

# THE FAIREY AVIATION COMPANY LIMITED

HAYES · MIDDLESEX

ANNUAL GENERAL MEETING

20th November · 1958

## *Chairman's Speech*

I WILL now report to you upon the Company's Accounts for the year ended 31st March, 1958.

The Consolidated Group Trading Profit, amounting to £2,231,146, shows little variation as compared with the three preceding years, and in all the prevailing circumstances is a very satisfactory figure. I must at once, however, draw your attention to the note on the Accounts, which explains that the profit for the financial year under review includes approximately £1,900,000 relating to deliveries made in prior years, as compared with £1,250,000 last year. Profits from prior years have often varied considerably, but in this connection it is obvious that since our aircraft turnover is, in common with all other aircraft companies, waning, it is only reasonable to realise that such large credits are unlikely to accrue in the future.

I was pleased to be able to report last year that contributions to our profits from overseas subsidiaries had shown a considerable increase. This trend has continued and there has been a further marked increase this year, particularly from our Companies in Belgium and Canada. Our non-aircraft activities at home have again contributed substantially to our profits.

Taxation takes its usual high toll but I sincerely hope that the Chancellor of the Exchequer will bring some alleviation in the next Budget, particularly in view of the fact that our Industry will need to retain more of its earnings for research and development to maintain its position in world trade. It will be noted that Dominion and Foreign Taxation is higher this year, due to the increased profits from abroad.

The net profits of the Group, after adjusting for the interests of minority shareholders are £33,000 less than last year at £960,228. Profits retained by Subsidiary Companies are then deducted, leaving a balance in the Parent Company's Accounts of £638,997. After adding the amount brought forward from last year, the amount available for Dividend and Reserves is some £38,000 less than last year at £735,660.

### **DIVIDEND POLICY**

This brings me to the important matter of your Board's policy and our recommendations for the year's dividend

and appropriations to reserve. Taken by themselves, profits giving a dividend cover of over five times, combined with a substantial cash balance at the end of the financial year, would seem to warrant an increased distribution to our shareholders. Unfortunately this is only part of the story.

It is no secret that the aircraft industry is facing a very difficult situation, possibly the most difficult in its entire history and our Company is no exception to the general rule. The present Defence Policy has caused a lack of orders for Military aircraft and it has thus become essential, almost overnight, to find extensive work in the Civil aircraft market if our Engineering and Production potential is to be utilised. This in itself would be sufficiently difficult, but in parallel with the sudden lack of orders – and research support – the Government has indicated that on Civil aircraft research, development and production the Industry must largely stand on its own feet. In consequence we are faced with spending larger sums than ever before in order to obtain production work in this field. We find ourselves meeting competition from other countries where Industry is supported by the Government, and where there is a large home market. The money to pay for this will be hard to find out of profits in the next few years, and so it is essential to retain in the business to the maximum extent, and to utilise to the best advantage, the profits we have been able to make in the past.

I referred last year to this matter and to the necessity of broadening the base of our business and diversifying our activities, with the need for ample and continuing reserves on which to draw. With this latter policy going forward we have, in addition to our uncertainties on the aircraft side, heavy financial commitments to meet in connection with our non-aircraft work. I will refer to these in more detail later.

Dealing firstly with the aircraft side, since the 31st December, 1957, when the Government withdrew financial support from the Rotodyne, the Company has been financing this project in full on the airframe side. In this respect we had hoped to obtain a material contribution from the Government to reduce our commitment. Negotiations still proceed with the object of reaching a solution to

enable full development to proceed. We have, however, to take into consideration that we will not only have to make a major contribution towards development but will also have to face the costs of putting this aircraft into production. Also in the helicopter field we have the Ultra-Light helicopter which we have continued as a private venture since the Government terminated the contract.

Further to this, as you know we hold a 10% interest in the D.H.121 Civil airliner project, which is being undertaken by the Aircraft Manufacturing Company Limited, a company formed jointly by de Havillands, Hunting and ourselves. Although only a minority shareholder, we have a considerable commitment in the financing of the development and production of this aircraft, and it must be remembered that the present orders are nowhere near the number required to show a profit.

Secondly, outside the aircraft field, we have further heavy commitments following on the necessity for increased diversification.

As you are aware, we have become a member firm of Atomic Power Constructions, Limited, one of the five Groups sponsored by the Government and formed to build atomic power stations. Research and development expenditure is necessary on a large scale before a contract can be obtained and this will be required to continue over a long period of time.

Additional finance is also required for research and development on other projects.

## HEAVY COMMITMENTS

From this brief summary you will see that our financial resources are heavily committed for the next few years, during which current and new projects will be costing very large sums of money to develop and put into production before any of them can start contributing to our profits. This has already had an effect on our cash position. Our Bank Balance since the 31st March last has been reduced considerably.

In all the circumstances it is your Board's view that it is necessary in the long-term interests of the Company to spend these large sums on research and development to deal with the situation we have to face. In consequence we reluctantly concluded that this was not the time to increase the dividend. Our recommendation to you, therefore, is that it be maintained at last year's figure of 1/6d. per share. It is further proposed that the maximum amount available be put aside to pay for the projects to which I have referred, and accordingly we recommend that the sum of £500,000 be transferred to Research and Development Reserve.

These proposed appropriations are deducted from the amount available, leaving a reduced balance carried forward of £58,373 in the Parent Company's Accounts. The amount carried forward in Subsidiary Companies is again increased, to a total of £1,560,754, reflecting once more the need to retain profits as far as possible in these Companies to finance their growth. Most of these Companies started, or in some cases recommenced, their trading operations during the immediate post-war years and, taken as a whole, there has been a satisfactory build-up during this period.

A final point before dealing with the balance sheet is in connection with the Special Bonus paid in 1954, which I mentioned last year. I am pleased to be able to tell you that as stated in a circular to the shareholders dated 7th August, 1958, the Inland Revenue has now agreed that this bonus will not be subject to income tax or surtax in the hands of the shareholders.

## CONSOLIDATED BALANCE SHEET

I will now deal briefly with the Group Consolidated Balance Sheet on pages 6 and 7 of the Accounts.

The Fixed Assets are some £100,000 higher this year, the

main addition being the purchase of the freehold of the Heston premises, to which I referred last year. These premises, in the main, house our Guided Weapon Division, and the remaining portion is rented to Atomic Power Constructions, Limited.

The first and biggest item under the Current Assets heading is 'Stocks, Work in Progress and Goods Delivered Awaiting Price Settlement'. This is a net figure after deducting progress payments and shows a small reduction as compared with last year. The gross figure, however, before deducting such advance payments, has decreased to a somewhat greater extent. This reflects firstly, the reduction in the volume of the Company's main aircraft business, and secondly, the billing this year of substantial prior years' deliveries, referred to in my earlier remarks.

There is little alteration in the figure 'Sundry Debtors' which was again abnormally high at the 31st March, due to the inclusion therein of sales for which the prices were agreed after the year end.

I have already referred to 'Cash at Bank' which at 31st March was nearly £1.5 million higher than a year earlier. On the other hand, current liabilities at the same date were nearly £700,000 higher, and this fact, combined with our commitments for research and development expenditure, have made considerable inroads into our balance since the end of the year.

Total Group Assets and, correspondingly, Share Capital and Reserves, have increased during the year and show a highly satisfactory build-up in our total resources which will enable the Company to face the future with confidence, however difficult that future may be.

I should like to refer to the note appearing in the Accounts concerning our claim for compensation in respect of the requisitioning of the Great West Aerodrome. I regret to say that the position is still unresolved. Active negotiations have been proceeding, but the only progress made is in the somewhat negative direction of establishing the wide difference between the compensation that we feel we are entitled to and the amount which the Government has so far indicated its willingness to pay. In the circumstances it may be necessary for this matter to be settled by an independent arbitrator, such as the Lands Tribunal, but we have not yet given up hope of reaching a settlement with the Government Department concerned.

## CURRENT ACTIVITIES

I will now review some of the current activities of the Group, dealing first with the Parent Company.

The Fairey Delta 2 has maintained its successful flying and continues to emphasise its outstanding supersonic qualities and sound engineering. Last June it made a very successful trip to Norway, flying the North Sea in both directions, to obtain important information in relation to engine performance at high supersonic speeds at low altitude. No development of this aircraft has taken place since the date of the Speed Record due to Defence Policy.

The Gannet Mark 1 programme is now completed, including the delivery of aircraft under contract to the West German Government. On this aircraft constant effort has been maintained in regard to foreign sales, but our efforts have been handicapped as for the future the Royal Navy, as a policy, has decided to use helicopters for its anti-submarine operations. In addition there are difficulties in regard to Export Licences.

The Gannet Mark 3 prototype aircraft first flew last August and has continued flying successfully, and in the last few days has carried out initial Carrier Trials. This aircraft provides Early Warning radar cover for the Fleet and we have a limited order for the Royal Navy who are most anxious to receive these aircraft.

During the year our Ultra-Light helicopter has given

first-class performance on trials, operating from ships of the Royal Navy and on Army duties. Development has also continued for a Certificate of Airworthiness. Recently we sent one of these aircraft to Canada for demonstrations to the Canadian Armed Forces. We have heard from our Canadian Company that the demonstrations are going well and chances of sales seem good. We are, however, still handicapped in our overseas sales by the absence of orders from the British Government.

On our Guided Weapon side, although Fireflash has continued to give first-class performance, no additional orders have been placed, and we must now look upon this project as being at an end. You will recall my comments last year with regard to the difficulties of export sale. It is a great pity that so much outstanding technical effort should be non-productive and that it has been necessary to transfer a large part of the team which had been built up on to other work. We have, however, the satisfaction of knowing that the trials carried out by the Royal Air Force Training Squadron have proved how successful our first air-to-air weapon has been.

Last year I mentioned that we had a new Weapon project. I can now tell you that we have been entrusted with the design and development of the anti-tank weapon for the British Army and we are very pleased to be handling such an important weapon. Work on this is continuing steadily but no more can be said at present.

Our interests in the Atomic Energy field have widened in the year under review. Our Stockport Works handled a variety of projects for the United Kingdom Atomic Energy Authority, including part of the Doun Reay reactor. On the design side we are co-operating with our fellow members of Atomic Power Constructions, Limited on the tender design for a large atomic power station. Quantity production of fuel element containers has taken place during the year and design and development work arising from this has led to a new form of tubing for heat exchangers, which should have wide commercial application. We have also recently received an important contract from the United Kingdom Atomic Energy Authority at Harwell.

Our Hydraulics Division has had a busy year and has now manufactured in total more than 15,000 sets of power controls for aircraft of widely varying types. Those of you who saw the magnificent displays at the S.B.A.C. Show by the Hunter and Sea Hawk aircraft would know from my previous reports that Fairey Power Controls were fitted to these machines and would appreciate that the excellence of the formation aerobatics, probably unequalled anywhere in the world, was due to a considerable degree to our power control units. We are giving close study to developments in the commercial field.

Other commercial work is in hand at Stockport and Heston, where we are attempting to fill the gaps caused by the loss of aircraft and weapon work. As examples of the diversity of this work, we have completed and are now operating at Stockport, the electronically-controlled three-dimensional milling machine designed and built in conjunction with Ferranti Limited, the largest and most efficient of its type in Europe; at Heston we have designed and developed a Nuclear Magnetic Resonance Spectrometer which has aroused wide interest in the process industries and research fields, and sales are expected shortly.

## SUBSIDIARIES

Now in connection with our Subsidiaries:-

The Canadian Company had a highly successful year; profits were increased, and orders in hand and prospects should make the coming year equally satisfactory. We can all be proud of the reputation achieved by Fairey-Canada over the last ten years and of its vigorous leadership. In this

respect it is with great regret that I must record the death of Senator C. G. Hawkins on the 14th July, 1958. He rendered great service as a Director of the Company from its inception and he will be sadly missed by all who knew him.

Avions Fairey have also had a very good year. The main activity has been the construction of a large number of Hunter fighters, delivered well ahead of schedule, and the repair and maintenance of Thunderstreaks, the customer in each case being the Belgian Air Force. In spite of the general state of the industry in Western Europe, the financial position remains extremely sound and the prospects appear promising.

The Australian Company continued to operate profitably at Bankstown and Salisbury. The main task of the Aircraft Division has been the maintenance of aircraft for the Royal Australian Navy and in particular the Gannet Mark 4, which is giving every satisfaction as the standard anti-submarine aircraft.

Fairey Air Surveys has continued to carry out photographic and mapping operations in many parts of the world, particularly Africa and Asia, and as in former years contracts were generally with the Government of the country concerned.

During the year under review the turnover of Fairey Marine was practically doubled. The 'Atalanta' cruiser has proved to be a first-class boat which has been supplied to all parts of the world. The sale of the Company's smaller types of boats also increased and the popularity of the one-design dinghies was well maintained. The Company is now offering a range of high-speed motor boats which will be on view at the forthcoming National Boat Show.

At Aeroplastics, the new developments which I referred to last year have been held up somewhat by delays in delivery of equipment, but a number of them are beginning to appear. We are well advanced with the production of pre-impregnated melamine papers and glass cloth from the U.S. Polymeric plant installed at Glasgow, and are marketing a new packaging material which we call 'Aeropak.' Business in the general moulding field is satisfactory and we have extended into the shipping world during the year under review, a field where we expect considerable development.

I have no hesitation in saying that for the whole Group the period since the last Annual General Meeting has been one of solid achievement, despite prevailing conditions, and steady progress has been maintained.

## CONDITIONS IN AIRCRAFT INDUSTRY

I now propose to make some general comments on conditions in the aircraft industry.

The activities of the aircraft industry have turned a complete somersault. Whereas a few years ago our factories were working at high pressure and we were being pressed by the Government to meet the then urgent requirements, we now face a complete reversal where, as a result of the White Paper on Defence and Government policies, we have the resources on our hands but insufficient aircraft work to utilise all our facilities.

This abrupt change, with the added factor that the aircraft industry in the Civil field has to be self-supporting and has to compete with foreign aircraft industries which are subsidised by their Governments, and have large home markets, has created a situation which is not only one full of imponderables, but also one full of difficulties to resolve, owing to the lack of clarity with regard to the ultimate intentions of the Government concerning the Industry.

As an Industry, if we are to continue we must maintain the expensive research and development facilities necessary for aircraft design and production, for without this we cannot hope to compete with aircraft companies overseas. A Government policy which refuses to accept the need to

support such facilities must, of necessity, also accept that this will inevitably mean the withering away of this country's entire future in the air. Mere grouping will not affect this situation, for if the entire research and development costs of new and novel ideas are to be borne by sales of aircraft to Civil operators, then such aircraft cannot be sold at prices which can compete with aircraft of other countries whose development costs have been borne by Military or similar Government orders. Capital and manpower resources by themselves are of no value if the developed aircraft cannot be sold. We can only hope that reason will prevail and support be given to the research and development projects necessary to keep this country in the forefront of aviation.

#### RECORD OF TECHNICAL ACHIEVEMENT

We feel justified in claiming that our recent record of technical achievement is unsurpassed by any other aircraft company in the world. We produced a highly successful 'Gannet' aircraft for the Royal Navy: a research aircraft – the Fairey Delta 2 – which obtained and held for nearly two years the world's speed record: a very successful Ultra-Light helicopter: the first successful air-to-air Guided Weapon: and now the Rotodyne. Normally one would expect all this to bear fruit, but we are faced with the situation that having achieved all this and built up competent teams to go forward, such products are apparently no longer required by the British Government.

Our policy, faced with such a situation, has been gradually to retrench and consolidate, but since I spoke to you last year the position has worsened and we have no alternative but to adopt far more drastic action. This may well result in the closing down of certain of our aircraft facilities with consequent major redundancy of labour.

We had foreseen these contingencies and it is fortunate that the Company had prepared, as a matter of policy, to have interests other than aircraft. But it takes time, money and investment capital to expand these still further, and much time and effort is required to deal with the continued planning and implementation of this policy.

#### THE ROTODYNE

The Rotodyne is a subject to itself. I have referred previously to the fact that since the 31st December, 1957, we have been financing this project whilst negotiations have proceeded with the Government to try to find a financial solution. Flying has continued most successfully, in spite of difficulties with regard to engine supply, and the results have exceeded our expectations in respect of performance of this aircraft. Demonstrations at the Farnborough Air Display speak for themselves and in more than one report the aircraft was described as 'the star of the Show, with outstanding military and airline potential'.

Your Company is very proud of this achievement and we have the highest confidence in the project.

We see in the Rotodyne a new form of transport, combining the many features of the fixed-wing aeroplane with the one advantage of the helicopter – ability to hover, land and take off vertically. Because of this it can exert a major influence on the pattern of world communications; in one sphere the densely populated areas with airports far from city centres, and in another sphere the sparsely populated areas needing development but unable to afford expensive roads or airports. It will also be invaluable to the Military forces in giving forward support in all kinds of terrain.

The Rotodyne is the first vertical take-off airliner – all other VTOL projects at present being small and of a research nature.

It has operating costs comparable with a fixed-wing aircraft and much lower than those of any conventional helicopter.

It has a cruising speed higher than many present-day fixed-wing aircraft, and about twice as fast as that of a helicopter.

It can operate in bad weather with the reliability of a fixed-wing aircraft without the complex stability aids needed by any other form of VTOL aircraft.

It is, therefore, no surprise to us that considerable interest has been shown in the Rotodyne by the airline operators of the world and by the United States Armed Forces.

We have made an agreement for the sale and manufacture of the Rotodyne in the United States of America with the Kaman Aircraft Corporation. Even at this stage of development we have received an order for one aircraft with an option on further numbers from the Okanagan Helicopter Group, the biggest commercial helicopter operators in the world and pioneers in this field. Other potential orders are pending but some of these may come under the American orbit and these would be manufactured outside this country.

Negotiations with the Ministry of Supply have been protracted and though they have expressed satisfaction with the technical performance and development of the aircraft they have not yet agreed to a Government contribution.

We indicated to the Minister of Supply last July that we were prepared to carry a considerable share of the development costs of the project, and as I have told you, we have already carried these costs since the beginning of the year at a cost to ourselves of well over half a million pounds. To date we have not had a final reply but we cannot, after this long delay, be entirely hopeful as to the eventual outcome.

We are determined, however, provided this is possible without upsetting the overall interests of your Company, to proceed with the Rotodyne as we believe it to be one of the most important aircraft developments in the world.

The financing of this operation will be difficult and could well involve support from, and manufacture outside, this country.

#### CONCLUSION

Summing up, I personally felt it was essential to give you a clear perspective of what we face as a Company. Admittedly the aircraft side in this country is gloomy. On the other hand, the work being carried out by our subsidiary companies is excellent and expanding. Also our efforts in the fields of diversification are showing encouraging signs.

I wish to pay tribute to the spirit and endeavour of our employees. It is well known that the aircraft industry breeds a particular type of man who takes an unusual pride in his work and in his Company. But you may not, perhaps, realise the extent to which this pride in, and loyalty to The Fairey Aviation Company is manifested.

Since I last spoke to you we have held a dinner and presentation to those employees who have been with the Company for more than 25 years. There were more than 400 of them and a large number had been with us for over 30 years. I feel sure you will agree that this is a very fine record and I mention it to give you some idea of the tradition of service within the Company and to emphasise the skill and experience contained therein: equally effective as part of the team are those who have been with us a shorter time, and I would stress the tragedy arising if we are forced to take the redundancy measures I referred to earlier.

To my fellow Directors, and to all employees, in the parent company, and in the subsidiary and associated companies, both at home and overseas, I pay tribute for the loyalty, devotion and unsparing effort that have led to the achievements of the past year.

We maintain the team spirit and the will to go forward, as in the past. Whatever our difficulties may be I feel quite confident that we will face them realistically.