

FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1998

Company registration number 845310



FR AVIATION LIMITED

31 DECEMBER 1998

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FR AVIATION LIMITED

REPORT OF THE DIRECTORS

31 DECEMBER 1998

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 1998.

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 £2,500,000 (1997: £2,000,000) which, together with the first interim dividend, makes a total dividend for the year of £3,650,000 (1997: £4,192,000).

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.

AUTHORISED SHARE CAPITAL

On 3 July 1998 the authorised share capital of the company was increased by the creation of 1,549,528 9% non-redeemable cumulative preference shares of £1 each.

RESEARCH AND DEVELOPMENT

The company continues to invest in the important area of research and development. The company expended £85,000 (1997: £179,000) during the year.

BOARD OF DIRECTORS

The following directors held office during the year:

A G Irwin
G F Page
G E Roe
R H N Rhodes
M E Cogan

D E Morgan	(Retired 30 June 1998)
J R Myers	
P Richardson	
B Wallis	

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

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

31 DECEMBER 1998

CREDITOR PAYMENT POLICY

Payment is generally made by the company to their creditors in accordance with agreed terms of business provided that those terms have been met. It is the policy of the company that all invoices are paid within 30 days following the end of the month in which the invoices are approved. The total amount of the company's trade creditors falling due within one year at 31 December 1998 represents 20 days (1997: 22 days) worth as a proportion of the total amount invoiced by suppliers during the year ended on that date.

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 scheme. An amount of £147,000 (1997: £140,000) has been provided out of current year profits, representing the company's contribution to the scheme. The company also participates in a group share option savings scheme.

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.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

31 DECEMBER 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The directors consider that in preparing the financial statements on pages 5 to 19, 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.

MILLENIUM AND EUROPEAN MONETARY UNION

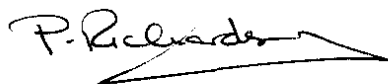
The Millennium software issue and the implications of the European Monetary Union on information systems and other aspects of their operations are known. The directors will ensure that systems modifications and any other initiatives are planned and completed in a timely manner, and this process is underway. It is not expected that a material extra amount of cost will be incurred to ensure compliance.

AUDITORS

From 1 July 1998, Price Waterhouse merged with Coopers & Lybrand. As a result of this merger, the new firm PricewaterhouseCoopers was created. Subsequently, Price Waterhouse have resigned the audit appointment, and the directors have appointed the new firm PricewaterhouseCoopers, to fill the casual vacancy. PricewaterhouseCoopers has expressed their willingness to be re-appointed.

In accordance with Section 386 of the Companies Act 1985, as a result of an elective resolution PricewaterhouseCoopers are deemed re-appointed as auditors to the company for the forthcoming financial year.

By order of the board



P Richardson
Director

[3/8/99]

FR AVIATION LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF FR AVIATION LIMITED

We have audited the financial statements on pages 5 to 19 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

The directors are responsible for preparing the Annual Report, including, as described on pages 2 and 3 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

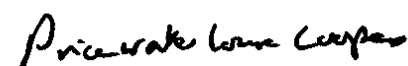
Basis of audit opinion

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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

[3/8/99]

FR AVIATION LIMITED

ACCOUNTING POLICIES

31 DECEMBER 1998

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
Assets under construction are not depreciated		

DISCOUNTED BONDS

Discounted Bonds are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the bonds and represent a constant proportion of the balance of capital repayments outstanding. Accrued finance charges and issue costs are added to the carrying value of the bonds.

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 1998

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.

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 1998

	<u>Note</u>	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
TURNOVER	1	56,615	56,169
Cost of sales		<u>(45,512)</u>	<u>(44,758)</u>
GROSS PROFIT		11,103	11,411
Selling and distribution costs		<u>(1,526)</u>	<u>(1,597)</u>
Administrative expenses		<u>(5,117)</u>	<u>(4,279)</u>
OPERATING PROFIT	2	4,460	5,535
Income from participating interests		583	646
Net interest and similar charges	3	<u>1,413</u>	<u>1,327</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,456	7,508
Tax on profit on ordinary activities	4	<u>(250)</u>	<u>(840)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,206	6,668
Dividends - interims paid and proposed	5	<u>(3,650)</u>	<u>(4,192)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	17	<u><u>2,556</u></u>	<u><u>2,476</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 19 form part of these financial statements.

FR AVIATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	Note	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	8	16,188	12,205
Investments	9	<u>1,757</u>	<u>-</u>
		17,945	12,205
CURRENT ASSETS			
Stocks	10	6,114	6,346
Debtors	11	14,859	12,612
Cash at bank and in hand		<u>12,050</u>	<u>20,044</u>
		33,023	39,002
CREDITORS: Amounts falling due within one year	12	<u>(21,329)</u>	<u>(24,324)</u>
NET CURRENT ASSETS		<u>11,694</u>	<u>14,678</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		29,639	26,883
CREDITORS: Amounts falling due after more than one year			
Other	13	(1,909)	(2,722)
Convertible Discounted Bonds due 2003	14	(1,052)	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(536)</u>	<u>(575)</u>
		<u>(3,497)</u>	<u>(3,297)</u>
CAPITAL AND RESERVES		<u>26,142</u>	<u>23,586</u>
Called up share capital	16	1	1
Profit and loss account	17	<u>26,141</u>	<u>23,585</u>
SHAREHOLDERS' FUNDS - ALL EQUITY	20	<u>26,142</u>	<u>23,586</u>

These financial statements were approved by the board on [3/6/99] and were signed on its behalf by:

P Richardson
Director



G E Roe
Director



The notes on pages 9 to 19 form part of these financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 1998

1 TURNOVER

	<u>1998</u> £000	<u>1997</u> £000
Turnover by destination:		
United Kingdom	49,336	52,173
Other EU countries	2,370	1,613
United States	1,095	525
Rest of the World	<u>3,814</u>	<u>1,858</u>
	<u>56,615</u>	<u>56,169</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>1998</u> £000	<u>1997</u> £000
The operating profit is stated after charging:		
Depreciation	1,972	1,868
Auditors' remuneration - in respect of audit	19	18
- other services	3	45
Hire of plant and machinery	28	32
Other operating lease rentals	7,953	7,953
Research and development	<u>85</u>	<u>179</u>

Other operating lease rentals relate to aircraft and aircraft equipment. Details of future commitments are given in note 18.

3 NET INTEREST AND SIMILAR CHARGES

	<u>1998</u> £000	<u>1997</u> £000
Interest receivable:		
Bank	1,471	1,009
Group undertakings	123	5
Associated undertakings	<u>-</u>	<u>434</u>
Interest receivable carried forward	1,594	1,448

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

3 NET INTEREST AND SIMILAR CHARGES (continued)

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
Interest receivable brought forward	1,594	1,448
Interest payable:		
Other	(7)	(4)
Finance charges to group undertakings	(45)	-
Interest receivable included within cost of sales	<u>(129)</u>	<u>(117)</u>
	<u>1,413</u>	<u>1,327</u>

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
Based on the results for the year:		
UK corporation tax at 31% (1997: 31.5%)	1,883	2,128
Deferred taxation (note 15)	(39)	15
Prior year adjustments - current tax	<u>(1,594)</u>	<u>(1,303)</u>
	<u>250</u>	<u>840</u>

The prior year adjustment of £1.6 million in 1998 (1997: £1.3 million) is the result of losses surrendered by fellow associated undertakings to the company by way of group relief for fnil consideration.

5 DIVIDENDS

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
To Cobham plc:		
First interim dividend of £1,150 per share (1997: £2,192)	1,150	2,192
Proposed second interim dividend of £2,500 per share (1997: £2,000)	<u>2,500</u>	<u>2,000</u>
	<u>3,650</u>	<u>4,192</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

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 1998</u>		<u>At 31 December 1997</u>	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
P Richardson	339	33,693	1,605	23,798
R H N Rhodes	7,273	28,977	7,237	20,498
J R Myers				
Beneficial	1,651	73,454	1,614	66,595
Non-beneficial	403,282	-	403,282	-
B Wallis	271	6,933	244	-
M E Cogan	20	20,148	-	11,362

The following options were granted during the year:

	<u>Number</u>	<u>Exercise price</u>	<u>Exercise period</u>
M Cogan	8,356	£6.3489	20/10/2001 - 20/10/2008
	430	£4.95	1/2/2002 - 1/8/2002
J R Myers	8,065	£6.349	20/10/2001 - 20/10/2008
	101	£4.95	1/2/2002 - 1/8/2002
R H N Rhodes	3,420	£6.1933	20/10/2001 - 20/10/2008
	414	£4.95	1/2/2002 - 1/8/2002
	4,645	£6.349	20/10/2001 - 20/10/2008
P Richardson	9,567	£6.349	20/10/2001 - 20/10/2008
	328	£4.95	1/2/2002 - 1/8/2002
B Wallis	4,843	£6.1933	20/10/2001 - 20/10/2008
	2,090	£6.349	20/10/2001 - 20/10/2008

These notes form part of the financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

6 DIRECTORS (Continued)

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
J R Myers	1,307	£2.142

Directors' emoluments

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Aggregate emoluments	638	701
Pension contributions	<u>152</u>	<u>153</u>
	<u>790</u>	<u>854</u>

One director exercised share options in the year. Retirement benefits are accruing to six directors (1997: eight) under group defined benefit schemes.

Highest paid director	<u>185</u>	<u>93</u>
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The highest paid director did not exercise any share options in the year. His accrued pension at 31 December 1998 was £4,380 p.a. (1997: £35,304)

7 EMPLOYEES

	<u>1998</u> <u>Number</u>	<u>1997</u> <u>Number</u>
Average number of employees - UK	<u>642</u>	<u>584</u>
	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Employment costs:		
Wages and salaries	17,452	14,845
Social security costs	1,443	1,303
Other pension costs	<u>1,266</u>	<u>1,096</u>
	<u>20,161</u>	<u>17,244</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

7 EMPLOYEES (continued)

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 next valuation as at 1 April 1998 is currently being carried out.

The total pension cost for the company was £1,266,314 (1997: £1,096,140). Contributions are based on pension costs across the group as a whole.

8 TANGIBLE FIXED ASSETS

	Land and Buildings (Long Leasehold) £000	Plant and Machinery, Vehicles and Aircraft £000	Fixtures, Fittings, Tools and Equipment £000	Assets under construction £000	Total £000
Cost					
At 1 January 1998	7,663	13,549	3,783	-	24,995
Additions	59	782	396	4,751	5,988
Disposals	(5)	(198)	(45)	-	(248)
At 31 December 1998	<u>7,717</u>	<u>14,133</u>	<u>4,134</u>	<u>4,751</u>	<u>30,735</u>
Accumulated depreciation					
At 1 January 1998	1,097	9,365	2,328	-	12,790
Charge for the year	151	1,226	595	-	1,972
Disposals	(1)	(170)	(44)	-	(215)
At 31 December 1998	<u>1,247</u>	<u>10,421</u>	<u>2,879</u>	<u>-</u>	<u>14,547</u>
Net book amount					
At 31 December 1998	<u>6,470</u>	<u>3,712</u>	<u>1,255</u>	<u>4,751</u>	<u>16,188</u>
At 1 January 1998	<u>6,566</u>	<u>4,184</u>	<u>1,455</u>	<u>-</u>	<u>12,205</u>

Capital commitments

At 31 December 1998 the company had capital expenditure committed with suppliers amounting to £197,000 (1997: £300,000).

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

9 INVESTMENTS

	<u>1998</u> £000	<u>1997</u> £000
Interest in joint ventures		
At 1 January	-	-
Acquisition of share in FBS Limited	<u>1,757</u>	-
At 31 December	<u>1,757</u>	-

During the year the company increased its holding in FBS Limited from 33.5% to 50%. The company's share of its two 50% owned Joint Venture companies operations is analysed as follows:

	FBS Limited £000	FRA Serco Limited £000	<u>1998</u> Total £000	<u>1997</u> Total £000
Turnover	16,515	19,268	35,783	24,256
Profit before tax	1,331	1,270	2,601	1,968
Taxation	<u>(1,961)</u>	<u>(399)</u>	<u>(2,360)</u>	<u>(1,827)</u>
Profit/(Loss) after tax	<u>(630)</u>	<u>871</u>	<u>241</u>	<u>141</u>
Fixed Assets	33,786	627	34,413	22,205
Current Assets	6,603	5,873	12,476	7,886
Creditors: amounts falling due within one year	(3,608)	(5,297)	(8,905)	(4,644)
Creditors: amounts falling due after more than one year	(31,520)	-	(31,520)	(22,398)
Provisions for liabilities and charges, accruals and deferred income	<u>(7,095)</u>	<u>-</u>	<u>(7,095)</u>	<u>(2,940)</u>
	<u>(1,834)</u>	<u>1,203</u>	<u>(631)</u>	<u>109</u>

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 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)

31 DECEMBER 1998

9 INVESTMENTS continued

The investments held at 31 December 1998 are as follows:

Undertaking	Country of Incorporation	Principal Activity	Class and % of shares held
FR Aviation Services Limited	England	Dormant	100% ordinary
Corporate Air Spares Limited	England	Aircraft spares	100% ordinary
Flight Precision Limited	England	Provision of calibration services to airfields	51% ordinary
FR Aviation (Australia) Pty Limited	Australia	Dormant	100% ordinary
Cobham Aviation Sdn Bhd	Malaysia	Holding company	100% ordinary
Cobham Flight Services PTE Limited	Singapore	Dormant	100% ordinary
FBS Limited	England	Management of MOD contract	50% ordinary
FRA Serco Limited	England	Provision of services to airfields	50% ordinary
Platinum Air Charter Executive Limited	England	Charter aircraft company	100% ordinary

10 STOCKS

	<u>1998</u> £000	<u>1997</u> £000
Raw materials and consumables	4,155	3,634
Work in progress	2,289	2,929
Payments on account	<u>(330)</u>	<u>(217)</u>
	<u>6,114</u>	<u>6,346</u>

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

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

11 DEBTORS

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade debtors	10,149	9,437
Amounts owed by group undertakings	2,911	841
Amounts owed by participating interests	39	1,222
Other debtors	269	403
Prepayments and accrued income	583	384
Dividend receivable from undertakings in which the company has a participating interest	<u>908</u>	<u>325</u>
	<u>14,859</u>	<u>12,612</u>

12 CREDITORS: Amounts falling due within one year

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
Payments received on account	7,665	9,502
Trade creditors	6,685	7,257
Payroll and other taxes, including social security	487	1,493
Amounts owed to group undertakings	1,592	1,511
Amounts owed to participating interests	100	-
Other creditors	417	408
Accruals and deferred income	-	25
Taxation payable	1,883	2,128
Proposed dividend	<u>2,500</u>	<u>2,000</u>
	<u>21,329</u>	<u>24,324</u>

13 CREDITORS: Amounts falling due after more than one year - Other

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
Amount owed to ultimate parent undertaking	-	1,007
Other creditors	<u>1,909</u>	<u>1,715</u>
	<u>1,909</u>	<u>2,722</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

14 CREDITORS: Amounts falling due after more than one year - Convertible Discounted Bonds due 2003

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Convertible Discounted Bonds due 2003	<u>1,052</u>	<u>-</u>

The convertible Discounted Bond due 2003 for £1,007,087 which is issued to the company's ultimate parent undertaking ("Cobham plc") is convertible at the option of Cobham plc on 3 July 2003 into 1,549,528 9% nonredeemable cumulative preference shares of £1 each.

The 3 July bond is redeemable at any time after 3 January 1999 through payment by the company of £1,052,406 increasing on a constant yield basis to £1,549,528 on 3 July 2003.

Cobham plc have confirmed to the company that it is not their intention to request repayment within one year of the balance sheet date.

15 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:	£000
At 1 January 1998	575
Movement in the year (note 4)	<u>(39)</u>
At 31 December 1998	<u>536</u>

The deferred tax provided for represents full provision as follows:

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Accelerated capital allowances	<u>536</u>	<u>575</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

16 CALLED UP SHARE CAPITAL

	<u>1998</u>	<u>1997</u>
Authorised		
Ordinary Shares of £1 each	1,000	1,000
9% Non-redeemable cumulative Preference shares of £1 each	<u>1,549,528</u>	<u>-</u>
	<u>1,550,528</u>	<u>1,000</u>
Alloted, Issued and Fully Paid		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

17 PROFIT AND LOSS ACCOUNT

	<u>£000</u>
At 1 January 1998	23,585
Retained profit for the year	<u>2,556</u>
At 31 December 1998	<u>26,141</u>

18 OPERATING LEASES

At the balance sheet date the company has obligations of £7,363,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (1997: £7,953,000).

Of this amount the commitment expires as follows:

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
Between one and five years	<u>7,363</u>	<u>7,953</u>

19 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.

These notes form part of the financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1998

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1998</u> £000	<u>1997</u> £000
Profit on ordinary activities after taxation	6,206	6,668
Dividends	<u>(3,650)</u>	<u>(4,192)</u>
Net addition to shareholders' funds	2,556	2,476
Opening shareholders' funds	<u>23,586</u>	<u>21,110</u>
Closing shareholders' funds	<u>26,142</u>	<u>23,586</u>

21 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. 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.

22 CONTINGENT LIABILITY

The company has given an undertaking to FBS Limited, together with the other shareholder, to provide finance for the continuing support of the operations of that company. At 31 December 1998 FBS Limited had a deficit of shareholders funds of £3,669,000 (1997: £2,409,000). 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.

23 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 £600,000, and other guarantees to third parties amounting to £75,000.

These notes form part of the financial statements.