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British Airways Interior Engineering Limited

Report and Accounts

31 MARCH 1998

 ERNST & YOUNG



British Airways Interior Engineering Limited

Registered No. 03109109

DIRECTOR

M Edwards
S Werling

SECRETARY

P H Jarvis

AUDITORS

Ernst & Young
Southgate House
Wood Street
Cardiff
CF1 1EW

BANKERS

Barclays Bank plc
Cardiff Business Centre
PO Box 674
121 Queen Street
Cardiff
CF1 4XU

REGISTERED OFFICE

Waterside
PO Box 365
Harmondsworth
UB7 0GB

British Airways Interior Engineering Limited

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 March 1998.

RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £371,000.

The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The company's principal business activity is the refurbishment of passenger seats, crew chairs, interior aircraft products such as galleys, as well as cutting floorboards and carpets to fit all aircraft sizes and specifications. The profit for the year is broadly in line with expectations for future growth and profitability.

DIRECTORS AND THEIR INTERESTS

The following have served as directors during the period:

C J Baker	(resigned 31 March 1998)
M Edwards	(appointed 13 November 1997)
J Holmes	(resigned 30 June 1997)
D J Kilonback	(resigned 6 November 1997)
B J Philpott	(resigned 31 March 1998)
D G Richardson	(resigned 31 March 1998)

On 1 April 1998, Mr S Werling was appointed to the Board.

LIABILITY POLICY

The holding company, British Airways Plc, holds a directors and officers liability policy which covers the directors and officers of its subsidiary undertakings.

YEAR 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company is well advanced in the phase of assessing the risks to our business resulting from the date change to the Year 2000. Once this phase is completed we can assess the likely impact on our activities and develop prioritised action plans to deal with the key risks.

AUDITORS

An elective resolution has been passed in accordance with Section 379A, Companies Act 1985, that the company dispense with the obligation to appoint auditors annually.

Accordingly, Ernst & Young continue as auditors of the company.

By order of the Board


P H Jarvis
Secretary

British Airways Interior Engineering Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES in relation to the financial statements

The following statement, which should be read in conjunction with the report of the auditors set out on page 5 is made with a view distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 6 to 14 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect frauds and other irregularities and to establish an effective system of internal financial control.

The Directors having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

REPORT OF THE AUDITORS

to the members of British Airways Interior Engineering Limited

We have audited the accounts on pages 6 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Cardiff

28 August 1998

British Airways Interior Engineering Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 March 1998

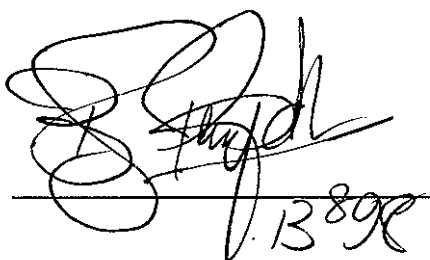
		<i>12 months ended 31 March 1998 £'000</i>	<i>Period 2 October 1995 to 31 March 1997 £'000</i>
	<i>Notes</i>		
TURNOVER	2	9,581	5,856
Cost of sales		8,174	5,140
		<hr/>	<hr/>
GROSS PROFIT		1,407	716
Administration costs		897	552
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	510	164
Taxation	6	139	54
		<hr/>	<hr/>
PROFIT FOR THE YEAR	14	371	110
		<hr/> <hr/>	<hr/> <hr/>

There have been no recognised gains or losses in the year other than the profit of £371,000 (1997: £110,000).

British Airways Interior Engineering Limited

BALANCE SHEET at 31 March 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	7	1,338	198
CURRENT ASSETS			
Stocks	8	660	467
Debtors	9	47	48
Cash at bank and in hand		67	63
		774	578
CREDITORS: amounts falling due within one year	10	506	650
NET CURRENT ASSETS/(LIABILITIES)		268	(72)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,606	126
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	11	9	16
ACCRUALS AND DEFERRED INCOME			
Deferred income	12	1,116	-
NET ASSETS		481	110
CAPITAL AND RESERVES			
Called up share capital	13	-	-
Profit and loss account	14	481	110
EQUITY SHAREHOLDERS' FUNDS		481	110


 Director
 Date 13/8/98

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS

at 31 March 1998

1 ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

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 project to which they relate.

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

Provisions are made for deferred taxation, using the liability method, on short term timing differences and all other material timing differences to the extent that it is possible that the liabilities will crystallise in the foreseeable future.

Foreign currencies

Foreign currency balances are translated into sterling using the rates at the balance sheet date. All profits or losses arising on translation are dealt with through the profit and loss account.

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 activities 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 accounts of British Airways Plc.

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.

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS at 31 March 1998

3 DIRECTORS' REMUNERATION

	<i>12 months ended 31 March 1998 £'000</i>	<i>Period 2 October 1995 to 31 March 1997 £'000</i>
Directors' emoluments	28	42
	<u> </u>	<u> </u>
	<i>Number</i>	<i>Number</i>
Members of defined benefit scheme	1	1
	<u> </u>	<u> </u>

4 STAFF COSTS

	<i>12 months ended 31 March 1998 £'000</i>	<i>Period 2 October 1995 to 31 March 1997 £'000</i>
Wages and salaries	1,165	868
Social security costs	71	52
Other pension costs	85	57
	<u>1,321</u>	<u>977</u>

During the period the average number of staff employed under contracts of service was:

	<i>12 months ended 31 March 1998 No of staff</i>	<i>Period 2 October 1995 to 31 March 1997 No of staff</i>
Production	72	60
Administration	11	14
	<u>83</u>	<u>74</u>

The 1997 average staff numbers report the period covered by trading (i.e. 1 April 1996 to 31 March 1997)

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS

at 31 March 1998

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	<i>12 months ended 31 March 1998 £'000</i>	<i>Period 2 October 1995 to 31 March 1997 £'000</i>
Depreciation	157	-
Auditors' remuneration - audit services	10	10
Deferred Government grants	(124)	-

6 TAXATION

	<i>12 months ended 31 March 1998 £'000</i>	<i>Period 2 October 1995 to 31 March 1997 £'000</i>
Based on the profit for the year:		
Group relief payable at 31% (1997 : 33%)	149	38
Deferred tax	(7)	16
	142	54
Group relief payable over provided in previous year	(3)	-
	139	54

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS at 31 March 1998

7 TANGIBLE FIXED ASSETS

	<i>Short leasehold Buildings</i>	<i>Plant & Machinery</i>	<i>Computer Equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 1 April 1997	-	130	68	198
Additions	1,188	96	13	1,297
At 31 March 1998	1,188	226	81	1,495
Depreciation:				
At 1 April 1997	-	-	-	-
Charge for the year	119	19	19	157
At 31 March 1998	119	19	19	157
Net book value:				
At 31 March 1998	1,069	207	62	1,338
At 1 April 1997	-	130	68	198

8 STOCKS

	<i>1998 £'000</i>	<i>1997 £'000</i>
Work in progress	660	467

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

9 DEBTORS

	<i>1998 £'000</i>	<i>1997 £'000</i>
Other debtors	47	48

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS

at 31 March 1998

10 CREDITORS: amounts falling due within one year

	1998 £'000	1997 £'000
Amount due to parent undertaking	117	442
Amount due to fellow subsidiary	146	38
Deferred Income	-	63
Accruals and trade creditors	243	107
	<u>506</u>	<u>650</u>

11 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The movement in the deferred tax account in the current and previous periods are as follows:

	1998 £	1997 £
At 1 April	16	-
(Credit)/charge for the year	(7)	16
	<u>9</u>	<u>16</u>

Deferred taxation at 30% (1997 : 33%) has been fully provided in the accounts as follows:

	1998 £000	1997 £000
Accelerated capital allowances	<u>9</u>	<u>16</u>

12 ACCRUALS AND DEFERRED INCOME

Deferred Government grants

	£000
Balance at 1 April 1997	-
Transferred from ultimate parent undertaking	1,240
Released during the year	<u>124</u>
Balance as at 31 March 1998	<u>1,116</u>

13 SHARE CAPITAL

	1998 No	1997 No
<i>Authorised</i>		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted and called up</i>		
Ordinary shares of £1 each	<u>2</u>	<u>2</u>

Two ordinary shares were issued upon incorporation of the company. These shares were paid on 9 March 1998.

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS

at 31 March 1998

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>
Issue of shares	-	-	-
Profit for the period	-	110	110
At 31 March 1997	-	110	110
Profit for the year	-	371	371
At 31 March 1998	-	481	481

15 OTHER FINANCIAL COMMITMENTS

At 31 March 1998 the company had annual commitments under non-cancellable operating leases expiring as follows:

	<i>Land and buildings 1998 £'000</i>	<i>Land and buildings 1997 £'000</i>
Between two and five years	165	173

16 ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary undertaking of British Airways Plc, a company registered in England and Wales, whose accounts are available from the Investor Relations Department, British Airways Plc, Waterside, P O Box 365, Harmondsworth UB7 0GB.

British Airways Interior Engineering Limited

NOTES TO THE ACCOUNTS

at 31 March 1998

17 CAPITAL COMMITMENTS

At 31 March 1998, the company had the following capital commitments:

	<i>1998</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>
Contracted	-	-
Authorised but not contracted	-	1,300

18 RELATED PARTY DISCLOSURES

As the company is a subsidiary undertaking, it has taken advantage of the exemption permitted by Financial Reporting Standard Number 8 ("Related Party Disclosures") and not disclosed details of transactions with other group undertakings.

19 PENSION BENEFITS

The company's employees are members of the British Airways New Airways Pension Scheme ("NAPS"). The assets of the scheme are held in a separate trust administered fund. Benefits under NAPS are based upon final average pensionable pay reduced by an amount equivalent to 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.

Employee contributions, based upon pensions costs taken across the British Airways group as a whole, range from 3.75% to 6.5% of full pensionable pay less one and a half times the lower earnings limit.

The pension cost has been assessed in accordance with the advice of an independent firm of actuaries, and full details of the actuarial valuation are to be found in the accounts of British Airways Plc.