

British Airways Interior Engineering Limited

Directors' Report and Financial Statements

For the year ended 31 December 2018



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British Airways Interior Engineering Limited

Registered No: 03109109

Company Information

Directors

R. Crew
S. Davies
M. Grant-Stevens
J. Mahoney
W. Armstrong
L. Street

Secretary

C. Hibbs

Bankers

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

Registered Office

Waterside
PO Box 365
Harmondsworth
UB7 0GB

Strategic report

The Directors present their strategic report for the year ended 31 December 2018.

REVIEW OF THE BUSINESS

British Airways Interior Engineering Limited (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 aircraft interior and safety products found on British Airways aircraft. This activity takes place in a dedicated facility in South Wales.

The Company will continue to invest in developing its capability to refurbish and overhaul interior and safety products 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.

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 is key to the overall performance of British Airways which is discussed in the Group's annual report, which does not form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

Competitive pressure in the airline industry could result in a downturn in the demand for air travel and the refurbishment of aircraft interiors and overhaul of aircraft safety products. The Company manages this risk by providing added value services to its parent company and main customers, by always demonstrating a flexible attitude to change, and by providing fast response times when meeting any requests for additional or enhanced services.

The Company's sales are all generated in the UK and therefore its sales are not exposed to the movement in exchange rates. Where purchases are made in foreign currencies for aircraft spares, the Group's treasury function takes out contracts to manage this risk at a Group level.

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.

FUTURE DEVELOPMENTS

The Directors aim to offer engineering services which result in future profitability. All policies and procedures will support this goal and provide a platform from which the Company can expand its services and engineering capability. It is the Company's intention to continue to provide interior refurbishment and overhaul services to the airline industry.

Strategic report (continued)

KEY PERFORMANCE INDICATORS

As shown in the Company's Income statement on page 8, the Company's sales increased by 5% (2017: -15%) when compared to the prior year. Profit after taxation increased resulting from higher volumes of repairs from scheduled aircraft maintenance programmes.

The Balance sheet on page 9 of the financial statements shows that the Company's financial position at the year end was consistent, in terms of net assets, with actual results for the Company.

SUPPLIER PAYMENT POLICY

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.

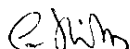
Creditor payment policy is net monthly.

The Company had 22 days of purchases outstanding at 31 December 2018 (2017:20 days) based on the average daily amount invoiced by suppliers, during the year.

ENVIRONMENTAL CONTRIBUTION

The Company 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 its 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.

By order of the Board



C. Hibbs

Secretary

Date: 27th June 2019

Directors' report

The Directors present their report and financial statements for British Airways Interior Engineering Limited for the year ended 31 December 2018.

DIRECTORS

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

R. Crew
S. Davies
M. Grant-Stevens
J. Mahoney
W. Armstrong
L. Street

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £2,089,000 (2017: £690,000).

The Directors do not propose to pay a final dividend (2017: £nil).

GOING CONCERN

The Directors have received a commitment of financial support from its immediate parent company, British Airways Plc, and therefore the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

CORPORATE RESPONSIBILITY

As the Company matures, sustainability and responsibility have never been more important. During the year, the Company continued to develop and embed best practice in corporate governance, socially responsible management and environmental sustainability. In doing this, stretching corporate responsibility targets have been set and are monitored regularly in order to contribute to the achievement of the Group's targets.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The ultimate parent company of the Group, IAG, purchases 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.

Directors' report (continued)

EMPLOYEE INVOLVEMENT

The motivation and commitment of its employees are major contributors to the Company's long-term prospects. Internal communications systematically provide employees with information on matters of concern to them. The Company seeks the ongoing involvement of employees through its employee consultative forum. These forums meet regularly, attended by representatives from the management team and employee representatives, to discuss issues affecting employees on a day-to-day and longer-term basis including Company policies, working arrangements and business initiatives.

DISABLED EMPLOYEES

The Company gives full consideration to applications for employment from disabled persons where the person can adequately fulfil the requirements of the job. Where existing employees become disabled it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

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.

POLITICAL DONATIONS

There have been no political or charitable donations made over £2,000 (2017: £nil).

EVENTS SINCE THE BALANCE SHEET DATE

There have been no significant events post the balance sheet date.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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 other irregularities.

British Airways Interior Engineering Limited

Registered No: 03109109

Directors' report (continued)

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION

The Directors who were members of the Board at the time of approving the Directors' report are listed above. Having made enquiries of fellow Directors, each of these Directors confirm that:

- the members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006; and
- the Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of the accounts.

The Directors' report was approved by the Board and signed on its behalf by:



C. Hibbs

Secretary

Date: 27th June 2019

Income statement

for the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
Turnover	4	29,257	27,889
Cost of sales		(24,524)	(24,681)
Gross profit		4,733	3,208
Administration costs		(2,789)	(2,488)
Profit before interest and tax	5	1,944	720
Finance income	8	12	9
Profit before taxation		1,956	729
Taxation	9	133	(39)
Profit for the year		2,089	690

Attributable to:

Equity holders of the parent.

The above results are all in respect of continuing operations.

No separate statement of other comprehensive income has been presented as all such gains and losses have been dealt with in the profit and loss account.

British Airways Interior Engineering Limited

Registered No: 03109109

Balance sheet

As at 31 December 2018

	Notes	2018 £000	2017 £000
Fixed assets			
Property, plant and equipment	10	1,673	1,669
Current assets			
Inventory	11	938	970
Trade and other receivables	12	4,289	2,154
		5,227	3,124
Total assets		6,900	4,793
Shareholder equity			
Ordinary shares	15	-	-
Profit and loss account		5,976	3,887
Total shareholders' equity		5,976	3,887
Non-current liabilities			
Provision for deferred tax	9	63	62
Deferred government grants	14	159	191
		222	253
Current liabilities			
Creditors – amounts falling due within one year	13	702	653
		702	653
Total equity and liabilities		6,900	4,793

For the financial year in question the Company was entitled to exemption from audit under section 479a of the Companies Act 2006. No members have required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The Directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

The financial statements on pages 8 to 20 were approved by the Board of Directors and signed on its behalf by:



S. Davies

Director

Date: 27th June 2019

Statement of changes in equity

For the year ended 31 December 2018

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 January 2017	-	3,197	3,197
Profit for the year	-	690	690
At 31 December 2017	-	3,887	3,887
Profit for the year	-	2,089	2,089
At 31 December 2018	-	5,976	5,976

Notes to the financial statements

For the year ended 31 December 2018

1 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of British Airways Interior Engineering Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the Board of Directors on the 27th June 2019 and the Balance sheet was signed on the Board's behalf by S Davies. British Airways Interior Engineering Limited is a private limited company and is incorporated and domiciled in England and Wales. The address of its registered office is in England and its principal place of business is in a dedicated facility based in South Wales.

The principal accounting policies adopted by the Company are set out in note 2.

2 Accounting policies

2.1 Basis of preparation

These financial statements were prepared in accordance with FRS 101 and in accordance with the Companies Act 2006.

These financial statements have been prepared on a historical cost convention.

The Company's financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£ 000), except where indicated otherwise.

FRS 101 allows companies to take advantage of certain disclosure exemptions. As allowed under the standard, the disclosure exemptions under paragraph 8 to 9 of FRS 101 have been applied as the Company is a wholly owned subsidiary undertaking of British Airways Plc whose accounts include an equivalent disclosure, where required, of the following standards:

- a) the requirements of IAS 7 *Statement of Cash Flows*;
- b) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- c) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- d) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member,
- e) the requirements of IFRS 7 *Financial Instruments Disclosures*.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2.2 Summary of significant accounting policies

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful life of the relevant assets by equal annual instalments. Revenue grants are released to the profit and loss account over the life of the related project.

Property, plant and equipment

Property, plant and equipment are held at cost. The Company has a policy of not revaluing property, plant and equipment. 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 improvements	-	over 10 years

Inventory

Inventory is 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. Inventory consists of work in progress on partially complete aircraft units.

Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short-dated nature of these assets. A provision for impairment of receivables (allowance for doubtful receivables) is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised at their fair value.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity, otherwise income tax is recognised in the income statement.

Notes to the financial statements (continued)

For the year ended 31 December 2018

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represent amounts receivable for repair and maintenance services provided, stated net of discounts, returns and value added tax.

Finance income

Finance income, derived from interest received from surplus funds, is recognised using the effective interest method.

Pension benefits

Retirement benefits are payable through British Airways Pension Plan, a separately funded pension scheme operated by British Airways. Company contributions to the pension scheme are made on the basis of independent actuarial advice and charged to the profit and loss account. Further details of the pension scheme are given in the financial statements of British Airways Plc.

Leasing commitments

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

New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 31 December 2018, have had a material impact on the company.

3.0 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates, and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates of the economic utilisation and physical condition of the asset.

3.2 Critical judgement in applying accounting policies

The aforementioned significant accounting policies have been applied throughout and as such the need for further critical judgement has not been necessary.

Notes to the financial statements (continued)

For the year ended 31 December 2018

4. Turnover and segmental analysis

Turnover for the year has arisen wholly in the United Kingdom, and all relates to one continuing activity, the repair and overhaul of aircraft parts.

5. Profit before interest and taxation

This is stated after charging / (crediting):

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Depreciation	234	177
Deferred government grants	(32)	(32)
Operating lease rentals – plant and machinery	576	549
	<u> </u>	<u> </u>

6. Directors' remuneration

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Directors' emoluments	-	-
	<u> </u>	<u> </u>

The Directors of the Company were employed and remunerated during the year by British Airways in respect of their services to the Group as a whole. The qualifying services provided to the Company by the Directors were incidental compared to their main roles, therefore the Directors did not receive any remuneration for their services to the Company during the year ended 31 December 2018 (2017: £nil).

During the year, six Directors (2017: two) participated in a defined contribution pension scheme provided by BA. Further details of the pension scheme are included in the financial statements of BA, which can be found on the website www.iagshares.com.

Notes to the financial statements (continued)

For the year ended 31 December 2018

6. Directors' remuneration (continued)

At 31 December 2018, none of the Directors held any direct interest in any shares of the Company (2017: none). During the year, five Directors (2017: four) participated in IAG's Long Term Incentive Scheme, the IAG Performance Share Plan ('IPSP') and six Directors (2017: five) participated in IAG's Incentive Award Deferral Plan ("IADP"). Awards vested during the year for two Directors (2017: one) in the form of IAG shares under the IPSP and awards vested for four Directors (2017: five) under the IADP.

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

7. Staff costs

	2018 £000	2017 £000
Wages and salaries	4,630	4,674
Social security costs	392	395
Other pension costs	496	594
	<u>5,518</u>	<u>5,663</u>

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

	2018 No.	2017 No.
Production	173	176
Administration	9	9
	<u>182</u>	<u>185</u>

8. Finance Income

	2018 £000	2017 £000
Interest receivable from parent undertaking	12	9

Notes to the financial statements (continued)

For the year ended 31 December 2018

9. Taxation

a) Tax on profit

	2018	2017
	£000	£000
Tax credit / (charge) in the Income statement		
Current tax:		
Movement in respect of current year	-	(123)
Movement in respect of prior years	134	93
Total current tax	134	(30)
Deferred taxation:		
Movement in respect of current year	(7)	(18)
Movement in respect of prior years	5	7
Rate change	1	2
Total deferred tax	(1)	(9)
Total tax	133	(39)

b) Detailed deferred tax

The deferred tax included in the balance sheet and the movement in the liability relating to Property, Plant, and Equipment is as follows:

	2018	2017
	£000	£000
At 1 January	(62)	(53)
- Movement through the Income Statement	(1)	(9)
At 31 December	(63)	(62)

Notes to the financial statements (continued)

For the year ended 31 December 2018

9. Taxation (continued)

c) Reconciliation of the total tax credit / (charge) in the Income statement

The total tax charge is calculated at the standard rate of UK corporation tax. The tax charge on the profit for the year to 31 December 2018 is lower (2017: lower) than the expected tax charge at the UK rate. The Company's effective tax rate is -6.8% (2017: 5.33%) and the differences to the UK rate are explained below.

	2018	2017
	£000	£000
Profit before tax	1,956	729
	<u> </u>	<u> </u>
Tax calculated at the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(372)	(141)
Effects of:		
Adjustment in respect of prior years	139	100
Group relief	365	-
Tax rate changes	1	2
	<u> </u>	<u> </u>
Tax credit / (charge) in the income statement	133	(39)
	<u> </u>	<u> </u>

d) Factors that may affect future tax charges

A reduction in the UK corporation tax rate to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) was substantively enacted on 26th October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6th September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax on temporary differences as at 31 December 2018 has been calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

Notes to the financial statements (continued)

For the year ended 31 December 2018

10. Property, plant and equipment

	<i>Short leasehold buildings</i> £000	<i>Equipment</i> £000	<i>Total</i> £000
<i>Cost:</i>			
At 1 January 2018	1,374	2,634	4,008
Additions	-	238	238
At 31 December 2018	1,374	2,872	4,246
<i>Depreciation</i>			
At 1 January 2018	1,374	965	2,339
Charge for the year	-	234	234
At 31 December 2018	1,374	1,199	2,573
<i>Net book value:</i>			
At 31 December 2018	-	1,673	1,673
At 31 December 2017	-	1,669	1,669

11. Inventory

	<i>2018</i> £000	<i>2017</i> £000
Work in progress	938	970

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

12. Trade and other receivables

	<i>2018</i> £000	<i>2017</i> £000
Amount due from parent undertaking	3,742	1,761
Prepayments and accrued income	547	393
	4,289	2,154

The amount due from the parent undertaking is interest bearing at the rate of 0.6% per annum (2017: 0.3% per annum) and is repayable on demand.

Notes to the financial statements (continued)

For the year ended 31 December 2018

13. Creditors – amounts falling due within one year

	2018 £000	2017 £000
Other payables	702	698
Corporation tax	-	(45)
	<u>702</u>	<u>653</u>

14. Deferred government grants

	2018 £000	2017 £000
Deferred government grants	(159)	(191)

15. Share capital

	<i>Allotted, called up and fully paid</i>	
	2018	2017
Ordinary shares of £1 each	£2	£2
No. of ordinary shares of £1 each	2	2

16. Other financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	<i>Buildings</i> 2018 £000	<i>Buildings</i> 2017 £000
Greater than five years	576	549

17. Ultimate parent undertaking

The Company's immediate parent undertaking as at 31 December 2018 was British Airways Plc, a company registered in England and Wales. As at 31 December 2018, 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.

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Pension benefits

The Company's employees are members of the British Airways Pension Plan ("BAPP") which is a defined contribution scheme. This is a flexible benefit scheme offering a choice of contribution rates and the ability to opt for cash arrangements instead of a pension. The assets of this scheme are held in a separate trust so the assets are separate from those of the Company. The Company is not able to identify the assets and liabilities within the scheme attributable to its members 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.

19. Related party disclosures

As the Company is a wholly owned subsidiary undertaking it has taken advantage of the exemption permitted by FRS101 and not disclosed details of transactions with other wholly owned group undertakings.