

FR Aviation Limited

**Annual report and financial statements
for the year ended 31 December 2018**

Registered number 00845310



FR Aviation Limited

Annual report and financial statements

for the year ended 31 December 2018

Contents

	Page
Directors' report for the year ended 31 December 2018	1
Strategic report for the year ended 31 December 2018	3
Independent auditors' report to the members of FR Aviation Limited	5
Income statement for the year ended 31 December 2018	8
Statement of comprehensive income for the year ended 31 December 2018	9
Balance sheet as at 31 December 2018	10
Statement of changes in equity for the year ended 31 December 2018	12
Notes to the financial statements for the year ended 31 December 2018	13

FR Aviation Limited

Directors' report for the year ended 31 December 2018

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 2018. The Company is a private company limited by shares and is registered, incorporated and domiciled in England, number 00845310. 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 £3,278,000 (2017: £7,730,000). At 31 December 2018, the Company had net assets of £49,113,000 (2017: £45,371,000). A review of the Company's business during the year and future developments, together with information on risks and uncertainties and financial risk management 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 current or prior year.

Directors

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

P Armstrong	appointed 27 April 2018
M Parry	appointed 21 May 2018
R Stoate	appointed 10 January 2019
P Nottage	resigned 27 April 2018
P Young	resigned 6 August 2018

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 2018

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 interest rate cash flow risk and foreign currency exchange rate 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.

On behalf of the board

M Parry
Director

25 April 2019



FR Aviation Limited

Strategic report for the year ended 31 December 2018

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 to be satisfactory given challenging market conditions. Whilst revenue and profit have both decreased year on year, this partly resulted from timing of completion of a specific programme in the prior year, along with higher bid and restructuring costs in the year under review.

Accounting standard IFRS 15, Revenue from Contracts with Customers, has been applied for the first time in these financial statements. Full details of the impact of this new standard are set out in notes 1 and 29.

Future developments

The directors are confident that the Company will continue to deliver a profitable performance. Whilst one of the Company's key contracts is currently due to expire in December 2019, the directors maintain that the Company's prospects, with regard to new opportunities, remain positive.

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 41 of the Cobham plc 2018 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 2018 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 written treasury policy and risk management programme that seek to limit the adverse effects on the financial performance of the Group which 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.

FR Aviation Limited

Strategic report for the year ended 31 December 2018 (continued)

Financial risk management (continued)

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 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 bank 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.

On behalf of the board

M Parry
Director
25 April 2019



FR Aviation Limited

Independent auditors' report to the members of FR Aviation Limited

Report on the audit of the financial statements

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 2018 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 2018; the balance sheet as at 31 December 2018; the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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 2018 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.

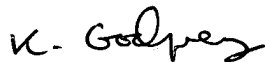
Other required reporting

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 by the Company, 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

25 April 2019

FR Aviation Limited

Income statement for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	2	55,511	59,359
Cost of sales		(40,821)	(40,926)
Gross profit		14,690	18,433
Selling and distribution costs		(4,830)	(2,323)
Administrative expenses		(5,380)	(5,719)
Operating profit	3	4,480	10,391
Finance income	4	227	43
Finance costs	5	(564)	(862)
Profit on ordinary activities before taxation		4,143	9,572
Tax on profit on ordinary activities	6	(865)	(1,842)
Profit after taxation for the year		3,278	7,730

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 2018

	Note	2018 £000	2017 £000
Profit after taxation for the year		3,278	7,730
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	23	577	891
Tax effects	6	(110)	(303)
Other comprehensive income for the year		467	588
Total comprehensive income for the year		3,745	8,318

FR Aviation Limited

Balance sheet as at 31 December 2018

	Note	2018 £000	2017 (Restated) £000
Assets			
Non-current assets			
Intangibles	10	64	101
Property, plant and equipment	11	7,829	11,162
Investments	12	-	312
Trade and other receivables	15	1,668	1,904
		9,561	13,479
Current assets			
Inventories	13	3,723	3,867
Contract assets	14	4,417	1,599
Trade and other receivables	15	2,878	2,723
Cash and cash equivalents		57,231	51,533
		68,249	59,722
Liabilities			
Current liabilities			
Contract liabilities	17	(7,389)	(3,741)
Trade and other payables	18	(12,851)	(10,178)
		(20,240)	(13,919)
Non-current liabilities			
Trade and other payables	19	-	(4,090)
Provisions	21	(3,996)	(3,331)
Retirement benefit obligations	23	(4,461)	(6,490)
		(8,457)	(13,911)
Net assets		49,113	45,371

FR Aviation Limited

Balance sheet as at 31 December 2018 (continued)

	Note	2018 £000	2017 (Restated) £000
Equity			
Share capital	24	1	1
Other reserve	24	3,945	3,948
Retained earnings		45,167	41,422
Total equity		49,113	45,371

Details of the restatement of the comparative Balance Sheet due to the implementation of IFRS 15, Revenue from Contracts with Customers, can be found in note 29.

The financial statements on pages 8 to 38 were approved by the board on 25 April 2019 and were signed on its behalf by:

M Parry
Director



FR Aviation Limited

Statement of changes in equity for the year ended 31 December 2018

	Share capital £000	Other reserve (note 24) £000	Retained earnings £000	Total equity £000
Total equity at 1 January 2017	1	4,201	33,104	37,306
Profit for the year	-	-	7,730	7,730
Other comprehensive expense	-	-	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
Profit for the year	-	-	3,278	3,278
Other comprehensive income	-	-	467	467
Total comprehensive income for the year	-	-	3,745	3,745
Share based payments - capital contribution (note 9)	-	7	-	7
Tax charge relating to share based payments	-	(10)	-	(10)
Total equity at 31 December 2018	1	3,945	45,167	49,113

Notes to the financial statements for the year ended 31 December 2018

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 paragraph 10(f) and 40A-D of IAS 1 (prior period balance sheet following a restatement);
- 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;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)–(c), 120–127 and 129 of IFRS 15, Revenue from Contracts with Customers;
- 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

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Statement of accounting policies (continued)

Basis of preparation (continued)

consolidated financial statements of its ultimate parent company, Cobham plc, which are publicly available (see note 26).

Accounting developments

IFRS 15, Revenue from Contracts with Customers, has been adopted from 1 January 2018. This has had a material impact on the balance sheet of the Company and comparatives have been restated accordingly. Details of the changes arising can be found in note 29.

IFRS 9, Financial instruments and a number of other amendments to standards and IFRIC Interpretations have also been adopted with effect from 1 January 2018. There were no changes to previously published accounting policies or other adjustments required on adoption of these amendments and interpretations.

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 uncertainties are as follows:

- Valuation of pension assets and liabilities (note 23)
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
- Inventory provisions (note 13)
Recognition and measurement of provisions for obsolete, slow moving and defective items of inventory

Significant accounting policies

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

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Statement of accounting policies (continued)

Revenue

IFRS 15, Revenue from Contracts with Customers, has been applied for the first time in these financial statements.

A five-step process must be applied before revenue can be recognised:

1. identify contracts with customers;
2. identify the separate performance obligations ;
3. determine the transaction price of the contract ;
4. allocate the transaction price to each of the separate performance obligations; and
5. recognise the revenue as each performance obligation is satisfied.

The transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract which has yet to be agreed. Any amounts expected to be paid to the customer, such as penalties for late delivery, are deducted from the consideration. Where a transaction price has to be allocated between multiple performance obligations, this is generally achieved through allocating a proportion of total price against each using either standard list sales prices or an estimated costs methodology.

Revenue is generated from providing services to customers and is recognised over time as the services are enjoyed. Contracts can include variable consideration associated with the level of services provided, for example, flying hours. This is generally straightforward to estimate and is invoiced to the customer on a regular basis. For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned.

The timing of payment from customers is generally aligned to revenue recognition, subject to agreed invoice terms. Where revenue is recognised in advance of customer billings, this is reported as a contract asset (described as unbilled receivables). Where cash is received from the customer in advance of recognising revenue under a contract, a contract liability is recorded (advanced payments from customers).

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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Statement of accounting policies (continued)

Current and deferred taxation (continued)

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

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.

Investments

Investments are stated at cost, less any provision for impairment in value.

The carrying amounts of the investments are reviewed at least annually to determine whether there is any indication of impairment. Where there is an indication of impairment, the recoverable amount is estimated. This is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. This is prepared with reference to cash flow forecasts prepared by management and reviewed by the Cobham plc Board which cover a three year period. The growth rates used after this period are based on long term GDP projections of the primary market for each investment.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (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 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.

Contract loss provisions are recognised for onerous contracts when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

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.

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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Statement of accounting policies (continued)

Financial instruments (continued)

Accounting policies applied from 1 January 2018

IFRS 9, Financial Instruments, has been applied for the first time in these financial statements. IFRS 9 has replaced the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value. There has been no material impact on the results of the Company.

Accounting policies applied prior to 1 January 2018

The Company has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result the accounting policies as presented in previous years continue to apply to the comparative information. As there were no significant changes arising from the implementation of IFRS 9, these policies have not been repeated in these financial statements.

Financial assets

On initial recognition, financial assets are classified as being subsequently measured at either amortised cost or fair value dependent upon the Company's business model for managing the asset and its cash flow characteristics. Financial assets are not reclassified following initial recognition unless the Company changes its business model for managing financial assets.

Financial assets are deemed to be held under one of three business models:

1. Hold to collect – where the business objective is to hold the asset to collect the contractual cash flows;
2. Hold to collect and sell - where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
3. Other

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not have any financial assets held within a hold to collect and sell business model.

All other financial assets are held at fair value through profit or loss.

Amortised cost is measured using the effective interest method. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Impairment of financial assets

The Company recognises the lifetime expected credit losses at the point of initial recognition for trade receivables and contract assets (under IFRS 15). These are assessed with reference to past default rates, also reflecting forward looking information such as local economic or market conditions and a provision matrix where appropriate.

For other financial assets, a loss allowance is recognised for expected credit losses taking into account changes in the level of credit risk. Where credit risk is considered to be low, the loss allowance is limited to expected losses arising from default events that are possible within 12 months from the balance sheet date.

Impairments are charged to administrative expenses in the Income Statement.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Statement of accounting policies (continued)

Financial instruments (continued)

Financial liabilities

Subsequent to initial recognition, financial liabilities are classified as measured at fair value through profit or loss, or 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 principles. 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 within operating costs.

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, net of impairment loss allowances.. Where there is clear evidence that the receivable will not be recovered, and generally where receivables are in excess of 12 months old, the balance is written off in full.

Trade payables

Trade payables do not carry any interest and are stated at their nominal value.

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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Statement of accounting policies (continued)

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:

	2018 £000	2017 £000
United Kingdom	49,419	53,358
Other EU countries	1,698	3,256
Rest of the world	4,394	2,745
	55,511	59,359

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. Operating profit

Operating profit is stated after charging / (crediting):

	2018	2017
	£000	£000
Depreciation		
- owned assets	653	676
- leased assets	2,880	2,867
Amortisation of intangible assets	37	9
Operating lease charges		
- plant and machinery	55	55
- land and buildings	360	356
Impairment of investment in subsidiary	312	-
Profit on disposal of property, plant and equipment	-	(53)
Exceptional item – organisational restructure	565	-
Bid costs	3,325	1,410
Material cost included in cost of sales	2,310	4,088
Net (gain)/loss on derivative financial instruments	(570)	1,613
Exchange differences	(34)	(294)
Auditors' remuneration for the audit of the Company's financial statements	42	40

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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

4. Finance income

	2018 £000	2017 £000
Bank interest receivable	227	43

5. Finance costs

	2018 £000	2017 £000
Interest on net pension scheme liabilities	138	221
Finance lease interest	426	641
	564	862

6. Tax on profit on ordinary activities

Tax charged in the income statement:

	2018 £000	2017 £000
Current tax:		
UK corporation tax on profit for the year	743	1,640
Adjustment in respect of previous years	9	-
Total current tax	752	1,640
Deferred tax:		
Charge for the year	105	202
Adjustment in respect of previous years	8	202
Total deferred tax (note 22)	113	202
Tax on profit on ordinary activities	865	1,842

Tax expense included in OCI:

	2018 £000	2017 £000
Deferred tax:		
Actuarial gain on defined benefit retirement benefit obligations	110	303

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

6. Tax on profit on ordinary activities (continued)

Tax expense/(income) included in equity:

	2018 £000	2017 £000
Deferred tax:		
Timing differences relating to share based payments	10	(20)

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

	2018 £000	2017 £000
Profit on ordinary activities before taxation	4,143	9,572
Profit on ordinary activities multiplied by the standard rate in the UK of 19.00% (2017: 19.25%)	787	1,843
Effects of:		
Expenses not deductible for tax purposes	60	5
Share based payments	1	45
Effect of change in tax rate	-	(51)
Adjustment in respect of previous years	17	-
Total tax on profit on ordinary activities	865	1,842

The tax rate for the current year is lower than the prior period due to changes in the UK Corporation tax rate which decreased from 20% to 19% from 1 April 2017.

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

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

7. Directors' emoluments

The emoluments of the directors employed by the Company are:

	2018 £000	2017 £000
Aggregate emoluments	318	43
Aggregate amounts paid in respect of money purchase pension schemes	20	5
	338	48

During the year two directors were employed by, and received emoluments from another group undertaking and also acted as director for a number of legal entities within the Cobham plc group. Where the individual acted as director for a number of other legal entities within the Cobham plc group, no specific amounts can be apportioned or were 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 these directors.

Retirement benefits are accruing to two directors under defined contribution pension schemes (2017: none). During the current year one of the directors (2017: none) exercised options over shares of Cobham plc and two (2017: none) directors were entitled to receive shares under long term incentive plans.

Highest paid director

As noted in the Directors' Report on page 1, there have been a number of changes in Directors during the year and subsequently. The following additional information is provided for the current year as the total emoluments exceeded £200,000.

	2018 £000	2017 £000
Total emoluments including amounts accruing under long-term incentive schemes	236	-
Company contributions paid to money purchase pension schemes	13	-

The highest paid director also received shares under long term incentive plans during the current year.

8. Employee costs

	2018 £000	2017 £000
Wages and salaries	15,177	14,939
Share based payments (note 9)	201	276
Social security costs	1,759	1,600
Pension costs (note 23)	2,394	2,343
	19,531	19,158

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

8. Employee costs (continued)

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

By activity	2018	2017
Operations and engineering	227	242
Marketing	9	8
Management and administration	55	48
	291	298

9. Share-based payments

The Company participates in the following share schemes operated by the ultimate parent undertaking, Cobham plc, and a net capital contribution has been recognised 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.

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 2018 Annual Report and Accounts of Cobham plc.

The Cobham Savings Related Share Option Scheme (ShareSave) is an HMRC-approved savings related share option plan which is open to all UK employees. 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:

	2018	2017
PSP	441,305	324,559
RSP	55,195	126,581
ShareSave	1,135,409	1,571,630
Total awards outstanding at 31 December	1,631,909	2,022,770

Options outstanding under the ShareSave scheme had a weighted average remaining contractual life of 1.5 years (2017: 2.2 years) and exercise prices which range from £1.10 to £1.78 (2017: £1.10 to £1.78). Exercises of awards under the ShareSave scheme were made at various times throughout the year. The average share price in that period was £1.19 (2017: £1.24).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

10. Intangible Assets

	Software & Licences
Cost	£'000
At 1 January and 31 December 2018	1,340
Accumulated amortisation	
At 1 January 2018	1,239
Charge for the year	37
At 31 December 2018	1,276
Carrying amount	
At 31 December 2018	64
At 31 December 2017	101

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 2018	7,717	31,800	3,865	102	43,484
Additions	-	113	87	-	200
Reclassifications	-	102	-	(102)	-
Disposals	-	(167)	(142)	-	(309)
At 31 December 2018	7,717	31,848	3,810	-	43,375
Accumulated depreciation and impairment					
At 1 January 2018	4,074	24,460	3,788	-	32,322
Charge for the year	119	3,345	69	-	3,533
Disposals	-	(167)	(142)	-	(309)
At 31 December 2018	4,193	27,638	3,715	-	35,546
Carrying amount					
At 31 December 2018	3,524	4,210	95	-	7,829
At 31 December 2017	3,643	7,340	77	102	11,162

The net carrying amount of assets held under finance leases and capitalised in plant and machinery was £3,504,000 (2017: £6,383,000). The leased equipment secures lease obligations (see note 20).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

12. Investments

	Shares at cost £000
Cost	
At 1 January 2018 and 31 December 2018	1,757
Impairment	
At 1 January 2018	1,445
Charge for the year	312
At 31 December 2018	1,757
Net book amount	
At 31 December 2018	-
At 31 December 2017	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.

Following a review of the investments, in light of current market conditions, an impairment provision of £312,000 (2017: £nil) has been made during the year.

13. Inventories

	2018 £000	2017 £000
Raw materials and consumables	1,627	2,361
Work in progress	2,096	1,506
	3,723	3,867

There is no significant difference between the replacement cost and the value of inventories shown. Included in raw materials and consumables is a provision of £2,032,000 (2017: £2,092,000).

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

14. Contract assets

	2018 £000	2017 (Restated) £000
Unbilled amounts	4,417	1,599

Unbilled amounts relating to goods and services transferred are included in contract balances until they become unconditional, at which point they are transferred to trade receivables. Unbilled amounts arise when revenue is recognised prior to an invoice being raised to the customer; typically this arises when revenue is recognised over time as payments often have milestone payments conditional on customer acceptances on progress. During the year £1,599,000 (2017: £3,318,000) of the opening contract asset was transferred to trade receivables; additional amounts of £4,417,000 were recognised as a contract asset during the year (2017: £1,599,000) as a result of changes in the measure of progress of the satisfaction of performance obligations.

Details of the restatement can be found in note 29.

15. Trade and other receivables

Current assets:

	2018 £000	2017 (Restated) £000
Trade receivables	797	678
Amounts owed by fellow subsidiary undertakings	451	941
Derivative financial instruments (note 16)	482	136
Other receivables	15	15
Prepayments and accrued income	1,133	953
	2,878	2,723

Non-current assets:

	2018 £000	2017 £000
Derivative financial instruments (note 16)	105	108
Deferred tax assets (note 22)	1,563	1,796
	1,668	1,904

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

Details of the restatement can be found in note 29.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

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:

	2018 £000	2017 £000
Non-current assets	105	108
Current assets	482	136
Current liabilities	(59)	(286)
	528	(42)

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables and payables. At 31 December 2018, the outstanding contracts all mature within 18 months (2017: 28 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).

17. Contract liabilities

Contract liabilities of £7,389,000 (2017: £3,741,000 restated) reflect advance payments from customers. These are amounts received prior to delivering services to the customer. Of the amount recognised at 31 December 2017, £115,000 (2017: £3,766,000) has been recognised in revenue during the year.

Details of the restatement can be found in note 29.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

18. Current liabilities: Trade and other payables

	2018 £000	2017 (Restated) £000
Trade payables	1,167	1,390
Amounts owed to fellow subsidiary undertakings	607	335
Finance leases (note 20)	4,089	3,219
Derivative financial instruments (note 16)	59	286
Corporation tax	58	145
Other tax and social security	2,498	2,119
Accruals and deferred income	4,373	2,684
	12,851	10,178

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

Details of the restatement can be found in note 29.

19. Non-current liabilities: Trade and other payables

	2018 £000	2017 £000
Finance leases (note 20)	-	4,090

20. Finance leases

Minimum future payments under finance leases are as follows:

	2018 £000	2017 £000
Within one year	4,089	3,219
Between two and five years	-	4,090
	4,089	7,309

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 2018 (continued)

21. Provisions

	Staff & operating cost provisions £000	Other provisions £000	Onerous contract provisions £000	Total £000
At 1 January 2018	161	2,947	223	3,331
Charged to the income statement	1,671	415	103	2,189
Utilised during the year	(725)	-	-	(725)
Unused amounts reversed in the year	(576)	-	(223)	(799)
At 31 December 2018	531	3,362	103	3,996

Staff and operating cost provisions

The Company has provided for certain costs likely to be incurred in meeting updated safety, operational and organisational 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 2019.

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 during 2019.

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 2019.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

22. 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 2018	567	1,233	(50)	46	1,796
Credited /(charged) to the income statement	141	(275)	21	-	(113)
Credited / (charged) to OCI	-	(110)	-	-	(110)
Credited / (charged) to reserves	-	-	-	(10)	(10)
At 31 December 2018	708	848	(29)	36	1,563

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

23. Retirement benefit obligations

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

	2018 £000	2017 £000
Defined contribution scheme	2,394	2,343
Defined benefit scheme	-	-
	2,394	2,343

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 £2,394,000 (2017: £2,343,000). At 31 December 2018 there were no contributions outstanding (2017: £nil).

Defined benefit scheme	2018 £000	2017 £000
Defined benefit scheme assets	89,509	97,785
Defined benefit obligations	(93,970)	(104,275)
	(4,461)	(6,490)

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Retirement benefit obligations (continued)

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.

During the year, there have been two major events affecting the defined benefit scheme:

- The CPP completed its triennial valuation. As a result, total plan deficit contributions reduced from £17.2m to £6.0m per annum, with effect from September 2018 and payable up to March 2024; and
- In October 2018, the English High Court determined that UK defined benefit pension schemes with Guaranteed Minimum Pensions (GMP) must be equalised between men and women. The impact of this ruling on the scheme has been estimated using the 'C2' method and recognised as a past service cost.

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, then future funding obligations from the Company will increase;
- Inflation risk: 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 most 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 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 2018, recording a deficit for the whole of the CPP of £37.8m. The actuarial valuation was updated by qualified independent actuaries for accounting purposes to 31 December 2018. 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. A new schedule of contributions has been agreed during the year for the CPP as explained above. 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.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Retirement benefit obligations (continued)

The Company does not expect to contribute to the scheme in 2019. There were no significant contributions outstanding at the end of 2018 or 2017.

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:

	2018	2017
RPI inflation (Rate of increase in pensions in payment)	3.45%	3.35%
CPI inflation (Rate of increase in deferred pensions)	2.45%	2.35%
Discount rate	2.70%	2.35%

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 17' (2017: SAPS CMI 16). In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Life expectancy
Male	1953	2018	87 years
Female	1953	2018	89 years
Male	1980	2045	90 years
Female	1980	2045	91 years

At 31 December 2018 it has been assumed that members will commute on average 25% (2017: 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 0.5%	-8.3%
Inflation rate (both RPI and CPI)	Increase by 0.5%	+5.3%
Life expectancy	Increase by one year	+3.8%

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

No amounts were charged to the income statement during the current or prior year as the current and past service costs and administrative expenses were all £nil.

Analysis of amount charged to other finance expense:

	2018	2017
	£000	£000
Net interest	138	221

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Retirement benefit obligations (continued)

Analysis of amount recognised in OCI:

	2018 £000	2017 £000
Actual return less interest income on scheme assets	(7,787)	3,458
Experience gains arising on scheme liabilities	2,332	-
Actuarial gains/(losses) arising from changes in financial assumptions	4,335	(3,925)
Actuarial gains arising from changes in demographic assumptions	1,697	1,358
Amounts recognised in OCI	577	891

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

	2018 £000	2017 £000
Fair value of scheme liabilities at the beginning of the year	104,275	104,046
Interest cost	2,405	2,690
Actuarial (gains)/losses arising from changes in financial assumptions	(6,667)	3,925
Actuarial gains arising from changes in demographic assumptions	(1,697)	(1,358)
Benefits paid	(4,346)	(5,028)
Fair value of scheme liabilities at the end of the year	93,970	104,275

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:

	2018 £000	2017 £000
Fair value of scheme assets at the beginning of the year	97,785	94,726
Interest	2,267	2,469
Actuarial (losses)/gains	(7,787)	3,458
Contributions by employer	1,590	2,160
Benefits paid	(4,346)	(5,028)
Fair value of scheme assets at the end of the year	89,509	97,785

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Retirement benefit obligations (continued)

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

	2018 £000	%	2017 £000	%
Global equities	11,389	12.7%	12,074	12.3%
Liability driven investments	14,854	16.6%	19,543	20.0%
Corporate bonds	9,411	10.5%	10,653	10.9%
Property	4,460	5.0%	3,633	3.7%
Insurance contracts	30,179	33.7%	34,891	35.7%
Diversified growth funds	15,542	17.4%	16,707	17.1%
Other assets	3,673	4.1%	284	0.3%
	89,508	100.0%	97,785	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.

24. Share capital and reserves

Share capital – allotted, called up and fully paid

	2018 £000	2017 £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).

25. 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 (2017: £300,000) and also has in place contract performance related guarantees totalling £1,000 (2017: £1,000) to other parties.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

26. Capital and other commitments

The Company had capital commitments for the purchase of property, plant and equipment contracted for but not provided of £14,000 at 31 December 2018 (2017: £23,000).

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

	2018 £000	2017 £000
Within one year	378	405
Between one and two years	317	368
Between two and five years	920	928
After five years	11,938	12,245
	13,553	13,946

27. 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.

28. 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:

	2018 Purchases in year £000	2018 Creditor balances £000	2017 Purchases in year £000	2017 Creditor balances £000
Aviation Defense SA	156	156	-	-

	2018 Sales in year £000	2018 Debtor balances £000	2017 Sales in year £000	2017 Debtor balances £000
Aviation Defense SA	17	-	-	-

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 are any doubtful debt provisions considered necessary.

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

29. Impact of new accounting standards

As outlined in note 1, the Company adopted IFRS 15, Revenue from Contracts with Customers, on 1 January 2018.

Under IAS 18 it was appropriate, in certain situations, to combine related contracts. Under IFRS 15 the circumstances where this is allowed are more clearly defined and therefore some customer delivery obligations have been treated as separate obligations which impacts the timing of revenue and profit recognition.

The adoption of IFRS 15 has, however, had no impact on the revenue, results or retained earnings of the Company.

The balance sheet presentation has changed with the adoption of this accounting standard. Where there has been no change to the revenue recognition basis arising from IFRS 15, any remaining accrued income balances that were previously included within trade and other receivables are now shown as a contract asset (described as unbilled receivables). Deferred income (where the customer has paid upfront but revenue has not yet been recognised) was previously included in trade and other payables and is now recognised separately as a contract liability (described as advance payments from customers).

IFRS 15 has been applied retrospectively and therefore comparative information presented in these financial statements has been restated as disclosed below:

Impact on Balance Sheet at 31 December 2017

	As originally stated £000	IFRS 15 adjustments £000	Restated £000
Assets			
Non-current assets	13,479	-	13,479
Current assets			
Contract assets	-	1,599	1,599
Trade and other receivables	4,322	(1,599)	2,723
Other current assets	55,400	-	55,400
	59,722	-	59,722
Liabilities			
Current liabilities			
Contract liabilities	-	(3,741)	(3,741)
Trade and other payables	(13,919)	3,741	(10,178)
	(13,919)	-	(13,919)
Non-current liabilities	(13,911)	-	(13,911)
Net assets	45,371	-	45,371

FR Aviation Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)