

FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2000

Company registration number 845310



FR AVIATION LIMITED

REPORT OF THE DIRECTORS

31 DECEMBER 2000

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FR AVIATION LIMITED

REPORT OF THE DIRECTORS

31 DECEMBER 2000

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 2000.

RESULTS FOR THE YEAR

The company's results for the year are set out in the Profit and Loss account on page 8. The total dividend for the year paid and proposed amounts to £29,712,380 (1999: £5,000,000) comprising as follows:

	<u>2000</u> £	<u>1999</u> £
First interim dividend	1,725,000	1,500,000
Second interim dividend paid on sale of subsidiaries (see note 10)	23,962,380	-
Final dividend proposed	<u>4,025,000</u>	<u>3,500,000</u>
	<u>29,712,380</u>	<u>5,000,000</u>

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company successfully completed year 1 of its 10-year partnering arrangement under which it provides air defence training to UK MoD. During the year the company was declared preferred bidder for a continuation of its specialist surveillance services and is in the process of negotiating a long term partnering agreement. On the engineering front, following the transfer of the Nimrod programme, the company started to develop new product lines by way of Hawk and BAE146 RJ aircraft as well as further enhancing its capability in the BAC 1-11 and Boeing 727 maintenance markets.

On 21 December 2000 the company sold its interests in its subsidiary undertakings to its immediate parent undertaking.

RESEARCH AND DEVELOPMENT

The company continues to invest in the important area of research and development. The company expended £19,000 (1999: £26,000) during the year.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

31 DECEMBER 2000

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	D Taylor

The directors' shareholdings and interests are shown in note 7 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 2000 represents 33 days (1999: 45 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 £312,000 (1999: £210,000) 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 2000

CHARITABLE AND POLITICAL DONATIONS

During the year the company made charitable donations of £8,535 (1999: £7,775).

The company has not made any political donations (1999: £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 23, 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.

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 2000

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. L. Wallis

B Wallis
Secretary

Date: *6 September 2001*

REPORT OF THE AUDITORS TO THE MEMBERS OF FR AVIATION LIMITED

We have audited the financial statements on pages 6 to 23 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.

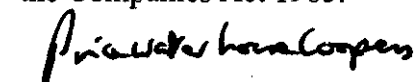
Basis of audit opinion

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 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southampton

Date: 6 September 2001

FR AVIATION LIMITED

ACCOUNTING POLICIES

31 DECEMBER 2000

ACCOUNTING CONVENTION

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

The company has taken the exemption offered under s228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its undertaking are included by full consolidation in the consolidated financial statements of its ultimate parent, Cobham Plc, a company registered in England and Wales.

TURNOVER

Turnover is based on the provision of services and equipment, exclusive of value added tax, together with the sales value of work performed 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 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

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 2000

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 2000

	<u>Note</u>	<u>2000</u> £000	<u>1999</u> £000
TURNOVER	1	59,402	55,422
Cost of sales		<u>(46,768)</u>	<u>(43,778)</u>
GROSS PROFIT		12,634	11,644
Selling and distribution costs		<u>(1,883)</u>	<u>(1,707)</u>
Administrative expenses		<u>(6,854)</u>	<u>(4,740)</u>
OPERATING PROFIT	2	3,897	5,197
Income from shares in group undertakings		-	1,528
Income from participating interests		-	3,251
Profit on sale of subsidiary undertakings	3	21,770	-
Net interest and similar charges	4	<u>(665)</u>	<u>526</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		25,002	10,502
Tax on profit on ordinary activities	5	<u>(463)</u>	<u>(426)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	24,539	10,076
Dividends - paid and proposed	6	<u>(29,712)</u>	<u>(5,000)</u>
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	17, 20	<u>(5,173)</u>	<u>5,076</u>

All the company's activities are classed as continuing.

There is no material difference between the results disclosed above and the results on an unmodified historical cost basis

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2000**

	<u>2000</u> £000	<u>1999</u> £000
Profit for the financial year	24,539	10,076
Unrealised surplus on valuation of contracts	<u>-</u>	<u>409</u>
Total recognised gains and losses relating to the year	<u>24,539</u>	<u>10,485</u>

The notes on pages 11 to 23 form part of these financial statements

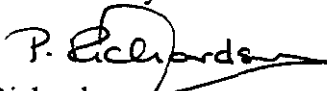
FR AVIATION LIMITED

BALANCE SHEET

31 DECEMBER 2000

	Note	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	9	15,598	15,924
Investments	10	<u>1,757</u>	<u>6,513</u>
		17,355	22,437
CURRENT ASSETS			
Stocks	11	10,271	7,415
Debtors	12	14,535	10,342
Cash at bank and in hand		<u>6,464</u>	<u>12,487</u>
		31,270	30,244
CREDITORS: Amounts falling due within one year	13	<u>(20,317)</u>	<u>(19,412)</u>
NET CURRENT ASSETS		<u>10,953</u>	<u>10,832</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		28,308	33,269
CREDITORS: Amounts falling due after more than one year			
Convertible Discounted Bonds due 2003	14	(1,250)	(1,147)
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(604)</u>	<u>(495)</u>
		(1,854)	(1,642)
CAPITAL AND RESERVES		<u>26,454</u>	<u>31,627</u>
Called up share capital	16	1	1
Profit and loss account	17	26,453	31,217
Other reserve	17	-	<u>409</u>
SHAREHOLDERS' FUNDS - ALL EQUITY	20	<u>26,454</u>	<u>31,627</u>

These financial statements were approved by the board on 6 September 2001 and were signed on its behalf by:


P Richardson
Director


G E Roe
Director

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

1 TURNOVER

	<u>2000</u>	<u>1999</u>
	<u>£000</u>	<u>£000</u>
Turnover by destination:		
United Kingdom	47,692	47,451
Other EU countries	3,219	2,919
United States of America	2,364	2,535
Rest of the World	<u>6,127</u>	<u>2,517</u>
	<u>59,402</u>	<u>55,422</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>2000</u>	<u>1999</u>
	<u>£000</u>	<u>£000</u>
The operating profit is stated after charging:		
Depreciation	1,980	2,075
Auditors' remuneration - in respect of audit	25	22
- other services	58	41
Hire of plant and machinery	25	24
Other operating lease rentals	5,271	7,726
Research and development	19	26
(Profit)/Loss on disposal of fixed assets	(2)	83
Loss on exchange	<u>1,279</u>	<u>-</u>

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

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

3	PROFIT ON SALE OF SUBSIDIARIES	<u>2000</u> £000	<u>1999</u> £000
	Cash consideration	50,000	-
	Disposal of investment in subsidiary undertakings	(28,230)	-
	Profit on sale of subsidiaries	<u>21,770</u>	<u>-</u>

On 21 December 2000, the company sold its interests in the Jet Systems group of companies, FR Aviation Services Limited (formerly FRA Services Limited), Flight Precision Limited, Corporate Air Spares Limited, FR Aviation Survey Limited (formerly Platinum Air Charter Executive Limited), Cobham Aviation SDN Bhd and Cobham Flight Services Pte for £50,000,000 to its immediate parent undertaking. The cost of the investment in these companies within the company's books was £28,229,757. The company realised a profit on the sale of these investments of £21,770,243.

4	NET INTEREST AND SIMILAR CHARGES	<u>2000</u> £000	<u>1999</u> £000
	Interest receivable:		
	Bank	494	621
	Group undertakings	167	-
	Other	<u>13</u>	<u>-</u>
		674	621
	Interest payable:		
	Finance charges to group undertakings	(1,048)	(95)
	Finance charges to associate undertakings	<u>(291)</u>	<u>-</u>
		<u>(665)</u>	<u>526</u>

5	TAX ON PROFIT ON ORDINARY ACTIVITIES	<u>2000</u> £000	<u>1999</u> £000
	Based on the results for the year:		
	UK corporation tax at 30% (1999: 30.25%)	948	1,459
	Deferred taxation (note 15)	109	(41)
	Prior year - current tax	<u>(594)</u>	<u>(992)</u>
		<u>463</u>	<u>426</u>

The prior year current tax credit of £594,000 (1999: £992,000) is the result of losses surrendered by fellow associated undertakings to the company by way of consortium relief for £nil consideration.

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

6	DIVIDENDS	<u>2000</u> <u>£000</u>	<u>1999</u> <u>£000</u>
	To Cobham plc:		
	First interim dividend of £1,725 per share (1999: £1,500)	1,725	1,500
	Second interim dividend paid on sale of subsidiaries	23,962	-
	Final dividend proposed of £4,025 per share (1999: £3,500)	<u>4,025</u>	<u>3,500</u>
		<u>29,712</u>	<u>5,000</u>

7 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, A G Irwin, P Richardson and R Fletcher and their families in the shares of the ultimate parent undertaking, Cobham plc, and rights to subscribe for such shares are disclosed in the financial statements of the ultimate or intermediate parent undertakings.

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 2000</u>		<u>At 31 December 1999</u>	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
R H N Rhodes	10,368	31,167	10,963	32,511
J R Myers				
Beneficial	3,140	44,638	3,037	78,577
Non-beneficial	175,000	-	250,000	-
B Wallis	403	18,353	326	12,927
M E Cogan	119	28,327	61	27,169
D T Taylor	603	1,667	547	1,064

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

7 DIRECTORS (Continued)

The following options were granted during the year:

	<u>Number</u>	<u>Exercise price</u>	<u>Exercise period</u>
M E Cogan	1,158	10.37	15/9/2003 – 15/9/2010
J R Myers	868	10.37	15/9/2003 – 15/9/2010
R H N Rhodes	868	10.37	15/9/2003 – 15/9/2010
	97	8.36	1/2/2004 – 1/8/2004
B Wallis	5,426	10.37	15/9/2003 – 15/9/2010

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
J R Myers	21,797	1.50
J R Myers	13,010	2.32
R H N Rhodes	2,309	2.39

Directors' emoluments

	<u>2000</u>	<u>1999</u>
	<u>£000</u>	<u>£000</u>
Aggregate emoluments	1054	657
Pension contributions	<u>190</u>	<u>155</u>
	<u>1244</u>	<u>812</u>

Retirement benefits are accruing to seven directors (1999: seven) under group defined benefit schemes.

	<u>2000</u>	<u>1999</u>
	<u>£000</u>	<u>£000</u>
Highest paid director	<u>293</u>	<u>230</u>

The highest paid director did not exercise any share options in the year. His accrued pension at 31 December 2000 was £7,550 p.a. (1999: £4,380)

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

8 EMPLOYEES

	<u>2000</u> Number	<u>1999</u> Number
Average number of employees – UK	<u>617</u>	<u>625</u>
	<u>2000</u> £000	<u>1999</u> £000
Employment costs:		
Wages and salaries	19,799	17,209
Social security costs	1,782	1,581
Other pension costs	<u>1,232</u>	<u>1,105</u>
	<u>22,813</u>	<u>19,895</u>

Pensions

The company participates in a 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 1998. 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 £1,232,164 (1999: £1,104,479). Contributions are based on pension costs across the group as a whole.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

9 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 2000	12,042	15,012	4,535	31,589
Additions	32	1,320	332	1,684
Disposals	-	(165)	(402)	(567)
Transfer	<u>(36)</u>	<u>36</u>	<u>-</u>	<u>-</u>
At 31 December 2000	<u>12,038</u>	<u>16,203</u>	<u>4,465</u>	<u>32,706</u>
Accumulated depreciation				
At 1 January 2000	1,478	10,735	3,452	15,665
Charge for the year	238	1,224	518	1,980
Disposals	-	(137)	(400)	(537)
Transfers	<u>1</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
At 31 December 2000	<u>1,717</u>	<u>11,821</u>	<u>3,570</u>	<u>17,108</u>
Net book amount				
At 31 December 2000	<u>10,321</u>	<u>4,382</u>	<u>895</u>	<u>15,598</u>
At 1 January 2000	<u>10,564</u>	<u>4,277</u>	<u>1,083</u>	<u>15,924</u>

Capital commitments

At 31 December 2000 the company had capital expenditure committed with suppliers amounting to £103,000 (1999: £208,000).

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

10 INVESTMENTS

	<u>2000</u> <u>£000</u>	<u>1999</u> <u>£000</u>
Interest in joint ventures		
At 31 December	<u>1,757</u>	<u>1,757</u>
Interest in group undertakings		
At 1 January	4,756	-
Acquisition of shares in FRA Services Limited	-	4,568
Acquisition of shares in the Jet Systems group of companies	23,473	188
Disposal of share capital in FRA Services Limited	(4,568)	-
Disposal of share capital in the Jet Systems group of companies	<u>(23,661)</u>	<u>-</u>
At 31 December	<u>-</u>	<u>4,756</u>
	<u>1,757</u>	<u>6,513</u>

In April 2000, the Jet Systems group of companies was acquired for cash consideration of AUS\$ 64m (£23m).

On 27 September 2000 the company sold its interest in National Air Support Pty Limited (formerly FR Aviation (Australia) Pty Limited) to Jet Systems Pty Limited for cash consideration of AUS\$ 2 being the nominal value of shares held and the net book value of the company at that date.

On 21 December 2000, the company sold its interest in the Jet Systems group of companies, FR Aviation Services Limited (formerly FRA Services Limited), Flight Precision Limited, Corporate Air Spares Limited, FR Aviation Survey Limited (formerly Platinum Air Charter Executive Limited), Cobham Aviation SDN Bhd and Cobham Flight Services Pte for £50,000,000 to its immediate parent undertaking. The cost of the investment in these companies within the company's books was £28,229,757. The company realised a profit on the sale of these investments of £21,770,243.

The investments held at 31 December 2000 are as follows:

Undertaking	Country of Incorporation	Principal Activity	Class and % of shares held
FBS Limited	England	Management of MoD contract	50% ordinary (Joint venture)

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

10 INVESTMENTS continued

The company's share of its 50% owned Joint Venture company operations for FBS Limited is as follows:

	<u>2000</u> £000	<u>1999</u> £000
Turnover	<u>17,509</u>	<u>17,135</u>
Profit before tax	1,616	1,031
Taxation	<u>(357)</u>	<u>(1,143)</u>
Profit/(Loss) after tax	<u>1,259</u>	<u>(112)</u>
Fixed Assets	30,627	32,611
Current Assets	9,271	6,990
Creditors: amounts falling due within one year	(4,055)	(3,074)
Creditors: amounts falling due after more than one year	(26,978)	(29,248)
Provisions for liabilities and charges, accruals and deferred income	<u>(9,833)</u>	<u>(9,506)</u>
	<u>(968)</u>	<u>(2,227)</u>

11 STOCKS

	<u>2000</u> £000	<u>1999</u> £000
Raw materials and consumables	6,236	4,323
Work in progress	4,405	3,092
Payments on account	<u>(370)</u>	<u>-</u>
	<u>10,271</u>	<u>7,415</u>

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

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

12 DEBTORS	<u>2000</u>	<u>1999</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade debtors	9,151	9,293
Amounts owed by group undertakings	2,045	310
Amounts owed by participating interests	13	97
Other debtors	31	36
Prepayments and accrued income	705	555
Dividends receivable from group companies	-	51
Corporation tax refund	<u>133</u>	<u>-</u>
	<u>12,078</u>	<u>10,342</u>
Amounts falling due after one year:		
Group interest bearing loan to the National Jet Systems group of companies for A\$6,000,000, interest accrued at 8%	<u>2,457</u>	<u>-</u>
	<u>14,535</u>	<u>10,342</u>
13 CREDITORS: Amounts falling due within one year		
	<u>2000</u>	<u>1999</u>
	<u>£000</u>	<u>£000</u>
Payments received on account	2,461	4,085
Trade creditors	6,806	5,143
Other taxes and social security	857	656
Amounts owed to group undertakings	93	667
Amounts owed to participating interests	5,763	4,011
Other creditors	312	376
Corporation Tax	-	974
Proposed dividend	<u>4,025</u>	<u>3,500</u>
	<u>20,317</u>	<u>19,412</u>

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

14 CREDITORS: Amounts falling due after more than one year

Convertible Discounted Bonds due 2003

	<u>2000</u> £000	<u>1999</u> £000
Convertible Discounted Bonds due 2003	<u>1,250</u>	<u>1,147</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% non-redeemable cumulative preference shares of £1 each.

The bond is redeemable at any time after 3 January 2000 through payment by the company of £1,052,406 increasing on a constant yield basis to £1,549,528 on 3 July 2003. At 31 December 2000 the amount payable would have been £1,250,000 (1999: £1,147,000).

In the event of the winding up of the company then the principal 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 principal amount for the number of days still to elapse prior to the redemption date of 3 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.

15 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:	£000
At 1 January 2000	495
Movement in the year (note 5)	<u>109</u>
At 31 December 2000	<u>604</u>

The deferred tax provided for represents full provision as follows:

	<u>2000</u> £000	<u>1999</u> £000
Accelerated capital allowances	<u>604</u>	<u>495</u>

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

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16 CALLED UP SHARE CAPITAL

	<u>2000</u> £	<u>1999</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 receive 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.

17 RESERVES

	Profit & Loss Account £000	Other £000	Total £000
At 1 January 2000	31,217	409	31,626
Retained loss for the year	(5,173)	-	(5,173)
Transfer to Profit and Loss reserve during year	<u>409</u>	<u>(409)</u>	<u>-</u>
At 31 December 2000	<u>26,453</u>	<u>-</u>	<u>26,453</u>

The transfer of £409,000 from other reserves to the profit and loss reserve has been made following the realisation of the amount on the sale of the subsidiary undertaking.

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FR AVIATION LIMITED

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18 OPERATING LEASES

At the balance sheet date the company has obligations of £5,271,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (1999: £4,848,000).

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.

	<u>£000</u>
Aircraft and Aircraft equipment	
Expiring within one year	16
Expiring during years 2 – 5	593
Expiring thereafter	<u>2,356</u>
	<u>2,965</u>

19 PARENT UNDERTAKING

The company's immediate parent undertaking is FR Aviation Group Limited and its ultimate parent undertaking is Cobham plc, which are 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.

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2000</u> <u>£000</u>	<u>1999</u> <u>£000</u>
Profit on ordinary activities after taxation	24,539	10,076
Dividends	<u>(29,712)</u>	<u>(5,000)</u>
Retained (loss)/profit for the year	(5,173)	5,076
Other recognised gains relating to the year	<u>-</u>	<u>409</u>
Net (reduction)/addition to shareholders' funds	(5,173)	5,485
Opening shareholders' funds	<u>31,627</u>	<u>26,142</u>
Closing shareholders' funds	<u>26,454</u>	<u>31,627</u>

The notes on pages 11 to 23 form part of these financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2000

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 2000 FBS Limited had a deficit of shareholders funds of £1,935,000 (1999: £4,454,000). 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 2000, 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 £1,973,000.