Chelton Limited

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

Registered number 896823

Chelton Limited

Directors' report and financial statements

for the year ended 31 December 2012

Contents

Chelton Limited

Directors' report for the year ended 31 December 2012

The directors have pleasure in submitting their report, together with the audited financial statements of Chelton Limited ("the Company") for the year ended 31 December 2012 The Company trades under the name "Cobham Antenna Systems"

Results and dividends

The Company's results for the year are set out in the profit and loss account on page 10 showing a profit for the financial year after tax of £16,798,000 (2011 £13,687,000) At 31 December 2012, the Company has net assets of £51,796,000 (2011 £63,140,000)

Dividends paid and proposed are as set out in note 9

Principal activities and business review

The Company continues to be one of the world's leading manufacturers of end to end communications and avionics equipment for land, sea and air based applications

The principal activities are not expected to change in the foreseeable future

The Company has delivered a good set of results in market conditions that continue to be challenging Turnover has increased to £73,978,000 (2011 £69,658,000) which is up 6 2% in the year and has resulted in an increase in operating profit to £19,558,000 (2011 £16,018,000) and an increase in operating margin of 3 4% points to 26 4% (2011 23 0%)

Future developments

The outlook for the defence and security markets remains highly uncertain whilst our commercial markets offer good growth prospects over the medium term The focus for the Company is to continue to invest in innovation and build positions where we have technical differentiation and leading positions

Research and development

The Company is committed to research and development by investing in and developing private venture projects and has invested £3,250,000 (2011 £3,536,000) in activities during the year All Company funded research and development expenditure is written off as it is incurred unless and until the conditions for capitalisation are met

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 competition from suppliers in similar geographical and technological markets, retention of key personnel, major operational problems and poor execution or failure to complete key programmes or projects Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 14 and 15 of the Cobham plc 2012 Annual Report which does not form part of this report

Key performance indicators

The directors of the ultimate parent undertaking, Cobham plc, manage the group's operations on a divisional basis For this reason, the Company's directors believe that analysis using key performance indicators at the Company level (financial and non-financial) is not necessary or appropriate for an understanding of the development, performance or position of the business of Chelton Limited The development, performance and position of the Cobham Aerospace and Security division of Cobham plc, which includes the Company, is discussed on pages 16 and 17 of the Cobham plc 2012 Annual Report which does not form part of this report KPIs for the group as a whole are discussed on page 12 of that report

Directors' report (continued)

Financial risk management

The Company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate cash flow risk and foreign currency exchange rate risk The Company has in place a risk management programme that seeks to limit adverse affects on the financial performance of the Company

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board The policies set by the board of directors of Cobham plc are 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 exposed to price risk as a result of its operations However, given the size of the Company's operations, the costs of managing exposure to price risk exceed any potential benefits The Company has no exposure to equity securities price risks as it holds no listed or other equity investments

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made The Company also monitors existing customer accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies

Liquidity risk

The Company retains sufficient cash to ensure it has available funds for operations and planned expansions The Company also has access to longer term funding from its ultimate parent undertaking if required

Interest rate cash flow risk

In the year the Company had both interest bearing assets and interest bearing liabilities Interest bearing assets include cash balances and loans to group undertakings The cash balances earn interest at a floating rate and the loans to group undertakings earn interest at 9% per annum In order to ensure stability of cash out flows and hence manage interest rate risk, the Company has access to fixed interest rate loans from its ultimate parent undertaking The Company does not use derivative financial instruments to manage interest rate costs

Foreign currency exchange rate risk

The Company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange rate contracts with the ultimate parent undertaking

Directors' report (continued)

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability

Consultation with employees or their representatives has continued at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole Communication with all employees is through in-house intranet, newsletters and briefing groups

We continue to support employee share ownership through participation in the Cobham group ShareSave scheme which is open to all employees of the Company

Creditors payment policy

The Company agrees terms and conditions for its business transactions with suppliers Payment is generally made on those terms subject to the terms and conditions being met by the supplier and on average supplier accounts are settled within 37 days (2011 43 days)

Directors

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

T P Amps	-	resigned 24 September 2012
F J Cahill		
A Josey	-	resigned 24 September 2012
S D Pickin		
S Brooks	-	appointed 6 June 2013

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Chelton Limited

Directors' report (continued)

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

By order of the board

P Dyer
Company secretary
12th July 2013

Independent auditors' report to the members of Chelton Limited

We have audited the financial statements of Chelton Limited for the year ended 31 December 2012 which comprise the statement of accounting policies, the profit and loss account, the balance sheet, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Stuart Watson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12th July 2013

Statement of accounting policies

Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards The principal accounting policies, which have been applied consistently throughout the year, are set out below

Turnover

Turnover is measured at the fair value of the right to consideration and excludes value added tax, other sales taxes and trade discounts Turnover is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer, normally this is on despatch In the case of contracts of a long duration, turnover is recognised based upon the fair value of work performed to date assessed with reference to contract milestones

Current taxation

Corporation tax payable is provided on taxable profits at the current rate

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Tangible fixed assets and depreciation

Tangible fixed assets are stated at their purchase cost together with any directly attributable costs of acquisition, net of depreciation and provisions, where required, for any impairment

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

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful economic life The expected useful economic lives used for this purpose are

Leasehold land and buildings	Over the term of the lease
Plant and machinery (including vehicles)	3 to 8 years
Fixtures, fittings, tools and equipment	3 to 8 years

Chelton Limited

Statement of accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost on a weighted average basis, which includes an appropriate proportion of production overheads, and net realisable value Provision is made where necessary for obsolete, slow moving and defective stock

Turnover and a prudent estimate of the profit attributable to work completed on long-term contracts is recognised once the outcome of the contract can be recognised with reasonable certainty The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as long-term contract balances

Payments received and receivable on account of work in progress are deducted from the cost of the work carried out at the balance sheet date to the extent of the valuation of the work done

Financial assets and liabilities

Financial assets and liabilities are presented in accordance with paragraphs 15-50 of FRS 25 as the Company has not adopted FRS 26

Pension costs

The Company contributes to a multi-employer defined benefit pension scheme operated by Cobham plc, the assets of which are held separately in independently administered funds Contributions and pension costs are apportioned across the scheme as a whole and assessed in accordance with the advice of qualified actuaries The scheme is closed to new members and has a high proportion of deferred and pensioner members from businesses that no longer participate in the scheme The Company is therefore not able to identify its share of underlying assets and liabilities of the scheme on a reasonable and consistent basis and in accordance with the multi-employer exemption contained in FRS 17, the scheme has been accounted for as if it was a defined contribution scheme The charge to the profit and loss account therefore reflects payments for the year

Contributions to defined contribution schemes are charged to the profit and loss account in the period the contributions are payable

The Company also makes contributions for certain employees to individual personal pension and stakeholder schemes Contributions are charged to the profit and loss account in the year to which they relate

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

Foreign currencies

Transactions denominated in foreign currencies are translated at an average monthly rate of exchange which approximates to the actual daily rate throughout the year

Monetary assets and liabilities denominated in foreign currencies are expressed in sterling, translated at the rates of exchange ruling at the balance sheet date

All exchange differences are dealt with in the profit and loss account

Chelton Limited

Statement of accounting policies (continued)

Leases

Lease arrangements are accounted for as finance leases where substantially all the risks and rewards of ownership of the leased asset are retained by the Company All other leases are classified as operating leases

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

Operating lease incentives are spread on a straight line basis over the lease term or, if shorter, over the period to the first rent review

Research and development

The Company undertakes research and development activities either on its own behalf or on behalf of customers

Company funded expenditure on research activities is written off as incurred and charged to the profit and loss account

Company funded expenditure on development activities is capitalised as an internally generated intangible asset if certain conditions are met as laid out in SSAP 13 The expenditure capitalised includes the cost of materials, direct labour and related overheads Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses Capitalised development expenditure is amortised over the expected life of the product

Where the research and development activity is performed for customers, costs are capitalised in work in progress and released to the profit and loss account in accordance with the Company's turnover policy as stated above

Estimation techniques

In certain circumstances the measurement of values cannot be made with absolute certainty either because absolute costs are unknown, or they require a degree of subjective review Examples include the calculation of degrees of obsolescence of stock In these instances the directors utilise the skills, knowledge and experience of suitably qualified persons to generate appropriate values All appropriate accounting standards are adhered to in generating such values

Share-based payments

For grants made under the group's share-based payment schemes, amounts which reflect the fair value of options awarded to employees of the Company as at the time of grant are charged to the profit and loss account over the vesting period of the option and the excess of the charge over any amounts paid to Cobham plc for these options is recognised as a capital contribution in equity

The valuation of the options utilises a methodology based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria The impacts of changes in assumptions of the number of options that are expected to vest due to non market related conditions are assessed at each balance sheet date and adjusted through the profit and loss account on a cumulative basis

Chelton Limited

Profit and loss account
for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Turnover	1	**73,978**	69,658
Cost of sales		**(37,929)**	(36,701)
Gross profit		**36,049**	32,957
Selling and distribution costs		**(8,809)**	(10,582)
Administrative expenses		**(7,682)**	(6,357)
Operating profit	2	**19,558**	16,018
Interest receivable and similar income	3	**4,089**	3,727
Interest payable and similar charges	4	**(1,220)**	(1,216)
Profit on ordinary activities before taxation		**22,427**	18,529
Tax on profit on ordinary activities	5	**(5,629)**	(4,842)
Profit for the financial year	16,17	**16,798**	13,687

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

The profit on ordinary activities before taxation and the profit for the financial year have been calculated on the historical cost basis

The Company has no recognised gains or losses other than the amounts above and therefore no separate statement of total recognised gains and losses has been prepared

Chelton Limited

Balance sheet as at 31 December 2012

		2012		2011	
	Note	£000	£000	£000	£000
Fixed assets					
Tangible assets	10		7,210		8,027
			7,210		8,027
Current assets					
Stocks	11	8,337		9,032	
Debtors	12	15,912		60,733	
Cash at bank and in hand		44,697		24,674	
		68,946		94,439	
Creditors amounts falling due within one year	13	(23,449)		(37,987)	
Net current assets			45,497		56,452
Total assets less current liabilities			52,707		64,479
Provisions for liabilities and charges	14		(911)		(1,339)
Net assets			51,796		63,140
Capital and reserves					
Called up share capital	15		-		-
Other reserve	16		1,862		1,634
Profit and loss account	16		49,934		61,506
Total shareholders' funds	17		51,796		63,140

The financial statements on pages 7 to 24 were approved by the board on 12th July 2013 and were signed on its behalf by

S D Pickin
Director
Registered number in England 896823

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

1. Turnover

No analysis of sales by geographical area has been disclosed since the directors consider that such disclosure would be seriously prejudicial to the interests of the Company

2. Operating profit

	2012 £000	2011 £000
Operating profit is stated after charging/(crediting)		
Depreciation		
- owned assets	**1,370**	1,677
Operating lease charges		
- other	**1,347**	1,242
Research and development	**3,250**	3,536
Profit on disposal of tangible fixed assets	**(9)**	(30)
Exchange differences	**20**	(671)
Auditors' remuneration fees for the audit of the Company's annual accounts	**63**	60

Fees paid to the Company's auditor, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated group financial statements of the ultimate parent undertaking, Cobham plc, disclose the non-audit fees on a consolidated basis

3. Interest receivable and similar income

	2012 £000	2011 £000
Bank interest receivable	**190**	130
Other interest receivable	**-**	32
Interest receivable from group undertakings	**3,899**	3,565
	4,089	3,727

4. Interest payable and similar charges

	2012 £000	2011 £000
Interest payable on bank overdrafts	**41**	21
Interest payable to group undertakings	**1,179**	1,176
Unwinding of discount	**-**	19
	1,220	1,216

5. Tax on profit on ordinary activities

	2012 £000	2011 £000
Current tax		
UK corporation tax on profit for the year	**5,732**	5,027
Adjustment in respect of previous years	**21**	4
Total current tax	**5,753**	5,031
Deferred tax		
Depreciation for the year in excess of capital allowances	**(177)**	(92)
Timing differences relating to share options	**44**	(74)
Effect of change in tax rate	**8**	(12)
Adjustment in respect of previous years	**1**	(11)
Total deferred tax (note 14)	**(124)**	(189)
Tax on profit on ordinary activities	**5,629**	4,842

The current tax assessed for the year is higher (2011 higher) than the standard rate of corporation tax in the UK of 24 5% (2011 26 50%) The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before taxation	**22,427**	18,529
Profit on ordinary activities multiplied by the standard rate in the UK of 24 5% (2011 26 5%)	**5,495**	4,910
Effects of		
Expenses not deductible for tax purposes	**115**	177
Expenditure qualifying for additional R&D tax deduction	**(29)**	(53)
Tax deduction available in respect of share options	**(26)**	(99)
Capital allowances less than depreciation	**177**	92
Adjustment to tax charge in respect of previous years	**21**	4
Total current tax	**5,753**	5,031

Factors that may affect future tax charges

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

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

Notes to the financial statements (continued)

6. Directors' emoluments

The emoluments of the directors employed by the Company are

	2012 £000	2011 £000
Aggregate emoluments	**764**	942
Aggregate amounts paid in respect of money purchase pension schemes	**12**	44
Amounts paid to directors for loss of office	**47**	-
	823	986

For the directors in office at the year-end retirement benefits are accruing to 2 (2011 2) directors under a defined benefit scheme and to Nil (2011 2) directors under money purchase pension schemes During the year 2 (2011 Nil) directors exercised options over shares of Cobham plc and 1 (2011 1) directors was entitled to receive share options under long term incentive plans

Highest paid director

	2012 £000	2011 £000
Total emoluments including amounts accruing under long-term incentive schemes	**348**	359
Accrued pension at end of year under defined benefit scheme	**48**	42

The highest paid director did not exercise shares under the executive share option schemes during the current year

7. Employee costs

	2012 £000	2011 £000
Wages and salaries	**11,822**	9,936
Share based payments (note 8)	**348**	326
Social security costs	**1,238**	1,169
Pension costs	**2,631**	2,292
	16,039	13,723

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

By activity	2012	2011
Assembly and other	**95**	98
Production and engineering	**150**	151
Marketing	**23**	23
Management and administration	**26**	25
	294	297

Notes to the financial statements (continued)

8. Share-based payments

The Company's ultimate parent undertaking, Cobham plc, operates a number of incentive schemes which are open to certain senior executives employed within the Group The Company participates in the following schemes

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

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

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

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

The Cobham Savings Related Share Option Scheme (ShareSave) is an HMRC approved savings related share option plan which is open to all UK employees Employees contribute to a monthly savings plan and after an agreed period of at least three years, employees have the option to use these savings plus interest to purchase the Group's shares at 80% of the market price on the date of grant

The total fair value of share-based payments relating to the employees of the Company for the year ended 31 December 2012, and expensed to the profit and loss account for that year, was assessed to be £348,000 (2011 £326,000) As the schemes relate to shares of the ultimate parent undertaking, the Company has recognised a capital contribution equal to the profit and loss account charge for the year (note 16) During the year Cobham plc has recharged £120,000 (2011 £Nil) to the Company and such recharges are deducted from the capital contribution in note 16

Notes to the financial statements (continued)

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

Number of share options	PSP	ESOS	ShareSave
At 1 January 2011	85,168	1,048,426	1,212,366
Awards granted	183,782	-	242,843
Awards forfeited	(12,528)	(17,306)	(59,016)
Exercised	(15,311)	(266,545)	(243,329)
Expired	-	(2,876)	(17,119)
Transferred	-	104,166	(2,299)
At 1 January 2012	241,111	865,865	1,133,446
Awards granted	190,491	-	189,915
Awards forfeited	(100,122)	(168,213)	(31,998)
Exercised	(22,517)	(120,292)	(271,229)
Expired	-	-	(22,404)
Transferred	58,340	90,987	(4,978)
At 31 December 2012	**367,303**	**668,347**	**992,752**
Exercisable at 31 December 2012	**-**	**484,955**	**38,266**
Exercisable at 31 December 2011	-	252,558	11,984

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

	PSP	ESOS	ShareSave
Outstanding at 31 December 2012	**1 50**	**5 29**	**2 27**
Outstanding at 31 December 2011	1 82	7 14	2 25

Under the ESOS and Sharesave schemes, exercises were made at various times throughout the year The average share price in that period was £2 165 (2011 2 024)

Notes to the financial statements (continued)

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

£	ESOS	ShareSave
At 1 January 2011	1 94	1 58
Awards granted	1 56	1 48
Awards forfeited	2 47	1 40
Exercised	2 08	1 69
Expired	2 07	1 43
Transferred	2 08	1 77
At 1 January 2012	2 07	1 60
Awards granted	-	1 75
Awards forfeited	2 09	1 65
Exercised	1 92	1 50
Expired	-	1 63
Transferred	1 29	1 44
At 31 December 2012	**1 98**	**1 65**
Exercisable as at 31 December 2012	**1 79**	**1 66**
Exercisable as at 31 December 2011	1 96	1 61

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

£	ESOS	ShareSave
Outstanding at 31 December 2012		
Lowest exercise price	**1 19**	**1 08**
Highest exercise price	**2 47**	**1 79**
Outstanding at 31 December 2011		
Lowest exercise price	1 34	1 08
Highest exercise price	2 47	1 79

Notes to the financial statements (continued)

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

	PSP	ESOS	ShareSave
During 2012			
Effective date of grant or commencement date	**26 March**	**26 March**	**1 February**
Average fair value at date of grant	**1 642**	**0 399**	**0.361**
During 2011			
Effective date of grant or commencement date	14 March	17 March	1 February
Average fair value at date of grant	1 664	0 361	0 658

The fair values in the table above were calculated using the Black-Scholes option pricing model (modified by a Monte Carlo simulation for PSP awards) to determine the likely impact of market-related performance conditions The inputs into the model were as follows

	PSP	ESOS	ShareSave
2012			
Weighted average share price	**£2 245**	**£2 245**	**£1 737**
Weighted average exercise price	**Nil**	**£2 184**	**£1 480**
Expected volatility	**33%**	**29%**	**28%-30%**
Expected life	**3 years**	**5 years**	**3 – 7 years**
Expected employee cancellation rate	**3 0%**	**4 5%**	**3 6%**
Risk free rate	**1 7%**	**1 1%**	**3 0%**
Expected dividend yield	**n/a**	**3 6%**	**3 8%**
2011			
Weighted average share price	£2 237	£2 185	£2 355
Weighted average exercise price	Nil	£2 332	£1 790
Expected volatility	33%	29%	25%-31%
Expected life	3 years	4 years	3 – 7 years
Expected employee cancellation rate	1 8%	5 7%	2 9%
Risk free rate	1 7%	2 0%	2 5%
Expected dividend yield	n/a	2 6%	2 4%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations The expected employee cancellation rate is based on an assessment of historic rates of voluntary cancellations of contracts by employees

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

Chelton Limited

Notes to the financial statements (continued)

9. Dividends

	2012 £000	2011 £000
Interim dividend for current year paid of £283,700 (2011 £110,000) per share	**28,370**	11,000
	28,370	11,000

10. Tangible assets

	Leasehold land and buildings (long lease) £000	Leasehold land and buildings (short lease) £000	Plant and machinery (including vehicles) £000	Fixtures fittings, tools and equipment £000	Total £000
Cost					
At 1 January 2012	3,212	3,998	6,744	2,848	16,802
Additions	-	328	198	72	598
Disposals	-	-	(543)	(2)	(545)
At 31 December 2012	**3,212**	**4,326**	**6,399**	**2,918**	**16,855**
Accumulated depreciation					
At 1 January 2012	429	949	5,382	2,015	8,775
Charge for the year	50	219	685	416	1,370
Disposals	-	-	(499)	(1)	(500)
At 31 December 2012	**479**	**1,168**	**5,568**	**2,430**	**9,645**
Net book amount					
At 31 December 2012	**2,733**	**3,158**	**831**	**488**	**7,210**
At 31 December 2011	2,783	3,049	1,362	833	8,027

Notes to the financial statements (continued)

11. Stocks

	2012 £000	2011 £000
Raw materials and consumables	**2,638**	3,898
Work in progress	**4,305**	3,471
Finished goods and goods for resale	**1,394**	1,663
	8,337	9,032

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

12. Debtors

	2012 £000	2011 £000
Trade debtors	**8,927**	10,039
Amounts owed by fellow subsidiary undertakings	**6,060**	49,466
Other debtors	**382**	763
Prepayments and accrued income	**543**	465
	15,912	60,733

Amounts owed by fellow subsidiary undertakings include £Nil (2011 £41,731,000) on which interest is charged at 9% per annum These amounts are unsecured and are repayable on demand

13. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Bank overdraft	**8,322**	6,949
Trade creditors	**3,103**	1,174
Amounts owed to fellow subsidiary undertakings	**3,440**	21,628
Corporation tax	**3,085**	1,459
Other tax and social security	**327**	343
Accruals and deferred income	**5,172**	6,434
	23,449	37,987

The bank overdraft is secured by a bank guarantee under a group banking arrangement and is repayable on demand

Amounts owed to fellow subsidiary undertakings include £Nil (2011 £16,796,000) on which interest is charged at 7% per annum These amounts are unsecured and are repayable on demand

Notes to the financial statements (continued)

14. Provisions for liabilities and charges

	Contract provisions £000	Deferred taxation £000	Total £000
At 1 January 2012	1,187	152	1,339
Charged to the profit and loss account	21	(124)	(103)
Utilised during the year	(272)	-	(272)
Unused amounts reversed in the year	(53)	-	(53)
At 31 December 2012	**883**	**28**	**911**

Contract provisions

Contract provisions represents management's best estimate of the amount by which the expected benefit from certain specific contracts is lower than the unavoidable cost of meeting the Company's obligations under those contracts The time frame within which such provisions will unwind varies by contract The provision at 31 December 2012 is stated after a discount of £14,000 (2011 £12,000) and the unwinding of the discount in the year has resulted in a finance charge of £Nil (2011 £19,000) Included within contract provisions is £698,000 (2011 £677,000) relating to onerous leases and dilapidations

Deferred taxation

The deferred tax liability represents

	2012 £000	2011 £000
Accelerated capital allowances	**313**	506
Other short term timing differences	**(285)**	(354)
	28	152

15. Called up share capital

	2012 £000	2011 £000
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	-	-

16. Reserves

	Other reserves	Profit and loss account
	£000	£000
At 1 January 2012	1,634	61,506
Profit for the financial year	-	16,798
Dividends (note 9)	-	(28,370)
Capital contribution for the year	228	-
At 31 December 2012	**1,862**	**49,934**

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

17. Reconciliation of movements in total shareholders' funds

	2012 £000	2011 £000
Profit for the financial year	**16,798**	13,687
Dividends (note 9)	**(28,370)**	(11,000)
Retained (deficit)/profit for the financial year	**(11,572)**	2,687
Capital contribution from parent	**228**	326
Net (deduction from)/addition to shareholders' funds	**(11,344)**	3,013
Opening shareholders' funds	**63,140**	60,127
Closing shareholders' funds	**51,796**	63,140

Notes to the financial statements (continued)

18. Pension commitments

Defined contribution scheme

The Cobham group is in the process of integrating all of its UK defined contribution pension schemes into the Cobham Personal Pension Plan From 1 October 2012, contributions to the Chelton Stakeholder Pension Scheme ceased and all subsequent contributions were paid into the Cobham Personal Pension Plan The transfer of pension assets to the Cobham Personal Pension Plan has started and will be completed during 2013 The assets of the schemes are held separately from those of the Company in independently administered funds The pension cost charged represents contributions payable by the Company to the fund and amounted to £199,000 (2011 £187,000) At 31 December 2012 there were no contributions outstanding (2011 £42,000)

Defined benefit scheme

The Company also participates in the defined benefit section of the Cobham Pension Plan operated by Cobham plc The Cobham Pension Plan now includes the assets and liabilities previously held in the Chelton UK Group Pension Scheme and the ERA Technology Pension Fund which were transferred into the Cobham Pension Plan on 30 June 2012 The Company participated in the Chelton UK Group Pension Scheme until the date of this transfer The pension scheme is of the funded defined benefit type and its assets are held in a separate trustee administered fund The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary The latest effective date of the actuarial assessment of the scheme was 1 April 2012 This assessment was updated to 31 December 2012 at which date the net liabilities of the scheme were assessed to be £65 4m The directors of the companies involved in the group scheme will continue to monitor the level of the pension deficit and take advice from independent actuaries as appropriate

The scheme has members across the Cobham Group and the directors of the Company are unable to obtain detailed and reliable analysis of the scheme liabilities for the Company Consequently in these financial statements this scheme has been accounted for as if it was a defined contribution scheme and the charge to the profit and loss account therefore reflects payments for the year

The total pension charges for the year for the defined benefit pension scheme were £1,820,000 (2011 £1,474,000)

19. 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 performance and third party bank guarantees at 31 December 2012 of £101,000 (2011 £185,000)

20. Capital commitments

The Company had capital commitments contracted for but not provided of £1,492,000 at 31 December 2012 (2011 £66,000)

Notes to the financial statements (continued)

21. Financial commitments

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

	Land and buildings			Other
	2012 £000	2011 £000	2012 £000	2011 £000
Between two and five years	-	-	66	20
After five years	1,588	1,588	-	-
	1,588	1,588	66	20

22. Ultimate parent undertaking

The Company's immediate parent undertaking is Lockman Electronic Holdings 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

23. Cash flow statement

As noted above, the Company is a wholly owned subsidiary of Lockman Electronic Holdings Limited and is included in the consolidated financial statements of Cobham plc, which are publicly available Consequently, the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of FRS 1 (revised 1996)

24. Related party disclosures

The Company has taken the exemption under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Cobham plc group or investees of the Cobham plc group

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

	2012 Sales in year £000	2012 Debtor balances £000	2011 Sales in year £000	2011 Debtor balances £000
FB Heliservices Limited	147	17	235	9

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

FB Heliservices is joint venture company of Cobham plc