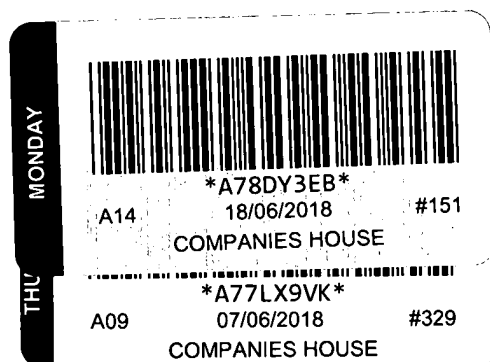


FR Aviation Limited

Annual report and financial statements
for the year ended 31 December 2017

Registered number 845310
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FR Aviation Limited

Annual report and financial statements for the year ended 31 December 2017

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FR Aviation Limited

Directors' report for the year ended 31 December 2017

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 2017. 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 8 showing a profit for the financial year after tax of £7,730,000 (2016: £5,743,000). At 31 December 2017, the Company had net assets of £45,371,000 (2016: £37,306,000). 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.

No dividends were paid or proposed in the year (2016: £7,000,000) (note 10).

Directors

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

P Young	appointed 4 August 2017
M Parry	appointed 21 May 2018
P Armstrong	resigned 7 April 2017 : reappointed 27 April 2018
P Nottage	resigned 27 April 2018
S Hellyar	appointed 7 April 2017 : resigned 4 August 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 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 comprising Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101) 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 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.

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 for the year ended 31 December 2017

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 and foreign exchange 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 developing people and creating an environment that embraces diversity and inclusivity.

The Cobham group's emerging talent programmes have been established to deliver a consistent accredited management programme. These provide leadership and functional career frameworks where employees have visibility of how they can grow and develop careers. Through strategic workforce planning, the business strategy is used to build resource plans that mitigate any risk and identify those competencies that are needed in the future. This ensures that career frameworks reflect the Company's future needs.

The Company's resourcing process is designed to give consistent and fair consideration to all candidates for employment. It ensures that no candidate feels disadvantaged at any time during the recruitment process or employment.

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 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.

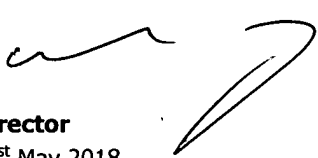
Disclosure of information to auditors

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


Director

31st May 2018

MICHAEL PARRY

FR Aviation Limited

Strategic report for the year ended 31 December 2017

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.

The directors consider the results for the year, including growth in revenue and profit, to be satisfactory given challenging market conditions.

Future developments

The directors are confident that the Company will continue to show a strong and profitable performance, consistent with that in the year under review.

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 along with their decisions made regarding key contract awards. 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 2017 Annual Report and Accounts which does not form part of this report.

Key performance indicators

The directors of the ultimate parent undertaking, Cobham plc, currently 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 2017 Annual Report and Accounts, which does not form part of this report. KPIs for the group as a whole are discussed on pages 18 and 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 basis and takes appropriate action where necessary to minimise any potential credit risk. Customers include

FR Aviation Limited

Strategic report for the year ended 31 December 2017 (continued)

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



Director

31st May 2018

MICHAEL PARRY

FR Aviation Limited

Independent auditors' report to the members of FR Aviation Limited

Report on the audit of the financial statements

Our opinion

In our opinion FR Aviation Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101, Reduced Disclosure Framework, and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements included within the Annual report and financial statements (the Annual Report), which comprise: the income statement and statement of comprehensive income for the year ended 31 December 2017; the balance sheet as at 31 December 2017; 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

FR Aviation Limited

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report and Strategic Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report and Strategic Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report and Strategic Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report and Strategic Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

FR Aviation Limited

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

Responsibilities for the financial statements and the audit (continued)

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Kevin Godfrey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

31 May 2018

FR Aviation Limited

Income statement for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Revenue	2	59,359	55,421
Cost of sales		(40,926)	(41,589)
Gross profit		18,433	13,832
Selling and distribution costs		(2,323)	(1,281)
Administrative expenses		(5,719)	(4,344)
Operating profit	3	10,391	8,207
Finance income	4	43	181
Finance costs	5	(862)	(987)
Profit on ordinary activities before taxation		9,572	7,401
Tax on profit on ordinary activities	6	(1,842)	(1,658)
Profit after taxation for the year		7,730	5,743

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

FR Aviation Limited

Statement of comprehensive income for the year ended 31 December 2017

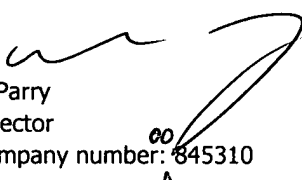
	Note	2017 £000	2016 £000
Profit after taxation for the year		7,730	5,743
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	22	891	(5,321)
Tax effects	6	(303)	1,064
Other comprehensive income/(expense) for the year		588	(4,257)
Total comprehensive income for the year		8,318	1,486

FR Aviation Limited

Balance sheet as at 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Intangibles	11	101	-
Property, plant and equipment	12	11,162	14,407
Investments	13	312	312
Trade and other receivables	14	1,904	2,714
		13,479	17,433
Current assets			
Inventories	15	3,867	4,390
Trade and other receivables	14	4,322	7,971
Cash and cash equivalents		51,533	47,150
		59,722	59,511
Liabilities			
Current liabilities			
Trade and other payables	17	(13,919)	(19,011)
		(13,919)	(19,011)
Non-current liabilities			
Trade and other payables	18	(4,090)	(7,239)
Provisions	20	(3,331)	(4,068)
Retirement benefit obligations	22	(6,490)	(9,320)
		(13,911)	(20,627)
Net assets		45,371	37,306
Equity			
Share capital	23	1	1
Other reserve	23	3,948	4,201
Retained earnings		41,422	33,104
Total equity		45,371	37,306

The financial statements on pages 8 to 35 were approved by the board on 31st May 2018 and were signed on its behalf by:


 M Parry
 Director
 Company number: 845310

**Statement of changes in equity
for the year ended 31 December 2017**

	Share capital £000	Other reserve (note 23) £000	Retained earnings £000	Total equity £000
Total equity at 1 January 2016	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
Profit for the year	-	-	7,730	7,730
Other comprehensive income	-	-	588	588
Total comprehensive income for the year	-	-	8,318	8,318
Share based payments - capital contribution (note 9)	-	(273)	-	(273)
Tax credit relating to share based payments	-	20	-	20
Total equity at 31 December 2017	1	3,948	41,422	45,371

Notes to the financial statements for the year ended 31 December 2017

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 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.

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).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

1. Statement of Accounting Policies (continued)

Accounting developments

No new standards are required to be adopted from 1 January 2017.

Amendments to IAS 7, Disclosure Initiative and IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses have been adopted with effect from 1 January 2017 together with the Annual Improvements 2014-2016 cycle. 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 judgements and estimates that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.

These judgements and estimates 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 judgements and estimates, 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.

Significant judgements in applying accounting policies

There were no significant judgements, apart from those involving estimations, that the directors made in the process of applying the Company's accounting policies which require separate disclosure in these financial statements.

Assumptions and estimation uncertainties

The directors consider that there are a number of assumptions concerning the future and other major sources of estimation uncertainty at the balance sheet date, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The key assumptions and estimation uncertainty in relation to Pension assets and liabilities (note 22).

Assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates.

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 which have been accepted by the customer.

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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

1. Statement of Accounting Policies (continued)

Current and deferred taxation

The tax expense is the sum of current tax and deferred tax. 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.

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.

It is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply in the period in which the asset is realised or liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

Other intangible assets such as licences, patents and know-how are stated at cost less accumulated amortisation and impairment losses.

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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

1. 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.

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 scheme are charged to operating profit. Past service costs are recognised 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, contributions are charged to the income statement as they fall due.

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 where the amount can be reliably measured.

No provision is recognised where the existence of an obligation is possible but will only be confirmed by uncertain future events.

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 and are initially recognised at fair value at trade date. Subsequent measurement is dependent upon the classification of the instrument which is determined at

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

1. Statement of Accounting Policies (continued)

initial recognition with reference to the purpose for which the instruments were acquired and re-evaluated at each reporting date.

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.

All financial assets and liabilities are classified as current or non-current dependent upon the maturity date of the instruments. 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.

Financial assets

Assets held at fair value through profit or loss are those categorized as held for trading under IAS 39 and 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 include trade and other receivables, cash and cash equivalents. Subsequent to initial recognition, assets categorised as loans and receivables are carried at amortised cost using the effective interest method.

Financial liabilities

The Company's financial liabilities are all categorised on initial recognition as other liabilities under IAS 39 and are held at amortised cost using the effective interest method. Derivative financial instruments are categorised as held for trading as they are not designated as hedges.

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 is classified as a current or non-current asset or liability dependent upon the maturity date of the financial instrument.

Trade and other receivables

Trade and other receivables are stated at their amortised cost, reduced when there is evidence that the Company may not be able to collect the amount due. All trade receivables which are more than six months overdue are provided for by reference to past default experience. The balance may be written off in full, generally where receivables are in excess of 12 months old. Impairments are charged to operating costs in the income statement.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

1. Statement of Accounting Policies (continued)

Foreign currencies

Transactions denominated in currencies other than the functional currency 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 non-functional currencies are retranslated at the exchange rate 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.

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:

	2017 £000	2016 £000
United Kingdom	53,358	50,759
Other EU countries	3,256	3,130
Rest of the world	2,745	1,532
	59,359	55,421

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

3. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £000	2016 £000
Depreciation		
- owned assets	676	836
- leased assets	2,867	2,749
Amortisation of intangible assets	9	-
Operating lease charges		
- plant and machinery	55	445
- land and buildings	356	375
Profit on disposal of property, plant and equipment	(53)	(85)
Material cost included in cost of sales	4,088	2,311
Net loss/(gain) on derivative financial instruments	1,613	(1,234)
Exchange differences	(294)	(617)
Auditors' remuneration for the audit of the Company's financial statements	40	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

	2017 £000	2016 £000
Bank interest receivable	43	181

5. Finance costs

	2017 £000	2016 £000
Interest on net pension scheme liabilities	221	173
Finance lease interest	641	814
	862	987

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

6. Tax on profit on ordinary activities

Tax charged in the income statement:

	2017 £000	2016 £000
Current tax:		
UK corporation tax on profit for the year	1,640	1,200
Adjustment in respect of previous years	-	198
Total current tax	1,640	1,398
Deferred tax:		
Charge for the year	202	260
Total deferred tax (note 21)	202	260
Tax on profit on ordinary activities	1,842	1,658

Tax expense/(income) included in OCI:

	2017 £000	2016 £000
Deferred tax:		
Actuarial gain/(loss) on defined benefit retirement benefit obligations	303	(1,064)

Tax (income)/expense included in equity:

	2017 £000	2016 £000
Deferred tax:		
Timing differences relating to share based payments	(20)	85

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (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:

	2017 £000	2016 £000
Profit on ordinary activities before taxation	9,572	7,401
Profit on ordinary activities multiplied by the standard rate in the UK of 19.25% (2016: 20.00%)	1,843	1,480
Effects of:		
Expenses not deductible for tax purposes	5	9
Share based payments	45	(29)
Effect of change in tax rate	(51)	-
Adjustment in respect of previous years	-	198
Total tax on profit on ordinary activities	1,842	1,658

The rate of UK Corporation tax will reduce from 19% 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:

	2017 £000	2016 £000
Aggregate emoluments	43	138
Aggregate amounts paid in respect of money purchase pension schemes	5	12
	48	150

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 no directors under defined contribution pension schemes (2016: 1). During the current and prior year, neither of the directors exercised options over shares of Cobham plc and no (2016: 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 2017 (continued)

8. Employee costs

	2017 £000	2016 £000
Wages and salaries	14,939	14,831
Share based payments (note 9)	276	173
Social security costs	1,600	1,623
Pension costs (note 22)	2,343	2,293
	19,158	18,920

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

By activity	2017	2016
Operations and engineering	242	257
Marketing	8	5
Management and administration	48	49
	298	311

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:

	2017 £000	2016 £000
PSP awards	85	28
RSP awards	73	26
ShareSave awards	118	119
Charge to income statement and capital contribution from ultimate parent undertaking	276	173
Repayment of capital contribution	(549)	-
Net capital contribution from ultimate parent undertaking	(273)	173

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

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 2016. The RSP scheme provides conditional shares which vest up to three years after grant, based only upon continued employment within the Cobham Group.

Further details of all schemes can be found in the 2017 Annual Report and Accounts of Cobham plc.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

9. Share-based payments (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:

	2017	2016
PSP	324,559	214,632
RSP	126,581	70,731
ShareSave	1,571,630	1,588,374
Total awards outstanding at 31 December	2,022,770	1,873,737

Options outstanding under the ShareSave scheme had a weighted average remaining contractual life of 2.2 years (2016: 2.4 years) and exercise prices which range from £1.10 to £1.78 (2016: £1.09 to £1.78 as restated following Cobham plc's May 2017 rights issue).

Exercises of awards under the ShareSave scheme were made at various times throughout the year. The average share price in that period was £1.24 (2016: £1.84).

10. Dividends

	2017 £000	2016 £000
Dividend for current year paid of £nil (2016: £7,000) per share	-	7,000

11. Intangible Assets

	Software & Licences £000
Cost	
At 1 January 2017	1,230
Additions	110
At 31 December 2017	1,340
Accumulated amortisation	
At 1 January 2017	1,230
Charge for the year	9
At 31 December 2017	1,239
Carrying amount	
At 31 December 2017	101
At 31 December 2016	-

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

12. 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 2017	7,710	31,646	3,873	156	43,385
Additions	7	377	-	40	424
Reclassifications	-	8	(8)	-	-
Disposals	-	(231)	-	(94)	(325)
At 31 December 2017	7,717	31,800	3,865	102	43,484
Accumulated depreciation and impairment					
At 1 January 2017	3,954	21,327	3,697	-	28,978
Charge for the year	120	3,332	91	-	3,543
Disposals	-	(199)	-	-	(199)
At 31 December 2017	4,074	24,460	3,788	-	32,322
Carrying amount					
At 31 December 2017	3,643	7,340	77	102	11,162
At 31 December 2016	3,756	10,319	176	156	14,407

The net carrying amount of assets held under finance leases and capitalised in plant and machinery was £6,383,000 (2016: £9,152,000). The leased equipment secures lease obligations (see note 19).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

13. Investments

	Shares at cost £000
Cost	
At 1 January 2017 and 31 December 2017	1,757
Impairment	
At 1 January 2017 and 31 December 2017	1,445
Net book amount	
At 31 December 2017 and 31 December 2016	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.

14. Trade and other receivables

Current assets:	2017	2016
	£000	£000
Trade receivables	678	1,637
Amounts owed by fellow subsidiary undertakings	941	867
Derivative financial instruments (note 16)	136	1,159
Other receivables	15	17
Prepayments and accrued income	2,552	4,291
	4,322	7,971
Non-current assets:		
	2017	2016
	£000	£000
Derivative financial instruments (note 16)	108	433
Deferred tax assets (note 21)	1,796	2,281
	1,904	2,714

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 2017 (continued)

15. Inventories

	2017 £000	2016 £000
Raw materials and consumables	2,361	2,188
Work in progress	1,506	2,202
	3,867	4,390

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

16. 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:

	2017 £000	2016 £000
Non-current assets	108	433
Current assets	136	1,159
Current liabilities	(286)	(21)
	(42)	1,571

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables and payables. At 31 December 2017, the outstanding contracts all mature within 28 months (2016: 40 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 2017 (continued)

17. Current liabilities: Trade and other payables

	2017 £000	2016 £000
Trade payables	1,390	2,341
Payments on account	3,741	7,248
Amounts owed to fellow subsidiary undertakings	335	690
Finance leases (note 19)	3,219	2,965
Derivative financial instruments (note 16)	286	21
Corporation tax	145	1,690
Other tax and social security	2,119	1,567
Accruals and deferred income	2,684	2,489
	13,919	19,011

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

18. Non-current liabilities: Trade and other payables

	2017 £000	2016 £000
Finance leases (note 19)	4,090	7,239

19. Finance leases

Minimum future payments under finance leases are as follows:

	2017 £000	2016 £000
Within one year	3,219	2,965
Between two and five years	4,090	7,239
	7,309	10,204

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 2017 (continued)

20. Provisions

	Staff & operating cost provisions £000	Other provisions £000	Onerous contract provisions £000	Total £000
At 1 January 2017	313	3,293	462	4,068
Charged to the income statement	53	246	223	522
Utilised during the year	(92)	(26)	-	(118)
Unused amounts reversed in the year	(113)	(566)	(462)	(1,141)
At 31 December 2017	161	2,947	223	3,331

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 2018.

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 two years.

Onerous contract provisions

The onerous contracts provisions represent amounts 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 2018.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

21. 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 2017	447	1,864	(57)	27	2,281
Charged to the income statement	120	(328)	7	(1)	(202)
Charged to OCI	-	(303)	-	-	(303)
Credited to reserves	-	-	-	20	20
At 31 December 2017	567	1,233	(50)	46	1,796

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

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

22. Retirement benefit obligations

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

	2017	2016
	£000	£000
Defined contribution scheme	2,343	2,006
Defined benefit scheme	-	287
	2,343	2,293

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 £2,343,000 (2016: £2,006,000). At 31 December 2017 there were no contributions outstanding (2016: £nil).

Defined benefit scheme	2017	2016
	£000	£000
Defined benefit scheme assets	97,785	94,726
Defined benefit obligations	(104,275)	(104,046)
	(6,490)	(9,320)

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.

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; and
- Life expectancy risk. The scheme's obligations are to provide benefits for the life of the members and therefore increases in life expectancy will lead to higher defined benefit obligations.

The trustees seek to mitigate these risks and entered into a buy-in arrangement relating to pensioners of the CPP as at 1 July 2013. Assets were 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. This eliminates all of the above risks in relation to these liabilities except for the credit risk related to the insurance provider. In addition the trustees have invested in liability driven investments that mitigate approximately 85% of the remaining bond yield and inflation risks, on a technical provision basis. This is achieved by using a portfolio of gilts and swaps supported with investment grade credit instruments. These

**Notes to the financial statements
for the year ended 31 December 2017 (continued)****22. Retirement benefit obligations (continued)**

investments introduce the risk that a call for further investment may be made if inflation decreases or the bond yield increases, which is managed by maintaining sufficient liquid investments. Leverage and counterparty risks are managed by the fund investment managers. The remaining assets include significant investment in diversified growth funds which seek to manage investment risks.

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 2017. 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 valuation of the Plan liabilities for this triennial valuation is on a more prudent basis than that required by IAS 19 and therefore the schedule of contributions will address a higher deficit than that recorded on an IAS 19 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 2018. There were no significant contributions outstanding at the end of 2017 or 2016.

A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates. These are considered to be major sources of estimation uncertainty as comparatively small changes in the assumptions used may have a significant effect on the Company's financial statements within the next financial year. The Company uses published indices and independent actuarial advice to select the values of critical assumptions.

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

	2017	2016
RPI inflation (Rate of increase in pensions in payment)	3.35%	3.45%
CPI inflation (Rate of increase in deferred pensions)	2.35%	2.45%
Discount rate	2.35%	2.65%

The mortality assumptions used are based upon actuarial tables which reflect actual recent mortality experience and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 16' (2016: SAPS CMI 15). In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Life expectancy
Male	1952	2017	88 years
Female	1952	2017	89 years
Male	1980	2045	90 years
Female	1980	2045	91 years

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

22. Retirement benefit obligations (continued)

At 31 December 2017 it has been assumed that members will commute on average 25% (2016: 25%) of their pension for cash on retirement.

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 1.0%	-7.9%
Inflation rate (both RPI and CPI)	Increase by 0.5%	+5.3%
Life expectancy	Increase by one year	+3.4%

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

Analysis of amount charged to operating profit:

	2017	2016
	£000	£000
Current service cost and amounts recognised in operating profit	-	287

Analysis of amount charged to other finance expense:

	2017	2016
	£000	£000
Net interest	221	173

Analysis of amount recognised in OCI:

	2017	2016
	£000	£000
Actual return less interest income on scheme assets	3,458	13,826
Actuarial gains and losses arising from changes in financial assumptions	(3,925)	(20,262)
Actuarial gains and losses arising from changes in demographic assumptions	1,358	1,115
Amounts recognised in OCI	891	(5,321)

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

22. Retirement benefit obligations (continued)

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

	2017 £000	2016 £000
Fair value of scheme liabilities at the beginning of the year	104,046	85,240
Current service cost	-	287
Interest cost	2,690	3,169
Actuarial losses arising from changes in financial assumptions	3,925	20,262
Actuarial gains arising from changes in demographic assumptions	(1,358)	(1,115)
Contributions by members	-	88
Benefits paid	(5,028)	(3,885)
Fair value of scheme liabilities at the end of the year	104,275	104,046

The weighted average duration of the scheme liabilities is estimated to be 16 years.

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

	2017 £000	2016 £000
Fair value of scheme assets at the beginning of the year	94,726	79,541
Interest	2,469	2,996
Actuarial gains	3,458	13,826
Contributions by members	-	88
Contributions by employer	2,160	2,160
Benefits paid	(5,028)	(3,885)
Fair value of scheme assets at the end of the year	97,785	94,726

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

22. Retirement benefit obligations (continued)

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

	2017		2016	
	£000	%	£000	%
UK equity instruments	-	-	7,012	7.4%
Overseas equities	-	-	4,088	4.3%
Emerging markets equities	-	-	2,780	2.9%
Global equities	12,074	12.3%	-	-
Liability driven investments	19,543	20.0%	10,331	10.9%
Corporate bonds	10,653	10.9%	10,451	11.0%
Property	3,633	3.7%	1,922	2.0%
Insurance contracts	34,891	35.7%	35,529	37.5%
Diversified growth funds	16,707	17.1%	19,108	20.2%
Other assets	284	0.3%	3,505	3.7%
	97,785	100.0%	94,726	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. None of the scheme assets are quoted in an active market. The above, except for the insurance contracts assets, are pooled investment vehicles and are valued based on bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads based on valuations provided by the investment manager. Insurance contracts are valued based on the valuation of the liabilities insured.

23. Share capital and reserves

Share capital – allotted, called up and fully paid

	2017 £000	2016 £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).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

24. 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 £300,000 (2016: £600,000) and also has in place contract performance related guarantees totalling £1,000 (2016: £36,000) to other parties.

25. 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 2017 (2016: £23,000).

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

	2017 £000	2016 £000
Within one year	405	450
Between one and two years	368	431
Between two and five years	928	1,051
After five years	12,245	13,235
	13,946	15,167

26. 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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

27. 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:

	2017 Sales in year £000	2017 Debtor balances £000	2016 Sales in year £000	2016 Debtor balances £000
Aviation Defense SA	-	-	606	4

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.