

FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2002

Company registration number 845310



FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2002

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FR AVIATION LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2002

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 2002.

RESULTS FOR THE YEAR

The company's results for the year are set out in the profit and loss account on page 8. There is no dividend proposed for the year (2001: £11,000,000).

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is the provision of air defence training and aircraft engineering. The company successfully completed year 3 of its 10-year partnering arrangement under which it provides air defence training to UK MoD. The directors expect the company to improve profitability over the coming year.

The trade and assets of FRA Airmotive Limited, FR Aviation Survey Limited and Corporate Air Spares Limited were purchased, operating assets at net book value and goodwill at valuation, on 1 April 2003.

RESEARCH AND DEVELOPMENT

The company continues to invest in the important area of research and development. The company expended £59,000 (2001: £30,000) during the year.

BOARD OF DIRECTORS

The following directors held office during the year:

A G Irwin (resigned 1 July 2002)	G F Page (resigned 1 July 2002)
G E Roe (resigned 30 June 2002)	P Richardson
B Wallis (resigned 21 October 2002)	M E Cogan
J R Myers (resigned 17 January 2002)	R W J Fletcher (resigned 21 October 2002)
D T Taylor	J Danning
S Fitz-Gerald	A J Hannam (appointed 29 July 2002)

The directors' shareholdings and interests are shown in note 7 to the financial statements.

CREDITOR PAYMENT POLICY

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 2002 represents 56 days (2001: 52 days) worth as a proportion of the total amount invoiced by suppliers during the year ended on that date.

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2002

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.

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 together with quarterly newsletters and use of the intranet.

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.

CHARITABLE AND POLITICAL DONATIONS

During the year the company made charitable donations of £4,900 (2001: £6,600).

The company has not made any political donations (2001: £nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

FR AVIATION LIMITED

REPORT OF THE DIRECTORS (continued)

31 DECEMBER 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

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

AUDITORS

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers have resigned and the directors have appointed its successor, PricewaterhouseCoopers LLP, as auditors. Pursuant to Section 386 of the Companies Act 1985, an Elective Resolution has been passed to dispense with the requirement to reappoint auditors annually.

By order of the board



D T Taylor
Director

28 October 2003

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FR AVIATION LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. 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.

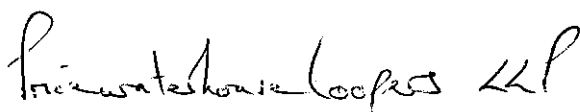
Basis of audit opinion

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton

Date: 28 October 2003

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 2002

ACCOUNTING CONVENTION & BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

The company has taken advantage of S228 Companies Act 1985 which allows it to claim an exception from the need to prepare consolidated financial statements because the company and its investment are including by full consolidation in the consolidated financial statements of its ultimate parent, Cobham plc.

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 the 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

The company has changed its accounting policy in accordance with FRS19 "Deferred Tax". Deferred tax is now recognised on a full provision basis on all timing differences which have originated, but not reversed, at the balance sheet date calculated at rates of tax expected to apply, based on current tax rates and law. Timing differences represent accumulated differences between the company's taxable profit and its financial profit and arise primarily from the difference between accelerated capital allowances and depreciation. Deferred tax liabilities are not discounted.

The effect of the change in accounting policy to adopt FRS 19 was to increase tax on profit on ordinary activities by £72,000 (2001: reduce by £122,000) and to decrease profit for the financial year by £72,000 (2001: reduce loss by £122,000).

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 2002

TANGIBLE FIXED ASSETS

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

Land and buildings (long leasehold)	50 years
Plant, machinery, vehicles and aircraft	3 to 10 years
Fixtures, fittings, tools and equipment	3 to 8 years

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 expected 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 or, where forward contracts have been arranged, at the contracted rates.

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.

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 2002

PENSIONS

Contributions to the Cobham plc group's funded 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 and are charged to the profit and loss account in the period in respect of which they become payable.

INVESTMENTS

Investments are stated at cost less provision for any diminution in value.

FR AVIATION LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002	As restated 2001
		£000	£000
TURNOVER	1		
Continuing operations		52,964	71,249
Discontinued operations		<u>-</u>	<u>1,751</u>
		52,964	73,000
COST OF SALES			
Continuing operations		43,529	58,821
Discontinued operations		<u>-</u>	<u>1,251</u>
		(43,529)	(60,072)
GROSS PROFIT			
Continuing operations		9,435	12,428
Discontinued operations		<u>-</u>	<u>500</u>
		9,435	12,928
Selling and distribution costs - continuing		(2,006)	(2,278)
Administrative expenses - continuing		<u>(6,943)</u>	<u>(5,625)</u>
OPERATING PROFIT	2		
Continuing operations		486	4,525
Discontinued operations		<u>-</u>	<u>500</u>
		486	5,025
Profit on sale of operations - discontinued	3	-	6,000
Net interest and similar charges	4	<u>(24)</u>	<u>(69)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		462	10,956
Tax on profit on ordinary activities	5	<u>(158)</u>	<u>(1,888)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	304	9,068
Dividends - paid and proposed	6	<u>-</u>	<u>(11,000)</u>
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	17, 20	<u>304</u>	<u>(1,932)</u>

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 2002

	<u>Note</u>	<u>2002</u> <u>£000</u>	As restated <u>2001</u> <u>£000</u>
Profit for the financial year		304	<u>9,068</u>
Prior year adjustment	20	<u>122</u>	
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		<u>426</u>	

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

BALANCE SHEET

AS AT 31 DECEMBER 2002

	Note	2002	As restated
		£000	2001 £000
FIXED ASSETS			
Tangible assets	9	13,580	14,516
Investments	10	<u>1,757</u>	<u>1,757</u>
		15,337	16,273
CURRENT ASSETS			
Stocks	11	5,456	6,147
Debtors	12	15,363	21,769
Cash at bank and in hand		<u>2,857</u>	<u>210</u>
		23,676	28,126
CREDITORS: Amounts falling due within one year	13	(9,337)	(17,973)
Convertible Discounted Bonds due 2003	13	<u>(1,486)</u>	<u>-</u>
NET CURRENT ASSETS		<u>12,853</u>	<u>10,153</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		28,190	26,426
CREDITORS: Amounts falling due after more than one year			
Other creditors	14	(2,710)	-
Convertible Discounted Bonds due 2003	14	-	(1,363)
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(654)</u>	<u>(541)</u>
		(3,364)	(1,904)
CAPITAL AND RESERVES		<u>24,826</u>	<u>24,522</u>
Called up share capital	16	1	1
Profit and loss account	17	<u>24,825</u>	<u>24,521</u>
SHAREHOLDERS' FUNDS - ALL EQUITY	20	<u>24,826</u>	<u>24,522</u>

These financial statements were approved by the board on 28 October 2003 and were signed on its behalf by:

A J Hannam
Director



D T Taylor
Director



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

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2002

1	TURNOVER	2002 £000	2001 £000
	Turnover by destination:		
	United Kingdom	43,372	49,171
	Other EU countries	1,324	2,309
	United States of America	134	3,596
	Rest of the world	<u>8,134</u>	<u>17,924</u>
		<u>52,964</u>	<u>73,000</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	2002 £000	2001 £000
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The operating profit is stated after charging/(crediting):

Depreciation	1,629	1,828
Auditors' remuneration - in respect of audit	18	20
- other services	6	3
Hire of plant and machinery	29	40
Other operating lease rentals	4,675	5,247
Research and development – current year expenditure	59	30
Profit on disposal of fixed assets	(48)	(48)
Loss /(profit) on exchange	108	(62)
Exceptional costs - redundancy	<u>1,481</u>	<u>305</u>

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

3	PROFIT ON TRANSFER OF OPERATIONS	2002 £000	2001 £000
	Cash consideration	-	11,020
	Stock	-	(4,936)
	Fixed assets	<u>-</u>	<u>(84)</u>
	Profit on transfer of operations	<u>-</u>	<u>6,000</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

3 PROFIT ON TRANSFER OF OPERATIONS (continued)

In June 2001 the engine shop activities and the operations surveillance activities were transferred out of FR Aviation Limited into new stand alone companies, FRA Airmotive Limited and FR Aviation Survey Limited, respectively.

The above profit was in respect of the transfer of the Engine Shop Division of FR Aviation Limited to FRA Airmotive Limited at market value. No tax charge arises in respect of this profit.

4 NET INTEREST AND SIMILAR CHARGES	<u>2002</u> £000	<u>2001</u> £000
Interest receivable:		
Bank	99	160
Group undertakings	<u>215</u>	<u>144</u>
	314	304
Interest payable:		
Finance charges to group undertakings	(123)	(113)
Interest to group undertakings	(215)	(53)
Interest to joint ventures' undertakings	-	(173)
Other interest	<u>-</u>	<u>(34)</u>
	<u>(24)</u>	<u>(69)</u>

5 TAX ON PROFIT ON ORDINARY ACTIVITIES		As restated
	<u>2002</u> £000	<u>2001</u> £000
Current tax:		
UK corporation tax on profits of the period	45	1,586
Adjustment in respect of previous periods	<u>-</u>	<u>365</u>
	45	1,951
Deferred tax:		
Origination and reversal of timing differences	96	(63)
Adjustment in respect of previous years	<u>17</u>	<u>-</u>
	113	(63)
Tax on profit on ordinary activities	<u>158</u>	<u>1,888</u>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<u>2002</u> £000	<u>2001</u> £000
Profit on ordinary activities before tax	<u>462</u>	<u>10,956</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

5 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)	As restated	
	<u>2002</u> £000	<u>2001</u> £000
Profit on ordinary activities multiplied by standard rate in the UK 30% (2001: 30%)	139	3,287
Effects of:		
Expenses not deductible for tax purposes	2	36
Accelerated capital allowances	(42)	(62)
Other timing differences	(54)	125
Adjustment to tax charge in respect of previous period	-	365
Profit on sale of subsidiary undertaking, not taxable	-	(1,800)
	<u>45</u>	<u>1,951</u>

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year. Deferred tax liabilities have not been discounted.

6 DIVIDENDS		
	<u>2002</u> £000	<u>2001</u> £000
First interim dividend	-	1,980
Second interim dividend	-	6,000
Final dividend	-	<u>3,020</u>
	<u>-</u>	<u>11,000</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 A J Hannam, P Richardson and S Fitz-Gerald 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:

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

7 DIRECTORS (continued)

Directors' shareholdings and interests (continued)

	At 31 December 2002		At 31 December 2001	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
M E Cogan	1,487	30,632	1,011	29,580
D T Taylor	674	10,263	717	4,157
J Danning	3,583	11,918	3,524	5,640

The following options were granted during the year:

	<u>Number</u>	<u>Exercise price</u>	<u>Exercise period</u>
		£	
M E Cogan	987	9.12	29.11.05 – 29.11.12
M E Cogan	495	7.69	1.2.08-1.08.08
D T Taylor	6,389	9.12	29.11.05 – 29.11.12
D T Taylor	781	7.69	1.2.06 – 1.8.06
J Danning	6,278	9.12	29.11.05 – 29.11.12

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
M E Cogan	430	£4.95
D T Taylor	1,064	£4.95

Directors' emoluments	<u>2002</u>	<u>2001</u>
	£000	£000
Aggregate emoluments	533	809
Pension contributions	<u>35</u>	<u>118</u>
	<u>568</u>	<u>927</u>

Retirement benefits are accruing to four directors (2001: seven) under group defined benefit schemes.

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

7 DIRECTORS (continued)

Directors' emoluments (continued)

Emoluments of the highest paid director were as follows:	<u>2002</u>	<u>2001</u>
	£000	£000
Emoluments	214	182
Pension contributions	<u>11</u>	<u>14</u>
	<u>225</u>	<u>196</u>

The highest paid director did not exercise any share options in the year.

8 EMPLOYEES

	<u>2002</u>	<u>2001</u>
	Number	Number
Average number of employees	<u>515</u>	<u>590</u>
	<u>2002</u>	<u>2001</u>
	£000	£000
Employment costs:		
Wages and salaries	16,788	17,984
Social security costs	1,515	1,745
Other pension costs	<u>1,069</u>	<u>1,197</u>
	<u>19,372</u>	<u>20,926</u>

Pensions

The company participates in group funded 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 2001. Details of this valuation are contained in the financial statements of Cobham plc, the ultimate parent undertaking. The contributions paid by the company are accounted for as if the scheme were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities in the Group scheme.

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

The total pension cost for the company was £1,069,000 (2001: £1,197,000). Contributions are based on pension costs across the group as a whole.

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 2002	12,038	14,262	3,689	29,989
Additions	-	897	71	968
Disposals	<u>(32)</u>	<u>(537)</u>	<u>(79)</u>	<u>(648)</u>
At 31 December 2002	<u>12,006</u>	<u>14,622</u>	<u>3,681</u>	<u>30,309</u>
Accumulated depreciation				
At 1 January 2002	1,956	10,452	3,065	15,473
Charge for the year	247	1,175	207	1,629
Disposals	<u>-</u>	<u>(322)</u>	<u>(51)</u>	<u>(373)</u>
At 31 December 2002	<u>2,203</u>	<u>11,305</u>	<u>3,221</u>	<u>16,729</u>
Net book value				
At 31 December 2002	<u>9,803</u>	<u>3,317</u>	<u>460</u>	<u>13,580</u>
At 31 December 2001	<u>10,082</u>	<u>3,810</u>	<u>624</u>	<u>14,516</u>

Capital commitments

At 31 December 2002 the company had no capital expenditure committed with suppliers. (2001: £nil).

10 INVESTMENTS

	<u>2002</u> £000	<u>2001</u> £000
Interest in joint ventures at cost		
At 31 December	<u>1,757</u>	<u>1,757</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

10 INVESTMENTS (continued)

The investments held at 31 December 2002 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 company's share of its 50% owned joint venture company operations for FBS Limited is as follows:

	<u>2002</u> £000	<u>2001</u> £000
Turnover	<u>18,875</u>	<u>18,217</u>
Profit before tax	2,619	2,139
Taxation	<u>(820)</u>	<u>(337)</u>
Profit after tax	<u><u>1,799</u></u>	<u><u>1,802</u></u>
Fixed assets	26,772	28,712
Current assets	11,176	11,908
Creditors: amounts falling due within one year	(5,760)	(4,350)
Creditors: amounts falling due after more than one year	(22,459)	(29,620)
Provisions for liabilities and charges, accruals and deferred income	<u>(7,096)</u>	<u>(5,816)</u>
	<u><u>2,633</u></u>	<u><u>834</u></u>

11 STOCKS

	<u>2002</u> £000	<u>2001</u> £000
Raw materials and consumables	3,988	3,912
Work in progress	1,615	2,969
Payments on account	<u>(147)</u>	<u>(734)</u>
	<u><u>5,456</u></u>	<u><u>6,147</u></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 2002

12 DEBTORS

	<u>2002</u> £000	<u>2001</u> £000
Amounts falling due within one year:		
Trade debtors	7,361	16,019
Amounts owed by group undertakings	3,578	2,596
Amounts owed by participating interests	253	147
Other debtors	20	51
Prepayments and accrued income	455	440
Corporation tax recoverable	<u>986</u>	<u>-</u>
	<u>12,653</u>	<u>19,253</u>
Amounts falling due after one year:		
Group interest bearing loan to the National Jet Systems group of companies for A\$6,600,000, interest accrued at 8%	<u>2,710</u>	<u>2,516</u>
	<u>15,363</u>	<u>21,769</u>

13 CREDITORS: Amounts falling due within one year

	<u>2002</u> £000	<u>2001</u> £000
Payments received on account	1,565	1,308
Bank overdraft	3	7
Trade creditors	6,910	6,634
Other taxes and social security	726	641
Amounts owed to group undertakings	132	3,245
Amounts owed to participating interests	1	355
Other creditors	-	296
Corporation tax	-	487
Proposed dividend	<u>-</u>	<u>5,000</u>
	<u>9,337</u>	<u>17,973</u>
Convertible Discounted Bond	<u>1,486</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% non-redeemable cumulative preference shares of £1 each.

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

13 CREDITORS: Amounts falling due within one year (continued)

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 2002 the amount payable would have been £1,486,000 (2001: £1,363,000).

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.

14 CREDITORS: Amounts falling due after more than one year

	<u>2002</u> £000	<u>2001</u> £000
Group interest bearing loan from FR Aviation Group Ltd. Interest accrued at 8%	2,710	-
Convertible Discounted Bonds due 2003	<u>-</u>	<u>1,363</u>
	<u>2,710</u>	<u>1,363</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:		As restated £000
At 1 January 2002		541
Movement in the year (note 5)		<u>113</u>
At 31 December 2002		<u>654</u>
The deferred tax provided for represents full provision as follows:		As restated
	<u>2002</u> £000	<u>2001</u> £000
Accelerated capital allowances	682	663
Other timing differences	<u>(28)</u>	<u>(122)</u>
	<u>654</u>	<u>541</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

16 CALLED UP SHARE CAPITAL

	<u>2002</u> £	<u>2001</u> £
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
1,549,528 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>
Allotted, Issued and Fully Paid		
1,000 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 they are 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
At 1 January 2002	24,521
Retained profit for the year	<u>304</u>
At 31 December 2002	<u>24,825</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

18 OPERATING LEASES

At the balance sheet date the company had obligations of £5,072,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (2001: £5,092,000).

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>2002</u> £000	<u>2001</u> £000
Aircraft and Aircraft equipment		
Expiring within one year	-	20
Expiring during years 1 – 2	166	-
Expiring during years 2 – 5	23	175
Expiring thereafter	<u>4,883</u>	<u>4,897</u>
	<u>5,072</u>	<u>5,092</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.

Copies of the financial statements of FR Aviation Group Limited may be obtained from the Secretary, FR Aviation Group Limited, at the same address.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

20 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2002	As restated 2001
	£000	£000
Profit on ordinary activities after taxation	304	9,068
Dividends	<u>-</u>	<u>(11,000)</u>
Retained profit/(loss) for the year	<u>304</u>	<u>(1,932)</u>
Net increase/(reduction) to shareholders' funds	<u>304</u>	<u>(1,932)</u>
Opening shareholders' funds previous reported	24,400	26,454
Prior year adjustment FRS 19	<u>122</u>	<u>-</u>
Opening shareholders' funds as restated	<u>24,522</u>	<u>26,454</u>
Closing shareholders' funds	<u>24,826</u>	<u>24,522</u>

21 CASH FLOW STATEMENT

The Cobham plc financial statements for the year ended 31 December 2002 contain a consolidated statement of cash flows. The company has taken advantage of the exemption granted by Financial Reporting Standard 1 whereby it is not required to publish its own cash flow statement.

22 CONTINGENT LIABILITY

As at 31 December 2002 the company, 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 of the above.

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 HM Customs and Excise up to £600,000, and other guarantees to third parties amounting to £2,351,000.

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2002

24 RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2002 and balances at that date were as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Purchases</u> <u>in Year</u> £000	<u>Creditor</u> <u>Balance</u> £000	<u>Purchases</u> <u>in Year</u> £000	<u>Creditor</u> <u>Balance</u> £000
Bournemouth Aviation Services Company Limited	1	1	-	-
FBS Limited	<u>-</u>	<u>-</u>	<u>355</u>	<u>355</u>
	<u>1</u>	<u>1</u>	<u>355</u>	<u>355</u>

	<u>2002</u>		<u>2001</u>	
	<u>Sales</u> <u>in Year</u> £000	<u>Debtor</u> <u>Balance</u> £000	<u>Sales</u> <u>in Year</u> £000	<u>Debtor</u> <u>Balance</u> £000
Bournemouth Aviation Services Company Limited (including recharges)	28	173	-	-
FBS Limited	36	-	48	15
Aviation Defence SA	<u>54</u>	<u>80</u>	<u>1,013</u>	<u>132</u>
	<u>118</u>	<u>253</u>	<u>1,061</u>	<u>147</u>

FBS Limited and Aviation Défense SA are joint venture companies of the Cobham plc group. BASCO is an associate company of the Cobham plc group.

The company is controlled by FR Aviation Group Limited, the company's immediate parent undertaking. The ultimate controlling company is Cobham plc. For all other transactions the company has taken advantage of the exemption provided by Paragraph 3(c) of FRS 8 not to disclose transactions with entities that are part of the Cobham plc group.