

FR Aviation Limited
Directors' report and financial statements
for the year ended 31 December 2009

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FR Aviation Limited

Directors' report and financial statements for the year ended 31 December 2009

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FR Aviation Limited

Directors' report for the year ended 31 December 2009

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 2009

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 £8,799,000 (2008 £10,144,000) At 31 December 2009, the Company has net assets of £27,250,000 (2008 £23,812,000)

Dividends paid and proposed are as set out in note 9

Principal activity and business review

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

The principal activity is not expected to change in the foreseeable future

The directors consider the Company has 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, and has begun to see good results from the investment in business winning activity with significant new orders, having secured the Rear Crew Training element of the Military Flying Training School (MFTS) programme

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, details of which are reflected in note 29

Future developments

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

Looking ahead, the Company is continuing to focus on its business winning activity and expects further results from this investment to come to fruition in 2010 and 2011

The full integration of the Air Traffic Control business is virtually complete, and focussed effort in this area has resulted in significant order intake in the early part of 2010 from the UK Ministry of Defence, despite defence spending restraint

Research and development

The Company is committed to research and development and has invested £321,000 (2008 £22,000) in activities during the year. This was written off as incurred and related to work on the upgrade of Air Traffic Control software to the next release version

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 28 and 29 of the Cobham plc 2009 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

FR Aviation Limited

Directors' report (continued)

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 20 - 21 of the Cobham plc 2009 Annual Report which does not form part of this report. KPIs for the Group as a whole are discussed on page 11 of that 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 effects 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 guidelines to allow it to manage credit risk, interest rate cash flow 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. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

The Company retains sufficient cash to ensure it has 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 cash balances, all of which earn interest at a floating rate, and interest bearing receivables which earn interest at a fixed 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

FR Aviation Limited

Directors' report (continued)

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, newsletters and briefing groups.

We continue to support employee share ownership through participation in the Cobham group ShareSave Scheme which is open to all employees of the Company.

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 20 days (2008: 23 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.

Directors

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

S J Fitz-Gerald

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these 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.

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Directors' report (continued)

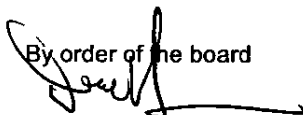
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

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

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

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

By order of the board


D Hamson
Company secretary
30-9-2010

FR Aviation Limited

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 2009 which comprise the statement of accounting policies, the profit and loss account, the balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on pages 3 and 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

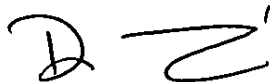
FR Aviation Limited

Independent auditors' report (continued)

Matters on which we are required to report by exception

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

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



David I'Anson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
30 September 2010

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 2006 and applicable UK accounting standards. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Changes in accounting policies

FRS 20, Share-based Payments, (amendment) has been adopted during the year. This has restricted the definition of vesting conditions to service and performance conditions and confirmed that all cancellations (whether by the employee or the entity) receive the same accounting treatment. The impact of adoption of this amendment has been to accelerate charges to the profit and loss account where such cancellations occur and to restate the fair value at grant date of awards under the ShareSave scheme to take into account estimated employee cancellation rates. The adjustment in respect of prior years required on adoption of this amendment is not material and has been accounted for in the current year.

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

FR Aviation Limited

Statement of accounting policies (continued)

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

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost 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 FRS 25 as the Company has not adopted FRS 26.

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 FRS 17, 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.

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Statement of accounting policies (continued)

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

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 the profit and loss account in accordance with the Company's turnover policy as stated above

Preference shares

Preference shares are accounted for in accordance with FRS 4 (revised) and FRS 25. Finance charges are taken to the profit and loss account so as to produce a constant rate of return over the period to the date of expected redemption

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.

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Profit and loss account for the year ended 31 December 2009

	Note	£000	2009 £000	2008 £000
Turnover Continuing operations				
Existing		60,116		-
Acquisition		4,353		-
Turnover	1		64,469	57,681
Cost of Sales Continuing operations				
Existing		(46,351)		-
Acquisition		(3,356)		-
Cost of Sales			(49,707)	(45,201)
Gross Profit Continuing operations				
Existing		13,765		-
Acquisition		997		-
Gross profit			14,762	12,480
Selling and distribution costs			(1,566)	(1,560)
Administrative expenses			(6,431)	(6,120)
Other operating (expenses)/ income			(146)	123
Operating profit	2		6,619	4,923
Interest receivable and similar income	3		39	193
Interest payable and similar charges	4		(65)	(52)
Income from shares in group undertakings			3,807	6,360
Profit on ordinary activities before taxation			10,400	11,424
Tax on profit on ordinary activities	5		(1,601)	(1,280)
Profit for the financial year	19		8,799	10,144

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 calculated on the historical cost basis

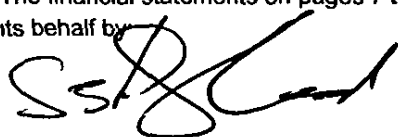
The Company has no recognised gains or losses other than the amounts above and therefore no separate statement of total recognised gains and losses has been prepared

FR Aviation Limited

Balance sheet as at 31 December 2009

	Note	2009 £000	2008 £000
Fixed assets			
Tangible assets	10	11,776	11,846
Investments	11	1,757	1,757
		13,533	13,603
Current assets			
Stocks	12	5,121	4,179
Debtors amounts falling due within one year	13	9,463	9,810
Debtors amounts falling due after one year	13	1,914	1,959
Cash at bank and in hand		11,756	7,266
		28,254	23,214
Creditors amounts falling due within one year	14	(12,714)	(12,475)
Net current assets		15,540	10,739
Total assets less current liabilities		29,073	24,342
Provisions for liabilities and charges	16	(1,823)	(530)
Net assets		27,250	23,812
Capital and reserves			
Called up share capital	18	1	1
Other reserve	19	2,444	2,107
Profit and loss account	19	24,805	21,704
Total shareholders' funds	20	27,250	23,812

The financial statements on pages 7 to 28 were approved by the board on 30-7-2010 and were signed on its behalf by



S J Fitz-Gerald
Director



D T Taylor
Director

Registered number in England 845310

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2009

1. Turnover

All sales are made in the United Kingdom and are deemed as being attributable to the Company's principal activity of air defence training and aircraft engineering

An analysis of turnover by geographical destination is given below

	2009 £000	2008 £000
United Kingdom	58,775	50,926
Other EU countries	4,621	5,867
Rest of the world	1,073	888
	64,469	57,681

2. Operating profit

	2009 £000	2008 £000
Operating profit is stated after charging/(crediting):		
Depreciation		
- owned assets	1,239	1,260
Operating lease charges		
- plant and machinery	90	83
- aircraft	3,292	3,279
- land and buildings	491	486
Research and development	321	22
Exchange differences	146	(123)
Auditors' remuneration fees for the audit of the Company's annual accounts	32	36

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 financial statements 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 (continued)

3. Interest receivable and similar income

	2009 £000	2008 £000
Bank interest receivable	35	158
Interest receivable from group undertakings	4	-
Other finance income	-	35
	39	193

4. Interest payable and similar charges

	2009 £000	2008 £000
Interest payable to group undertakings	65	52

5. Tax on profit on ordinary activities

	2009 £000	2008 £000
Current tax:		
UK corporation tax on profits for the year	1,773	1,400
Adjustment in respect of previous periods	(474)	-
Total current tax	1,299	1,400
Deferred tax:		
Capital allowances for the year (less than)/ in excess of depreciation	(56)	21
Timing differences relating to share options	(24)	(111)
Other timing differences	11	(30)
Adjustment in respect of previous periods	371	-
Total deferred tax (note 17)	302	(120)
Tax on profit on ordinary activities	1,601	1,280

FR Aviation Limited

Notes to the financial statements (continued)

The tax assessed for the year is lower (2008 lower) than the standard rate of corporation tax in the UK of 28.0% (2008 28.5%). The differences are explained below

	2009 £000	2008 £000
Profit on ordinary activities before taxation	10,400	11,424
Profit on ordinary activities multiplied by the standard rate in the UK of 28.0% (2008 28.5%)	2,912	3,256
Effects of		
Expenses not deductible for tax purposes	17	27
Dividend income not taxable	(1,066)	(1,812)
Expenditure qualifying for additional R&D tax deduction	(12)	(7)
Tax deduction available in respect of share options	(122)	(73)
Origination and reversal of other timing differences	(12)	30
Capital allowances for the year less than/(in excess of) depreciation	56	(21)
Adjustment to tax charge in respect of previous periods	(474)	-
Total current tax	1,299	1,400

Factors that may affect future tax charges

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

6. Directors' emoluments

	2009 £000	2008 £000
Aggregate emoluments	1,197	1,107
Aggregate amounts paid in respect of money purchase pension schemes	48	54
Amounts receivable under long-term incentive schemes	-	-
	1,245	1,161

Retirement benefits are accruing to 2 (2008 3) directors under a defined benefit scheme and to 2 (2008 2) directors under money purchase pension schemes. During the year 4 (2008 3) directors exercised options over shares of Cobham plc and 4 (2008 4) directors were entitled to receive share options under long term incentive plans.

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Notes to the financial statements (continued)

Highest paid director

	2009 £000	2008 £000
Total emoluments including amounts accruing under long-term incentive schemes	340	325
Company contributions paid to money purchase pension schemes	16	15
Accrued pension at end of year under defined benefit scheme	17	15

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

7. Employee costs

	2009 £000	2008 £000
Wages and salaries	21,520	18,950
Share based payments (note 8)	337	483
Social security costs	2,167	1,933
Other pension costs (note 21)	3,021	2,783
	27,045	24,149

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

By activity	2009	2008
Production and engineering	375	334
Marketing	18	20
Management and administration	75	74
	468	428

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. The Company participates in the following schemes

- the Cobham Performance Share Plan (PSP),
- the Cobham Long Term Incentive Plan (LTIP),
- the Cobham Bonus Co-investment Plan (BCP), 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 (TSR) relative to that of a sector comparator group and 50% based on the growth of the Group's earnings per share (EPS) over the same period

A number of awards were made under the Cobham Long-Term Incentive Plan (LTIP) in 2006 and the final award under this scheme has vested during 2009

FR Aviation Limited

Notes to the financial statements (continued)

The BCP scheme allows participants to defer up to 50% of their net earned annual performance bonus into Cobham shares in return for an opportunity to earn up to a 2:1 matching award of shares against the gross bonus invested, based on three-year Economic Profit growth targets

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, or vest 25% on each annual anniversary conditional only on continued employment within the Group

Further details of these schemes can be found on pages 43, 44 and 73 - 77 of the 2009 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 2009, and expensed to the profit and loss account for that year was assessed to be £337,000 (2008 £483,000). 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 19)

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

Number of share options	PSP	LTIP	BCP	ESOS	ShareSave
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 1 January 2009	211,620	73,709	9,670	1,234,234	2,307,755
Awards granted	93,677	-	-	374,798	445,710
Awards forfeited	(37,841)	(16,642)	-	(118,804)	(70,040)
Exercised	-	(57,067)	-	(288,045)	(447,988)
Expired	-	-	-	-	(14,392)
Transferred	-	-	-	-	3,072
At 31 December 2009	267,456	-	9,670	1,202,183	2,224,117
Exercisable at 31 December 2009	-	-	-	357,914	58,963
Exercisable at 31 December 2008	-	-	-	417,920	6,898

FR Aviation Limited

Notes to the financial statements (continued)

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

	PSP	LTIP	BCP	ESOS	ShareSave
Outstanding at 31 December 2009	1.23	-	1.23	7.45	2.17
Outstanding at 31 December 2008	1.71	0.24	2.23	7.30	2.22

Under the LTIP, ESOS and ShareSave schemes, exercises were made at various times throughout the year. The average share price in that period was £2.002 (2008: £1.987).

All awards under the PSP, LTIP and BCP 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 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 1 January 2009	1,725	1,339
Awards granted	1,840	1,690
Awards forfeited	1,957	1,664
Exercised	1,435	1,066
Expired	-	1,530
Transferred	-	1,638
At 31 December 2009	1,808	1,454
Exercisable as at 31 December 2009	1,485	3,165
Exercisable as at 31 December 2008	1,250	1,272

FR Aviation Limited

Notes to the financial statements (continued)

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

£	ESOS	ShareSave
Outstanding at 31 December 2009		
Lowest exercise price	1 840	0 769
Highest exercise price	2 045	1.730
Outstanding at 31 December 2008		
Lowest exercise price	0 912	0 769
Highest exercise price	2 045	1 730

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

	PSP	BCP	ESOS	ShareSave
During 2009				
Effective date of grant or commencement	7 July	-	9 July	1 February
Fair value at date of grant				
- Three-year awards	1 341	-	0 333	0 348
- Five-year awards	-	-	-	0 387
- Seven-year awards	-	-	-	0 412
During 2008				
Effective date of grant or commencement date	12 May	25 March	12 May	1 February (as restated)
Fair value at date of grant				
- Three-year awards	1 649	2 210	0 587	0 505
- Five-year awards	-	-	-	0 546
- Seven-year awards	-	-	-	0 599
			-	-

The fair values of ShareSave awards commencing on 1 February 2008 as disclosed in the previous year were £0 54, £0 61 and £0 70 for awards with 3, 5 and 7 year lives respectively. The figures stated above have been restated following a reassessment of the fair values of these awards taking into account the impact of non-vesting conditions as required by FRS 20 (amended).

FR Aviation Limited

Notes to the financial statements (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 awards) to determine the likely impact of market-related performance conditions

The inputs into the model were as follows

	PSP	BCP	ESOS	ShareSave
2009				
Weighted average share price	£1 838	-	£1 788	£1 829
Weighted average exercise price	nil	-	£1 841	£1,730
Expected volatility	18%	-	28%	24%-26%
Expected life	3 years	-	5 years	3 - 7 years
Expected employee cancellation rate	-	-	2 0%	2 2%
Risk free rate	-	-	2 0%	2 2%
Expected dividend yield	2 9%	-	2 7%	3.8%
2008				
Weighted average share price	£2 199	£2 210	£2 205	£1 950
Weighted average exercise price	nil	nil	£2 016	£1 630
Expected volatility	27%	25%	24%	24%-26%
Expected life	3 years	3 years	5 years	3 - 7 years
Expected employee cancellation rate	-	-	-	2 2%
Risk free rate	4 4%	4 4%	4 3%	4 5%
Expected dividend yield	n/a	2 0%	2 0%	1 9%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The expected employee cancellation rate is based on an assessment of historic rates of voluntary cancellations of ShareSave contracts by employees.

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

9. Dividends

	2009 £000	2008 £000
Interim dividend paid of £5,698 (2008: £9,284) per share	5,698	9,284

The directors have not proposed a final dividend for the year ended 31 December 2009 (2008: nil)

FR Aviation Limited

Notes to the financial statements (continued)

10. Tangible assets

	Leasehold land and buildings (long lease) £000	Plant and machinery £000	Fixtures fittings, tools and equipment £000	Total £000
Cost				
At 1 January 2009	12,388	16,827	5,964	35,179
Additions	101	753	263	1,117
Transferred from fellow subsidiary undertaking (note 29)	-	39	18	57
Disposals	-	(141)	(31)	(172)
At 31 December 2009	12,489	17,478	6,214	36,181
Accumulated depreciation				
At 1 January 2009	3,578	15,236	4,519	23,333
Charge for the year	222	454	563	1,239
Disposals	-	(136)	(31)	(167)
At 31 December 2009	3,800	15,554	5,051	24,405
Net book amount				
At 31 December 2009	8,689	1,924	1,163	11,776
At 31 December 2008	8,810	1,591	1,445	11,846

Plant and machinery above includes aircraft and other vehicles

11. Investments

Investments comprise

	Shares at cost £000
Cost and net book amount	
At 1 January 2009 and 31 December 2009	1,757

In the opinion of the directors the value of investments in subsidiary undertakings is not less than the aggregate amount at which they are shown in the balance sheet

At 31 December 2009, the Company had a 50% ordinary shareholding in a joint venture company, FBS Limited, which is incorporated in England. The principal activity of the company is the management of an MoD contract

FR Aviation Limited

Notes to the financial statements (continued)

12. Stocks

	2009 £000	2008 £000
Raw materials and consumables	3,909	3,600
Work in progress	980	563
Long term contracts	232	45
Payments on account	-	(29)
	5,121	4,179

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

13. Debtors

Amounts falling due within one year

	2009 £000	2008 £000
Trade debtors	4,243	6,054
Amounts owed by fellow subsidiary undertakings	2,075	1,241
Deferred tax assets (note 17)	609	911
Corporation tax recoverable	915	232
Other debtors	40	33
Prepayments and accrued income	1,581	1,339
	9,463	9,810

Amounts falling due after one year:

	2009 £000	2008 £000
Prepayments and accrued income	1,914	1,959

Amounts owed by fellow subsidiary undertakings include £270,000 (2008 £nil) on which interest is charged at a fixed rate of 7%. This amount is unsecured and repayable on demand. All other amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable on demand.

FR Aviation Limited

Notes to the financial statements (continued)

14. Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	1,696	2,135
Payments on account	5,323	2,866
Amounts owed to fellow subsidiary undertakings	805	2,682
Other tax and social security	1,859	1,467
Accruals and deferred income	3,031	3,325
	12,714	12,475

Amounts owed to fellow subsidiary undertakings are unsecured, interest free and repayable on demand. The prior year included £2,000,000 on which interest was charged at a fixed rate of 6.5%. This was fully repaid in 2009.

15. Preference Shares

	2009 £000	2008 £000
Authorised		
1,549,528 9% Non-redeemable cumulative preference shares of £1 each	1,550	1,550

At 31 December 2009, no preference shares were in issue (2008: nil)

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 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 of which they are the registered holder. On a winding up the holders have priority before all other classes of shares to receive 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 (continued)

16. Provisions for liabilities

	Staff costs provision £000	Onerous contracts provision £000	Operating costs provision £000	Total £000
At 1 January 2009	114	140	276	530
Charged to the profit and loss account	108	477	539	1,124
Transferred from fellow subsidiary undertaking (note 29)	-	436	26	462
Utilised during the year	(49)	-	(51)	(100)
Unused amounts reversed in the year	(45)	(140)	(8)	(193)
At 31 December 2009	128	913	782	1,823

Staff costs provision

The staff costs provision comprises a relocation provision, a holiday pay provision and a provision for redundancy costs

Certain employees and directors were offered relocation benefits on commencement of their positions. The amounts recognised in the provision in the balance sheet represent the contracted allowances, less amounts claimed by the individuals, previously charged to profit and loss. The amounts recognised are expected to be fully utilised during 2010.

Onerous contracts provision

The onerous contracts 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.

17. Deferred taxation

	Deferred Taxation £000
At 1 January 2009	911
Charge to the profit and loss account	(302)
At 31 December 2009	609

FR Aviation Limited

Notes to the financial statements (continued)

The deferred tax asset represents

	2009 £000	2008 £000
Accelerated capital allowances	122	429
Other short term timing differences	487	482
	609	911

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).

Finance (No 2) Act 2010 was substantively enacted on 20 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. The effect of this change, if applied to the deferred tax balance at 31 December 2009, would be to reduce the deferred tax by £22,000.

18. Called up share capital

	2009 £000	2008 £000
Authorised.		
1,000 Ordinary shares of £1 each	1	1
Allotted, called up and fully paid.		
1,000 Ordinary shares of £1 each	1	1

19. Reserves

	Other reserve £000	Profit and loss account £000
At 1 January 2009	2,107	21,704
Profit for the financial year	-	8,799
Dividends (note 9)	-	(5,698)
Capital contribution for the year	337	-
At 31 December 2009	2,444	24,805

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

FR Aviation Limited

Notes to the financial statements (continued)

20. Reconciliation of movements in total shareholders' funds

	2009 £000	2008 £000
Profit for the financial year	8,799	10,144
Dividends (note 9)	(5,698)	(9,284)
Retained profit for the financial year	3,101	860
Capital contribution from parent	337	483
Net addition to shareholders' funds	3,438	1,343
Opening shareholders' funds	23,812	22,469
Closing shareholders' funds	27,250	23,812

21. Pension commitments

Defined contribution scheme

The Company operates a defined contribution scheme, 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 £594,000 (2008 £423,000). At 31 December 2009 there were no contributions outstanding (2008 £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 £68,000 (2008 £81,000).

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 2009 at which date the net liabilities of the scheme were assessed to be £61.8m. 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 financial statements 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 £2,359,000 (2008 £2,279,000).

FR Aviation Limited

Notes to the financial statements (continued)

22. 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.

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 (2008 £600,000) and also has in place contract performance related guarantees totalling £1,000 (2008 £2,600) to other third parties.

The Company is acting as guarantor for the value of £4,233,000 (A\$7,600,000) (2008 £nil) for the Commonwealth Bank of Australia in support of a fellow subsidiary undertaking, National Jet Systems Pty Limited.

23. Capital commitments

The Company had capital commitments contracted for but not provided of £120,000 at 31 December 2009 (2008 £74,000).

24. Financial commitments

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

	Land and buildings		Other		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Within one year	12	-	-	58	12	58
Between two and five years	36	49	1,241	213	1,277	262
After five years	405	442	2,158	2,965	2,563	3,407
	453	491	3,399	3,236	3,852	3,727

25. 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.

FR Aviation Limited

Notes to the financial statements (continued)

26. 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 FRS 1 (revised 1996)

27. Forward currency contracts

At 31 December 2009 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

At 31 December 2009 the fair value of these liabilities amounted to £8,420,000 (2008, £2,156,000), whereas the contract value amounted to £8,343,000 (2008 £2,020,000). No entry has been made in the financial statements to reflect this

28. Related party disclosures

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

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

	2009 Purchases in year £000	2009 Creditor balances £000	2008 Purchases in year £000	2008 Creditor balances £000
F B Heliservices Limited	-	-	1	-

	Sales in year £000	Debtor balances £000	Sales in year £000	Debtor balances £000
F B Heliservices Limited	72	4	92	20
Aviation Defense SA	89	-	139	4

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

FR Aviation Limited received dividend income payments totalling £3,806,500 from its investment in FBS Limited, a joint venture with Bristow Helicopters Limited, in the year to 31 December 2009 (2008 £6,360,000)

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

FR Aviation Limited

Notes to the financial statements (continued)

29. Acquisitions

Following a strategic review during 2008, on 1 January 2009, the trade and certain assets of the Air Traffic Control and Fluid Systems product lines were transferred from a fellow subsidiary undertaking, Flight Refuelling Limited

A summary of the Sales and Gross Profits of these product lines is as follows

	Air Traffic Control £000	Fluid Systems £000	Total £000
Sales	3,475	878	4,353
Cost Of Sales	(2,649)	(707)	(3,356)
Gross Profit	826	171	997

A summary of the assets acquired is as follows

	Air Traffic Control £000	Fluid Systems £000	Total £000
Tangible fixed assets	-	57	57
Stock	213	250	463
Debtors	370	-	370
Creditors	(213)	(199)	(412)
Provisions	-	(462)	(462)
Net assets/(liabilities)	370	(354)	16
Consideration in form of intercompany balance			16
Goodwill arising			-