

FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1997

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 1997.

RESULTS FOR THE YEAR

The company's results for the year are set out in the profit and loss account on page 6. The directors have approved the payment of a second interim dividend amounting to £2,000,000 (1996: £2,200,000) which, together with the first interim dividend, makes a total dividend for the year of £4,192,000 (1996: £2,900,000).

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. This year has seen the first full year of activity on a major contract awarded in 1996 for aircraft re-fitting.

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.

RESEARCH AND DEVELOPMENT

The company continues to invest in the important area of research and development. The company expended £179,000 (1996: £119,000) during the year.

BOARD OF DIRECTORS

The following directors held office during the year:

A G Irwin		D E Morgan
G F Page		J R Myers
G E Roe	(Appointed 28 July 1997)	P Richardson
R H N Rhodes		B Wallis
C F J Jones	(Resigned 30 June 1997)	M E Cogan
M A Leaker	(Resigned 31 December 1997)	

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.

Trade creditors falling due within one year at 31 December 1997 represented 22 days (1996: 23 days) of purchases.

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 needs. This involves notice board announcements, management and team briefings, meetings with elected committees of employees, and the holding of social functions.

SHARE INCENTIVE SCHEME

The company participates in a group share incentive and share option savings scheme. An amount of £140,000 (1996: £160,000) 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 3, 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 4 to 15, 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.

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

B. Wallis

B Wallis
Secretary

27 March 1998

Price Waterhouse



REPORT OF THE AUDITORS TO THE MEMBERS OF FR AVIATION LIMITED

We have audited the financial statements on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 4 and 5.

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

27 March 1998

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.

Group accounts have not been prepared as the company is a wholly owned subsidiary undertaking of Cobham plc, a company registered in England.

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.

LONG TERM CONTRACTS

Long term contracts are accounted for in accordance with the requirements of statement of Standard Accounting Practice 9 - stocks and long term contracts. Profit on a long term contract is calculated on the basis of the percentage completion of the profit-earning proportion of a contract. Any amounts recoverable on contracts, representing the excess of the value of work carried out to the year end, and recorded as turnover, over cumulative payments on account are included in debtors. Cumulative payments on account in excess of the value of work carried out to the year end are shown in creditors.

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 to their estimated residual values over their estimated useful lives, as follows:

Long leasehold properties	-	50 years
Plant, machinery, vehicles, 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.

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

RESEARCH AND DEVELOPMENT

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

FOREIGN CURRENCIES

Foreign currency transactions are translated at the rates ruling at the time of the transaction. 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 1997

	<u>Note</u>	<u>1997</u> £000	<u>1996</u> £000
TURNOVER	1	56,169	57,089
Cost of sales		<u>(44,758)</u>	<u>(44,958)</u>
GROSS PROFIT		11,411	12,131
Selling and distribution costs		(1,597)	(1,836)
Administrative expenses		<u>(4,279)</u>	<u>(3,505)</u>
OPERATING PROFIT	2	5,535	6,790
Income from shares in group undertakings		-	200
Income from participating interests		646	586
Net interest receivable	3	<u>1,327</u>	<u>918</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,508	8,494
Tax on profit on ordinary activities	4	<u>(840)</u>	<u>(1,817)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,668	6,677
Dividends - interims paid and proposed	5	<u>(4,192)</u>	<u>(2,900)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	16	<u><u>2,476</u></u>	<u><u>3,777</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.

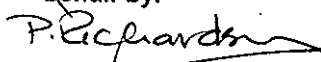
The notes on pages 8 to 15 form part of these financial statements.

FR AVIATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	8	12,205	11,576
Investments	9	-	-
		12,205	11,576
CURRENT ASSETS			
Stocks	10	6,346	4,604
Debtors	11	12,612	8,828
Cash at bank and in hand		<u>20,044</u>	<u>16,179</u>
		39,002	29,611
CREDITORS: Amounts falling due within one year	12	<u>(24,324)</u>	<u>(16,928)</u>
NET CURRENT ASSETS		<u>14,678</u>	<u>12,683</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		26,883	24,259
CREDITORS: Amounts falling due after more than one year	13	(2,722)	(2,589)
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(575)</u>	<u>(560)</u>
		<u>(3,297)</u>	<u>(3,149)</u>
		<u>23,586</u>	<u>21,110</u>
CAPITAL AND RESERVES			
Called up share capital	15	1	1
Profit and loss account	16	<u>23,585</u>	<u>21,109</u>
SHAREHOLDERS' FUNDS	19	<u>23,586</u>	<u>21,110</u>

These financial statements were approved by the board on 27 March 1998 and were signed on its behalf by:


P Richardson
Director


G E Roe
Director

The notes on pages 8 to 15 form part of these financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 TURNOVER

	<u>1997</u> £000	<u>1996</u> £000
Turnover by destination:		
United Kingdom	52,173	53,535
Other EU countries	1,613	1,727
United States	525	324
Rest of the World	<u>1,858</u>	<u>1,503</u>
	<u>56,169</u>	<u>57,089</u>

The origin of the company's turnover is the United Kingdom and is derived from the company's principal activities of flight operations and aircraft maintenance.

2 OPERATING PROFIT

	<u>1997</u> £000	<u>1996</u> £000
The operating profit is stated after charging:		
Depreciation	1,868	1,864
Auditors' remuneration - in respect of audit	18	22
- other services	45	2
Hire of plant and machinery	32	15
Other operating lease rentals	7,953	6,893
Research and development	<u>179</u>	<u>119</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>1997</u> £000	<u>1996</u> £000
Interest receivable:		
Bank	1,009	1,006
Group undertakings	5	-
Associated undertakings	<u>434</u>	<u>47</u>
	1,448	1,053
Interest payable:		
Other	(4)	(5)
Interest receivable included within cost of sales	<u>(117)</u>	<u>(130)</u>
	<u>1,327</u>	<u>918</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1997</u> £000	<u>1996</u> £000
Based on the results of the year:		
UK corporation tax at 31.5% (1996: 33%)	2,128	2,565
Deferred taxation (note 14)	15	(6)
Prior year adjustments - current tax	(1,303)	-
- deferred tax	-	(742)
	<u>840</u>	<u>1,817</u>

The prior year adjustment of £1.3 million in 1997 is the result of losses surrendered by fellow subsidiary undertakings for £nil consideration.

5 DIVIDENDS

	<u>1997</u> £000	<u>1996</u> £000
To Cobham plc:		
First interim dividend of £2,192 per share (1996: £700)	2,192	700
Proposed second interim dividend of £2,000 per share (1996: £2,200)	<u>2,000</u>	<u>2,200</u>
	<u>4,192</u>	<u>2,900</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 E Roe, G F Page and A G Irwin 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 1997</u>		<u>At 31 December 1996</u>	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
D E Morgan	10,903	3,855	5,823	8,884
P Richardson	1,605	23,798	1,529	14,012
R H N Rhodes	7,237	20,498	4,114	30,850
J R Myers				
Beneficial	1,614	66,595	875	77,232
Non-beneficial	403,282	-	403,282	-
B Wallis	244	-	205	-
M E Cogan	-	11,362	-	-

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	10,306	£8.558	30/10/2000 to 30/10/2007
R H N Rhodes	10,306	£8.558	30/10/2000 to 30/10/2007
P Richardson	928	£8.558	30/10/2000 to 30/10/2007
	10,815	£8.558	30/10/2000 to 30/10/2007
	282	£6.91	01/02/2001 to 01/08/2001
M E Cogan	10,516	£8.558	30/10/2000 to 30/10/2007
	846	£6.91	01/02/2001 to 01/08/2001

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
P Richardson	2,239	£1.440
D E Morgan	1,957	£2.666
	3,072	£1.440
J R Myers	20,257	£3.488
	686	£1.590
R H N Rhodes	13,816	£1.504
	3,770	£2.322
	3,072	£1.440

Directors' emoluments

	<u>1997</u>	<u>1996</u>
	<u>£000</u>	<u>£000</u>
Aggregate emoluments	701	635
Pension contributions	<u>153</u>	<u>133</u>
	<u>854</u>	<u>768</u>

Five directors exercised share options in the year. Retirement benefits are accruing to eight directors (1996: eight) under the group defined benefit scheme.

Highest paid director	<u>93</u>	<u>184</u>
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The highest paid director exercised share options in the year. His accrued pension at 31 December 1997 was £35,304.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 EMPLOYEES

	<u>1997</u> Number	<u>1996</u> Number
Average number of employees - UK	<u>584</u>	<u>576</u>
	<u>1997</u> £000	<u>1996</u> £000
Employment costs:		
Wages and salaries	14,845	13,896
Social security costs	1,303	1,085
Other pension costs	<u>1,096</u>	<u>932</u>
	<u>17,244</u>	<u>15,913</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 £1,096,140 (1996: £932,000). 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, Vehicles and Aircraft £000	Fixtures, Fittings, Tools and Equipment £000	Total £000
Cost				
At 1 January 1997	7,255	12,192	3,228	22,675
Additions	408	1,508	626	2,542
Disposals	-	(151)	(71)	(222)
At 31 December 1997	<u>7,663</u>	<u>13,549</u>	<u>3,783</u>	<u>24,995</u>
Accumulated depreciation				
At 1 January 1997	961	8,310	1,828	11,099
Charge for the year	136	1,162	570	1,868
Disposals	-	(107)	(70)	(177)
At 31 December 1997	<u>1,097</u>	<u>9,365</u>	<u>2,328</u>	<u>12,790</u>
Net book amount				
At 31 December 1997	<u>6,566</u>	<u>4,184</u>	<u>1,455</u>	<u>12,205</u>
At 1 January 1997	<u>6,294</u>	<u>3,882</u>	<u>1,400</u>	<u>11,576</u>

Capital commitments

At 31 December 1997 the company had capital expenditure committed with suppliers amounting to £300,000 (1996: £500,000).

9 INVESTMENTS

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

Corporate Air Spares Limited
FR Aviation Services Limited

The principal business of Corporate Air Space Limited is the trading in aircraft spares. FR Aviation Services Limited has ceased to trade.

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 registered and operating in England. The principal business of FBS Limited is the management of an MoD contract.

The company also owns 50% of the issued share capital of FRA Serco Limited a company registered and operating 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.

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

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 STOCKS

	<u>1997</u> £000	<u>1996</u> £000
Raw materials and consumables	3,634	3,818
Work in progress	2,929	1,641
Payments on account	<u>(217)</u>	<u>(855)</u>
	<u>6,346</u>	<u>4,604</u>

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

11 DEBTORS

	<u>1997</u> £000	<u>1996</u> £000
Amounts falling due within one year:		
Trade debtors	9,437	6,048
Amounts owed by group undertakings	841	296
Amounts owed by participating interests	1,222	1,509
Other debtors	403	189
Prepayments and accrued income	384	386
Dividends receivable from group undertakings	-	50
Dividend receivable from undertakings in which the company has a participating interest	<u>325</u>	<u>350</u>
	<u>12,612</u>	<u>8,828</u>

12 CREDITORS: Amounts falling due within one year

	<u>1997</u> £000	<u>1996</u> £000
Payments received on account	9,502	2,439
Trade creditors	7,257	7,962
Payroll and other taxes, including social security	1,493	1,156
Amounts owed to group undertakings	1,511	198
Amounts owed to associated undertakings	-	39
Other creditors	408	351
Accruals and deferred income	25	10
Taxation payable	2,128	2,573
Proposed dividend	<u>2,000</u>	<u>2,200</u>
	<u>24,324</u>	<u>16,928</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 CREDITORS: Amounts falling due after more than one year

	<u>1997</u> £000	<u>1996</u> £000
Amount owed to ultimate parent undertaking	1,007	1,007
Other creditors	<u>1,715</u>	<u>1,582</u>
	<u>2,722</u>	<u>2,589</u>

The group loan arose from a transfer of assets on 1 January 1985. There is no fixed repayment date and the loan does not attract interest.

14 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:		£000
At 1 January 1997		560
Movement in the year (note 4)		<u>15</u>
At 31 December 1997		<u>575</u>

The deferred tax provided for represents full provision as follows:

	<u>1997</u> £000	<u>1996</u> £000
Accelerated capital allowances	<u>575</u>	<u>560</u>

15 CALLED UP SHARE CAPITAL

The share capital of the company comprises 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 1997	21,109
Retained profit for the year	<u>2,476</u>
At 31 December 1997	<u>23,585</u>

17 OPERATING LEASES

At the balance sheet date the company has obligations of £7,953,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (1996: £7,219,000).

Of this amount the commitment expires as follows:

	<u>1997</u> £000	<u>1996</u> £000
Between one and five years	<u>7,953</u>	<u>7,219</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	<u>1997</u> £000	<u>1996</u> £000
Profit on ordinary activities after taxation	6,668	6,677
Dividends	<u>(4,192)</u>	<u>(2,900)</u>
Net addition to shareholders' funds	2,476	3,777
Opening shareholders' funds	<u>21,110</u>	<u>17,333</u>
Closing shareholders' funds	<u>23,586</u>	<u>21,110</u>

20 CASH FLOW STATEMENT AND RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of Cobham plc and is included in the consolidated financial statement of Cobham plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the Cobham plc group or investees of the Cobham plc group.

21 CONTINGENT LIABILITY

The company has given an undertaking to FBS Limited, together with the other shareholders, to provide finance for the continuing support of the operations of that company. At 31 December 1997 FBS Limited had a deficit of shareholders funds of £1,571,000. No provision has been made in these accounts for any amounts that the company might have to pay under this undertaking as in the opinion of the directors no amounts will be payable.

22 GUARANTEE

The company has given its bankers an indemnity in respect of a deferment guarantee given by them on the company's behalf to H M Customs and Excise up to £240,000.