

L3 CTS Airline and Academy Training Limited

Annual report
for the year ended 3 January 2020

Company registered number: 09592088

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L3 CTS Airline and Academy Training Limited
Annual report
Contents

	Page
Officers and professional advisors	1
Strategic report	2 – 4
Directors' report	5 – 7
Independent Auditors' report	8 – 10
Profit and loss account	11
Balance sheet	12
Statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the financial statements	15 – 28

L3 CTS Airline and Academy Training Limited
Officers and professional advisors

Directors

C T Collins
A E Crawford
T W Gautier
R G Glover-Faure
M S Weingast

Registered office

100 New Bridge Street
London
EC4V 6JA

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street Crawley
Gatwick
West Sussex
RH10 1BG

L3 CTS Airline and Academy Training Limited

Strategic report for the year ended 3 January 2020

The Directors present their Strategic report on L3 CTS Airline and Academy Training Limited ("the Company") for the year ended 3 January 2020.

Review of the business

The principal activities of the Company are the provision of aviation services, including pilot training, and resourcing to the aviation industry.

L3 CTS Airline and Academy Training Limited is part of the L3Harris Commercial Training Solutions ("L3Harris CTS") division. Together with its L3Harris CTS partners, the Company is able to deliver an expanded portfolio of 'vertically-integrated' training, resourcing and simulation solutions, spanning the entire spectrum of our customers' needs; delivering unique and innovative solutions with a strong emphasis on customer service.

The pilot training industry has faced a number of challenges over the year, driven by the exceptional growth in demand for trained pilots. This has resulted in a number of industry-wide challenges, particularly around high demand for, and consequent shortages of, training aircraft and flight instructors. This has resulted in a level of delays in the Company's pilot training programme. Prior to COVID-19, the Directors expected this to be a short-term timing issue, as clear plans were in place to catch up on the delays.

The results of the business are shown on page 11. Turnover for the year ended 3 January 2020 was £45.6 million (year ended 31 December 2018: £53.7 million). This generated a loss for the financial year of £18.9 million (2018: loss of £0.2 million), driven by the challenges highlighted above. The total cash utilised in the year was £30m (2018: generated £14 million).

Subsequent to the year end, COVID-19 has had a significant effect on the Travel and Tourism industry, and in particular the Airlines industry, with the Company experiencing the effects of the downturn. The Company has reported relatively low revenues for 2020, and in response to this, a weekly analysis of cash flows is now undertaken, along with the implementation of a strong cost management strategy to reduce or defer operational costs and capital expenditure, including a redundancy programme. The Company has also taken advantage of the Government Corona Virus Job Retention Scheme support for wage subsidies in 2020. The Company transferred its operations from Southampton to Crawley in 2020.

The Company has net current assets at the balance sheet date of £6.6m, including amounts owed to group undertakings, repayable on demand, but has been loss making in financial years 2020 and 2021. The Directors believe that preparing the financial statements on the going concern basis is appropriate after taking into account the profitability and cash flows that are forecast to be generated from future operating activities, and on the basis of continuing support from the ultimate parent.

The Directors consider the financial position at the year-end to be satisfactory.

Key performance indicators

The Directors believe that the key performance indicators are turnover growth, profitability and cash generation. These KPIs are highlighted and discussed above.

Principal risks and uncertainties

The Directors regularly review the Company's key risks as described below and are satisfied that each of the risks are being correctly managed.

The key risks identified are: managing and sustaining growth; attracting and retaining people; the safety and security of staff; and Company reputation. Growth will be sustained by ensuring that the Company provides an excellent service to its customers and maintains its investment in innovative technology which is closely matched to market needs.

Emphasis is also placed on the recruitment, retention and development of key skills. Reputational risk is carefully managed through the Company's comprehensive ethics training programme in order to assure ethical and legal business practices.

Principal risks and uncertainties (continued)

The Company continues to improve its product offering in order to maintain and develop its marketplace penetration. The Company brings a specific product offering with good customer relationships and market knowledge to ensure that this remains current and suitable.

Other financial risks and how these are mitigated, are outlined below.

Finance risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in interest rate risk, currency risk and credit risk. Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company's finance department.

Liquidity and interest rate risk

In order to ensure stability of cash out flows and hence manage liquidity and interest rate risk, the Company is supported by fellow group operations.

Currency risk

The Company operates internationally and is exposed to foreign exchange risk, primarily with respect to the New Zealand dollar and the US Dollar to a lesser extent.

The L3 CTS division uses forward contracts to purchase NZ Dollars to manage its exposure, contracting to purchase approximately 80% of the forecast requirements. The exposure seen in the Company is covered by the forward contracts entered into by the L3 CTS division. The Company does not enter into any forward contract agreements with any external or intercompany party.

Credit risk

The Company has extended loans to fellow subsidiaries of L3HARRIS TECHNOLOGIES, INC. The amount of exposure to any individual counterparty is continually reviewed by the senior management team. The Company can call upon the resources of the ultimate holding company, L3HARRIS TECHNOLOGIES, INC., for financial support if necessary.

Section 172 (1) statement

This statement describes how the directors have taken account of the matters set out in sections 172 (1)(a) to (f) of the Companies Act 2006 ("s172") when performing their duty to promote the success of the company for the benefit of its members as a whole. From the perspective of the Board, as a result of the governance structure, the matters that it is responsible for considering have been considered to an appropriate extent by the Board. The Board has also considered relevant matters where appropriate:

a) The likely consequences of any decision in the long term

The Company maintains an ongoing sales plan, which includes a Product Offering review, and a Sector review, to establish cross-company efficiencies and innovative solutions for future product offerings. Additionally, a Development Road Map is maintained, which serves to assess future strategic opportunities for the Company.

b) The interests of the Company's employees

The Company's competitive advantage is achieved through the skills of its people in developing more innovative and capable solutions. The Company's values include mutual respect and open communication is actively encouraged. We aim to achieve high levels of employee satisfaction within a safe working environment providing both diversity and equal opportunity.

Section 172 (1) statement (continued)

c) The need to foster the Company's business relationships with suppliers, customers and others

We aim to align our activities with customer needs so that our customers benefit from effective, innovative products with high quality standards, underpinned by outstanding service.

d) The impact of the Company's operations on the community and environment

Within our sustainability strategy we comply with both UK CAA and EASA regulations, evidence of which enables us to hold an Approved Training Organisation Certificate, GBR-ATO-0475.

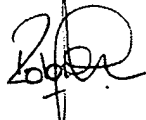
e) The desirability of the Company maintaining a reputation for high standards of business conduct

Compliance with all applicable laws and regulations is the basis for business success. Employees are duty bound to uphold every aspect of all relevant laws and conduct business in accordance with the practices of fair competition and the prevention of corruption.

f) The need to act fairly between members of the Company

We are wholly owned by L3HARRIS TECHNOLOGIES, INC.

On behalf of the Board



R G Glover-Faure
Director
28th May 2021

L3 CTS Airline and Academy Training Limited
Directors' report for the year ended 3 January 2020

The Directors present their report and the audited financial statements of the Company for the year ended 3 January 2020.

The Company's principal activity is the provision of aviation services, including pilot training and resourcing, to the aviation industry.

Results and Dividends

The loss for the year of £18.9m (2018 loss: £0.2m) has been taken to reserves. The Company has not paid any interim dividends in respect of the financial year ending 3 January 2020 (31 December 2018: £nil). The Directors do not propose the payment of a final dividend (2018: £nil).

Financial risk management

Disclosures relating to these areas, namely credit risk, liquidity risk, interest rate risk and currency risk are included in the Strategic Report.

Directors

The Directors who held office during the year and up to the date of signing the financial statements are given below:

C T Collins	
A E Crawford	
T W Gautier	
R G Glover-Faure	
M S Weingast	
A Dallsingh	(resigned 13 November 2020)
R Cook	(resigned 20 September 2019)

Third party indemnity provision

Third party indemnity insurance, a qualifying third party indemnity provision, is provided for all Directors of the Company during the year and also at the date of approval of the financial statements, under policies held by the Company's ultimate parent company L3HARRIS TECHNOLOGIES, INC.

Going concern

The Company has net current assets at the balance sheet date of £6.6m, including amounts owed to group undertakings, repayable on demand, of £15.9m, but has been loss making in financial years 2020 and 2021 to date. The Directors believe that preparing the financial statements on the going concern basis is appropriate after taking into account the results and cash flows that are forecast to be generated from future operating activities, and the continuing support from the ultimate parent.

L3HARRIS TECHNOLOGIES, INC., the ultimate parent, has accepted the responsibility of providing sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. The Directors have considered the ability of the parent company to provide such support and have no concerns in that regard. The undertaking is provided for a minimum period of twelve months from the date the financial statements are approved.

Statement of Directors' Responsibilities in respect of the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

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.

Post balance sheet events

Subsequent to the year end, COVID-19 has had a significant effect on the Travel and Tourism industry, and in particular the Airlines industry, with the Company experiencing the effects of the downturn.

The Company has reported relatively low revenues for 2020, and in response to this, a weekly analysis of cash flows is now undertaken, along with the implementation of a strong cost management strategy to reduce or defer operational cost and capital expenditure, including a redundancy programme. The Company has also taken advantage of the Government Corona Virus Job Retention Scheme support for wage subsidies in 2020. The Company transferred its operations from Southampton to Crawley in 2020.

Despite the decreased income levels, the Company has seen a continuation of business and has attracted new cadets throughout the pandemic. With the recent relaxation of travel restrictions there has been a resumption of training and an increase in business activity.

L3HARRIS TECHNOLOGIES, INC., the ultimate parent, has accepted the responsibility of providing sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from the date the financial statements are approved.

During 2020 the Company drew down £29.7m by way of loan from its immediate parent and has drawn down £8.6m in 2021 up to the accounts signature date.

In December 2020, it was announced that one of the Company's investments, L3 CTS Airline Academy (NZ) Limited, would cease operations in 2021. L3 CTS Airline Academy (NZ) Limited ceased its principal trading activity, the training of airline pilots, in April 2021 and, pending a review on possible alternative trading options, will cease trading and be wound up. A sale of the L3 CTS Airline Academy (NZ) Limited assets will contribute to the settlement of intercompany loans. Its financial statements at 31 December 2020 have been prepared on a realised basis and, as a result, its net liability position at that date does not support the investment carrying value of £3.2m held by the Company. As a result, the investment held by the Company in L3 CTS Airline Academy (NZ) Limited has been fully impaired in 2020.

Post balance sheet events (continued)

During 2020, one of the Company's subsidiaries, Airline Placement Limited, ceased recruiting new cadets through its bonded programme whereby cadet training costs are recovered through cadet placements with commercial airlines. The existing cadet programs will continue until the remaining cadets complete their training schedules, which under the current training delays through COVID-19 could take until June 2022. It is likely Airline Placement Limited will then cease trading and be wound up. Cadet training continues directly through the Company, which is able to accommodate all new and existing cadets through its training programme offerings.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

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

Statement of engagement with customers, employees, suppliers and others in a business relationship with the Company

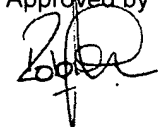
The directors have regard to the need to foster the Company's business relationship with customers, employees, suppliers and others, and the effect of that regard, including on principal decisions taken by the Company during the financial year. Please refer to the Company's Section 172(1) statement in the Strategic Report.

The number of employees of the Company does not exceed 250 and therefore the Company has nothing further to report in respect of employee engagement activity during the year.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

Approved by the Board and signed on its behalf by:



R G Glover-Faure
Director
28th May 2021

Report on the audit of the financial statements

Opinion

In our opinion, L3 CTS Airline and Academy Training Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 3 January 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 3 January 2020; the profit and loss account, the statement of changes in equity, and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Reporting on other information

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

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

L3 CTS Airline and Academy Training Limited

Independent Auditors' Report to the members of L3 CTS Airline and Academy Training Limited

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 3 January 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

L3 CTS Airline and Academy Training Limited

Independent Auditors' Report to the members of L3 CTS Airline and Academy Training Limited

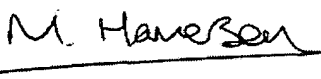
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Matthew Haverson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
28th May 2021

L3 CTS Airline and Academy Training Limited
Profit and loss account for the year ended 3 January 2020

	Notes	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Turnover	5	45,618	53,700
Cost of sales		(44,560)	(39,047)
Gross profit		1,058	14,653
Administrative expenses		(20,794)	(18,670)
Operating loss	6	(19,736)	(4,017)
Other Interest receivable and similar income	7	294	455
Loss before taxation		(19,442)	(3,562)
Tax on loss	8	512	3,341
Loss for the financial year		(18,930)	(221)

All results for the year were derived from the Company's continuing activities.

L3 CTS Airline and Academy Training Limited
Balance Sheet as at 3 January 2020

	Notes	3 January 2020 £000	31 December 2018 £000
Fixed assets			
Intangible assets	9	39,097	44,522
Tangible assets	10	9,285	8,910
Investments	11	3,249	25,884
		<u>51,631</u>	<u>79,316</u>
Current assets			
Debtors	12	38,206	28,757
Cash at bank and in hand		7,554	16,288
		<u>45,760</u>	<u>45,045</u>
Creditors: amounts falling due within one year	13	(39,138)	(46,616)
Net current assets / (liabilities)		<u>6,622</u>	<u>(1,571)</u>
Total assets less current liabilities		58,253	77,745
Provisions for liabilities	14	(848)	(1,410)
Net assets		<u>57,405</u>	<u>76,335</u>
Capital and reserves			
Called-up share capital	16	1	1
Share premium account		1,202	1,202
Retained earnings		56,202	75,132
Total equity		<u>57,405</u>	<u>76,335</u>

The notes on pages 15 to 28 are an integral part of these financial statements.

The financial statements on pages 11 to 28 were approved by the Board of Directors on 28th May 2021 and signed on its behalf by:


R G Glover-Faure

Director
L3 CTS Airline and Academy Training Limited
Company Number: 09592088

L3 CTS Airline and Academy Training Limited
Statement of changes in equity for the year ended 3 January 2020

	Share capital £000	Share premium £000	Profit & loss account £000	Total £000
Balance at 1 January 2018	1	1,202	75,353	76,556
Loss for the financial year	-	-	(221)	- (221)
Balance at 31 December 2018	1	1,202	75,132	76,335
Loss for the financial year	-	-	(18,930)	(18,930)
Balance at 3 January 2020	1	1,202	56,202	57,405

L3 CTS Airline and Academy Training Limited
Statement of cash flows for the year ended 3 January 2020

	Notes	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Net cash from operating activities	24	(8,510)	2,883
Taxation paid		-	-
Net cash generated from operating activities		(8,510)	2,883
Purchase of tangible assets	10	(1,171)	(426)
Proceeds from disposals of tangible assets	6	-	63
Interest received	7	294	455
Net cash used in investing activities		(877)	92
Net receipt of inter-company loans		653	11,821
Net cash used in financing activities		653	-
Net increase in cash and cash equivalents		(8,734)	14,796
Cash and cash equivalents at the beginning of the year		16,288	1,492
Cash and cash equivalents at the end of the year		7,554	16,288

Analysis of changes in net debt

	As at 01 Jan 2019	Cash flows	Exchange movements	Non cash changes	As at 3 Jan 2020
Cash at bank and in hand	16,288	(8,734)	-	-	7,554
Net debt – group loans	(4,252)	(653)	-	22,635	17,730
Total	12,036	(9,387)	-	22,635	25,284

L3 CTS Airline and Academy Training Limited
Notes to the financial statements for the year ended 3 January 2020

1. General information

L3 CTS Airline and Academy Training Limited is a private company limited by shares, incorporated and domiciled in the United Kingdom, registration number 09592088. The Company's registered office is 100 New Bridge Street, London, EC4V 6JA.

2. Statement of compliance

The financial statements of L3 CTS Airline and Academy Training Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

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

3.1 Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain assets and liabilities acquired in business combinations measured at fair value at the date of acquisition.

The Company has net current assets of £6.6m at the balance sheet date, including amounts owed to group undertakings, repayable on demand, of £15.9m, but has been loss making in financial years 2020 and 2021 to date. The Directors believe that preparing the financial statements on the going concern basis is appropriate after taking into account the results and cash flows that are forecast to be generated from future operating activities, and the continuing support from the ultimate parent.

L3HARRIS TECHNOLOGIES, INC., the ultimate parent, has accepted the responsibility of providing sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. The Directors have considered the ability of the parent company to provide such support and have no concerns in that regard. The undertaking is provided for a minimum period of twelve months from the date the financial statements are approved.

The preparation of financial statements in conformity with FRS 102 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 in note 4.

All Company results are shown in £'000s unless stated otherwise.

3.2 Exemption from consolidation

The Company is 100% owned by L3 Commercial Training Solutions Limited. It is included in the consolidated financial statements of L3 Technologies Inc. which are publically available. The Company is exempt by virtue of section 401 of the Companies Act 2006 from the requirements to prepare consolidated financial statements.

3. Summary of significant accounting policies (continued)

3.3 Exemption for qualifying entities under Financial Reporting Standard 102

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26, 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirement of Section 33 Related Party Disclosures paragraph 33.7.

3.4 Foreign currency

Foreign currency transactions are translated into sterling, the functional currency of the Company, at the spot exchange rate at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date closing rates of monetary assets and liabilities denominated in foreign currency are recognised in profit or loss.

3.5 Investment in subsidiary undertakings

Investments in subsidiary undertakings are held at cost less accumulated impairment losses.

3.6 Goodwill and other intangible assets

Goodwill, representing the excess of the fair value of purchase consideration in a business combination over the fair value of the identifiable net assets acquired, is amortised over its useful life. Goodwill is assessed for impairment when there are indicators of impairment. Other intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated using the straight-line method to allocate the cost of each asset over its estimated useful life as follows:

Goodwill	10 years	Technology	10 years
Customer Lists	10 years	Software	3 - 6 years

Management determine the future cash flows based on current data and future demands, so there is an inherent uncertainty around forecasts. Critical key drivers include revenue and EBITDA forecasts and discounted values. An increase in discount rate or a reduction in long-term growth or a combination of both of these may therefore result in an impairment charge.

3.7 Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated, using the straight-line method, to allocate the depreciable amount of each asset to its residual value over its estimated useful life, as follows:

Freehold land & buildings	50 years	Office furniture & equipment	2 - 12 years
Property improvements	4 - 20 years	Training equipment	2 - 20 years

Assets under construction are not depreciated.

3. Summary of significant accounting policies (continued)

3.8 Current and deferred income tax

Taxation expense for the year comprises current and deferred tax recognised in the reporting year. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted and relevant to the financial year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

3.9 Revenue and other income

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for services net of discounts and value added tax. Turnover, representing the contractual agreements to train cadets and provide other services, is recognized when training is provided.

Other income comprises interest income. Interest income is recognised using the effective interest rate method.

3.10 Employee benefits

Short-term benefits, including holiday pay, are recognised as an expense in the period in which the service is received.

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. Termination benefits are recognised when the Company is committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

The Company operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. Contributions are charged directly to profit or loss as they fall due.

3. Summary of significant accounting policies (continued)

3.11 Leases

Payments under operating leases, being leases that do not transfer substantially all the risks and rewards of ownership, are charged to profit or loss on a straight-line basis over the term of the lease term.

3.12 Finance costs

Finance costs are recognised in profit or loss in the period in which they are incurred.

3.13 Impairment of fixed assets

Fixed assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value, less costs to sell, and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply.

3.14 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are items that are material either because of their size or nature, or that are non-recurring and are presented within the line item to which they best relate.

3.15 Financial instruments

The Company applies section 11 and 12 of FRS 102 in respect to financial instruments. Basic financial assets and financial liabilities, including trade and other receivables, trade and other payables and cash and bank balances are initially recognised at transaction price and subsequently carried at amortised cost using the effective interest rate method.

Financial assets are derecognised when the right to receive cash expires or is settled; substantially all the risks and rewards of ownership have transferred to another party or when control has transferred to another party who can unilaterally sell the asset without imposing restrictions.

Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or expires.

3.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.17 Distribution to equity holders

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders.

3. Summary of significant accounting policies (continued)

3.18 Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with its parent or with members of the same group that are wholly owned.

3.19 Business combinations and goodwill

Business combinations are accounted for applying the acquisition method. The cost of a business combination is measured at the fair value of the assets transferred, equity instrument issued and liabilities incurred. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. On acquisition goodwill is allocated to cash-generating units that are expected to benefit from the combination.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Directors consider there to be no critical judgements.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Carrying value of tangible and intangible assets and their useful lives

Determining whether tangible or intangible assets, including goodwill, are impaired requires an estimation of the value in use of the cash generating units to which these assets have been allocated. The value in use calculation requires management to estimate future cash flows using appropriate discount rates and other assumptions to determine a present value. The estimated useful life of tangible and intangible assets is dependent upon management's judgement of expected future cash flows and any residual values.

Deferred revenue

The Company estimates the revenue to recognise for each training course based on the stage of training completed. Estimates consider contractual agreements and historic evidence.

5. Turnover

The Company's turnover and loss before taxation were derived wholly in the UK from its principal activity.

L3 CTS Airline and Academy Training Limited**Notes to the financial statements for the year ended 3 January 2020 (continued)****6. Operating loss**

	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Operating loss is stated after charging/(crediting):		
Amortisation of intangible assets (note 9)	5,425	5,449
Depreciation of owned assets (note 10)	796	1,280
Employee costs (note 17)	9,069	9,184
Operating lease rent	3,970	1,797
Profit on disposal of tangible fixed assets	-	(63)
Auditors' remuneration		
Audit of these financial statements	68	57
Remuneration of auditors for non-audit work: tax compliance	30	20

The Directors do not receive any remuneration from the Company and no retirement benefits are accruing to Directors. During the current and prior years, the Directors were remunerated by other group companies and the cost was not recharged to the Company. As they provide services to a number of companies, it is not possible to allocate their remuneration to individual companies on a consistent and rational basis.

7. Other interest receivable and similar income

	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Interest receivable from group undertakings	294	455

L3 CTS Airline and Academy Training Limited**Notes to the financial statements for the year ended 3 January 2020 (continued)****8. Tax on loss****(a) Tax credit included in loss**

	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Current tax		
UK Corporation Tax	-	-
Adjustment in respect of prior years	-	(1,802)
Total current tax (credit) / charge	-	(1,802)
Deferred tax		
Adjustment in respect of prior years	(452)	(1,415)
Originating and reversing timing differences	(60)	(124)
Total deferred tax	(512)	(1,539)
Tax on loss on ordinary activities	(512)	(3,341)

(b) Reconciliation of current tax charge

	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Loss before tax	(19,442)	(3,562)
Tax on loss at standard UK rate of 19% (2018: 19%)	(3,694)	(677)
Non-deductible expenses	905	751
Adjustment in respect of prior years	(452)	(3,217)
Group relief (surrendered)/claimed for nil consideration	2,765	(213)
Impact of change in tax rates	(36)	15
Tax credit	(512)	(3,341)

Future tax rates

In the March 2021 Budget, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Additionally, as set out in March 2020 Budget, the rate of corporation tax in the UK will not decrease from 19% to 17% from 1 April 2020. However, the 2020 budget does not constitute a substantive enactment at 31 December 2019 and therefore deferred taxes at the balance sheet date continue to be measured at a rate of 17%, being the rate enacted at the balance sheet date.

L3 CTS Airline and Academy Training Limited
Notes to the financial statements for the year ended 3 January 2020 (continued)
9. Intangible assets

	Goodwill	Customer lists	Technology assets	Software	Total
	£000	£000	£000	£000	£000
1 January 2019					
Cost	38,900	4,484	10,506	182	54,072
Accumulated amortisation	(6,807)	(784)	(1,839)	(120)	(9,550)
Net book amount	32,093	3,700	8,667	62	44,522
Amortisation	(3,890)	(448)	(1,051)	(36)	(5,425)
3 January 2020					
Cost	38,900	4,484	10,506	182	54,072
Accumulated amortisation	(10,697)	(1,232)	(2,890)	(156)	(14,975)
Net book amount	28,203	3,252	7,616	26	39,097

10. Tangible assets

	Freehold Land & buildings	Office furniture & equipment	Training equipment	Assets under construction	Total
	£000	£000	£000	£000	£000
1 January 2019					
Cost	2,985	438	7,564	184	11,171
Accumulated depreciation	(507)	(323)	(1,431)	-	(2,261)
Net book amount	2,478	115	6,133	184	8,910
Additions	-	-	-	1,171	1,171
Depreciation	(275)	(19)	(502)	-	(796)
3 January 2021					
Cost	2,985	438	7,564	1,355	12,342
Accumulated depreciation	(782)	(342)	(1,933)	-	(3,057)
Net book amount	2,203	96	5,631	1,355	9,285

The net book amount, included in land and buildings above comprises:

	3 January 2020	31 December 2018
	£000	£000
Freehold land	1,643	1,653
Building improvements	560	825
	2,203	2,478

L3 CTS Airline and Academy Training Limited

Notes to the financial statements for the year ended 3 January 2020 (continued)

11. Investments

	£000
Balance at 1 January 2019	25,884
Capital distribution by subsidiary	(22,635)
Balance at 3 January 2020	3,249

The Company's subsidiary undertakings at 3 January 2020 were as follows:

	Principal activity	Shares held class	%
CTC Aviation Holdings Limited (CAH)	Dormant	Ordinary	100
CTC Aviation Services Limited (CAS)	Dormant	Ordinary	100
CTC Aviation Training (UK) Limited (CAT)	Dormant	Ordinary	100
L3 CTS Airline Academy (NZ) Limited (L3 NZ)	Trading	Ordinary	100
Airline Recruitment Limited (ARL)	Dormant	Ordinary	100
Airline Placement Limited (APL)	Trading	Ordinary	100
CTC Aviation International Limited (CAI)	Dormant	Ordinary	100
CTC Aviation Group Limited (CAG)	Dormant	Ordinary	100

As at year end, the process to liquidate the following companies is still ongoing:

CTC Aviation Holdings Limited
CTC Aviation International Limited
CTC Aviation Group Limited
CTC Aviation Services Limited
CTC Aviation Training (UK) Limited
Airline Recruitment Limited

The balance at 3 January 2020 represents the cost of investment in L3 NZ. The Directors believe that the recoverable amount of the investment is not less than the amount at which they are shown in the balance sheet.

During the year, as part of the liquidation process, the Directors of ARL authorised the distribution of £22.6M, being an amount equal to ARL's total distributable reserves. The amount enabled the Company's investment in ARL to be cleared against its outstanding liability.

All companies with the exception of L3 CTS Airline Academy (NZ) Limited are incorporated in the UK and have a registered office at Unit 120 Nursling Industrial Estate, Mauretania Road, Nursling, Southampton SO16 0YS.

L3 CTS Airline Academy (NZ) Limited is incorporated in New Zealand and has a registered office at 131 Boyd Road, Hamilton Airport RD2, Hamilton 3282, New Zealand. This Company ceased its principal trading activity in April 2021 and its future status is being considered. Please see note 23 Post Balance Sheet Events for more details.

L3 CTS Airline and Academy Training Limited**Notes to the financial statements for the year ended 3 January 2020 (continued)****12. Debtors**

	3 January 2020 £000	31 December 2018 £000
Trade debtors	2,036	3,664
Amounts owed by group undertakings		
Due in less than one year	27,376	21,599
Other debtors	1,397	1,257
Prepayment and accrued income	7,397	2,237
	38,206	28,757

The Company has a rolling one-year revolving credit facility with L3 Commercial Training Solutions Limited. Interest accrues monthly on the amount outstanding at LIBOR plus 2%.

The Company has granted a rolling one-year revolving credit facility to Escola de Aviação Aerocondor, S. A. Interest accrues monthly on the total amount outstanding at EURIBOR plus 2%.

All loans are unsecured and repayable on demand.

13. Creditors: amounts falling due within one year

	3 January 2020 £000	31 December 2018 £000
Trade creditors	1,478	571
Amounts owed to group undertakings	15,970	30,110
Taxation and other social security	250	1,000
Other creditors	680	1,475
Accruals and deferred income	20,760	13,460
	39,138	46,616

The amounts owed to group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

14. Provisions for liabilities

	Property related £000	Deferred tax £000	Total £000
1 January 2019	50	1,360	1,410
Credit to profit and loss account - prior year	(50)	-	(50)
Credit to profit and loss account - current year	-	(512)	(512)
3 January 2020	-	848	848

L3 CTS Airline and Academy Training Limited**Notes to the financial statements for the year ended 3 January 2020 (continued)****14. Provisions for liabilities (continued)**

Movement in and analysis of deferred tax:

	Capital allowances £000	Intangible assets £000	Short term timing £000	Total £000
1 January 2019	731	629	-	1,360
Charge to profit and loss account - prior year	(452)	-	-	(452)
Charge/(release) to profit and loss account - current year	42	(76)	(26)	(60)
3 January 2020	321	553	(26)	848

15. Financial Instruments

The Company has the following financial instruments:

	3 January 2020 £000	31 December 2018 £000
Financial assets measured at amortised cost		
- Amounts owed from group undertakings	27,376	21,599
- Trade and other receivables	9,793	6,769
	<u>28,369</u>	<u>28,368</u>
Financial liabilities measured at amortised cost		
- Amounts owed to group undertakings	(15,970)	(30,110)
- Trade and other payables	(6,571)	(5,189)
	<u>(22,540)</u>	<u>(35,299)</u>

16. Called-up share capital

	3 January 2020 £000	31 December 2018 £000
Allotted, called-up and fully paid 10,004 Ordinary shares of £0.10 each	<u>1</u>	<u>1</u>

L3 CTS Airline and Academy Training Limited
Notes to the financial statements for the year ended 3 January 2020 (continued)

17. Employees

The average monthly number of persons employed by the Company during the year was:

	3 January 2020	31 December 2018
	Number	Number
The average number of employees	175	210

The employee headcount by activity at the end of the year was:

	3 January 2020	31 December 2018
	Number	Number
Operations	150	166
Administration	25	44
	175	210

The compensation paid or payable for employee services is shown below:

	3 January 2020	31 December 2018
	£000	£000
Wages and salaries	7,840	7,941
Social security costs	854	926
Other pension costs	375	317
	9,069	9,184

Other pension costs represent contributions to defined contribution schemes. Unpaid amounts outstanding at the year end and accrued on the balance sheet were £77,420 (2018: £ nil).

18. Lease commitments

The Company had the following minimum lease payments under non-cancellable operating leases, for property and aircraft, each of the following years:

	3 January 2020	31 December 2018
	£000	£000
Payment due:		
Not later than one year	3,740	2,696
Later than one year and not later than five years	4,633	1,626
	8,373	4,322

In September 2019 the Company signed a 5 year lease for 19 aircraft, 7 of which are currently sub-leased to a sister company for the provision of training to the Company's cadets. There are 9 months of this sublease outstanding at the balance sheet date.

19. Related party transactions

The Company has taken advantage of the exemption to disclose related party transactions with other group companies, as permitted by paragraph 1.12 of FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

L3 CTS Airline and Academy Training Limited
Notes to the financial statements for the year ended 3 January 2020 (continued)

20. Dividends

The Company did not pay any dividends during 2019 (2018: nil). The Directors do not propose the payment of a final dividend (2018: £nil).

21. Controlling parties

The entire share capital of the company is owned by L3 Commercial Training Solutions Limited, whose registered office is located at 100 New Bridge Street, London, EC4V 6JA.

During the year and until 29 June 2019, the ultimate parent undertaking and controlling party was L3 Technologies Inc., which was the largest and smallest group to consolidate these financial statements. The company was incorporated in the United States of America and its common stock was listed on the New York Stock Exchange.

From 30 June 2019, the ultimate parent undertaking and controlling party is L3HARRIS TECHNOLOGIES, INC., which is the largest and smallest group to consolidate these financial statements.

Copies of the financial statements of both L3 Technologies Inc. and L3HARRIS TECHNOLOGIES, INC. are publicly available and can be obtained from their headquarters at 1025 West NASA Boulevard, Melbourne, Florida 32919, United States of America.

22. Post balance sheet events

Subsequent to year end, COVID-19 has had a significant effect on the Travel and Tourism industry, and in particular the Airlines industry, with the Company also experiencing the effects of the downturn.

The Company reported relatively low revenues for the first half of 2020, and in response to this, a weekly analysis of cash flows is now undertaken, along with the implementation of a strong cost management strategy to reduce or defer operational cost and capital expenditure. The Company has also taken advantage of the Government Corona Virus Job Retention Scheme support for wage subsidies in 2020. The Company transferred its operations from Southampton to Crawley in 2020.

Despite the decreased income levels, the Company has seen a continuation of business and has attracted new cadets throughout the pandemic. With the recent relaxation of travel restrictions there has been a resumption of training and an increase in business activity.

L3HARRIS TECHNOLOGIES, INC., the ultimate parent, has accepted the responsibility of providing sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from the date the financial statements are approved.

During 2020 the Company drew down £29.7m by way of loan from its immediate parent and has drawn down £8.6m in 2021 up to the accounts signature date.

In December 2020, it was announced that one of the Company's subsidiaries, L3 CTS Airline Academy (NZ) Limited, would cease operations in 2021. L3 CTS Airline Academy (NZ) Limited ceased its principal trading activity, the training of airline pilots, in April 2021 and, pending a review on possible alternative trading options, will cease trading and be wound up. A sale of the L3 CTS Airline Academy (NZ) Limited assets will contribute to the settlement of intercompany loans. Its financial statements at 31 December 2020 have been prepared on a realised basis and, as a result, its net liability position at that date does not support the investment carrying value of £3.2m held by the Company. As a result, the investment held by the Company in L3 CTS Airline Academy (NZ) Limited has been fully impaired in 2020.

L3 CTS Airline and Academy Training Limited**Notes to the financial statements for the year ended 3 January 2020 (continued)****23. Post balance sheet events (continued)**

During 2020, one of the Company's subsidiaries, Airline Placement Limited, ceased recruiting new cadets through its bonded programme whereby cadet training costs are recovered through cadet placements with commercial airlines. The existing cadet programs will continue until the remaining cadets complete their training schedules, which under the current training delays through COVID-19 could take until June 2022. It is likely Airline Placement Limited will then cease trading and be wound up. Cadet training continues directly through the Company, which is able to accommodate all new and existing cadets through its training programme offerings.

24. Notes to the cash flow statement

	Year ended 3 January 2020 £000	Year ended 31 December 2018 £000
Loss for the financial year	(18,930)	(221)
Adjustments for:		
Tax on loss	(512)	(3,341)
Other interest receivable and similar income	(294)	(455)
Operating profit	(19,736)	(4,017)
Amortisation of intangible assets	5,425	5,449
Depreciation of tangible assets	796	1,280
Profit on disposal of tangible assets	-	(63)
Other provisions less payments	(50)	-
Increase in debtors	(10,102)	(7,237)
Increase in creditors	15,157	7,471
Cash flow from operating activities	(8,510)	2,883