

FBS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 DECEMBER 1997

Company Registration number 3065846



## **FBS LIMITED**

### **CONTENTS**

	<b>Page</b>
REPORT OF THE DIRECTORS	1-2
REPORT OF THE AUDITORS	3
ACCOUNTING POLICIES	4-5
PROFIT AND LOSS ACCOUNT	6
BALANCE SHEET	7
CASH FLOW STATEMENT	8
NOTES TO THE FINANCIAL STATEMENTS	9-16

## **FBS LIMITED**

### **REPORT OF THE DIRECTORS**

**30 DECEMBER 1997**

The directors have pleasure in submitting their report together with the financial statements of the company for the period ended 30 December 1997.

#### **RESULTS FOR THE PERIOD**

The company's results for the period are set out in the profit and loss account on page 6. No dividend has been proposed (1996: £nil).

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal business of the company is the operation of the Defence Helicopter Flying School (DHFS) contract for the MoD. This involves the provision of 47 helicopters and related manpower for maintenance of the fleet and instruction of the students attending the flying schools at both Shawbury and Middle Wallop. The contract also requires the company to provide extensive services to both sites. The directors consider that the business of the company represents a single activity. The contract started on 23 November 1996 and is set to run until 31 March 2012.

#### **BOARD OF DIRECTORS**

The following directors held office during the period:

I W Downie  
C F J Jones (Resigned 30 June 1997)  
S Palframan  
G Roe (Appointed 11 July 1997)

No directors held an interest in the shares of the company.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The following statement, which should be read in conjunction with the report of the auditors set out on page 3, 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 period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss for the financial period.

The directors consider that in preparing the financial statements on pages 4 to 16, 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.

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.

**FBS LIMITED**

**REPORT OF THE DIRECTORS (Continued)**

**30 DECEMBER 1997**

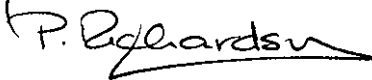
**CHANGE OF ACCOUNTING REFERENCE DATE**

The accounting reference date was changed from 30 June to 30 December during the period.

**AUDITORS**

The company's auditors, Price Waterhouse, have signified their willingness to be reappointed.

By order of the board

A handwritten signature in black ink, appearing to read "P. Richardson", with a large, sweeping flourish underneath.

P Richardson  
Secretary

13 May 1998

*Price Waterhouse*



## REPORT OF THE AUDITORS TO THE MEMBERS OF FBS LIMITED

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on page 4 and 5.

### Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of 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 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 as at 30 December 1997 and of its loss and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

PRICE WATERHOUSE  
Chartered Accountants  
and Registered Auditors

13 May 1998

## **FBS LIMITED**

### **ACCOUNTING POLICIES**

#### **ACCOUNTING CONVENTION**

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

#### **TURNOVER**

Turnover comprises the sales value, exclusive of value added tax, of work performed on the company's long term contract.

#### **PROFIT ON CONTRACT**

The company's long term contract is accounted for in accordance with the requirements of Statement of Standard Accounting Practice 9 - Stocks and long term contracts. Profit on the contract is calculated on the basis of the percentage completion of the contract. Any amounts recoverable on the contract, representing the excess of the value of work carried out to the period end, and recorded as turnover, over cumulative payments on account are included in debtors. Cumulative payments on account in excess of the value of work carried out to the period end are shown in creditors.

#### **TANGIBLE FIXED ASSETS**

Fixed assets are depreciated on a straight line basis to their residual value over their estimated useful economic lives, as follows:

Aircraft and aircraft modifications	- 4 to 15 years
Motor vehicles	- 5 years
Office equipment	- 5 years
Tools	- 7 years
Computer equipment	- 3 years
Aircraft ground equipment	- 7 years

Assets in the course of construction are not depreciated. Depreciation is charged from the month that such assets are completed and transferred out of this category.

#### **INTANGIBLE FIXED ASSETS**

Legal and professional fees incurred in setting up the contract are recorded at cost and amortised over the period of the contract.

#### **STOCKS AND WORK IN PROGRESS**

Stocks and work in progress are valued at the lower of cost, which includes an appropriate allocation of overheads, and net realisable value.

#### **DEBT ISSUE COSTS**

Long term loans are stated net of debt issue costs which are amortised over the period of the loan.

## **FBS LIMITED**

### **ACCOUNTING POLICIES (Continued)**

#### **INTEREST**

Interest on the loan notes and the loans made to the company by its shareholders to finance the manufacture and modification of the aircraft is capitalised in fixed assets.

The total remaining interest payable on the loan notes is being charged to the profit and loss account on a straight line basis over the period of the company's contract. Any differences between the charge for the period and the actual amount of interest payable for that period is either included in work in progress or as an accrual at the period end.

#### **DEFERRED TAXATION**

Provision is made for deferred taxation, using the liability method, unless there is a reasonable probability that it will not become payable within the foreseeable future.

**FBS LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 DECEMBER  
1997**

	<u>Notes</u>	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
<b>TURNOVER</b>	1	24,807	-
Cost of sales		<u>(20,261)</u>	<u>-</u>
<b>GROSS PROFIT</b>		4,546	-
Administrative expenses		<u>(274)</u>	<u>-</u>
<b>OPERATING PROFIT</b>	2	4,272	-
Interest receivable		527	-
Interest payable and similar charges	3	<u>(3,004)</u>	<u>-</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,795	-
Tax on profit on ordinary activities	4	<u>(4,204)</u>	<u>-</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>	16	<u>(2,409)</u>	<u>-</u>

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

All the company's activities are classed as continuing.

The notes on pages 9 to 16 form part of these financial statements.



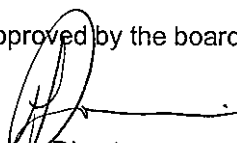
**FBS LIMITED**

**BALANCE SHEET AS AT 30 DECEMBER 1997**

	<u>Note</u>	<u>30 December 1997</u>		<u>30 June 1996</u>	
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Intangible fixed assets	7	37		-	
Tangible fixed assets	8	<u>66,062</u>		-	
			66,099		-
<b>CURRENT ASSETS</b>					
Stock and work in progress	9	403		-	
Debtors	10	4,749		-	
Cash at bank and in hand	11	<u>7,164</u>		-	
			12,316		-
<b>CREDITORS: Amounts falling due within one year</b>	12	<u>(4,736)</u>		-	
<b>NET CURRENT ASSETS</b>			<u>7,580</u>		-
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			73,679		-
<b>CREDITORS: Amounts falling due after more than one year</b>	13		(67,260)		-
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>					
Deferred taxation	14		(4,204)		-
<b>ACCRUALS AND DEFERRED INCOME</b>			<u>(4,624)</u>		-
			<u>(2,409)</u>		-
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		-		-
Profit and loss account - deficit	16		<u>(2,409)</u>		-
<b>SHAREHOLDERS' FUNDS</b>	20		<u>(2,409)</u>		-

These financial statements were approved by the board on 13 May 1998 and were signed on its behalf by:

  
Director

  
Director

  
Director

The notes on pages 9 to 16 form part of these financial statements.

## FBS LIMITED

### CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	18	8,833	-
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>			
Interest received		463	-
Interest paid		(3,856)	-
Debt issue costs		<u>(1,586)</u>	<u>-</u>
		(4,979)	-
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire fixed assets		(66,790)	-
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Amounts placed on treasury deposit account	19	<u>(5,795)</u>	-
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		(68,731)	-
<b>FINANCING</b>			
Increase in debt	19	<u>70,000</u>	<u>-</u>
<b>INCREASE IN CASH IN THE PERIOD</b>	19	<u>1,269</u>	<u>-</u>

The notes on pages 9 to 16 form part of these financial statements.

## FBS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 TURNOVER

All turnover arises in the United Kingdom in respect of provisions of services under the contract.

#### 2 OPERATING PROFIT

	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
The operating profit is stated after charging:		
Amortisation	3	
Depreciation	2,854	-
Auditors' remuneration	8	-
- in respect of audit		
- other services	<u>22</u>	<u>-</u>

#### 3 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
<u>Shareholder loans:</u>		
Interest payable	1,413	-
Interest capitalised in fixed assets	(1,220)	-
Transfer to work in progress	<u>(177)</u>	<u>-</u>
	<u>16</u>	<u>-</u>
<u>Loan notes:</u>		
Interest payable	3,855	-
Interest capitalised in fixed assets	<u>(946)</u>	<u>-</u>
	<u>2,909</u>	<u>-</u>
Amortisation of debt issue costs	<u>79</u>	<u>-</u>
	<u>3,004</u>	<u>-</u>

#### 4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
Deferred taxation (note 14)	<u>4,204</u>	<u>-</u>

The high effective rate of taxation has arisen from the surrender of the company's tax losses for the period to the shareholders by way of consortium relief for £nil consideration.

## FBS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 5 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.

##### Directors' emoluments

None of the directors received any emoluments for their services to the company (1996: £nil).

#### 6 EMPLOYEES

	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
Average number of employees	<u>5</u>	<u>-</u>
	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
<b>Employee costs:</b>		
Wages and salaries	122	-
Social security costs	10	-
Pension costs	<u>2</u>	<u>-</u>
	<u>134</u>	<u>-</u>

Pension costs are in respect of the Serco Pension and Life Assurance Scheme which is a funded defined benefit scheme.

The funding policy is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis.

Actuarial assessments covering expense and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 6 April 1997.

The projected unit method was adopted for the actuarial valuation of the Scheme. The main actuarial assumptions used in the valuations for accounting purposes this year were:

Investment yield	9.5% pa
Salary growth	7.5% pa
Price inflation	5.0% pa
Equity dividend growth	5.0% pa
Pension increases	Nil, except as required by legislation

The Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £76,829,000 at 6 April 1997. Liabilities for this purpose are calculated using the basis for determining individual cash equivalents for active members and deferred pensioners and by estimating the cost of purchasing annuity policies for pensioners.

The actuarial value of the assets represented 100% of the ongoing liabilities of the Scheme.

**FBS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**7 INTANGIBLE FIXED ASSETS**

	<u>Contract costs</u> £000
<b>Cost</b>	
At 1 July 1996	-
Additions	<u>40</u>
At 30 December 1997	<u>40</u>
<b>Amortisation</b>	
At 1 July 1996	-
Charge for the period	<u>3</u>
At 30 December 1997	<u>3</u>
<b>Net book amount</b>	
At 30 December 1997	<u>37</u>
At 30 June 1996	<u>-</u>

**8 TANGIBLE FIXED ASSETS**

	<u>Aircraft and plant and machinery</u> £000	<u>Assets in the course of construction</u> £000	<u>Total</u> £000
<b>Cost</b>			
At 1 July 1996	-	-	-
Additions	422	68,494	68,916
Transfers	<u>59,724</u>	<u>(59,724)</u>	-
At 30 December 1997	<u>60,146</u>	<u>8,770</u>	<u>68,916</u>
<b>Accumulated depreciation</b>			
At 1 July 1996	-	-	-
Charge for the period	<u>2,854</u>	-	<u>2,854</u>
At 30 December 1997	<u>2,854</u>	-	<u>2,854</u>
<b>Net book amount</b>			
At 30 December 1997	<u>57,292</u>	<u>8,770</u>	<u>66,062</u>
At 1 July 1996	<u>-</u>	<u>-</u>	<u>-</u>

Included within cost of fixed assets is an amount of £2,166,000 which represents cumulative capitalised interest (1996: £nil).

**Capital commitments**

At 30 December 1997 the company had capital expenditure committed but not provided for with suppliers amounting to £1,194,076 (1996: £nil)

**FBS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**9 STOCK AND WORK IN PROGRESS**

	<u>30 December</u> 1997 £000	<u>30 June</u> 1996 £000
Contract work in progress	177	-
Aircraft spares	<u>226</u>	<u>-</u>
	<u>403</u>	<u>-</u>

**10 DEBTORS**

	<u>30 December</u> 1997 £000	<u>30 June</u> 1996 £000
Amounts falling due within one year:		
Trade debtors	4,442	-
Other debtors	<u>307</u>	<u>-</u>
	<u>4,749</u>	<u>-</u>

**11 CASH AT BANK AND IN HAND**

Cash at bank and in hand includes an amount of £5,795,000 held on deposit which is subject to drawdown into the current account only with permission by the loan notes holders.

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

	<u>30 December</u> 1997 £000	<u>30 June</u> 1996 £000
Loan notes	1,339	-
Less: unamortised debt issue costs	<u>(106)</u>	<u>-</u>
	1,233	-
Bank overdraft	100	-
Trade creditors	791	-
Amounts owed to shareholders	<u>2,612</u>	<u>-</u>
	<u>4,736</u>	<u>-</u>

**FBS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13 CREDITORS: Amounts falling due after more than one year**

	<u>30 December</u> <u>1997</u> £000	<u>30 June</u> <u>1996</u> £000
Loan notes	68,661	-
Less: unamortised debt issue costs	<u>(1,401)</u>	<u>-</u>
	<u>67,260</u>	<u>-</u>

The loan notes fall due within the following periods:

	<u>30 December</u> <u>1997</u> £000	<u>30 June</u> <u>1996</u> £000
Within one year	1,339	-
Within one to two years	4,261	-
Within two to five years	14,636	-
After five years	<u>49,764</u>	<u>-</u>
	<u>70,000</u>	<u>-</u>

The loan notes are secured on the aircraft. The interest on the loan notes has been fixed at 8.91% for the period of the loan notes.

**14 PROVISIONS FOR LIABILITIES AND CHARGES**

	<u>Provided</u>		<u>Unprovided</u>	
	<u>30 December</u> <u>1997</u> £000	<u>30 June</u> <u>1996</u> £000	<u>30 December</u> <u>1997</u> £000	<u>30 June</u> <u>1996</u> £000
The deferred tax is as follows:				
Accelerated capital allowances	4,684	-	4,684	-
Other short term timing differences	<u>(480)</u>	<u>-</u>	<u>(480)</u>	<u>-</u>
	<u>4,204</u>	<u>-</u>	<u>4,204</u>	<u>-</u>
			£000	
At 1 July 1996			-	
Charge for the period			<u>4,204</u>	
At 30 December 1997			<u>4,204</u>	

**15 CALLED UP SHARE CAPITAL**

	<u>Authorised</u>		<u>Allotted and fully paid</u>	
	<u>30 December</u> <u>1997</u> Number and £	<u>30 June</u> <u>1996</u> Number and £	<u>30 December</u> <u>1997</u> Number and £	<u>30 June</u> <u>1996</u> Number and £
Ordinary shares of £1	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>

## FBS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 16 PROFIT AND LOSS ACCOUNT

	£000
At 1 July 1996	-
Loss for the period	<u>(2,409)</u>
At 30 December 1997	<u>(2,409)</u>

#### 17 ULTIMATE CONTROLLING PARTIES

The company is jointly controlled by FR Aviation Limited, Bristow Helicopters Limited and Serco Limited who each hold 33 1/3% of the voting rights.

#### 18 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
Operating profit	4,272	-
Amortisation	3	-
Depreciation	2,854	-
Increase in stocks	(226)	-
Increase in debtors	(4,685)	-
Increase in creditors	<u>6,615</u>	<u>-</u>
Net cash inflow from operating activities	<u>8,833</u>	<u>-</u>

#### 19 ANALYSIS OF NET DEBT

	<u>At 1 July 1996</u>	<u>Cash Flow</u>	<u>Other non-</u> <u>cash</u> <u>changes</u>	<u>At 30 December</u> <u>1997</u>
Cash at bank and in hand	-	1,369	-	1,369
Overdraft	-	<u>(100)</u>	-	<u>(100)</u>
Treasury deposit	-	1,269 5,795	-	1,269 5,795
Debt due within one year	-	-	* (1,339)	(1,339)
Debt due after one year	<u>-</u>	<u>(70,000)</u>	<u>1,339</u>	<u>(68,661)</u>
Total	<u>-</u>	<u>62,936</u>	<u>-</u>	<u>62,936</u>

\* Loans totalling £47,100,000 from the shareholders were received and repaid in the period.

Cash at bank and in hand per the balance sheet includes the treasury deposit of £5,795,000.



**FBS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**19 ANALYSIS OF NET DEBT (Continued)**

The reconciliation of net cash flow movement to net debt is as follows:

	<u>1997</u> <u>18 months</u> £'000	<u>1996</u> <u>12 months</u> £'000
Increase in cash in the period	1,269	-
Cash inflow from increase in debt		
- Loan notes	(70,000)	-
- Shareholder loans received	(47,100)	-
Cash outflow from decrease in debt		
- Shareholder loans repaid	47,100	-
Cash outflow from increase in liquid resources	<u>5,795</u>	-
Movement in net debt in period	<u><u>62,936</u></u>	<u><u>-</u></u>

**20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>1997</u> <u>18 months</u> £000	<u>1996</u> <u>12 months</u> £000
Loss on ordinary activities after taxation	<u>(2,409)</u>	-
Net movement in shareholders' funds	(2,409)	-
Opening shareholders' funds	-	-
Closing shareholders' funds	<u><u>(2,409)</u></u>	<u><u>-</u></u>

## **FBS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

#### **21 OTHER RELATED PARTY TRANSACTIONS**

##### **Shareholders**

During the period FR Aviation Limited invoiced the company £200,000 in respect of management charges, £50,000 in respect of project management costs and £9,000 in respect of sundry purchases. Of these amounts £347 remained unpaid at 30 December 1997.

During the period Serco Limited invoiced the company £200,000 in respect of management charges, £9,000 in respect of project management costs and £175,000 in respect of arranging funding. Of these amounts £8,000 remained unpaid at the period end.

During the period Bristow Helicopters Limited invoiced the company £4,189,000 in respect of a subcontract to provide airfield services at the Army's air base at Middle Wallop, £200,000 in respect of management charges, £579,000 in respect of accounting and logistics support and £493,000 in respect of sundry expenses. Of these amounts £1,191,000 remained unpaid at the year end.

Each shareholder made loans totalling a maximum of £15,700,000 to the company over the period from 9 October 1996 to 25 July 1997 on which date the loans were repaid. Interest totalling £1,413,000 was charged on the shareholders' loans.

Included in fixed assets are amounts of £2,022,000, £2,148,000 and £91,000 recharged by FR Aviation Limited, Bristow Helicopters Limited and Serco Services Scotland respectively in relation to aircraft modifications and other fixed asset additions.

##### **Other**

The Company has contracted with FRA Serco Limited, a company which is 50% owned by FR Aviation Limited and 50% owned by Serco Limited to provide airfield services at RAF Shawbury under the Contract. In the period to 30 December 1997 FRA Serco Limited invoiced the Company for £7,491,000. FRA Serco Limited has also invoiced the Company £595,000 in respect of salary recharges and sundry costs. Of these amounts £1,412,000 remained unpaid at the period end.

#### **22 FINANCIAL SUPPORT**

The shareholders have confirmed that they will continue to support the company to enable it to meet its liabilities as they fall due and to carry on its business for the foreseeable future without significant curtailment of operations.