

British Airways Interior Engineering Limited

Report and Financial Statements

31 December 2011

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COMPANIES HOUSE

British Airways Interior Engineering Limited

Registered No 03109109

Directors

G Copeland
R Crew
I Jago
B Currie
J James
J Murray-Smith

Secretary

C Hibbs

Auditors

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

Bankers

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB

Registered Office

Waterside
PO Box 365
Harmondsworth
UB7 0GB

Registered No 03109109

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2011

Results and dividends

The profit for the period after taxation amounted to £1,252,000 (9 month period ended 31 December 2010 profit of £419,000)

The directors do not propose to pay a final dividend (31 December 2010 £nil)

Principal activity and business review

The Company is a wholly owned subsidiary of British Airways Plc ("British Airways") and operates as part of International Consolidated Airlines Group S A ("IAG") or (The Group)

The Company's principal activity is the refurbishment of British Airways interior products such as passenger seats, crew chairs, and other aircraft cabin products such as safety slides, life vests, and survival packs, as well as cutting carpets to fit all British Airways aircraft. This activity takes place in a dedicated facility in South Wales.

The Company will continue to invest in developing its product range of interior product items found on British Airways aircraft. The directors regard this investment as necessary for continuing success in the medium to long-term future.

The directors are not aware, at the date of this report, of any further changes in the Company's activities in the next year.

As shown in the Company's profit and loss account on page 8, the Company's sales increased by 52% over the prior nine month reporting period. Profit after tax has also increased resulting from higher volumes of other airlines work.

The balance sheet on page 9 of the financial statements shows that the Company's financial position at the end of the year was consistent, in terms of net assets, with the prior year. Details of amounts due from the parent company are shown in note 10 on page 14.

There have been no political or charitable donations made over £2,000. There have been no significant events post the balance sheet date.

British Airways manages its engineering operations on a departmental basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance, or position of the business. The performance of the engineering department of British Airways Plc, which includes this Company, is discussed in the Group's annual report, which does not form part of this report.

Change in the financial year

A merger between British Airways and Iberia Lineas Aereas de Espana ("Iberia") completed on 21 January 2011. As a result of this merger, International Consolidated Airlines Group S A ("IAG") was formed to hold the interests of both existing airline groups. IAG started trading on the London Stock Exchange, with a secondary listing in Spain, on 24 January 2011. As a consequence, the Company changed its reporting period to a 31 December year end in 2010. The comparative results are the Company's financial statements for the nine months ended 31 December 2010.

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Directors' report (continued)

Principal risks and uncertainties

Competitive pressure in the airline industry could result in a downturn in the demand for air travel and ancillary maintenance services. The Company manages this risk by providing added value services to all its customers, by always demonstrating a flexible attitude to change and fast response times when meeting any request for additional or enhanced services.

The Company's sales are generated in the UK and therefore are not exposed to the movement in exchange rates. Where purchases are made in foreign currencies for aircraft spares or subcontracting, the Group's treasury function manages this risk at a Group level. The Company uses British Airways Purchase Ledger Payment System (POPL) to pay its suppliers.

The Company is a wholly owned subsidiary of British Airways Plc. The Company has no third party debt.

Group risks are discussed in the Group's annual report which does not form part of this report.

Environment

British Airways recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's annual report which does not form part of this report. Initiatives designed to minimise the Company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Employees

Details of the number of employees and related costs can be found in note 5 to the financial statements on page 12.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. Employee representatives are consulted regularly on a wide range of matters affecting their interests.

Future developments

It is the Company's intention to continue to provide an aircraft refurbishment service to British Airways Plc and other airline operators.

Directors

The directors who held office during the year, and to the date of this report were:

G Copeland

I Jago

R Crew

B Currie

J James (appointed 1st April 2011)

J Murray Smith (appointed 1st January 2012)

A Kerswill (resigned 1st January 2012)

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Directors' report (continued)

Liability insurance

Prior to the merger, British Airways Plc purchased insurance against Directors' and Officers' Liability as permitted by the Companies Act 2006 for the benefit of the directors and officers of its subsidiary undertakings. Since 21 January 2011, the ultimate parent of the group, IAG, has held an equivalent policy covering the IAG Group.

Creditor payment policy and practice

It is the Company's policy that payments to all suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. Creditor payment policy is net monthly. The Company had 23 days of purchases outstanding at 31 December 2011 (31 December 2010 – 25 days) based on the average daily amount invoiced by suppliers, during the year.

Directors' going concern assessment

The Company's turnover is principally derived from intercompany transactions with its immediate parent, British Airways Plc. On the basis of the Directors' assessment of the Company's financial position and of the enquiries made of the management of British Airways Plc and International Consolidated Airlines Group S A, the company's immediate and ultimate parent undertaking respectively, the Company's Directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditors

The Company's auditors, Ernst and Young LLP, will automatically continue in office in accordance with the terms of appointment, as per section 487 of the Companies Act 2006.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirm that:

- to the best of each director's knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



C Hibbs

Secretary

Date 24th September 2012

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and irregularities.

Independent auditors' report

to the members of British Airways Interior Engineering Limited

We have audited the financial statements of British Airways Interior Engineering Ltd for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the shareholders of British Airways Interior Engineering Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Jane Barwell (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

Date *24 September 2012*

Profit and loss account

for the year ended 31 December 2011

		<i>Year ended</i>	<i>9 month period ended</i>
		<i>31-Dec</i>	<i>31-Dec</i>
	<i>Notes</i>	<i>2011</i>	<i>2010</i>
		<i>£000</i>	<i>£000</i>
Turnover	2	24,572	16,211
Cost of sales		(20,595)	(14,086)
Gross profit		<u>3,977</u>	<u>2,125</u>
Administration costs		(2,741)	(1,717)
Profit on ordinary activities before interest and tax	3	<u>1,236</u>	<u>408</u>
Interest receivable	6	15	6
Profit on ordinary activities before taxation		<u>1,251</u>	<u>414</u>
Taxation	7	1	5
Profit on ordinary activities after taxation	14	<u><u>1,252</u></u>	<u><u>419</u></u>

Statement of total recognised gains and losses

for the year ended 31 December 2011

There have been no recognised gains or losses in the year other than the profit after taxation of £1,252,000 (9 month period ended 31 December 2010 Profit of £419,000) All profits above are attributable to continuing operations

British Airways Interior Engineering Limited

Registered No 03109109

Balance sheet


at 31 December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Tangible assets	8	223	196
Current assets			
Stocks	9	459	903
Debtors	10	3,469	1,755
Cash at bank and in hand		-	1
		3,928	2,659
Creditors amounts falling due within one year	12	(309)	(265)
Net current assets		3,619	2,394
Total assets less current liabilities		3,842	2,590
Net assets		3,842	2,590
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	3,842	2,590
Equity shareholders' funds		3,842	2,590

Approved by the Board

G Copeland
Director

Date


24/9/12

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Accounting convention

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

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected life, as follows -

Plant and machinery and computer equipment	-	Over 4 - 10 years
Leasehold buildings	-	Over 10 years

Stocks

Stocks are stated at the lower of cost and net realisable value, cost being direct materials and labour plus attributable overheads based on a normal level of activity

Deferred tax

Full provision is made for deferred taxation on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date

Deferred taxation is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse based on the tax rates and laws enacted or substantially enacted at the balance sheet date

Foreign currencies

Transactions denoted in foreign currencies occurring during the course of the year are translated into sterling at the rates of exchange prevailing at the dates of these transactions. All exchange differences are included in the profit and loss account. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange prevailing at the balance sheet date

Pension benefits

Retirement benefits are payable through New Airways Pension Scheme, a separately funded pension scheme operated by British Airways Plc. Contributions to the pension scheme are made on the basis of independent actuarial advice and charged to the profit and loss account so as to spread the cost over the remaining service lives of the employees

Further details of the pension scheme are given in the financial statements of British Airways Plc

Cash flow statement

The Company has taken advantage of FRS1 (Revised) and not prepared its own cash flow statement

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Notes to the financial statements

at 31 December 2011

2. Turnover and segmental analysis

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover for the year has arisen wholly in the United Kingdom, and all relates to one continuing activity, the repair and overhaul of aeroplane interiors.

3. Profit on ordinary activities before interest and taxation

This is stated after charging

	<i>Year ended 31-Dec 2011 £000</i>	<i>9 month period ended 31-Dec 2010 £000</i>
Depreciation	46	44
Auditors' remuneration - audit services	13	12

4. Directors' remuneration

	<i>Year ended 31-Dec 2011 £000</i>	<i>9 month period ended 31-Dec 2010 £000</i>
Directors' emoluments	104	23
	<i>No</i>	<i>No</i>
Members of defined benefits scheme	7	7
Directors who are entitled to shares under Long Term Incentive Plans	7	7

The emoluments for one director were borne by the Company and his emoluments during the period are shown above. Compensation for loss of office is paid in accordance with the executive director's service contract, the contract is terminable on six months' notice. The remaining directors were employed by and remunerated by British Airways Plc in respect of their services to the Group as a whole. Therefore these directors do not receive any remuneration for their services as a director of the Company during the year ended 31 December 2011 (9 month period ended 31 December 2010: £nil).

Seven directors qualified for a defined benefit scheme provided by the Company's parent undertaking during the reporting period. Full disclosure of this is made in the financial statements of British Airways Plc, which can be found on the website www.iagshares.com.

Notes to the financial statements

at 31 December 2011

4. Directors' remuneration (continued)

None of the directors had any interest in any shares of British Airways Interior Engineering Ltd, in accordance with Schedule 5 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. Seven directors participated in the Long term Incentive Schemes of British Airways Plc the parent undertaking, including The Long Term Incentive Plan 1996 (LTIPs) and The British Airways Performance Share Plan 2005 (PSP)

None of the directors exercised their rights under PSP or LTIPs

No other transactions (other than the ones already disclosed) or loans were outstanding with the directors of the Company at the end of the year, which need to be disclosed in accordance with section 412 and 413 of the Companies Act 2006

5. Staff costs

	<i>Year ended 31-Dec 2011 £000</i>	<i>9 month period ended 31-Dec 2010 £000</i>
Wages and salaries	3,543	2,532
Social security costs	279	185
Other pension costs	350	263
	<u>4,272</u>	<u>2,980</u>

During the year the average number of staff employed under contracts of service was

	<i>Year ended 31-Dec 2011 No</i>	<i>9 month period ended 31-Dec 2010 No</i>
Production	151	148
Administration	9	9
	<u>160</u>	<u>157</u>

Notes to the financial statements

at 31 December 2011

6 Interest

	<i>Year ended</i>	<i>9 month period ended</i>
	<i>31-Dec 2011 £000</i>	<i>31-Dec 2010 £000</i>
Interest receivable from parent undertaking	15	6

7 Taxation

Analysis of tax credit for the year

	<i>Year ended</i>	<i>9 month period ended</i>
	<i>31-Dec 2011 £000</i>	<i>31-Dec 2010 £000</i>
Current tax	-	-
Tax charge for the year	-	-
<i>Deferred tax</i>		
Accelerated capital allowances	(1)	(4)
Prior year adjustment	-	(1)
	<u>(1)</u>	<u>(5)</u>

Factors affecting tax charge for the period

The current tax charge for the year is less than the profit at the standard rate of corporation tax in the UK of 26.5% (31 December 2010: 28%). The differences are explained below

	<i>Year ended</i>	<i>9 month period ended</i>
	<i>31-Dec 2011 £000</i>	<i>31-Dec 2010 £000</i>
Profit on ordinary activities before tax	1,251	414
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (31 December 2010: 28%)	332	116
<i>Effects of</i>		
Depreciation in excess of capital allowances	1	4
Other differences	1	1
Free Group relief from Group members	(334)	(121)
Current tax charge for the period as above	-	-

Notes to the financial statements

at 31 December 2011

8. Tangible fixed assets

	<i>Short leasehold buildings</i>	<i>Plant and machinery</i>	<i>Computer equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Cost</i>				
At 1 January 2011	1,374	366	87	1,827
Additions	-	73	-	73
At 31 December 2011	1,374	439	87	1,900
<i>Depreciation</i>				
At 1 January 2011	1,279	282	70	1,631
Charge for the year	19	17	10	46
At 31 December 2011	1,298	299	80	1,677
<i>Net book value</i>				
At 31 December 2011	76	140	7	223
At 1 January 2011	95	84	17	196

9. Stocks

	<i>2011</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>
Work in progress	459	903

The difference between the purchase price or production cost of stocks and their replacement cost is not material

10. Debtors

	<i>2011</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>
Amounts due from parent undertaking	3,340	1,655
Other debtors	127	99
Deferred Taxation (note 11)	2	1
	3,469	1,755

Notes to the financial statements

at 31 December 2011

11. Deferred taxation

The movements in the deferred tax account in the current and previous years are as follows

	2011 £000	2010 £000
(Assets)/provision at the start of the year/period	(1)	4
Credit for the year/period (note 7)		
- profit and loss (credit) for the current year/period	(1)	(4)
- profit and loss (credit) for the prior year/period	-	(1)
Asset at end of year at 25% (31 December 2010 27%)	(2)	(1)

Deferred taxation at 25% (31 December 2010 27%) has been fully recognised in the financial statements as follows

	2011 £000	2010 £000
Accelerated capital allowances	(2)	(1)

Further reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 28% to 26% effective from 1 April 2011. The provision for deferred tax on timing differences as at 31 December 2011 was calculated at 25%, the corporation tax rate effective from 1 April 2012 as substantively enacted at 31st December 2011. The difference from the application of 25% instead of 26% for the three month period to 31 March 2012 is not expected to be material. The effect of further planned reductions to the main rate of corporation tax by a further one per cent from 1 April 2012 to 24%, and one percent per annum to 22 per cent by 1 April 2014.

12. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Accruals	309	265

Notes to the financial statements

at 31 December 2011

13. Allotted and Issued Share Capital

	<i>Allotted, called up and fully paid</i>	
	<i>2011</i>	<i>2010</i>
Ordinary shares of £1 each	£2	£2
No. of ordinary shares of £1 each	2	2

14. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital £000</i>	<i>Profit and Loss account £000</i>	<i>Total £000</i>
At 1 April 2010	-	2,171	2,171
Profit for the period	-	419	419
At 31 December 2010	-	2,590	2,590
Profit for the year	-	1,252	1,252
At 31 December 2011	-	3,842	3,842

15. Other financial commitments

Annual commitments under non-cancellable operating leases are as follows

	<i>Buildings 2011 £000</i>	<i>Buildings 2010 £000</i>
Greater than five years	452	430

Notes to the financial statements

at 31 December 2011

16. Ultimate parent undertaking

The Company's immediate parent undertaking as at 31 December 2011 was British Airways Plc, a company registered in England and Wales. As at 31 December, the ultimate parent undertaking of the Company was International Consolidated Airlines Group S.A. ("IAG") which is incorporated in Spain. Of the group of which the Company was a member, IAG was the largest undertaking preparing group financial statements and British Airways Plc was the smallest undertaking preparing group financial statements.

Copies of the consolidated financial statements of IAG and British Airways Plc can be found on the website www.iagshares.com

17. Pension benefits

The Company's employees are members of the British Airways New Airways Pension Scheme ("NAPS") which is closed to new members, and the British Airways Retirement Plan (BARP), which is a defined contribution scheme. The assets of these schemes are held in a separate trust administered fund. Benefits under NAPS are based upon final average pensionable pay reduced by an amount (the "abatement") not exceeding one and a half times the Government's lower earnings limit and are subject to retail price index increases up to a maximum of five per cent in any one year.

Pension contributions in the accounts were set during the March 2009 valuation of NAPS, at this date assets were £6,096 million, which represented 69.4% of the value of the benefits that had accrued to members after allowing for assumed increases in earnings.

The Company is not able to identify its share of the assets and liabilities within the NAPS and BARP schemes on a consistent and reasonable basis. Disclosures concerning the assets and liabilities of the scheme can be found in the financial statements of British Airways Plc, the immediate parent company.

18. Related party disclosures

As the Company is a subsidiary undertaking it has taken advantage of the exemption permitted by FRS 8 on Related Party Disclosures and not disclosed details of transactions with other Group undertakings.