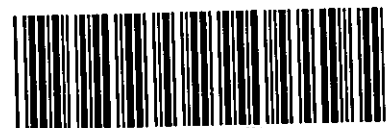


FR Aviation Limited

**Directors' report and financial statements
for the year ended 31 December 2008**

Registered number 845310

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FR Aviation Limited

Directors' Report and Financial Statements for the year ended 31 December 2008

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FR Aviation Limited

Directors' report for the year ended 31 December 2008

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 2008.

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 £10,144,000 (2007: £5,848,000). At 31 December 2008, the company has net assets of £23,812,000 (2007: £22,469,000).

Dividends paid and proposed are as set out in note 9.

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 strongly in the year, continuing to build on the positive platform established over recent years. 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 again show a strong and profitable performance.

Looking ahead, the Company continues to focus on its business winning activity and expects results from this investment to come to fruition in 2009 and 2010.

On 1 January 2009, the Company acquired the trade and certain assets of the Air Traffic Control and Fluid Systems divisions from a fellow group undertaking (note 28).

In the second half of 2008 the Company was selected as preferred bidder for the provision of aircraft modification and maintenance on the Rear Crew Training element of the Military Flying Training School ('MFTS') programme. Negotiations are progressing with conclusion expected in the first half of 2009.

Research and development

The Company is committed to research and development and has invested £22,000 (2007: £19,000) in activities during the year. All Company funded 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 26 of the Cobham plc 2008 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 18 and 19 of the Cobham plc 2008 Annual Report which does not form part of this report.

Financial risk management

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

FR Aviation Limited

Directors' report 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 cash flow risk, credit risk and foreign currency exchange rate risk.

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

Price risk

The Company is not materially exposed to price risk as a result of its operations, due to the nature of its trading operations and contract arrangements. In addition, 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 or other 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 both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, 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.

Foreign currency exchange rate risk

The Company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange rate contracts with the 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 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 involvement in improving corporate performance and continues to support employee share ownership through participation in the Cobham group ShareSave scheme which is open to all employees of the Company.

FR Aviation Limited

Directors' report continued

Creditors payment policy

The Company agrees terms and conditions for its business transactions with suppliers. Payment is generally made on those terms subject to the terms and conditions being met by the supplier and on average supplier accounts are settled within 23 days (2007: 29 days).

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 totalling £5,228 (2007: £3,250).

	2008	2007
	£	£
British Heart Foundation	-	50
Christchurch Rowing Club	-	75
Jeans for Genes	250	261
Ringwood Carnival	50	50
Cancer Research UK (cheque not presented)	-	(50)
Comic Relief	-	294
Shoot for Business/Dorset Enterprise	500	500
The Princes Trust	500	200
Joint Services Makalau Expedition	500	500
RAF Winter Sports	-	600
Jenny Young/Camps International	-	50
Julia's House	360	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	20
RSPB	-	30
Bedale Gymnastics Club	-	50
Stour Valley Supporters	-	20
BBGA Donation	-	10
MOD Charity Function	-	40
Bournemouth & Poole College	323	-
West Parley Residents Association	100	-
Tarrant Valley Players	50	-
Portsmouth Northsea Swimming Club	50	-
Sam Dickson Trust	25	-
Carry forward	2,728	3,250

FR Aviation Limited

Directors' report continued

	2008	2007
	£	£
Brought forward	2,728	3,250
Fly 2 Help Foundation	2,500	-
	5,228	3,250

Directors

The following directors held office during the year and up to the date of signing this report:

S J Fitz-Gerald
 J Chapman - resigned 31 December 2008
 D T Taylor
 J Danning
 D Harrison - (also Company Secretary)
 C Hughes - appointed 15 April 2009

Statement of directors' responsibilities

The directors are responsible for preparing the directors' 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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.

FR Aviation Limited

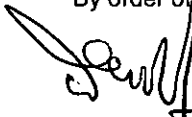
Directors' report continued

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
26 May 2009

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 2008, which comprise the statement of accounting policies, the profit and loss account, the balance sheet 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.

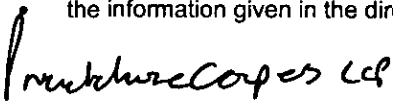
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Independent auditors' report (continued)

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 2008 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

Chartered Accountants and Registered Auditors

Southampton

27 May 2009

FR Aviation Limited

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 despatch, or in the case of services, when the company has met its contractual obligations for service delivery to its customers. In the case of contracts of a long duration, turnover is recognised based upon the fair value of work performed to date assessed with reference to contract milestones.

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 fixed assets and depreciation

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 (including vehicles)	3 to 10 years
Fixtures, fittings, tools and equipment	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.

Impairment reviews are performed by the directors when there has been an indication of potential impairment.

FR Aviation Limited

Statement of accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost, stated on a First In First Out basis, which includes an appropriate proportion of production overheads, and net realisable value. Provision is made where necessary for obsolete, slow moving and defective stock.

Turnover and a prudent estimate of the profit attributable to work completed on long-term contracts is recognised once the outcome of the contract can be recognised with reasonable certainty. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as long-term contract balances.

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.

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 to defined contribution schemes 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.

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.

Foreign currencies

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

Monetary assets and liabilities denominated in 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

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 or, if shorter, over the period to the first rent review.

FR Aviation Limited

Statement of accounting policies (continued)

Research and development

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

Where the research and development activity is performed for customers, costs are capitalised in work in progress and released to revenue in accordance with the Company's revenue recognition policy above.

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 grant are charged to the profit and loss account over the vesting period of the option and recognised as a capital contribution in equity. 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.

FR Aviation Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Turnover	1	57,681	52,189
Cost of sales		(45,201)	(41,750)
Gross profit		12,480	10,439
Selling and distribution costs		(1,560)	(2,048)
Administrative expenses		(6,120)	(5,775)
Other operating income/(expenses)		123	(92)
Operating profit	2	4,923	2,524
Interest receivable and similar income	3	193	168
Interest payable and similar charges	4	(52)	-
Income from shares in group undertakings		6,360	2,460
Profit on ordinary activities before taxation		11,424	5,152
Tax on profit on ordinary activities	5	(1,280)	696
Profit for the financial year	19	10,144	5,848

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

The profit on ordinary activities before taxation and the profit for the financial year have been computed on the historical cost basis.

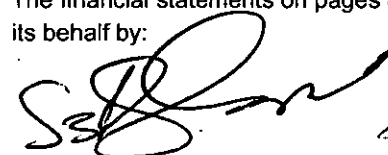
The Company has no recognised gains or losses other than the amounts above and therefore no separate statement of total recognised gains and losses has been prepared.

FR Aviation Limited

Balance sheet as at 31 December 2008

	Note	2008 £000	2007 £000
Fixed assets			
Tangible assets	10	11,846	11,934
Investments	11	1,757	1,757
		13,603	13,691
Current assets			
Stocks	12	4,179	4,526
Debtors: amounts falling due within one year	13	9,810	8,459
Debtors: amounts falling due after one year	13	1,959	1,291
Cash at bank and in hand		7,266	4,892
		23,214	19,168
Creditors: amounts falling due within one year	14	(12,475)	(9,618)
Net current assets		10,739	9,550
Total assets less current liabilities		24,342	23,241
Provisions for liabilities and charges	15	(530)	(772)
Net assets		23,812	22,469
Capital and reserves			
Called up share capital	17	1	1
Other reserve	18	2,107	1,624
Profit and loss account	18	21,704	20,844
Total shareholders' funds	19	23,812	22,469

The financial statements on pages 8 to 29 were approved by the board on 26 May 2009 and were signed on its behalf by:



S J Fitz-Gerald
Director



D T Taylor
Director

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2008

1. Turnover

All sales originate 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:

	2008 £000	2007 £000
United Kingdom	50,926	48,579
Other EU countries	5,867	1,470
United States of America	134	49
Australasia	36	1,062
Rest of the world	718	1,029
	57,681	52,189

2. Operating profit

	2008 £000	2007 £000
Operating profit is stated after charging/(crediting):		
Depreciation		
- owned assets	1,260	1,307
Operating lease charges		
- plant and machinery	83	158
- aircraft	3,279	4,952
- land and buildings	486	512
Research and development	22	19
Loss on disposal of tangible fixed assets	-	19
Exchange differences	(123)	92
Auditors' remuneration fees for the audit of the Company's annual accounts	36	19

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.

FR Aviation Limited

Notes to the financial statements

3. Interest receivable and similar income

	2008 £000	2007 £000
Bank interest receivable	158	168
Other income	35	-
	193	168

4. Interest payable and similar charges

	2008 £000	2007 £000
Interest payable to group undertakings (note 14)	52	-

5. Tax on profits on ordinary activities

	2008 £000	2007 £000
Current tax:		
UK corporation tax on profits for the year	1,400	445
Adjustment in respect of previous periods	-	200
Total current tax	1,400	645
Deferred tax:		
Capital allowances for the year in excess of depreciation	21	102
Timing differences relating to share options	(111)	(95)
Other timing differences	(30)	208
Effect of change in tax rate	-	(148)
Effect of IBA balancing adjustments	-	(1,222)
Adjustment in respect of previous periods	-	(186)
Total deferred tax (note 16)	(120)	(1,341)
Tax on profit on ordinary activities	1,280	(696)

The tax assessed for the year is lower (2007: lower) than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are explained below:-

FR Aviation Limited

Notes to the financial statements

	2008 £000	2007 £000
Profit on ordinary activities before taxation	11,424	5,152
Profit on ordinary activities multiplied by the standard rate in the UK 28.5% (2007: 30%)	3,256	1,546
Effects of:		
Expenses not deductible for tax purposes	27	83
Dividend income not taxable	(1,812)	(738)
Expenditure qualifying for additional R&D tax deduction	(7)	(12)
Tax deduction available in respect of share options	(73)	(124)
Origination and reversal of other timing differences	30	(208)
Capital allowances for the year in excess of depreciation	(21)	(102)
Adjustment to tax charge in respect of previous periods	-	200
Current tax charge for the year	1,400	645

Factors that may affect future tax charges:

The standard rate of corporation tax in the UK 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 28% due to the phased withdrawal of Industrial Buildings Allowances.

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.

Deferred tax assets/liabilities have not been discounted.

6. Directors' emoluments

	2008 £000	2007 £000
Aggregate emoluments	1,107	1,036
Aggregate amounts paid in respect of money purchase pension schemes	54	40
	1,161	1,076

Retirement benefits are accruing to 3 (2007: 3) directors under a defined benefit scheme and to 2 (2007: 3) directors under money purchase pension schemes. During the year 3 (2007: 3) directors exercised options over shares of Cobham plc and 4 (2007: 4) directors were entitled to receive share options under long term incentive plans.

FR Aviation Limited

Notes to the financial statements

Highest paid director

	2008 £000	2007 £000
Total emoluments including amounts accruing under long-term incentive schemes	325	309
Company contributions paid to money purchase schemes	15	15
Accrued pension at end of year under defined benefit scheme	15	12

The highest paid director also exercised shares under executive share option schemes during the current and previous years.

7. Employees costs

	2008 £000	2007 £000
Wages and salaries	18,950	16,844
Share based payments (note 8)	483	533
Social security costs	1,933	1,808
Other pension costs (note 20)	2,783	2,582
	24,149	21,767

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

By activity	2008	2007
Production and engineering	334	331
Marketing	20	20
Management and administration	74	72
	428	423

Notes to the financial statements

8. 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); and
- the Cobham Executive Share Option Scheme (ESOS); and
- the Cobham Bonus Co-investment Plan (BCP).

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 (TSR) relative to that of a sector comparator group and 50% based on the growth of the Group's underlying earnings per share (EPS) 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 underlying EPS growth over a three year period, or vest 25% on each annual anniversary conditional only on continued employment within the Group.

A number of awards are still outstanding under the Cobham Long-Term Incentive Plan (LTIP) under which awards were made at nil cost, vesting over a three-year performance period based on the group's TSR relative to that of a comparator group and also conditional upon the Group's underlying EPS growth over the same period. The last awards made under this scheme were in 2006, vesting (subject to the conditions) in 2009.

Further details of these schemes can be found on pages 41, 42 and 70-74 of the 2008 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 total fair value of share-based payments relating to the employees of the Company for the year ended 31 December 2008, and expensed to the profit and loss account for that year was assessed to be £483,000 (2007: £533,000). 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 18).

FR Aviation Limited

Notes to the financial statements

8. Share-based payments (continued)

Details of the awards and share options outstanding during the year for all schemes are as follows:

Number of share options	PSP	LTIP	BCP	ESOS	ShareSave
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 1 January 2008	111,198	115,559	-	1,270,185	2,452,669
Awards granted	100,422	-	9,670	277,995	398,409
Awards forfeited	-	-	-	(61,546)	(70,501)
Exercised	-	-	-	(252,400)	(531,673)
Expired	-	(41,850)	-	-	(8,029)
Transferred	-	-	-	-	66,880
At 31 December 2008	211,620	73,709	9,670	1,234,234	2,307,755
Exercisable at 31 December 2008	-	-	-	417,920	6,898
Exercisable at 31 December 2007	-	-	-	433,380	10,224

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

	PSP	LTIP	BCP	ESOS	ShareSave
Outstanding at 31 December 2008	1.71	0.24	2.23	7.30	2.220
Outstanding at 31 December 2007	2.23	0.96	-	7.57	2.269

Under the ESOS and Sharesave schemes, exercises were made at various times throughout the year. The average share price in that period was £1.987 (2007: £2.036).

FR Aviation Limited

Notes to the financial statements

8. 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 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 1 January 2008	1.582	1.205
Awards granted	2.015	1.730
Awards forfeited	1.989	1.409
Exercised	1.254	0.976
Expired	-	1.610
Transferred	-	1.143
At 31 December 2008	1.725	1.339
Exercisable as at 31 December 2008	1.250	1.272
Exercisable as at 31 December 2007	1.200	1.137

The range of exercise prices for ESOS and ShareSave awards are as follows:

£	ESOS	ShareSave
Outstanding at 31 December 2008		
Lowest exercise price	0.912	0.769
Highest exercise price	2.045	1.730
Outstanding at 31 December 2007		
Lowest exercise price	1.346	0.769
Highest exercise price	2.045	1.630

FR Aviation Limited

Notes to the financial statements

8. Share-based payments (continued)

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

	PSP	ESOS	ShareSave
During 2008:			
Effective date of grant or commencement date	12 May	12 May	1 February
Fair value at date of grant			
- Three-year awards	1.649	0.587	0.540
- Five-year awards	-	-	0.610
- Seven-year awards	-	-	0.700
During 2007:			
Effective date of grant or commencement date	6 June	6 June	1 February
- 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	-	-

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

	PSP	ESOS	ShareSave
2008			
Weighted average share price	£2.199	£2.205	£1.950
Weighted average exercise price	nil	£2.016	£1.630
Expected volatility	27%	24%	24%-26%
Expected life	3 years	5 years	3 - 7 years
Risk free rate	4.4%	4.3%	4.5%
Expected dividend yield	n/a	2.0%	1.9%
2007			
Weighted average share price	£2.149	£2.088	£1.920
Weighted average exercise price	nil	£2.045	£1.530
Expected volatility	24%	23%	24%-27%
Expected life	3 years	5 years	3 - 7 years
Risk free rate	4.3%	4.3%	4.9%
Expected dividend yield	n/a	1.8%	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.

FR Aviation Limited

Notes to the financial statements

9. Dividends

	2008 £000	2007 £000
Interim dividend paid of £9,284 (2007: £3,216) per share	9,284	3,216

The directors have not proposed a final dividend for the year ended 31 December 2008.

10. 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 2008	12,153	16,478	5,594	34,225
Additions	235	488	449	1,172
Disposals	-	(139)	(79)	(218)
At 31 December 2008	12,388	16,827	5,964	35,179
Accumulated depreciation				
At 1 January 2008	3,362	14,933	3,996	22,291
Charge for the year	216	442	602	1,260
Disposals	-	(139)	(79)	(218)
At 31 December 2008	3,578	15,236	4,519	23,333
Net book amount				
At 31 December 2008	8,810	1,591	1,445	11,846
At 31 December 2007	8,791	1,545	1,598	11,934

FR Aviation Limited

Notes to the financial statements

11. Investments

Investments comprise:

	Shares at cost £000
Cost and net book amount	
At 1 January 2008 and 31 December 2008	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 2008, 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

12. Stocks

	2008 £000	2007 £000
Raw materials and consumables	3,600	3,512
Work in progress	563	1,033
Long term contracts	45	52
Payments on account	(29)	(71)
	4,179	4,526

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

FR Aviation Limited

Notes to the financial statements

13. Debtors

Amounts falling due within one year:

	2008 £000	2007 £000
Trade debtors	6,054	4,039
Amounts owed by fellow subsidiary undertakings	1,241	738
Amounts owed by participating interests	-	43
Corporation tax recoverable	232	875
Deferred tax assets (note 16)	911	791
Other debtors	33	517
Prepayments and accrued income	1,339	1,456
	9,810	8,459

Amounts falling due after one year:

	2008 £000	2007 £000
Prepayments and accrued income	1,959	1,291
	11,769	9,750

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

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

14. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	2,135	1,928
Payments on account	2,866	2,463
Amounts owed to fellow subsidiary undertakings	2,682	1,143
Taxation and social security	1,467	1,526
Accruals and deferred income	3,325	2,558
	12,475	9,618

Amounts owed to fellow subsidiary undertakings include £2,000,000 (2007: £nil) on which interest is charged at a fixed rate of 6.5%. These amounts are unsecured and are repayable on demand. All other amounts owed to fellow subsidiary undertakings are unsecured, interest free and repayable on demand

FR Aviation Limited

Notes to the financial statements

15. Provisions for liabilities

	Staff costs provision £000	Onerous contracts provision £000	Operating costs provision £000	Total £000
At 1 January 2008	17	171	584	772
Charge to the profit and loss account	114	140	39	293
Utilised during the year	(17)	-	-	(17)
Unused amounts reversed in the year	-	(171)	(347)	(518)
At 31 December 2008	114	140	276	530

Staff costs provision

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

Certain employees and directors have been offered relocation benefits on commencement of their positions. The amounts recognised in the provision 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 2009.

Onerous contracts provision

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

Operating costs provision

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

FR Aviation Limited

Notes to the financial statements

16. Deferred taxation

	Deferred taxation £000
At 1 January 2008	791
Credit to the profit and loss account	120
At 31 December 2008	911

The deferred tax asset represents:

	2008 £000	2007 £000
Accelerated capital allowances	429	450
Other short term timing differences	482	341
	911	791

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. The deferred tax asset is shown within debtors (note 13).

17. Called up share capital

	2008 £000	2007 £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, called up and fully paid:

1,000 Ordinary shares of £1 each	1	1
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The 9% non-redeemable cumulative preference shareholders would be 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.

FR Aviation Limited

Notes to the financial statements

18. Reserves

	Other reserve £000	Profit and loss account £000
As at 1 January 2008	1,624	20,844
Profit for the financial year	-	10,144
Dividends (note 9)	-	(9,284)
Share-based payments (note 8)	483	-
As at 31 December 2008	2,107	21,704

The other reserve relates to share-based payments awarded to certain employees of the Company by the ultimate parent undertaking, Cobham plc (note 8).

19. Reconciliation of movements in total shareholders' funds

	2008 £000	2007 £000
Profit for the financial year	10,144	5,848
Dividends (note 9)	(9,284)	(3,216)
Retained profit for the financial year	860	2,632
Share-based payments	483	533
Net addition to shareholders' funds	1,343	3,165
Opening shareholders' funds	22,469	19,304
Closing shareholders' funds	23,812	22,469

FR Aviation Limited

Notes to the financial statements

20. 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 £423,000 (2007: £299,000). At 31 December 2008 there were no contributions outstanding (2007: £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 £81,000 (2007: £34,000).

Defined benefit scheme

The Company also participates in the Cobham Pension Plan operated by Cobham plc. The pension scheme is of the funded 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 2008 at which date the net liabilities of the scheme were assessed to be £16.7m. 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 members across the Cobham Group and the directors of the Company are unable to obtain detailed and reliable analysis of the scheme liabilities for the Company. Consequently in these accounts this 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 £2,279,000 (2007: £2,249,000)

21. 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 (2007: £600,000) and also has in place contract performance related guarantees totalling £2,600 (2007: £1,626,000) to other third parties. No liabilities are expected to crystallise from these guarantees.

22. Capital commitments

The Company had capital commitments of £74,000 at 31 December 2008 (£201,000 at 31 December 2007).

FR Aviation Limited

Notes to the financial statements

23. Financial commitments

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

	Land and buildings		Other		Total	
	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000
Within one year	-	-	58	70	58	70
Between two and five years	49	49	213	366	262	415
After five years	442	330	2,965	3,242	3,407	3,572
	491	379	3,236	3,678	3,727	4,057

24. 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.

25. 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 (revised 1996).

26. Forward currency contracts

As at 31 December 2008 the Company has entered into a series of forward currency arrangements to mitigate its general forecast foreign exchange currency risk by obtaining forward currency at fixed rates from its ultimate parent company, Cobham plc.

As at 31 December 2008 the fair value of these liabilities amounted to £2,156,000 (2007: £4,039,000), whereas the contract value amounted to £2,020,000 (2007: £4,056,000). No entry has been made in the financial statements to reflect this.

FR Aviation Limited

Notes to the financial statements

27. 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:

	2008 Purchases in year £000	2008 Creditor balances £000	2007 Purchases in year £000	2007 Creditor balances £000
Bournemouth Aviation Services Company Limited	-	-	6	-
F B Heliservices Limited	1	-	-	-

	2008 Sales in year £000	2008 Debtor balances £000	2007 Sales in year £000	2007 Debtor balances £000
Bournemouth Aviation Services Company Limited	-	-	17	-
F B Heliservices Limited	92	20	83	28
Aviation Defense SA	139	4	84	15

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

FR Aviation received dividend income payments totalling £6,360,000 from its investment in FBS Limited, a joint venture with Bristow Helicopters Limited, in the year to 31 December 2008 (2007: £2,460,000).

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 was an associate of FR Aviation Group Limited. The associate ceased trading with effect from 21 December 2006.

28. Post balance sheet events

On 1 January 2009 the Company acquired the trade and certain assets of the Air Traffic Control and Fluid Systems divisions from Flight Refuelling Limited, a fellow group undertaking. The net book value of the assets transferred was £12,000, and corresponding consideration of the same amount was paid in the form of cash.