financial assets are classified as being subsequently measured at either amortised cost or fair value dependent upon the Company's business model for managing the asset and its cash flow characteristics. Financial assets are not reclassified following initial recognition unless the Company changes its business model for managing financial assets.

Financial assets are deemed to be held under one of three business models:

1. Hold to collect – where the business objective is to hold the asset to collect the contractual cash flows;
2. Hold to collect and sell - where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
3. Other

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements (continued)
for the year ended 31 December 2020
1. Statement of accounting policies (continued)

Financial instruments (continued)

The Company does not have any financial assets held within a hold to collect and sell business model.

All other financial assets, including derivative financial instruments, are held at fair value though profit or loss.

Amortised cost is measured using the effective interest method. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Impairment of financial assets

The Company recognises the lifetime expected credit losses at the point of initial recognition for trade receivables and contract assets (under IFRS 15). These are assessed with reference to past default rates, also reflecting forward looking information such as local economic or market conditions and a provision matrix where appropriate.

For other financial assets, a loss allowance is recognised for expected credit losses taking into account changes in the level of credit risk. Where credit risk is considered to be low, the loss allowance is limited to expected losses arising from default events that are possible within 12 months from the balance sheet date.

Impairments are charged to administrative expenses in the Income Statement.

Financial liabilities

Subsequent to initial recognition, financial liabilities are classified as measured at fair value through profit or loss, or at amortised cost using the effective interest method.

Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and foreign exchange contracts are used to reduce these exposures. The Company does not use derivative financial instruments for speculative purposes.

Foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies are not accounted for using hedge accounting principles. These derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Movements in fair value of the derivative financial instruments are included in the income statement within operating costs.

The fair values of derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates.

The fair value is classified as a current or non-current asset or liability dependent upon the maturity date of the financial instrument.

Trade and other receivables

Trade and other receivables are stated at their amortised cost, net of impairment loss allowances. Where there is clear evidence that the receivable will not be recovered, and generally where receivables are in excess of 12 months old, the balance is written off in full. Impairments are charged to operating costs in the income statement.

Trade payables

Trade payables do not carry any interest and are stated at their nominal value.

Notes to the financial statements (continued)
for the year ended 31 December 2020

1. Statement of accounting policies (continued)

Foreign currencies

Transactions denominated in currencies other than the functional currency are translated at an average monthly rate of exchange which approximates to the actual daily rate throughout the year.

Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date. All exchange differences are dealt with in administrative expenses in the income statement.

Lease obligations

Lease obligations are recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Company. The lease obligation is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease obligations is re-measured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The option not to apply IFRS 16 to leases with a term of 12 months or fewer and low value leases has been taken.

Share-based payments

For grants made under the Cobham group's equity share based payment schemes, amounts which reflect the fair value of awards made to employees of the Company as at the time of grant are charged to the income statement over the relevant vesting periods, taking into account management's best estimate of the number of awards expected to vest. The vesting estimate, which includes progress against non-market related performance conditions, is reviewed and updated at each balance sheet date. The excess of the charge over any amounts paid to Cobham Limited for these awards is recognised as a capital contribution in equity.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

2. Revenue

All sales are deemed as being attributable to the Company's principal activity of air defence training, additional flying activities and aircraft engineering.

All revenue is derived from the sale of services and an analysis by geographical destination is given below:

	2020 £000	2019 £000
United Kingdom	**46,225**	55,815
Other EU countries	**834**	2,110
Rest of the world	**663**	13,674
	47,722	71,599

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Operating profit

Operating profit is stated after charging / (crediting):

	2020 £000	2019 £000
Depreciation		
- owned assets	**559**	3,347
- right-of-use assets	**459**	133
Amortisation of intangible assets	**75**	36
Dividend received from subsidiary undertaking (note 13)	**(6,500)**	-
Impairment of investments in subsidiaries (note 13)	**39,300**	-
Profit on disposal of business	**-**	(4,760)
Bid costs	**197**	1,722
Material cost included in cost of sales	**2,105**	1,326
Net loss on derivative financial instruments	**-**	514
Exchange differences	**(227)**	(63)
Auditors' remuneration for the audit of the Company's financial statements	**192**	33

Fees paid to the Company's auditors, Ernst & Young LLP and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements since the non-audit fees are disclosed on a consolidated basis in the consolidated group financial statements of both Cobham Limited and Draken UK Bidco Limited for the 9 month period to 25 September 2020 and the 3 month period from that date to 31 December 2020 respectively.

In the prior year, on 20 December 2019, the Company sold its development engineering value stream (which comprised a number of ongoing customer contracts) to Chelton Limited for consideration of £4,760,000.

4. Finance income

	2020 £000	2019 £000
Interest on net pension scheme liabilities	**11**	-
Bank interest receivable	**94**	363
Amounts received from former parent undertaking	**378**	-
Amounts received from subsidiary undertakings	**308**	-
	791	363

5. Finance costs

	2020 £000	2019 £000
Bank interest	**60**	-
Interest on net pension scheme liabilities	**-**	66
Interest payable to former group undertakings	**290**	-
Interest on lease obligations	**335**	480
	685	546

6. Tax on profit/(loss) on ordinary activities

Tax charged in the income statement:

	2020 £000	2019 £000
Current tax:		
UK corporation tax on profit for the year	**896**	2,531
Adjustment in respect of previous years	**(77)**	(28)
Total current tax	**819**	2,503
Deferred tax:		
Charge for the year	**96**	(39)
Total deferred tax (note 23)	**96**	(39)
Tax on (loss) / profit on ordinary activities	**915**	2,464

Notes to the financial statements (continued)
for the year ended 31 December 2020
6. Tax on profit/(loss) on ordinary activities (continued)

Tax expense included in OCI:

	2020 £000	2019 £000
Deferred tax:		
Actuarial gain on defined benefit retirement benefit obligations	**936**	240

Tax expense/(income) included in equity:

	2020 £000	2019 £000
Deferred tax:		
Timing differences relating to share-based payments	**-**	(278)

The tax on (loss) / profit on ordinary activities can be reconciled to the accounting profit as follows:

	2020 £000	2019 £000
(Loss) / profit on ordinary activities before taxation	**(29,187)**	16,522
(Loss) / profit on ordinary activities multiplied by the standard rate in the UK of 19.00% (2019: 19.00%)	**(5,545)**	3,139
Tax effect of amounts which are not deductible / (taxable) for tax purposes:		
Other income	**(6)**	(796)
Impairment of investment in subsidiary undertakings	**7,467**	-
Income from subsidiary undertaking	**(1,235)**	-
Share based payments	**311**	149
Adjustment in respect of previous years	**(77)**	(28)
Total tax on (loss) / profit on ordinary activities	**915**	2,464

The main rate of corporation tax has been 19% since 1 April 2017. The closing deferred tax balances have been valued at 19%. The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. To help strengthen the public finances there will be an increase in the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the company's deferred tax balances.

Notes to the financial statements (continued)
for the year ended 31 December 2020

7. Directors' emoluments

The emoluments of the directors employed by the Company are:

	2020 £000	2019 £000
Aggregate emoluments	**4,042**	622
Aggregate amounts paid in respect of money purchase pension schemes	**43**	71
	4,085	693

During the year all but one of the directors were employed by and received emoluments from the Company (2019: three). The other director is engaged under on a non-executive basis.

During the year, three directors received long term incentive plan emoluments following the closure of the arrangement after Cobham Limited's acquisition by Advent International (note 9). Of the emoluments disclosed above, £2,777,000 was paid to the Directors by the Company's former shareholder Cobham Limited and is not recorded as an expense in the Company's financial statements.

Three directors contributed to the Company's money purchase pension schemes during the year (2019: three). None of the directors were member of the defined benefit pension arrangement run by previous shareholder Cobham Limited (2019: none) (note 24).

Highest paid director

	2020 £000	2019 £000
Total emoluments including amounts accruing under long-term incentive schemes	**3,277**	308
Company contributions paid to money purchase pension schemes	**-**	37

The highest paid director received cash under long term incentive plans during the current year, as noted above.

8. Employee costs

	2020 £000	2019 £000
Wages and salaries	**19,021**	18,281
Share based payments (note 9)	**-**	193
Social security costs	**2,177**	1,843
Pension costs (note 24)	**5,367**	3,608
	26,565	23,925

Notes to the financial statements (continued)
for the year ended 31 December 2020

8. Employee costs (continued)

The average monthly number of employees (including executive directors) employed by the Company during the year was:

By activity	2020	2019
Operations and engineering	**248**	231
Marketing	**12**	11
Management and administration	**92**	78
	352	320

9. Share-based payments

As a result of the acquisition of Cobham Limited (formerly Cobham plc) by Advent International in January 2020 all employee share schemes vested and the schemes ceased.

The PSP scheme allowed for annual grants of conditional shares and nil-cost options with vesting conditions based on the Cobham group's financial performance. The RSP scheme provided conditional shares which vested up to three years after grant, based only upon continued employment within the Cobham group.

The Cobham Savings Related Share Option Scheme (ShareSave) was an HMRC approved savings related share option plan open to all UK employees. Participating employees contributed to a monthly savings plan and after an agreed period of at least three years, employees had the option to use these savings plus interest to purchase Cobham shares at 80% of the market price on the date of grant.

There were no awards outstanding under each of the schemes at 31 December 2020.

	2020	2019
PSP	-	739,241
RSP	-	46,998
ShareSave	-	658,325
Total awards outstanding at 31 December	-	1,444,564

Options outstanding at 31 December 2019 under the ShareSave scheme had a weighted average remaining contractual life of 0.7 years and exercise prices which range from £1.10 to £1.78. Exercises of awards under the ShareSave scheme were made at various times throughout the prior year. The average share price in that period was £1.33.

Notes to the financial statements (continued)
for the year ended 31 December 2020

10. Dividends

	2020 £000	2019 £000
Dividend in specie of £5,853,000 per share (2019: £nil)	**5,853**	-
Final dividend for year of £nil (2019: £1,000,000 per share)	-	1,000
	5,853	1,000

In July 2020 the Company acquired Précision Aviation Industries from another Cobham Limited entity for consideration of €6,400,000 (£5,853,000). This entity was subsequently distributed back to FR Aviation Group Limited (the Company's former immediate parent undertaking) in the form of a dividend in specie of an equivalent value prior to the Company's acquisition by Draken UK Bidco Limited. No other dividends were paid in the year (2019: final dividend of £1,000,000).

11. Intangible assets

	Software & Licences
Cost	**£'000**
At 1 January 2020	1,253
Additions	48
Disposals	-
At 31 December 2020	**1,301**
Accumulated amortisation	
At 1 January 2020	1,225
Charge for the year	75
Disposals	-
At 31 December 2020	**1,300**
Carrying amount	
At 31 December 2020	**1**
At 31 December 2019	28

Notes to the financial statements (continued) for the year ended 31 December 2020

12. Property, plant and equipment

	2020 £000	2019 £000
Owned property, plant and equipment	**7,234**	4,101
Right-of-use assets	**3,751**	2,147
	10,985	6,248

Owned property, plant and equipment

	Leasehold land and buildings (long lease) £000	Plant and machinery (including vehicles) £000	Fixtures, fittings, tools and equipment £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2020	7,717	12,067	3,630	-	23,414
Additions	-	2,866	582	246	3,694
Disposals	-	(11)	-	-	(11)
At 31 December 2020	**7,717**	**14,922**	**4,212**	**246**	**27,097**
Accumulated depreciation					
At 1 January 2020	4,345	11,399	3,569	-	19,313
Charged in the year	118	356	85	-	559
Disposals	-	(9)	-	-	(9)
At 31 December 2020	**4,463**	**11,746**	**3,654**	**-**	**19,863**
Carrying amount					
At 31 December 2020	**3,254**	**3,176**	**558**	**246**	**7,234**
At 31 December 2019	3,372	668	61	-	4,101

Notes to the financial statements (continued)
for the year ended 31 December 2020

12. Property, plant and equipment (continued)

Right-of-use assets

	Leasehold land & buildings (long lease) £000	Plant and machinery (including vehicles) £000	Fixtures & fittings, tools and equipment £000	TOTAL £000
Cost				
At 1 January 2020	3,554	59	102	3,715
Additions	237	2,093	-	2,330
Disposals	(312)	(19)	(102)	(433)
At 31 December 2020	**3,479**	**2,133**	**-**	**5,612**
Accumulated depreciation and impairment				
At 1 January 2020	1,409	57	102	1,568
Charge for the year	90	369	-	459
Disposals	(45)	(19)	(102)	(166)
At 31 December 2020	**1,454**	**407**	**-**	**1,861**
Carrying amount				
At 31 December 2020	**2,025**	**1,726**	**-**	**3,751**
At 31 December 2019	2,145	2	-	2,147

Notes to the financial statements (continued) for the year ended 31 December 2020

13. Investments

	Shares at cost £000
Cost	
At 1 January 2020	1,757
Additions	92,164
Disposals	(5,766)
At 31 December 2020	**88,155**
Impairment	
At 1 January 2020	1,757
Charged in the year	39,300
At 31 December 2020	**41,057**
Net book amount	
At 31 December 2020	**47,098**
At 31 December 2019	-

On 20 July 2020, the Company acquired direct shareholdings in a number of fellow group companies that were previously held by FR Aviation Group Limited 9the previous immediate parent) for a total consideration of £86,398,000 (net cash paid £52,457,000 leaving £33,941,000 on an intercompany loan account). This intercompany loan was settled on the Company's behalf on acquisition in September 2020 by Draken UK Bidco Limited, creating a new loan with that company. In December 2020, £30,000,000 of the new loan was capitalised (note 25).

Also on 20 July 2020, the Company acquired 100% of the share capital of Precision Aviation Industries s.a.r.l (PAI) for cash consideration of €6,400,000 from Lockman Electronics Holdings Limited (a Cobham Limited company). PAI holds a 45% joint venture stake in Aviation Defense SA, a French legal entity. On 21 September 2020, prior to the Company's sale to Draken UK Bidco Limited, the Company distributed its holding in PAI back to FR Aviation Group Limited by dividend in specie for the same value as the original purchase (€6,400,000). A profit on disposal of £87,000 was recognised on disposal as a result of movements in foreign exchange rates between these two transactions.

In December 2020, the Company received a dividend from Draken Leasing Limited (formerly Cobham Leasing Limited) of £6,500,000. That dividend transaction reduced the net assets of Draken Leasing Limited such that an impairment of an equal value was recorded against the Company's investment in that entity.

In March 2021, the UK Government announced that the E-3D Sentry programme would be ended in 2021. FR Aviation Services Limited ("FRAS") has a material contract on the E-3D Sentry programme and while the directors of FRAS continue to pursue other customer and contract opportunities, the Company has recorded an impairment to its investment of £16,000,000.

FB Heliservices Limited has experienced impacts from COVID-19, specifically a downturn in its international defence training Helicopter Academy business, caused in large part to continued travel restrictions. As a result, the Company has recorded an impairment to its investment of £16,800,000. No other impairments of investments have been identified.

Notes to the financial statements (continued) for the year ended 31 December 2020

13. Investments (continued)

The investments held at the year end were:

Company name	Registered office address	Principal activity	Shareholding %
F R Aviation Services Limited	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Defence activities	100
Draken Leasing Limited (formerly Cobham Leasing Limited)	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Leasing	100
F B Heliservices Limited	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Defence activities	100
F B Leasing Limited	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Leasing	100
Draken Aviation Services International Limited (formerly Cobham Aviation Services International Limited)	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Non-trading	100
Draken International Limited (Formerly Cobham Flight Inspection Limited)[2]	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Non-trading	100
FBS Limited[2]	Bournemouth Airport, Hurn, Christchurch, Dorset BH23 6NE	Non-trading	100
Draken Helicopters Cyprus Limited (formerly FBH Cyprus Limited)[1]	12 Kennedy Avenue, Kennedy Business Centre, 2nd Floor, Office 203, P.C. 1087, Nicosia, Cyprus	Provision of manpower	100
FB Heliservices Curacao N.V (formerly Cobham Helicopters Curacao N.V)[1]	Kaya W.F.G. (Jombi), Mensing 36 Curacao	Administrative services	100
Cobham Helicopter Services Trinidad Limited[1]	5-7 Sweet Briar Road, St Clair, Port of Spain, Trinidad	Non-trading	100
FB Heliservices B.V[1]	Strawinskylaan 411, WTC, Tower A, 4th Floor, 107XX Amsterdam, Netherlands	Non-trading	100
AFI Flight Inspection GmbH[1]	Hermann-Blenk-Straβe 8, 30108 Braunschweig, Germany	Non-trading	100
AFI Flight Inspection Holding[1] GmbH	Hermann-Blenk-Straβe 8, 30108 Braunschweig, Germany	Non-trading	100

[1] Investments are held indirectly through direct subsidiary companies
[2] These companies commenced a solvent liquidation process on 16 September 2021

14. Inventories

	2020 £000	2019 £000
Raw materials and consumables	**1,647**	1,371
Work in progress	**1,494**	958
	3,141	2,329

There is no significant difference between the replacement cost and the value of inventories shown. Included in raw materials and consumables is a provision of £2,284,000 (2019: £2,161,000).

15. Contract assets

	2020 £000	2019 £000
Unbilled amounts	**566**	3,524

Unbilled amounts relating to goods and services transferred are included in contract balances until they become unconditional, at which point they are transferred to trade receivables. Unbilled amounts arise when revenue is recognised prior to an invoice being raised to the customer; typically, this arises when revenue is recognised over time as payments often have milestone payments conditional on customer acceptances on progress. During the year £3,524,000 (2019: £4,417,000) of the opening contract asset was transferred to trade receivables; additional amounts of £566,000 were recognised as a contract asset during the year (2019: £3,524,000) as a result of changes in the measure of progress of the satisfaction of performance obligations.

16. Trade and other receivables

Current assets:

	2020 £000	2019 £000
Trade receivables	**831**	952
Amounts owed by fellow subsidiary undertakings	**1,885**	1,906
Derivative financial instruments (note 17)	**-**	78
Corporation Tax	**271**	-
Other receivables	**15**	13
Prepayments and accrued income	**1,848**	1,277
	4,850	4,226

Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable on demand.

16. Trade and other receivables (continued)

Non-current assets:

	2020 £000	2019 £000
Derivative financial instruments (note 17)	-	21
Amounts owed by fellow subsidiary undertakings	**20,281**	-
Deferred tax assets (note 23)	**836**	1,868
	21,117	1,889

Amounts owed by fellow subsidiary undertakings comprises two loans of £6,280,750 and £14,000,000 given to FB Heliservices Limited which carry interest at 2.86%. These balances are repayable on or after 30 June 2022 and 31 August 2022 respectively.

17. Derivative financial instruments

The Company has the following derivative financial instruments which are financial assets measured at fair value through profit or loss or financial liabilities categorised as held for trading:

	2020 £000	2019 £000
Non-current assets	-	21
Current assets	-	78
Non-current liabilities	-	(12)
Current liabilities	-	(73)
	-	14

The Company had no forward foreign currency contracts in place as at 31 December 2020.

Forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions in valuing the derivatives are the exchange rates for GBP: USD and GBP: EUR. Movements in fair value are reported in the income statement within administrative expenses.

18. Contract liabilities

Contract liabilities of £15,689,000 (2019: £8,031,000) reflect advance payments from customers of which £6,285,000 (2019: nil) is non-current and not expected to be recognised as revenue for more than one year. These are amounts received prior to delivering services to the customer. Of the contract liabilities held at the start of the year, £1,676,000 has been recognised in revenue during the year ended 31 December 2020.

Notes to the financial statements (continued)
for the year ended 31 December 2020

19. Current liabilities: Trade and other payables

	2020 £000	2019 £000
Trade payables	**1,585**	999
Amounts owed to fellow subsidiary undertakings	**5,487**	3,424
Derivative financial instruments (note 17)	**-**	73
Corporation tax	**-**	1,185
Other tax and social security	**951**	569
Accruals	**8,296**	7,416
	16,319	13,666

Amounts owed to fellow subsidiary undertakings are unsecured, interest free and are repayable on demand.

20. Non-current liabilities: Trade and other payables

	2020 £000	2019 £000
Derivative financial instruments (note 17)	**-**	12

21. Lease obligations

At 31 December 2020, as a lessee, the Company had the following lease obligations:

	2020 £000	2019 £000
Current	**522**	54
Non-current	**4,464**	3,329
	4,986	3,383

Notes to the financial statements (continued)
for the year ended 31 December 2020

22. Provisions

	Staff & operating cost provisions £000	Total £000
At 1 January 2020	88	88
Charged to the income statement	67	67
Utilised during the year	(40)	(40)
Unused amounts reversed in the year	(29)	(29)
At 31 December 2020	**86**	**86**

Staff and operating cost provisions

The Company has provided for certain costs likely to be incurred in meeting updated safety, operational and organisational requirements. Staff cost provisions include provisions which occur where certain employees and directors are offered relocation benefits on commencement of their positions, whereby the amounts recognised in the provision in the balance sheet represent the contracted allowances, less amounts claimed by the individuals, previously charged to profit and loss. All the amounts recognised are expected to be fully utilised during 2021.

There was an onerous contracts provision representing amounts due to third parties in respect of specific contractual arrangements in place at the previous year end which was reversed in full in 2019.

23. Deferred taxation

The following are the major deferred tax assets/(liabilities) recognised by the Company, and the movements thereon:

	Property, plant and equipment £000	Retirement benefit obligations £000	Revaluation of derivative financial instruments £000	Other £000	Total £000
At 31 December 2018	936	848	(29)	36	1,791
Credited / (charged) to the income statement	172	(135)	5	(3)	39
Credited / (charged) to OCI	-	(240)	-	-	(240)
Credited / (charged) to reserves	-	-	-	278	278
At 31 December 2019	1,108	473	(24)	311	1,868
(Charged) / credited to the income statement	(281)	463	24	(302)	(96)
(Charged) to OCI	-	(936)	-	-	(936)
At 31 December 2020	**827**	**-**	**-**	**9**	**836**

Other deferred tax balances comprise amounts relating to share-based payments and other short term timing differences.

Notes to the financial statements (continued) for the year ended 31 December 2020

24. Retirement benefit obligations

Pension costs included in employment costs in note 8 are as follows:

	2020 £000	2019 £000
Defined contribution scheme	**2,881**	2,828
Defined benefit scheme	**2,486**	-
	5,367	2,828

Defined contribution scheme

During the year The Company participated in the Cobham Personal Pension Plan until September 2020, a defined contribution scheme operated for companies within the Cobham group. By the year end, the Company had set up its own separate defined contribution scheme, with the same providers and on consistent terms with that operated historically by Cobham. The pension cost charged represents contributions payable by the Company to the funds and amounted to £2,881,000 (2019: £2,828,000). At 31 December 2020 there were no contributions outstanding (2019: £nil).

Defined benefit scheme	**2020 £000**	2019 £000
Defined benefit scheme assets	-	99,163
Defined benefit obligations	-	(101,646)
	-	(2,483)

The Company also participated in the defined benefit section of the Cobham Pension Plan (CPP) operated by Cobham Limited until September 2020. The scheme was of the funded defined benefit type (where benefits are based on employees' length of services and average final salary) and its assets are held in a separate trustee administered fund. It had been closed to new members since 2003 and closed to future accrual from 1 April 2016. Following the Company's acquisition by Draken UK Bidco Limited on 25 September 2020, the Company has been released as a participating employer of the CPP and has no further obligations thereunder.

The Company continued paying deficit contributions into the CPP until its acquisition by Draken UK Bidco Limited in September 2020. There were no significant contributions outstanding at the end of 2020 or 2019.

A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates. However, given the Company is no longer part of the defined benefit arrangement following its acquisition, there is no ongoing risk to the Company. Full details of the Scheme along with historic assumptions used can be found in the Company's 2019 financial statements.

Notes to the financial statements (continued)
for the year ended 31 December 2020
24. Retirement benefit obligations (continued)

Analysis of amount charged to the income statement within exceptional costs:

	2020	2019
	£000	£000
Past service cost	**43**	-
Transfer to income statement following cessation of Company liability	**2,443**	-
	2,486	-

Analysis of amount (credited) to other finance income / charged to other finance expense:

	2020	2019
	£000	£000
Net interest	**(11)**	66

Analysis of amount recognised in OCI:

	2020	2019
	£000	£000
Actual return less interest income on scheme assets	**16,721**	10,261
Actuarial losses arising from changes in financial assumptions	**(12,496)**	(9,968)
Actuarial gains arising from changes in demographic assumptions	**147**	971
Amounts recognised in OCI	**4,372**	1,264

Changes in the fair value of scheme liabilities are as follows:

	2020	2019
	£000	£000
Fair value of scheme liabilities at the beginning of the year	**101,646**	93,970
Past service cost	**43**	-
Interest cost	**1,535**	2,496
Actuarial losses arising from changes in financial assumptions	**12,496**	9,968
Actuarial gains arising from changes in demographic assumptions	**(147)**	(971)
Benefits paid	**(2,912)**	(3,817)
Transfer to income statement following cessation of company liability	**(112,661)**	-
Fair value of scheme liabilities at the end of the year	**-**	101,646

Notes to the financial statements (continued)
for the year ended 31 December 2020

24. Retirement benefit obligations (continued)

The weighted average duration of the scheme liabilities is estimated to be 16 years.

Changes in the fair value of scheme assets are as follows:

	2020	2019
	£000	£000
Fair value of scheme assets at the beginning of the year	**99,163**	89,509
Interest	**1,546**	2,430
Actuarial gains	**16,722**	10,261
Contributions by employer	**585**	780
Benefits paid	**(2,912)**	(3,817)
Transfer to income statement following cessation of company liability	**(115,104)**	-
Fair value of scheme assets at the end of the year	-	99,163

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2020		2019	
	£000	**%**	£000	%
Global equities	-	-	12,198	12.3%
Liability driven investments	-	-	16,419	16.6%
Corporate bonds	-	-	9,350	9.4%
Property	-	-	4,277	4.3%
Insurance contracts	-	-	31,003	31.3%
Diversified growth funds	-	-	15,700	15.8%
Other assets	-	-	10,216	10.3%
	-	-	99,163	100.0%

Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company. None of the scheme assets are quoted in an active market. The above, except for the insurance contracts assets, are pooled investment vehicles and are valued based on bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads based on valuations provided by the investment manager. Insurance contracts are valued based on the valuation of the liabilities insured.

Notes to the financial statements (continued)
for the year ended 31 December 2020

25. Share capital and reserves

Share capital –allotted, called up and fully paid

	Ordinary shares of £1 each			
	2020	2019	**2020**	2019
	No	No	**£000**	£000
At 1 January 2020	**1,000**	1,000	**1**	1
Issued for cash	**300,000**	-	**300**	-
At 31 December 2020	**301,000**	1,000	**301**	1

In December 2020, the issue of 300,000 ordinary £1 shares at a price of £100 per share was approved by the Board of Directors (£30,000,000), converting a substantial part of an intercompany loan between Draken UK Bidco Limited and the Company into equity (note 13).

Share premium

	2020	2019
	£000	£000
At 1 January 2020	**-**	-
Issue of share capital in year	**29,700**	-
At 31 December 2020	**29,700**	-

Other reserve

The other reserve related to share-based payments awarded to certain employees of the Company by the previous ultimate parent undertaking, Cobham Limited (note 9). Following Cobham Limited's acquisition by Advent International in January 2020, all share awards were settled and the schemes ceased at that point. The remaining reserve balance has subsequently been transferred into retained earnings.

Notes to the financial statements (continued)
for the year ended 31 December 2020

26. Contingent liabilities

Prior to the Company's acquisition by Draken UK Bidco Limited in September 2020, the Company was a participant in the Cobham group banking arrangement under which all surplus cash balances are held as collateral for bank facilities advanced to group members. In addition, the Company had issued an unlimited guarantee to support these group facilities. The Company was released from all obligations in connection with the Cobham group banking arrangement in September 2020.

Since the year end, the Company has become a participant in the Draken Europe group banking arrangement which includes a Bond, Guarantee and Indemnity credit facility. The Company has issued an unlimited guarantee to support these group facilities.

On December 30, 2020, the Company's Intermediate Parent, Draken International LLC ("Draken International") secured a $140.6 million term loan (consisting of a USD loan of $84.0 million and GBP loan of £41.4 million) as well as $50.0 million Revolving Credit Facility ("RCF") with a group of lenders led by Bank of America, N.A. (the "Credit Agreement").

On 18 March 2021, the Company's became a co-borrower and guarantor of Draken International's $50.0 million RCF under the Credit Agreement. In addition, certain subsidiaries of the Company, including FR Aviation Services Limited, Draken International Limited, FB Heliservices Limited, FB Leasing Limited and Draken Leasing Limited together with Company's parent entity Draken UK Bidco Limited (collectively the "UK Parties"), joined as guarantors of the Company's obligations under the Credit Agreement. In connection with this event, each of the UK Parties granted a first-ranking security deed over substantially all of its assets dated 18 March 2021 governed by English law in favour of Bank of America, N.A. to secure its obligations under the Credit Agreement. Certain assets, including aircraft, were excluded from the security granted. The UK Parties only guarantee the RCF to the extent it has been incurred by the Company. At the year end and time of approval of these financial statements, no amounts had been drawn down by the Company.

At the year end, Draken UK Bidco Limited (the Company's parent entity) had a promissory note with Draken Cayman, a fellow group subsidiary of the Draken US group. On 18 March 2021, the promissory note was amended and restated (now referred to as the "Note") to add certain subsidiaries of the Draken UK Bidco, including the Company and the other UK Parties as guarantors. Each of the UK Parties also entered into a second-ranking security deed dated 19 March 2021 governed by English law in favour of Draken Cayman to secure their obligations under the Note. Draken Cayman's interest in this Note is pledged by it to secure certain of its intercompany debt owed by Draken International, which is turn is pledged as security by Draken International under the Credit Agreement. As such, in the event that Draken International were to default on its obligations under the Credit Agreement, the lenders may exercise rights and remedies against the UK Parties through the Note.

27. Capital commitments

The Company had capital commitments for the purchase of property, plant and equipment contracted for but not provided of £90,000 at 31 December 2020 (2019: £54,000).

Notes to the financial statements (continued)
for the year ended 31 December 2020

28. Immediate and ultimate parent undertakings

The Company's immediate parent undertaking at the year end was Draken UK Bidco Limited. At the balance sheet date, the Company's parent company Draken UK Bidco Limited was the smallest and largest group to consolidate these financial statements (for the period from 25 September 2020 to 31 December 2020) where consolidated financial statements are publicly available. Copies of the Draken UK Bidco Limited consolidated financial statements can be obtained from the Company Secretary at Draken UK Bidco Limited, Bournemouth International Airport, Hurn, Christchurch, Dorset BH23 6NE.

Prior to the Company's acquisition by Draken (for the period from 1 January 2020 to 25 September 2020), the Company was part of the Cobham Limited group. While under Cobham ownership, AI Convoy (Luxembourg) S.à r.l. was the smallest and largest group to consolidate these financial statements. Copies of the AI Convoy (Luxembourg) S.à r.l., consolidated financial statements can be obtained from the registered office at 2-4 rue Beck, Luxembourg, LU 1222.

At the date of approval of these accounts, the ultimate holding company is BTO Draken Holdings III – NQ L.L.C and the ultimate controlling party is Grannus Holdings Manager – NQ L.L.C (both incorporated in the United States).

29. Related party disclosures

The Company has undertaken transactions with the following related party on an arm's length basis. Activity during the year and balances at the year end were as follows:

	2020 Purchases in year £000	**2020 Creditor balances £000**	2019 Purchases in year £000	2019 Creditor balances £000
Aviation Defense SA	156	-	351	-

	2020 Sales in year £000	**2020 Debtor balances £000**	2019 Sales in year £000	2019 Debtor balances £000
Aviation Defense SA	-	-	5	-

At the beginning of the period, Aviation Defense SA was a joint venture company of a fellow subsidiary undertaking of Cobham Limited. On 9 February 2021, the Company's immediate parent entity, Draken UK Bidco Limited, acquired 100% of the share capital of Précision Aviation Industries, which holds the 45% shareholding in Aviation Defense Service SA (AvDef), from Cobham Limited.

30. Events after the balance sheet date

Guarantees entered into since the balance sheet date are set out in note 26.

In March 2021, the UK Government announced that the E-3D Sentry programme would be ended in 2021. One of the Company's investments, FR Aviation Services Limited ("FRAS") has a material contract on the E-3D Sentry programme and while the directors of FRAS continue to pursue other customer and contract opportunities, the Company has recorded an impairment of £16,000,000 as an adjusting post-balance sheet event.

As highlighted in the strategic report and note 13, FB Heliservices Limited (one of the Company's investments) has experienced impacts from COVID-19, specifically a downturn in its international defence training Helicopter Academy business, caused in large part to continued travel restrictions. As a result, an impairment of £16,800,000 has been recorded. Since the year end, a decision was taken to close the Helicopter Academy business.