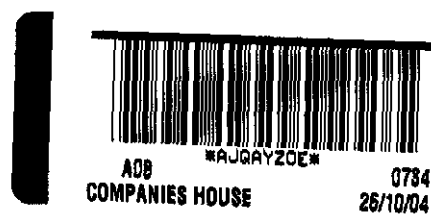


FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2003

Company registration number 845310



FR AVIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2003

CONTENTS

	<u>Page</u>
REPORT OF THE DIRECTORS	1-3
REPORT OF THE INDEPENDENT AUDITORS	4
ACCOUNTING POLICIES	5-6
PROFIT AND LOSS ACCOUNT	7
BALANCE SHEET	8
NOTES TO THE FINANCIAL STATEMENTS	9-22

FR AVIATION LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2003

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 2003.

RESULTS FOR THE YEAR

The company's results for the year are set out in the profit and loss account on page 7. There was a dividend proposed and paid of £1,200,000 (2002: nil).

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 4 of its 10-year partnering arrangement under which it provides air defence training to UK MoD.

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

BOARD OF DIRECTORS

The following directors held office during the year:

P Richardson
D T Taylor
J Danning
A J Hannam

M E Cogan
J Chapman (appointed 11 April 2003)
S Fitz-Gerald

The directors' shareholdings and interests are shown in note 6 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 2003 represents 21 days (2002: 29 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 2003

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 £6,022 (2002: £4,900).

The company has not made any political donations (2002: £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 22, 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 2003

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

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

By order of the board



D T Taylor
Director

18 Oct 2004

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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton

Date: 22 October 2004

FR AVIATION LIMITED

ACCOUNTING POLICIES

31 DECEMBER 2003

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 United Kingdom 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 included by full consolidation in the consolidated financial statements of its ultimate parent, Cobham plc.

TURNOVER

Turnover is measured at fair value of the right to consideration and excludes inter-company sales, value added tax and other sales taxes. In the case of long term contracts, turnover is recognised based upon the fair value of work performed to date.

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 and application note G to Financial Reporting Standard 5 - Reporting the Substance of Transactions. Profit on a long term contract is calculated on the basis of the stage of completion of the contractual obligations of the contract. Any amounts recoverable on contracts, representing the excess of the value of the contractual obligations completed 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 the contractual obligations achieved to the year end are shown in creditors.

DEFERRED TAXATION

Deferred tax is 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 is not discounted.

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

FR AVIATION LIMITED

ACCOUNTING POLICIES (Continued)

31 DECEMBER 2003

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.

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

31 DECEMBER 2003

	<u>Note</u>	£000	<u>2003</u> £000	£000	<u>2002</u> £000
TURNOVER					
Continuing operations	1	48,784		52,964	
Acquired operations	24	<u>4,298</u>		<u>-</u>	
			53,082		52,964
COST OF SALES					
Continuing operations		(39,215)		(43,529)	
Acquired operations	24	<u>(3,412)</u>		<u>-</u>	
			(42,627)		(43,529)
GROSS PROFIT					
Continuing operations		9,569		9,435	
Acquired operations		<u>886</u>		<u>-</u>	
			10,455		9,435
Selling and distribution costs			(2,548)		(2,006)
Administrative expenses			<u>(10,587)</u>		<u>(6,943)</u>
OPERATING (LOSS)/PROFIT					
Continuing operations	2	(3,566)		486	
Acquired operations		<u>886</u>		<u>-</u>	
			(2,680)		486
Net interest and similar income/(charges)	3		<u>247</u>		<u>(24)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION					
			(2,433)		462
Tax on (loss) on ordinary activities	4		<u>(1,083)</u>		<u>(158)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION					
	19		(3,516)		304
Dividends	5		<u>(1,200)</u>		<u>-</u>
RETAINED (LOSS)/ PROFIT FOR THE FINANCIAL YEAR					
	16, 19		<u>(4,716)</u>		<u>304</u>

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

The notes on pages 9 to 22 form part of the financial statements.

FR AVIATION LIMITED

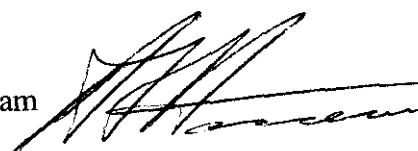
BALANCE SHEET

AS AT 31 DECEMBER 2003

	Note	£000	2003 £000	£000	2002 £000
FIXED ASSETS					
Tangible assets	8		13,780		13,580
Investments	9		<u>1,757</u>		<u>1,757</u>
			15,537		15,337
CURRENT ASSETS					
Stocks	10	7,719		5,456	
Debtors	11	3,900		15,363	
Cash at bank and in hand		<u>8,762</u>		<u>2,857</u>	
		20,381		23,676	
CREDITORS: Amounts falling due within one year	12	(14,970)		(9,337)	
Convertible Discounted Bonds due 2003	12	-		<u>(1,486)</u>	
NET CURRENT ASSETS			<u>5,411</u>		<u>12,853</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			20,948		28,190
CREDITORS: Amounts falling due after more than one year					
Other creditors	13	-		(2,710)	
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(838)</u>	<u>(838)</u>	<u>(654)</u>	<u>(3,364)</u>
CAPITAL AND RESERVES			<u>20,110</u>		<u>24,826</u>
Called up share capital	15		1		1
Profit and loss account	16		<u>20,109</u>		<u>24,825</u>
SHAREHOLDERS' FUNDS - ALL EQUITY	19		<u>20,110</u>		<u>24,826</u>

These financial statements were approved by the board on 18 October 2004 and were signed on its behalf by:

A J Hannam
Director




D T Taylor
Director

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

1	TURNOVER	<u>2003</u>	<u>2002</u>
		<u>£000</u>	<u>£000</u>
	Turnover by destination:		
	United Kingdom	48,728	43,372
	Other EU countries	1,932	1,324
	United States of America	356	134
	Rest of the world	<u>2,066</u>	<u>8,134</u>
		<u>53,082</u>	<u>52,964</u>

The origin of the company's turnover is the United Kingdom and is derived from the company's principal activities of air defence training and aircraft engineering.

2	OPERATING PROFIT	<u>2003</u>	<u>2002</u>
		<u>£000</u>	<u>£000</u>
	The operating profit is stated after charging/(crediting):		
	Depreciation	1,668	1,629
	Goodwill amortisation (note 24)	6,000	-
	Auditors' remuneration - in respect of audit	19	18
	- other services	10	6
	Hire of plant and machinery	16	29
	Other operating lease rentals	6,957	4,675
	Research and development - current year expenditure	8	59
	Profit on disposal of fixed assets	(28)	(48)
	(Gain)/loss on exchange rate movement	(51)	108
	Exceptional costs - redundancy	<u>(150)</u>	<u>1,481</u>

Other operating lease rentals relate to aircraft and aircraft equipment. Details of future commitments are given in note 17.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

3 NET INTEREST AND SIMILAR CHARGES	<u>2003</u> £000	<u>2002</u> £000
Interest receivable:		
Bank	301	99
Group undertakings	<u>292</u>	<u>215</u>
	593	314
Interest payable:		
Finance charges to group undertakings	(64)	(123)
Interest to group undertakings	<u>(282)</u>	<u>(215)</u>
	<u>247</u>	<u>(24)</u>
4 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	<u>2003</u> £000	<u>2002</u> £000
Current tax:		
UK corporation tax on loss for the period	1,008	45
Adjustment in respect of previous periods	(63)	-
Double taxation relief	<u>(13)</u>	<u>-</u>
	932	45
Overseas taxation suffered	<u>13</u>	<u>-</u>
Total current tax	945	45
Deferred tax:		
Origination and reversal of timing differences:		
Movement in year	23	96
Acquired in year	58	-
Adjustment in respect of previous years	<u>57</u>	<u>17</u>
Total deferred tax (note 14)	<u>138</u>	<u>113</u>
Tax on profit on ordinary activities	<u>1,083</u>	<u>158</u>
The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
	<u>2003</u> £000	<u>2002</u> £000
(Loss)/profit on ordinary activities before tax	<u>(2,433)</u>	<u>462</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

4 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	<u>2003</u> £000	<u>2002</u> £000
Profit on ordinary activities multiplied by standard rate in the UK 30% (2002: 30%)	(730)	139
Effects of:		
Goodwill amortisation not deductible for tax purposes	1,800	-
R & D tax credits	(47)	(31)
Expenses not deductible for tax purposes	8	33
Accelerated capital allowances	(35)	(42)
Other timing differences	12	(54)
Adjustment to tax charge in respect of previous period	<u>(63)</u>	<u>-</u>
	<u>945</u>	<u>45</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.

5 DIVIDENDS

	<u>2003</u> £000	<u>2002</u> £000
Final dividend (£1,200 per share (£nil:2002))	<u>1,200</u>	<u>-</u>
	<u>1,200</u>	<u>-</u>

6 DIRECTORS

Directors' shareholdings and interests

None of the directors held an interest in the company's shares or a right to subscribe for such shares.

The interests of A J Hannam, P Richardson, J Chapman 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:

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

6 DIRECTORS (continued)

Directors' shareholdings and interests (continued)

	At 31 December 2003		At 31 December 2002	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
M E Cogan	1,728	31,140	1,487	30,632
D T Taylor	216	15,597	674	10,263
J Danning	5,411	14,285	3,583	12,463

The following options were granted during the year:

	<u>Number</u>	<u>Exercise price</u> £	<u>Exercise period</u>
M E Cogan	632	11.86	30.10.06 – 30.10.13
M E Cogan	117	9.39	1.2.07-1.8.07
D T Taylor	5,334	11.86	30.10.06 – 30.10.13
J Danning	3,374	11.86	30.10.06 – 30.10.13
J Danning	276	9.39	1.2.09 – 1.8.09

The following options were exercised during the year:

	<u>Number</u>	<u>Exercise price</u>
M E Cogan	241	£6.91
J Danning	1,828	£3.20

Directors' emoluments

	<u>2003</u> £000	<u>2002</u> £000
Aggregate emoluments	756	533
Pension contributions	<u>478</u>	<u>35</u>
	<u>1,234</u>	<u>568</u>

Retirement benefits are accruing to 6 directors (2002: 4) under group defined benefit schemes and 1 director (2002: nil) under a defined contribution scheme. The company pays a £4,620 contribution for this director.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

6 DIRECTORS (continued)

Directors' emoluments (continued)

Emoluments of the highest paid director were as follows:	<u>2003</u>	<u>2002</u>
	<u>£000</u>	<u>£000</u>
Emoluments	161	214
Pension contributions	<u>206</u>	<u>11</u>
	<u>367</u>	<u>225</u>

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

7 EMPLOYEES

	<u>2003</u>	<u>2002</u>
	<u>Number</u>	<u>Number</u>
Average number of employees	<u>438</u>	<u>515</u>
	<u>2003</u>	<u>2002</u>
	<u>£000</u>	<u>£000</u>
Employment costs:		
Wages and salaries	15,648	16,788
Social security costs	1,594	1,515
Other pension costs	<u>1,973</u>	<u>1,069</u>
	<u>19,215</u>	<u>19,372</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 undertaken as at 1 April 2001 and updated to 31 December 2003 by a qualified independent actuary. Details of the group scheme 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.

The total pension cost for the company was £1,973,000 (2002: £1,069,000). Contributions are based on pension costs across the group as a whole.

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

8 TANGIBLE FIXED ASSETS

	Land and Buildings (Long Leasehold) £000	Plant and Machinery, Vehicles and Aircraft £000	Fixtures, Fittings, Tools and Equipment £000	Total £000
Cost				
At 1 January 2003	12,006	14,622	3,681	30,309
Additions	-	256	732	988
Acquisitions	-	870	27	897
Disposals	-	(170)	(13)	(183)
Re-analysis	-	378	(378)	-
At 31 December 2003	<u>12,006</u>	<u>15,956</u>	<u>4,049</u>	<u>32,011</u>
Accumulated depreciation				
At 1 January 2003	2,203	11,305	3,221	16,729
Charge for the year	247	1,105	316	1,668
Disposals	-	(153)	(13)	(166)
Re-analysis	(9)	270	(261)	-
At 31 December 2003	<u>2,441</u>	<u>12,527</u>	<u>3,263</u>	<u>18,231</u>
Net book value				
At 31 December 2003	<u>9,565</u>	<u>3,429</u>	<u>786</u>	<u>13,780</u>
At 31 December 2002	<u>9,803</u>	<u>3,317</u>	<u>460</u>	<u>13,580</u>

Capital commitments

At 31 December 2003 the company had £92,000 capital expenditure committed with suppliers. (2002: £nil).

9 INVESTMENTS

	2003 £000	2002 £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 2003

9 INVESTMENTS (continued)

The investments held at 31 December 2003 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>2003</u> £000	<u>2002</u> £000
Turnover	<u>20,807</u>	<u>18,875</u>
Profit before tax	2,893	2,619
Taxation	<u>(855)</u>	<u>(820)</u>
Profit after tax	<u>2,038</u>	<u>1,799</u>
Fixed assets	24,627	26,772
Current assets	13,163	11,176
Creditors: amounts falling due within one year	(4,537)	(5,760)
Creditors: amounts falling due after more than one year	(20,365)	(22,459)
Provisions for liabilities and charges, accruals and deferred income	<u>(8,217)</u>	<u>(7,096)</u>
	<u>4,671</u>	<u>2,633</u>

10 STOCKS

	<u>2003</u> £000	<u>2002</u> £000
Raw materials and consumables	5,213	3,988
Work in progress	1,681	1,615
Finished goods for re-sale	942	-
Payments on account	<u>(117)</u>	<u>(147)</u>
	<u>7,719</u>	<u>5,456</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 2003

11 DEBTORS

	<u>2003</u>	<u>2002</u>
	£000	£000
Amounts falling due within one year:		
Trade debtors	2,403	7,361
Amounts owed by group undertakings	898	3,578
Amounts owed by participating interests	141	253
Other debtors	13	20
Prepayments and accrued income	388	455
Corporation tax recoverable	<u>57</u>	<u>986</u>
	<u>3,900</u>	<u>12,653</u>
Amounts falling due after one year:		
Group interest bearing loan to the Jet Systems group of companies for A\$6,600,000, interest accrued at 8%	<u>-</u>	<u>2,710</u>
	<u>3,900</u>	<u>15,363</u>

12 CREDITORS: Amounts falling due within one year

	<u>2003</u>	<u>2002</u>
	£000	£000
Payments received on account	8,808	1,565
Bank overdraft	-	3
Trade creditors	2,418	3,469
Accruals	2,257	3,441
Other taxes and social security	1,008	726
Amounts owed to group undertakings	457	132
Amounts owed to participating interests	<u>22</u>	<u>1</u>
	<u>14,970</u>	<u>9,337</u>
Convertible Discounted Bond	<u>-</u>	<u>1,486</u>

The convertible Discounted Bond due 2003 for £1,007,087 which was issued to the company's ultimate parent undertaking ("Cobham plc") was convertible at the option of Cobham plc on 3 July 2003 into 1,549,528 9% non-redeemable cumulative preference shares of £1 each. This option was not taken. The bond was repaid in full on 3 July 2003.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

13 CREDITORS: Amounts falling due after more than one year

	<u>2003</u> £000	<u>2002</u> £000
Group interest bearing loan from FR Aviation Group Ltd.		
Interest accrued at 8%	<u>-</u>	<u>2,710</u>

14 PROVISIONS FOR LIABILITIES AND CHARGES

	<u>2003</u> £000	<u>2002</u> £000
Deferred taxation	792	654
Other Provisions	<u>46</u>	<u>-</u>
	<u>838</u>	<u>654</u>

Other provisions consist of £46,000 provided for redundancy costs, which are expected to be settled fully in the following year.

Deferred taxation:

At 1 January 2003	654
Movement:	
Movement in year	80
Acquired	<u>58</u>
	<u>792</u>

The deferred tax provided for represents full provision as follows:

	<u>2003</u> £000	<u>2002</u> £000
Accelerated capital allowances	804	682
Other timing differences	<u>(12)</u>	<u>(28)</u>
	<u>792</u>	<u>654</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

15 CALLED UP SHARE CAPITAL

	<u>2003</u> £	<u>2002</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 arrears or accruals of the fixed dividends.

16 RESERVES

	<u>2003</u> £000	<u>2002</u> £000
Profit & Loss account		
At 1 January	24,825	24,521
(Deficit)/Retained profit for the year	<u>(4,716)</u>	<u>304</u>
At 31 December	<u>20,109</u>	<u>24,825</u>

These notes form part of the financial statements

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

17 OPERATING LEASES

At the balance sheet date the company had obligations of £4,846,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (2002: £5,072,000).

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>2003</u> £000	<u>2002</u> £000
Aircraft and Aircraft equipment		
Expiring within one year	68	-
Expiring during years 1 – 2	-	166
Expiring during years 2 – 5	23	23
Expiring thereafter	<u>4,755</u>	<u>4,883</u>
	<u>4,846</u>	<u>5,072</u>

18 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 2003

19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<u>2003</u> <u>£000</u>	<u>2002</u> <u>£000</u>
(Loss)/profit on ordinary activities after taxation	(3,516)	304
Dividends	<u>(1,200)</u>	<u>-</u>
(Deficit)/profit for the year	<u>(4,716)</u>	<u>304</u>
Net (reduction)/increase to shareholders' funds	<u>(4,716)</u>	<u>304</u>
Opening shareholders' funds	<u>24,826</u>	<u>24,522</u>
Closing shareholders' funds	<u>20,110</u>	<u>24,826</u>

20 CASH FLOW STATEMENT

The Cobham plc financial statements for the year ended 31 December 2003 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.

21 CONTINGENT LIABILITY

As at 31 December 2003 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.

22 GUARANTEE

The company has given its bankers an indemnity in respect of a deferment guarantee given by them on the company's behalf to HM Customs and Excise up to £600,000, and other guarantees to third parties amounting to £1,946,000.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

23 RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2003 and balances at that date were as follows:

	<u>Purchases</u> <u>in Year</u> £000	<u>2003</u> <u>Creditor</u> <u>Balance</u> £000	<u>Purchases</u> <u>in Year</u> £000	<u>2002</u> <u>Creditor</u> <u>Balance</u> £000
Bournemouth Aviation Services Company Limited	91	22	1	1
FBS Limited	—	—	—	—
	<u>91</u>	<u>22</u>	<u>1</u>	<u>1</u>

	<u>Sales</u> <u>in Year</u> £000	<u>2003</u> <u>Debtor</u> <u>Balance</u> £000	<u>Sales</u> <u>in Year</u> £000	<u>2002</u> <u>Debtor</u> <u>Balance</u> £000
Bournemouth Aviation Services Company Limited (including recharges)	431	76	28	173
FBS Limited	112	7	36	-
Aviation Défense SA	<u>303</u>	<u>58</u>	<u>54</u>	<u>80</u>
	<u>846</u>	<u>141</u>	<u>118</u>	<u>253</u>

FBS Limited and Aviation Défense SA are joint venture companies of the Cobham plc group. Bournemouth Aviation Services Company Ltd 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.

FR AVIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2003

24 ACQUIRED OPERATIONS

On 1 April 2003 the trade and net assets of Corporate Air Spares Limited, FR Aviation Survey Limited and FRA Airmotive Limited were acquired. For the period post acquisition the sales and gross profits included within the profit and loss account as continuing operations – acquired are as follows:

	FRA Airmotive Ltd £000	Corporate Air Spares Ltd £000	FR Aviation Survey Ltd £000	Total £000
Turnover	1,793	100	2,405	4,298
Cost of Sales	(1,508)	(79)	(1,825)	(3,412)
	<u>285</u>	<u>21</u>	<u>580</u>	<u>886</u>

It is not possible to separately identify those costs included within administration or selling and distribution costs attributable to the above acquired operations. Therefore operating profit attributable to these has been taken to be the equivalent of gross profit.

	Book Value FRA Airmotive Ltd £000	Book Value Corporate Air Spares Ltd £000	Book Value FR Aviation Survey Ltd £000	Adjust- ment £000	Total Fair Value £000
Fixed Assets	569	1	327	-	897
Goodwill	6,000	-	-	(6,000)	-
Stock and Work in Progress	3,799	389	-	-	4,188
Debtors	3	-	20	-	23
Creditors	(22)	(1)	(49)	-	(72)
Accruals	(14)	(15)	(34)	-	(63)
Deferred tax provision	<u>(43)</u>	<u>-</u>	<u>(15)</u>	<u>58</u>	<u>-</u>
	<u>10,292</u>	<u>374</u>	<u>249</u>	<u>(5,942)</u>	<u>4,973</u>
Cash Consideration					10,973
Goodwill					(6,000)
Net assets acquired					<u>4,973</u>

The trade and assets of the above companies were purchased on 1 April 2003.

The engine shop business was sold to FRA Airmotive Limited for the same price in 2001. The FRA Airmotive business has been subsumed within FRA and it is not possible to see the separate cash flows of the engine shop and accordingly it is not possible to verify the carrying value of the goodwill within FR Aviation Limited books. The goodwill has therefore been written off in full within the year.

These notes form part of the financial statements