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BRITISH AEROSPACE
PUBLIC LIMITED COMPANY

(formerly British Aerospace Limited)

INTERIM ACCOUNTS

at 1st January 1981

Registered office:

100 Pall Mall,
London SW1Y 5HR

15th September 1981

AUDITORS' REPORT

We have audited the accounts on pages 1 to 18 in accordance with approved auditing standards.

In our opinion the accounts set out on pages 1 to 15 which have been prepared on the basis of the accounting policies set out on pages 1 to 4 give a true and fair view of the state of affairs of the Company and its subsidiaries at 1st January 1981.

In our opinion the abridged supplementary current cost accounts set out on pages 16 to 18 have been properly prepared in accordance with the accounting policies and methods set out on page 17 to give the information required by Statement of Standard Accounting Practice number 16.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

London
15th September 1981

ACCOUNTING POLICIES

Basis of preparation

These interim accounts have been prepared for the purposes of complying with the provisions of part III of the Companies Act 1980 and constitute relevant accounts in accordance with section 43 thereof. The accounts reflect the state of affairs of British Aerospace Limited ("the Company") at the moment on 1st January 1981 ("vesting") at which, in accordance with section 1 of the British Aerospace Act 1980, the property, rights, liabilities and obligations of British Aerospace Corporation ("the Corporation") vested in the Company. On 2nd January 1981 the Company was re-registered as a public limited company under the Companies Act 1980.

References to "British Aerospace" in the accounts apply to the continuing business and may be taken to refer to either the Company or the Corporation as the case may be.

No profit and loss account has been prepared as the Company did not trade between incorporation and vesting.

Comparative figures have not been included as they are immaterial in amount. The balance sheet of the Company as at 31st December 1980 has, however, been set out in note 1 on page 6.

The accounts are drawn up under the historical cost convention and in accordance with relevant statements of standard accounting practice.

Basis of consolidation

The consolidated accounts of the Company incorporate the accounts of the Company and its subsidiary and associated companies.

Trading profit

Trading profit is taken at the time of sale; in the case of contracts with extended delivery programmes, it is arrived at by reference to the estimated overall contract profitability. Full provision is made for any losses in the year in which they are first foreseen.

Depreciation

Depreciation is provided on a straight line basis on the cost or valuation of all fixed assets, except freehold land.

Buildings are written off over 25 years or, if leasehold and the term of lease is shorter than 25 years, such shorter term. Buildings erected specifically and exclusively for a research or production programme are written off over the expected life of the programme. Plant and equipment is generally written off over eight years.

In preparing the abridged supplementary current cost accounts longer asset lives have been adopted. Although the longer lives may more fairly reflect the expected useful lives of the assets, it is considered prudent to maintain the existing rates in the historical cost accounts. The effect of changing the rates to correspond with those used for current cost purposes would not be material.

Research and continuing development

Expenditure on research and continuing development, other than that on buildings or specifically recoverable under contract, is written off as incurred.

Launching costs

The expenditure incurred in launching a new civil aircraft project falls into three principal categories: design and development, jigs and tools, and education.

Design and development arises mainly in the early years of a project and is written off as incurred.

Expenditure on jigs and tools is normally incurred once the decision to manufacture has been taken.

Education arises early in the production cycle of a new aircraft when project skills and expertise are being acquired and unit costs are therefore high. It thus comprises the excess of such unit production costs over the level of unit costs anticipated at a more advanced stage of the production programme.

Expenditure on jigs and tools and education is carried forward in inventories for amortisation in respect of each project by reference to an appropriate assessment of sales (the 'pool'), subject to the status of the project and the overriding concept of financial prudence.

The Company is currently involved in two new major civil aircraft projects, the BAe 146 and the Airbus A310. At this stage of the BAe 146 project, 50% of expenditure on jigs and tools and education incurred in the year to 31st December 1980 has been carried forward in accordance with the above policy, all other expenditure to that date having been written off. In the case of the A310, in view of the level of orders already received, all expenditure on jigs and tools and education has been carried forward.

Once deliveries commence, the size of the pool for each project will be determined and thereafter will be kept under review in the light of sales expectations.

Taxation

Provision for deferred taxation is made only where a liability is likely to arise in the foreseeable future.

Inventories

Stocks and work in progress are valued at the lower of cost (including all relevant overhead expenditure) and net realisable value, less progress payments.

Inventories also include the Company's interest in Airbus Industrie and the amounts of launching costs carried forward in accordance with these accounting policies.

Exchange rates

Assets and liabilities at the balance sheet date are translated into sterling at the rates then ruling. The resulting gains or losses are taken into account in arriving at trading profit or, where appropriate, are credited or charged to a contract.

Airbus Industrie

Since 1st January 1979 British Aerospace has had a 20% interest in Airbus Industrie, a Groupement d'Intérêt Economique. Since the Company's participation in Airbus Industrie relates to particular Airbus production programmes which are effectively carried out on a joint venture basis, amounts relating to the participation are carried forward in inventories.

As a member of Airbus Industrie, the Company participates in the Airbus A300 and A310 civil aircraft programmes, being responsible for overall design of the wings, production of wing boxes and purchase of certain components from other UK manufacturers. The total amounts attributable to this participation are :

(a) amounts for production of wing boxes and for the components referred to above (the 'transfer prices');

(b) fixed amounts in respect of an agreed number of aircraft sold, which are intended to reimburse expenditure on design and development and tooling (the 'fixed amounts'); and

(c) the Company's share of the overall results of Airbus Industrie. Profits and losses are shared in proportion to members' interests except that, until the accumulated losses incurred since the first production phase of the A300 programme have been fully recovered by profits, each member's participation in profits is calculated in proportion to the accumulated losses that it has borne.

In the case of the A300 programme, the transfer prices are calculated in dollars by reference to base prices which are escalated in accordance with US inflation indices. In the case of the A310 programme, it is intended to follow a similar formula but the base prices have not yet been determined. On the basis of present exchange rates and assuming no differential between the relevant US and UK inflation rates, it is likely that the transfer prices will fall short of the production costs of these programmes (including all relevant overhead expenses) for which the Company is responsible. However, to the extent that there is a benefit to the results of Airbus Industrie, there is a corresponding benefit to members' individual shares of those results.

Having regard to sales of and orders received for the A300 and A310 aircraft by Airbus Industrie and expectations for the future, the Board considers that, overall, the Company's participation in the present programmes of Airbus Industrie will be profitable.

In assessing the realisable value of work undertaken by the Company for Airbus Industrie and whether any provisions are required in respect of work to be undertaken, account is taken of the relevant transfer prices and fixed amounts together with the profits or losses accruing in Airbus Industrie in relation to that work.

Profits are taken in respect of the Company's overall participation in Airbus Industrie only when such profits have been realised ; that is, after taking account of the profit sharing arrangements outlined in (c) above. Full provision is made for the Company's share of any losses incurred by Airbus Industrie when such losses arise.

BRITISH AEROSPACE PUBLIC LIMITED COMPANY
(formerly British Aerospace Limited)

BALANCE SHEETS
at 1st January 1981

	Note	1st January 1981 Company and subsidiaries £m	Company £m
ASSETS EMPLOYED			
Fixed assets	2	288.8	288.6
Investments	4	2.1	1.8
Subsidiary companies	6	-	18.9
Net current assets			
Current assets:			
Inventories	7	527.3	521.0
Debtors	8	299.6	296.1
Liquid assets	9	165.0	160.9
		991.9	978.0
Less : Current liabilities:			
Creditors		283.2	280.1
Advances	10	268.4	268.4
Provisions	11	86.6	86.2
Taxation		28.5	27.7
Dividend	12	9.6	9.6
		676.3	672.0
		315.6	306.0
		606.5	615.3
FINANCED BY			
Capital and reserves			
Share capital	13	-	-
Former Government investment	14	268.8	268.8
Capital and revenue reserves	15	305.1	313.9
		573.9	582.7
Loans	16	32.6	32.6
		606.5	615.3

A. W. Pearce Chairman
B. E. Friend Director of Finance

The accounting policies on pages 1 to 4 and the notes on pages 6 to 15 form part of these accounts.

NOTES ON THE ACCOUNTS

1. Balance sheet of the Company at 31st December 1980

	31st December 1980
	£
Assets employed :	
Liquid assets	7
	7
Financed by :	
Share capital (see note 13 on page 11)	7
	7

2. Fixed assets

COMPANY AND SUBSIDIARIES	Land and buildings Freehold £m	Long leasehold £m	Short leasehold £m	Plant and equipment £m	Total £m
Cost					
At 31st December 1980	-	-	-	-	-
Transfers on vesting	154.4	12.3	35.9	86.2	288.8
At 1st January 1981	154.4	12.3	35.9	86.2	288.8
Cost					
At 31st December 1980	-	-	-	-	-
Transfers on vesting	154.4	12.3	35.9	86.0	288.6
At 1st January 1981	154.4	12.3	35.9	86.0	288.6

In accordance with the provisions of section 4 (4) of the British Aerospace Act 1980 the fixed assets of the Corporation were transferred to the Company at the values assigned to them in the accounts of the Corporation at 31st December 1980. These values were after providing depreciation as follows :

	Land and buildings Freehold £m	Long leasehold £m	Short leasehold £m	Plant and equipment £m	Total £m
Corporation and subsidiaries	4.4	0.4	1.8	113.8	120.4
Corporation	4.4	0.4	1.8	113.5	120.1

In arriving at the valuation of land and buildings the Corporation had regard to a professional valuation carried out by Messrs. Fuller Peiser, Chartered Surveyors, and Messrs. Gerald Eve & Co., Chartered Surveyors, on an open market existing use basis as at 31st December 1979. The valuation, amounting to £197.4 million in total, was taken up in the accounts of the Corporation with effect from 1st January 1980.

No deferred taxation has been provided in respect of the tax liability of £45.7 million which would arise on the sale of the properties at valuation, as it is the Board's present intention to continue to use the properties for the purposes of its trade for the foreseeable future.

3. Future capital expenditure

	1st January 1981	
	Company and subsidiaries £m	Company £m
Capital expenditure not provided for in the accounts :		
Firm orders	25.9	25.9
Approved but not ordered	13.3	13.3
	39.2	39.2

4. Investments

	1st January 1981	
	Company and subsidiaries £m	Company £m
Associated companies :		
Shares at cost	0.6	0.6
Attributable reserves	0.3	-
	0.9	0.6
Trade investments :		
Listed (at market value)	1.2	1.2
	2.1	1.8

The principal associated companies are as follows:

	Country of incorporation and principal country of operation	Issued share capital	Proportion of share capital held by the Company and subsidiaries
Lloyds Associated Air Leasing Limited	England	£1,000,000	20%
Société Européenne de Production de l'Avion ECAT	France	FF100,000	50%
Panavia Aircraft GmbH	Federal Republic of Germany	DM10,000,000	42½%
Dulles International Aeroservices Incorporated	United States of America	$100,000	49%

The Company is also a member of Aircraft Research Association Limited, a research body registered in England and limited by guarantee, which is regarded as being an associated company.

Members of the Association are not entitled to participate in profits and no value has been attributed to this investment in the accounts.

5. Groupements d'Intérêt Economique

At 1st January 1981 the Company had interests in three Groupements d'Intérêt Economique ('GIEs') as follows :

Airbus Industrie	20%
Anti-Ship Euromissile	33⅓%
Euromissile Dynamics Group	33⅓%

A GIE is an organisation incorporated under French law with separate legal personality and with or without a share capital. It has certain similarities with a partnership formed under English law (see also note 18). The accounting policy relating to Airbus Industrie is set out on page 3.

6. Subsidiary companies

	1st January 1981 £m
Investment in subsidiaries	199.7
Amounts owing by subsidiaries	6.3
Amounts owing to subsidiaries	(187.1)
	18.9

The principal operating subsidiary companies, all of which were wholly and directly owned, at 1st January 1981 were as follows :

	Country of incorporation and principal country of operation	Issued share capital	Nature of business
British Aerospace (Insurance Limited)	England	£200,000	Arranging self insurance for certain risks of the Company
British Aerospace (Insurance Brokers (Limited)	England	£100	Insurance broking for the Company and employees
British Aerospace Australia Limited	Australia	A$200,000	Manufacture of electronic components
British Scandinavian Aviation AB	Sweden	SKr50,000	Agency
British Aerospace, Inc.	United States of America	$1,350,000	Marketing and support activities

7. Inventories

	1st January 1981	
	Company and subsidiaries	Company
	£m	£m
Stock of raw materials and components	81.7	81.6
Work in progress	966.2	957.6
Airbus Industrie work in progress and participation	99.2	99.2
Unamortised launching costs :		
BAe 146 - jigs and tools	11.7	11.7
- education	6.3	6.3
Airbus A310 - jigs and tools	18.3	18.3
	1,183.4	1,174.7
Less : Progress payments	656.1	653.7
	527.3	521.0

Inventories include amounts relating to civil aircraft programmes with long production cycles which are expected to be realised over a number of years.

The balance on Airbus Industrie account is included above in accordance with the accounting policy set out on page 3.

8. Long term debtors

	1st January 1981	
	Company and subsidiaries	Company
	£m	£m
Debts receivable more than one year after the balance sheet date, less provisions	1.9	1.9

9. Liquid assets

	1st January 1981	
	Company and subsidiaries	Company
	£m	£m
Government securities	38.2	38.2
Local authority bonds and mortgages	12.5	12.5
Certificates of tax deposit	4.4	4.4
Short term deposits	94.9	91.3
Bank balances	15.0	14.5
	165.0	160.9

Government securities are stated at cost (market value £39.5 million).

10. Advances

Advances represent deposits received and receivable in advance of work carried out and are set off against work in progress as costs are incurred. At 1st January 1981 advances also include the unexpended balance of the fire insurance claim referred to in note 20.

11. Provisions

	1st January 1981	
	Company and subsidiaries £m	Company £m
At 31st December 1980	-	-
Transfer on vesting	86.6	86.2
At 1st January 1981	86.6	86.2

These provisions have been established to cover known and anticipated liabilities for after sales service, product warranties, potential contract losses and possible liabilities under recourse agreements.

12. Dividend

Before the vesting date, the Corporation agreed to pay a dividend for the year ending 31st December 1980 of £9.6 million, in respect of which advance corporation tax is payable, to HM Government on the Corporation's public dividend capital and this amount has subsequently been paid by the Company. This dividend was computed as a net dividend of 8¾% on public dividend capital of £110 million.

13. Share capital

The authorised and issued share capital of the Company at 1st January 1981 was £7 (31st December 1980 £7), divided into seven ordinary shares of £1 each.

14. Former Government investment

In accordance with section 2 of the British Aerospace Act 1980, the commencing capital of the Corporation and all amounts previously advanced to the Corporation as public dividend capital by the Secretary of State for Industry, under sections 16 and 45 of the Aircraft and Shipbuilding Industries Act 1977, were extinguished immediately before the vesting on 1st January 1981 of all the property, rights, liabilities and obligations of the Corporation in the Company. These amounts are described in these accounts as "Former Government investment". On 2nd January 1981, following the issue of fully paid up ordinary shares in the Company to a nominee of HM Government under section 3 of the British Aerospace Act 1980, the balance of the former Government investment was designated as "the statutory reserve" in accordance with section 4 of the Act.

The statutory reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

15. Capital and revenue reserves

	1st January 1981 Company and subsidiaries £m	Company £m
Capital reserves :		
At 31st December 1980	-	-
Transfers on vesting	112.3	123.3
At 1st January 1981	112.3	123.3
Revenue reserves :		
At 31st December 1980	-	-
Transfers on vesting	192.8	190.6
At 1st January 1981	192.8	190.6
Total :		
At 1st January 1981	305.1	313.9

16. Loans

In accordance with section 12 of the Aircraft and Shipbuilding Industries Act 1977, National Loans Fund advances have been made to the Corporation by the Secretary of State for Industry, and remain as a liability of the Company, as follows :

Date of advance	Amount advanced	Interest per annum	Half yearly repayment instalments	Date of final instalment	Amount Outstanding at 1st January 1981
	£m		£m		£m
3rd May 1977	18.0	9 7/8%	0.9	15th June 1987	11.7
28th March 1980	22.0	15 3/8%	1.1	15th June 1990	20.9
					32.6

The above National Loans Fund advances, together with bank loans and overdrafts are repayable as follows :

	1st January 1981 Company and subsidiaries	Company
	£m	£m
In one year or less	4.0	4.0
Between one and two years	4.0	4.0
Between two and five years	12.0	12.0
In five years or more	12.6	12.6
	32.6	32.6

17. Deferred taxation

No provision for deferred taxation has been made in these accounts. The full potential liability for deferred taxation, however, is as follows :

	1st January 1981 Company and subsidiaries £m	Company £m
Stock appreciation relief	131.0	131.0
Capital allowances	69.2	69.2
Unrelieved losses	(9.9)	(9.9)
Other timing differences	(85.7)	(85.4)
	104.6	104.9
Advance corporation tax	(5.9)	(5.9)
	98.7	99.0
Unrealised gains on revalued fixed assets	45.7	45.7
	144.4	144.7

Under the provisions of the 1981 Finance Act, a significant liability in respect of stock appreciation relief is unlikely to arise.

18. Contingent liabilities

The Company has, with other companies, given joint and several indemnities, with liability limited in the aggregate to some £21 million, in connection with overseas collaborative contracts. Each party will indemnify the other where a liability arises due to its default.

Contingent liabilities exist in respect of guarantees and in respect of the residual credit risk on supplier credit agreements entered into under Export Credits Guarantee Department arrangements. However, these are part of, and have arisen in, the ordinary course of business and, in the opinion of the Board, the possibility of significant loss is remote.

In addition contingent liabilities exist in respect of claims arising out of incidents involving products, although in the opinion of the Board no loss is likely to be incurred as a result of these claims.

As a member of Groupements d'Intérêt Economique ('GIEs') the Company is jointly and severally liable with the other members to third parties for the debts and obligations of those GIEs, subject to recourse amongst the members in accordance with the terms of the membership agreements.

19. Pension scheme

An actuarial valuation of the British Aerospace Pension Scheme as at 6th April 1979 showed that accrued liabilities were adequately funded on a discontinuance basis and also on an accrued current rights basis. However, there was, as anticipated, a deficiency on the higher funding target adopted by the trustees and agreed by the Board. This deficiency is being progressively reduced by the contributions being paid at the rate recommended by the actuary.

20. Insurance claim

On 27th January 1980, one of British Aerospace's stores of civil aircraft spares, at Weybridge, was destroyed by fire. In August 1980, an amount of £70 million was received in full and final settlement of British Aerospace's claim for material damage and consequential loss.

Programmes for manufacturing replacement spares for those destroyed by the fire are under review in the light of potential requirements by customers. Some of the spares belonged to the Ministry of Defence which is currently negotiating with the Company the amount payable to the Ministry of Defence. The Board does not expect that the Company will suffer any financial loss or significant adverse effect upon its business in consequence of the fire.

BRITISH AEROSPACE PUBLIC LIMITED COMPANY
(formerly British Aerospace Limited)

CONSOLIDATED CURRENT COST BALANCE SHEET
at 1st January 1981

	Note	1st January 1981 £m
ASSETS EMPLOYED		
Fixed assets and investments	2	383.5
Net current assets		
Working capital		252.6
Liquid assets		165.0
Other net current liabilities		(92.4)
Dividend		(9.6)
		315.6
		699.1
FINANCED BY		
Capital and reserves		666.5
Loans		32.6
		699.1

The notes on pages 17 and 18 form part of these accounts.

NOTES ON THE CURRENT COST ACCOUNTS

1. Accounting policies

Basis of preparation

The consolidated current cost accounts have been prepared under the current cost convention in accordance with SSAP 16 using the same accounting policies as for the historical cost accounts, except that longer expected useful lives have been assumed for most fixed assets as described below.

Fixed assets

The gross current cost of fixed assets has been derived as follows :

(a) Land and buildings, on the basis of a professional valuation on an open market existing use basis at 31st December 1979 with subsequent changes estimated by the Company using appropriate government indices; and

(b) Plant and equipment, by applying appropriate government indices to the historical costs.

Longer asset lives than those adopted in the historical cost accounts have been used; in particular, plant and equipment has been written off on a straight line basis over 12 years as compared with 8 years in the historical cost accounts.

Working capital

Monetary working capital comprises debtors, creditors, provisions and advances arising from the ordinary activities of the business. Inventories have been included in the current cost balance sheet at the same amount as in the historical cost accounts, as this is not considered to differ materially from their value to the business.

2. Fixed assets and investments

	1st January 1981
	£m
Fixed assets :	
Land and buildings	241.7
Plant and equipment	139.7
	381.4
Investments	2.1
	383.5

3. Financing of the net operating assets

The value to the business of the net operating assets and the method by which they were financed are as follows :

	1st January 1981 £m
Net operating assets :	
Fixed assets and investments	383.5
Working capital	252.6
	636.1
Shareholders' interest :	
Historical cost capital and reserves	573.9
Cumulative current cost operating adjustments	(75.5)
Depreciation on revaluation surplus incorporated in historical cost accounts	(2.8)
Current cost reserve	170.9
Current cost capital and reserves	666.5
Proposed dividend	9.6
	676.1
Net borrowings :	
Loans	32.6
Deferred taxation	-
Other net current liabilities	92.4
Liquid assets	(165.0)
	(40.0)
	636.1

4. Current cost reserve

The £75.5 million realised element of the £170.9 million balance on current cost reserve as at 1st January 1981 represents the net cumulative total of the current cost adjustments which have been passed through the current cost profit and loss account. Thus it represents the difference between historical and current cost profits since current cost accounts were first prepared; in this case since 1st January 1979.