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ARTHUR ANDERSEN

Aviation Training International Limited

Directors' Report and Financial Statements
For the year ended 31 December 2000

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Company No. 3490323 (England and Wales)

Aviation Training International Ltd

Company Information

Incorporated:	In England 8 January 1998 under name Precis (1618) Ltd – name changed to Aviation Training International Limited on 21 July 1998.
Company number:	3490323 (England and Wales)
Directors:	Ronald D. Hancock (Boeing), Chairman Albert G. Brookes (GWHL) Martin C. Fausset (GWHL) Keith R. Hetzenberg (Boeing)
Secretary:	Office Organization & Services Limited
Address:	Coldharbour Business Park Sherborne Dorset DT9 4JW
Registered Office:	Level 1 Exchange House Primrose Street London EC2A 2HS
Auditors:	Arthur Andersen Abbots House Abbey Street Reading RG1 3BD

Aviation Training International Ltd

Contents

Aviation Training International Ltd

Directors Report

For the year ended 31 December 2000

The directors present their report and the financial statements for the year ended 31 December 2000.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal Activity

The principal activity of the Company is to provide the British Army with non-airborne training for helicopter aircrew, groundcrew and maintenance personnel.

Business Review

The Company commenced training operations in July 2000. Despite delays in the delivery of key training service materials and equipment to the Company, the Company made an operating profit of £5,681,000 and had cash inflows of £7,538,000 from operating activities. In addition the Company continued its efforts to establish two additional training sites. Training services are scheduled to commence at these sites in 2001 and 2002.

Results

The Profit and Loss Account of the Company for the year shows a loss after interest and tax of £199,000 (1999 – loss of £1,735,000).

Dividends

The directors do not propose a dividend for the year.

Aviation Training International Ltd

Directors' Report

For the year ended 31 December 2000

Directors

The directors at 31 December 2000 hold no interest in the Company. The directors who served in the year were as follows:

Martin C. Fausset (GWHL)	
Glenn Barton (GWHL)	Resigned 20 January 2000
Albert G. Brookes (GWHL)	Appointed 20 January 2000
Ronald D. Hancock (Boeing)	
Keith R. Hertzenberg (Boeing)	

Auditors

The auditors, Arthur Andersen, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the Board on 06 March 2001and signed on its behalf.

....
Ronald D. Hancock
Director, Chairman

ARTHUR ANDERSEN

Auditors' report to the shareholders of Aviation Training International Ltd

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 1 the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of 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 judgments 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 as at 31 December 2000 and the loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen   BY JOHN BRIGGS

Arthur Andersen
Chartered Accountants and Registered Auditors

Date 6 March 2001

Aviation Training International Ltd

Profit and Loss Account
For the year ended 31 December 2000

	Notes	2000 £000's	1999 £000's
Turnover	2	13,393	-
Cost of sales		(6,614)	-
Gross Profit		6,779	-
Administrative expenses		(1,869)	(1,314)
Other operating income		771	-
Operating profit / (loss)	3	5,681	(1,314)
Interest receivable		870	316
Interest payable and similar charges	4	(6,750)	(737)
Loss on ordinary activities before and after taxation being loss for the year		(199)	(1,735)
Accumulated deficit at beginning of year		(2,611)	(876)
Accumulated deficit at end of year		(2,810)	(2,611)

There are no recognised gains or losses other than the loss for the period

The notes on pages 7 to 13 form an integral part of these financial statements.

Aviation Training International Ltd

Balance Sheet
As at 31 December 2000

	Notes	2000 £000's	2000 £000's	1999 £000's	1999 £000's
Fixed Assets					
Tangible Assets	5		192,661		166,239
Current Assets					
Stocks	6	2,167		-	
Debtors	7	1,353		2,078	
Cash at bank and in hand		21,181		4,986	
		24,701		7,064	
Creditors: amounts falling due within one year	8	(4,901)		(2,221)	
Net Current Assets			19,800		4,843
Total Assets less Current Liabilities			212,461		171,082
Creditors: amounts falling due after more than one year	9		(214,721)		(173,143)
Net Liabilities			(2,260)		(2,061)
Capital and Reserves					
Called up share capital	11		550		550
Profit and loss account			(2,810)		(2,611)
Equity Shareholders' Funds	12		(2,260)		(2,061)

The financial statements were approved by the board on 06 March 2001 and signed on its behalf.

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Ronald D. Hancock
Director, Chairman

The notes on pages 7 to 13 form an integral part of these financial statements.

Aviation Training International Ltd

Cash Flow Statement
For the year ended 31 December 1999

	Notes	2000 £000's	2000 £000's	1999 £000's	1999 £000's
Net cash inflow/(outflow) from operating activities	13		7,538		(1,082)
Returns on Investment and Servicing of Finance					
Interest received		804		312	
Interest paid		(14,562)		(10,790)	
			(13,758)		(10,478)
Capital Expenditure					
Payments to acquire tangible fixed assets			(18,985)		(45,949)
			(25,205)		(57,509)
Financing					
Receipts from borrowings due in over 1 year			41,400		58,600
Increase in cash flows			16,195		1,091

Reconciliation of net cash flow to movement in net debt		**1999 £000's**	**1998 £000's**
Net debt at beginning of period		(170,810)	(113,301)
Increase in cash in the year		16,195	1,091
Cash inflow from increase in debt		(41,400)	(58,600)
Net debt at end of period	14	(196,015)	(170,810)

The notes on pages 7 to 13 form an integral part of these financial statements.

1. Accounting Policies

1.1 Basis of accounting

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

The financial statements have been prepared on a going concern basis. The Company made a loss for the year of £199,000 and had net liabilities of £2,260,000. The loss for the year is the result of commencing revenue generating operations at mid year. In addition the Company has undrawn borrowing facilities of £32,404,000. Therefore the directors have concluded that the financial statements may be drawn up on a going concern basis.

1.2 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Interest payable and fees incurred in relation to the production of tangible assets are capitalised on an asset by asset basis using the applicable rate of interest charged on the related debt.

Interest is capitalised on each asset up until each asset is ready for its intended use and is capable of generating revenues.

Depreciation is provided at rates calculated to write off the costs of fixed assets, less their estimated residual value, over their expected useful lives on a straight line basis as follows:

Short leasehold buildings and improvements	Between 10 and 18 years or the period of the lease if shorter.
Simulators and training equipment	Between 3 and 18 years, unless usage is guaranteed under contract in which case depreciation is provided at guaranteed usage rates.
Office equipment and systems and other	Between 3 and 18 years

1.3 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or, if hedged, at the rate in the forward contract.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction except in instances where those transactions are provided for at a hedged rate of exchange. Exchange differences are taken into account in arriving at the operating profit.

1.4 Operating Leases

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

1.5 Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

1.6 Taxation

Corporation tax payable is provided on taxable profits at the current rate. A provision is made for deferred taxation as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes, using the liability method. A provision is made only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the near future.

1.7 Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Turnover also includes amounts receivable in lieu of lost revenues as provided for in Private Finance Initiative (PFI) arrangements.

1.8 Debt

Debt is initially stated at the amount of net proceeds after deduction of issue costs. The carrying amount is increased by the finance costs in respect of the accounting period and reduced by payments made in the period.

1.9 Finance Costs

Finance costs of debt are recognised over the term of such instruments at a constant rate on the carrying amount.

2. Turnover

The turnover was derived from the Company's principal activity which was carried out wholly in the UK.

3. Operating Profit / (Loss)

The operating profit / (loss) is stated after charging:	2000 £000's	1999 £000's
Wages and salaries	1,495	223
Social security costs	148	23
Other pension costs	87	17
Depreciation on owned assets	3,948	33
Operating lease rentals		
other	60	28
Auditors' remuneration:		
for audit	12	9
for non-audit services	11	5

The average number of staff employed by the Company during the year was 55 (1999 – 7). The directors received no remuneration during the year (1999 - £nil).

Aviation Training International Ltd

Notes on the accounts 31 December 2000

4. Interest Payable and similar charges

	2000 £000's	1999 £000's
Bank loans	14,628	10,774
Amortisation of loan issue costs	178	173
	14,806	10,947
Less: Interest capitalised	(8,056)	(10,210)
	6,750	737

5. Tangible Fixed Assets

	Short leasehold buildings and improvements £000's	Simulators and training equipment £000's	Office equipment systems and other £000's	Total £000's
Cost				
At 1 January 2000	20,119	135,243	10,910	166,272
Additions	4,069	26,301	-	30,370
Transfers	-	4,652	(4,652)	-
At 31 December 2000	24,188	166,196	6,258	196,642
Accumulated depreciation				
At 1 January 2000	2	-	31	33
Charge for the year	476	3,145	327	3,948
At 31 December 2000	478	3,145	358	3,981
Net book values				
At 31 December 2000	23,710	163,051	5,900	192,661
At 31 December 1999	20,117	135,243	10,879	166,239

Interest and fees are capitalised in so far as they are directly attributable to the acquisition, construction or production of an asset at the effective rate of 7.35%. The amounts capitalised are as follows:

Interest and fees	2000 £000's	1999 £000's
Short leasehold buildings and improvements	2,617	1,611
Simulators and training equipment	18,133	10,829
Office equipment and systems	619	873
	21,369	13,313

6. Stocks

	2000 £000's	1999 £000's
Consumables	2,167	-

7. Debtors

	2000 £000's	1999 £000's
Due within one year		
Trade debtors	74	4
Prepayments	1,275	1,797
Other debtors	4	277
	1,353	2,078

8. Creditors: amounts falling due within one year

	2000 £000's	1999 £000's
Trade creditors	3,667	1,791
Other creditors including taxation and social security	60	79
Accruals	1,174	351
	4,901	2,221

9. Creditors: amounts falling due after more than one year

	2000 £000's	1999 £000's
Bank loans	214,721	173,143
Amounts falling due:		
Between two and five years	64,996	59,212
After more than five years	152,200	116,584
	217,196	175,796
Less issue costs	(2,475)	(2,653)
	214,721	173,143

Obligations for £39.6m of subordinated debt have been guaranteed by GKN (United Kingdom) plc and The Boeing Company. This debt will be repaid in full on 30 June 2003.

The additional debts outstanding are secured by a first fixed charge over all the assets of the Company, assignment of insurance policies and projected contracts and first fixed and floating charges over bank accounts. These debts are due to be repaid by 24 consecutive semi-annual repayments payable on and from June 2003 until December 2014.

The interest rates applicable to the debts outstanding are LIBOR plus 0.35% bank margin on the subordinated debt of £39.6m and LIBOR plus 0.95% bank margin on the additional debt outstanding. An additional Mandatory Liquid Assets cost is applied to all outstanding debts.

The Company has undrawn committed borrowing facilities at 31 December 2000 in respect of which all conditions precedent have been met as follows:

	2000 £000's	1999 £000's
Expiring in more than two years	32,404	73,805

10. Provisions for liabilities and charges

The potential liability (asset) for deferred taxation is shown below.

	2000 £000's	1999 £000's
Accelerated capital allowances	6,423	-
Tax losses available	(13,675)	(4,766)
	(7,252)	(4,766)

The company has not recognised the net deferred tax asset in the financial statements.

11. Share Capital

	2000 £000's	1999 £000's
Authorised, allotted, called up and fully paid		
Ordinary class "A" shares of £1 each	275	275
Ordinary class "B" shares of £1 each	275	275
	550	550

Class A and Class B shares carry the same rights. All shares were allotted at nominal value.

12. Reconciliation of movements in Equity Shareholders' Funds

	2000 £000's	1999 £000's
As at beginning of year	(2,061)	(326)
Loss for the period	(199)	(1,735)
New share capital subscribed	-	-
Deficit on Equity Shareholders' Funds at end of year	(2,260)	(2,061)

13. Reconciliation of operating profit / loss to net cash flow from operating activities

	2000 £000's	1999 £000's
Operating profit / (loss)	5,681	(1,314)
Depreciation	3,948	33
Increase in debtors	(722)	(118)
Increase in stocks	(2,167)	-
Increase in creditors	798	317
Net cash inflow/(outflow) from operating activities	7,538	(1,082)

14. Analysis of changes in net debt

	At 1 January 2000 £000's	Cash flows £000's	At 31 December 2000 £000's
Cash at bank and in hand	4,986	16,195	21,181
Debt due after 1 year	(175,796)	(41,400)	(217,196)
	(170,810)	25,205	(196,015)

15. Financial Commitments

a) At year end the Company had capital commitments as follows:

	2000 £000's	1999 £000's
Contracted for but not provided for	23,426	46,029

b) Annual commitments under non-cancellable operating leases are as follows:

	2000 £000's	2000 £000's	1999 £000's	1999 £000's
Expiry date	Buildings	Others	Buildings	Others
Within one year	40	20	40	15
Between one and five years	160	35	160	41
After five years	137	-	177	-
	337	55	377	56

c) At 31 December 2000 the Company had contracted to buy $6,870,000 (1999 - $47,455,000) at a hedged rate of $1.65 (1999 - $1.65).

16. Pensions

The Company participates in the externally funded defined benefit group pension arrangements of GKN plc. The Company's pension cost is based on pension cost assessed across the scheme membership as a whole, as is the Company's pension contribution which is determined in accordance with the advice of professionally qualified actuaries. The latest actuarial assessments for the Westland Staff Pension Scheme and the GKN Group Executive and Senior Staff Pension Scheme was April 2000, and particulars of the valuations are included in the accounts of GKN plc.

17. Related Parties

The Company is controlled by GKN Westland Helicopters Ltd and The Boeing Company by virtue of each having ownership of 50% of the issued ordinary share capital in the Company.

In July 2000, GKN plc of the UK and Finmeccanica of Italy announced their intention to merge GKN Westland Helicopters Ltd and Agusta to form the jointly owned AgustaWestland. Under the terms of the agreement, Finmeccanica and GKN will each own 50% of the AgustaWestland joint venture upon completion. In part consideration for its 50% interest in AgustaWestland, GKN will contribute it's 50% interest in the Company. As of 31 December 2000 the merger has not been completed.

During the year under review the Company purchased £7,867,787 (1999 – £22,065,000) excluding VAT of goods and services from GKN Westland Helicopters Ltd. The Company also purchased $26,694,313 (£16,178,372) (1999 - $33,833,000 / £20,505,000) of goods and services from The Boeing Company.

At 31 December 2000 the Company owed GKN Westland Helicopters Limited £1,206,555 (1999 - £343,000) and The Boeing Company $3,912,305 (£2,371,000) (1999 - $2,376,403 / £1,440,000).

17. Related Parties (continued)

During the year under review the Company invoiced GKN Westland Helicopters Limited £127,413 (1999 – 0) and The Boeing Company £2,107,464 (1999 – 0) excluding VAT, for indemnification for delays and associated costs. At 31 December 2000 no amounts were outstanding.

Obligations for £39.6m of subordinated debt have been guaranteed by GKN (United Kingdom) plc and The Boeing Company. The debt will be paid in full on 30 June 2003.