

FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1999

Company registration number 845310



FR AVIATION LIMITED

REPORT OF THE DIRECTORS

31 DECEMBER 1999

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FR AVIATION LIMITED

REPORT OF THE DIRECTORS

31 DECEMBER 1999

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 1999.

RESULTS FOR THE YEAR

The company's results for the year are set out in the profit and loss account on page 8. The directors have approved the payment of a second interim dividend amounting to £3,500,000 (1998: £2,500,000) which, together with the first interim dividend, makes a total dividend for the year of £5,000,000 (1998: £3,650,000).

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. Throughout 1999 FR Aviation continued to work in partnership with BAE on the Nimrod MRA4 aircraft, assembly of which was scheduled to take place at the company's Bournemouth Airport facility. A review of this challenging project between BAE and MoD led to the decision by BAE to co-locate assembly of the aircraft with all other programme activity at BAE's Woodford site. A financial settlement was negotiated which fully compensated the company by repaying all amounts due and by the provision of a financial/alternative work agreement extending over the next four years. The transfer of all Nimrod work will be completed in Spring 2000 and the facilities at Bournemouth released by the transfer of Nimrod will be utilised for work in support of other BAE aircraft, including RJ/146 airliner and the Hawk military training aircraft. This work will build on the company's experience of BAE aircraft including VC10, Jetstream, Canberra and 1-11 and will assist the company's planned growth of its civil aircraft engineering/maintenance activity.

RESEARCH AND DEVELOPMENT

The company continues to invest in the important area of research and development. The company expended £26,000 (1998: £85,000) during the year.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

31 DECEMBER 1999

BOARD OF DIRECTORS

The following directors held office during the year:

A G Irwin	G F Page
G E Roe	P Richardson
R H N Rhodes	B Wallis
M E Cogan	J R Myers
R Fletcher (appointed 4 October 1999)	D Taylor (appointed 1 December 1999)

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

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 1999 represents 45 days (1998: 20 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 £210,000 (1998: £147,000) 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.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

31 DECEMBER 1999

CHARITABLE AND POLITICAL DONATIONS

During the year the company made charitable donations of £7,775 (1998: £7,665).

The company has not made any political donations (1998: £nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the report of the auditors set out on page 5, 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 6 to 24, 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.

MILLENNIUM

The company did not incur any Year 2000 systems problems. The company's systems were fully compliant and no amounts have been charged in the current period accounts for any modification or compliance costs (1998:nil).

EUROPEAN MONETARY UNION

The implication of the European Monetary Union on information systems are known and the necessary systems and other changes have been completed. The cost of the corrective action was minimal.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

31 DECEMBER 1999

AUDITORS

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

B. Wallis

B Wallis
Secretary

30 October 2000

REPORT OF THE AUDITORS TO THE MEMBERS OF FR AVIATION LIMITED

We have audited the financial statements on pages 6 to 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3 this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. 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 United Kingdom 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 at 31 December 1999 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
Southampton

30 Oct 2000

FR AVIATION LIMITED

ACCOUNTING POLICIES

31 DECEMBER 1999

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	

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 1999

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.

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 1999

	<u>Note</u>	<u>1999</u> £000	<u>1998</u> £000
TURNOVER	1	55,422	56,615
Cost of sales		(43,778)	(45,512)
GROSS PROFIT		11,644	11,103
Selling and distribution costs		(1,707)	(1,526)
Administrative expenses		(4,740)	(5,117)
OPERATING PROFIT	2	5,197	4,460
Income from shares in group undertakings		1,528	-
Income from participation interests	9	3,251	583
Net interest and similar charges	3	<u>526</u>	<u>1,413</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,502	6,456
Tax on profit on ordinary activities	4	<u>(426)</u>	<u>(250)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	10,076	6,206
Dividends - interims paid and proposed	5	(5,000)	(3,650)
RETAINED PROFIT FOR THE FINANCIAL YEAR	17, 20	<u>5,076</u>	<u>2,556</u>

All the company's activities are classed as continuing.

The notes on pages 11 to 24 form part of these financial statements

FR AVIATION LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<u>1999</u> £000	<u>1998</u> £000
Profit for the financial year	10,076	6,206
Unrealised surplus on valuation of contracts (note 17)	<u>409</u>	<u>-</u>
Total recognised gains and losses relating to the year.	<u>10,485</u>	<u>6,206</u>

The notes on pages 11 to 24 form part of these financial statements

FR AVIATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER

	Note	1999	1998
		£000	£000
FIXED ASSETS			
Tangible assets	8	15,924	16,188
Investments	9	<u>6,513</u>	<u>1,757</u>
		22,437	17,945
CURRENT ASSETS			
Stocks	10	7,415	6,114
Debtors	11	10,342	14,859
Cash at bank and in hand		<u>12,487</u>	<u>12,050</u>
		30,244	33,023
CREDITORS: Amounts falling due within one year	12	<u>(19,412)</u>	<u>(21,329)</u>
NET CURRENT ASSETS		<u>10,832</u>	<u>11,694</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		33,269	29,639
CREDITORS: Amounts falling due after more than one year			
Other	13	-	(1,909)
Convertible Discounted Bonds due 2003	14	(1,147)	(1,052)
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(495)</u>	<u>(536)</u>
		<u>(1,642)</u>	<u>(3,497)</u>
		<u>31,627</u>	<u>26,142</u>
CAPITAL AND RESERVES			
Called up share capital	16	1	1
Profit and loss account	17	31,217	26,141
Other reserve	17	<u>409</u>	<u>-</u>
SHAREHOLDERS' FUNDS - ALL EQUITY	20	<u>31,627</u>	<u>26,142</u>

These financial statements were approved by the board on 30/10/00 and were signed on its behalf by:

P Richardson
Director

R Fletcher
Director

[Signature]

The notes on pages 11 to 24 form part of these financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 1999

1 TURNOVER

	<u>1999</u>	<u>1998</u>
	£000	£000
Turnover by destination:		
United Kingdom	47,451	49,336
Other EU countries	2,919	2,370
United States	2,535	1,095
Rest of the World	<u>2,517</u>	<u>3,814</u>
	<u>55,422</u>	<u>56,615</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>1999</u>	<u>1998</u>
	£000	£000
The operating profit is stated after charging:		
Depreciation	2,075	1,972
Auditors' remuneration - in respect of audit	22	19
- other services	41	3
Hire of plant and machinery	24	28
Other operating lease rentals	7,726	7,953
Research and development	26	85
Loss on disposal of fixed assets	<u>83</u>	<u>7</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>1999</u>	<u>1998</u>
	£000	£000
Interest receivable:		
Bank	621	1,471
Group undertakings	<u>-</u>	<u>123</u>
Interest receivable carried forward	621	1,594

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

3 NET INTEREST AND SIMILAR CHARGES (continued)

	<u>1999</u>	<u>1998</u>
	£000	£000
Interest receivable brought forward	621	1,594
Interest payable:		
Other	-	(7)
Finance charges to group undertakings	(95)	(45)
Interest receivable included within cost of sales	—	(129)
	<u>526</u>	<u>1,413</u>

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1999</u>	<u>1998</u>
	£000	£000
Based on the results for the year:		
UK corporation tax at 30.25% (1998: 31%)	1,459	1,883
Deferred taxation (note 15)	(41)	(39)
Prior year - current tax	<u>(992)</u>	<u>(1,594)</u>
	<u>426</u>	<u>250</u>

The prior year current tax credit of £992,000 (1998: £1,594,000) is the result of losses surrendered by fellow associated undertakings to the company by way of consortium relief for fnil consideration.

5 DIVIDENDS

	<u>1999</u>	<u>1998</u>
	£000	£000
To Cobham plc:		
First interim dividend of £1,500 per share (1998: £1,150)	1,500	1,150
Proposed second interim dividend of £3,500 per share (1998: £2,500)	<u>3,500</u>	<u>2,500</u>
	<u>5,000</u>	<u>3,650</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

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 1999</u>		<u>At 31 December 1998</u>	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
P Richardson	3,743	32,275	339	33,693
R H N Rhodes	10,963	32,511	7,273	28,977
J R Myers				
Beneficial	3,037	78,577	1,651	73,454
Non-beneficial	250,000	-	403,282	-
B Wallis	326	12,927	271	6,933
M E Cogan	61	27,169	20	20,148
D T Taylor (appointed 1 December 1999)	547	1,064	-	-
R W J Fletcher	-	-	-	-

The following options were granted during the year:

	<u>Number</u>	<u>Exercise price</u>	<u>Exercise period</u>	
M Cogan	6,780	£8.5466	15/9/2002 -	15/9/2009
	241	£6.91	1/2/2003 -	1/8/2003
J R Myers	6,435	£8.5466	15/9/2002 -	15/9/2009
R H N Rhodes	6,497	£8.5466	15/9/2002 -	15/9/2009
	656	£6.91	1/2/2003 -	1/8/2003
P Richardson	2,580	£8.5466	15/9/2002 -	15/9/2009
	5,582	£8.5466	15/9/2002 -	15/9/2009
	173	£6.91	1/2/2003 -	1/8/2003
B Wallis	5,994	£8.5466	15/9/2002 -	15/9/2009

These notes form part of the financial statements.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

6 DIRECTORS (Continued)

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
J R Myers	1,312	£1.44
R H N Rhodes	3,619	£1.83
P Richardson	2,857	£3.15
	4,898	£2.66
	1,998	£1.83

Directors' emoluments

	<u>1999</u>	<u>1998</u>
	<u>£000</u>	<u>£000</u>
Aggregate emoluments	657	638
Pension contributions	<u>155</u>	<u>152</u>
	<u>812</u>	<u>790</u>

Three directors exercised share options in the year. Retirement benefits are accruing to seven directors (1998: six) under group defined benefit schemes.

Highest paid director	<u>230</u>	<u>185</u>
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The highest paid director did not exercise any share options in the year. His accrued pension at 31 December 1999 was £7,550 p.a. (1998: £4,380)

7 EMPLOYEES

	<u>1999</u>	<u>1998</u>
	<u>Number</u>	<u>Number</u>
Average number of employees – UK	<u>625</u>	<u>642</u>
	<u>1999</u>	<u>1998</u>
	<u>£000</u>	<u>£000</u>
Employment costs:		
Wages and salaries	17,209	17,452
Social security costs	1,581	1,443
Other pension costs	<u>1,105</u>	<u>1,266</u>
	<u>19,895</u>	<u>20,161</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

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 1999. 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 £1,104,479 (1998: £1,266,314). 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 1999	7,717	14,133	4,134	4,751	30,735
Additions	-	1,675	432	-	2,107
Disposals	-	(1,222)	(31)	-	(1,253)
Transfer	<u>4,325</u>	<u>426</u>	<u>-</u>	<u>(4,751)</u>	<u>-</u>
At 31 December 1999	<u>12,042</u>	<u>15,012</u>	<u>4,535</u>	<u>-</u>	<u>31,589</u>
Accumulated depreciation					
At 1 January 1999	1,247	10,421	2,879	-	14,547
Charge for the year	231	1,241	603	-	2,075
Disposals	<u>-</u>	<u>(927)</u>	<u>(30)</u>	<u>-</u>	<u>(957)</u>
At 31 December 1999	<u>1,478</u>	<u>10,735</u>	<u>3,452</u>	<u>-</u>	<u>15,665</u>
Net book amount					
At 31 December 1999	<u>10,564</u>	<u>4,277</u>	<u>1,083</u>	<u>-</u>	<u>15,924</u>
At 1 January 1999	<u>6,470</u>	<u>3,712</u>	<u>1,255</u>	<u>4,751</u>	<u>16,188</u>

Capital commitments

At 31 December 1999 the company had capital expenditure committed with suppliers amounting to £208,000 (1998: £197,000).

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

9 INVESTMENTS

	<u>1999</u> £000	<u>1998</u> £000
Interest in joint ventures		
At 1 January	1,757	-
Acquisition of share in FBS Limited	—	<u>1,757</u>
At 31 December	<u>1,757</u>	<u>1,757</u>
Interest in group undertakings		
At 1 January	-	-
Initial acquisition costs of National Jet Systems Pty Limited (note 24)	188	-
Acquisition of shares in FRA Services Limited	<u>4,568</u>	—
At 31 December	<u>4,756</u>	—
	<u>6,513</u>	<u>1,757</u>

During the year the company received a dividend in specie from FRA Serco Limited comprising contracts for the provision of site services to four United Kingdom airfields, together with the related net assets of £4,159,000. The directors have fair valued these contracts at £409,000, which has been shown as an unrealised valuation surplus in the statement of total recognised gains and losses. The related net assets were:

	£000
Stock and work in progress.	841
Fixed assets	76
Sundry debtors	28
Cash	<u>3,214</u>
	<u>4,159</u>

Income from participating interests of £3,251,000 is the realised element of the dividend in specie from FRA Serco Limited of £4,159,000 net of £908,000 being the subsequent waiver of FRA Serco Limited's 1997 dividend of £325,000 due to and accrued by the Company and an amount of £583,000 in respect of the anticipated 1998 dividend from FRA Serco Limited accrued by the company at 31 December 1998 which, as a result of the restructuring of FRA Serco Limited, was never declared. As a result both of these receivables have had to be written back in the current year.

During the year the Company acquired one £1 ordinary share, fully paid, in FRA Services Limited, the consideration being the dividend in specie received by the Company from FRA Serco Limited.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

9 INVESTMENTS (Continued)

During the year the company sold its 50% holdings in FRA Serco Limited for £1.

The company's share of its 50% owned Joint Venture company operations including FRA Serco Limited for the 5 month period to 31 May 1999 is analysed as follows:

	FBS Limited £000	FRA Serco Limited £000	<u>1999</u> Total £000	<u>1998</u> Total £000
Turnover	<u>17,135</u>	<u>8,706</u>	<u>25,841</u>	<u>35,783</u>
Profit before tax	1,031	(194)	837	2,601
Taxation	<u>(1,142)</u>	<u>-</u>	<u>(1,142)</u>	<u>(2,360)</u>
Profit/(Loss) after tax	<u>(111)</u>	<u>(194)</u>	<u>(305)</u>	<u>241</u>
Fixed Assets	32,610		32,610	34,413
Current Assets	6,990		6,990	12,476
Creditors: amounts falling due within one year	(3,074)		(3,074)	(8,905)
Creditors: amounts falling due after more than one year	(29,248)		(29,248)	(31,520)
Provisions for liabilities and charges, accruals and deferred income	<u>(9,505)</u>		<u>(9,505)</u>	<u>(7,095)</u>
	<u>(2,227)</u>		<u>(2,227)</u>	<u>(631)</u>

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

9 INVESTMENTS continued

Group financial statements have not been prepared because the company itself is a wholly owned subsidiary of Cobham plc which prepares group accounts. In the opinion of the directors the value of investments in subsidiaries and joint ventures is not less than the aggregate amount at which they are shown in the balance sheet.

The investments held at 31 December 1999 are as follows:

Undertaking	Country of Incorporation	Principal Activity	Class and % of shares held
FR Aviation Services Limited (formerly FRA Services Limited)	England	Provision of services to airfields	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 (Joint venture)
Platinum Air Charter Executive Limited	England	Air charter	100% ordinary

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

10 STOCKS

	<u>1999</u>	<u>1998</u>
	£000	£000
Raw materials and consumables	4,323	4,155
Work in progress	3,092	2,289
Payments on account	-	(330)
	<u>7,415</u>	<u>6,114</u>

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

11 DEBTORS

	<u>1999</u>	<u>1998</u>
	£000	£000
Amounts falling due within one year:		
Trade debtors	9,293	10,149
Amounts owed by group undertakings	310	2,911
Amounts owed by participating interests	97	39
Other debtors	36	269
Prepayments and accrued income	555	583
Dividends receivable from group companies	51	-
Dividend receivable from undertakings in which the company has a participating interest	-	908
	<u>10,342</u>	<u>14,859</u>

12 CREDITORS: Amounts falling due within one year

	<u>1999</u>	<u>1998</u>
	£000	£000
Payments received on account	4,085	7,665
Trade creditors	5,143	6,685
Payroll and other taxes, including social security	656	487
Amounts owed to group undertakings	667	1,592
Amounts owed to participating interests	4011	100
Other creditors	376	417
Taxation payable	974	1,883
Proposed dividend	<u>3,500</u>	<u>2,500</u>
	<u>19,412</u>	<u>21,329</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

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

	<u>1999</u>	<u>1998</u>
	<u>£000</u>	<u>£000</u>
Other creditors	<u>-</u>	<u>1,009</u>

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

	<u>1999</u>	<u>1998</u>
	<u>£000</u>	<u>£000</u>
Convertible Discounted Bonds due 2003	<u>1,147</u>	<u>1,052</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.

In the event of the winding up of the company then the Principle Amount of the bond (£1,549,528) will become immediately payable less a discount at a rate of 9% per annum on a straight line basis to the Principle Amount for the number of days still to elapse prior to the redemption date of 3rd July 2003. No voting right being conferred on the bond holder and the amount due being treated as an ordinary creditor.

Cobham plc have confirmed to the company that they will not request repayment within one year of the balance sheet date.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

15 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:	£000
At 1 January 1999	536
Movement in the year (note 4)	(41)
At 31 December 1999	<u>495</u>

The deferred tax provided for represents full provision as follows:

	<u>1999</u>	<u>1998</u>
	£000	£000
Accelerated capital allowances	<u>495</u>	<u>536</u>

16 CALLED UP SHARE CAPITAL

	<u>1999</u>	<u>1998</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>1,549,528</u>
	<u>1,550,528</u>	<u>1,550,528</u>
Alloted, Issued and Fully Paid		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

The 9% non-redeemable cumulative preference shareholders are entitled to received a fixed cumulative preferential dividend in priority to the payment of dividends on the ordinary shares. They are entitled to vote at any general meeting only if a resolution is to be proposed abrogating, varying or modifying any of their rights or privileges. Whenever entitled to vote, every such shareholder shall have one vote in respect of each fully-paid preference share of which he is the registered holder. On a return of capital on a winding up, the preference shareholders are entitled, in priority to any payment to the ordinary shareholders, to the repayment of a sum equal to the nominal amount paid up or credited as paid up or credited as paid up on their shares together with a sum equal to all areas or accruals of the fixed dividends.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

17 RESERVES

	Profit & Loss Account 000	Other £000	Total £000
At 1 January 1999	26,141	-	26,141
Retained profit for the year	5,076	-	5,076
Unrealised surplus on valuation of contracts	<u>-</u>	<u>409</u>	<u>409</u>
At 31 December 1999	<u>31,217</u>	<u>409</u>	<u>31,626</u>

The unrealised valuation surplus on contracts arises from the directors fair valuation of the contracts received by the company as part of a dividend in specie received from FRA Serco Limited – note 9.

18 OPERATING LEASES

At the balance sheet date the company has obligations of £4,848,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (1998: £7,363,000).

Commitments under leases to pay rentals during the year following the year of these accounts are given below, analysed according to the period in which each lease expires.

	£000
Aircraft and Aircraft equipment	
Expiring within one year	2,397
Expiring during years 2 – 5	676
Expiring thereafter	<u>1,775</u>
	<u>4,848</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 1999

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1999</u> £000	<u>1998</u> £000
Profit on ordinary activities after taxation	10,076	6,206
Dividends	(5,000)	(3,650)
	5,076	2,556
Other recognised gains and losses relating to the year	<u>409</u>	<u>-</u>
Net addition to shareholders' funds	5,485	2,556
Opening shareholders' funds	<u>26,142</u>	<u>23,586</u>
Closing shareholders' funds	<u>31,627</u>	<u>26,142</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 statements 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 1999 FBS Limited had a deficit of shareholders funds of £4,454,000 (1998: £3,669,000). 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.

As at 31 December 1999, FR Aviation Limited together with the ultimate parent undertaking and fellow subsidiary undertakings had contingent liabilities in respect of bank guarantees. It is not expected that any material liability will arise in respect thereof.

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.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 DECEMBER 1999

24 POST BALANCE SHEET EVENTS

At the end of April the company purchased a 100% holding in National Jet Systems, a company incorporated in Australia for £23.7 million, which was financed by a loan from Cobham plc the company's parent undertaking.

These notes form part of the financial statements.