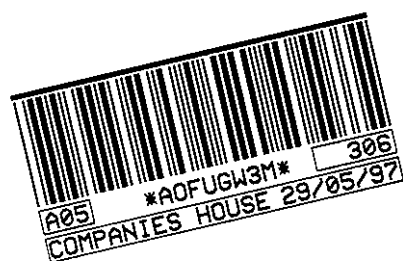


FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1996

Company registration number 845310



FR AVIATION LIMITED

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FR AVIATION LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 1996.

RESULTS FOR THE YEAR

The company's results for the year are set out in the profit and loss account on page 7. The directors have approved the payment of a second interim dividend amounting to £ 2,200,000 (1995: £1,680,000) which, together with the first interim dividend, makes a total paid or to be paid of £2,900,000 (1995: £2,250,000).

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business of the company continues to be flight operations and aircraft maintenance. The directors consider that the majority of the business of the company represents a single activity.

Throughout the year the company's fleet of Falcon 20, Cessna Conquest and Beech Baron aircraft continued to perform satisfactorily providing realistic air defence training practice, target towing and silent threat services for the Royal Navy and Royal Air Force. Of particular note was the award of a five year contract in the year combining the former Royal Naval electronic warfare and target towing contracts.

BOARD OF DIRECTORS

The following directors held office during the year:

A G Irwin	D E Morgan
G F Page	J R Myers
D E Lewis (Resigned 26 February 1996)	P Richardson
R H N Rhodes	B Wallis (Appointed 1 January 1996)
C F J Jones	M E Cogan (Appointed 18 March 1996)
M A Leaker	

The directors' shareholdings and interests are shown in note 6 to the financial statements.

POLICY ON PAYMENT OF CREDITORS

The company agrees terms and conditions for transactions with suppliers and payment is generally made on these terms, subject to the supplier meeting the agreed terms and conditions.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

EMPLOYEE INVOLVEMENT

The directors have for many years encouraged the development of employee involvement in the company by providing information to employees in various ways and by making group employee share schemes available to them (see below).

The process of involvement has been developed over the years by management working with employees in ways which suit their own needs. This involves the publishing of an in-house newspaper, notice board announcements, management briefings, meetings with elected committees of employees, the holding of social functions and the running of the sports and social club at Wimborne.

SHARE INCENTIVE SCHEME

The company participates in a group share incentive and share option savings scheme. An amount of £160,000 (1995: £125,000) has been provided out of current year profits, representing the company's contribution to the schemes.

DISABLED PERSONS

It is the policy of the company to endeavour to provide employment for disabled persons, including those who become disabled while in the company's employment. Commensurate with their skills, such disabled persons receive equal opportunities for training, career development and promotion.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the report of the auditors set out on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 5 to 17, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

PAYMENTS TO SUPPLIERS

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.

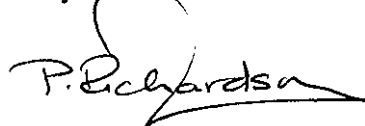
FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

AUDITORS

The company's auditors, Price Waterhouse, have signified their willingness to be re-appointed. In accordance with Section 386 of the Companies Act 1985, as a result of an elective resolution passed on 12 March 1991, Price Waterhouse are deemed re-appointed as auditors to the company for the forthcoming financial year.

By order of the board

A handwritten signature in black ink, appearing to read 'P. Richardson', with a stylized flourish at the end.

P Richardson
Secretary

27 March 1997

Price Waterhouse



REPORT OF THE AUDITORS TO THE MEMBERS OF FR AVIATION LIMITED

We have audited the financial statements on pages 5 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 5 and 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

27 March 1997

FR AVIATION LIMITED

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

TURNOVER

Turnover is based on the sales of services provided exclusive of value added tax, together with the sales value of work done on long term contracts.

DEFERRED TAXATION

Provision is made for deferred taxation, using the liability method, unless there is a reasonable probability that it will not become payable or recoverable within the foreseeable future.

TANGIBLE FIXED ASSETS

Fixed assets are depreciated on a straight line basis over their estimated useful lives, as follows:

Leasehold properties	- 50 years
Plant, machinery, fixtures, fittings, tools and equipment	- 3 to 8 years
Aircraft	- 10 years

OPERATING LEASES

Operating lease payments for assets leased from third parties are charged to the profit and loss account as incurred.

STOCKS

Stocks and work in progress are stated at the lower of cost, which includes an appropriate proportion of production overheads, and net realisable value.

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

RESEARCH AND DEVELOPMENT

Research and development expenditure not chargeable to customers is written off in the year in which it is incurred.

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are expressed in Sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

PENSIONS

Contributions to the Cobham plc group's defined benefit schemes are assessed by a qualified actuary based on the cost of providing pensions across all participating group companies. Costs are not determined for each individual company, hence contributions are charged to the profit and loss account in the period in respect of which they become payable.

FR AVIATION LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	<u>Note</u>	<u>1996</u> £000	<u>1995</u> £000
TURNOVER	1	57,089	46,009
Cost of sales		<u>(44,958)</u>	<u>(35,742)</u>
GROSS PROFIT		12,131	10,267
Selling and distribution costs		(1,836)	(1,554)
Administrative expenses		<u>(3,505)</u>	<u>(2,790)</u>
OPERATING PROFIT	2	6,790	5,923
Income from shares in group undertakings		200	400
Income from participating interests		586	591
Net interest receivable	3	<u>918</u>	<u>256</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,494	7,170
Tax on profit on ordinary activities	4	<u>(1,817)</u>	<u>(2,053)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	19	6,677	5,117
Dividends - interim paid and proposed	5,19	<u>(2,900)</u>	<u>(2,250)</u>
RETAINED PROFIT FOR THE YEAR	16,19	<u><u>3,777</u></u>	<u><u>2,867</u></u>

The company has no recognised gains or losses other than the above profit for the year.

All the company's activities are classed as continuing.

The notes on pages 9 to 17 form part of these financial statements.

FR AVIATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1996

	Note	1996 £000	1995 £000
FIXED ASSETS			
Tangible assets	8	11,576	11,381
Investments	9	-	-
CURRENT ASSETS			
Stocks	10	4,604	4,418
Debtors : Amounts falling due within one year	11	8,828	11,304
Cash at bank and in hand		<u>16,179</u>	<u>12,319</u>
		29,611	28,041
CREDITORS: Amounts falling due within one year	12	<u>(16,928)</u>	<u>(19,176)</u>
NET CURRENT ASSETS		<u>12,683</u>	<u>8,865</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		24,259	20,246
CREDITORS: Amounts falling due after more than one year	13	(2,589)	(2,347)
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(560)</u>	<u>(566)</u>
		<u>(3,149)</u>	<u>(2,913)</u>
		<u>21,110</u>	<u>17,333</u>
CAPITAL AND RESERVES			
Called up share capital	15	1	1
Profit and loss account	16	<u>21,109</u>	<u>17,332</u>
SHAREHOLDERS' FUNDS	19	<u>21,110</u>	<u>17,333</u>

These financial statements were approved by the board on 27 March 1997 and were signed on its behalf by:

G F Page
Director

C F J Jones
Director

The notes on pages 9 to 17 form part of these financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 TURNOVER

	<u>1996</u> £000	<u>1995</u> £000
United Kingdom	53,535	42,972
Other EU countries	1,727	1,246
United States	324	411
Rest of the World	<u>1,503</u>	<u>1,380</u>
	<u>57,089</u>	<u>46,009</u>

2 OPERATING PROFIT

	<u>1996</u> £000	<u>1995</u> £000
The operating profit is stated after charging:		
Depreciation	1,864	1,879
Auditors' remuneration	22	19
- in respect of audit		
- other services	2	10
Hire of plant and machinery	15	19
Other operating lease rentals	6,893	7,198
Research and development	<u>119</u>	<u>65</u>

Other operating lease rentals relate to aircraft and aircraft equipment. Details of future commitments are given in note 17.

3 NET INTEREST RECEIVABLE

	<u>1996</u> £000	<u>1995</u> £000
Interest receivable:		
Bank	1,006	345
Other	47	42
Interest payable:		
Other	(5)	(8)
Interest receivable included within cost of sales	<u>(130)</u>	<u>(123)</u>
	<u>918</u>	<u>256</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Based on the results of the year:		
UK corporation tax at 33% (1995: 33%)	2,565	2,076
Deferred taxation (note 14)	(6)	(24)
Prior year adjustments - current tax	(742)	(841)
- deferred tax	-	842
	<u>1,817</u>	<u>2,053</u>

The low effective rate of taxation in 1996 is the result of losses surrendered by fellow subsidiary for £nil consideration.

5 DIVIDENDS

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
To Cobham plc:		
First interim dividend of £700 per share (1995: £570)	700	570
Proposed second interim dividend of £2,200 per share (1995: £1,680)	2,200	1,680
	<u>2,900</u>	<u>2,250</u>

6 DIRECTORS

Directors' shareholdings and interests

None of the directors held an interest in the company's shares or a right to subscribe for such shares.

The interests of G F Page, A G Irwin and C F J Jones and their families in the shares of the ultimate parent undertaking and rights to subscribe for such shares are disclosed in the financial statements of that undertaking. Interests of other directors and their families in the ultimate parent undertaking's ordinary shares and rights to subscribe for such shares were:

	<u>At 31 December 1996</u>		<u>At 31 December 1995</u>	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
D E Morgan	5,823	8,884	5,769	21,854
P Richardson	1,529	14,012	1,446	54,966
R H N Rhodes	4,114	30,850	4,060	30,008
J R Myers				
Beneficial	875	77,232	819	75,804
Non-beneficial	403,282	9,843	403,282	-
M A Leaker	1,793	9,843	1,735	36,471
B Wallis	205	-	165*	-*
M E Cogan	-	-	-*	-*

* At date of appointment

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 DIRECTORS (Continued)

The following options were granted during the year:

	<u>Number</u>	<u>Exercise price</u>	<u>Exercise period</u>
J R Myers	1,428	£4.83	01/02/2002 - 01/08/2002
R H N Rhodes	842	£4.83	01/02/2002 - 01/08/2002
P Richardson	403	£4.83	01/02/2000 - 01/08/2000

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
D E Morgan	3,770	£2.32
	9,200	£3.49
P Richardson	14,571	£2.94
	9,200	£3.49
	13,816	£1.50
	3,770	£2.32
M A Leaker	26,628	£2.67

Directors' emoluments

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
The emoluments of the directors, including pension contributions, were:	<u>768</u>	<u>716</u>

The analysis of the directors' emoluments, excluding pension contributions, is:

Chairman	<u>-</u>	<u>-</u>
Highest paid director	<u>184</u>	<u>141</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 DIRECTORS (Continued)

The number of directors, whose emoluments (excluding pension contributions) were within the following bands, are:

	<u>1996</u> <u>Number</u>	<u>1995</u> <u>Number</u>
£nil - £5,000	3	3
£20,001 - £25,000	1	-
£65,001 - £70,000	2	1
£70,001 - £75,000	2	3
£75,001 - £80,000	1	1
£85,001 - £90,000	1	1
£140,001 - £145,000	-	1
£180,001 - £185,000	<u>1</u>	<u>1</u>

7 EMPLOYEES

	<u>1996</u> <u>Number</u>	<u>1995</u> <u>Number</u>
Average number of employees - UK	<u>576</u>	<u>546</u>

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Employment costs:		
Wages and salaries	13,896	12,712
Social security costs	1,085	1,015
Other pension costs	<u>932</u>	<u>812</u>
	<u>15,913</u>	<u>14,539</u>

Pensions

The company participates in group defined benefit schemes providing benefits to certain employees within the Cobham plc group. The assets are held separately from the group's assets.

The majority of the company's employees are members of the Cobham Pension Plan. The latest actuarial valuation of this scheme was carried out as at 1 April 1995. Details of this valuation are contained in the financial statements of Cobham plc, the ultimate parent undertaking.

The total pension cost for the company was £932,000 (1995: £812,000). Contributions are based on pension costs across the group as a whole.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 TANGIBLE FIXED ASSETS

	Land and Buildings (Long Leasehold) £000	Plant and Machinery (including Vehicles) £000	Fixtures, Fittings, Tools and Equipment £000	Total £000
Cost				
At 1 January 1996	6,796	12,145	2,565	21,506
Additions	636	1,090	694	2,420
Disposals	(177)	(1,043)	(31)	(1,251)
At 31 December 1996	<u>7,255</u>	<u>12,192</u>	<u>3,228</u>	<u>22,675</u>
Accumulated depreciation				
At 1 January 1996	874	7,859	1,392	10,125
Charge for the year	134	1,264	466	1,864
Disposals	(47)	(813)	(30)	(890)
At 31 December 1996	<u>961</u>	<u>8,310</u>	<u>1,828</u>	<u>11,099</u>
Net book amount				
At 31 December 1996	<u>6,294</u>	<u>3,882</u>	<u>1,400</u>	<u>11,576</u>
At 1 January 1996	<u>5,922</u>	<u>4,286</u>	<u>1,173</u>	<u>11,381</u>

Capital commitments

At 31 December 1996 the company had capital expenditure committed with suppliers amounting to £500,000 (1995: £125,000).

9 INVESTMENTS

The company owns the entire issued share capital of £2 each in respect of the following companies which are registered in England and operate in the United Kingdom:

FR Aviation Services Limited
Corporate Air Spares Limited

The principal business of FR Aviation Services Limited is the management of, and the provision of services to, airfields. Corporate Air Spares Limited trades in aircraft spares.

The company owns 51% of the issued share capital of Flight Precision Limited, a company registered and operating in England. The principal business of Flight Precision Limited is the provision of calibration services to airfields.

The company owns 33.3% of FBS Limited, a company operating in England. The principal business of FBS Limited is the management of an MoD contract. FBS Limited commenced trading in 1996.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 INVESTMENTS (Continued)

The company also owns 50% of the issued share capital of FRA Serco Limited, a company registered in England. The principal business of FRA Serco Limited is the provision of services to airfields.

Group financial statements have not been prepared because the company itself is a wholly owned subsidiary of Cobham plc, a company registered in England.

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

10 STOCKS

	<u>1996</u> £000	<u>1995</u> £000
Raw materials and consumables	3,818	3,586
Work in progress	1,641	1,915
Payments on account	<u>(855)</u>	<u>(1,083)</u>
	<u>4,604</u>	<u>4,418</u>

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

11 DEBTORS

	<u>1996</u> £000	<u>1995</u> £000
Amounts falling due within one year:		
Trade debtors	6,048	9,933
Amounts owed by group undertakings	296	36
Amounts owed by participating interests	1,509	-
Other debtors	189	27
Prepayments and accrued income	386	517
Dividends receivable from group undertakings	50	200
Dividend receivable from undertakings in which the company has a participating interest	<u>350</u>	<u>591</u>
	<u>8,828</u>	<u>11,304</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 CREDITORS: Amounts falling due within one year

	<u>1996</u> £000	<u>1995</u> £000
Payments received on account	2,439	2,340
Trade creditors	7,962	11,433
Payroll and other taxes, including social security	1,156	1,185
Amounts owed to group undertakings	198	109
Amounts owed to associated undertakings	39	44
Other creditors	351	250
Accruals and deferred income	10	59
Taxation payable	2,573	2,076
Proposed dividend	<u>2,200</u>	<u>1,680</u>
	<u>16,928</u>	<u>19,176</u>

13 CREDITORS: Amounts falling due after more than one year

	<u>1996</u> £000	<u>1995</u> £000
Amount owed to group undertakings	1,007	1,007
Aircraft maintenance reserves	<u>1,582</u>	<u>1,340</u>
	<u>2,589</u>	<u>2,347</u>

The group loan arose from a transfer of assets on 1 January 1985. There is no intention for the loan to be repaid and it does not attract interest.

14 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:		£000
At 1 January 1996		566
Movement in the year (note 4)		<u>(6)</u>
At 31 December 1996		<u>560</u>
The deferred tax provided for represents full provision as follows:		
	<u>1996</u> £000	<u>1995</u> £000
Accelerated capital allowances	<u>560</u>	<u>566</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 CALLED UP SHARE CAPITAL

The share capital of the company consists of 1,000 authorised, allotted and fully paid ordinary shares of £1 each. There have been no changes during the year.

16 PROFIT AND LOSS ACCOUNT

£000

At 1 January 1996

17,332

Retained profit for the year

3,777

At 31 December 1996

21,109

17 OPERATING LEASES

At the balance sheet date the company has obligations of £7,219,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (1995: £7,237,000).

Of this amount the commitment expires as follows:

1996
£000

1995
£000

Between one and five years

7,219

7,237

18 PARENT UNDERTAKING

The company's immediate and ultimate parent undertaking is Cobham plc, which is registered in England. The smallest and largest group for which group financial statements are prepared is Cobham plc. Copies of its financial statements may be obtained from The Secretary, Cobham plc, Brook Road, Wimborne, Dorset, BH21 2BJ.

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

1996
£000

1995
£000

Profit on ordinary activities after taxation

6,677

5,117

Dividends

(2,900)

(2,250)

Net addition to shareholders' funds

3,777

2,867

Opening shareholders' funds

17,333

14,466

Closing shareholders' funds

21,110

17,333

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 CASH FLOW STATEMENT

The Cobham plc financial statements for the year ended 31 December 1996 contain a consolidated statement of cash flows. The company has taken advantage of the exemption granted by Financial Reporting Standard 1 (revised) whereby it is not required to publish its own cash flow statement.

21 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption provided by Paragraph 3(c) of FRS 8 not to disclose transactions with entities that are part of the Cobham plc group.

The company is controlled by Cobham plc, the company's immediate parent undertaking. The ultimate controlling company is Cobham plc.