

**FR AVIATION LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

**Company registration number 845310**



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**FR AVIATION LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

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# **FR AVIATION LIMITED**

## **REPORT OF THE DIRECTORS**

### **FOR THE YEAR ENDED 31 DECEMBER 2004**

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 2004.

#### **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 of £6,444,000 (2003: £1,200,000) an amount of which £1,444,000 (2003: £nil) has yet to be paid.

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

#### **BOARD OF DIRECTORS**

The following directors held office during the year:

|              |                 |                      |
|--------------|-----------------|----------------------|
| P Richardson | M E Cogan       | (resigned 25.10.04)  |
| D T Taylor   | J Chapman       |                      |
| J Danning    | S J Fitz-Gerald |                      |
| A J Hannam   | C J Freeman     | (appointed 25.10.04) |

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 2004 represents 29 days (2003: 21 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 2004**

#### **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 £8,826 (2003: £6,022).

The company has not made any political donations (2003: £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 21, 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 2004**

### **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

26 September 2005

## **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.

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. The other information comprises only the directors' report.

### **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 2004 and of its profit 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: 21 October 2005

# **FR AVIATION LIMITED**

## **ACCOUNTING POLICIES**

**31 DECEMBER 2004**

### **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 of the 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 is generally recognised when goods are despatched or services delivered and excludes 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. Deferred tax assets are recognised to the extent it is considered more likely than not that they will be recoverable.

### **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 2004**

### **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 are made to the Cobham plc group's funded defined benefit schemes and defined contribution schemes.

The funded defined benefit schemes contributions 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.

The defined contribution schemes contributions are charged to the profit and loss account in the period in respect of which they become payable. Differences between the contributions payable in the year and actually paid are shown in either accruals or prepayments in the balance sheet.

### **FIXED ASSET INVESTMENTS**

Investments are stated at cost less provision for any impairment.

**FR AVIATION LIMITED****PROFIT AND LOSS ACCOUNT****31 DECEMBER 2004**

|                                                                 | Note   | 2004<br>£000    | 2003<br>£000 |
|-----------------------------------------------------------------|--------|-----------------|--------------|
| <b>TURNOVER</b>                                                 | 1      | <b>58,575</b>   | 53,082       |
| <b>COST OF SALES</b>                                            |        | <b>(49,205)</b> | (42,627)     |
| <b>GROSS PROFIT</b>                                             |        | <b>9,370</b>    | 10,455       |
| Selling and distribution costs                                  |        | (1,903)         | (2,548)      |
| Administrative expenses                                         |        | (4,720)         | (10,587)     |
| <b>OPERATING PROFIT/(LOSS)</b>                                  | 2      | <b>2,747</b>    | (2,680)      |
| Net interest and similar income/(charges)                       | 3      | 356             | 247          |
| Dividend received                                               |        | 5,994           | -            |
| <b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b> |        | <b>9,097</b>    | (2,433)      |
| Tax on profit/(loss) on ordinary activities                     | 4      | (931)           | (1,083)      |
| <b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES<br/>AFTER TAXATION</b>  | 18     | <b>8,166</b>    | (3,516)      |
| Dividends                                                       | 5      | (6,444)         | (1,200)      |
| <b>RETAINED PROFIT/(LOSS) FOR<br/>THE FINANCIAL YEAR</b>        | 15, 18 | <b>1,722</b>    | (4,716)      |

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

The company has no recognised gains or losses other than the above profit for the period.

All the company's activities are classed as continuing.

The notes on pages 9 to 21 form part of the financial statements

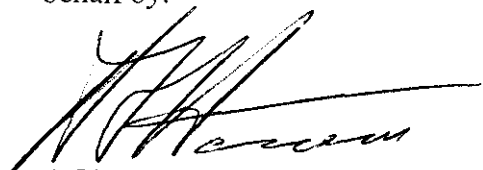
# FR AVIATION LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2004

|                                                      | Note | 2004<br>£000    | 2003<br>£000    |
|------------------------------------------------------|------|-----------------|-----------------|
| <b>FIXED ASSETS</b>                                  |      |                 |                 |
| Tangible assets                                      | 8    | 13,184          | 13,780          |
| Investments                                          | 9    | 1,757           | 1,757           |
|                                                      |      | <b>14,941</b>   | <b>15,537</b>   |
| <b>CURRENT ASSETS</b>                                |      |                 |                 |
| Stocks                                               | 10   | 6,353           | 7,719           |
| Debtors                                              | 11   | 11,250          | 3,900           |
| Cash at bank and in hand                             |      | 7,436           | 8,762           |
|                                                      |      | <b>25,039</b>   | <b>20,381</b>   |
| <b>CREDITORS: Amounts falling due within on year</b> | 12   | <b>(16,195)</b> | <b>(14,970)</b> |
| <b>NET CURRENT ASSETS</b>                            |      | <b>8,844</b>    | <b>5,411</b>    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>         |      | <b>23,785</b>   | <b>20,948</b>   |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>        | 13   | <b>(1,953)</b>  | <b>(838)</b>    |
|                                                      |      | <b>21,832</b>   | <b>20,110</b>   |
| <b>CAPITAL AND RESERVES</b>                          |      |                 |                 |
| Called up share capital                              | 14   | 1               | 1               |
| Profit and loss account                              | 15   | 21,831          | 20,109          |
| <b>SHAREHOLDERS' FUNDS - ALL EQUITY</b>              | 18   | <b>21,832</b>   | <b>20,110</b>   |

These financial statements were approved by the board on 26 Sep<sup>r</sup> 2005 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 2004

### 1 TURNOVER

|                          | 2004<br>£000  | 2003<br>£000  |
|--------------------------|---------------|---------------|
| Turnover by destination: |               |               |
| United Kingdom           | 56,889        | 48,728        |
| Other EU countries       | 485           | 1,932         |
| United States of America | 76            | 356           |
| Rest of the world        | 1,125         | 2,066         |
|                          | <b>58,575</b> | <b>53,082</b> |

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

|                                                            | 2004<br>£000 | 2003<br>£000 |
|------------------------------------------------------------|--------------|--------------|
| The operating profit is stated after charging/(crediting): |              |              |
| Depreciation                                               | 1,702        | 1,668        |
| Goodwill amortisation                                      | -            | 6,000        |
| Auditors' remuneration - in respect of audit               | 22           | 19           |
| - other services                                           | 23           | 10           |
| Hire of plant and machinery                                | 52           | 16           |
| Other operating lease rentals – aircraft                   | 4,851        | 6,804        |
| Other operating lease rentals – land and buildings         | 262          | 153          |
| Research and development – current year expenditure        | 6            | 8            |
| Loss/(profit) on disposal of fixed assets                  | 9            | (28)         |
| (Gain) on exchange rate movement                           | (237)        | (51)         |
| Exceptional costs – redundancy                             | -            | (150)        |

Other operating lease details of future commitments are given in note 16.

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 3 NET INTEREST AND SIMILAR CHARGES

|                                       | 2004<br>£000 | 2003<br>£000 |
|---------------------------------------|--------------|--------------|
| <b>Interest receivable:</b>           |              |              |
| Bank                                  | 356          | 301          |
| Group Undertakings                    | -            | 292          |
|                                       | <b>356</b>   | <b>593</b>   |
| <b>Interest payable:</b>              |              |              |
| Finance charges to group undertakings | -            | (64)         |
| Interest to group undertakings        | -            | (282)        |
|                                       | <b>356</b>   | <b>247</b>   |

### 4 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

|                                                | 2004<br>£000 | 2003<br>£000 |
|------------------------------------------------|--------------|--------------|
| <b>Current tax:</b>                            |              |              |
| UK corporation tax on profit for the period    | 953          | 1,008        |
| Adjustment in respect of previous periods      | 22           | (63)         |
| Double taxation relief                         | (90)         | (13)         |
|                                                | <b>885</b>   | <b>932</b>   |
| Overseas taxation suffered                     | 90           | 13           |
| Total current tax                              | <b>975</b>   | <b>945</b>   |
| <b>Deferred tax:</b>                           |              |              |
| Origination and reversal of timing difference: |              |              |
| Movement in year                               | (18)         | 23           |
| Acquired in year                               | -            | 58           |
| Adjustment in respect of previous years        | (26)         | 57           |
|                                                | <b>(44)</b>  | <b>138</b>   |
| Tax deferred tax (note 13)                     | <b>(44)</b>  | <b>138</b>   |
| Tax on profit on ordinary activities           | <b>931</b>   | <b>1,083</b> |

The tax assessed for the period is lower (2003: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 4 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (continued)

|                                                                                            | 2004<br>£000 | 2003<br>£000 |
|--------------------------------------------------------------------------------------------|--------------|--------------|
| Profit/(loss) on ordinary activities before tax                                            | 9,097        | (2,433)      |
| Profit/(loss) on ordinary activities multiplied by standard rate in the UK 30% (2002: 30%) | 2,729        | (730)        |
| Effects of:                                                                                |              |              |
| Dividend income not taxable                                                                | (1,798)      | -            |
| Goodwill amortisation not deductible for tax purposes                                      | -            | 1,800        |
| R & D tax credits                                                                          | (34)         | (47)         |
| Expenses not deductible for tax purposes                                                   | 38           | 8            |
| Accelerated capital allowances                                                             | (4)          | (35)         |
| Other timing differences                                                                   | 22           | 12           |
| Adjustment to tax charge in respect of previous period                                     | 22           | (63)         |
|                                                                                            | 975          | 945          |

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 PAYABLE

|                                                  | 2004<br>£000 | 2003<br>£000 |
|--------------------------------------------------|--------------|--------------|
| Interim dividend £5,000 per share (2003: £nil)   | 5,000        | -            |
| Final dividend (£1,444 per share (2003: £1,200)) | 1,444        | 1,200        |
|                                                  | 6,444        | 1,200        |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 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 and intermediate parent undertakings respectively. 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 2004</u> |                | <u>At 31 December 2003</u> |                |
|-------------|----------------------------|----------------|----------------------------|----------------|
|             | <u>Shares</u>              | <u>Options</u> | <u>Shares</u>              | <u>Options</u> |
| C J Freeman | -                          | 6,680          | -                          | -              |
| D T Taylor  | 216                        | 18,566         | 216                        | 15,597         |
| J Danning   | 6,278                      | 16,788         | 5,411                      | 14,285         |

The following options were granted during the year:

|             | Number | <u>Exercise price</u><br>£ | <u>Exercise period</u> |
|-------------|--------|----------------------------|------------------------|
| C J Freeman | 6,680  | 13.47333                   | 20.09.07 – 20.09.14    |
| D T Taylor  | 2,969  | 13.47333                   | 20.09.07 – 20.09.14    |
| J Danning   | 2,976  | 13.47333                   | 20.09.07 – 20.09.14    |
| J Danning   | 394    | 10.76                      | 01.02.08 – 01.08.08    |

The following options were exercised during the year:

|           | <u>Number</u> | <u>Exercise price</u><br>£ |
|-----------|---------------|----------------------------|
| J Danning | 545           | 4.95                       |
| J Danning | 322           | 4.83                       |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 6 DIRECTORS (continued)

#### Directors' emoluments

|                       | <u>2004</u>  | <u>2003</u>  |
|-----------------------|--------------|--------------|
|                       | £000         | £000         |
| Aggregate emoluments  | 1,363        | 756          |
| Pension contributions | 1,142        | 478          |
|                       | <u>2,505</u> | <u>1,234</u> |

Retirement benefits are accruing to 6 directors (2003: 6) under group defined benefit schemes and 2 directors (2003: 1) under a defined contribution scheme. The company pays a £17,000 (2003: £4,620) contribution to the defined contribution scheme.

Emoluments of the highest paid director were as follows:

|                       | <u>2004</u> | <u>2003</u> |
|-----------------------|-------------|-------------|
|                       | £000        | £000        |
| Emoluments            | 358         | 161         |
| Pension contributions | 514         | 206         |
|                       | <u>872</u>  | <u>367</u>  |

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

### 7 EMPLOYEES

|                             | <u>2004</u> | <u>2003</u> |
|-----------------------------|-------------|-------------|
|                             | Number      | Number      |
| Average number of employees | 464         | 438         |

|                       | <u>2004</u>   | <u>2003</u>   |
|-----------------------|---------------|---------------|
|                       | £000          | £000          |
| Employment costs:     |               |               |
| Wages and salaries    | 17,462        | 15,648        |
| Social security costs | 1,808         | 1,594         |
| Other pension costs   | 2,513         | 1,973         |
|                       | <u>21,783</u> | <u>19,215</u> |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 7 EMPLOYEES (continued)

#### 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 2004 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 £2,513,000 (2003: £1,973,000). Contributions are based on pension costs across the group as a whole.

### 8 TANGIBLE FIXED ASSETS

|                                 | Land and<br>Buildings<br>(Long<br>Leasehold)<br>£000 | Plant and<br>Machinery,<br>Vehicles<br>and Aircraft<br>£000 | Fixtures,<br>Fittings,<br>Tools and<br>Equipment<br>£000 | Total<br>£000 |
|---------------------------------|------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------|---------------|
| <b>Cost</b>                     |                                                      |                                                             |                                                          |               |
| At 1 January 2004               | 12,006                                               | 15,956                                                      | 4,049                                                    | 32,011        |
| Additions                       |                                                      |                                                             |                                                          |               |
| Acquisitions                    | -                                                    | 458                                                         | 671                                                      | 1,129         |
| Disposals                       | (1)                                                  | (520)                                                       | (483)                                                    | (1,004)       |
| Re-analysis                     | -                                                    | (469)                                                       | 469                                                      | -             |
| At 31 December 2004             | 12,005                                               | 15,425                                                      | 4,706                                                    | 32,136        |
| <b>Accumulated depreciation</b> |                                                      |                                                             |                                                          |               |
| At 1 January 2004               | 2,441                                                | 12,527                                                      | 3,263                                                    | 18,231        |
| Charge for the year             | 230                                                  | 710                                                         | 762                                                      | 1,702         |
| Disposals                       | -                                                    | (502)                                                       | (479)                                                    | (981)         |
| Re-analysis                     | -                                                    | -                                                           | -                                                        | -             |
| At 31 December 2004             | 2,671                                                | 12,735                                                      | 3,546                                                    | 18,952        |
| <b>Net book value</b>           |                                                      |                                                             |                                                          |               |
| At 31 December 2004             | 9,334                                                | 2,690                                                       | 1,160                                                    | 13,184        |
| At 31 December 2003             | 9,565                                                | 3,429                                                       | 786                                                      | 13,780        |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 31 DECEMBER 2004

#### 8 TANGIBLE FIXED ASSETS (continued)

##### Capital commitments

At 31 December 2004 the company had £117,000 expenditure committed with suppliers. (2003: £92,000).

#### 9 INVESTMENTS

|                                           | 2004<br>£000 | 2003<br>£000 |
|-------------------------------------------|--------------|--------------|
| <b>Interest in joint ventures at cost</b> |              |              |
| At 31 December                            | 1,757        | 1,757        |

The investments held at 31 December 2004 are as follows:

| Undertaking | Country of<br>incorporation | Principal Activity            | Class and %<br>of shares held   |
|-------------|-----------------------------|-------------------------------|---------------------------------|
| FBS Limited | England                     | Management of MoD<br>contract | 50% ordinary<br>(Joint venture) |

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

|                                                                         | 2004<br>£000 | 2003<br>£000 |
|-------------------------------------------------------------------------|--------------|--------------|
| Turnover                                                                | 21,042       | 20,807       |
| Profit before tax                                                       | 2,821        | 2,893        |
| Taxation                                                                | (852)        | (855)        |
| Profit after tax                                                        | 1,969        | 2,038        |
| Fixed assets                                                            | 22,321       | 24,627       |
| Current assets                                                          | 10,029       | 13,163       |
| Creditors: amounts falling due within one year                          | (6,819)      | (4,537)      |
| Creditors: amounts falling due after more than one year                 | (18,073)     | (20,365)     |
| Provisions for liabilities and charges, accruals<br>and deferred income | (6,813)      | (8,217)      |
|                                                                         | 645          | 4,671        |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 31 DECEMBER 2004

#### 10 STOCKS

|                               | 2004<br>£000 | 2003<br>£000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 5,027        | 5,820        |
| Work in progress              | 1,052        | 1,681        |
| Finished goods for re-sale    | 274          | 335          |
| Payments on account           | -            | (117)        |
|                               | <b>6,353</b> | <b>7,719</b> |

There is no significant difference between the replacement cost and value of stocks shown.  
A provision of £607k in 2003 has been reallocated from raw materials stock to finished goods stock for re sale.

#### 11 DEBTORS

|                                         | 2004<br>£000  | 2003<br>£000 |
|-----------------------------------------|---------------|--------------|
| Amounts falling due within one year:    |               |              |
| Trade debtors                           | 8,478         | 2,403        |
| Amounts owed by group undertakings      | 1,320         | 898          |
| Amounts owed by participating interests | 66            | 141          |
| Dividend receivable                     | 994           | -            |
| Other debtors                           | -             | 13           |
| Prepayments and accrued income          | 392           | 388          |
| Corporation tax recoverable             | -             | 57           |
|                                         | <b>11,250</b> | <b>3,900</b> |

#### 12 CREDITORS: Amounts falling due within one year

|                                         | 2004<br>£000  | 2003<br>£000  |
|-----------------------------------------|---------------|---------------|
| Payments received on account            | 7,679         | 8,808         |
| Trade creditors                         | 2,310         | 2,418         |
| Accruals                                | 2,779         | 2,257         |
| Other taxes and social security         | 1,400         | 1,008         |
| Corporation tax payable                 | 213           | -             |
| Amounts owed to group undertakings      | 1,806         | 457           |
| Amounts owed to participating interests | 8             | 22            |
|                                         | <b>16,195</b> | <b>14,970</b> |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 13 PROVISIONS FOR LIABILITIES AND CHARGES

|                   | 2004<br>£000 | 2003<br>£000 |
|-------------------|--------------|--------------|
| Deferred taxation | 748          | 792          |
| Other Provisions  | 1,205        | 46           |
|                   | 1,953        | 838          |

Other provisions consist of £127,000 for relocation, £70,000 for target upgrade, £868,000 provided for the Senior Management Salesmen bonus and £136,000 for the All Employee bonus and other operating costs £4,000. All amounts are expected to be settled fully in the following year.

Deferred taxation:

|                                        |      |
|----------------------------------------|------|
| At 1 January 2004                      | 792  |
| Movement:                              |      |
| Movement in year                       | (18) |
| Adjustment in respect of prior periods | (26) |
|                                        | 748  |

The deferred tax provided for represents full provision as follows:

|                                | 2004<br>£000 | 2003<br>£000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 808          | 804          |
| Other timing differences       | (60)         | (12)         |
|                                | 748          | 792          |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 14 CALLED UP SHARE CAPITAL

|                                                                        | 2004<br>£        | 2003<br>£        |
|------------------------------------------------------------------------|------------------|------------------|
| <b>Authorised</b>                                                      |                  |                  |
| 1,000 Ordinary shares of £1 each                                       | 1,000            | 1,000            |
| 1,549,528 9% Non-redeemable cumulative preference<br>shares of £1 each | 1,549,528        | 1,549,528        |
|                                                                        | <b>1,550,528</b> | <b>1,550,528</b> |
| <b>Allotted, Issued and Fully Paid</b>                                 |                  |                  |
| 1,000 Ordinary shares of £1 each                                       | 1,000            | 1,000            |

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.

### 15 RESERVES

|                                        | 2004<br>£000  | 2003<br>£000  |
|----------------------------------------|---------------|---------------|
| <b>Profit &amp; Loss account</b>       |               |               |
| At 1 January                           | 20,109        | 24,825        |
| Retained profit/(deficit) for the year | 1,722         | (4,716)       |
| At 31 December                         | <b>21,831</b> | <b>20,109</b> |

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 16 OPERATING LEASES

At the balance sheet date the company had obligations of £5,131,000 payable in the following year in respect of operating leases relating to aircraft and aircraft equipment (2003: £5,305,000).

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.

|                             | 2004         | As restated<br>2003 |
|-----------------------------|--------------|---------------------|
|                             | £000         | £000                |
| <b>Plant and Machinery</b>  |              |                     |
| Expiring within one year    | 28           | 68                  |
| Expiring during years 1 – 2 | 25           | 37                  |
| Expiring during years 2 – 5 | 1,544        | 39                  |
| Expiring thereafter         | 3,229        | 4,755               |
|                             | <b>4,826</b> | <b>4,899</b>        |
| <b>Land and Buildings</b>   |              |                     |
| Expiring within one year    | 9            | -                   |
| Expiring during years 1 – 2 | 4            | 14                  |
| Expiring during years 2 – 5 | 53           | 58                  |
| Expiring thereafter         | 239          | 334                 |
|                             | <b>5,131</b> | <b>5,305</b>        |

As a result of a review of the operating leases undertaken in 2004 it became apparent that additional disclosure was required for the 2003 operating lease commitments, which has been included above.

### 17 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.

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 18 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

|                                                     | 2004<br>£000 | 2003<br>£000 |
|-----------------------------------------------------|--------------|--------------|
| Profit/(loss) on ordinary activities after taxation | 8,166        | (3,516)      |
| Dividends                                           | (6,444)      | (1,200)      |
| Profit/(deficit)/ for the year                      | 1,722        | (4,716)      |
| Net increase/(reduction) to shareholders' funds     | 1,722        | (4,716)      |
| Opening shareholders' funds                         | 20,110       | 24,826       |
| Closing shareholders' funds                         | 21,832       | 20,110       |

### 19 CASH FLOW STATEMENT

The Cobham plc financial statements for the year ended 31 December 2004 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.

### 20 CONTINGENT LIABILITY

As at 31 December 2004 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.

### 21 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 £1,739,000.

These notes form part of the financial statements

# FR AVIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2004

### 22 RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2004 and balances at that date were as follows:

|                                                  | <b>Purchases<br/>in Year<br/>£000</b> | <b>2004<br/>Creditor<br/>Balance<br/>£000</b> | <b>Purchases<br/>in Year<br/>£000</b> | <b>2003<br/>Creditor<br/>Balance<br/>£000</b> |
|--------------------------------------------------|---------------------------------------|-----------------------------------------------|---------------------------------------|-----------------------------------------------|
| Bournemouth Aviation Services<br>Company Limited | 133                                   | 8                                             | 91                                    | 22                                            |
|                                                  | <b>Sales<br/>in Year<br/>£000</b>     | <b>2004<br/>Debtor<br/>Balance<br/>£000</b>   | <b>Sales<br/>in Year<br/>£000</b>     | <b>2003<br/>Debtor<br/>Balance<br/>£000</b>   |
| Bournemouth Aviation Services<br>Company Limited | 287                                   | 39                                            | 431                                   | 76                                            |
| FB Heliservices Limited                          | 73                                    | 13                                            | 112                                   | 7                                             |
| Aviation Défense SA                              | 30                                    | 14                                            | 303                                   | 58                                            |
|                                                  | 390                                   | 66                                            | 846                                   | 141                                           |

FB Heliservices Limited and Aviation Défense SA are joint venture companies of the Cobham plc group.

Bournemouth Aviation Services Company Limited was an associate of FR Aviation Group Limited. Its holding of 40% of the allotted share capital of Bournemouth Aviation Services Company Limited was reduced to 19% effective 1 April 2004.

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.