

FR Aviation Limited

**Directors' report and financial statements
for the year ended 31 December 2010**

Registered number 845310

TUESDAY



AH1HYWX0

A42

23/08/2011

80

COMPANIES HOUSE

FR Aviation Limited

Directors' report and financial statements for the year ended 31 December 2010

Contents

Directors' report for the year ended 31 December 2010	1
Independent auditors' report to the members of FR Aviation Limited	4
Statement of accounting policies	6
Profit and loss account for the year ended 31 December 2010	9
Balance sheet as at 31 December 2010	10
Notes to the financial statements for the year ended 31 December 2010	11

FR Aviation Limited

Directors' report for the year ended 31 December 2010

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 2010

Results and dividends

The Company's results for the year are set out in the profit and loss account on page 9 showing a profit for the financial year after tax of £7,865,000 (2009 £8,799,000) At 31 December 2010, the Company has net assets of £30,636,000 (2009 £27,250,000)

Dividends paid and proposed are as set out in note 9

Principal activities 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 well in the year, with sales growth building on recent years' strong performance The Company continues to meet and exceed customer contract expectations in its long-term partnering agreement with the UK Ministry of Defence, has successfully integrated the Air Traffic Control business acquired last year, and has seen significant aircraft modification work being successfully carried out in its facilities

On 30 June 2010 the Company divested itself of the trade and certain assets of the Fluid Systems division to Flight Refuelling Limited, a fellow group undertaking, details of which are reflected in note 27

Future developments

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

Research and development

The Company is committed to research and development and has invested £159,000 (2009 £321,000) 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 page 27 of the Cobham plc 2010 Annual Report which does not form part of this report

Key performance indicators (KPI's)

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 2010 Annual Report which does not form part of this report KPIs for the Group as a whole are discussed on page 9 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 affects on the financial performance of the Company

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board The policies set by the board of directors of Cobham plc are

FR Aviation Limited

Directors' report (continued)

managed by the group finance department. The Cobham plc Group 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 and this is applied by the Company.

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 naturally exposed to price risk as a result of its operations due to the nature of its trading operations and contract arrangements. However, given the size of the Company's operations, the costs of managing exposure to price risk exceed any potential benefits. The Company has no exposure to equity securities price risks as it holds no listed or other equity investments. The directors will revisit the appropriateness of this policy should the Company's operation change in size or nature.

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 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 fixed interest rate loans made to fellow subsidiary companies. 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, 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 (2009: 20 days).

FR Aviation Limited

Directors' report (continued)

Directors

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

S J Fitz-Gerald	-	resigned 31 December 2010	
D T Taylor	-		
D Harnson	-	(also company secretary)	- resigned 18 May 2011
C Hughes	-	resigned 17 May 2011	
P Nottage	-	appointed 20 June 2011	

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 prepared 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 accounting 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

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



J Hudson

Company secretary

11 July 2011

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 2010 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 page 3 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 and express an opinion on 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 2010 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.

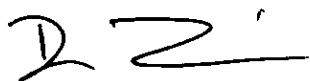
FR Aviation Limited

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
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

13 July

2011

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.

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. 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.

Cash received in advance from customers is taken to deferred income and recognised as turnover when the service is provided. Turnover recognised in advance of cash received is taken to accrued income.

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 historical purchase cost together with any directly attributable costs of acquisition, less accumulated 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:

Leasehold land and buildings (long lease)	50 years
Plant and machinery (including vehicles)	3 to 10 years
Fixtures, fittings, tools and equipment	3 to 8 years

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 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.

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.

Leases

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

Research and development

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

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.

FR Aviation Limited

Statement of accounting policies (continued)

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.

FR Aviation Limited

Profit and loss account for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Turnover	1	65,283	64,469
Cost of sales		(51,685)	(49,707)
Gross profit		13,598	14,762
Selling and distribution costs		(1,613)	(1,566)
Administrative expenses		(7,318)	(6,431)
Other operating expenses		(3)	(146)
Operating profit	2	4,664	6,619
Interest receivable and similar income	3	75	39
Interest payable and similar charges	4	-	(65)
Income from shares in group undertakings		4,331	3,807
Profit on ordinary activities before taxation		9,070	10,400
Tax on profit on ordinary activities	5	(1,205)	(1,601)
Profit for the financial year	18	7,865	8,799

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

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents

During the year FR Aviation Ltd disposed of the trade and assets of Fluid Systems (Note 27) This has not been presented as a discontinued operation as it is not material to the Company

FR Aviation Limited

Balance sheet as at 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	10	11,330	11,776
Investments	11	1,757	1,757
		13,087	13,533
Current assets			
Stocks	12	5,227	5,121
Debtors amounts falling due within one year	13	9,587	9,463
Debtors amounts falling due after one year	13	1,887	1,914
Cash at bank and in hand		15,130	11,756
		31,831	28,254
Creditors amounts falling due within one year	14	(13,628)	(12,714)
Net current assets		18,203	15,540
Total assets less current liabilities		31,290	29,073
Provisions for liabilities and charges	15	(654)	(1,823)
Net assets		30,636	27,250
Capital and reserves			
Called up share capital	17	1	1
Other reserve	18	2,799	2,444
Profit and loss account	18	27,836	24,805
Total shareholders' funds	19	30,636	27,250

The financial statements on pages 6 to 25 were approved by the board on 11 July 2011 and were signed on its behalf by



D T Taylor
Director

Registered number 845310

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2010

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

	2010 £000	2009 £000
United Kingdom	57,420	58,775
Other EU countries	3,994	4,621
Rest of the world	3,869	1,073
	65,283	64,469

2. Operating profit

	2010 £000	2009 £000
Operating profit is stated after charging		
Depreciation on owned assets	1,356	1,239
Operating lease charges		
- Other	3449	3,292
- Land and buildings	454	491
Research and development	159	321
Exchange differences	3	146
Auditors' remuneration fees for the audit of the Company's annual accounts	30	32

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

3. Interest receivable and similar income

	2010 £000	2009 £000
Bank interest receivable	50	35
Interest receivable from group undertakings	25	4
	75	39

FR Aviation Limited

Notes to the financial statements (continued)

4. Interest payable and similar charges

	2010 £000	2009 £000
Interest payable to group undertakings	-	65

5. Tax on profit on ordinary activities

	2010 £000	2009 £000
Current tax		
UK corporation tax on profit for the year	1,279	1,773
Adjustment in respect of previous periods	(108)	(474)
Total current tax	1,171	1,299
Deferred tax		
Capital allowances for the year in excess of depreciation	(88)	(56)
Timing differences relating to share options	63	(24)
Other timing differences	21	11
Effect of change in tax rate	8	-
Adjustment in respect of previous periods	30	371
Total deferred tax (note 16)	34	302
Tax on profit on ordinary activities	1,205	1,601

The current tax assessed for the year is lower (2009 lower) than the standard rate of corporation tax in the UK of 28.0% (2009 28.0%). The differences are explained below -

	2010 £000	2009 £000
Profit on ordinary activities before taxation	9,070	10,400
Profit on ordinary activities multiplied by the standard rate in the UK of 28.0% (2009 28.0%)	2,540	2,912
Effects of		
Expenses not deductible for tax purposes	10	17
Dividend income not taxable	(1,213)	(1,066)
Expenditure qualifying for additional R&D tax deduction	(14)	(12)
Tax deduction available in respect of share options	(111)	(122)
Originators and reversal of other timing differences	(21)	(12)
Capital allowances for the year in excess of depreciation	88	56
Adjustment to tax charge in respect of previous periods	(108)	(474)
Total current tax	1,171	1,299

FR Aviation Limited

Notes to the financial statements (continued)

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

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. This change was substantially enacted at the balance sheet date and, therefore, is included in these financial statements

A reduction in the main rate of corporation tax to 26% from 1 April 2011 was announced in the Budget on 23 March 2011. This is a change from the rate of 27% included in the Finance Bill 2010. This change was substantially enacted on 29 March 2011. This change was not substantially enacted at the balance sheet date and, therefore, is not included in these financial statements

6. Directors' emoluments

The emoluments of the directors employed by the Company are

	2010 £000	2009 £000
Aggregate emoluments	1,005	1,197
Aggregate amounts paid in respect of money purchase pension schemes	49	48
	1,054	1,245

Retirement benefits are accruing to 2 (2009: 2) directors under a defined benefit scheme and to 2 (2009: 2) directors under money purchase pension schemes. During the year 3 (2009: 4) directors exercised options over shares of Cobham plc and 4 (2009: 4) directors were entitled to receive share options under long term incentive plans

Highest paid director

	2010 £000	2009 £000
Total emoluments including amounts accruing under long-term incentive schemes	326	340
Company contributions paid to money purchase pension schemes	16	16
Accrued pension at end of year under defined benefit scheme	33	17

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

FR Aviation Limited

Notes to the financial statements (continued)

7. Employee costs

	2010 £000	2009 £000
Wages and salaries	21,599	21,520
Share based payments (note 8)	355	337
Social security costs	2,122	2,167
Other pension costs (note 20)	3,964	3,021
	28,040	27,045

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

By activity	2010	2009
Production and engineering	365	375
Marketing	15	18
Management and administration	73	75
	453	468

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 which are all equity-settled:

- 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.

Awards were made under the LTIP scheme until 2009. These were at nil cost and vested over a three year performance period based on the group's TSR relative to that of a comparator group and were also conditional upon the Group's EPS growth over the same period.

Under the ESOS, options are granted at a price not less than the market value of the Group's ordinary shares on, or shortly before, the date the options are granted. Exercise is conditional upon the Group's EPS growth over a three year period, or vest 25% on each annual anniversary conditional only on continued employment within the Group.

Further details of these schemes can be found in the 2010 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

FR Aviation Limited

Notes to the financial statements (continued)

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 2010, and expensed to the profit and loss account for that year was assessed to be £355,000 (2009 £ 337,000). 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)

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 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 1 January 2010	267,456	-	9,670	1,202,183	2,224,117
Awards granted	91,070	-	5,870	321,279	442,632
Awards forfeited	(212,038)	-	(15,540)	(293,611)	(51,609)
Exercised	(68,718)	-	-	(416,874)	(526,418)
Expired	-	-	-	-	(18,934)
Transferred	51,004	-	-	427,928	58,728
At 31 December 2010	128,774	-	-	1,240,905	2,128,516
Exercisable at 31 December 2010	-	-	-	473,350	30,221
Exercisable at 31 December 2009	-	-	-	357,914	58,963

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

	PSP	LTIP	BCP	ESOS	ShareSave
Outstanding at 31 December 2010	1.16	-	-	7.00	2.49
Outstanding at 31 December 2009	1.23	-	1.23	7.45	2.17

Under the PSP, ESOS and ShareSave schemes, exercises were made at various times throughout the year. The average share price in that period was £2.330 (2009 £2.002)

All awards under the PSP, BCP 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 2009	1.725	1.339
Awards granted	1.840	1.690

FR Aviation Limited

Notes to the financial statements (continued)

Awards forfeited	1 957	1 664
Exercised	1 435	1 066
Expired	-	1 530
Transferred	-	1 638
At 1 January 2010	1 808	1 454
Awards granted	2 473	1 790
Awards forfeited	2 083	1 694
Exercised	1 601	1 195
Expired	-	1 656
Transferred	1 798	1 576
At 31 December 2010	1 945	1 583

Exercisable as at 31 December 2010	1 725	1 473
Exercisable as at 31 December 2009	1 485	3 165

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

£	ESOS	ShareSave
Outstanding at 31 December 2010		
Lowest exercise price	1 346	0 939
Highest exercise price	2 473	1.790
 Outstanding at 31 December 2009		
Lowest exercise price	1 840	0 769
Highest exercise price	2 045	1 730

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

	PSP	ESOS	ShareSave
During 2010			
Effective date of grant or commencement date	13 April	26 March	1 February
Average fair value at date of grant	2 072	0 618	0 508
 During 2009			
Effective date of grant or commencement date	7 July	9 July	1 February
Average fair value at date of grant	1 341	0 333	0 363

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	ESOS	ShareSave
2010			
Weighted average share price	£2 759	£2 626	£2 155
Weighted average exercise price	nil	£2 473	£1 690
Expected volatility	31%	28%	21% - 25%
Expected life	3 years	5 years	3 - 7 years
Expected employee cancellation rate	4.0%	8.0%	2.2%
Risk free rate	1.9%	2.8%	2.1%
Expected dividend yield	n/a	2.1%	2.3%
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	2.9%	2.7%	3.8%
Expected dividend yield	n/a	2.8%	2.5%

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 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

	2010 £000	2009 £000
Interim dividend for current year paid of £4,834 (2009: £5,698) per £1 ordinary share	4,834	5,698

The directors have not proposed a final dividend for the year ended 31 December 2010 (2009: nil).

FR Aviation Limited

Notes to the financial statements (continued)

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 2010	12,489	17,478	6,214	36,181
Additions	-	377	567	944
Disposals	-	(320)	(4)	(324)
At 31 December 2010	12,489	17,535	6,777	36,801
Accumulated depreciation				
At 1 January 2010	3,800	15,554	5,051	24,405
Charge for the year	222	597	537	1,356
Disposals	-	(290)	-	(290)
At 31 December 2010	4,022	15,861	5,588	25,471
Net book amount				
At 31 December 2010	8,467	1,674	1,189	11,330
At 31 December 2009	8,689	1,924	1,163	11,776

11. Investments

Investments in joint venture comprise

	Shares at cost £000
Cost and net book amount	
At 1 January 2010 and 31 December 2010	1,757

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

At 31 December 2010, 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 a Ministry of Defence contract.

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it, and its subsidiary undertakings, are included by full consolidation in the consolidated financial statements of its ultimate parent Company, Cobham plc, which are publicly available.

FR Aviation Limited

Notes to the financial statements (continued)

12. Stocks

	2010 £000	2009 £000
Raw materials and consumables	4,688	3,909
Work in progress	463	980
Long term contract balances	76	232
	5,227	5,121

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

13. Debtors

Amounts falling due within one year

	2010 £000	2009 £000
Trade debtors	4,318	4,243
Amounts owed by fellow subsidiary undertakings	1,354	2,075
Deferred tax assets (note 16)	575	609
Corporation tax recoverable	1,280	915
Other debtors	20	40
Prepayments and accrued income	2,040	1,581
	9,587	9,463

Amounts falling due after one year

	2010 £000	2009 £000
Prepayments and accrued income	1,887	1,914

Amounts owed by fellow subsidiary undertakings include £nil (2009 £270,000) on which interest was charged at a fixed rate of nil (2009 7%) This amount was unsecured and repayable on demand All other amounts owed by fellow subsidiary undertakings were unsecured, interest free and repayable on demand

FR Aviation Limited

Notes to the financial statements (continued)

14. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	2,389	1,696
Payments on account	5,941	5,323
Amounts owed to fellow subsidiary undertakings	469	805
Other tax and social security	1,795	1,859
Accruals and deferred income	3,034	3,031
	13,628	12,714

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

15. Provisions for liabilities

	Staff cost provisions £000	Operating costs provisions £000	Onerous contract provisions £000	Total £000
At 1 January 2010	128	782	913	1,823
Charged to the profit and loss account	64	144	285	493
Utilised during the year	(91)	(237)	(431)	(759)
Unused amounts reversed in the year	(50)	(221)	(162)	(433)
Amounts disposed of during the year (Note 27)	-	-	(470)	(470)
At 31 December 2010	51	468	135	654

Staff costs provisions

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 2011.

Onerous contracts provisions

The onerous contracts provision represents amounts due on onerous leases and other contracts that the Company has entered into. The amounts recognised are expected to be fully utilised during 2011.

Operating costs provisions

The operating costs provision represents aircraft modification and certification costs likely to be incurred for completion of contractual obligations. The amounts recognised are expected to be fully utilised during 2011.

FR Aviation Limited

Notes to the financial statements (continued)

16. Deferred taxation

	Deferred taxation £000
At 1 January 2010	609
Charged to the profit and loss account	(34)
At 31 December 2010	575

The deferred tax asset represents

	2010 £000	2009 £000
Accelerated capital allowances	179	122
Other short term timing differences	396	487
	575	609

17. Called up share capital

	2010 £000	2009 £000
Authorised, allotted, and fully paid		
1,000 Ordinary shares of £1 each	1	1

18. Reserves

	Other reserve £000	Profit and loss account £000
At 1 January 2010	2,444	24,805
Profit for the financial year	-	7,865
Dividends (note 9)	-	(4,834)
Capital contribution for the year	355	-
At 31 December 2010	2,799	27,836

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

Notes to the financial statements (continued)

19. Reconciliation of movements in total shareholders' funds

	2010 £000	2009 £000
Profit for the financial year	7,865	8,799
Dividends (note 9)	(4,834)	(5,698)
Retained profit for the financial year	3,031	3,101
Capital contribution from parent company	355	337
Net addition to shareholders' funds	3,386	3,438
Opening shareholders' funds	27,250	23,812
Closing shareholders' funds	30,636	27,250

20. 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 £692,000 (2009: £594,000). At 31 December 2010 there were no contributions outstanding (2009: £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 £69,000 (2009: £68,000).

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 2009. This assessment was updated to 31 December 2010 at which date the net liabilities of the scheme were assessed to be £29.3m (2009: £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 £3,203,000 (2009: £2,359,000).

FR Aviation Limited

Notes to the financial statements (continued)

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.

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 (2009 £600,000) and also has in place contract performance related guarantees totalling £42,000 (2009 £1,000) to other third parties.

The Company is acting as guarantor for the value of £4,976,000 (A\$7,600,000) (2009 £4,233,000) for the Commonwealth Bank of Australia in support of a fellow subsidiary undertaking, National Jet Systems Pty Limited.

22. Capital commitments

The Company had capital commitments contracted for but not provided of £128,000 at 31 December 2010 (2009 £120,000).

23. Financial commitments

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

	Land and buildings		Other		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Within one year	-	12	36	-	36	12
Between two and five years	36	36	3,427	1,241	3,463	1,277
After five years	406	405	-	2,158	406	2,563
	442	453	3,463	3,399	3,905	3,852

24. Ultimate parent undertaking and controlling party

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)

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 FRS 1 (revised 1996)

26. Forward currency contracts

At 31 December 2010 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 2010 the fair value of these liabilities amounted to £5,607,000 (2009 £8,420,000), whereas the contract value amounted to £5,359,700 (2009 £8,343,000). No entry has been made in the financial statements to reflect this

27. Disposals

On 30 June 2010 the company disposed of the trade and assets of the Fluid Systems division to Flight Refuelling Limited, a fellow group undertaking

A summary of the assets disposed is as follows

	Total £000
Tangible fixed assets	26
Stock	368
Debtors	-
Creditors	(27)
Provisions	(470)
Net assets/(liabilities)	(103)

FR Aviation Limited

Notes to the financial statements (continued)

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

	2010	2010	2009	2009
	£000	£000	£000	£000
	Sales in	Debtor	Sales	Debtor
	year	balances	in year	balances
	£000	£000	£000	£000
FB Heliservices Limited	75	4	72	4
Aviation Defence SA	463	6	89	-

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

FR Aviation Limited received dividend income payments totalling £4,331,000 from its investment in FBS Limited, a joint venture with Bristow Helicopters Limited, in the year to 31 December 2010 (2009 £3,807,000)

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