

FR Aviation Limited
Directors' Report and Financial Statements
for the year ended 31 December 2007

Registered Number 845310



FR Aviation Limited

Directors' Report and Financial Statements for the year ended 31 December 2007

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Directors' report for the year ended 31 December 2007

The directors have pleasure in submitting their report, together with the audited financial statements of FR Aviation Limited ("the Company"), for the year ended 31 December 2007

Results and dividends

The Company's results for the year are set out in the profit and loss account on page 10 showing a profit for the financial year after tax of £5,848,000 (2006 £3,777,000) At 31 December 2007, the Company has net assets of £22,469,000 (2006 £19,304,000)

Dividends paid and proposed are as set out in note 8

Principal activities and business review

The principal activities of the Company are the provision of air defence training and aircraft engineering

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

The directors consider the Company performed reasonably 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

Future developments

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

Looking ahead, the Company is to continue to focus on its business winning activity and expects the results of this investment to continue to add materially to Company performance in 2008 and 2009

In the first half of 2008 a contract was secured to provide engineering conversion services to Air Tanker Limited, which was awarded the Future Strategic Tanker Aircraft ('FSTA') programme

Research and development

The Company is committed to research and development and has invested £19,000 (2006 £6,000) 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 pages 6 and 7 of the Cobham plc 2007 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 at the Company level (financial and non-financial) 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 Aviation Services division of Cobham plc, which includes the Company, is discussed on pages 16 and 17 of the Cobham plc 2007 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 cash flow risk and foreign exchange currency rate risk The Company has in place a risk management programme that seeks to limit adverse affects on the financial performance of the Company

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

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guidelines to allow it to manage price risk, credit risk, liquidity risk, interest rate cash flow risk and foreign exchange currency 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 equity investments.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk.

Liquidity risk

The Company 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 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.

The Company also operates a company wide bonus scheme, dependant on the Company's 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. 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 at FR Aviation Ltd, Brook Road, Wimborne, Dorset BH21 2BJ. The total amount of the Company's trade creditors falling due within one year at 31 December 2007 represents 29 days (2006 25 days) worth as a proportion of the total amount invoiced by suppliers during the year ended on that date.

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Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Company is not significantly different from the value in the accounts

Charitable contributions

During the year the Company made various charitable donations totaling £3,250 (2006 £3,955)

	2007	2006
	£	£
Bournemouth Gilbert & Sullivan Operatic Society	-	50
British Heart Foundation	50	50
Christchurch Rowing Club	75	30
Dorset Children's Hospice	-	95
Jeans for Genes	261	248
Pidley Mountain Rescue Team	-	400
RAF St Mawgan Air Traffic Control	-	100
Ringwood Carnival	50	50
Tarrant Valley Players	-	50
The Mayor's Chanty Ball	-	140
3rd New Milton Guides Group	-	50
Cancer Research UK (cheque not presented)	(50)	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
Mayors Goodwill Fund	-	50
Somerton Community Association	-	23
Tenovus Cancer Chanty	-	109
The Domino Appeal	-	25
Wessex Autistic Society	-	25
39 Squadron Disbandment Fund	-	1,500
Comic Relief	294	-
Carry forward	680	3,955

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Brought forward	680	3,955
Shoot for Business	500	-
The Princes Trust	200	-
Joint Services Makalau Expedition	500	-
RAF Winter Sports	600	-
Jenny Young/Camps International	50	-
Julia's House	50	-
Hannah Madge/Global Young Leaders Conference	100	-
British Disabled Flying Association	150	-
Christchurch Scouts	50	-
Electronic Warfare Branch Reunion/Maritime Warfare School	200	-
Christchurch Infant School	20	-
RSPB	30	-
Bedale Gymnastics Club	50	-
Stour Valley Supporters	20	-
BBGA Donation	10	-
MOD Chanty Function	40	-
	3,250	3,955

Directors

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

S J Fitz-Gerald

J Chapman

D T Taylor

J Danning

D Harrison (also Company Secretary)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

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The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that 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

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

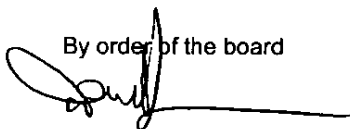
the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985

Independent 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
Company Secretary

7 July 2008

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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 2007, which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 2007 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

7 July
2008

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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, which have been applied consistently throughout the year, are set out below.

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 dispatch or, in the case of services, when the Company has met its contractual obligations for service delivery to its customers. In the case of long term contracts, turnover is recognised based upon the fair value of work performed to date.

Current taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Tangible assets and depreciation

Tangible 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 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 (including vehicles)	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.

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. Where necessary, provision is made for obsolete, slow moving and defective stocks.

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.

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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

Pension costs

The Company contributes to a multi-employer defined benefit pension scheme operated by Cobham plc, the assets of which are held separately in independently administered funds. 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.

The Company adopted the December 2006 amendment to FRS17 early, with effect from 1 January 2006.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Discounting is not performed.

Foreign currencies

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

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.

Operating lease incentives are spread on a straight line basis over the lease term.

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.

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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 grant are charged to the profit and loss account over the vesting period of the option. The valuation of the options utilises a methodology based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria. The impacts of changes in assumptions of the number of options that are expected to vest due to non market related conditions are assessed at each balance sheet date and adjusted through the profit and loss account on a cumulative basis.

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.

Joint ventures and associates

Joint ventures and associates are accounted for using the equity method and include the Company's share of the total recognised gains and losses of joint ventures and associates from the date that joint control or significant influence commences until the date this ceases.

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Profit and loss account for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Turnover	1	52,189	52,209
Cost of sales		(41,750)	(40,665)
Gross profit		10,439	11,544
Distribution costs		(2,048)	(3,495)
Administrative expenses		(5,775)	(6,542)
Other operating expenses		(92)	(27)
Operating profit	2	2,524	1,480
Interest receivable and similar income	3	168	303
Income from shares in group undertakings	25	2,460	2,552
Profit on ordinary activities before taxation		5,152	4,335
Tax on profit on ordinary activities	4	696	(558)
Profit for the financial year	17	5,848	3,777

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 profit for the financial year have been computed on the historical cost basis

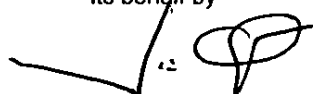
The Company has no recognised gains or losses other than the amounts above and therefore no separate statement of total recognised gains and losses has been prepared

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Balance sheet as at 31 December 2007

	Notes	2007		2006	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		11,934		12,293
Investments	10		1,757		1,757
			13,691		14,050
Current assets					
Stocks	11	4,526		4,968	
Debtors	12	9,750		6,055	
Cash at bank and in hand		4,892		5,798	
		19,168		16,821	
Creditors amounts falling due within one year	13	(9,618)		(9,337)	
Net current assets			9,550		7,484
Total assets less current liabilities			23,241		21,534
Provisions for liabilities	14		(772)		(2,230)
Net assets			22,469		19,304
Capital and reserves					
Called up share capital	15		1		1
Other reserve	16		1,624		1,091
Profit and loss account	16		20,844		18,212
Total shareholders' funds	17		22,469		19,304

The financial statements on pages 7 to 27 were approved by the board on 7-7-2008 and were signed on its behalf by



J Chapman
Director



D T Taylor
Director

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Notes to the financial statements for the year ended 31 December 2007

1. Turnover

All sales are made in the United Kingdom and are derived from the Company's principal activity of air defence training and aircraft engineering

An analysis of turnover by geographical destination is given below

	2007 £000	2006 £000
United Kingdom	48,579	48,814
Other EU countries	1,470	1,330
United States of America	49	59
Australasia	1,062	512
Rest of the world	1,029	1,494
	52,189	52,209

2. Operating profit

	2007 £000	2006 £000
Operating profit is stated after charging		
Depreciation	1,307	1,497
Operating lease charges		
- plant and machinery	158	158
- aircraft	4,952	3,768
- land and buildings	512	501
Research and development	19	6
Loss on disposal of tangible fixed assets	19	2
Exchange differences	92	27
Auditors' remuneration fees for the audit of the Company's annual accounts	19	35

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

	2007 £000	2006 £000
Bank interest receivable	168	283
Other Income	-	20
	168	303

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4. Tax on profit on ordinary activities

	2007 £000	2006 £000
Current tax		
Corporation tax on profits for the year	445	444
Double taxation relief	-	(7)
Adjustment in respect of prior years	200	(11)
	645	426
Overseas taxation for the year	-	7
Total current tax	645	433
Deferred tax		
Capital allowance for the year in excess of depreciation	102	61
Timing differences relating to share options	(95)	(19)
Other timing differences	208	39
Effect of decreased tax rate	(148)	-
Effect of IBA balancing adjustments	(1,222)	-
Adjustment in respect of previous periods	(186)	44
Total deferred tax (note 14)	(1,341)	125
Tax (credit)/charge on profit on ordinary activities	(696)	558

The tax assessed for the year is lower (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below -

	2007 £000	2006 £000
Profit on ordinary activities before taxation	5,152	4,335
Profit on ordinary activities multiplied by the standard rate in the UK 30% (2006 30%)	1,546	1,301
Effects of		
Expenses not deductible for tax purposes	83	181
Dividend income not taxable	(738)	(766)
Expenditure qualifying for additional R&D tax deduction	(12)	(11)
FRS20 deductions and origination and reversal of timing differences	(124)	(161)
Origination and reversal of other timing differences	(208)	(39)
Capital allowances for the year in excess of depreciation	(102)	(61)
Adjustment to tax charge in respect of prior years	200	(11)
Current tax charge for the year	645	433

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4. Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

The standard rate of corporation tax in the UK has changed from 30% to 28% from 1 April 2008 which will reduce future tax charges. The Company's future tax charge is also likely to be higher than the standard rate of corporation tax of 30% due to the phased withdrawal of Industrial Buildings Allowances.

Based on current capital investment plans, the Company expects to charge depreciation in excess of capital allowances in future years.

Deferred tax assets/liabilities have not been discounted.

5. Directors' emoluments

	2007 £000	2006 £000
Aggregate emoluments	1,036	1,051
Aggregate amounts paid in respect of money purchase pension schemes	40	92
	1,076	1,143

Retirement benefits are accruing to 3 (2006: 3) directors under a defined benefit scheme and to 2 (2006: 3) directors under money purchase pension schemes. During the year 3 (2006: 5) directors exercised options over shares of Cobham plc and 4 (2006: 5) directors were entitled to receive shares options under long term incentive plans.

Highest paid director

	2007 £000	2006 £000
Total emoluments including amounts accruing under long-term incentive schemes	309	279
Company contributions paid to money purchase schemes	15	65
Accrued pension at end of year under defined benefit scheme	12	10

No shares were exercised or received under LTIP schemes by the highest paid director.

6. Employee costs

	2007 £000	2006 £000
Wages and salaries	16,844	17,269
Share based payments (note 7)	533	300
Social security costs	1,808	1,821
Other pension costs (note 18)	2,582	1,795
	21,767	21,185

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6. Employee costs (continued)

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

By activity	2007 Number	2006 Number
Production and engineering	331	339
Marketing	20	21
Management and administration	72	72
	423	432

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 the following schemes:

- the Cobham Performance Share Plan (PSP) which was approved at the AGM held on 6 June 2007,
- the Cobham Long Term Incentive Plan (LTIP) which expired in 2007, and
- the Cobham Executive Share Option Scheme (ESOS)

The PSP scheme allows for annual grants of conditional shares at nil cost which vest 50% based on the Group's three year Total Shareholder Return relative to that of a sector comparator group and 50% based on the growth of the Group's EPS over the same period.

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. A new section has been added to the ESOS scheme during 2007 under which options are granted with 25% vesting each annual anniversary conditional only on continued employment within the Group.

Further details of these schemes can be found on pages 36, 37 and 63 to 66 of the 2007 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 any one 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 2007, and expensed to the profit and loss account for that year, was assessed to be £533,000 (2006 £300,000). 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 16).

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7. Share-based payments (continued)

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

Number of share options	PSP	LTIP	ESOS	ShareSave
At 1 January 2006	-	82,010	1,111,910	3,259,452
Awards granted	-	92,154	413,724	402,794
Awards forfeited	-	(18,445)	(116,323)	(76,354)
Exercised	-	-	(71,658)	(689,665)
Lapsed	-	-	-	(33,418)
At 1 January 2007	-	155,719	1,337,653	2,862,809
Awards granted	111,198	-	305,728	390,709
Awards forfeited	-	-	-	(69,050)
Exercised	-	-	(108,542)	(701,138)
Expired	-	(40,160)	-	(30,661)
Transferred	-	-	(264,654)	-
At 31 December 2007	111,198	115,559	1,270,185	2,452,669
Exercisable at 31 December 2007	-	-	433,380	10,224
Exercisable at 31 December 2006	-	-	337,582	-

The weighted average remaining contractual life in years of awards is as follows

	PSP	LTIP	ESOS	ShareSave
Outstanding at 31 December 2007	2.23	0.96	7.57	2.269
Outstanding at 31 December 2006	-	1.64	7.95	2.254

Under the ESOS and Sharesave schemes, exercises were made at various times throughout the year. The average share price in that period was £2.036 (2006: £1.777).

FR Aviation Limited

7. Share-based payments (continued)

All awards under the PSP and LTIP schemes have a nil exercise price. The weighted average exercise prices of awards under the ESOS and ShareSave schemes are as follows

	ESOS	ShareSave
At 1 January 2006	£1 259	£0 928
Awards granted	£1 853	£1 530
Awards forfeited	£1 696	£1 106
Exercised	£1 127	£0 708
Lapsed	-	£1 036
At 1 January 2007	£1 412	£1 059
Awards granted	£2 045	£1 630
Awards forfeited	-	£1.157
Exercised	£1 115	£0 854
Expired	-	£1 095
Transferred	£1 451	-
At 31 December 2007	£1 582	£1 205
Exercisable as at 31 December 2007	£1 200	£1 137
Exercisable as at 31 December 2006	£1 072	-
The range of exercise prices for ESOS and ShareSave awards are as follows		
	ESOS	ShareSave
Outstanding at 31 December 2007		
Lowest exercise price	£1 346	£0 769
Highest exercise price	£2 045	£1 630
Outstanding at 31 December 2006		
Lowest exercise price	£0 912	£0 691
Highest exercise price	£1 853	£1 530

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7. Share-based payments (continued)

Awards granted or commencing during the current and comparative year are as follows

	PSP	LTIP	ESOS	ShareSave
During 2007.				
Effective date of grant or commencement date	6 June	-	6 June	1 February
Fair value at date of grant or scheme commencement				
- Three-year awards	1 530	-	0 473	0 560
- Five-year awards	-	-	-	0 640
- Seven-year awards	-	-	-	0 730
Effective date of grant	12 June	-	-	-
Fair value at date of grant	1 498	-	-	-
During 2006				
Effective date of grant or commencement date	-	12 May	12 May	1 February
Fair value at date of grant or scheme commencement				
- Three-year awards	-	0 903	0 45	0 690
- Five-year awards	-	-	-	0 760
- Seven-year awards	-	-	-	0 810
Effective date of grant	-	14 November	14 November	-
Fair value at date of grant	-	0 909	0 47	-

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7. Share-based payments (continued)

The fair values in the table above were calculated using the Black-Scholes option pricing model (modified by a Monte Carlo simulation for PSP and LTIP awards) to determine the likely impact of market-related performance conditions. The inputs into the model were as follows:

	LTIP	ESOS	ShareSave
2007			
Weighted average share price	-	£2 088	£1 920
Weighted average exercise price	-	£2 045	£1 530
Expected volatility	-	23%	24%-27%
Expected life	-	5 years	3 - 7 years
Risk free rate	-	4.3%	4.9%
Expected dividend yield	-	1.8%	1.8%
2006			
Weighted average share price	£1 832	£1 833	£1 850
Weighted average exercise price	nil	£1 855	£1 240
Expected volatility	22%	25%	22%-27%
Expected life	3 years	5 years	3 - 7 years
Risk free rate	4.5%	4.5%	4.3%
Expected dividend yield	1.9%	1.9%	1.8%

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.

Participants of the PSP scheme receive the benefit of dividend payments and therefore dividend yields are not taken into consideration in the valuation model.

8. Dividends

	2007 £000	2006 £000
Interim dividend paid of £3,216 (2006: £9,617) per share	3,216	9,617

A dividend for the year ended 31 December 2007 of £1,230 per share, representing a total dividend payment of £1,230,000 was authorised and paid in January 2008. This dividend has not been accounted for within the current year financial statements as it had not been approved at the balance sheet date.

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9. Tangible assets

	Leasehold land and buildings (long lease) £000	Plant and machinery (including vehicles) £000	Fixtures fittings, tools and equipment £000	Total £000
Cost				
At 1 January 2007	12,005	16,186	5,133	33,324
Additions	148	358	461	967
Disposals	-	(66)	-	(66)
At 31 December 2007	12,153	16,478	5,594	34,225
Accumulated depreciation				
At 1 January 2007	3,150	14,401	3,480	21,031
Charge for the year	212	579	516	1,307
Disposals	-	(47)	-	(47)
At 31 December 2007	3,362	14,933	3,996	22,291
Net book amount				
At 31 December 2007	8,791	1,545	1,598	11,934
At 31 December 2006	8,855	1,785	1,653	12,293

10. Investments

Investments comprise

	Shares at cost £000
Cost and net book amount	
At 1 January 2007 and 31 December 2007	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 2007, 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

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10. Investments (continued)

The Company's share of its joint venture interest is as follows	2007 £000	2006 £000
Turnover	23,539	22,748
Profit before tax	4,829	3,520
Taxation	(1,147)	(1,061)
Profit after tax	3,682	2,459
Fixed assets	16,258	17,963
Current assets	10,069	8,157
Current liabilities (including provisions and creditors)	(22,645)	(23,660)
Net assets	3,682	2,460

11. Stocks

	2007 £000	2006 £000
Raw materials and consumables	3,512	3,935
Work in progress	2,047	1,685
Finished goods and goods for resale	-	155
Payments on account	(1,033)	(807)
	4,526	4,968

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

12. Debtors

Amounts falling due within one year

	2007 £000	2006 £000
Trade debtors	4,039	2,607
Amounts owed by fellow subsidiary undertakings	738	1,321
Amounts owed by participating interests	43	127
Corporation tax recoverable	875	991
Deferred tax assets (note 14)	791	-
Other debtors	517	19
Prepayments and accrued income	1,456	990
	8,459	6,055

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

FR Aviation Limited

12. Debtors (continued)

Amounts falling due after more than one year

	2007 £000	2006 £000
Prepayments and accrued income	1,291	-
	9,750	6,055

Included within prepayments and accrued income are capitalised bid costs in respect of the Future Strategic Tanker Aircraft proposal

13. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Payments received on account	2,463	2,722
Trade creditors	1,928	2,093
Amounts owed to fellow subsidiary undertakings	1,143	455
Taxation and social security	1,526	1,433
Accruals and deferred income	2,558	2,634
	9,618	9,337

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

14. Provisions for liabilities

	Staff costs provision £000	Onerous contract provision £000	Operating costs provision £000	Dilapidations provision £000	Deferred taxation £000	Total £000
At 1 January 2007	201	378	999	102	550	2,230
Charge/(credit) to the profit and loss account	17	171	49	-	(1,341)	(1,104)
Re-analysed from creditors	-	-	207	-	-	207
Utilised during the year	(24)	-	(441)	(7)	-	(472)
Unused amounts reversed in the year	(177)	(378)	(230)	(95)	-	(880)
Reclassified to debtors	-	-	-	-	791	791
At 31 December 2007	17	171	584	-	-	772

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14. Provisions for liabilities (continued)

Staff costs provision

Staff costs provision comprises a relocation provision and a holiday pay provision

Regarding the relocation provision certain 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 individuals, previously charged to the profit and loss. The amounts recognised are expected to be fully utilised during 2008.

Operating costs provision

The operating costs provision represents aircraft modification and certification costs likely to be incurred for completion of contractual obligations.

Onerous contracts provision

The onerous contracts provision represents amounts due on onerous leases and other contracts that the Company has entered into.

Dilapidations provision

At 31 December 2006 provision was made for costs to be incurred in rectifying defects, dilapidations and general wear and tear on properties. This work was completed in 2007.

Deferred taxation

The deferred tax (asset)/liability represents

	2007 £000	2006 £000
Accelerated capital allowances	(450)	830
Other short term timing differences	(341)	(280)
	(791)	550

The deferred tax asset is recognised to the extent that it is regarded as recoverable. On the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

FR Aviation Limited

15. Share capital

	2007 £000	2006 £000
Authorised:		
1,000 Ordinary shares of £1 each	1	1
1,549,528 9% Non-redeemable cumulative preference shares of £1 each	1,550	1,550
Allotted and fully paid		
1,000 Ordinary shares of £1 each	1	1

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.

16. Reserves

	Other reserve £000	Profit and loss account £000
As at 1 January 2007	1,091	18,212
Profit for the financial year	-	5,848
Dividends	-	(3,216)
Capital contribution	533	-
As at 31 December 2007	1,624	20,844

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

FR Aviation Limited

17. Reconciliation of movements in total shareholders' funds

	2007 £000	2006 £000
Profit for the financial year	5,848	3,777
Dividends	(3,216)	(9,617)
Retained profit/(loss) for the financial year	2,632	(5,840)
Capital contribution from parent	533	300
Net addition to/(deduction from) shareholders' funds	3,165	(5,540)
Opening shareholders' funds	19,304	24,844
Closing shareholders' funds	22,469	19,304

18. 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 £299,000 (2006: £123,000). At 31 December 2007 there were no contributions outstanding (2006: £nil).

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 £34,000 (2006: £42,000).

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 1 April 2006. This assessment was updated to 31 December 2007 at which date the net liabilities of the scheme were assessed to be £30.6m. 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.

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 £2,249,000 (2006: £1,630,000).

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19. Contingent liabilities

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 (2006 £600,000) and also has in place contract performance related guarantees totalling £1,626,000 (2006 £1,734,000) to other third parties. No liabilities are expected to crystallise from these guarantees.

20. Capital commitments

The Company had capital commitments of £201,000 at 31 December 2007 (2006 £143,000).

21. Financial commitments

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

	Land and buildings		Other		Total	
	2007	2006	2007	2006	2007	2006
	£000	£000	£000	£000	£000	£000
Within one year	-	33	70	7	70	40
Between two and five years	49	-	366	602	415	602
After five years	330	426	3,242	3,372	3,572	3,798
	379	459	3,678	3,981	4,057	4,440

22. Ultimate parent undertaking

The Company's immediate parent undertaking is FR Aviation Group Limited.

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.

23. Cash flow statement

As noted above, the Company is a wholly owned subsidiary of FR Aviation Group Limited 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 "Cash flow statements (revised 1996)".

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24. Forward currency contracts

As at 31 December 2007 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 ultimate parent company, Cobham plc

As at 31 December 2007 the fair value of these liabilities amounted to £4,039,000 (2006 £1,819,000), whereas the contract value amounted to £4,056,000 (2006 £1,878,000) No entry has been made in the financial statements to reflect this

25. Related party disclosures

The Company has taken the exemption under the terms of FRS 8 "Related party transactions" 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	2007 Creditor balance £000	Purchases in year £000	2006 Creditor balance £000
Bournemouth Aviation Services Company Limited	6	-	19	-
F B Heliservices Limited	-	-	1	-

	Sales in year £000	2007 Debtor balance £000	Sales in year £000	2006 Debtor balance £000
Bournemouth Aviation Services Company Limited	17	-	25	103
F B Heliservices Limited	83	28	59	3
Aviation Defense SA	84	15	149	21

FR Aviation received dividend income payments totaling £2,460,000 from its investment in FBS Limited, a joint venture with Bristow Helicopters Limited, in the year to 31 December 2007 (2006 £2,552,000)

FB Heliservices Limited and Aviation Defense SA are joint venture companies of FR Aviation Group Limited, the Company's immediate parent company

Bournemouth Aviation Services Company Limited is an associate of FR Aviation Group Limited 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 "Related party transactions" not to disclose transactions with entities that are part of the Cobham plc Group