

FR Aviation Limited
Annual report and financial statements
for the year ended 31 December 2016

Registered number 845310



FR Aviation Limited

Annual report and financial statements for the year ended 31 December 2016

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Directors' report for the year ended 31 December 2016

The directors have pleasure in submitting their report, together with the strategic report and the audited financial statements of FR Aviation Limited (the Company) for the year ended 31 December 2016. The Company is a private company limited by shares and is registered, incorporated and domiciled in England, number 845310. The address of the registered office of the Company is Brook Road, Wimborne, Dorset BH21 2BJ.

The Company is a wholly owned subsidiary of Cobham plc and trades under the name "Cobham Aviation Services".

Results and dividends

The Company's results for the year are set out in the income statement on page 7 showing a profit for the financial year after tax of £5,743,000 (2015: £10,265,000). At 31 December 2016, the Company had net assets of £37,306,000 (2015: £42,732,000). A review of the Company's business during the year and future developments, together with information on risks and uncertainties, financial risk management and events since the balance sheet date are provided in the strategic report on pages 3 to 4. The Company did not undertake any research and development activities in the year.

Dividends paid are as set out in note 10.

Directors

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

P Nottage
P Armstrong (resigned 7 April 2017)
S Hellyar (appointed 7 April 2017)

The directors benefited from a Directors' and Officers' liability insurance policy which was in place during the financial year and at the date of this report.

Statement of directors' responsibilities

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

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, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.

The directors 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.

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Directors' report for the year ended 31 December 2016

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the strategic report on pages 3 to 4.

The Company has considerable financial resources together with long-term contracts and trading relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Employees

The Company is committed to providing its employees with equal opportunities in a workplace free from discrimination.

Working within a rigorous competency framework the Company evaluates candidates according to their skills and abilities, irrespective of age, race, gender, sexual preference, religion or disability. A personal development review (PDR) process standardised across the Group, coupled with development centres, where appropriate, ensure career development and progression is based solely on competency.

With regard to employees who become disabled, the Company takes all reasonable steps to retain them, including retraining to enable them to continue their employment and career development within the Company.

The Company has a policy of providing timely and relevant information to employees. Employees are provided with regular updates on the financial performance of the business and the factors that affect it. Employees are consulted when making decisions considered likely to impact their employment.

The Company continues to support employee share ownership through participation in the Cobham group ShareSave scheme and the Cobham Share Incentive Plan which are open to all employees.

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



S Hellyar
Director

20th June 2017

FR Aviation Limited

Strategic report for the year ended 31 December 2016

Business review

The results for the year and financial position at the year end are set out in the Directors' Report on page 1. 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.

During the year the Company completed a major contract and made the decision to exit certain other markets with a resultant impact on revenues.

The directors consider the results for the year to be satisfactory despite challenging market conditions.

Future developments

The directors are confident that next year will show a strong and profitable performance consistent with that in the current year.

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 constraints or reductions in budgeted defence spending. Further discussion of the principal risks, in the context of the Cobham plc group as a whole, is provided on pages 34 to 39 of the Cobham plc 2016 Annual Report and Accounts 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 by sector. For this reason, the Company's directors believe that the most useful analysis of key performance indicators is with reference to the development, performance and position of the Cobham Aviation Services sector of the Cobham plc group, which includes the Company. This is discussed on pages 26 and 27 of the Cobham plc 2016 Annual Report and Accounts, which does not form part of this report. KPIs for the group as a whole are discussed on pages 17 to 19 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 relative to the Cobham plc group, 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.

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 contracts are signed and sales are made. The Company also monitors existing customer accounts on an ongoing

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Strategic report for the year ended 31 December 2016 (continued)

basis and takes appropriate action where necessary to minimise any potential credit risk. Customers include government agencies with long term trading relationships. 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. The interest bearing assets include only cash balances, which earn interest at a floating rate. The interest bearing liabilities relate to finance leases. In order to ensure stability of cash outflows 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.

By order of the board



S Hellyar

Director

20th June 2017

FR Aviation Limited

Independent auditors' report to the members of FR Aviation Limited

Report on the financial statements

Our opinion

In our opinion FR Aviation Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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.

What we have audited

The financial statements included within the Annual Report and financial statements (the Annual Report), comprise:

- the Balance sheet as at 31 December 2016;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

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Independent auditors' report to the members of FR Aviation Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 1, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

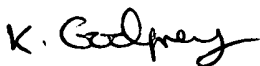
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Kevin Godfrey (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
20 June 2017

FR Aviation Limited

Income statement for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	2	55,421	77,480
Cost of sales		(41,589)	(57,224)
Gross profit		13,832	20,256
Selling and distribution costs		(1,281)	(1,087)
Administrative expenses		(4,344)	(5,588)
Operating profit	3	8,207	13,581
Finance income	4	181	160
Finance costs	5	(987)	(1,146)
Profit on ordinary activities before taxation		7,401	12,595
Tax on profit on ordinary activities	6	(1,658)	(2,330)
Profit after taxation for the year		5,743	10,265

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

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Statement of comprehensive income for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Profit after taxation for the year		5,743	10,265
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	21	(5,321)	5,010
Tax effects	6	1,064	(1,002)
Other comprehensive (expense)/income for the year		(4,257)	4,008
Total comprehensive income for the year		1,486	14,273

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Balance sheet as at 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	11	14,407	18,620
Investments	12	312	312
Trade and other receivables	13	2,714	1,627
		17,433	20,559
Current assets			
Inventories	14	4,390	2,689
Trade and other receivables	13	7,971	8,880
Cash and cash equivalents		47,150	49,104
		59,511	60,673
Liabilities			
Current liabilities			
Trade and other payables	16	(19,011)	(19,939)
		(19,011)	(19,939)
Non-current liabilities			
Trade and other payables	17	(7,239)	(9,486)
Provisions	19	(4,068)	(3,376)
Retirement benefit obligations	21	(9,320)	(5,699)
		(20,627)	(18,561)
Net assets		37,306	42,732
Equity			
Share capital	22	1	1
Other reserve	22	4,201	4,113
Retained earnings		33,104	38,618
Total equity		37,306	42,732

The financial statements on pages 7 to 33 were approved by the board on 20th June 2017 and were signed on its behalf by:



S Hellyar
Director

Company number: 845310

FR Aviation Limited

Statement of changes in equity for the year ended 31 December 2016

	Share capital £000	Other reserve (note 21) £000	Retained earnings £000	Total equity £000
Total equity at 31 December 2014	1	4,080	24,345	28,426
Profit for the year	-	-	10,265	10,265
Other comprehensive income	-	-	4,008	4,008
Total comprehensive income for the year	-	-	14,273	14,273
Share based payments - capital contribution	-	148	-	148
Tax charge relating to share based payments	-	(115)	-	(115)
Total equity at 31 December 2015	1	4,113	38,618	42,732
Profit for the year	-	-	5,743	5,743
Other comprehensive expense	-	-	(4,257)	(4,257)
Total comprehensive income for the year	-	-	1,486	1,486
Share based payments - capital contribution (note 9)	-	173	-	173
Tax charge relating to share based payments	-	(85)	-	(85)
Dividends paid (note 10)	-	-	(7,000)	(7,000)
Total equity at 31 December 2016	1	4,201	33,104	37,306

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Notes to the financial statements for the year ended 31 December 2016

1. Statement of accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101). The Company early adopted the amendments to FRS 101 which were issued in July 2015.

The financial statements have been prepared on the going concern basis, under the historical cost convention unless otherwise stated and as modified to include the revaluation of certain derivative financial assets and liabilities measured at fair value through profit or loss and in accordance with the Companies Act 2006 as applicable to companies applying FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a cash flow statement and related notes (IAS 7, Statement of Cash Flows and paragraph 10(d) of IAS 1, Presentation of Financial Statements);
- Paragraph 38 of IAS 1, Presentation of Financial Statements comparative period reconciliations in respect of:
 - i. paragraph 79(a)(iv) of IAS 1 (number of shares outstanding);
 - ii. paragraph 73(e) of IAS 16, Property, plant and equipment;
- capital management disclosures required by paragraphs 134 to 136 of IAS 1;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors concerning the effects of new but not yet effective IFRSs;
- details of compensation of key management personnel required by paragraph 17 of IAS 24, Related Party Disclosures; and
- the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group.

In addition, as the consolidated financial statements of Cobham plc include the equivalent disclosures, the following exemptions under FRS 101 have also been taken:

- share based payment disclosures under paragraphs 45(b) and 46-52 of IFRS 2, Share Based Payment in respect of group settled share based payments;
- Financial instrument information required by IFRS 7, Financial Instruments: Disclosures and paragraphs 91 to 99 of IFRS 13, Fair value measurement except those which are relevant for the financial instruments which are held at fair value and are neither held as part of a trading portfolio or derivatives.

Accounting developments

Annual Improvements 2014 have been adopted with effect from 1 January 2016.

In addition, amendments to the following standards have been adopted with effect from 1 January 2016:

- Amendment to IFRS 11 Joint arrangements, on acquisition of an interest in a joint operation;
- Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets, on depreciation and amortisation;

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Notes to the financial statements for the year ended 31 December 2016 (continued)

1. Statement of Accounting Policies (continued)

- Amendments to IAS 27 Separate financial statements, on equity accounting;
- Amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures, on applying the consolidation exemption.

No changes to previously published accounting policies or other adjustments were required on the adoption of these amendments.

Management judgement and estimation uncertainty

The preparation of financial statements requires the use of estimates and judgements that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.

These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting estimates and judgements, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are as follows:

Retirement benefits (note 21)

These financial statements include costs and liabilities in relation to retirement benefit obligations. A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the long term rate of increase of salary costs, discount rate, inflation and mortality rates. The Company uses published indices and independent actuarial advice to select the values of critical assumptions.

Significant accounting policies

The principal accounting policies, which have been applied consistently throughout the year are set out below.

Revenue

Revenue is measured at the fair value of the right to consideration, net of returns and other allowances, and excludes value added tax and other sales taxes.

Revenue is recognised when the Company has met its contractual obligations for service delivery to its customers. In the case of contracts of a long duration, revenue 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 revenue when the service is provided. Revenue recognised in advance of customer billing is taken to accrued income.

Current and deferred taxation

Current tax is provided at the amounts expected to be paid using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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Notes to the financial statements for the year ended 31 December 2016 (continued)

1. Statement of Accounting Policies (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, 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 and deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Tax is charged or credited to the income statement except when it relates to items recognised in other comprehensive income (OCI) or directly in equity, in which case the tax is also recognised in OCI or directly in equity respectively. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Intangible assets – other intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs have been amortised over their estimated useful lives of three to five years, with this amortisation included within administrative expenses in the income statement.

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

Property, plant and equipment and depreciation

Property, plant and equipment is stated at historic cost, less accumulated depreciation and any recognised impairment losses. Cost comprises the purchase price and any costs directly attributable to the asset.

All property, plant and equipment, is depreciated on a straight-line basis to the estimated residual values over estimated useful lives. These lives are as follows:

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

Estimated residual values and the estimated useful lives are reviewed annually and adjusted where necessary. Assets under construction are held at cost and transferred to the appropriate category of property, plant and equipment once construction is complete and they enter into service. They are depreciated from this point in accordance with the policies described above.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. Statement of Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

Pension costs

The Company contributes to the Cobham Pension Plan (CPP), a multi-employer defined benefit pension scheme operated by Cobham plc, the assets of which are held separately in trustee administered funds. The assets and liabilities of the CPP have been allocated to the contributing companies based on the proportional number of members. The Company also contributes to a defined contribution scheme operated by Cobham plc.

For the defined benefit scheme, current service costs and costs related to the administration of the schemes are charged to operating profit. Past service costs are recognised immediately in the income statement. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements are recognised immediately in OCI.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the face of the balance sheet.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are recorded as either accruals or prepayments in the balance sheet.

Provisions

Provisions are recognised when the Company has a present legal or constructive 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.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially recognised at fair value at trade date and subsequently held at fair value or amortised cost dependent upon the classification as outlined below.

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. Fair value measurements are used on a recurring basis.

Financial assets and liabilities are presented on an offset basis when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

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Notes to the financial statements for the year ended 31 December 2016 (continued)

1. Statement of Accounting Policies (continued)

Financial assets

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates the designation at each reporting date.

Assets held at fair value through profit or loss are those categorised as held for trading under IAS 39 and are classified as current assets or non-current assets dependent upon maturity. Such financial assets are subsequently carried at fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. These are classified as current or non-current assets dependent upon maturity and included within trade and other receivables. Loans and receivables also includes cash and cash equivalents. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method.

Financial liabilities

Financial liabilities are categorised on initial recognition as held for trading under IAS 39 and are held at fair value through profit or loss, or other liabilities, which are held at amortised cost. All financial liabilities are classified as current or non-current liabilities dependent upon the maturity date of the instruments.

Derivative financial instruments are categorised as held for trading as they are not designated as hedges.

The fair value of financial liabilities held at cost (not at fair value through profit or loss) is adjusted for transaction costs that are directly attributable to the acquisition or issue of the liability. Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial liabilities not at fair value through profit or loss are stated at amortised cost using the effective interest method.

Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and foreign exchange contracts are used to reduce these exposures. The Company does not use derivative financial instruments for speculative purposes.

Foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies are not accounted for using hedge accounting. These derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Movements in fair value of the derivative financial instruments are included in the income statement as part of operating profit.

The fair values of derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates.

The fair value of such derivatives is classified as a current or non-current asset or liability dependent upon the expected realisation of the assets or settlement of the liabilities.

Trade and other receivables

Trade and other receivables are stated at their amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

The impairment recorded is the difference between the carrying value of the receivables and the present value of the estimated future cash flows. Any impairment required is recorded in the income statement in administrative

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Notes to the financial statements for the year ended 31 December 2016 (continued)

1. Statement of Accounting Policies (continued)

expenses. The balance may be written off in full generally where receivables are in excess of 12 months old. At that time, any amounts previously provided for impairment are released.

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. All exchange differences are dealt with in administrative expenses in the income statement.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Share-based payments

For grants made under the Cobham plc group's equity share based payment schemes, amounts which reflect the fair value of awards made to employees of the Company as at the time of grant are charged to the income statement over the relevant vesting periods, taking into account management's best estimate of the number of awards expected to vest. The vesting estimate, which includes progress against non-market related performance conditions, is reviewed and updated at each balance sheet date. The excess of the charge over any amounts paid to Cobham plc for these awards is recognised as a capital contribution in equity.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. Revenue

All sales are deemed as being attributable to the company's principal activity of air defence training, additional flying activities and aircraft engineering.

All revenue is derived from the sale of services and an analysis by geographical destination is given below:

	2016 £000	2015 £000
United Kingdom	50,759	69,444
Other EU countries	3,130	2,074
Rest of the world	1,532	5,962
	55,421	77,480

3. Operating profit

Operating profit is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation		
- owned assets	836	1,224
- leased assets	2,749	2,729
Operating lease charges		
- plant and machinery	445	505
- land and buildings	375	374
Profit on disposal of property, plant and equipment	(85)	-
Material cost included in cost of sales	2,311	4,913
Net gain on derivative financial instruments	(1,234)	(82)
Exchange differences	(617)	(259)
Auditors' remuneration for the audit of the Company's financial statements	37	37

Fees paid to the Company's auditors, 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.

4. Finance income

	2016 £000	2015 £000
Bank interest receivable	181	160

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

5. Finance costs

	2016 £000	2015 £000
Interest on net pension scheme liabilities	173	361
Finance lease interest	814	785
	987	1,146

6. Tax on profit on ordinary activities

Tax charged in the income statement:

	2016 £000	2015 £000
Current tax:		
UK corporation tax on profit for the year	1,200	2,175
Adjustment in respect of previous years	198	(166)
Total current tax	1,398	2,009
Deferred tax:		
Charge for the year	260	276
Adjustment in respect of previous years	-	45
Total deferred tax (note 20)	260	321
Tax on profit on ordinary activities	1,658	2,330

Tax (income)/expense included in OCI:

	2016 £000	2015 £000
Deferred tax:		
Actuarial loss/gain on defined benefit retirement benefit obligations	(1,064)	1,002

Tax expense included in equity:

	2016 £000	2015 £000
Deferred tax:		
Timing differences relating to share based payments	85	115

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

6. Tax on profit on ordinary activities (continued)

The tax on profit on ordinary activities can be reconciled to the accounting profit as follows:

	2016 £000	2015 £000
Profit on ordinary activities before taxation	7,401	12,595
Profit on ordinary activities multiplied by the standard rate in the UK of 20.00% (2015: 20.25%)	1,480	2,550
Effects of:		
Expenses not deductible for tax purposes	9	(4)
Share based payments	(29)	(95)
Adjustment in respect of previous years	198	(121)
Total tax on profit on ordinary activities	1,658	2,330

The rate of UK Corporation tax will reduce from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. Closing deferred tax balances have been calculated accordingly.

7. Directors' emoluments

The emoluments of the directors employed by the Company are:

	2016 £000	2015 £000
Aggregate emoluments	138	148
Aggregate amounts paid in respect of money purchase pension schemes	12	11
	150	159

One director is employed by, and receives emoluments from another group undertaking and also acts as director for a number of legal entities within the Cobham plc group. Where the individual acts as director for a number of other legal entities within the Cobham plc group, no specific amounts can be apportioned or are payable in the current or prior year in respect of directors services supplied 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 included within these charges. Accordingly the above details do not include any emoluments in respect of this director.

Retirement benefits are accruing to 1 (2015: 1) director under money purchase pension schemes. During the current and prior year, neither of the directors exercised options over shares of Cobham plc and no (2015: nil) directors were entitled to receive shares under long term incentive plans.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

8. Employee costs

	2016 £000	2015 £000
Wages and salaries	14,831	14,832
Share based payments (note 9)	173	148
Social security costs	1,623	1,611
Pension costs (note 21)	2,293	2,241
	18,920	18,832

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

By activity	2016	2015
Operations and engineering	257	259
Marketing	5	6
Management and administration	49	47
	311	312

9. Share-based payments

The Company participates in share schemes operated by the ultimate parent undertaking, Cobham plc, and the following amounts are included in these financial statements:

	2016 £000	2015 £000
PSP awards	28	17
RSP awards	26	8
ShareSave awards	119	123
Charge to income statement and capital contribution from ultimate parent undertaking	173	148

As the schemes relate to shares of the ultimate parent undertaking, the Company has recognised a capital contribution equal to the income statement charge, in reserves.

The PSP scheme allows for annual grants of conditional shares and nil-cost options with vesting conditions based on the Cobham plc group's financial performance. This scheme also includes retention awards granted in 2014. The RSP scheme provides conditional shares which vest based upon continued employment within the Cobham Group after a three year period. Further details of all schemes can be found in the 2016 Annual Report and Accounts of Cobham plc.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

The Cobham Savings Related Share Option Scheme (ShareSave) is an HMRC approved savings related share option plan which is open to all UK employees. Participating 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 Cobham plc shares at 80% of the market price on the date of grant.

The number of awards outstanding under each of the schemes were as follows:

	2016	2015
PSP	214,632	29,928
RSP	70,731	8,328
ShareSave	1,588,374	1,276,309
Total awards outstanding at 31 December	1,873,737	1,314,565

Options outstanding under the ShareSave scheme had a weighted average remaining contractual life of 2.4 years (2015: 2.2 years) and exercise prices which range from £1.26 to £2.05 (as restated following Cobham plc's June 2016 rights issue) (2015: £1.26 to £2.05 as restated).

Exercises of awards under the ShareSave scheme were made at various times throughout the year. The average share price in that period was £1.84 (2015: £2.96).

10. Dividends

	2016 £000	2015 £000
Dividend for prior year paid of £7,000 (2015: £nil) per share	7,000	-

A final dividend for the year ended 31 December 2015 of £7,000.00 per share, representing a total dividend payment of £7,000,000 was authorised and paid in March 2016.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

11. Property, plant and equipment

	Leasehold land and buildings (long lease) £000	Plant and machinery (including vehicles) £000	Fixtures fittings, tools and equipment £000	Assets in the course of construction £000	TOTAL £000
Cost					
At 1 January 2016	7,710	33,148	3,805	1,348	46,011
Additions	-	1,388	11	162	1,561
Transfers	-	158	57	(215)	-
Disposals	-	(3,048)	-	(1,139)	(4,187)
At 31 December 2016	7,710	31,646	3,873	156	43,385
Accumulated depreciation and impairment					
At 1 January 2016	3,834	19,965	3,592	-	27,391
Charge for the year	120	3,360	105	-	3,585
Disposals	-	(1,998)	-	-	(1,998)
At 31 December 2016	3,954	21,327	3,697	-	28,978
Carrying amount					
At 31 December 2016	3,756	10,319	176	156	14,407
At 31 December 2015	3,876	13,183	213	1,348	18,620

The net carrying amount of assets held under finance leases and capitalised in plant and machinery was £9,152,000 (2015: £11,018,000). The leased equipment secures lease obligations (see note 18).

In addition to the above, the Company has intangible assets (software) with a nil carrying value at 31 December 2016 and 31 December 2015. The cost and cumulative amortisation were £1,230,000 and £1,230,000 respectively at both 1 January and 31 December 2016.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

12. Investments

	Shares at cost £000
Cost	
At 1 January 2016 and 31 December 2016	1,757
Impairment	
At 1 January 2016 and 31 December 2016	1,445
Net book amount	
At 31 December 2016 and 31 December 2015	312

The above investment represents a 50% ordinary shareholding in another group company, FBS Limited, which is incorporated in England and is dormant. Its registered office address is the same as the registered office of the Company.

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.

13. Trade and other receivables

Current assets:

	2016 £000	2015 £000
Trade receivables	1,637	4,358
Amounts owed by fellow subsidiary undertakings	867	1,127
Derivative financial instruments (note 15)	1,159	292
Other receivables	17	21
Prepayments and accrued income	4,291	3,082
	7,971	8,880

Non-current assets:

	2016 £000	2015 £000
Derivative financials instruments (note 15)	433	65
Deferred tax assets (note 20)	2,281	1,562
	2,714	1,627

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

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

14. Inventories

	2016 £000	2015 £000
Raw materials and consumables	2,188	1,500
Work in progress	2,202	1,189
	4,390	2,689

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

15. Derivative financial instruments

The Company has the following derivative financial instruments which are financial assets measured at fair value through profit or loss or financial liabilities categorised as held for trading:

	2016 £000	2015 £000
Non-current assets	433	65
Current assets	1,159	292
Current liabilities	(21)	(18)
Non-current liabilities	-	(2)
	1,571	337

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables and payables. At 31 December 2016, the outstanding contracts all mature within 40 months (2015: 18 months) of the year end. The Company is committed to buy and sell US dollars and Euros for fixed sterling amounts.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions in valuing the derivatives are the exchange rates for GBP: USD, and GBP: EUR. Movements in fair values are reported in the income statement within administration costs (note 3).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

16. Current liabilities: Trade and other payables

	2016 £000	2015 £000
Trade payables	2,341	1,577
Payments on account	7,248	8,296
Amounts owed to fellow subsidiary undertakings	690	1,152
Finance leases (note 18)	2,965	2,558
Derivative financial instruments (note 15)	21	18
Corporation tax	1,690	2,180
Other tax and social security	1,567	2,006
Accruals and deferred income	2,489	2,152
	19,011	19,939

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

17. Non-current liabilities: Trade and other payables

	2016 £000	2015 £000
Derivative financial instruments (note 15)	-	2
Finance leases (note 18)	7,239	9,484
	7,239	9,486

18. Finance leases

Minimum future payments under finance leases are as follows:

	2016 £000	2015 £000
Within one year	2,965	2,558
Between two and five years	7,239	9,484
	10,204	12,042

Finance leases are with a fellow subsidiary undertaking of Cobham plc and in connection with the lease of Falcon aircraft and associated equipment. This arrangement is due to expire in 2019.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

19. Provisions

	Staff & operating cost provisions £000	Other provisions £000	Onerous contract provisions £000	Total £000
At 1 January 2016	45	3,108	223	3,376
Charged to the income statement	314	1,339	462	2,115
Utilised during the year	(44)	(542)	-	(586)
Unused amounts reversed in the year	(2)	(612)	(223)	(837)
At 31 December 2016	313	3,293	462	4,068

Staff and operating cost provisions

The Company has provided for certain costs likely to be incurred in meeting updated safety and operational requirements. Staff cost provisions include provisions which occur where certain employees and directors are offered relocation benefits on commencement of their positions, whereby 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. All the amounts recognised are expected to be fully utilised during 2017.

Other provisions

Other provisions include amounts potentially due to third parties under contracts in existence at the year end. The amounts recognised are expected to be utilised over the next three years.

Onerous contract provisions

The onerous contracts provisions represent amounts potentially due to third parties in respect of specific contractual arrangements in place at the year end. The amounts recognised are expected to be fully utilised during 2017.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

20. Deferred taxation

The following are the major deferred tax assets and liabilities recognised by the Company, and the movements thereon:

	Property, plant and equipment £000	Retirement benefit obligations £000	Revaluation of derivative financial instruments £000	Other £000	Total £000
At 1 January 2016	370	1,140	(62)	114	1,562
Charged to the income statement	77	(340)	5	(2)	(260)
Charged to OCI	-	1,064	-	-	1,064
Charged to reserves	-	-	-	(85)	(85)
At 31 December 2016	447	1,864	(57)	27	2,281

Other deferred tax balances comprise amounts relating to share based payments and other short term timing differences.

Certain deferred tax assets and liabilities have been offset in accordance with the Company's accounting policy.

Without taking into consideration the offsetting of balances, deferred tax balances are as follows:

	Property, plant and equipment £000	Retirement benefit obligations £000	Revaluation of derivative financial instruments £000	Other £000	Total £000
Deferred tax assets	447	1,864	-	27	2,338
Deferred tax liabilities	-	-	(57)	-	(57)
At 31 December 2016	447	1,864	(57)	27	2,281
Deferred tax assets	370	1,140	-	114	1,624
Deferred tax liabilities	-	-	(62)	-	(62)
At 31 December 2015	370	1,140	(62)	114	1,562

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

21. Retirement benefit obligations

Pension costs included in employment costs in note 8 are as follows:

	2016 £000	2015 £000
Defined contribution scheme – contributions payable	2,006	1,028
Defined benefit scheme	287	1,213
	2,293	2,241

Defined contribution scheme

The Company participates in the Cobham Personal Pension Plan, a defined contribution scheme operated for companies within the Cobham plc group. It also makes contributions for certain employees to individual personal pension schemes. 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 funds and amounted to £2,006,000 (2015: £1,028,000). At 31 December 2016 there were no contributions outstanding (2015: £nil).

Defined benefit scheme	2016 £000	2015 £000
Defined benefit scheme assets	94,726	79,541
Defined benefit obligations	(104,046)	(85,240)
	(9,320)	(5,699)

The Company also participates in the defined benefit section of the Cobham Pension Plan operated by Cobham plc. The scheme is of the funded defined benefit type (where benefits are based on employees' length of services and average final salary) and its assets are held in a separate trustee administered fund. It has been closed to new members since 2003 and closed to future accrual from 1 April 2016.

Actuarial valuations of the present value of the defined benefit obligations for the scheme are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2015. The actuarial valuation was updated by qualified independent actuaries for accounting purposes to 31 December 2016. Within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the scheme is fully funded over time on a suitably prudent basis. The funding of the scheme is apportioned to participating Cobham plc group companies based on the number of scheme members attributable to each employer. Orphan members who cannot be attributed to other Cobham group employers are deemed to be members of Cobham plc.

The Company expects to contribute £1,957,000 to the scheme in 2017. There were no significant contributions outstanding at the end of 2016 or 2015.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

21. Retirement benefit obligations (continued)

The defined benefit scheme exposes the Company to a number of risks, as described below:

- Volatility of investment returns. If the investment return is lower than the discount rate set with reference to corporate bond yields then the scheme deficit will increase;
- Inflation risk. Pensionable salaries, deferred pensions and pensions in payment are subject to inflationary increases. A higher inflation rate will lead to higher defined benefit obligations;
- Changes in bond yields. Volatility in the financial markets can have a significant impact on corporate bond yields which are used to generate a discount rate assumption. Lower corporate bond yields will lead to higher defined benefit obligations;
- Life expectancy risk. The scheme's obligations are to provide benefits for the life of the member and therefore increases in life expectancy will lead to higher defined benefit obligations.

The trustees seek to mitigate these risks and have invested in liability driven investments that mitigate bond yield, inflation and investment risks. The remaining assets include significant investment in diversified growth funds which seek to manage investment risks. In addition the pensioners of the scheme as at 1 July 2013 were subject to a buy-in arrangement where assets are transferred to an insurance company in return for a qualifying insurance policy which provides an income stream equivalent to the obligations to pensioners covered by the arrangement. The insurance contract asset is measured at a value equal to the related liabilities, mitigating the risks related to those liabilities.

The principal financial assumptions used for the purpose of the actuarial valuations were as follows:

	2016	2015
Rate of increase in salary costs	3.70%	3.45%
Rate of increase in pensions in payment	3.45%	3.20%
Rate of increase in deferred pensions	2.45%	2.20%
Discount rate	2.65%	3.80%
Inflation assumption	3.45%	3.20%

The mortality assumptions used are based upon actual recent mortality experience of members within the scheme and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 15' (2015: SAPS CMI 14). In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1951	2016	22.6 years
Female	1951	2016	24.6 years
Male	1980	2045	25.2 years
Female	1980	2045	27.3 years

At 31 December 2016 it has been assumed that members will commute on average 25% (2015: 25%) of their pension for cash on retirement.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

21. Retirement benefit obligations (continued)

The sensitivity of scheme liabilities to changes in certain key assumptions, after adjusting for liabilities covered by insurance contracts, is provided below:

	Change in assumption	Change in liabilities
Discount rate	Increase by 0.5%	-8.0%
Inflation rate	Increase by 0.5%	+5.4%
Life expectancy	Increase by 1 year	+3.2%

If the change in assumptions were in the opposite direction to that shown above, the impact would be approximately symmetrical.

Analysis of amount charged/(credited) to operating profit:

	2016 £000	2015 £000
Current service cost (administrative expenses)	287	1,849
Past service cost (administrative expenses)	-	2,181
Gain on curtailment	-	(2,881)
Scheme administration expenses	-	64
Amounts recognised in operating profit	287	1,213

Analysis of amount charged to other finance expense:

	2016 £000	2015 £000
Net interest	173	361

Analysis of amount recognised in OCI:

	2016 £000	2015 £000
Actual return less interest income on scheme assets	13,826	(2,723)
Experience gains and losses arising on scheme liabilities	-	1,655
Actuarial gains and losses arising from changes in financial assumptions	(20,262)	4,902
Actuarial gains and losses arising from changes in demographic assumptions	1,115	1,176
Amounts recognised in OCI	(5,321)	5,010

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

21. Retirement benefit obligations (continued)

Changes in the fair value of scheme liabilities are as follows:

	2016 £000	2015 £000
Fair value of scheme liabilities at the beginning of the year	85,240	91,455
Current service cost	287	1,849
Past service cost	-	2,181
Interest cost	3,169	3,147
Actuarial losses/(gains) arising from changes in financial assumptions	20,262	(6,557)
Actuarial gains arising from changes in demographic assumptions	(1,115)	(1,176)
Contributions by members	88	289
Gain on curtailment	-	(2,881)
Benefits paid	(3,885)	(3,067)
Fair value of scheme liabilities at the end of the year	104,046	85,240

The weighted average duration of the scheme liabilities is estimated to be 17 years.

Changes in the fair value of scheme assets are as follows:

	2016 £000	2015 £000
Fair value of scheme assets at the beginning of the year	79,541	79,448
Interest	2,996	2,786
Actuarial gains/(losses)	13,826	(2,723)
Scheme administration expenses	-	(64)
Contributions by members	88	289
Contributions by employer	2,160	2,872
Benefits paid	(3,885)	(3,067)
Fair value of scheme assets at the end of the year	94,726	79,541

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

21. Retirement benefit obligations (continued)

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2016		2015	
	£000	%	£000	%
UK equity instruments	7,012	7.4%	6,004	7.5%
Overseas equities	4,088	4.3%	3,485	4.4%
Emerging markets equities	2,780	2.9%	2,360	3.0%
Liability driven investments	10,331	10.9%	7,955	10.0%
Corporate bonds	10,451	11.0%	-	-
Property	1,922	2.0%	-	-
Insurance contracts	35,529	37.6%	32,291	40.6%
Diversified growth funds	19,108	20.2%	20,975	26.4%
Other assets	3,505	3.7%	6,471	8.1%
	94,726	100.0%	79,541	100.0%

Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company.

22. Share capital and reserves

Share capital – allotted, called up and fully paid

	2016 £000	2015 £000
1,000 Ordinary shares of £1 each	1	1

Other reserve

The other reserve relates to share-based payments awarded to certain employees of the Company by the ultimate parent undertaking, Cobham plc (note 9).

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 (2015: £600,000) and also has in place contract performance related guarantees totalling £36,000 (2015: £28,000) to other parties.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

24. Capital and other commitments

The Company had capital commitments for the purchase of property, plant and equipment contracted for but not provided of £23,000 at 31 December 2016 (2015: £18,000).

At the balance sheet date the Company had outstanding commitments for minimum lease payments due under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Within one year	450	805
Between one and two years	431	390
Between two and five years	1,051	1,079
After five years	13,235	14,021
	15,167	16,295

25. Immediate and ultimate parent undertakings

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.

26. Related party disclosures

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

	2016 Purchases in year £000	2016 Creditor balances £000	2015 Purchases in year £000	2015 Creditor balances £000
Aviation Defense SA	-	-	68	4

	Sales in year £000	Debtor balances £000	Sales in year £000	Debtor balances £000
Aviation Defense SA	606	4	49	25

Aviation Defense SA is a joint venture company of a fellow subsidiary undertaking of Cobham plc.

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