

Aviation Training International Limited

Directors' Report and Financial Statements

For the period ended 31 December 1998

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: Keith R. Hertzzenberg (Boeing), Chairman
Glenn Barton (GWHL)
Martin C. Fausset (GWHL)
Raymond D. Ferrari (Boeing)

Secretary: Office Organization & Services Limited

Address: Box 35
c/o GKN Westland Helicopters Ltd
Lysander Road
Yeovil BA20 2YB

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

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Aviation Training International Ltd

Directors' Report

For the period ended 31 December 1998

The directors present their first report and the financial statements for the period ended 31 December 1998. The company was incorporated on 8 January 1998.

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 and Business Review

The principal activity of the company is to provide the British Army with non-airborne training for helicopter aircrew, groundcrew and maintenance personnel. The company is currently in the process of recruiting key management personnel as well as constructing the training equipment and facilities. Operations are scheduled to commence in July 2000.

Results and Dividends

The results for the year are set out on page 4. The directors do not propose a dividend for the year.

Year 2000 Compliance

The directors have considered the potential impact on the business and operations of the company of issues associated with the year 2000 date change and do not believe the company is exposed to any material risk or uncertainties in this area. All internal systems have been assessed for year 2000 compliance. No material expenditure is expected to be incurred in this area.

Aviation Training International Ltd

Directors' Report

For the period ended 31 December 1998

Directors

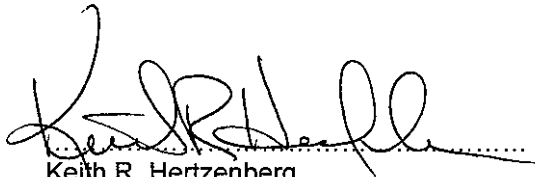
The directors at 31 December 1998 hold no interest in the company. The directors who served in the year were as follows:

Keith R. Hertenberg (Boeing), Chairman	(appointed 16 July 1998)
Glenn Barton (GWHL)	(appointed 16 July 1998)
Martin C. Fausset (GWHL)	(appointed 16 July 1998)
Raymond D. Ferrari (Boeing)	(appointed 16 July 1998)
Clare Wilson	(appointed 8 January 1998, resigned 16 July 1998)
Mark Zerdin	(appointed 8 January 1998, resigned 16 July 1998)

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 28 April 1999 and signed on its behalf.



Keith R. Hertenberg
Director

Aviation Training International Ltd

Auditors' report to the shareholders of Aviation Training International Ltd

We have audited the financial statements on pages 4 to 11 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. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

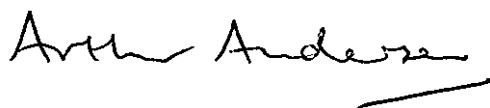
Basis of opinion

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 1998 and the loss and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
RG1 3BD

28 April 1999

Aviation Training International Ltd

Profit and Loss Account

For the period ended 31 December 1998

	Notes	£000's
Turnover		-
Administrative expenses		<u>(765)</u>
Operating loss	2	(765)
Interest payable and similar charges	3	<u>(111)</u>
Loss on ordinary activities before and after taxation being loss for the period		<u>(876)</u>

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

The notes on pages 7 to 11 form an integral part of these financial statements.

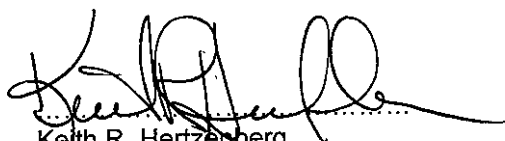
Aviation Training International Ltd

Balance Sheet

As at 31 December 1998

	Notes	£000's	£000's
Fixed Assets			
Tangible Assets	4		115,216
Current Assets			
Debtors	5	470	
Cash at bank and in hand		<u>3,895</u>	
		4,365	
Creditors: amounts falling due within one year	6	<u>(5,537)</u>	
Net Current Liabilities			<u>(1,172)</u>
Total Assets less Current Liabilities			114,044
Creditors: amounts falling due after more than one year	7		<u>(114,370)</u>
Net Liabilities			<u>(326)</u>
Capital Reserves			
Called up share capital	9		550
Profit and loss account			<u>(876)</u>
Equity Shareholders' Funds	10		<u>(326)</u>

The financial statements were approved by the Board on 28 April 1999 and signed on its behalf.


Keith R. Hertenberg
Director

The notes on pages 7 to 11 form an integral part of these financial statements.

Aviation Training International Ltd

Cash Flow Statement

For the period ended 31 December 1998

	Notes	£000's	£000's
Net cash outflow from operating activities	11		(940)
Returns on Investment and Servicing of Finance			
Interest received		215	
Interest paid		(3,261)	
Loan issue costs		(2,899)	
			(5,945)
Capital Expenditure			
Payments to acquire tangible fixed assets			(106,966)
			(113,851)
Financing			
Proceeds of Share Issue	9		550
Receipts from borrowings due in over 1 year			117,196
Increase in cash flows			3,895

Reconciliation of net cash flow to movement in net debt		£000's
Increase in cash in the period		3,895
Cash inflow from increase in debt		(117,196)
Net debt at 31 December 1998	12	(113,301)

The notes on pages 7 to 11 form an integral part of these financial statements.

Aviation Training International Ltd

Notes for the period ended 31 December 1998

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 period of £876,000 and had net current liabilities of £1,172,000. The loss for period is the result of start up costs and the company is expected to be profitable once operations commence in July 2000. In addition the company has undrawn borrowing facilities of £132,404,000. 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 (net of interest receivable) 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	Between 10 and 18 years
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	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.

Aviation Training International Ltd

Notes for the period ended 31 December 1998

1.4 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.

1.5 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.

1.6 Finance Costs

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

2. Operating Loss

The operating loss is stated after charging:	£000's
Auditors' remuneration	12
	<hr/>

The company had no employees during the period. The directors received no remuneration during the period.

3. Interest payable and similar charges

	£000's
Bank loans	3,446
Other	13
	<hr/>
	3,459
Less : Interest receivable	(245)
	<hr/>
	3,214
Less : Interest capitalised	(3,103)
	<hr/>
	111
	<hr/>

Aviation Training International Ltd

Notes for the period ended 31 December 1998

4. Tangible Fixed Assets

	Short leasehold buildings £000's	Simulators and training equipment £000's	Office equipment and systems £000's	Total £000's
Cost				
Additions	12,439	96,033	6,744	115,216
Depreciation				
Charge for the period	-	-	-	-
Net Book Value				
As at 31 December 1998	12,439	96,033	6,744	115,216

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

	Interest & fees £000's
Short leasehold buildings	335
Simulators and training equipment	2,586
Office equipment and systems	182
	<u>3,103</u>

5. Debtors

	£000's
Due within one year	
Prepayments	246
Other debtors	<u>224</u>
	<u>470</u>

6. Creditors: amounts falling due within one year

	£000's
Trade creditors	5,362
Accruals	<u>175</u>
	<u>5,537</u>

Aviation Training International Ltd

Notes for the period ended 31 December 1998

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

	£000's
Bank Loans	114,370
Amounts falling due:	
Between two and five years	46,196
After more than five years	71,100
Less issue costs	(2,826)
	114,370

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 project 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 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 1998, in respect of which all conditions precedent have been met, as follows:

	£000's
Expiring in more than two years	132,404

8. Provisions for liabilities and charges

At 31 December 1998 the company had allowable tax losses carried forward of approximately £3.9 million. The deferred tax asset relating to those losses, which the company has not recognised in the financial statements is approximately £1.2 million.

9. Share Capital

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

Class A and Class B shares carry the same rights. All shares were allotted in the period at nominal value. The company received cash consideration.

Aviation Training International Ltd

Notes for the period ended 31 December 1998

10. Reconciliation of movements in Equity Shareholders' Funds

	£000's
Loss for the period	(876)
New share capital subscribed	550
Deficit on Equity Shareholders' Funds at 31 December 1998	<u>(326)</u>

11. Reconciliation of operating loss to net cash flow from operating activities

	£000's
Operating loss	(765)
Increase in debtors	(224)
Increase in creditors	49
Net cash outflow from operating activities	<u>(940)</u>

12. Analysis of changes in net debt

	At Incorporation £000's	Cashflows £000's	At 31 December 98 £000's
Cash at bank and in hand	-	3,895	3,895
Debt due after 1 year	-	(117,196)	(117,196)
	-	<u>(113,301)</u>	<u>(113,301)</u>

13. Capital Commitments

- a) At 31 December 1998 the company had capital commitments as follows:

	£000's
Contracted for but not provided for	<u>87,937</u>

- b) At 31 December 1998 the company had contracted to buy \$85,248,000 at a hedged rate of \$1.65 (£51,665,000).

14. 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.

During the period under review the company purchased £41,326,000 excluding VAT of goods and services from GKN Westland Helicopters Ltd and \$111,901,000 (£67,809,000) of goods and services from The Boeing Company.

At 31 December 1998 the company owed GKN Westland Helicopters Ltd £2,804,000 and The Boeing Company \$4,177,000 (£2,531,000).

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.