DOWTY ROTOL

CONFIDENTIAL TO DOWTY ROTOL EMPLOYEES

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The 1987/88 Results

(Financial year April 1987 to March 1988)

Sales	—	**£118.9 million**
Trading Profit	—	**£ 16.5 million**
Average Capital Employed	—	**£ 88.1 million**
Return on Capital Employed	—	**18.7%**

23·6%

5%

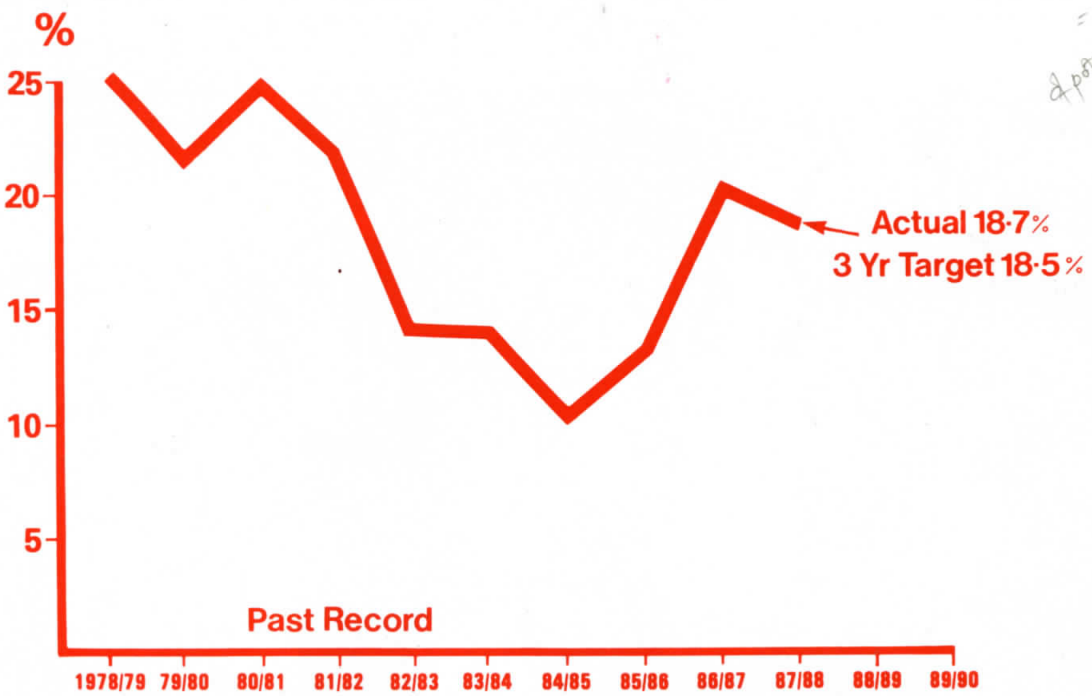
Our sales last year were the highest ever achieved by the company. Our trading profit, after allowing for inflation, returned to near the levels we produced in 1980/81 and 1981/82. We have, however, had to use more investment in capital employed to achieve this profit.

The best measure of our performance, and the way others judge us, is our return on capital employed. The return is our trading profit. The capital employed is the amount of money being used by our business for such things as land, buildings, plant, machinery, stocks and work-in-progress.

The graph below shows our return on capital employed over the last 10 years.

Graph 1 — Return on Capital Employed Record

Scrap/rect = 21% & potential profit



Last year we made £16.5 million trading profit. Our average capital employed was £88.1 million. This gave us a return on capital employed of

$$\frac{£16.5 \text{ million}}{£88.1 \text{ million}} \times 100 = 18.7\%$$

This performance was better than our three year plan target of 18.5% and reflects the contribution employees have made to improving our efficiency.

The Three Year Plan

Last year we set ourselves a 3 year plan where our aim was to reach a return on capital employed of 24% by the third year and 25% thereafter. We needed to do this to secure the investment we required to win new business and protect our future. Detailed below are the areas which we targeted for improvement and an assessment of how we performed last year.

Non-People Costs

In 1987/88 we managed to reduce the day to day running costs of the business (excluding wages) by £400,000. This resulted from people at all levels showing a greater awareness of the financial implications of the day to day decisions they made. However we can still make further improvements in this area by

* **Better Budgetary Control**
* **Attacking Waste**
* **Value For Money In What We Buy**

Manning Levels

Our target was to reduce the manning levels by 300 people over 3 years WITHOUT REDUNDANCIES. Last year the number of people we employed actually reduced by 141 which means that we are ahead of our original target. We have managed to operate with less people by better working methods, greater flexibility and the introduction of up to date technology.

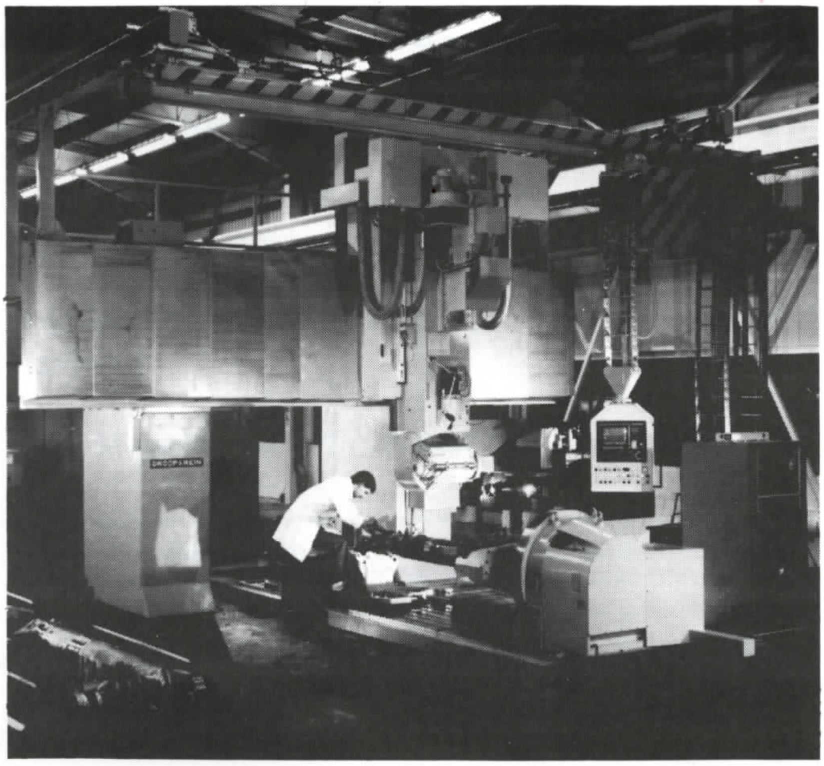
Capital Employed

Our return on capital employed can be improved by reducing the amount of capital we use as well as by increasing our profits.

Last year our capital employed rose from £81 million in April 1987 to £96 million in March 1988. Whilst we want to try to reduce the amount of capital we employ we still need to continue to invest in plant and equipment. However we can reduce our capital employed which is tied up in debtors, and stocks and work-in-progress.

At the end of last year we were owed £37 million for goods we had already delivered and we need to do more to obtain speedier payment from our customers.

Whilst stock levels were in line with the budget at the end of year there was a significant increase in February and March due to a surge in purchases and the build up of the A320 programme. The introduction of MRP and close scrutiny of our stocking policies should ensure that we see a reduction in stock and work-in-progress this year.



An example of our continuing investment in new equipment is the Droop and Rhein 7 axis machining centre recently installed in No. 2 shop.

Prospects For 1988/89

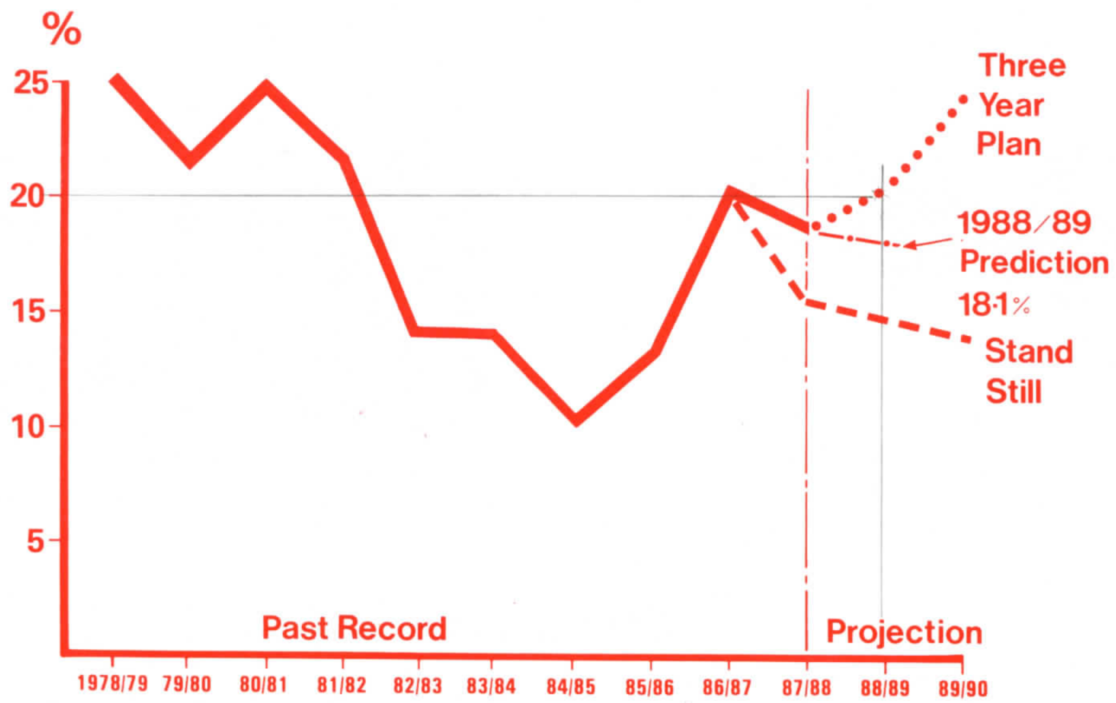
The graph below shows our historical return on capital employed (solid line) up to and including 1987/88.

The - - - - line shows what would have happened to our return on capital employed if we had not taken steps to improve last year.

The . . . . line shows our three year plan targets for this year and next year.

The _._._._. line shows our accountants' best estimate of our result this year based upon our current performance and known improvements.

Graph 2 ROCE — Prospects for 1988/89



The graph shows that our predicted result for 1988/89 is well above the standstill level. However, we do still have to make further improvements to reach our target although we are well on the way.

Since the three year plan was drawn up it has become more difficult to reach our targets. This is because of the pressure from all our major customers to reduce prices which has gathered pace since the plan was launched.

Proposed Profit Sharing Scheme

The company has proposed the introduction of a profit sharing scheme for the current financial year. The chart below shows an outline of the scheme.

Return On Capital Employed	Payment Per Employee
19%	£100
20%	£200
21%	£300
22%	£400
23%	£500
24%	£600
25%	£700

Some of the areas where employees can make a contribution to greater profitability are shown below:-

*** Better Methods of Working in All Areas**

*** Elimination of Waste**

*** Getting it Right First Time**

*** Value For Money In What We Buy**

* Commitment To Beating The Competition

Beyond The Three Year Plan

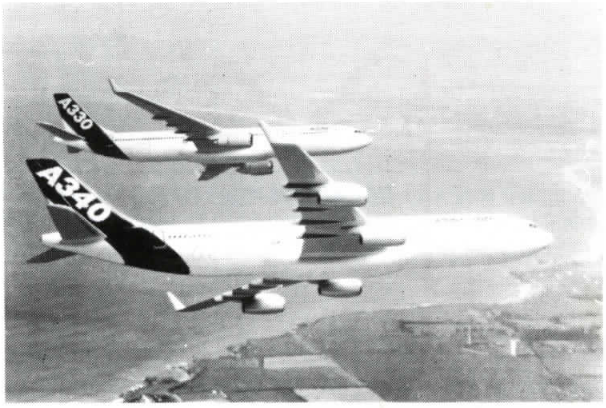
We are now bidding for business which will come into mainstream production after the end of the three year plan. The prices we are having to bid to have a chance of obtaining this business means that we have to make further reductions to our costs.

We are currently bidding for work on A330/A340 and, if successful, production at Dowty Rotol would begin in 1990 and rise to significant levels in 1993.

Agreement has been reached between the British, German, Italian and Spanish governments to go ahead with the Eurofighter project. If our bids are successful we expect production work to start in 1994.

If we are reasonably successful in our bids for these two projects they will represent £50 million worth of annual turnover by the mid 1990's. With the fall off in projects such as Tornado and AV8B this is a tremendous opportunity to safeguard our future. We do, however, have to be committed to reducing our costs to make the business which we win profitable.

EUROFIGHTER



A330/340

Conclusion

* **Achievement of our 3 year plan targets is essential for our future.**
* **We have already made significant improvements.**
* **The Aerospace industry is becoming more competitive.**
* **Our high order book, job security guarantees, and flexibility agreements give us the right environment to make further improvements.**
* **Further improvements need to be made in our communications and training.**
* **Our targets are difficult but not impossible.**

If you have a question you would like to ask as a result of this newsletter or a presentation you attended please complete the enclosed slip and send it to the Personnel Department.