

Bombardier Aerospace Europe Limited

Report and Financial Statements

31 January 2002



Bombardier Aerospace Europe Limited

Registered No. 2403482

DIRECTORS

David Hendron
Patrick Murphy
Michael Ryan
Bronagh McKeown

SECRETARY

Trusec Limited

AUDITORS

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast BT2 7DT

BANKERS

National Westminster Bank PLC
21 Lombard Street
London EC3P 2AR

Bank of Ireland
Donegall House
7 Donegall Square North
Belfast BT1 5LK

REGISTERED OFFICE

1 Bunhill Row
London EC8Y 1YY

Bombardier Aerospace Europe Limited

DIRECTORS' REPORT

The directors of Bombardier Aerospace Europe Limited present their annual report and financial statements for the year ended 31 January 2002.

RESULTS AND DIVIDENDS

The consolidated profit and loss account on page 7 of the financial statements shows a profit for the financial year of £26.5 million. During the year, the Company made an interim dividend payment of £25 million. The directors do not recommend the payment of a final dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Group's principal activities are the design, development and manufacture of aircraft components, and provision of related products and services.

The Group has continued its policy of selective development of technology in areas of product design and manufacturing processes. Particular emphasis continues to be given to the programme of investment in modern production facilities and advanced manufacturing technology.

The Group's future business plans are based on seeking continued growth through exploitation of existing products and development of new business.

DIRECTORS

The directors of the company at 31 January 2002 are those listed on page 2. Mr Patrick Murphy resigned from the Board on 1 June 2001. Ms Bronagh McKeown was appointed to the Board on 1 June 2001. There are no directors' interests requiring disclosure under the Companies Act 1985.

EMPLOYEES

The Group is an equal opportunity employer, and its policy is to appoint persons on the basis of merit and capability without regard to religious belief, political opinion, sex, marital status, race or colour. It is the Group's policy to offer equal opportunity to disabled persons applying for vacancies, having regard to their aptitudes and abilities in relation to the jobs for which they apply. When an employee becomes disabled every effort is made to ensure continuity of employment. In all instances, consideration is given to the provision of appropriate training facilities. The Group is committed to safeguarding the health and safety of its employees and others in accordance with the current legislation.

The Group encourages the involvement of employees in its affairs by participation in regular briefings and through a Joint Consultative Committee structure consisting of representatives of the Management and Trade Unions. By these means employees are regularly informed on the progress of the Group, and their views sought on matters which affect them as employees.

CREDITOR PAYMENT POLICY AND PRACTICE

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 January 2002, the Company had an average of nil days purchases outstanding in trade creditors.

Bombardier Aerospace Europe Limited

DIRECTORS' REPORT

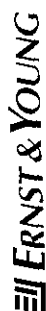
POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Group made donations for charitable purposes totalling £343,139. The Group made no political donations during the year.

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting

By order of the board

 ERNST & YOUNG



Director

13 June 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BOMBARDIER AEROSPACE EUROPE LIMITED

We have audited the financial statements for the year ended 31 January 2002 which comprise the Consolidated Profit and Loss Account, Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of the directors and auditors

As described in the Statement of Directors' Responsibilities the group's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal regulatory requirements and United Kingdom Auditing Standards.

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 group 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 with the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

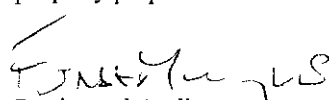
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 group'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 on the financial statements

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 January 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Registered Auditor
Belfast

13 June 2002

Bombardier Aerospace Europe Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 January 2002

	Notes	2002 £'000	Restated 2001 £'000
TURNOVER	2	474,464	539,825
Continuing operations		474,464	520,817
Discontinued operations		-	19,008
Changes in stocks of finished goods and work in progress		145,863	240
Other operating income – discontinued activities		-	371
Cost of sales and expenses	3	(577,105)	(489,776)
Continuing operations		43,222	48,179
Discontinued operations		-	2,481
OPERATING PROFIT	4	43,222	50,660
Exceptional charge	5	(556)	-
Profit on disposal of investments	6	-	30,007
Income from listed investments		-	204
Net interest payable	7	(3,645)	(2,346)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		39,021	78,525
Taxation	9	(12,543)	(14,275)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		26,478	64,250
Dividends		(25,000)	(265,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		1,478	(200,750)

Bombardier Aerospace Europe Limited

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 January 2002

	2002 £'000	Restated 2001 £'000
Profit for the financial year	26,478	64,250
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	26,478	64,250
Prior year adjustment	13,661	
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT	40,139	

Bombardier Aerospace Europe Limited

CONSOLIDATED BALANCE SHEET

at 31 January 2002

		2002	Restated 2001
	Note	£'000	£'000
FIXED ASSETS			
Tangible assets	12	91,687	77,476
Investment in associate	13	267	267
		<u>91,954</u>	<u>77,743</u>
CURRENT ASSETS			
Stocks	14	71,680	28,341
Debtors	15	294,856	416,562
Cash at bank and in hand		100,461	46,299
		<u>466,997</u>	<u>491,202</u>
CREDITORS: amounts falling due within one year	17	294,447	306,045
NET CURRENT ASSETS		<u>172,550</u>	<u>185,157</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>264,504</u>	<u>262,900</u>
CREDITORS: amounts falling due after more than one year	18	352	226
		<u>352</u>	<u>226</u>
		<u>264,152</u>	<u>262,674</u>
CAPITAL AND RESERVES			
Called up share capital	19	8,420	8,420
Reserve on consolidation	20	39,460	39,460
Profit and loss account	20	216,272	214,794
EQUITY SHAREHOLDERS' FUNDS		<u>264,152</u>	<u>262,674</u>

Directors



13 June 2002

Bombardier Aerospace Europe Limited

BALANCE SHEET

at 31 January 2002

	Notes	2002 £'000	2001 £'000
FIXED ASSETS			
Investments	13	32,172	32,172
CURRENT ASSETS			
Debtors	15	3,708	3,701
NET CURRENT ASSETS		3,708	3,701
TOTAL ASSETS LESS CURRENT LIABILITIES		35,880	35,873
CAPITAL AND RESERVES			
Called up share capital	20	8,420	8,420
Profit and loss account	20	27,460	27,453
EQUITY SHAREHOLDERS' FUNDS		35,880	35,873

Directors



13 June 2002

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

1. ACCOUNTING POLICIES

Basis of preparation

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

Translation of foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Basis of consolidation

The Group financial statements consolidate the financial statements of Bombardier Aerospace Europe Limited and its subsidiary undertakings drawn up to 31 January each year. No profit and loss account is presented for Bombardier Aerospace Europe Limited as permitted by Section 230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. The Group financial statements include, where material, the appropriate share of these undertakings' results and reserves derived from the latest audited or reliable unaudited financial statements made up to the company's reporting date.

Goodwill being the difference between the cost of acquisition of investment in subsidiary and fair value of the assets and liabilities acquired is amortised through the profit and loss account on a systematic basis over the directors' estimate of its useful life.

Turnover and revenue recognition

Revenues from long-term contracts are recognised using the percentage-of-completion method of accounting. Degree of completion for Bombardier Group contracts is determined on a unit delivery basis with cost of sales calculated by applying to the sale price of each unit of delivery the ratio of total estimated costs for the contract over the estimated total revenues from the contract. In the case of third party contracts the degree of completion is determined by comparing the cost, net of related grants, incurred to date to the total cost anticipated for the entire contract. Losses if any are fully recognised when anticipated.

Non-recurring costs are amortised over a predetermined number of units. Design and development costs are written off as incurred, except where they are recoverable from third parties.

Stocks

Raw materials and finished goods, other than those included in long-term contracts are stated at the lower of cost and estimated net realisable value. Cost comprises direct material and labour and an appropriate proportion of overheads together with specific product tooling and other related costs.

Work in progress is computed using the percentage of completion method of accounting. It includes material, direct labour, related manufacturing overhead as well as non-recurring costs (development, pre-production and tooling costs), and excess over average production costs.

Amounts recoverable under long-term contracts are computed under the percentage of completion method of accounting. It includes material, direct labour, related manufacturing overhead costs and estimated margin.

Advances and progress billings

Advances and progress billings on long-term contracts are deducted from related costs in inventories. Advances and progress billings in excess of related contract costs are shown as liabilities.

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost less any applicable grants. Depreciation is applied to reduce the cost of assets, less any applicable grants, to their estimated net realisable value at the end of their useful lives. It is provided by equal annual instalments over the following periods:

Freehold land	-	Nil
Freehold buildings and long leasehold property	-	40 years
Short leasehold property	-	Over the period of the lease
Plant, equipment and vehicles	-	3 to 10 years

Depreciation of assets under the course of construction commences when they are ready for their intended use.

Deferred taxation

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date. The timing differences arise from the different treatment for financial statements and tax purposes of transactions and events recognised in the financial statements of the current year and previous years. Deferred tax is not provided in respect of timing differences arising from the sale of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over. Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Previously deferred tax was accounted for in accordance with Statement of Standard Accounting Practice (SSAP) 15 and the deferred tax asset was not recognised. The effect of the change in accounting policy on the results is disclosed in Note 9.

Assets under operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Pension scheme

The Group operates a funded pension scheme providing benefits based on final pensionable earnings. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. They are assessed in accordance with the advice of a qualified actuary on the basis of regular actuarial valuations using the projected unit method. Adjustments arising from experienced gains and losses are amortised over the average remaining service lives of the members.

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

2. **TURNOVER AND SEGMENTAL INFORMATION**

An analysis of turnover and segmental information has not been given since, in the opinion of the directors, this would be seriously prejudicial to the interests of the Group.

3. **COST OF SALES AND OPERATING EXPENSES**

	Note	Continuing £'000	Discontinued £'000	2002 £'000
Raw materials and consumables		228,790	-	228,790
Other external charges		40,879	-	40,879
Staff costs	8	191,572	-	191,572
Depreciation of owned tangible fixed assets	12	10,608	-	10,608
Other operating charges		101,925	-	101,925
Impairment in value of assets		3,331	-	3,331
		<u>577,105</u>	<u>-</u>	<u>577,105</u>

		Continuing £'000	Discontinued £'000	2001 £'000
Raw materials and consumables		193,443	2,295	195,738
Other external charges		17,070	488	17,558
Staff costs		166,091	5,353	171,444
Depreciation of owned tangible fixed asset		9,517	53	9,570
Amortisation of goodwill		-	953	953
Other operating charges		85,804	8,709	94,513
		<u>471,925</u>	<u>17,851</u>	<u>489,776</u>

4. **OPERATING PROFIT**

This is stated after charging/(crediting):

	2002 £'000	2001 £'000
Auditors' remuneration		
- audit services	155	156
- non audit services	194	190
Operating lease rentals		
- land and buildings	1,212	5,214
- plant and machinery	16,112	2,303
- other	-	4
Hire of plant and machinery	20	-
Profit on disposal of fixed assets	(29)	-
	<u>-</u>	<u>-</u>

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

5. EXCEPTIONAL ITEMS

In Autumn 2001 the directors announced that although Flexjet Europe Limited would continue to procure and arrange air transportation services, from early 2002 air transportation would be provided by business partners (authorised aircraft operators) rather than operating its own aircraft. Costs associated with this restructuring were as follows:

	2002 £'000	2001 £'000
Redundancy costs	464	-
Other transition costs	92	-
	<u>556</u>	<u>-</u>

6. PROFIT ON DISPOSAL OF INVESTMENTS

	2002 £'000	2001 £'000
Profit on disposal of a listed investment	-	4,341
Gain on disposal of trade, assets & liabilities	-	25,666
	<u>-</u>	<u>30,007</u>

7. NET INTEREST PAYABLE

	2002 £'000	2001 £'000
Bank loans and overdrafts	(14)	(23)
Finance charges payable under finance leases	-	(6)
Interest payable to group companies	(8,020)	(6,539)
	<u>(8,034)</u>	<u>(6,568)</u>
Interest receivable	4,389	4,222
	<u>(3,645)</u>	<u>(2,346)</u>

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

8. STAFF COSTS

The average number of employees (including directors) employed by the Group during the year was:

	2002 No.	2001 No.
Operations	7,265	7,127
Administration	406	448
	<u>7,671</u>	<u>7,575</u>

The aggregate payroll costs of these employees were:

	2002 £'000	2001 £'000
Wages and salaries	178,144	159,120
Social security costs	13,325	12,268
Other pension costs	103	56
	<u>191,572</u>	<u>171,444</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

		2002	Restated	2001
	£'000	£'000	£'000	£'000
(a) Analysis of charge in period				
<i>Current tax</i>				
UK corporation tax on profits of the period	17,384		3,869	
Adjustments in respect of prior periods	(355)		538	
Foreign tax	-		162	
Total current tax		17,029		4,569
<i>Deferred tax</i>				
Origination and reversal of timing differences	(4,636)		9,706	
Adjustments in respect of prior periods	150		-	
Total deferred tax (note 16)		(4,486)		9,706
Total tax on profit on ordinary activities		<u>12,543</u>		<u>14,275</u>

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting tax charge for the period

The tax assessed for the year varies from the standard rate of corporation tax in the UK (30%).
The differences are explained below

	2002 £'000	Restated 2001 £'000
Profit on ordinary activities before tax	39,021	78,525
Profit on ordinary activities before tax @ 30%	11,707	23,558
Effects of:		
Permanent Differences	1,004	(233)
Goodwill on consolidation	-	(3,022)
Utilisation of brought forward losses	-	(1,948)
Disposal of investment	-	(4,721)
Accounting depreciation not eligible for tax purposes	37	44
Tax depreciation in excess of accounting depreciation	(1,123)	(804)
Pension provision	9,071	5,690
Other timing differences	(3,312)	(14,695)
Adjustments to tax charge to in respect of prior periods	(355)	538
Foreign tax	-	162
Current tax charge for period	17,029	4,569

The directors have implemented Financial Reporting Standard No. 19 "Deferred tax" ("FRS 19") in the current year's financial statements. As required by that standard the comparatives figures have been restated for the effects of the change in accounting policy arising on implementation of FRS 19 as follows:

	2001 £'000
Profit retained	
As previously reported	201,133
Effect of implementing new accounting policy	13,661
As restated	214,794
Net assets	
As previously reported	249,013
Effect of implementing new accounting policy	13,661
As restated	262,674

As a result of the change in accounting policy, the group profit for the year ended 31 January 2002 has been increased by £4.5M.

(c) Factors that may affect future tax charges

No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets. The amount not provided is £1,000,000. At present it is not envisaged that any tax will become payable in the foreseeable future.

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 January 2002

10. DIRECTORS' REMUNERATION

	2002 £'000	2001 £'000
Emoluments	242	296
Highest paid director:		
Emoluments	99	96
Accrued pension at 31 January	29	16
	2002 No.	2001 No.
Members of defined benefits pensions schemes	3	4

11. PROFIT ATTRIBUTABLE TO MEMBERS

The profit dealt with in the financial statements of the company was £25,007,240 (2001 - £267,130,000) and is shown in the Reconciliation of Shareholders Funds and Movements on Reserves in note 20.

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 January 2002

12. TANGIBLE FIXED ASSETS *Group*

	<i>Assets in the course of construction £'000</i>	<i>Land and buildings £'000</i>	<i>Plant and equipment £'000</i>	<i>Total £'000</i>
Net Cost:				
At 1 February 2001	19,289	76,961	111,017	207,267
Additions	8,788	6,741	9,331	24,860
Disposals	-	(284)	(1,659)	(1,943)
Transfer	(24,055)	17,566	6,489	-
At 31 January 2002	4,022	100,984	125,178	230,184
Depreciation				
At 1 February 2001	-	33,296	96,495	129,791
Charge for year	-	2,680	7,928	10,608
Disposals	-	(275)	(1,627)	(1,902)
At 31 January 2002	-	35,701	102,796	138,497
Net book value at 31 January 2002	4,022	65,209	22,456	91,687
Net book value at 31 January 2001	19,289	43,665	14,522	77,476

Land and buildings at net book value comprise:

	<i>2002 £'000</i>	<i>Group 2001 £'000</i>
Freehold	2,692	2,762
Long leasehold	62,469	40,903
Leasehold improvements	48	-
	65,209	43,665

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

13. INVESTMENTS

Associates

£'000

At 31 January 2001 and January 2002

267

267

Company

2002
£'000

2001
£'000

Investment in subsidiary company at cost

32,172

32,172

Details of the principal investments in which the Group or the company holds more than 10% of the nominal value of any class of share capital are set out below:

<i>Name of company</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion shares held</i>	<i>Nature of business</i>
<i>Subsidiary undertakings</i>				
Bombardier Aerospace UK Limited	UK	Ordinary shares	100%	Holding company
Short Brothers PLC *	N Ireland	Ordinary shares	100%	Design and manufacture of aircraft and aircraft components
Flexjet Europe Limited ** (formerly Bombardier (UK) Limited)	UK	Ordinary shares	100%	Aircraft fractional ownership
Bombardier Services (UK) Limited *	UK	Ordinary shares	100%	Services to the aerospace industry
Belfast City Airport Limited ***	N Ireland	Ordinary shares	100%	Airport services

* Held by the subsidiary undertaking Bombardier Aerospace (UK) Limited

** Held by the subsidiary undertaking Short Brothers PLC

*** Held by the subsidiary undertaking Bombardier Services (UK) Limited

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

14. STOCKS

	2002 £'000	Group 2001 £'000
Raw materials	24,499	25,764
Finished goods	8,716	2,577
Work in progress	38,465	-
	<u>71,680</u>	<u>28,341</u>

15. DEBTORS

	2002 £'000	Group 2001 £'000	2002 £'000	Company 2001 £'000
Amounts recoverable on long-term contracts	47,850	120,438	-	-
Trade debtors	8,262	22,213	-	-
Amounts due from group undertakings	187,611	203,345	3,718	3,689
Other debtors	4,715	9,188	(10)	12
Long leasehold land and buildings	-	247	-	-
Prepayments	28,003	47,470	-	-
Deferred tax asset (see note 16)	18,147	13,661	-	-
Corporate tax debtor	268	-	-	-
	<u>294,856</u>	<u>416,562</u>	<u>3,708</u>	<u>3,701</u>

Included in the amounts recoverable on long-term contracts and deferred tax asset balances above is £47,125,000 and £18,147,000 respectively, which is due after more than one year (2001 - £47,801,000 and £13,661,000).

16. DEFERRED TAX ASSET

Group	2002 £'000	Restated 2001 £'000
Asset at 1 February	13,661	23,367
Credit/(charge) to profit and loss account (note 9)	4,486	(9,706)
Asset at 31 January	<u>18,147</u>	<u>13,661</u>

The major components of the deferred tax asset provided in the financial statements is as follows:

	2002 £'000	Restated 2001 £'000
Accelerated capital allowances	(2,473)	(1,190)
Pension provision	4,246	(4,825)
Other timing differences	16,374	19,676
Asset at 31 January	<u>18,147</u>	<u>13,661</u>

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

17. CREDITORS: amounts falling due within one year

	2002	Group 2001
	£'000	£'000
Bank overdraft	11	-
Trade creditors	67,647	67,182
Amounts owed to group undertakings	32,414	25,340
Amounts due to group undertakings – loans	119,311	125,000
Customers' deposits and payments on account	13,648	16,697
Other creditors	418	2,075
Social security and taxation	3,689	12,306
Accruals	36,636	57,445
Corporation tax	20,673	-
	<u>294,447</u>	<u>306,045</u>

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002	Group 2001
	£'000	£'000
Other creditors	352	226
	<u>352</u>	<u>226</u>

19. SHARE CAPITAL

	2002	2001
	£'000	£'000
<i>Authorised:</i>		
Ordinary shares of £1 each	100,000	100,000
Redeemable shares of £0.53 each	7,420	7,420
	<u>107,420</u>	<u>107,420</u>
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	1,000	1,000
Redeemable shares of £0.53 each	7,420	7,420
	<u>8,420</u>	<u>8,420</u>

The shares are redeemable at any time subject to a 7 days notice period from the shareholder, at nil premium.

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 January 2002

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

Group

	Share capital £'000	Share premium account £'000	Restated Profit and loss account £'000	Total £'000
At 1 February 2000	8,420	39,460	415,544	463,424
Profit for the year	-	-	64,250	64,250
Dividend paid	-	-	(265,000)	(265,000)
At 1 February 2001	8,420	39,460	214,794	262,674
Profit for the year	-	-	26,478	26,478
Dividend paid	-	-	(25,000)	(25,000)
At 31 January 2002	8,420	39,460	216,272	264,152

Profit and Loss account

£'000

At 1 February 2001 as previously reported
Prior year adjustment

201,133
13,661

As restated
Retained loss for the year

214,794
1,478

At 31 January 2002

216,272

Company

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 February 2000	8,420	25,323	33,743
Profit for the year	-	267,130	267,130
Dividend Paid	-	(265,000)	(265,000)
At 1 February 2001	8,420	27,453	35,873
Profit for the year	-	25,007	25,007
Dividend Paid	-	(25,000)	(25,000)
At 31 January 2002	8,420	27,460	35,880

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 January 2002

21. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to £1,113,927 for the Group (2001 - £5,527,299).

22. LEASE RENTAL COMMITMENTS

Group

At 31 January 2002, annual commitments under operating leases were as follows:

	<i>Land and buildings</i>		<i>Other assets</i>	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Within one year	20	108	625	3,664
Between two and five years inclusive	149	176	1,639	4,442
In more than five years	750	696	10,531	12,460
	<u>919</u>	<u>980</u>	<u>12,795</u>	<u>20,566</u>

NOTES TO THE FINANCIAL STATEMENTS
at 31 January 2002

23 COMMITMENTS TO PENSION FUNDS

Current Accounting Standard (SSAP 24)

The Group's principal pension scheme is a defined benefits scheme, which is funded by the payment of contributions to a separately administered trust fund. Contributions to the scheme are determined with the advice of independent qualified actuaries on the basis of regular actuarial valuations using the projected unit method.

The most recent actuarial valuation was conducted as at 5 April 1999 and in the valuation it was assumed that:

- (i) the rate of return on investments will exceed the rate of growth of earnings by 3.25% per annum and the rate of price inflation by 4.75% per annum compound.
- (ii) earnings will increase by 1.5% per annum compound in excess of price inflation.

At 5 April 1999 the market value of the assets was £311.2 million and the actuarial value of the assets represented 118% of the value of benefits which had accrued to members after allowing for expected future increases in pensionable earnings. On the advice of the pension scheme actuary the Group had suspended funding of the scheme.

However, on the basis of an actuarial review at 5 April 2001 using assumptions similar to those above and in conjunction with an assessment of the market values of the scheme's assets at 31 January 2002, for the purpose of the current pensions accounting standard (SSAP 24) the scheme is now estimated to be in deficit by some £33 million. This deficit is being amortised on a straight-line basis over the expected average future working lifetime of the membership. Contributions made by the employer in the year were £Nil, however, the Group will recommence contributions at a rate of 6% with effect from February 2002.

Regular pension costs are accounted for at a rate of 6% in line with actuarial recommendations. The total SSAP 24 pension charge for the year was £14.6 million, including a £6 million variation from the regular cost. An amount of £21.3 million is included in prepayments, which represents the excess of amounts funded over pension costs.

Future Accounting Standard - Financial Reporting Standard No. 17 "Retirement Benefits" ("FRS 17")

Although FRS 17 does not require full implementation until the financial statements for the year ending 31 January 2004, additional disclosures are required in this year's financial statements and are set out overleaf.

The key differences between the two accounting standards results in the deficit in the scheme moving from £33 million under SSAP24 to £161 million (before deferred tax) under FRS17. The key contributors to this increase are twofold:

- (i) FRS17 requires the full future cost of discretionary increases to be included in the calculation of the pension liabilities. Under SSAP24, only the value of the current year cost is included. The result of this change has increased the liabilities and hence the deficit.
- (ii) FRS17 prescribes the use of more conservative assumptions in calculating scheme liabilities, specifically the use of a lower discount rate to be applied to future liabilities. This has the result of increasing the present value of future liabilities and hence the deficit.

Bombardier Aerospace Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2002

23. COMMITMENTS TO PENSION FUNDS (continued)

	<i>At 31 January 2002</i>
<i>Major assumptions:</i>	
Rate of general increase in salaries	3.50%
Rate of increase to pensions in payment	2.00%
Discount rate for scheme liabilities	5.50%
Inflation	2.00%

The expected long-term rate of returns and market values of the assets of the scheme at 31 January 2002 were as follows:

	<i>Expected long-term Rate of Return %</i>	<i>Market value £'000</i>
<i>Assets</i>		
Equities	9.00	209,352
Fixed interest bonds	4.50	24,105
Indexed linked bonds	4.25	10,743
Cash	4.00	17,817
Total market value of assets		262,017
Present value of scheme liabilities		(422,724)
Deficit in the scheme		(160,707)
Related deferred tax asset		48,212
Net Pension Liability		(112,495)

	<i>31 January 2002 £'000</i>
NET ASSETS	
Net assets per balance sheet	264,152
Less pension prepayment under SSAP24	(21,317)
Net assets excluding pension liability under FRS17	242,835
Less net pension deficit under FRS17	(112,495)
Net assets including pension liability under FRS17	130,340
RESERVES	
Profit and loss account per balance sheet	216,272
Less pension prepayment under SSAP24	(21,317)
Profit and Loss account excluding pension liability under FRS17	194,955
Less net pension liability under FRS17	(112,495)
Profit and Loss account including pension liability under FRS17	82,460

NOTES TO THE FINANCIAL STATEMENTS
at 31 January 2002

24. OTHER FINANCIAL COMMITMENTS

The Group has entered into an agreement with a third party, whereby a subsidiary, as an agent for the third party, manufactures production line tooling and incurs engineering development expenditures, including related software development costs ("the equipment") and which will then lease from this third party such equipment under the terms of an operating lease agreement for the use in the production of aerostructures for the Continental business jet.

The Group remains liable for the usual contractual obligations relating to contract completion in accordance with predetermined specification and timely delivery.

As of 31 January 2002, interest bearing advances totalling £14.6 million had been received in connection with this agreement and have been deducted from the related accumulated long term contract cost.

25. RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption in FRS8 from disclosing transactions with those related parties that are companies within the Bombardier Inc. group.

26. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is Bombardier Inc, a Corporation incorporated in Canada. Published financial statements for the latter company may be obtained from Bombardier Inc, 29th Floor, 800 Rene-Levesque Blvd. West, Montreal, Quebec, Canada, H3B 1Y8.