

FR Aviation Limited

Directors' report and financial statements  
for the year ended 31 December 2012

Registered number 845310



# FR Aviation Limited

## Directors' report and financial statements for the year ended 31 December 2012

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# **FR Aviation Limited**

## **Directors' report for the year ended 31 December 2012**

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 2012. The Company trades under the name "Cobham Aviation Services".

### **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 £3,810,000 (2011 £8,561,000). At 31 December 2012, the Company has net assets of £29,571,000 (2011 £29,680,000).

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 results for the year to be satisfactory, showing revenue growth against the prior year. The Company continues to meet and invest in its long term partnering agreement with the UK Ministry of Defence despite difficult economic conditions.

During the period the Company entered into a new finance lease arrangement with a fellow subsidiary undertaking, which replaced a previous operating lease arrangement. This is detailed in note 16.

### **Future developments**

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

### **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 14 and 15 of the Cobham plc 2012 Annual Report which does not form part of this report.

### **Key performance indicators**

The directors of the ultimate parent undertaking, Cobham plc, manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators at the Company level (financial and non-financial) is not necessary or appropriate for an understanding of the development, performance or position of the business of FR Aviation Limited. The development, performance and position of the Cobham Aviation Services division of Cobham plc, which includes the Company, is discussed on pages 22 and 23 of the Cobham plc 2012 Annual Report which does not form part of this report. KPIs for the group as a whole are discussed on page 12 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 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.

# **FR Aviation Limited**

## **Directors' report (continued)**

### *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. 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 available funds for operations and planned expansions. The Company also has access to longer term funding from its ultimate parent undertaking if required.

### *Interest rate cash flow risk*

The Company has interest bearing cash balances which earn interest at a floating rate. In order to ensure stability of cash out flows and hence manage interest rate risk, the Company has access to fixed interest rate loans from its ultimate parent undertaking. The Company does not use derivative financial instruments to manage interest rate costs.

### *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 19 days (2011: 30 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

|             |                            |
|-------------|----------------------------|
| P Nottage   |                            |
| D Taylor    | resigned 21 February 2012  |
| P Armstrong | appointed 21 February 2012 |

### 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 year.

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.

# FR Aviation Limited

## Directors' report (continued)

### 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



P Nottage  
Director  
12/9/2013

## **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 2012 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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2012 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.

## **Independent auditors' report to the members of FR Aviation Limited (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



Helen Orton (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton

12 September 2013

# 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.

### Basis of preparation

The financial statements contain information about FR Aviation Limited as an individual Company and do not contain consolidated financial information as the parent undertaking of a group. 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 (see note 26).

### 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 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:

|                                           |               |
|-------------------------------------------|---------------|
| 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  |

# **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.

# **FR Aviation Limited**

## **Statement of accounting policies (continued)**

### **Leases**

Lease arrangements are accounted for as finance leases where substantially all the risks and rewards of ownership of the leased asset are retained by the Company. All other leases are classified as operating leases. For finance leases, the asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its useful economic life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

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

### **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 the excess of the charge over any amounts paid to Cobham plc for these options is 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 2012

|                                                      | Note | 2012<br>£000  | 2011<br>£000  |
|------------------------------------------------------|------|---------------|---------------|
| Turnover                                             | 1    | 75,810        | 72,241        |
| Cost of sales                                        |      | (62,316)      | (58,532)      |
| <b>Gross profit</b>                                  |      | <b>13,494</b> | <b>13,709</b> |
| Selling and distribution costs                       |      | (1,559)       | (1,360)       |
| Administrative expenses                              |      | (9,028)       | (8,791)       |
| Other operating income                               |      | 2             | 17            |
| <b>Operating profit</b>                              | 2    | <b>2,909</b>  | <b>3,575</b>  |
| Interest receivable and similar income               | 3    | 80            | 95            |
| Interest payable and similar charges                 | 4    | (1,474)       | -             |
| Income from shares in group undertakings             | 28   | 2,870         | 5,804         |
| <b>Profit on ordinary activities before taxation</b> |      | <b>4,385</b>  | <b>9,474</b>  |
| Tax on profit on ordinary activities                 | 5    | (575)         | (913)         |
| <b>Profit for the financial year</b>                 | 20   | <b>3,810</b>  | <b>8,561</b>  |

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 2012

|                                                        | Note | 2012<br>£000    | 2011<br>£000    |
|--------------------------------------------------------|------|-----------------|-----------------|
| <b>Fixed assets</b>                                    |      |                 |                 |
| Tangible assets                                        | 10   | 22,154          | 11,905          |
| Investments                                            | 11   | 1,757           | 1,757           |
|                                                        |      | <b>23,911</b>   | <b>13,662</b>   |
| <b>Current assets</b>                                  |      |                 |                 |
| Stocks                                                 | 12   | 8,618           | 5,143           |
| Debtors                                                | 13   | 8,297           | 11,392          |
| Cash at bank and in hand                               |      | 14,889          | 13,986          |
|                                                        |      | <b>31,804</b>   | <b>30,521</b>   |
| <b>Creditors amounts falling due within one year</b>   | 14   | <b>(15,973)</b> | <b>(13,686)</b> |
| <b>Net current assets</b>                              |      | <b>15,831</b>   | <b>16,835</b>   |
| <b>Total assets less current liabilities</b>           |      | <b>39,742</b>   | <b>30,497</b>   |
| Creditors amounts falling due after more than one year | 15   | (9,381)         | -               |
| Provisions for liabilities                             | 17   | (790)           | (817)           |
| <b>Net assets</b>                                      |      | <b>29,571</b>   | <b>29,680</b>   |
| <b>Capital and reserves</b>                            |      |                 |                 |
| Called up share capital                                | 19   | 1               | 1               |
| Other reserve                                          | 20   | 3,582           | 3,069           |
| Profit and loss account                                | 20   | 25,988          | 26,610          |
| <b>Total shareholders' funds</b>                       | 21   | <b>29,571</b>   | <b>29,680</b>   |

The financial statements on pages 7 to 25 were approved by the board on  
signed on its behalf by

12/9/

2013 and were

P Notlage  
Director  
Registered number in England 845310

# FR Aviation Limited

## Notes to the financial statements for the year ended 31 December 2012

### 1. Turnover

All sales 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.

|                          | 2012<br>£000  | 2011<br>£000  |
|--------------------------|---------------|---------------|
| United Kingdom           | 56,182        | 62,030        |
| Other EU countries       | 19,087        | 8,369         |
| United States of America | 31            | 298           |
| Rest of the world        | 510           | 1,544         |
|                          | <b>75,810</b> | <b>72,241</b> |

### 2. Operating profit

|                                                                            | 2012<br>£000 | 2011<br>£000 |
|----------------------------------------------------------------------------|--------------|--------------|
| <b>Operating profit is stated after charging/(crediting)</b>               |              |              |
| Depreciation                                                               |              |              |
| - owned assets                                                             | 1,421        | 1,318        |
| - leased assets                                                            | 2,770        | -            |
| Operating lease charges/(credit)                                           |              |              |
| - plant and machinery                                                      | 381          | 3,442        |
| - plant and machinery credit                                               | (2,868)      | -            |
| - land and buildings                                                       | 442          | 442          |
| Exchange differences                                                       | (2)          | (17)         |
| Auditors' remuneration fees for the audit of the Company's annual accounts | 73           | 30           |

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

|                          | 2012<br>£000 | 2011<br>£000 |
|--------------------------|--------------|--------------|
| Bank interest receivable | 80           | 95           |

# FR Aviation Limited

## Notes to the financial statements (continued)

### 4. Interest payable and similar charges

|                        | 2012<br>£000 | 2011<br>£000 |
|------------------------|--------------|--------------|
| Finance lease interest | 1,474        | -            |

### 5. Tax on profit on ordinary activities

|                                                           | 2012<br>£000 | 2011<br>£000 |
|-----------------------------------------------------------|--------------|--------------|
| <b>Current tax</b>                                        |              |              |
| UK corporation tax on profit for the year                 | 568          | 965          |
| Adjustment in respect of previous years                   | (55)         | (48)         |
| <b>Total current tax</b>                                  | <b>513</b>   | <b>917</b>   |
| <b>Deferred tax</b>                                       |              |              |
| Depreciation for the year in excess of capital allowances | (97)         | (68)         |
| Timing differences relating to share options              | 116          | 5            |
| Other timing differences                                  | (3)          | 9            |
| Effect of change in tax rate                              | 46           | 50           |
| <b>Total deferred tax (note 18)</b>                       | <b>62</b>    | <b>(4)</b>   |
| <b>Tax on profit on ordinary activities</b>               | <b>575</b>   | <b>913</b>   |

The current tax assessed for the year is lower (2011 lower) than the standard rate of corporation tax in the UK of 24.5% (2011 26.5%). The differences are explained below

|                                                                                               | 2012<br>£000 | 2011<br>£000 |
|-----------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Profit on ordinary activities before taxation</b>                                          | <b>4,385</b> | <b>9,474</b> |
| Profit on ordinary activities multiplied by the standard rate in the UK of 24.5% (2011 26.5%) | 1,074        | 2,510        |
| Effects of                                                                                    |              |              |
| Expenses not deductible for tax purposes                                                      | 34           | 16           |
| Dividend income not taxable                                                                   | (703)        | (1,538)      |
| Expenditure qualifying for additional R&D tax deduction                                       | (23)         | (27)         |
| Tax deduction available in respect of share options                                           | 86           | (55)         |
| Origination and reversal of other timing differences                                          | 3            | (9)          |
| Depreciation for the year in excess of capital allowances                                     | 97           | 68           |
| Adjustment to tax charge in respect of previous years                                         | (55)         | (48)         |
| <b>Total current tax</b>                                                                      | <b>513</b>   | <b>917</b>   |

# FR Aviation Limited

## Notes to the financial statements (continued)

Closing deferred tax balances have been calculated at 23% (2011 25%), based on rates which have been substantively enacted at the balance sheet date

Proposals to reduce the main rate to 20% by 1 April 2015 had not been substantively enacted at the balance sheet date and are not included in these financial statements

### 6. Directors' emoluments

The emoluments of the directors employed by the Company are

|                                                                     | 2012<br>£000 | 2011<br>£000 |
|---------------------------------------------------------------------|--------------|--------------|
| Aggregate emoluments                                                | 109          | 318          |
| Aggregate amounts paid in respect of money purchase pension schemes | -            | 14           |
| Amounts paid to directors for loss of office                        | -            | 199          |
|                                                                     | 109          | 531          |

Retirement benefits are accruing to nil (2011 1) directors under a defined benefit scheme and to nil (2011 nil) directors under money purchase pension schemes. During the year 1 (2011 1) director exercised options over shares of Cobham plc and 2 (2011 1) directors were entitled to receive shares under group long term incentive plans.

P Nottage and D Taylor are employed by, and receive emoluments from other group undertakings. No specific amounts are payable in the current or prior year in respect of services supplied by these directors to the Company. Charges have been made by other group undertakings to the Company which include amounts related to the management of the Company, however it is not possible to accurately identify directors' emoluments within these charges.

### 7. Employee costs

|                               | 2012<br>£000 | 2011<br>£000 |
|-------------------------------|--------------|--------------|
| Wages and salaries            | 26,705       | 22,218       |
| Share based payments (note 8) | 513          | 270          |
| Social security costs         | 2,848        | 2,240        |
| Pension costs (note 22)       | 4,287        | 4,302        |
|                               | 34,353       | 29,030       |

# FR Aviation Limited

## Notes to the financial statements (continued)

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

| By activity                   | 2012 | 2011 |
|-------------------------------|------|------|
| Production and engineering    | 532  | 413  |
| Marketing                     | 9    | 13   |
| Management and administration | 70   | 87   |
|                               | 611  | 513  |

## 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

- a the Cobham Performance Share Plan (PSP),
- b the Cobham Executive Share Option Scheme (ESOS),

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

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

Further details of these schemes can be found in the 2012 Annual Report of Cobham plc.

The Cobham Savings Related Share Option Scheme (ShareSave) is an HMRC approved savings related share option plan which is open to all UK employees. Employees contribute to a monthly savings plan and after an agreed period of at least three years, employees have the option to use these savings plus interest to purchase the Group's shares at 80% of the market price on 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 2012, and expensed to the profit and loss account for that year, was assessed to be £513,000 (2011 £270,000). 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 20).

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

| Number of share options | PSP      | ESOS      | ShareSave |
|-------------------------|----------|-----------|-----------|
| At 1 January 2011       | 128,774  | 1,240,905 | 2,128,516 |
| Awards granted          | 81,301   | -         | 663,258   |
| Awards forfeited        | (92,469) | (408,807) | (486,439) |
| Exercised               | (16,276) | (221,447) | (136,514) |
| Expired                 | -        | (56,747)  | (18,719)  |
| Transferred             | (57,934) | (196,637) | (3,564)   |
| At 1 January 2012       | 43,396   | 357,267   | 2,146,538 |
| Awards granted          | 52,190   | -         | 307,239   |

# FR Aviation Limited

## Notes to the financial statements (continued)

|                            |               |                |                  |
|----------------------------|---------------|----------------|------------------|
| Awards forfeited           | (13,551)      | (35,597)       | (148,318)        |
| Exercised                  | (6,433)       | (167,813)      | (443,519)        |
| Expired                    | -             | (21,353)       | (77,148)         |
| Transferred                | -             | -              | 24,220           |
| <b>At 31 December 2012</b> | <b>75,602</b> | <b>132,504</b> | <b>1,809,012</b> |

|                                        |          |               |              |
|----------------------------------------|----------|---------------|--------------|
| <b>Exercisable at 31 December 2012</b> | <b>-</b> | <b>67,697</b> | <b>8,394</b> |
| Exercisable at 31 December 2011        | -        | 129,201       | 12,050       |

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

|                                        | <b>PSP</b>  | <b>ESOS</b> | <b>ShareSave</b> |
|----------------------------------------|-------------|-------------|------------------|
| <b>Outstanding at 31 December 2012</b> | <b>1.79</b> | <b>6.36</b> | <b>2.56</b>      |
| Outstanding at 31 December 2011        | 2.19        | 7.06        | 2.73             |

Under the ESOS and Sharesave schemes, exercises were made at various times throughout the year. The average share price in that period was £2.165 (2011: 2.024).

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

| <b>£</b>                                  | <b>ESOS</b>  | <b>ShareSave</b> |
|-------------------------------------------|--------------|------------------|
| At 1 January 2011                         | 1,945        | 1,583            |
| Awards granted                            | -            | 1,480            |
| Awards forfeited                          | 1,853        | 1,367            |
| Exercised                                 | 1,748        | 1,740            |
| Expired                                   | 1,974        | 1,717            |
| Transferred                               | 2,084        | 1,430            |
| At 1 January 2012                         | <b>2,090</b> | <b>1,594</b>     |
| Awards granted                            | -            | 1,750            |
| Awards forfeited                          | 2,160        | 1,596            |
| Exercised                                 | 1,939        | 1,530            |
| Expired                                   | 2,473        | 1,628            |
| Transferred                               | -            | 1,622            |
| <b>At 31 December 2012</b>                | <b>2,200</b> | <b>1,635</b>     |
| <b>Exercisable as at 31 December 2012</b> | <b>1,940</b> | <b>1,732</b>     |
| Exercisable as at 31 December 2011        | 2,021        | 1,730            |

The range of exercise prices for ESOS and ShareSave awards outstanding at 31 December 2012 and 31 December 2011 are as follows:

# FR Aviation Limited

## Notes to the financial statements (continued)

| £                      | ESOS  | ShareSave |
|------------------------|-------|-----------|
| Lowest exercise price  | 1.840 | 1 076     |
| Highest exercise price | 2 473 | 1 790     |

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

|                                              | PSP      | ShareSave  |
|----------------------------------------------|----------|------------|
| <b>During 2012</b>                           |          |            |
| Effective date of grant or commencement date | 26 March | 1 February |
| Average fair value at date of grant          | 1 642    | 0 361      |
| <b>During 2011</b>                           |          |            |
| Effective date of grant or commencement date | 14 March | 1 February |
| Average fair value at date of grant          | 1 664    | 0 658      |

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     | ShareSave   |
|-------------------------------------|---------|-------------|
| <b>2012</b>                         |         |             |
| Weighted average share price        | £2.245  | £1 737      |
| Weighted average exercise price     | Nil     | £1 480      |
| Expected volatility                 | 33%     | 28%-30%     |
| Expected life                       | 3 years | 3 – 7 years |
| Expected employee cancellation rate | 3 0%    | 3 6%        |
| Risk free rate                      | 1.7%    | 3 0%        |
| Expected dividend yield             | n/a     | 3 8%        |
| <b>2011</b>                         |         |             |
| Weighted average share price        | £2 237  | £2 355      |
| Weighted average exercise price     | Nil     | £1 790      |
| Expected volatility                 | 33%     | 25%-31%     |
| Expected life                       | 3 years | 3 – 7 years |
| Expected employee cancellation rate | 1 8%    | 2 9%        |
| Risk free rate                      | 1 7%    | 2 5%        |
| Expected dividend yield             | n/a     | 2 4%        |

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 contracts by employees.

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

# FR Aviation Limited

## Notes to the financial statements (continued)

### 9. Dividends

|                                                                  | 2012<br>£000 | 2011<br>£000 |
|------------------------------------------------------------------|--------------|--------------|
| Dividend for current year paid of £4,432 (2011 £9,787) per share | 4,432        | 9,787        |

### 10. Tangible assets

|                                 | Leasehold land and<br>buildings<br>(long lease)<br>£000 | Plant and<br>machinery<br>(including<br>vehicles)<br>£000 | Fixtures<br>fittings,<br>tools and<br>equipment<br>£000 | Total<br>£000 |
|---------------------------------|---------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|---------------|
| <b>Cost</b>                     |                                                         |                                                           |                                                         |               |
| At 1 January 2012               | 12,548                                                  | 18,147                                                    | 7,383                                                   | 38,078        |
| Additions                       | -                                                       | 14,410                                                    | 67                                                      | 14,477        |
| Disposals                       | (25)                                                    | (940)                                                     | (629)                                                   | (1,594)       |
| <b>At 31 December 2012</b>      | <b>12,523</b>                                           | <b>31,617</b>                                             | <b>6,821</b>                                            | <b>50,961</b> |
| <b>Accumulated depreciation</b> |                                                         |                                                           |                                                         |               |
| At 1 January 2012               | 4,246                                                   | 15,765                                                    | 6,162                                                   | 26,173        |
| Charge for the year             | 224                                                     | 3,508                                                     | 459                                                     | 4,191         |
| Disposals                       | (8)                                                     | (927)                                                     | (622)                                                   | (1,557)       |
| <b>At 31 December 2012</b>      | <b>4,462</b>                                            | <b>18,346</b>                                             | <b>5,999</b>                                            | <b>28,807</b> |
| <b>Net book amount</b>          |                                                         |                                                           |                                                         |               |
| <b>At 31 December 2012</b>      | <b>8,061</b>                                            | <b>13,271</b>                                             | <b>822</b>                                              | <b>22,154</b> |
| At 31 December 2011             | 8,302                                                   | 2,382                                                     | 1,221                                                   | 11,905        |

Assets held under finance leases and capitalised in plant and machinery

|                          | 2012<br>£000  | 2011<br>£000 |
|--------------------------|---------------|--------------|
| Cost                     | 12,786        | -            |
| Accumulated depreciation | (2,770)       | -            |
| <b>Net book amount</b>   | <b>10,016</b> | -            |

# FR Aviation Limited

## Notes to the financial statements (continued)

### 11. Investments

Investments in joint ventures comprise

|                                          | Shares at cost<br>£000 |
|------------------------------------------|------------------------|
| Cost and net book amount                 |                        |
| <b>At 1 January and 31 December 2012</b> | <b>1,757</b>           |

The above investment represents 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.

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

### 12. Stocks

|                               | 2012<br>£000 | 2011<br>£000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 3,457        | 3,859        |
| Work in progress              | 5,161        | 1,284        |
|                               | <b>8,618</b> | <b>5,143</b> |

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

### 13. Debtors

|                                                | 2012<br>£000 | 2011<br>£000  |
|------------------------------------------------|--------------|---------------|
| Trade debtors                                  | 4,905        | 3,072         |
| Amounts owed by fellow subsidiary undertakings | 484          | 346           |
| Deferred tax assets (note 18)                  | 517          | 579           |
| Corporation tax recoverable                    | -            | 1,549         |
| Other debtors                                  | 12           | 9             |
| Prepayments and accrued income                 | 2,379        | 5,837         |
|                                                | <b>8,297</b> | <b>11,392</b> |

Prepayments and accrued income include £nil (2011: £155,000) falling due after one year.

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

|                                                | 2012<br>£000 | 2011<br>£000 |
|------------------------------------------------|--------------|--------------|
| Trade creditors                                | 2,516        | 3,574        |
| Payments on account                            | 6,282        | 5,222        |
| Amounts owed to fellow subsidiary undertakings | 461          | 1,110        |
| Finance leases (note 16)                       | 1,207        | -            |
| Corporation tax                                | 105          | -            |
| Other tax and social security                  | 1,952        | 1,571        |
| Accruals and deferred income                   | 3,450        | 2,209        |
|                                                | 15,973       | 13,686       |

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

#### 15. Creditors: amounts falling due after more than one year

|                          | 2012<br>£000 | 2011<br>£000 |
|--------------------------|--------------|--------------|
| Finance leases (note 16) | 9,381        | -            |

#### 16. Finance leases

Minimum future payments under finance leases are as follows

|                            | 2012<br>£000 | 2011<br>£000 |
|----------------------------|--------------|--------------|
| Within one year            | 1,207        | -            |
| Between two and five years | 5,655        | -            |
| After five years           | 3,726        | -            |
| Total gross payments       | 10,588       | -            |

Finance leases have been entered into during the year with a fellow subsidiary undertaking of Cobham plc in connection with the lease of Falcon aircraft and associated equipment. This arrangement, due to expire in 2019, replaced a previous operating lease which was due to terminate between 2014 and 2015.

# FR Aviation Limited

## Notes to the financial statements (continued)

### 17. Provisions for liabilities

|                                        | Staff cost<br>provisions<br>£000 | Operating<br>cost<br>provisions<br>£000 | Onerous<br>contract<br>provisions<br>£000 | Total<br>£000 |
|----------------------------------------|----------------------------------|-----------------------------------------|-------------------------------------------|---------------|
| At 1 January 2012                      | 18                               | 656                                     | 143                                       | 817           |
| Charged to the profit and loss account | 33                               | 5                                       | 433                                       | 471           |
| Utilised during the year               | (20)                             | (16)                                    | (8)                                       | (44)          |
| Unused amounts reversed in the year    | -                                | (387)                                   | (67)                                      | (454)         |
| <b>At 31 December 2012</b>             | <b>31</b>                        | <b>258</b>                              | <b>501</b>                                | <b>790</b>    |

#### Staff cost provisions

Staff cost provisions occur where 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 2013.

#### Operating cost provisions

The operating cost provision represents aircraft modification and certification costs likely to be incurred for completion of contractual obligations, and likely property rental cost obligations. The amounts recognised are expected to be fully utilised during 2013.

#### Onerous contract 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 2013.

### 18. Deferred taxation

|                                        | Deferred<br>taxation<br>£000 |
|----------------------------------------|------------------------------|
| At 1 January 2012                      | 579                          |
| Charged to the profit and loss account | (62)                         |
| <b>At 31 December 2012</b>             | <b>517</b>                   |

The deferred tax asset represents

|                                     | 2012<br>£000 | 2011<br>£000 |
|-------------------------------------|--------------|--------------|
| Accelerated capital allowances      | 249          | 197          |
| Other short term timing differences | 268          | 382          |
|                                     | <b>517</b>   | <b>579</b>   |

# FR Aviation Limited

## Notes to the financial statements (continued)

### 19. Called up share capital

|                                           | 2012<br>£000 | 2011<br>£000 |
|-------------------------------------------|--------------|--------------|
| <b>Allotted, called up and fully paid</b> |              |              |
| 1,000 Ordinary shares of £1 each          | 1            | 1            |

### 20. Reserves

|                                   | Other<br>reserve<br>£000 | Profit and<br>loss account<br>£000 |
|-----------------------------------|--------------------------|------------------------------------|
| At 1 January 2012                 | 3,069                    | 26,610                             |
| Profit for the financial year     | -                        | 3,810                              |
| Dividends (note 9)                | -                        | (4,432)                            |
| Capital contribution for the year | 513                      | -                                  |
| <b>At 31 December 2012</b>        | <b>3,582</b>             | <b>25,988</b>                      |

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

### 21. Reconciliation of movements in total shareholders' funds

|                                         | 2012<br>£000  | 2011<br>£000  |
|-----------------------------------------|---------------|---------------|
| Profit for the financial year           | 3,810         | 8,561         |
| Dividends (note 9)                      | (4,432)       | (9,787)       |
| Retained deficit for the financial year | (622)         | (1,226)       |
| Capital contribution from parent        | 513           | 270           |
| Net deduction from shareholders' funds  | (109)         | (956)         |
| Opening shareholders' funds             | 29,680        | 30,636        |
| <b>Closing shareholders' funds</b>      | <b>29,571</b> | <b>29,680</b> |

# **FR Aviation Limited**

## **Notes to the financial statements (continued)**

### **22. Pension commitments**

#### **Defined contribution scheme**

The Cobham group is in the process of integrating all of its UK defined contribution pension schemes into the Cobham Personal Pension Plan. From 1 October 2012, contributions to the Cobham Pension Plan, Money Purchase Plan and the Cobham Pension Plan, Group Individual Savings Personal Pension ceased and all subsequent contributions were paid into the Cobham Personal Pension Plan. The transfer of pension assets to the Cobham Personal Pension Plan has started and will be completed during 2013. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension cost charged represents contributions payable by the Company to the fund and amounted to £869,000 (2011 £750,000). At 31 December 2012 there were no contributions outstanding (2011 £nil).

#### **Defined benefit scheme**

The Company also participates in the defined benefit section of the Cobham Pension Plan operated by Cobham plc. The Cobham Pension Plan now includes the assets and liabilities previously held in the Chelton UK Group Pension Scheme and the ERA Technology Pension Fund which were transferred into the Cobham Pension Plan on 30 June 2012. 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 2012. This assessment was updated to 31 December 2012 at which date the net liabilities of the scheme were assessed to be £65.4m. 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 £3,418,000 (2011 £3,531,000).

### **23. 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 (2011 £600,000) and also has in place contract performance related guarantees totalling £28,000 (2011 £29,000) to other parties.

The Company is acting as guarantor for the value of £4,854,000 (A\$7,600,000) (2011 £5,013,000) for the Commonwealth Bank of Australia in support of a fellow subsidiary undertaking, National Jet Systems Pty Limited.

### **24. Capital commitments**

The Company had capital commitments contracted for but not provided of £48,000 at 31 December 2012 (2011 £284,000).

## FR Aviation Limited

### Notes to the financial statements (continued)

#### 25. Financial commitments

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

|                            | Land and buildings |              | Other        |              |
|----------------------------|--------------------|--------------|--------------|--------------|
|                            | 2012<br>£000       | 2011<br>£000 | 2012<br>£000 | 2011<br>£000 |
| Within one year            | -                  | -            | 3            | 203          |
| Between two and five years | 36                 | 36           | 151          | 2,838        |
| After five years           | 406                | 406          | -            | -            |
|                            | 442                | 442          | 154          | 3,041        |

#### 26. 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.

#### 27. Cash flow statement

As noted above, the Company is a wholly owned subsidiary of Cobham plc 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).

## 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

|                         | <b>2012<br/>Purchases<br/>in year<br/>£000</b> | <b>2012<br/>Creditor<br/>balances<br/>£000</b> | <b>2011<br/>Purchases<br/>in year<br/>£000</b> | <b>2011<br/>Creditor<br/>balances<br/>£000</b> |
|-------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|
| Aviation Defence SA     | 333                                            | -                                              | -                                              | -                                              |
|                         | <b>Sales in<br/>year<br/>£000</b>              | <b>Debtor<br/>balances<br/>£000</b>            | <b>Sales<br/>in year<br/>£000</b>              | <b>Debtor<br/>balances<br/>£000</b>            |
| FB Heliservices Limited | 79                                             | 13                                             | 63                                             | 4                                              |
| Aviation Defense SA     | 64                                             | -                                              | 920                                            | -                                              |

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

FB Heliservices Limited and Aviation Defense SA are joint venture companies of fellow subsidiary undertakings

The Company also received dividend income totalling £2,870,000 from its investment in FBS Limited, a joint venture with Brnstow Helicopters Limited, in the year to 31 December 2012 (2011 £5,804,000)