

FR Aviation Limited

Directors' Report and Financial Statements
for the year ended 31 December 2006

Registered Number 845310



FR Aviation Limited

Directors' Report and Financial Statements

for the year ended 31 December 2006

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Directors' report for the year ended 31 December 2006

The directors have pleasure in submitting their report, together with the audited financial statements of the Company, for the year ended 31 December 2006

Results and dividends

The Company's results for the year are set out in the profit and loss account on page 11 showing a profit for the financial year after tax of £3,777,000 (2005 restated £3,515,000) At 31 December 2006, the company has net assets of £19,304,000 (2005 restated £24,844,000)

Dividends paid and proposed are as set out in note 8

The directors do not propose a final dividend for 2006

Principal activities and business review

The principal activity of the company is the provision of air defence training and aircraft engineering

The directors consider the Company performed strongly in the year, attaining a strong year end position and are looking to build from this positive platform going forward The Company continued to meet and exceed customer contract expectations in its long-term partnering agreement with the UK Ministry of Defence during 2006

The principal activities are not expected to change in the foreseeable future

Future developments

The directors are confident that next year will again show a strong and profitable performance

The corporation tax rate was changed in the 2007 budget from 30% to 28% with effect from April 2008 The estimated effect of this change in rate is to reduce the deferred tax liability by £149,000

Research and development

The Company is committed to research and development and has invested £6,000 (2005 £nil) in activities during the year All research and development expenditure is written off as it is incurred

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 reductions in budgetary defence spending Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on page 30 of the Cobham plc 2006 Annual Report which does not form part of this report

Key performance indicators

The directors of the ultimate parent undertaking, Cobham plc, manage the group's operations on a divisional basis For this reason, the Company's directors believe that analysis using key performance indicators (financial and non-financial) for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of FR Aviation Limited The development, performance and position of the Cobham Flight Operations and Services division of Cobham plc, which includes the Company, is discussed on page 15 of the group's 2006 Annual Report which does not form part of this report

Financial risk management

The Company's operations expose it to a variety of limited financial risks that include price risk, credit risk, liquidity risk, interest rate risk and foreign 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

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Financial risk management (continued)

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 of Cobham plc are implemented by the group finance department. The department has a policy and procedures manual that sets out guidelines to allow it to manage interest rate risk, credit risk and foreign currency exchange rate risk.

Price risk

The Company is not materially exposed to commodity price risk as a result of its operations, due to the nature of its trading operations and contract arrangements. Given the size of the Company's operations, the costs of managing exposure to price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature. The Company has no exposure to equity securities price risks as it holds no listed investments.

Credit risk

The Company has implemented policies that require appropriate satisfactory credit checks on potential customers before credit sales are made.

Liquidity risk

The Company performs rigorous cash and treasury management functions to forecast liquidity requirements and retains sufficient cash to ensure it has sufficient 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 interest bearing assets. Interest bearing assets include only cash balances, all of which earn interest at a floating rate. In order to ensure stability of cash out flows 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 and as such, no hedge accounting is applied.

The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

Foreign exchange currency rate risk

The Company has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange rate contracts with the ultimate parent undertaking.

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and so that all employees are aware of the financial and economic performance of their business units and of the company/group as a whole. Communication with all employees is through in-house intranet, notice board announcements, meetings with elected employee committees, newsletters and regular management team briefing groups.

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Employees (continued)

The Company also operates a company wide bonus scheme, dependent on Company performance, to encourage employee involvement in improving corporate performance and participates in the Cobham Group Sharesave Scheme which is open to all employees of the company

Creditors payment policy

It is the policy of the company that all invoices are paid within 30 days following the end of the month in which the invoices are approved and that this policy is adhered to. Payment terms are agreed and communicated when agreeing transaction terms and a written payment policy statement may be obtained from the Company's registered office address. The total amount of the Company's trade creditors falling due within one year at 31 December 2006 represents 25 days (2005 31 days) worth as a proportion of the total amount invoiced by suppliers during the year ended on that date.

Charitable contributions

During the year the Company made various charitable donations totalling £5,080 (2005 £3,525)

	2006 £	2005 £
Bournemouth Gilbert & Sullivan Operatic Society	50	100
British Heart Foundation	50	25
Christchurch Infant School	-	25
Christchurch Rowing Club	30	50
The College Foundation	-	25
Comic Relief	-	463
Dorset Children's Hospice	95	35
Jeans for Genes	248	412
Leukaemia Research Fund	-	100
Louise Jones Memorial Fund	-	250
MacMillan Cancer Trust	-	50
Pidley Mountain Rescue Team	400	450
RAF St Mawgan Air Traffic Control	100	100
Ringwood Carnival	50	50
Tarrant Valley Players	50	50
The Mayors Chanty Ball	140	150
FRA Internal Sponsorship	1,125	1,190
3 rd New Milton Guides Group	50	-
Cancer Research UK	50	-
Corfe Hills School	30	-
Dorset Ambulance NHS	50	-
Enham Chanty	50	-
Great North Air Ambulance	165	-
Kingswood Football Club	25	-
Lydia Cross	50	-
Cancer Research Fund	100	-
National Childrens Home Chanty	125	-
Newcastle Aviation Academy	105	-
Project Christchurch Playgroup	100	-
Retinal Research Fund Southampton Hospital	50	-
Robert Half International Quiz Night	60	-
Carry forward	3,348	3,525 ₃

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Charitable Contributions (continued)

Brought forward	3,348	3,525
Mayors Goodwill Fund	50	-
Somerton Community Association	23	-
Tenovus Cancer Charity	109	-
The Domino Appeal	25	-
Wessex Autistic Society	25	-
39 Squadron Disbandment Fund	1,500	-
	5,080	3,525

Directors

The following directors held office during the year

S J Fitz-Gerald

J Chapman

D T Taylor

J Danning

D Harrison - appointed secretary 1 August 2006

C Granger - resigned 31 July 2006

The directors' emoluments are shown in note 5 to the financial statements

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the report of the auditors set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the financial period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, except for changes in accounting policies as noted on page 8. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which 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 1985. 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.

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Auditors and 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 234ZA of the Companies Act 1985

Auditors

In accordance with Section 386 of the Companies Act 1985, as a result of an elective resolution PricewaterhouseCoopers LLP are deemed re-appointed as auditors to the company for the forthcoming financial year

By order of the board



D Harrison
Secretary

5 JULY 2007

Independent auditors' report to the members of FR Aviation Limited

We have audited the financial statements of FR Aviation Limited for the year ended 31 December 2006, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the related notes and the statement of accounting policies

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Southampton

9 July 2007

Statement of accounting policies

Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. The principal accounting policies are set out below.

Changes in accounting policies

The Company has adopted FRS20 'Share-Based Payment' with effect from 1 January 2006 and as a consequence presents disclosures in accordance with the amended standard. Comparative results have been restated to reflect this change. The impact of the change is shown in note 23.

Turnover

Turnover is measured at the fair value of the right to consideration and excludes value added tax, other sales taxes and trade discounts. Turnover is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer, normally this is on despatch or once a service is delivered. In the case of long term contracts, turnover is recognised based upon the fair value of work performed to date.

Taxation and deferred taxation

The charge for taxation is based on the results for the year. In accordance with FRS19, deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future, based on current tax rates and law. An asset is not recognised to the extent that the economic benefits in future are uncertain. Deferred tax assets and liabilities recognised have not been discounted.

Offsetting

The Company reports assets and liabilities and income and expenses gross. No offsetting is performed.

Provisions

Where the company is able to sufficiently identify and quantify a potential future liability as a result of a past event the company has adhered to FRS 12 in recognising and recording, as appropriate, the financial effect of such items. Discounting is not performed.

Stocks

Stocks and work in progress are stated at the lower of cost, which includes an appropriate proportion of production overheads, and net realisable value.

Payments received and receivable on account of work in progress are deducted from the cost of the work carried out at the balance sheet date to the extent of the valuation of the work done.

Long term contracts

Long term contracts are accounted for in accordance with the requirements of the Statement of Standard Accounting Practice 9 – Stocks and Long Term Contracts and application note G to Financial Reporting Standard 5 – Reporting the Substance of Transactions. Profit on a long term contract is calculated on the basis of the stage of completion of the contractual obligations of the contract. Any amounts recoverable on contracts, representing the excess of the value of the contractual obligations completed to the year end, and recorded as turnover, over cumulative payments on account are included in debtors. Cumulative payments on account in excess of the value of the contractual obligations achieved to the year end are shown in creditors.

Tangible fixed assets

Tangible fixed assets are stated at their purchase cost together with any directly attributable costs of acquisition, net of depreciation and provisions, where required, for any impairment

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful economic life. The expected useful economic lives used for this purpose are

Land and buildings (long leasehold)	50 years
Plant and machinery	Over 3 to 10 years
Fixtures, fittings, tools and equipment	Over 3 to 8 years

Expected useful economic lives are reassessed annually to ensure they remain appropriate

Investments

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

Financial assets and liabilities

Financial assets and liabilities are presented in accordance with paragraphs 15-50 of FRS25 as the company has not adopted FRS26

The Company recognises a financial asset when an event, having occurred prior to the year end, has given rise to a near certain and quantifiable right or guarantee to access or obtain a future economic benefit. The Company will recognise a financial liability when an event, having occurred prior to the year end, has given rise to a probable and quantifiable obligation to surrender or pass a future economic benefit

The Company will derecognise assets when the future economic benefit is no longer nearly certain or its value is no longer quantifiable. The Company will derecognise liabilities when the obligation is no longer probable or is no longer quantifiable

All assets and liabilities previously recognised are reviewed on a regular basis to ensure that, with consideration to the above, their treatment and value recognised is relevant and appropriate

Where the probability or value regarding assets or liabilities is sufficiently uncertain to warrant recognition in the financial statements but their exclusion would materially distort the understanding of the financial statements, sufficient detail is disclosed, to ensure the financial effect can be understood

Pension costs

The Company contributes to a multi-employer defined benefit pension scheme operated by Cobham plc. Contributions and pension costs are apportioned across the scheme as a whole and assessed in accordance with the advice of qualified actuaries. The scheme is closed to new members and has a high proportion of deferred and pensioner members from businesses that no longer participate in the scheme. The Company is therefore not able to identify its share of underlying assets and liabilities of the scheme on a reasonable and consistent basis and in accordance with the multi-employer exemption contained in FRS17, the scheme has been accounted for as if it was a defined contribution scheme. The charge to the profit and loss account therefore reflects payments for the year.

Contributions are also made to the defined contribution scheme operated by Cobham plc and are charged to the profit and loss account in the period the contributions are payable.

The Company also makes contributions for certain employees to individual personal pension and stakeholder schemes. Contributions are charged to the profit and loss account in the year to which they relate.

Foreign currencies

Transactions denominated in foreign currencies are translated at an average monthly rate of exchange which, throughout the year, approximates to the actual daily rate of exchange on the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are expressed in sterling, translated at the rates of exchange ruling at the balance sheet date, except in those instances where forward cover has been arranged, in which case the forward rate is used

All exchange differences are dealt with in the profit and loss account

Leases

Lease arrangements are accounted for as finance leases where substantially all the risks and rewards of ownership of the leased asset are retained by the Company. All other leases are classified as operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease

Research and development

Research and development expenditure not chargeable to customers is written off in the period in which it is incurred

Estimation techniques

In certain circumstances the measurement of values cannot be made with absolute certainty either because absolute costs are unknown, or they require a degree of subjective review. Examples include the calculation of degrees of obsolescence of stock, or degrees of completion against long term project objectives. In these instances the directors utilise the skills, knowledge and experience of suitably qualified persons to generate appropriate values. All appropriate accounting standards are adhered to in generating such values

Share-based payments

For grants made under the group's share-based payment schemes, amounts which reflect the fair value of options awarded to employees of the Company as at the time of the grant are charged to the profit and loss account over the vesting period. The valuations of the options utilise a methodology based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria

The Company has taken advantage of the transitional provisions of FRS20 in respect of equity settled awards and has applied FRS20 only to equity settled awards granted after 7 November 2002

Profit and loss account for the year ended 31 December 2006

	Notes	2006 £000	2005 Restated £000
Turnover	1	52,209	53,468
Cost of sales		(40,665)	(42,741)
Gross profit		11,544	10,727
Selling and distribution costs		(3,495)	(2,688)
Administrative expenses		(6,542)	(5,406)
Other operating expenses		(27)	(13)
Operating profit	2	1,480	2,620
Interest receivable and similar income	3	303	301
Income from fixed asset investments	28	2,552	994
Profit on ordinary activities before taxation		4,335	3,915
Tax on profit on ordinary activities	4	(558)	(400)
Profit for the financial year	17	3,777	3,515

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

The profit on ordinary activities before taxation and the retained (loss)/profit for the financial year have been computed on the historical cost basis

Balance sheet as at 31 December 2006

		2006		2005 Restated	
	Notes	£000	£000	£000	£000
Fixed assets					
Tangible assets	9		12,293		12,956
Investments	10		1,757		1,757
			14,050		14,713
Current assets					
Stocks	11	4,968		7,403	
Debtors Amounts falling due within one year	12	6,055		7,458	
Cash at bank and in hand		5,798		7,480	
		16,821		22,341	
Creditors Amounts falling due within one year	13	(9,337)		(10,128)	
Net current assets			7,484		12,213
Total assets less current liabilities			21,534		26,926
Provisions for liabilities and charges	14		(2,230)		(2,082)
Net assets			19,304		24,844
Capital and reserves					
Called up share capital	15		1		1
Capital contribution	17		1,091		791
Profit and loss account	17		18,212		24,052
Equity shareholders' funds	18		19,304		24,844

The financial statements on pages 8 to 30 were approved by the board on 5 July 2007 and were signed on its behalf by



J Chapman



D T Taylor

Statement of total recognised gains and losses for the year ended 31 December 2006

	Notes	2006 £000	2005 Restated £000
Profit for the financial year		3,777	3,515
Total recognised gains and losses relating to the year		3,777	3,515
Prior year adjustment – adoption of FRS20	23	(595)	
Total gains and losses recognised since last annual report		3,182	

The notes on pages 14 to 30 form part of these financial statements

Notes to the financial statements for the year ended 31 December 2006

1. Turnover

An analysis of turnover by geographical destination is given below

	2006 £000	2005 £000
United Kingdom	48,814	51,607
Other EU countries	1,330	924
United States of America	59	47
Australasia	512	-
Rest of the world	1,494	890
	52,209	53,468

The origin of the Company's turnover is in the United Kingdom and is derived from its principal activity of air defence training and aircraft engineering

2. Operating profit

	2006 £000	2005 £000
Operating profit is stated after charging		
Depreciation		
- owned assets	1,497	1,788
Operating lease charges		
- plant and machinery	158	117
- aircraft	3,768	3,309
- other	501	465
Loss on disposal of tangible fixed assets	2	8
Exchange differences	27	13
Auditors' remuneration fees for the audit of the Company's annual accounts	35	26

Fees paid to the Company's auditor, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company are not disclosed in these accounts since the consolidated group financial statements of the ultimate parent undertaking, Cobham plc, disclose the non-audit fees on a consolidated basis

3. Interest receivable and similar income

	2006 £000	2005 £000
Bank Interest receivable	283	301
Other income	20	-
	303	301

4. Taxation

	2006 £000	2005 Restated £000
Current Tax		
Corporation tax on profits for the year	444	903
Double taxation relief	(7)	(20)
Adjustment in respect of previous periods	(11)	(308)
	426	575
Overseas taxation for the year	7	20
Total current tax	433	595
Deferred tax		
Capital allowance for the year in excess of depreciation and other timing differences	100	(123)
Origination and reversal of timing differences on FRS20 expense	(19)	(68)
Adjustment in respect of previous periods	44	(4)
Total deferred tax (note 14)	125	(195)
Tax on profit on ordinary activities	558	400

The tax assessed for the year is lower than the (2005 lower) standard rate of corporation tax in the UK of 30% (2005 30%). The differences are explained below -

	2006 £000	2005 Restated £000
Profit on ordinary activities before taxation	4,335	3,915
Profit on ordinary activities multiplied by the standard rate in the UK 30% (2005 30%)	1,301	1,175
Effects of		
Expenses not deductible for tax purposes	181	46
Dividend income not taxable	(766)	(298)
Expenditure qualifying for additional R&D tax deduction	(11)	(34)
FRS20 expense not deductible for tax purposes	71	40
Tax deduction available in respect of share options	(251)	(173)
Origination and reversal of timing differences on FRS20 expense	19	68
Capital allowances for the year in excess of depreciation and other timing differences	(100)	79
Adjustment to tax charge in respect of previous periods	(11)	(308)
Current tax charge for the year	433	595

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year

5. Directors

Directors' emoluments

	2006 £000	2005 £000
Aggregate emoluments	1,051	1,276
Aggregate amounts paid in respect of money purchase pension schemes	92	88
	1,143	1,364

Retirement benefits are accruing to 3 (2005 4) directors under a defined benefit scheme and to 3 (2005 4) directors under money purchase pension schemes

Highest paid director

	2006 £000	2005 £000
Total emoluments including amounts accruing under long-term incentive schemes	279	391
Company contributions paid to money purchase schemes	65	57
Accrued pension at end of year under defined benefit scheme	10	12

The highest paid director exercised share options and received shares under a LTIP scheme

6. Employee costs

	2006 £000	2005 Restated £000
Wages and salaries	17,269	17,610
Social security costs	1,821	1,874
Share-based payments	300	363
Other pension costs (note 19)	1,795	2,472
	21,185	22,319

Prior year's amounts have been restated by £363,000 in order to include the FRS 20 share-based payment charges (note 23)

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

By activity	2006	2005
Production and engineering	339	369
Marketing	21	24
Management and administration	72	69
	432	462

All employees are based wholly in the United Kingdom

7. Share-based payments

The Company's ultimate parent undertaking, Cobham plc, operates a number of incentive schemes which are open to certain senior executives employed within the Group which include both equity settled and cash-settled awards. The company participates in two of these schemes, the Cobham Long Term Incentive Plan (LTIP) and the Cobham Executive Share Options Scheme (ESOS)

Under the LTIP scheme awards are made at nil cost, vesting over a three year performance period based on the group's Total Shareholder Return relative to that of a comparator group and also conditional upon the Group's EPS growth over the same period

Under the ESOS, options are granted at a price not less than the market value of the Group's ordinary shares on, or shortly before, the date the options are granted. Exercise is conditional upon the Group's EPS growth over a three year period

Further details of these schemes can be found on pages 33 and 34 of the 2006 Annual Report of Cobham plc

In addition, entry to the Cobham Savings related Share Option Scheme (Sharesave) is available to all employees of the company. Employees may purchase shares of Cobham plc at 80% of the closing market price on the date of grant during a two-week period each year, up to a maximum contribution value of £3,000 in anyone year. The shares so purchased are generally placed in an employee's share savings plan and will only be released to employees who remain in the Cobham plc group's employment for a period of three years from the date of grant

The fair value of share-based payments relating to the employees of the Company for the year ended 31 December 2006, and expensed to the profit and loss account for that year, was assessed to be £300,000 (2005 £363,000). As the schemes relate to shares of the ultimate parent undertaking, the Company has recognised a capital contribution equal to the profit and loss account charge for the year (note 17)

Details of the share options outstanding for all schemes granted to employees during the year are as follows

LTIP

	2006 Number of share options	2005 Number of share options
Outstanding at the beginning of the year	82,010	378,310
Granted during the year	92,154	177,340
Forfeited during the year	(18,445)	-
Employees transferred to other group company	-	(473,640)
Outstanding at the end of the year	155,719	82,010
Exercisable at the end of the year	-	-

The options outstanding at the year end have a weighted average remaining contractual life of 1.64 years (2005 2.05). During 2006, the effective date for options granted was 12 May with an estimated fair value of £0.903. During 2005, options were granted on 11 May with an estimated fair value of £0.551.

7. Share-based payments (continued)

These fair values were calculated using the Black-Scholes option pricing model modified by a Monte-Carlo simulation to determine the likely impact of market-related performance conditions. The inputs to the model were as follows

	2006	2005
Weighted average share price	£1 832	£1 335
Weighted average exercise price	Nil	Nil
Expected volatility	22%	22%
Expected life	3 Years	3 Years
Risk free rate	4.5%	4.4%
Expected dividend yield	1.9%	2.3%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

ESOS

	2006 Number of share options	Weighted average exercise price £	2005 Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	1,111,910	1 259	1,570,840	1 050
Granted during the year	413,724	1 853	381,320	1 387
Forfeited during the year	(116,323)	1 696	-	-
Exercised during the year	(71,658)	1 127	(784,150)	0 898
Employees transferred to other group companies	-	-	(56,100)	1 337
Outstanding at the end of the year	1,337,653	1 412	1,111,910	1 259
Exercisable at the end of the year	337,582	1.072	165,530	0 929

Options are awarded with a vesting period of three years and may be exercised at any time up to seven years after the vesting date.

Share options were exercised throughout the year and the average share price for the year was £1 777 (2005 £1 444). The options outstanding at the year end have a weighted average remaining contractual life of 7.95 years (2005 8.47), exercise prices ranging from £0.912 to £1.853. During 2006, the effective date for options granted was 12 May with an estimated fair value of £0.45. During 2005, options were granted on 11 May and 19 October with an estimated fair value of £0.32 and £0.35 respectively.

7. Share-based payments (continued)

These fair values were calculated using the Black-Scholes option pricing model. The inputs to the model were as follows:

	2006	2005
Weighted average share price	£1 833	£1 404
Weighted average exercise price	£1 855	£1 432
Expected volatility	25%	26%
Expected life	5 Years	5 Years
Risk free rate	4.5%	4.4%
Expected dividend yield	1.9%	2.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Sharesave

	2006 Number of share options	Weighted average exercise price £	2005 Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	3,259,452	0.928	3,044,695	0.864
Granted during the year	402,794	1.530	517,765	1.240
Forfeited during the year	(76,354)	1.106	(79,600)	0.934
Exercised during the year	(689,665)	0.708	(194,580)	0.751
Lapsed during the year	(33,418)	1.036	(28,828)	0.897
Outstanding at the end of the year	2,862,809	1.059	(3,259,452)	0.928
Exercisable at the end of the year	-	-	-	-

Share options were exercised throughout the year and the average share price for the year was £1 777 (2005 £1 444). The options outstanding at the year end have a weighted average remaining contractual life of 2.254 years (2005 2.347), exercise prices range from £0.691 to £1.53. In 2006, Sharesave contracts commenced on 1 February with estimated fair values of £0.69 (three year life), £0.76 (five year life) and £0.81 (seven year life). In 2005, Sharesave contracts commenced on 1 February with estimated fair values of £0.405 (three year life), £0.487 (five year life) and £0.549 (seven year life).

7. Share-based payments (continued)

These fair values were calculated using the Black-Scholes option pricing model. The inputs to the model were as follows:

	2006	2005
Weighted average share price	£1.850	£1.382
Weighted average exercise price	£1.240	£1.076
Expected volatility	22%-27%	23%-31%
Expected life	3-7 Years	3-7 Years
Risk free rate	4.3%	4.5%
Expected dividend yield	1.8%	2.2%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £2.8m (2005: £2.7m) related to equity-settled share-based payment transactions during the year.

8. Dividends

	2006	2005
	£000	£000
Interim dividend paid of £9,617.00p (2005: £1,444.00p) per share	9,617	1,444

There were no approved but unpaid dividends at 31 December 2006 (2005: £nil).

The directors have not proposed a final dividend for the year ended 31 December 2006.

Dividends are accounted for within the reconciliation of the movements in equity shareholders' funds (see note 18).

9. Tangible fixed assets

	Leasehold land and buildings (long lease) £000	Plant, machinery vehicles and aircraft £000	Fixtures fittings, tools and equipment £000	Total £000
Cost				
At 1 January 2006	12,005	16,128	4,521	32,654
Additions	-	188	648	836
Disposals	-	(130)	(36)	(166)
At 31 December 2006	12,005	16,186	5,133	33,324
Accumulated Depreciation				
At 1 January 2006	2,911	13,668	3,119	19,698
Charge for the year	239	862	396	1,497
Disposals	-	(129)	(35)	(164)
At 31 December 2006	3,150	14,401	3,480	21,031
Net book amount				
At 31 December 2006	8,855	1,785	1,653	12,293
At 31 December 2005	9,094	2,460	1,402	12,956

10. Investments

Investments in group undertakings comprise

	Shares at cost £000	Total £000
Cost & Net book amount		
At 1 January 2006 and 31 December 2006	1,757	1,757

In the opinion of the directors the value of the investment is not less than the aggregate amount at which it is shown in the balance sheet

At 31 December 2006, the Company had the following joint venture operation

	Country of incorporation and operation	Class of share capital held	Proportion held	Nature of Business
FBS Limited	England	Ordinary	50% (Joint Venture)	Management of MOD Contract

The Company's share of its joint venture interests is as follows

	2006 £000	2005 £000
Turnover	22,748	22,081
Profit before tax	3,520	2,873
Taxation	(1,061)	(971)
Profit after tax	2,459	1,902
Fixed assets	17,963	19,975
Current assets	8,157	10,786
Current liabilities including provisions and creditors	(23,660)	(28,208)
Net assets	2,460	2,553

11. Stocks

	2006 £000	2005 £000
Raw materials and consumables	3,935	4,287
Work in progress	1,685	2,875
Finished goods and goods for resale	155	241
Payments on account	(807)	-
	4,968	7,403

There is no significant difference between the replacement cost and the value of stocks shown

12. Debtors: Amounts falling due within one year

	2006 £000	2005 £000
Trade debtors	2,607	4,993
Amounts owed by group undertakings	1,321	987
Amounts owed by participating interests	127	95
Corporation tax recoverable	991	483
Other debtors	19	-
Prepayments and accrued income	990	900
	6,055	7,458

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment

13. Creditors: amounts falling due within one year

	2006 £000	2005 Restated £000
Payments received on account	2,722	2,294
Trade creditors	2,093	2,728
Amounts owed to group undertakings	455	1,216
Amounts owed to participating interests	-	11
Payroll and other taxes, including social security	1,433	1,389
Accruals and deferred income	2,634	2,490
	9,337	10,128

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

The accruals and deferred income comparative has been restated from its original value of £2,806,000 to include a reclassification of £1,003,000 of bonus amounts previously reported within provisions and to exclude £1,319,000 of other operating costs reclassified to provisions

14. Provisions for liabilities and charges

	Relocation provision	Bonus provision & LTIP	Operating costs	Other provision	Deferred taxation	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2006 (as restated)	217	109	1,331	-	425	2,082
Charge to the profit and loss account	24	154	208	102	125	613
Utilised during the year	(35)	-	(7)	-	-	(42)
Unused amounts reversed in the year	(181)	(87)	(155)	-	-	(423)
At 31 December 2006	25	176	1,377	102	550	2,230

Relocation provision

A number of employees and directors have been offered relocation benefits on commencement of their positions. The amounts recognised on the balance sheet represent the contracted allowances, less amounts claimed by the individual, previously charged to the profit and loss. The amounts recognised are expected to be fully utilised during 2007.

Bonus Provision and Long Term Incentive Plan

The Company operates a company performance related bonus scheme. Previously, accrued amounts relating to this were reported under provisions for liabilities and charges. These amounts have now been reclassified and are reported under accruals and deferred income within creditors due within one year. This has resulted in a reduction of £1,003,000 to the previously reported carried forward balance of £1,112,000 within this category.

The provision now includes only amounts relating to the Long Term Incentive Plan, which continue to accrue in provisions and are now expected to be settled in 2007.

Operating costs provision

Included in the operating costs provision are an onerous lease provision relating to a leased aircraft £378,000 (2005 £379,000) and aircraft modification & certification costs likely to be incurred for completion of contractual obligations, expected to be incurred in the period 2007 to 2009 £999,000 (2005 £940,000). The prior year amount of £1,319,000 has been reclassified from accruals.

Other Provision

During the latter period of 2006 the tenant occupying a property - Hangar 12, owned by the Company, ceased trading and vacated the Company's premises. The tenant's occupancy has led to a number of defects, dilapidations and general wear and tear that the Company will now be responsible under its superior lease for rectifying. The amounts provided are expected to be fully utilised in early 2007.

14. Provisions for liabilities and charges (continued)

Deferred taxation

The deferred tax liability represents

	2006	2005
		Restated
	£000	£000
Accelerated capital allowances	830	770
Short term timing differences on share based payments (FRS20)	(215)	(196)
Other short term timing differences	(65)	(149)
	550	425

15. Share capital

	2006	2005
	£000	£000
Authorised		
1,000 Ordinary shares of £1 each	1	1
Allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	1	1

16. Preference shares

	2006	2005
	£000	£000
Authorised		
1,549,528 9% Non-redeemable cumulative preference shares of £1 each	1,550	1,550

At 31 December 2006 no preferences shares were in issue (2005 Nil)

The 9% non-redeemable cumulative preference shareholders are entitled to receive a fixed cumulative preferential dividend in priority to the payment of dividends on the ordinary shares. They are entitled to vote at any general meeting, only if a resolution is to be proposed abrogating, varying or modifying any of their rights or privileges. Whenever entitled to vote, every such shareholder shall have one vote in respect of each fully-paid preference share of which they are the registered holder. On a return of capital on a winding up, the preference shareholders are entitled, in priority to any payment of the ordinary shareholders, to the repayment of a sum equal to the nominal amount paid up or credited as paid up on their shares together with a sum equal to all arrears or accruals of the fixed dividends.

17. Reserves

	Capital contribution £000	Profit and loss account (restated) £000
As at 1 January 2006 (as previously stated)	-	24,647
Prior year adjustment on adoption of FRS20	791	(595)
As at 1 January 2006 (as restated)	791	24,052
Profit for the financial year	-	3,777
Dividend		(9,617)
Capital contribution for the year	300	-
As at 31 December 2006	1,091	18,212

The capital contribution reserve represents share-based payments awarded to certain employees of the Company by the ultimate parent undertaking, Cobham plc (note 7)

18. Reconciliation of movements in equity shareholders' funds

	2006 £000	2005 Restated £000
Profit for the financial year	3,777	3,515
Dividends	(9,617)	(1,444)
Capital contribution from ultimate parent (FRS20)	300	363
Net (deduction)/addition to shareholders' funds	(5,540)	2,434
Opening shareholders' funds as previously stated	24,648	22,282
Prior year adjustment on adoption of FRS20 (note 23)		
Profit and loss account	(595)	(300)
Capital contribution reserve	791	428
Opening shareholders' funds as restated	24,844	22,410
Closing shareholders' funds	19,304	24,844

19. Pension commitments

Defined contribution scheme

The Company participates in the Cobham Pension Plan, Money Purchase Plan, as operated by Cobham plc. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charged represents contributions payable by the Company to the fund and amounted to £123,000 (2005 £170,000). At 31 December 2006 there were no contributions outstanding (2005 £37,000).

The Company also makes contributions, on behalf of certain employees, to the Cobham Pension Plan, Group Individual Savings Personal Pension, as operated by Cobham plc. The cost amounted to £42,000 (2005 £nil).

Defined benefit scheme

The Company also participates in the Cobham Pension Plan, Defined Benefit Scheme, operated by Cobham plc. The pension scheme is of the defined benefit type and its assets are held in a separate trustee administered fund. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. The latest effective date of the actuarial assessment of the scheme was 6 April 2004. This assessment was updated to 31 December 2006 at which date the net liabilities of the scheme were assessed to be £19.6m. The directors of the companies involved in the group scheme will continue to monitor the level of the pension deficit and take advice from independent actuaries as appropriate.

As the scheme is a multi-employer scheme the Company is not able to identify its share of underlying assets and liabilities of the scheme. Therefore in accordance with the multi-employer exemption contained within FRS17, the scheme has been accounted for as if it was a defined contribution scheme and the charge to the profit and loss account therefore reflects payments for the year.

The total pension charges for the year for the defined benefit pension scheme were £1,630,000 (2005 £2,302,000).

20. Contingent liabilities and guarantees

The Company is a participant in a group banking arrangement under which all surplus cash balances are held as collateral for bank facilities advanced to group members. In addition, the Company has issued an unlimited guarantee to support these group facilities. It is not expected that any material liability will result from these guarantees.

The Company has given its bankers an indemnity in respect of a deferment guarantee given by them on the Company's behalf to HM Revenue and Customs of an amount not exceeding £600,000 (2005 £600,000) and also has in place contract performance related guarantees totalling £1,734,000 (2005 £1,970,000) to other third parties. No liabilities are expected to crystallise from these guarantees.

21. Capital commitments

The Company had capital commitments of £143,000 at 31 December 2006 (£290,000 at 31 December 2005).

22. Financial commitments

The following annual operating lease commitments existed at the year end expiring as follows

	Land and buildings		Other		Total	
	2006	2005 Restated	2006	2005	2006	2005 Restated
	£000	£000	£000	£000	£000	£000
Within one year	33	1	7	1	40	2
Between two and five years	-	53	602	461	602	514
After five years	426	406	3,372	3,151	3,798	3,557
	459	460	3,981	3,613	4,440	4,073

The 2005 comparative commitment of £460,000 in the land and buildings category has been restated from the originally reported £277,000. The movement of £129,000 represents the commitment on a single lease which was omitted from the original over five year category in error.

23. Prior year adjustment

A prior year adjustment has been made following the adoption of FRS20 Share-based payment, which is effective from 1 January 2006. As shown in the table below, for the year ended 31 December 2005 the profit before tax has decreased by £363,000 and the deferred tax charge has decreased by £68,000, a total reduction in retained profit of £295,000. The retained profit and loss as at 1 January 2005 decreased by £300,000 and an other reserve, representing capital contributions by Cobham plc, of £791,000 at 31 December 2005 has been created, £363,000 relating to the year ended 31 December 2005, and £428,000 to earlier years.

Opening shareholders funds as at 1 January 2005 have increased by £128,000 (from £22,282,000 to £22,410,000), and at 1 January 2006 they have increased by £196,000 (from £24,648,000 to £24,844,000). These amounts reflect the deferred tax impact of this prior year adjustment.

	Profit for the year after tax £000	Capital contribution £000	Net Assets £000
At 31 December 2005 as previously reported	3,810	-	24,648
Prior year adjustment	-	428	128
Profit before tax adjustment on adoption of FRS20	(363)	363	-
Deferred tax adjustment on adoption of FRS20	68	-	68
At 31 December 2005 as restated	3,515	791	24,844

24. Ultimate parent undertaking

The Company's immediate parent undertaking is FR Aviation Group Ltd

The ultimate parent undertaking and controlling party is Cobham plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Cobham plc consolidated financial statements can be obtained from the Company Secretary at Cobham plc, Brook Road, Wimborne, Dorset BH21 2BJ

25. Cash flow statement

As noted above, the Company is a wholly owned subsidiary of FR Aviation Group Ltd and is included in the consolidated financial statements of Cobham plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (revised 1996)

26. Forward Currency Contracts

As at 31 December 2006 the Company has entered into a series of forward currency arrangements to mitigate its general forecast foreign exchange currency risk by obtaining foreign currency at fixed rates from its parent Company, Cobham plc

As at 31 December 2006 the fair value of these liabilities amounted to £1,819,000, whereas the contract value amounted to £1,878,000. No entry has been made in the financial statement to reflect this

27. Post Balance Sheet Event

The corporation tax rate was changed in the 2007 budget from 30% to 28% with effect from April 2008. The estimated effect of this change in rate is to reduce the deferred tax liability by £149,000

28. Related party disclosures

The Company has taken the exemption under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Cobham plc group or investees of the Cobham plc group

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

	Purchases in year £000	2006 Creditor balance £000	Purchases in year £000	2005 Creditor balance £000
Bournemouth Aviation Services Company Limited	19	-	41	11
FB Heliservices Ltd	1	-	-	-
	20	-	41	11
	Sales in year £000	2006 Debtor balances £000	Sales in year £000	2005 Debtor balances £000
Bournemouth Aviation Services Company Limited	25	103	228	69
FB Heliservices Ltd	59	3	68	6
Aviation Défense SA	149	21	151	20
	233	127	447	95

FR Aviation received 3 dividend income payments totalling £2,552,000 from its investment in FBS Limited, a joint venture with Brnstow Helicopters Ltd, in the year to 31 December 2006 (2005 £994,000)

No amounts have been written off during the period, nor any doubtful debt provisions considered necessary

FB Heliservices Limited and Aviation Défense SA are joint venture companies of the FR Aviation Group Ltd

Bournemouth Aviation Services Company Limited was an associate of FR Aviation Group Limited. Its holding of 40% of the allotted share capital of Bournemouth Aviation Services Company Limited was reduced to 19% effective 1 April 2004. The associate ceased trading with effect from 21 December 2006.

The company is controlled by FR Aviation Group Limited, the company's immediate parent undertaking. The ultimate controlling company is Cobham plc. For all other transactions the company has taken advantage of the exemption provided by Paragraph 3(c) of FRS 8 not to disclose transactions with entities that are part of the Cobham plc group.