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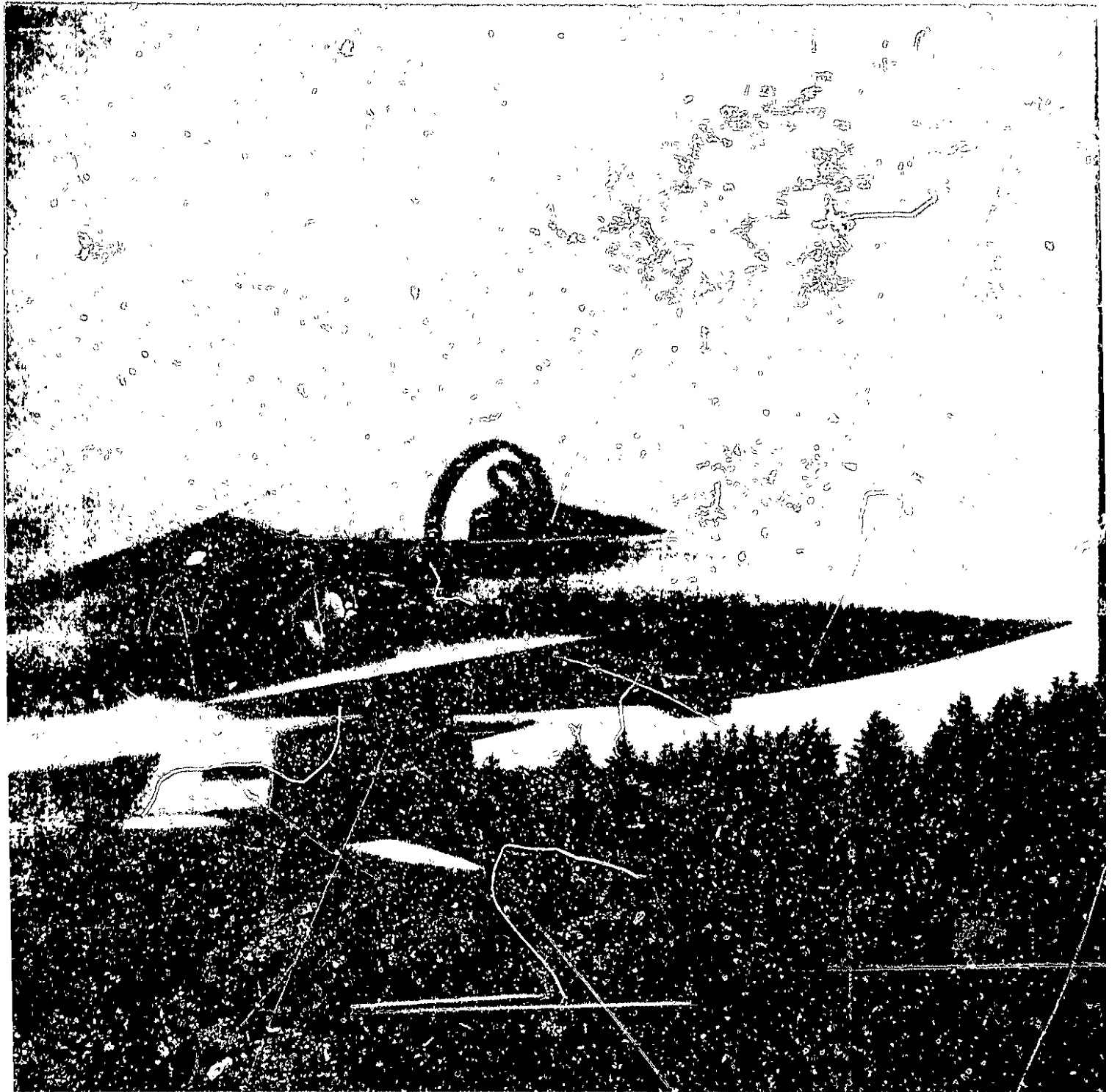
The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause.



BRITISH AEROSPACE

Annual Report and Accounts 1988



British Aerospace is Britain's largest manufacturing Group and one of the world's largest aerospace organisations. The Group has 131,300 employees, had a 1988 turnover of £5.6 billion, and is the United Kingdom's largest exporter of manufactured goods. In 1988 overseas sales totalled nearly £3.5 billion.

The Group operates three core businesses. Our defence system business comprises ordnance, guided weapons, electronic systems and military aircraft. Commercial aircraft activities encompass small feeder airliner and business jets as well as the design and production of wings for the Airbus Industrie range of jet airliners. With the 1988 acquisition of The Rover Group plc, British Aerospace has also become the United Kingdom's largest manufacturer and exporter of cars and four-wheel drive vehicles. The Group also has proven expertise in space systems and, following its acquisition of Ballast Nedam, is developing its interests in property development and construction, and other enterprises.

Cover: full scale mock-up of the EFA (European Fighter Aircraft) currently under development for entry into service in 1996.

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Registered Office:
11 Strand, London WC2N 5JT

FINANCIAL RESULTS

	1988	1987
Turnover	£5,659m	£4,750m
Overseas sales	£3,481m	£2,514m
Profit (loss) before taxation	£246m	£125.0m
Shareholders funds	£2,114m	£1,919m
Earnings (loss) per share	62.0p	64.9p

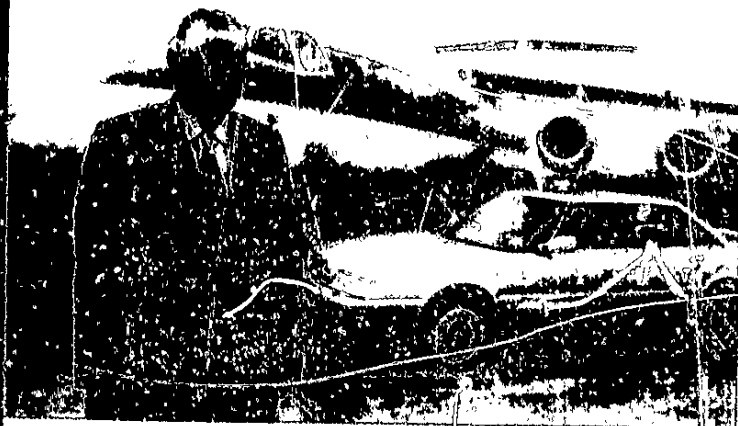
The range of British Aerospace products is illustrated on the following pages

A300

A three engine large capacity short medium range wide bodied aircraft. A total of 296 had been delivered at the end of 1988. Seating capacity 220-245. First flight 1972

A310

Re-engineered, same fuselage cross section as the A300 but with a shorter fuselage. A total of 110 had been delivered at the end of 1988. Seating capacity 176-252. First flight 1982



Professor Roland
Smith, Chairman

1988 has been a record year for British Aerospace in which your Board took a major strategic decision to enter the automotive industry with the acquisition of The Rover Group plc.

The move, which was well supported by our shareholders, attracted much media and political comment. By this one imaginative acquisition the turnover of British Aerospace was substantially increased, profitability was improved, shareholders' funds almost doubled and British Aerospace became Britain's most important exporter of manufactured goods.

During the year HM Government secured a multi billion pound extension to the Al Yamamah project with the Kingdom of Saudi Arabia and signed a Memorandum of Understanding embracing a whole range of military equipment with the Government of Malaysia. Sales volumes confirm British Aerospace as one of the foremost defence equipment businesses in the Western World.

The order book for our Commercial Aircraft business, including Airbus, continues to increase. British Aerospace welcomes Daimler Benz as a major

partner in Airbus and is excited by the prospect of the new MAN. The appointment of HM Treasury as the new President of Airbus for 1989 suggests that the future management of Airbus Industrie might well be firmer and more commercially based.

RESULTS

Pre-taxation profits have increased to a record level of £236 million despite the negative impact of the strength of sterling against the dollar upon our Commercial Aircraft business.

Sales were at the highest ever level of £5,639 million including £1,179 million for Rover acquired in August 1988. Overseas sales at £3,481 million were 61% of total sales.

Trading profits at £311 million showed an increase over last year of £91 million and included profits from our new businesses, Rover and Ballast Nedam. Increased trading profits were achieved from the Military Aircraft and Space Systems businesses. Trading profits fell in the Weapons and Electronic Systems business and action has already been taken to reduce the cost base of that business. Royal Ordnance has realised its expected full year trading profit of £56 million in 1988.

The Commercial Aircraft business results continued to reflect the competitive pressures in international markets and the weakness of the US dollar and contain a further loss from Airbus the effect of which was offset in part by improvements on British Aerospace's own aircraft programmes. We shall continue to seek favourable opportunities to hedge against exchange rate movements by prudently covering forward and by seeking competitive sourcing in US dollars.

The interest charge of £66 million reflected both the higher level and cost

A320

Two engine, medium range turbofan short medium haul aircraft. First flight 1987. This aircraft had been ordered by Saudi Arabia for the F-150. First flight 1987.

A330

Two engine, medium range aircraft currently under development. First flight is expected in 1992. Typical seating capacity expected to be 335.

A340

Two engine, long range aircraft completes the family of Airbus jetliners currently under development. First flight is expected in 1991. Typical seating capacity is expected to be 295.

of borrowings

The balance sheet has been significantly strengthened. Shareholders' funds have increased from £1,019 million to £2,111 million as a result of recent acquisitions and a revaluation of the majority of the Company's property portfolio.

Net liquid assets amounted to £108 million at the end of 1988 whilst balance sheet net asset values were the equivalent of 828p per share compared with 107p per share at the end of 1987.

DIVIDEND

The earnings per share this year is a record 62p per share. Accordingly your Board is proposing a final dividend of 15.2p per share, an increase of 12% over 1987.

This year for the first time share holders will have an opportunity to take ordinary shares in lieu of the final cash dividend, which I am sure will prove an attractive opportunity and will be well supported.

MANAGEMENT

The strategic thrust of British Aerospace is to develop our core businesses on an international level by a process of product innovation and acquisition. Our main business sectors are all growth markets at the international level. Our management task is to exploit these markets and achieve increasing earnings for our shareholders. British Aerospace is a research, design and development based manufacturing and marketing business. All our recent acquisitions have been market and product driven.

Innovation and research is at the heart of our business to ensure that British Aerospace has the technology, the products and the manufacturing processes to achieve higher profits in future years.

PEOPLE

I am pleased to welcome Sir Graham Day, Chairman of Rover Group and, since the year end, Mr Ronnie Hampel an Executive Director of ICL, to the Board. It was with regret that Mr C. Brandon Gough resigned from the Board in 1988. We wish him well, together with Mr Hugh Metcalfe, who retired at the beginning of 1988 after 30 years service.

My thanks are also extended to all employees for their contribution to the past year.

FUTURE

British Aerospace enters 1989 in a strong position. The year 1989 encourages a link with history for it is the 200th anniversary of the French Revolution, the 50th anniversary of the outbreak of World War II and the 10th anniversary of the Thatcher administration.

For British Aerospace 1989 should be the year of opportunity, when we could prove even more successful in the implementation of our strategic plan to develop our businesses internationally.

Tactically the problems facing the Company principally derived from volatile exchange rates are being addressed vigorously and the new management is in place and working well.

The Company has a strong balance sheet with good earnings potential drawn from a strong product base and all these factors enable your Board to feel confident as we enter the 1990s.

Roland Smith

Professor Roland Smith
15th March, 1989



AIRPORTS

Demonstrating that Ballast Nedam is not too far removed from its parent British Aerospace, the company has a long and varied international track record of airport construction



ALARM

Air launched anti radar missile being developed for the RAF to be used on Toradoes, which can carry up to nine of these advanced missiles



AMMUNITION SYSTEMS

Royal Ordnance is the largest volume producer of ammunition in Europe and has a product range unequalled by any other ammunition manufacturer in the world

BOARD OF DIRECTORS

**PROFESSOR ROLAND SMITH** *(Non-executive)*

Professor Smith joined the Board and became Chairman in 1987. He is aged 60. Professor Smith is Chairman of Hepworth plc, President of Equitable Life, Chairman of Reckitt International plc and of Senior Engineering Group plc. He is also a non-executive Director of a number of other industrial and City investment companies.

**SIR KENNETH DURHAM** *Deputy Chairman (Non-executive)*

A Director since 1980, he is aged 64. Formerly Chairman of Unilever, he is Executive Chairman of Woolworth Holdings plc and a Director of Delta Group plc and Morgan Grenfell Holdings plc.

**ADMIRAL SIR RAYMOND LYGO, KCB** *Chief Executive*

A Director since 1980, he is aged 65. Formerly Vice Chief of Naval Staff, he joined British Aerospace in 1978, became Managing Director of the Company in 1983 and Chief Executive in 1985. Chairman of British Aerospace (Space Systems) Limited, British Aerospace Enterprises Limited and British Aerospace Holdings Inc.

**D E BUCKNALL** *Personnel Director*

A Director since 1986, he is aged 52. Formerly General Manager Polyolefines and Engineering Plastics Business of ICI Petrochemicals and Plastics Division. A Trustee of the Engineering Employers Federation and a member of the Engineering Industry Training Board.

**SIR GRAHAM DAY** *Chairman, Rover Group*

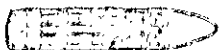
A Director since 1988, he is aged 55. Chairman and Chief Executive of The Rover Group plc since 1986 and previously Chairman and Chief Executive of British Shipbuilders. He is a Director and Chairman designate of Cadbury Schweppes plc, a Director of The Laird Group plc and MAI Plc.

**D G EUSTACE** *Director of Finance*

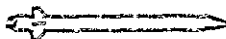
A Director since January 1988, he is aged 52. Formerly Director of Finance of British Alcan Aluminium plc, he joined British Aerospace in 1987 and became Director of Finance in 1988.

**R H EVANS, CBE** *Chairman, British Aerospace Defence Companies*

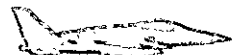
A Director since 1987, he is aged 46. Joined British Aerospace in 1969, became Deputy Managing Director of Military Aircraft Division in 1986. Appointed Marketing Director in 1987, he assumed responsibility for the Company's Military Aircraft, Dynamics and Royal Ordnance businesses in 1989.

**ARKANSAS MODIFICATION CENTER INC**

This subsidiary, acquired in June 1988 is based in Arkansas and is engaged in the customised completion of corporate aircraft. The company has a highly successful reputation in customising BAC 125 aircraft.

**ASRAAM**

Advanced Short Range Air to Air Missile capable of attacking targets from any direction. Being developed in collaboration with several other nations.

**ASTOVL**

Research and development studies of future supersonic Advanced Short Take Off and Vertical Landing aircraft concepts based on the Harrier principle continued with the FSA.



B E FRIEND CBE Director

A Director since 1977, he is aged 54. He is a director of The Rover Group plc and of Buller Seidman BV and a non-executive Director of The Iron Trades Employers Insurance Association, Iron Trades Mutual Insurance Company, SD Sutton plc and Grahams Rural Investment Trust plc.



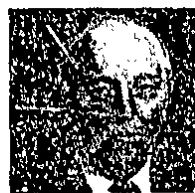
S GILLIBRAND Chairman, Commercial Aircraft

A Director since 1987, he is aged 54. Joined British Aerospace in 1950, became progressively Divisional Managing Director of Kingston Brough Division, of Weybridge Division and of Civil Aircraft Division. Chairman of British Aerospace (Commercial Aircraft) Limited and of British Aerospace Inc.



D O GLADWIN, CBE Non-Executive Director

A Director since 1977, he is aged 58. Regional Secretary of the General, Municipal, Boilermakers and Allied Trades Union and a Board member of the Post Office Corporation.



R C HAMPEL Non-Executive Director*

A Director since January 1989, he is aged 56. A Director of Imperial Chemical Industries plc and of Commercial Union Assurance Company plc.



SIR PHILIP WILKINSON Non-Executive Director†

A Director since 1987, he is aged 61. A Deputy Chairman of the National Westminster Bank having been Group Chief Executive from 1983 to 1987.



I R YATES, CBE Deputy Chief Executive (Engineering)

A Director since 1982, he is aged 59. Joined British Aerospace in 1950, became Divisional Managing Director, Warton Division in 1978, Chief Executive, Aircraft Group in 1982 and a Deputy Chief Executive of the Company in 1986. President of the Society of British Aerospace Companies, 1988/1989.

Secretary and Legal Adviser B Cookson

Company Comptroller A Smith

Treasurer J D Hanson

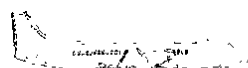
Auditors Peat Marwick McLintock

Brokers Hoare Govett Limited

Registrar Lloyds Bank Plc, Registrar's Department,

Goring-by-Sea, Worthing, West Sussex BN12 6DA

*Member of the Audit Committee †Member of the Compensation Committee



ATP

New generation twin turboprop aircraft which includes an advanced design of propeller. A total of 8 had been delivered by the end of 1988. Seating capacity 64-72. First flight 1986.



BAe 125-800

Fast, economical business jet. Over 130 had been delivered by the end of 1988. Seating capacity 5-10. First flight 1983.

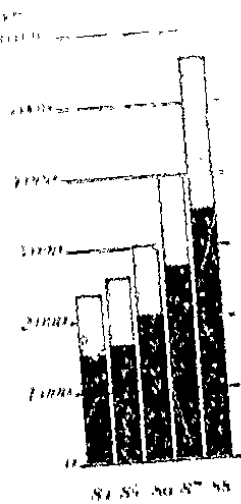


BAe 146-100

A quiet, fuel efficient four turbofan regional airliner. Designed to operate from short semi-airstrips with minimal ground facilities. Orders received by the end of 1988 amounted to 27. Seating capacity 82-93. First flight 1981.

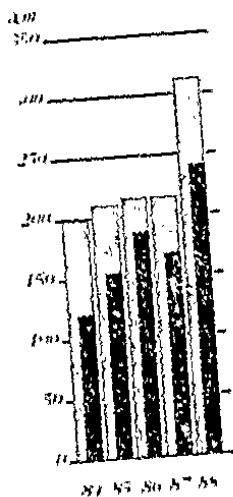
Turnover

- 1988
- 1987



Profits

- Trading profit
- Profit before taxation and exceptional item 1987



The Group's Profit before taxation and exceptional item for the year ended June 1988 and this is the first Financial Review for British Aerospace. I am pleased to report the Group has achieved record results.

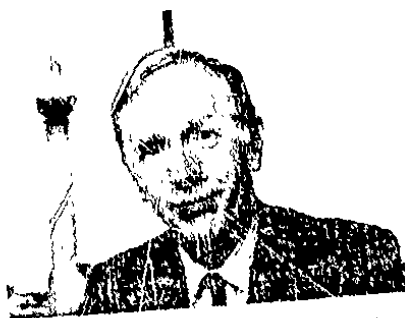
	1988	1987
Turnover	Am 5,039	Am 4,179
Overseas sales	Am 3,181	Am 2,601
Trading profit	Am 311	Am 217
Profit before taxation and exceptional item	Am 236	Am 161
Profit (loss) before taxation	Am 236	Am 1,099
Dividend per share	p 20.6	p 18.7
Shareholders' funds	Am 2,111	Am 1,019
Capital expenditure	Am 455	Am 181

Group sales have increased by 38% to £5,039 million and included £1,179 million from Rover from the date of acquisition. Trading profit at £311 million shows a 43% increase over 1987 despite the negative effect of a weak US dollar on our Commercial Aircraft business.

Whilst we continue with our policy of hedging forward currency exposure, dollar revenues arising from sales of Commercial Aircraft are in general insufficient in sterling terms to cover total costs and this is particularly so with our participation in Airbus Industrie.

All other businesses continued to produce good profits and our new acquisition Rover produced a record trading profit for the year of which £35 million has been consolidated into our results as post acquisition profit.

Most of the Group's contracts cover many years and final



profitability is dependent upon a number of factors. We therefore, have continued to be prudent in taking profits in the early years of a programme.

We are continuing to press ahead with rationalisation and associated cost reduction programmes in order to counter adverse exchange rates, high real interest rates and competitive pressures. The costs of these programmes are expected to be covered by the release of surplus property.

In line with our policy of periodically revaluing land and buildings, the majority of our UK Aerospace properties have been revalued and the resulting increase in value of £110 million has been credited to reserves. The UK properties of Rover and Royal Ordnance were revalued as at their dates of acquisition.

Shareholders' funds have increased from £1,019 million at the end of 1987 to £2,111 million at the end of 1988. This increase is mainly due to the acquisition of Rover and the revaluation of properties. Net liquid assets were £108 million at the end of 1988 compared with £79 million at the end of 1987.

BAe 146 200
Slightly longer than the 100 series and for operation from paved runways only. Orders received by the end of 1983 amounted to 85. Seating capacity 82-100. First flight 1982.

BAe 146 300
A development of the BAe 146 200. A total of 10 had been delivered by the end of 1988. Seating capacity 122-130.

BAe 146QT
This freighter version benefits from the ultra quiet noise characteristics and capacity of the aircraft. Orders received by the end of 1988 amounted to 1. First flight 1987.

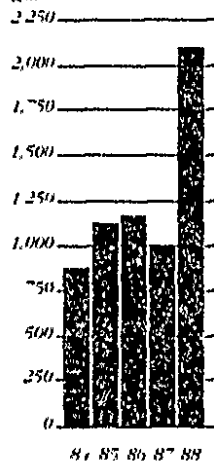
Sales per Employee

Am



Shareholders Funds

Am



During the year we invested £522 million in capital assets including investments in Rover, Arkansas Modification Center and an increased investment in SD. This substantial investment programme is aimed at securing increased profits for the future.

Given the long term nature of our business it was decided to structure our debt profile accordingly. Thus we negotiated two fixed rate sterling loans, the first of which was an amount of £150 million from the European Investment Bank to support our involvement in Airbus. £50 million of this loan is included in the Accounts and the remaining £100 million was drawn down in February 1989. Early in 1989 we issued £100 million of Euro-Sterling Bonds. These loans, together with medium and short term facilities from our bankers, are sufficient to meet the Group's foreseeable needs.

The acquisition of Rover resulted in an additional 41,000 employees joining the Group, bringing the total to 131,300 (1987 93,000). The important ratio of sales per employee maintains an improving trend.

D. G. Eustace

D G Eustace
Director of Finance

Analysis of turnover

Turnover 1988 — £5,639 million

Overseas Sales — £3,452 million

By business

Military Aircraft and Support Services (29.4%)

Weapons & Electronic Systems (23.8%)

Commercial Aircraft (16.3%)

Motor Vehicles (20.9%)

Property Development and Construction (6.8%)

Space Systems (2.3%)

Other Enterprises (0.5%)



By geographical area

UK (38.3%)

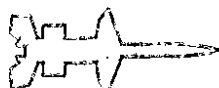
Middle East (22.7%)

Europe (22.5%)

USA & Canada (9.6%)

Far East (3.8%)

Rest of World (3.1%)



BLOODHOUND

A mobile unit aircraft guided a capon suitable for incorporation in a comprehensive air defence system. First in service in 1958 updates should result in it being an effective weapon until the end of the century.



BRIDGE CONSTRUCTION

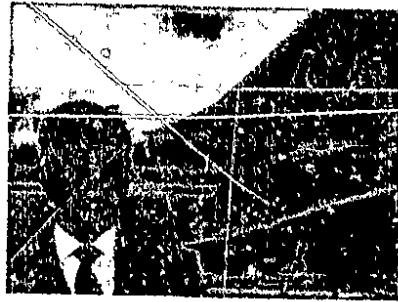
The 25km long King Fahd Causeway from Saudi Arabia to Bahrain, built by Ballast Nedam to their own design.



CARGO SURVEILLANCE SYSTEM

Anti-smuggling systems to enable containers, vehicles and air freight to be examined for contraband without being unloaded.

*Sir Raymond Lyons
Chief Executive
representing Airbus
Industrie Toulouse*



Our success in 1988 can be measured by our achievement of key operational targets, our numerous product and service milestones and our establishment of a sound new structural pattern for the future of the business at the start of the current year. We adopted a 'strategic architect' style of management.

In January 1989 following studies undertaken last year we created a new corporate framework for the Group within which our independent companies can work vigorously to pursue their performance objectives. This approach was endorsed by our experience with Royal Ordnance following its acquisition in 1987. Accordingly, since 1st January, 1989, our eight separate businesses now each has its own Board of Directors and Chairman. This devolution of responsibility from the centre leaves each of our businesses responsible for its results and more readily adaptable to its market requirements. The new companies are profit oriented and capable of defining their programme of growth through product and market development. At the same time, the central management, freed of day to day detailed management, is now able to concentrate upon longer term objectives.

Encouraging progress has been made in terms of achieving our cost base reduction targets, established in 1987. In Commercial Aircraft, a business dominated by the US dollar, we have succeeded in transferring a substantial percentage of supplier costs to a dollar basis. Through changes in working practices, we have made important inroads towards reducing final assembly times for both commercial and military aircraft. We have also significantly reduced our inventory holding; for the BAe 146, for example, we have reduced engine stock holding by eight weeks. Our productivity gains are equally encouraging.

Our acquisition of Rover, in August, was the most dramatic evidence of growth through diversification. Other acquisitions included the Arkansas Modification Center, which puts us into the profitable commercial aircraft completions market, a share in Reflectone Inc, a US simulation business and the integration of our December 1987 acquisition of Ballast Nedam, the Dutch construction company.

We reached several major new agreements on key programmes, including approval of the second phase of Project Al Yamamah. This programme, between the Saudi Arabian Government and HM Government, to whom we are prime contractor, should provide a continuing base of business activity to the end of the century. A contract for full development of the European Fighter Aircraft (EFA) was signed; we entered into a



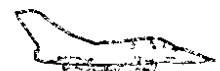
CONCORDE

The technical achievement of this supersonic airliner is still unmatched. Since entering service in 1976 the fleet has covered more than 100 million miles.



CONTROL SYSTEMS AND FUZES

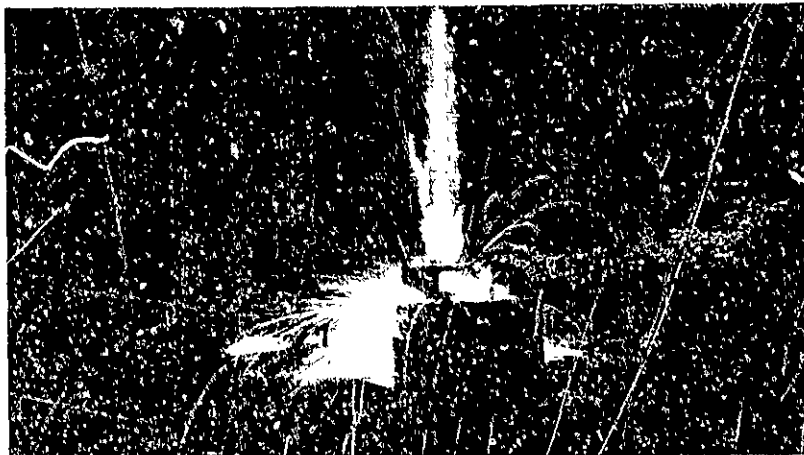
Cost effective new products include a Vehicle Intercom System (VIS) and electronic artillery fuzes. VIS provides improved communications and control between the crew of a fighting vehicle.



EAP

The Experimental Aircraft Programme, developed by the UK and Italy, has been accepted by the participating nations to prove the technology for the EFA.

Operation of an electro magnetic launcher at the Sowerby Research Centre Bristol



Memorandum of Understanding for development of TRIGAT anti tank weapons, and concluded the launch aid agreement with HM Government for the design and development of the Airbus A330/A340. Major orders were received for the Tornado and Harrier aircraft and for our successful BAe 146 quiet jet airliner. We sold our 700th 125 Series business jet and delivered our 200th Jetstream 31 during the year.

An adequate level of research and development and continuously reducing manufacturing costs establish a virtuous circle of re-investment and sustained competitive edge.

In 1988 the sum of all work of a research and development nature funded by the Group and by customers amounted to some £600 million. Of this, some £250 million was of an innovative nature including £76 million invested directly out of profits.

British Aerospace has played a leading role in setting up collaborative research such as the EUROMART aeronautical research initiative within the EEC, and the

DTI supported Materials 2000 programme, which will provide a primary UK thrust for the development of new materials well into the next century.

We are conducting research and development work into advanced materials, new computational methods, information technology, new management techniques and process and manufacturing technologies which underpin the technical health of the whole Group, whilst the very advanced work at the Sowerby Research Centre is a focus for the longer term research interests of the Group.

Sir Raymond Lygo
Chief Executive



I R Yates,
Deputy Chief
Executive
(Engineering)

FFA

Much of the military aircraft activity in Europe over the next decade will be centred on the European Fighter Aircraft. Targeted for entering service in the mid 1990s. A total of 800 aircraft is envisaged for the four partner nations.

EUROPEAN COMMUNICATIONS SATELLITE

ECSS have been built by British Aerospace as prime contractor to serve Europe's indigenous space communications network. Four are currently in orbit.

FIMA

Future International Military Airlifter is a joint European US study aimed at developing a replacement for the Hercules and Transall aircraft in the early 2000s.



R H Frans, CBE,
Chairman of British
Aerospace
(Dynamics) Ltd
British Aerospace
(Military Aircraft)
Ltd and Royal
Ordnance plc

MILITARY AIRCRAFT

Restructuring and rationalisation of facilities proceeded ahead of schedule and with the full co-operation of the workforce. The closure of the Weybridge manufacturing facility was completed three months ahead of time. A new single business management and technical centre at Warton was established. We are making good progress on plans, announced in 1987, to improve effective use of resources, particularly in the management area.

In line with Group aims of reducing costs a major drive to reduce supplier costs has been launched. Improvements in working practices have led to cost reduction and improved productivity. To maximise utilisation of facilities, we have implemented 24 hour multi-shifting in high capital value areas. We have improved substantially final assembly times for the Harrier and Tornado programmes. Additional changes in working practices were established during the 1988 pay bargaining round. The pay agreement covers a two year forward period.

Streamlining continued with the separation of Aerostructures

Harrier as a company early in 1989, under the direction of British Aerospace Enterprises. Our long term investment in computer based technology information systems began to show benefits, providing a platform from which we expect to achieve continuing planning and inventory control efficiencies.

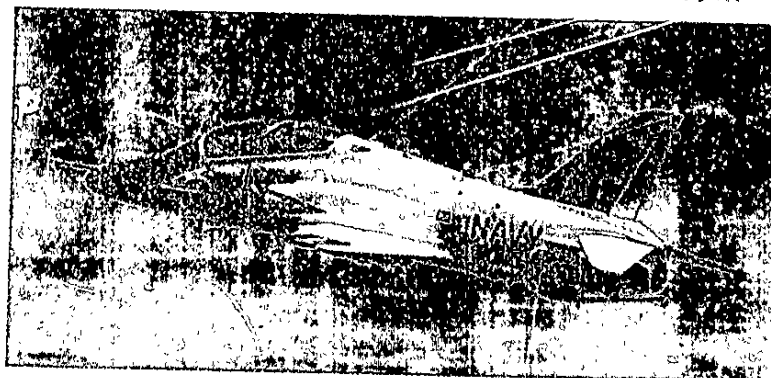
EUROPEAN FIGHTER AIRCRAFT

Formal commitments by the governments of the UK, Germany, Italy and Spain ensured the future of the EFA Programme and led to the signing of a development contract with Eurofighter Jagdflugzeug GmbH, in which we have a 33% interest. EFA is the most significant European defence project of the decade and should lead to production in our factories stretching beyond the year 2000. Production requirements for the participating nations, along with export orders, are expected to reach over 800 aircraft. First flight is planned for 1991, with air force deliveries scheduled for 1996.

TORNADO

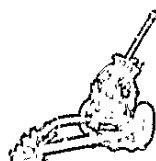
A new UK commitment for 41 aircraft, agreed in November, brought total firm orders to 967.

T-15 Goshaik,
selected to train US
Navy jet pilots



GIOTTO

After intercepting Halley's comet in 1986 it continues in orbit and will arrive back in the vicinity of the comet in 1991 when it may be given another scientific task to perform



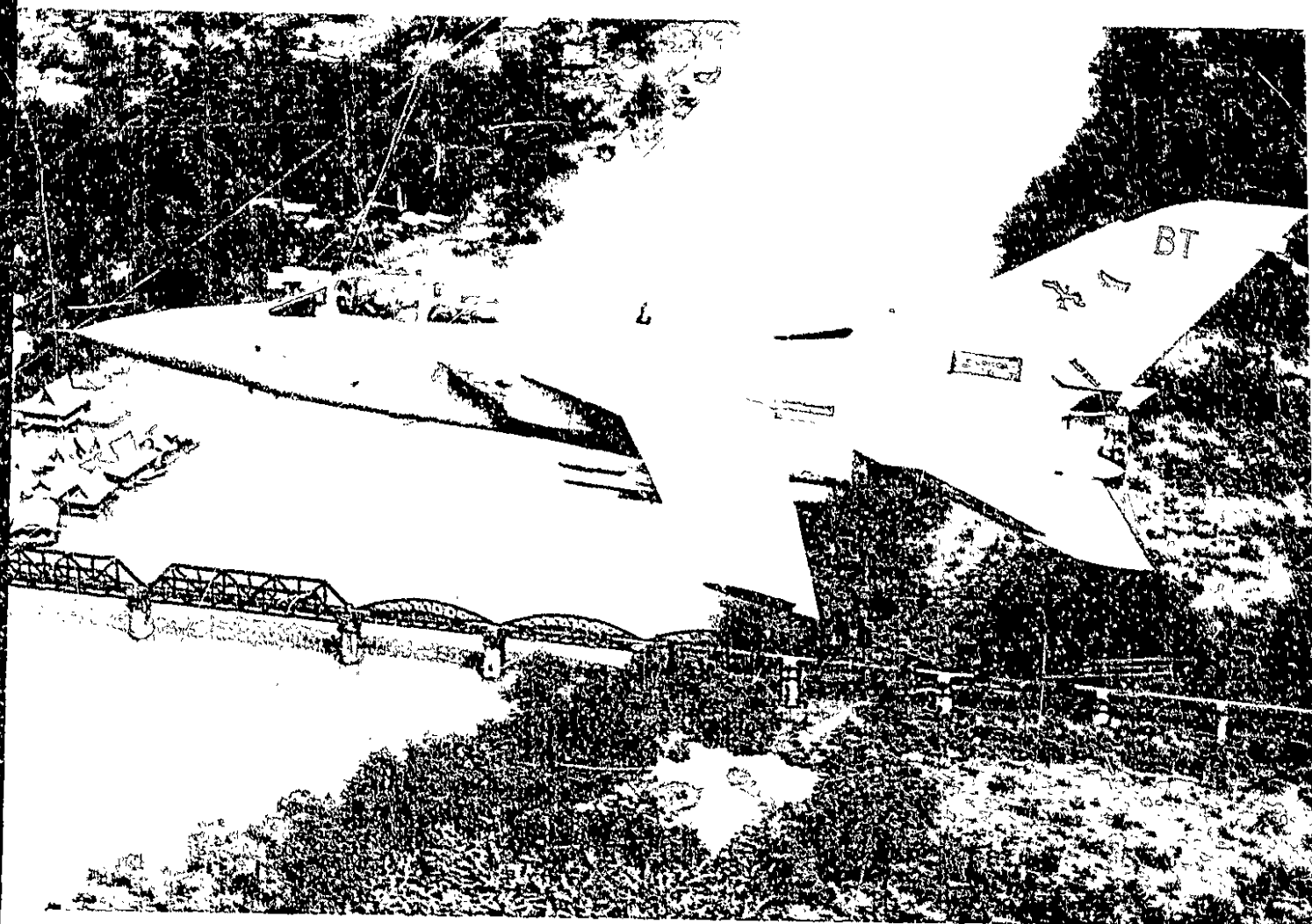
GUN AND VEHICLE SYSTEMS

A wide range of systems and sub-systems from combat engineer tractors through light armoured vehicles, to the renowned 105mm light gun, 1" tank gun and 51mm, 81mm and 120mm mortars.



HARRIER AV-8B

This version achieves the improved performance capability required through advanced aerodynamics. British Aerospace has 40% of the work on the airframe, shared with McDonnell Douglas.



AL YAMAMAH

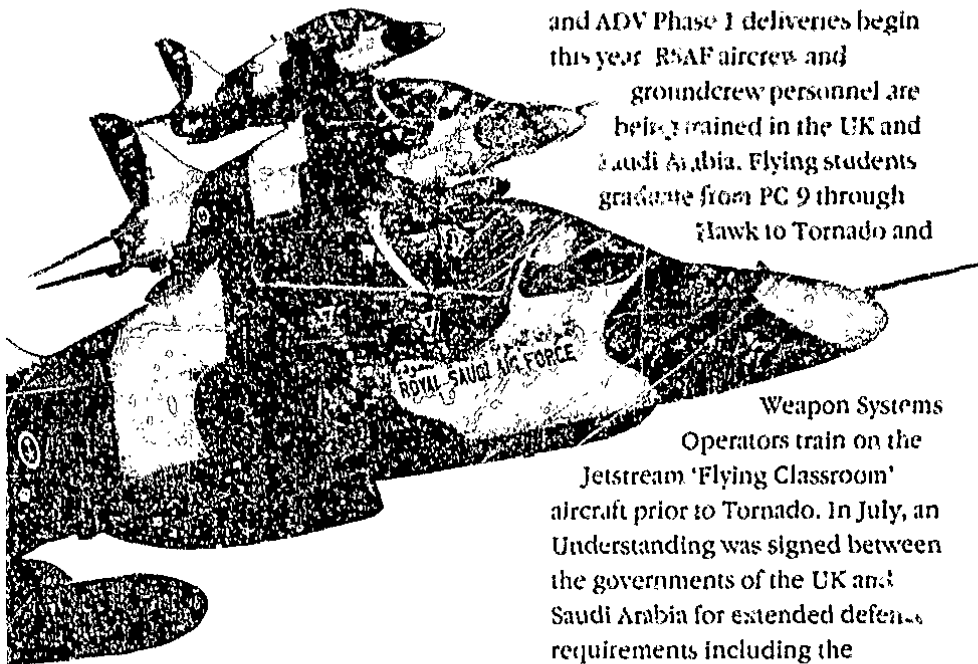
The successful completion of Phase 1 of Project Al Yamamah, with the Royal Saudi Air Force, has led to the initiation of detailed negotiations for Phase 2. The RSAF now has full operational capability with Tornado IDS and Hawk Mk 65 aircraft. Deliveries of the Hawk are complete and ADV Phase 1 deliveries begin this year. RSAF aircrew and

groundcrew personnel are being trained in the UK and Saudi Arabia. Flying students graduate from PC 9 through Hawk to Tornado and

Weapon Systems Operators train on the

Jetstream 'Flying Classroom' aircraft prior to Tornado. In July, an Understanding was signed between the governments of the UK and Saudi Arabia for extended defence requirements including the provision of additional Tornado IDS and ADV aircraft as well as Hawk 200s. New requirements also include BAe 125s and 146s. Ballast Nedam has been appointed managing contractor for much of the construction programme for Al Yamamah II.

Royal Saudi Air Force orders for Hawks (above) and Tornados (right) are expected to keep production demands high for some time to come.



Prime Minister Margaret Thatcher praised British aerospace management and workforce before the House of Commons regarding sales and service to Saudi Arabia, she said, "It is a success story that is another powerful order which we welcome."



HOTEL CONSTRUCTION

Ballast Nedam has made a big splash in the Caribbean, winning a variety of construction contracts, particularly in the tourism sector.

HOTOL

A concept for a fully accessible, versatile, sustainable launch vehicle is based on a new prepositioned technology architecture designed to be used to reduce on-board equipment mass.

HOUSING PROJECTS

The successful completion of this Ballast Nedam housing project in Kuala Lumpur is the result of combining local knowledge and international construction expertise.

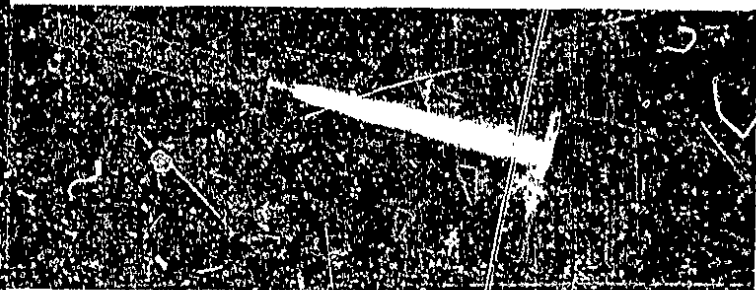


WEAPONS AND ELECTRONIC SYSTEMS

Since its formation in January 1988, the Dynamics business unit has undergone a period of evaluation and reassessment of priorities.

In January 1989 the Dynamics Division was restructured as a limited company, British Aerospace (Dynamics) Ltd. The new structure is expected to reduce costs and improve overall performance. A major business review was completed in February 1989 and plans announced for rationalisation and restructuring aimed at

Tests of the ship launched Sea Skua anti ship missile have demonstrated its low level shore battery potential.



eliminating duplicated facilities, improving efficiency and realigning capacity with demand. The Hatfield and Bracknell sites will be closed and work progressively transferred to other sites. The programme, to be completed by 1990, is essential if we are to achieve competitiveness and ensure the future.

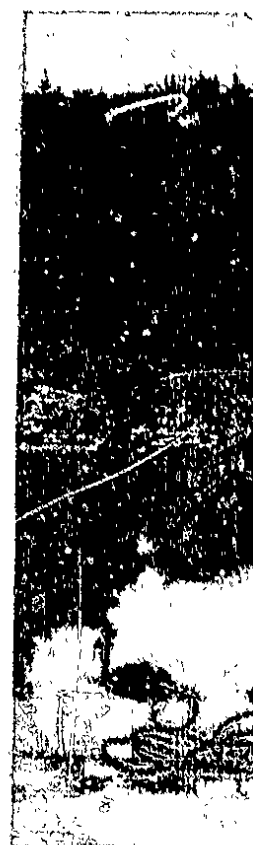
Attacks on cost and productivity will include stronger project management and supervision of subcontractors, and a reassessment of our make or buy policy. Product ranges will be rationalised to become more market responsive. A more active programme of management development, aimed at identifying and encouraging talent within the organisation, will be introduced. A new management information system has been

implemented and we are in the process of rationalising the number of computer installations. Lastly, we expect to channel significant investment into private development programmes such as the Merlin, Laserfire and Active Sky Flash projects.

Contracts worth £826 million for development of two Third Generation Anti Tank Guided Weapons (TRIGAT) were awarded to the Euro-missile Dynamics Group, of which we are a one third partner. This followed the signing of a Memorandum of Understanding by the UK, France and Germany in April 1988. During the year, we were named prime contractor for the Advanced Short Range Air to Air Missile (ASRAAM) programme. This weapon is being developed to meet a NATO requirement and is a joint project between the governments of the UK, Germany and Norway. Project definition has been completed and a programme covering full development and initial production is now underway.

Rapier Laserfire, our low cost, low level air defence system, met performance milestones established for its current development stage. Successful firing trials were completed and a five week programme of trundling and mobility trials across a variety of terrains was undertaken. The system is expected to have considerable export potential.

Firing trials of the ALARM anti-radar missile development programme began on schedule with a successful firing. ALARM is expected to be in service in time for projected Tornado updates and export sales.



INMARSAT 2

Second generation international maritime communications satellite in orbiting Eurostar platform. British Aerospace has about one third of the work on this international project.



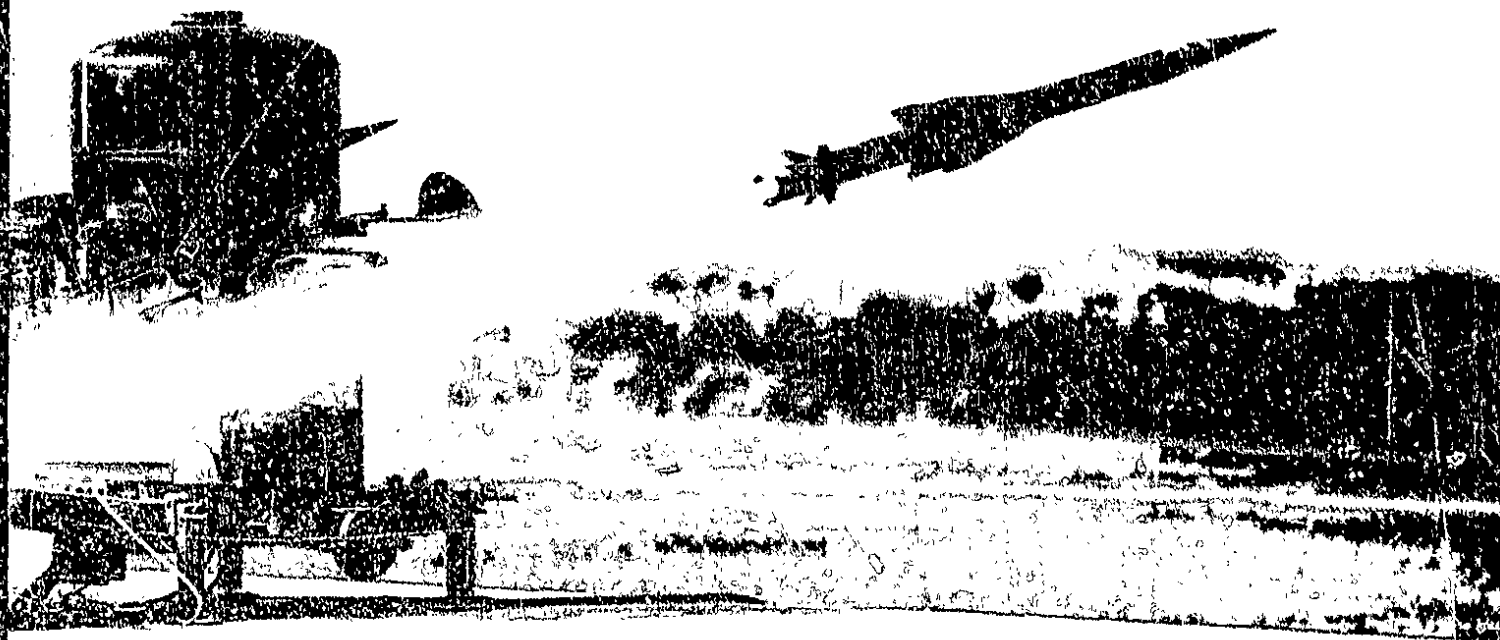
INFRA-RED EQUIPMENT

This includes missile infra-red guidance systems, fuzes and airborne surveillance equipment such as the Sea.



JFTSTREAM 31

Twin turboprop light transport combat aircraft. Seating capacity 19, executive version seats 12 and corporate version 8-10. By the end of 1989, 215 aircraft had been delivered. First flight 1980.



ROYAL ORDNANCE

In its first full year as part of the British Aerospace Group, Royal Ordnance consolidated into four operational divisions leading to the creation of strong management teams. Each operating division is responsible for its own targets, sales, services and rationalisation for market competitiveness. Market/product development has been emphasised.

Given the large amount of vertical integration of the business, cost reduction strategy has involved a close examination of the fixed cost base. During the year, we closed our Enfield operation, relocating the small arms facility at Nottingham. The closure of Waltham Abbey is proceeding on schedule.

We have made substantial efforts to minimise the impact of the Enfield closure on the local community. A comprehensive programme of retraining, counselling and redeployment was instituted. In addition, we assisted in the opening of the Enfield Business Enterprise Centre and made a multi-year funding commitment to support new businesses.

A key target for 1988, the achievement of a five year agreement with the MoD for the provision of propellants, explosives and related products, was signed in July, worth approximately £400 million. Other milestones included the launch into the US market of the M119 105mm light gun. This order, which took several years to confirm, was aided by the experience gained in the Falkland Islands.

Moving towards being the only fully integrated rocket motor facility in Britain, we acquired IMI's Summerfield business, adding substantially to our new propellant and rocket motor care expertise. We have also entered into a joint venture with Ensign Bickford in the US to produce explosives for the



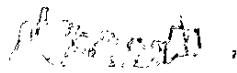
The 81mm Mortar is now in service in over 30 countries including the USA. Its combination of man portability and long range have made it an outstanding infantry support weapon.

Leros 1 engine, for manoeuvring satellites into orbit, has been chosen by ESA for comprehensive experimental testing.



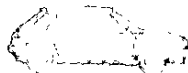
North American military and civil markets. Experience gained in the management of this facility will be a factor in our future acquisitions strategy. 1988 saw our first small arms ammunition sale to a NATO country with the purchase of five million rounds by Italy.

With the aim of increasing our export market share, future product development will concentrate on overseas customer requirements. We continue to examine strategic alliances with North American and European companies and will focus research efforts on explosives, steel and exotic metals and rocket motor propellants. Application development continues to explore such areas as the increase of muzzle velocity of projectiles, for anti-tank weapons, using liquid propellants and electrothermal technology.



"TELYSTAD" DREDGER

Since commissioning in 1986 Ballast Nedam's powerful and sophisticated trailing suction hopper dredger Telystad has been busy world-wide in South America, Far East and Europe.



MAESTRO

Launched in 1983, now eight models in the range fitted with 1.3, 1.6 and 2.0 litre engines. In the medium hatchback market sector.



MARECS

Two maritime communications satellites are in orbit serving shipping in the Atlantic and the Pacific.

Buoyant market conditions, confidence in our products and a well targeted product range contributed to a year of record orders worth US \$2.1 billion. Deregulation of the Canadian market and liberalisation in Europe stimulated the airlines. Air freight industry demand for quiet, cost effective jets grew. Upward passenger traffic trends and the need to reduce airport congestion boosted demand for longer haul, large capacity transport. Nevertheless, in a market that is US dollar dominated, with all its exchange implications, the pressure to remain competitive is intense. We have initiated a Performance Improvement Campaign aimed at addressing this through reduced costs and increased productivity. Inventory purchasing is moving to dollars, through North American sourcing or more equitable sharing of exchange risks with UK suppliers. Inventory is being reduced. A major reduction in aircraft build cycles includes the introduction of three-shift working at all Numerically Controlled Machinery Centres, and has led to cost reductions in work in progress. We are also restructuring to reduce management layers and placing greater emphasis on facilities rationalisation. At the start of 1989, we became British Aerospace (Commercial Aircraft) Ltd and re-organised into three business-accountable divisions, reflecting different market opportunities: Airbus, Airlines and Corporate. We expect that the new arrangement will enable us to

sharpen market responsiveness and strategic management.

AIRBUS

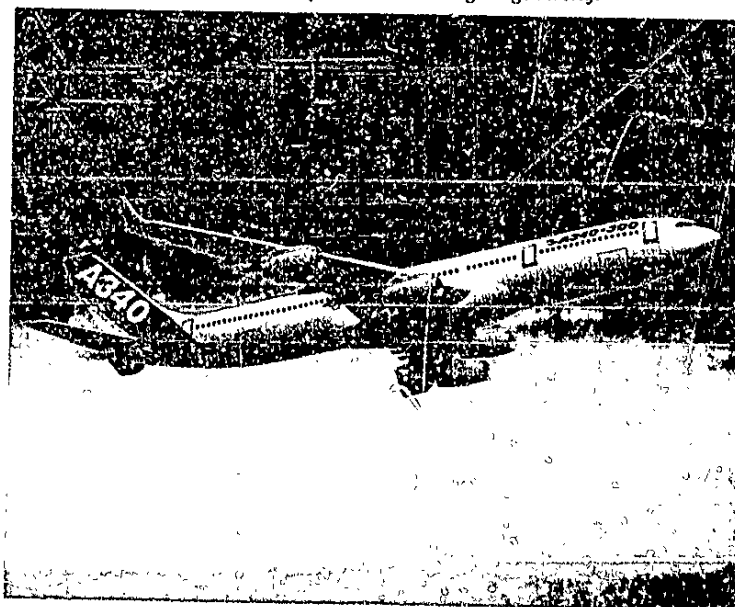
We were honoured with the Queen's Award for Technological Achievement for the design and development of the Airbus A320 wing, which is recognised as the world's most fuel efficient. The A320 was certificated in Europe, Australia and the US and entered service in April with Air France and British Airways. Total customer commitments have reached nearly 700, including 410 firm orders with 16 aircraft delivered in the year.

In all, the European Airbus Industrie consortium, of which we are a 20% participant, won firm orders for 167 aircraft. Total customer commitments now exceed 1,350. American Airlines became the first operator of the extended range A300-600R and sales of the wide body A300 and A310 reached nearly 450.



S. Gillibrand,
Chairman of British
Aerospace
(Commercial
Aircraft) Ltd

We are now engaged
in development of
wings for the Airbus
A340 four engine
long range aircraft



MFRTS

Extremely quiet fire and forget 81mm anti-armour mortar bombs developed for infantry

MFTRD

Launched in 1980, currently 15 models in the range, fitted with 10 and 13 litre engines. Over one million Metros sold to date

MILAN

A man portable anti tank missile built for the British Army capable of penetrating the most advanced armour plating



Wing sets for 20 A300 (and 25 A310 and 30 A320) were delivered. Substantial investment in production and technical facilities provided additional space for Airbus wing sub-assembly and better factory work flow. Productivity was also enhanced with the upgrading and acquisition of large machine tools. The basic design for the A330/A340 wing was completed and detailed design begun. Metal cutting started in July.

AIRLINES

The 146's low noise level and medium capacity has made it the ideal jet aircraft for feeder airlines operating under environmental restrictions and curfews. Its freight potential for 24-hour service has also made it attractive to the burgeoning air freight industry. Both factors have contributed to 145 orders for the 146 series 100/200/300 from customers in Europe, North America and the Far East.

Our long term commitment with TNT for 146 QT freighters has now resulted in firm orders for 23 aircraft. The planes will go into service on TNT's pan-European overnight express network, which includes a joint venture with MALEV, the Hungarian state airline, for the first East-West direct air express freight service. Two additions to the 146 family are the 146 STA, a military transport version, and the 146 QT Convertible, a rapidly convertible variant combining airliner and freighter roles.

The ATP is growing in popularity. British Airways ordered eight and Airlines of Britain Group placed a sizeable order for British Midland,

Loganair and Mann. ATP milestones included the achievement of a European sale to LAR of Portugal, and full US certification.

Northwest Airlines carrier, Big Sky Transportation, took delivery of our 200th Jetstream 31, the first of the restyled, higher powered series, the Jetstream Super 31. Repeat Jetstream orders were received from customers in the US, Canada and Italy and a private Swiss company ordered the Jetstream for transporting UN communications personnel in the Gulf. The 125 demonstrated continuing popularity and versatility with additional orders for 40 aircraft, the majority from the US. The 700th sale was recorded. Although primarily a corporate aircraft, the 125 is seeing increased military application. The US Air Force will place six in service for flight inspection duties and we have teamed with Rockwell to bid for a USAF Tanker Transport Training System potentially worth in excess of 200 aircraft.

BRITISH AEROSPACE INC

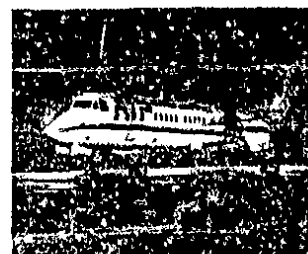
Our American operating subsidiary provided marketing, customer support and financial services for Jetstream 31 and 125-800, taking on additional responsibilities for 146 and ATP during the year. Geographic responsibility grew to Central and South America and the Caribbean. The acquisition of Arkansas Modification Center, in June, added corporate aircraft completions to the service. By the year end, the Company was supporting more than 900 civil aircraft. Moves are underway to co-ordinate US procurement through the Company.



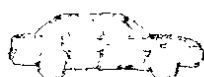
Air Canada was the first airline in Canada to use the Jetstream Super 31



Orders for the popular 125-800 were up by nearly 40%

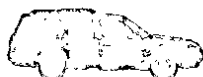


ATP's entry into service was followed by sales in Britain and Europe.



MONTEGO

Launched in 1983, currently 11 models in the range, fitted with 1.6 and 2.0 litre engines and diesel derivatives. MG Montego Turbo launched in 1985



MONTEGO ESTATE

Launched in 1983, currently nine models in the range, fitted with 1.6 and 2.0 litre engines. Diesel engine versions launched in 1988



NATO IV

Similar in design to the Skynet 4 satellite. Provides member nations of NATO with secure diplomatic and military communications facilities



*Sir Graham Day,
Chairman of The
Rover Group plc*

ROVER

British Aerospace acquired Rover, the UK's largest vehicle manufacturer, in August 1988. Rover has returned to profit following a history of losses and produced a record trading profit for the year of which £35 million has been taken into the British Aerospace results as post-acquisition profit. Rover currently accounts for 40% of total UK car production and 65% of all car exports.

Prior to the acquisition, Rover had undergone a period of change in which 18 businesses were divested and management concentrated on the main passenger vehicle operations. A single group management structure now covers all Rover activities, with separate commercial operations for cars and specialist four-wheel drive products.



*Avis' order for
60,000 Austin
Rovers, worth £540
million, is believed
to be the world's
biggest order.*

NEW PRODUCTS

New models introduced in 1988 included the Rover 800 Fastback range, the Range Rover Vogue SE and the family Montego Turbo Diesel saloons and estate cars. In addition, 18 derivatives of existing cars were launched at the UK International Motor Show in October.

A new transmission for the Range Rover offers smoother, quieter operation and enhanced cross-country ability. The vehicle's position of pre-eminence was endorsed by the American publication, 'Four Wheeler', when it named the Range Rover 'Four Wheeler of the Year' by the largest margin in the competition's history.

SALES AND PRODUCTION

Continuing performance improvements underpinned financial recovery. World sales rose to 525,000 vehicles, with UK registrations up by 10%. In August, new registrations reached nearly 74,000, a 15 year high for the month.

Group production rose to 520,000 vehicles, with Range Rover enjoying a 15% increase over the previous record breaking year. Recruitment of 850 employees, to support a further 10% production increase at Cowley and Longbridge, is underway. Manufacturing at Solihull is at record output levels.

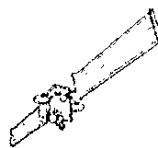
The balancing of staff and hourly-graded employee levels, the benefits of flexible manufacturing and automation techniques and the continued commitment of employees have resulted in a continuing rise in productivity. Based on specific measurements of manufacturing efficiency, the Metro facility achieved 62 cars per employee per year and the Rover 200 facility, 55 cars per employee.

At the specialised four-wheel drive operation in Solihull, production of 9.5 cars per employee per year represented a 15% increase in productivity. Efficiency has also benefited from initiatives such as our minimum inventory programmes, which have reduced our operational cost base.

Our formal suggestion programme at the passenger car plants was described last year by the Industrial Society as one of the best and most effective in Europe. In



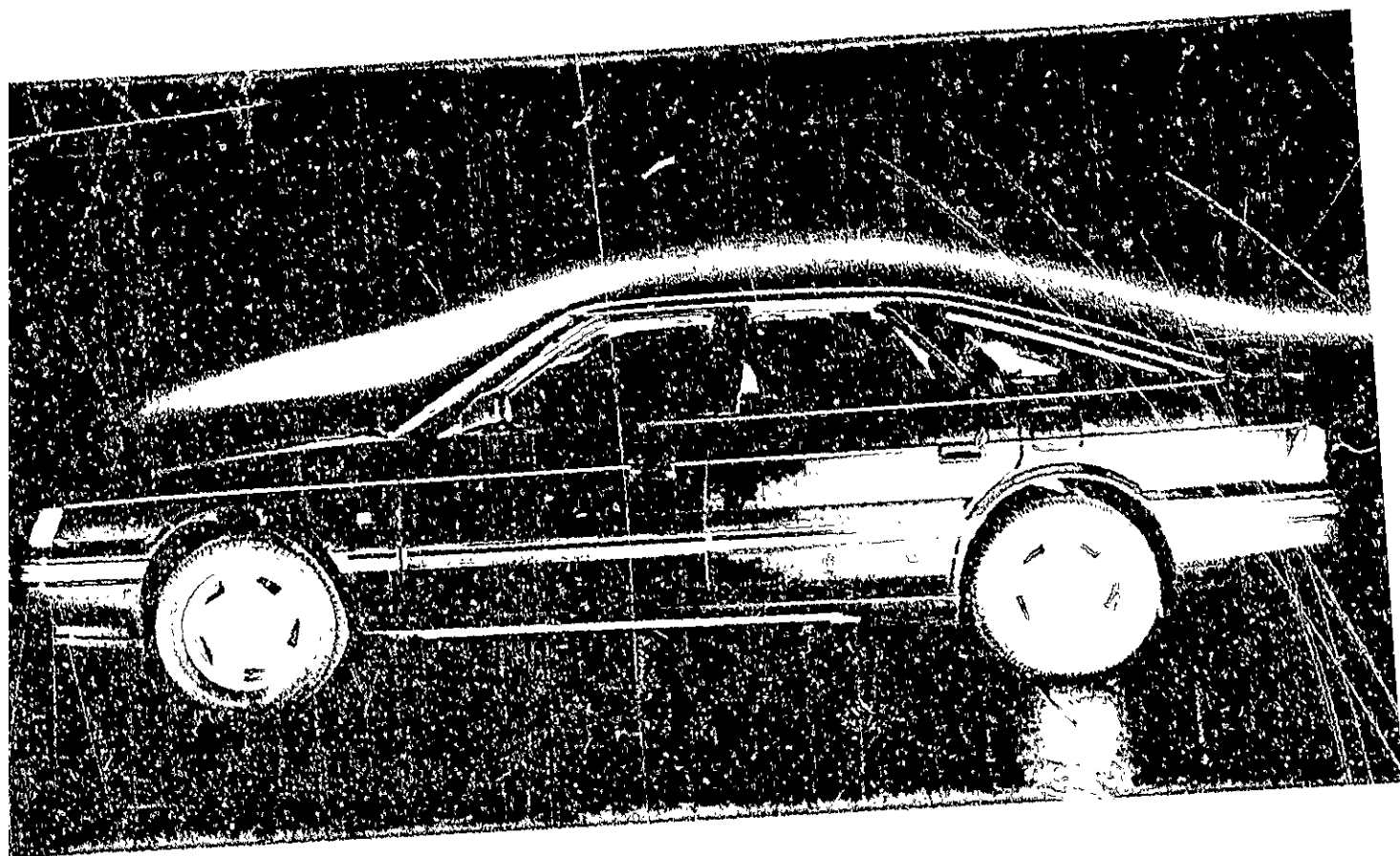
OFFICE CONSTRUCTION
A dramatic addition to the Rotterdam waterfront is this 24 storey high office block built by Ballast Nedam for the Royal Nedlloyd Group

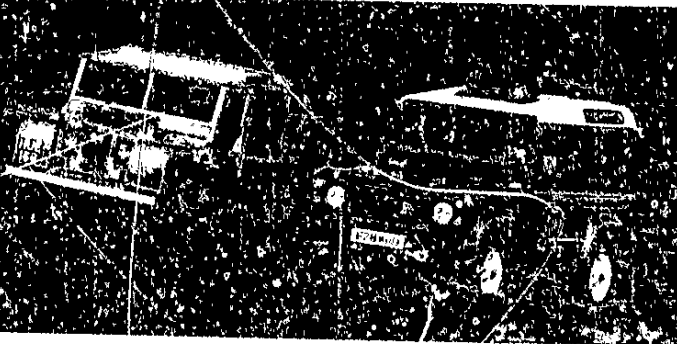


OLYMPUS
A very large, high power, multi purpose communications satellite with direct broadcast facilities.



PROPELLERS
High technology propellers, such as the 6 bladed propeller used by the ATP, utilise the many years of experience in this area





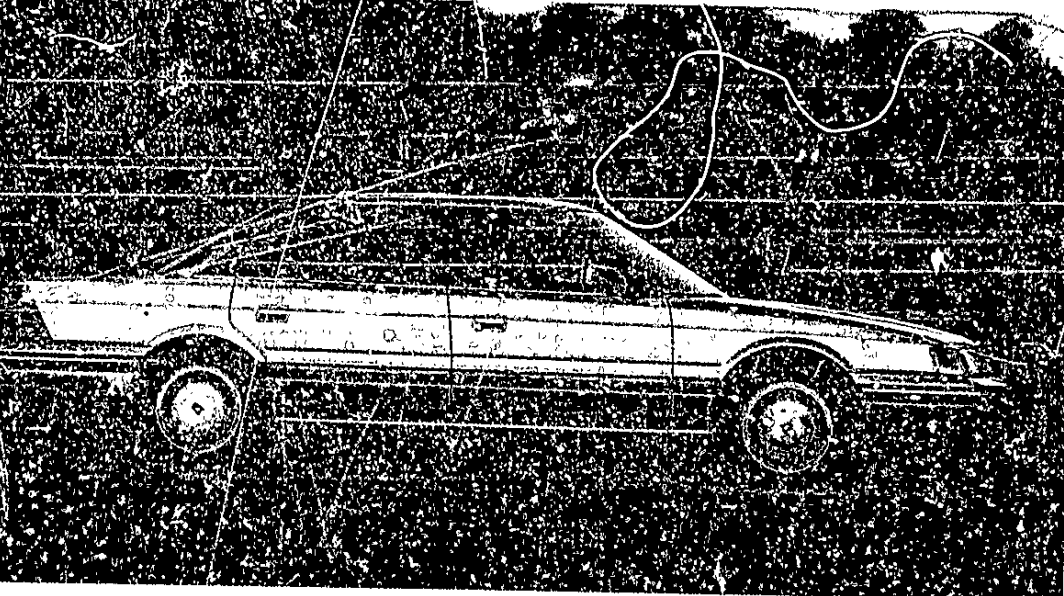
Forty years and still rolling. One of the first Land Rovers, introduced in 1948, and its 40th anniversary descendant, a 1988 model.

was made in November, the fourth two year deal to have been agreed. The previous agreements have contributed to more than 99% dispute free time since 1984. Within the Land Rover bargaining unit the final offer was decisively agreed by employee ballot.

FUTURE DEVELOPMENTS

During the next 12 months, the first vehicles of a 5 year new product programme will be announced. These will include a medium-sized

range of highly specified cars with a technically advanced family of engines. New product developments will also be announced for Land Rover. These announcements will be visible results of major investments in new facilities, technologies and working practices which support new product programmes. Current and planned investment programmes total more than £1 billion over the next five years. This continues the investment programme initiated in 1980 and is expected to double by the early 1990s. Long term cross benefits with British Aerospace are likely to be demonstrated in electronics, materials and process technology. The knock-on effect of these investments are likely to be felt throughout the UK manufacturing sector, as Rover spends £2 billion annually. Of our 3,000 suppliers 90% are within the UK.



The Rover Sterling is the flagship of the Rover car range and is proving increasingly popular in many world markets, including the United States, with its combination of exciting performance and refined comfort.



RAPIER 2000

Technologically advanced low level air defence weapon system. Will enter service in the early 1990s and remain in production well into the next century.



RAPIER LASERFIRE

Low cost, compact, transportable, fully automatic, local area air defence weapon with superior performance to man portable anti-aircraft weapons.



RAPIER TRACKED

The highly mobile Tracked Rapier is a version of the Rapier low level air defence system on a tracked vehicle for the defence of armour in the forward battlefield against the hostile helicopter threat.

BALLAST NEDAM

The acquisition of Ballast Nedam, an international construction company, has added an important new capability to the Group. The company, which employs nearly 4,000 people worldwide, has considerable construction and engineering expertise in the Middle East, and is well established in Saudi Arabia. It has been involved in civil engineering, housing and airfield projects and the 25km King Fahd Causeway linking Saudi Arabia to Bahrain.

This experience is of particular relevance to the Al Yamamah project, which will require construction of living quarters, training centres, hangars and other

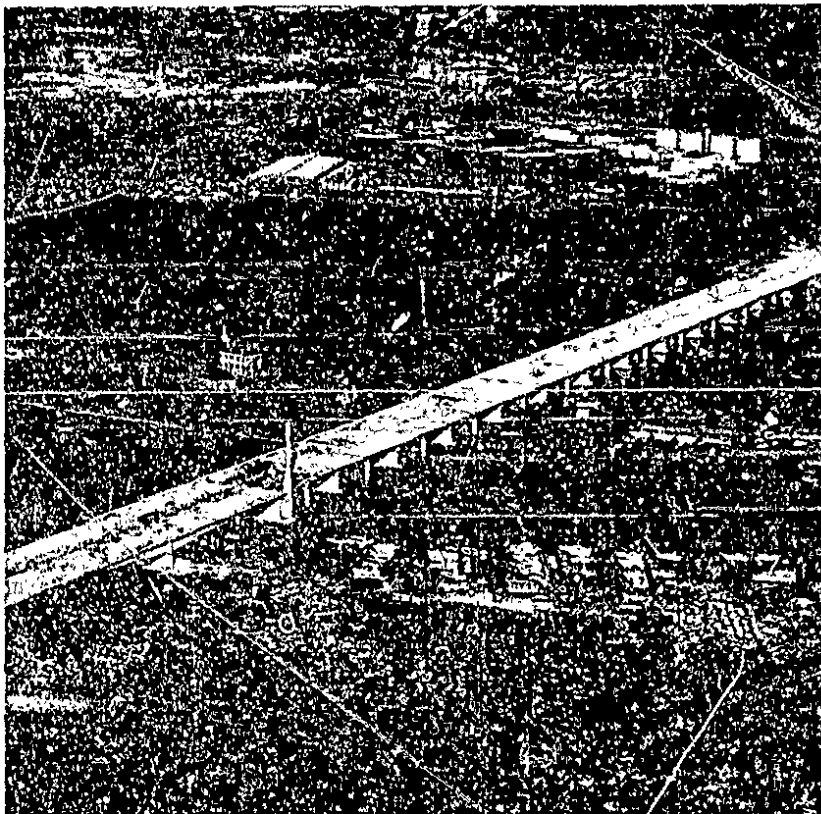
airfield installations. During the year, Ballast Nedam was appointed managing contractor of the construction programme, which is the biggest construction management contract in the world.

A substantial order book includes building projects in the Caribbean, Far East and the Netherlands, and civil engineering in the UK, the Netherlands, Indonesia and the Middle East. A new service, which will enable us to offer consultative services, project management, construction and engineering, has recently been launched.

Ballast Nedam is also expected to provide a resource for our own property development and construction requirements.



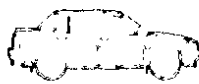
*A. Glimmerveen,
Chairman of Ballast
Nedam NV*



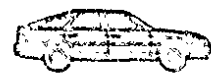
*The Zeeburger
Bridge, Holland's
longest
incrementally
launched bridge,
forms part of the A50
ring road east of
Amsterdam. The
bridge, a total of
1,185 metres in
length, showcases the
company's
innovative
construction
methods.*

**RING LASER GYROSCOPES**

Entirely in house development of ring laser gyroscope technology has evolved into advanced strap-down navigation systems suitable for land, sea, air and space applications.

**ROVER 200**

Rover 213 launched in 1984, Rover 216 in 1985. Currently six models in the range, fitted with 1.3 and 1.6 litre engines. These are highly specified medium sized saloons.

**ROVER 800 FASTBACK**

Launched in 1988, currently seven models in the range, fitted with 2.0 and 2.7 litre engines.



*Sir Raymond Lygo,
Chairman of British
Aerospace (Space
Systems) Ltd and
British Aerospace
Enterprises Ltd*

British Aerospace (Space Systems) designs, develops and manufactures space systems for communications, earth observation and scientific purposes. To date, we have been associated with more than 85 satellites. We are currently acting as prime contractor for nine communications satellites, including two further Skynet 4s for the MoD, two NATO IVs, four maritime satellites for INMARSAT and the European Space Agency's Olympus. As sub-contractor to Matra of France, we are supplying satellite structures for France's Telecom 2 as well as units for the ESA Hipparcos scientific satellite.

During 1988, we were named prime contractor for ESA's Columbus Polar Platform. This polar orbiting satellite will carry a variety of remote sensing equipment for earth observation.

Three satellites were launched from Kourou, French Guiana. Two were ECS communications satellites for ESA's Eutelsat programme and are carrying TV distribution and telephonic equipment. The third was the first of three Skynet 4 military communications satellites which we are supplying to the MoD. Several new launch equipment products were successfully implemented. Our SPELDA unit enabled the Ariane 4 Launch Vehicle to carry two satellites into orbit simultaneously. Ariane 4, with a SPELDA unit, was used twice, each time carrying a British Aerospace satellite as half its payload. We also supplied new Ariane 4 launch release gear in the form of massive clamps which support the rocket during ignition and release it at lift off.

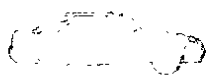
INMARSAT, the international maritime communications organisation, added a fourth satellite to its existing order for a second generation system, a further order for the successful Eurostar Platform, a joint project with Matra. The MoD awarded a contract, worth in excess of £10 million, for a Ground Control Station. Another new order, from ESA specifies a second set of solar arrays to power the joint NASA/ESA Space Telescope.

A significant step has been made in 1988 to open up a new avenue of business in providing specialised satellite services under the licence granted by the DTI in October for one-way (point to multi point) operation. The start of this new service is planned for 1989.

As part of the move to provide specialised satellite services we have also pursued collaboration including investment, with Orion Network Systems of the USA. Agreement has been reached on the specification for satellites for launch in 1992 to provide effective business communication using very small, Earth terminals.



Olympus can handle telephone, data and TV traffic and a variety of high density communications applications.



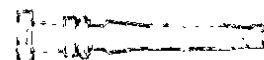
ROVER 800 SALOON

Launched in 1986, currently eight prestigious executive models in the range, fitted with 2.0 and 2.7 litre engines.



SD-SCR ON

Our 25% interest in this company, which is a major force in the global software market, gives us best access to their expertise.



SEA DART

Ship launched, medium range area defence, anti-aircraft weapon with at sea ship capability.

British Aerospace Enterprises was formed to develop the market potential of business opportunities arising from our technology base.

British Aerospace Flying College at Prestwick completed its first successful year with 182 students. A total capacity of 256 students is planned for mid 1989. The College presently trains students sponsored by British Airways, Gulf Air and Cathay Pacific. Management is investigating similar overseas operations.

British Aerospace Simulation designs and builds simulators as well as co-ordinating and managing Group simulation capabilities. In 1988, facilities were opened at Samlesbury and Filton. With Reflectone Inc, an associated US company, it is competing for a number of US defence contracts and is pursuing export opportunities.

Singapore British Engineering arose from a joint venture signed with Sheng Li Holdings, the Singapore Government's defence industry holding company. It will help market British Aerospace products in South East Asia and offers access to low cost production facilities.

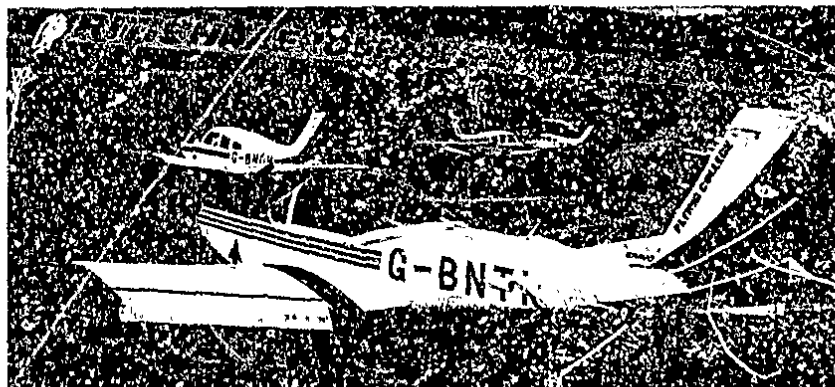
British Aerospace Australia develops opportunities in the

Australian defence markets. In 1988, the AWA micro electronics plant in Sydney, in which we hold a 25% interest, successfully completed pre production tests. It will produce specialised integrated circuits using a satellite communications link.

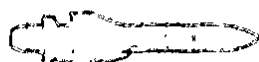
Steinheil Optronik provides optical sub systems for the West German MoD. The strengthening of technical and marketing relationships with other business entities and the start up of a programme of electro-optical product development were notable achievements. In November, a 30% shareholding was acquired in Competence Center Informatik, a new systems and software company.

New ventures included the assumption of British Aerospace's responsibilities for Wind Energy. The market for wind turbines is expected to develop.

In 1987, a 23% interest was acquired in Systems Designers, a software and systems house which, later in 1988, acquired Scicon, also a systems house, from BP. British Aerospace supported this move by subscribing for additional shares under a rights issue. Thus, British Aerospace now owns 23% of a much larger software/systems company renamed SD-Scicon.



Part of the Flying College flight line at Prestwick in Scotland.



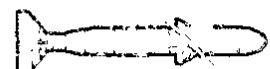
SEA EAGLE

A 4th generation long range sea skimming missile capable of disabling heavily armoured and heavily defended warships.



SEA HARRIER FRS2

A maritime version of the Harrier, the Sea Harrier. A reconnaissance and strike aircraft. By the end of 1988, 84 aircraft had been ordered.



SEA SKUA

Helicopter launched anti-ship weapon. May also be fitted to fixed wing maritime patrol aircraft.

The Directors present their Report, together with the Accounts, for the year ended 31st December 1988.

CAPITAL STRUCTURE

The authorised share capital of the Company at 31st December, 1988 was £150,000,001 divided into 300,000,000 ordinary shares of 50p each and one special share of £1, of which 255,430,994 ordinary shares and the one special share were issued and fully paid. On 14th October, 1988 417,548 ordinary shares were issued pursuant to the Scheme of Arrangement for the acquisition of the minority shares in The Rover Group plc and were allotted to 7,530 Rover shareholders who elected for the share alternative provided under that Scheme. Since 31st December, 1988 the exercise of options under the British Aerospace SAYE Share Option Scheme has increased the issued ordinary shares to 255,828,780 shares.

Since the year end, £100,000,000 10½% Euro-Sterling Bonds due 2014 were issued and admitted to the Official List; a reference to this issue is made in the Financial Review.

The number of ordinary shares shown in the register of members at 31st December, 1988 as Foreign-held Shares pursuant to Article 40 of the Company's Articles of Association was 35,677,719 (13.97% of the issued ordinary share capital of the Company) and at 15th March, 1989 was 36,720,750 (14.35%). Article 40 contains provisions which restrict the aggregate number of Foreign held Shares at any one time to 15% of the

issued share capital. Since the year end this limitation has been exceeded and the holders of such excess Foreign held Shares were notified to transfer those shares so that they would cease to be foreign held.

At 15th March, 1989 no person had notified the Company of an interest of 5% or more in the issued share capital of the Company.

The Directors are proposing that the authorised share capital of the Company be increased to £170,000,001 by the creation of 40,000,000 additional ordinary shares of 50p each. This increase is recommended to have a reasonable margin between the authorised and issued share capital.

The Directors are seeking renewal of the authority under Article 11 of the Company's Articles of Association, to allot unissued shares in the capital of the Company and to allot such shares for cash as if the pre-emption rights contained in Section 89 of the Companies Act did not apply.

The appropriate resolutions will be proposed as special business at the Annual General Meeting.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are

- the design, development, production and sale of military and commercial aircraft, weapons and electronic systems, space systems, related technologies and the provision of support services;
- the design, development,



SEA SKUA SHIP LAUNCHED

A new ship-launched version of the sea-skua anti-aircraft and anti-ship missile, which is currently being developed.



SEAWOLF

Fully automatic, rapid response anti-aircraft and anti-ship missile. Deployed and successfully used in the Falkland Islands.



SEAWOLF VERTICAL LAUNCHED

Vertical Launch Sea Wolf provides vessels of 100 tons upwards with a rapid response against multiple synchronised attacks.

production and sale of motor cars, car derived vans and four wheel drive vehicles; and civil engineering, construction, property development and related activities.

The Chairman's Statement and the Financial and Business Reviews accompanying this Report give a more detailed description of the Group's principal products and business activities during the year, important events affecting the Group since the end of the year and likely future developments. They also give an indication of the Group's activities in the field of research and development.

During the course of the year, the Company acquired The Rover Group plc, further information on which (together with information on certain other investments and organisational changes) is given in the Business Review.

RESULTS AND DIVIDEND

The profit after taxation attributable to shareholders is £156 million and, subject to approval of the proposed final dividend, is dealt with as shown in the consolidated profit and loss account on page 34 of the Accounts. The Directors propose a final dividend of 13.2p per ordinary share which, with the interim dividend of 7.4p per ordinary share paid on 1st November, 1988, makes a total dividend of 20.6p per ordinary share for the year. The final dividend, if approved, will be paid on 5th June, 1989 to shareholders registered at the close of business on 14th April, 1989.

The Directors are seeking authority, pursuant to Article 125A of the Company's Articles of Association, to offer to shareholders the opportunity to receive new ordinary shares instead of the whole or part of the final cash dividend for 1988 and further to offer, if considered appropriate, the same scrip dividend alternative in lieu of any dividend declared or proposed to be declared in the period up to and including the next Annual General Meeting. Details of the present offer are contained in the Chairman's letter sent to shareholders with this Report. Forms of election for the scrip dividend will be posted to qualifying shareholders not later than 21st April, 1989; such forms should be read in conjunction with the instructions contained in the Chairman's letter. The appropriate resolution will be proposed as special business at the Annual General Meeting.

FIXED ASSETS

Changes in tangible fixed assets arising in the normal course of business are detailed in note 14 to the Accounts. The majority of the Company's freehold and leasehold land and buildings were revalued as at 31st December, 1988. The fixed assets of companies acquired since the previous revaluation in 1984 have been included at fair value at the date of acquisition.

CHARITABLE DONATIONS

During 1988 the Group made donations in the United Kingdom



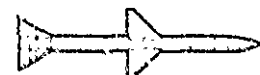
SIMULATION

British Aerospace Simulation designs and builds simulators and coordinates and manages group simulation capabilities



SINGAPORE BRITISH ENGINEERING

A joint venture with Sing E1 Holdings has established British Aerospace's engineering foothold in Singapore and the South East Asian markets



SKY FLASH

An advanced medium range air to air missile in operational service on RAF Phantoms and Tornado ADVs

for charitable purposes amounting to £284,000 (1987 £207,000). No contributions were made for political purposes.

DIRECTORS

The names of the present Directors of the Company are listed on pages 4 and 5.

On 15th August, 1988 Sir Graham Day (Chairman, The Rover Group plc) was appointed a Director of the Company. On 17th January, 1989 Mr R C Hampel was appointed a non-executive Director of the Company. In accordance with Article 88 of the Company's Articles of Association, Sir Graham Day and Mr Hampel retire at the Annual General Meeting and, being eligible, will offer themselves for re-election.

On 31st January, 1988 Mr H Metcalfe resigned from the Board on his retirement from Company service. On 12th August, 1988 Mr C B Gough, the Government Director under Article 72, resigned from the Board on the acquisition of The Rover Group plc as a consequence of Section 389 of the Companies Act 1985.

The Directors retiring by rotation at the ninth Annual General Meeting in accordance with Article 82 are Mr B E Friend, Mr D O Gladwin and Mr I R Yates who, being eligible, will offer themselves for re-election.

The unexpired periods, from the date of this Report, of service contracts with retiring executive Directors are:

Sir Graham Day	6 weeks
Mr B E Friend	9 months
Mr I R Yates	25 months

Sir Graham Day's existing contract is with Rover. The terms of a new contract between Sir Graham and the Company are being finalised as at the date of this Report. It is intended that the duration of the new contract will not be less than 36 months.

The beneficial, including family, interests in the share capital of the Company of the persons who were Directors during the year were as follows:

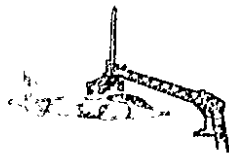
	31st December, 1988*		1st January, 1988*	
	Ordinary Shares of 50p each	Share Options	Ordinary Shares of 50p each	Share Options
Professor R Smith	500	—	500	—
Sir Kenneth Durham	230	—	209	—
Sir Raymond Lygo	6,966	207,919	5,816	122,957
D E Bucknall	1,000	82,949	1,000	47,393
Sir Graham Day	405	—	—	—
D G Eustace	800	88,888	800	—
R H Evans	333	98,216	333	56,574
B E Friend	3,500	68,945	3,500	70,895
S Gillibrand	—	112,065	—	54,386
D O Gladwin	—	—	—	—
C B Gough	937	—	937	—
H Metcalfe	572	82,001	572	82,001
Sir Philip Wilkinson	400	—	400	—
I R Yates	2,423	108,695	473	77,065

* or (where applicable) later date of appointment or earlier date of retirement.

On his appointment to the Board, Mr R C Hampel had a beneficial interest in 500 ordinary shares of the Company.

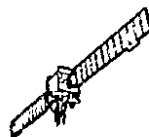
Share options were granted to certain executive Directors on 29th April, 1988 under the British Aerospace Executive Share Option Scheme, exercisable at a subscription price of £4.05 per share normally between 1991 and 1998.

There have been no changes in the interests of persons presently Directors of the Company between 31st December, 1988 (or, where applicable, the later date of appointment) and 15th March, 1989.



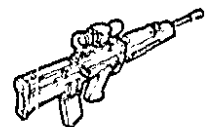
SKYHOOK (VLS)

A proposal for the recovery of airborne Harrier jets returning to small naval vessels



SKYNET-4

British Aerospace is prime contractor for this military communications satellite for the UK Armed Forces.



SMALL ARMS

Royal Ordnance produces a range of small arms and ammunition such as the Enfield Weapon System which is currently being delivered to the British Army.

None of the Directors had any non-beneficial interest in the share capital of the Company during the year, nor in the period from the year-end to 15th March, 1989. The Board is not aware of any contract of significance (other than service contracts or as disclosed in note 7 to the Accounts) in relation to the Company or its subsidiaries in which any Director has, or has had, a material interest.

EMPLOYMENT

Employee Involvement

1988 has seen further development of the Group's communications practices which provide the business awareness upon which employee involvement can be built. The acquisition of Rover brought into British Aerospace a company with equal conviction on the value of such processes to business success and employee job satisfaction. As the Group has enlarged, so the importance of local communications at business level has been stressed. Communication plans are widely in place, including information sheets and other forms of written communications, newsletters, face-to-face briefings and business based videos. A number of new and improved publications were introduced. 1988 saw a further extension of incentive schemes and other performance related pay systems which give employees the opportunity for reward through achieving higher levels of business efficiency. Suggestion schemes give benefits to the Group and employees and the continued development of these

schemes gives increased employee involvement. Joint problem solving and consultative forums exist at many levels in the Group.

Employment of Disabled Persons

A number of the Group's sites achieved 'Fit for Work' Awards during 1988. The Group gives favourable consideration to applications from disabled people for employment and, wherever practicable, environments and methods are adapted to improve work opportunities. Every effort is made to find suitable work for employees who become disabled whilst in the Group's employment.

Equal Opportunity

The Group is an equal opportunity employer. Subject only to considerations of national security, decisions on recruitment, career development, training, promotion and other employment related issues are made solely on individual merit and ability. These principles operate regardless of sex, marital status, race, colour, nationality, ethnic origin or disability. Special consideration is given to those who become disabled whilst in the Group's employment.

Health and Safety at Work

A number of the Group's sites again received 'Gold Hand' Awards from the Engineering Employers' Federation through achieving reductions in the numbers of accidents. Although encouraging, the Group regards this achievement as a target to build upon further. The Group is continuously seeking ways of improving safety performance and employs specialists in occupational health and safety to ensure that the



SOWERBY RESEARCH CENTRE
British Aerospace's centre for specialist teams in advanced computing, optical techniques, human factors and cognitive science.



SPELDA
These payload structures are for the Ariane 4 series of heavy spacecraft launchers. Will enable a launch of two spacecraft on the same mission.



STEINHEIL OPTRONIK GmbH
Established 150 years ago, Steinheil is a leading designer and manufacturer of optics, optical systems, electro-optics and electronic systems.

best practice is followed. Employees participate in this process through a structure of safety committees and safety representatives at site level.

In 1988 the Group's Health and Safety policy was reviewed and re-issued to reflect organisational changes and to draw renewed attention to the need for continuous vigilance.

Following the regrettable occurrence of Legionnaire's Disease at the Lostock facility in 1988, the Group instigated a thorough review of precautionary measures at all its plants.

HONOURS

The following Directors and employees were honoured in HM The Queen's 1988 Birthday Honours and 1989 New Year Honours Lists:

Knighthood

Sir Graham Day

Sir Philip Wilkinson

OBE

P J Conchie, J A Leitch, R V Pearce,

T Sharples

MBE

P Cave, K G Hodson, G A Rose

BEM

K F B Astle, R G W Brewer

The Queen's Commendation for

Valuable Service in the Air

A J Hawkes

COMMUNITY AFFAIRS

The Group's operating units maintain close relationships with their local communities. The Group has a community affairs policy designed to support and encourage these activities, with special emphasis on local business and young people.

The Group is a member of Business in the Community (BIC) and a growing number of operating units directly support the work of BIC and its affiliated organisations. The Group sponsors education, sports and arts events for young people, and is involved in a wide range of projects to promote better understanding between industry and education at both a national and local level.

EMPLOYEE SHARE OWNERSHIP SCHEMES

The first grant of options made in 1983 under the *British Aerospace SAYE Share Option Scheme* matured in September 1988. In the permitted exercise period ended on 28th February, 1989, 4,360 participants exercised options over 4,308,319 shares. At 31st December, 1988 options were held by 11,513 participants over 6,243,655 shares and, at 15th March, 1989, by 11,028 participants over 5,634,659 shares. Further offers of participation may be expected during the life of the Scheme.

Since approval of the *British Aerospace Executive Share Option Scheme* by shareholders in May 1985, offers of participation in the Scheme have been made each year to selected executives (including executive Directors). In April 1988, an offer of participation was made which resulted in 23 executives being granted options over 626,034 shares at an option price of £4.05 per share normally exercisable between 1991 and 1998. The first grant of options made in 1985 matured in July 1988, since which



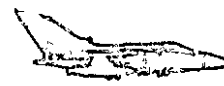
TERPROM

Utilises an aircraft's radar altimeter to provide terrain data for comparison with a digital map stored in its memory. Enables aircraft to be flown without being readily detected.



TILT ROTOR

This exciting new development with Boeing Vertol and Bell complements the Harrier in its unique capability for vertical take off and landing.



TORNADO ADV

Provides long range air defence. It can loiter on patrol for several hours using inflight refuelling. By the end of 1988 orders for 212 aircraft had been received.

date 13 participants have exercised options over 483,406 shares. As a result, at 31st December, 1988 and 15th March, 1989 options were held by 71 executives over 1,894,888 shares.

The Directors are proposing that the Rules of the *British Aerospace SAYE Share Option Scheme* and the Rules of the *British Aerospace Executive Share Option Scheme* be each amended to reflect changes in the limits within which options may be granted. To accommodate continuing changes in legislation and practice, the Directors are also seeking the general authority of shareholders to make relevant changes to each of these Schemes from time to time provided that such changes will not alter the basic structure of the Scheme.

Appropriate resolutions will be proposed as special business at the Annual General Meeting.

Under the *Royal Ordnance Employee Share Ownership Scheme* the Trustee of the Scheme held 164,316 shares on behalf of 13,693 participants at 31st December, 1988 and 164,220 shares on behalf of 13,685 participants at 15th March, 1989.

CLOSE COMPANY STATUS

The close company provisions of the Income and Corporation Taxes Act 1968 do not apply to the Company.

AUDITORS

The auditors of the Company, Peat Marwick McLintock, have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By order of the Board

B Cookson

Secretary

15th March, 1989

ANNUAL GENERAL MEETING

The ninth Annual General Meeting of British Aerospace Public Limited Company will be held at the London Marriott Hotel, Duke Street, off Grosvenor Square, London W1 on Wednesday 10th May, 1989 at 3.00 pm. The Notice of Meeting, together with explanatory notes, is being circulated to shareholders with this Report.



TORNADO IDS

A tri-jet engine two seat supersonic aircraft able to fly in all weathers, day and night, at very low level. Provides close air support, precision air strike, interception and reconnaissance. By the end of 1988, 755 aircraft had been ordered.



TRIGAT

Third generation, anti-tank missile system—short/medium range ground launched, long range vehicle launched and long range air launched.

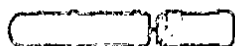


TUNNELS

Hall & Nedd's strong in-house engineering capability and its creative approach to construction problems, ensures the company is a front contender for major infrastructural works like those linked to transportation systems.

British Aerospace
FIVE YEAR SUMMARY

	1988	1987	1986	1985	1984
	£m	£m	£m	£m	£m
PROFIT AND LOSS ACCOUNT					
TURNOVER	5,639	4,075	3,137	2,648	2,468
TRADING PROFIT	311	217	217	211	196
PROFIT BEFORE TAXATION,					
EXCEPTIONAL AND					
EXTRAORDINARY ITEMS	236	161	182	150	120
Exceptional item	-	(320)	-	-	-
Taxation	(80)	49	(54)	(23)	(12)
Extraordinary item	-	-	(44)	-	-
PROFIT/(LOSS) AFTER TAXATION	156	(110)	84	127	108
BALANCE SHEET					
FIXED ASSETS	2,506	996	666	631	580
NET CURRENT ASSETS					
Stocks	2,037	1,388	1,175	1,090	1,077
Creditors less debtors	(1,720)	(1,460)	(1,022)	(616)	(509)
Liquid assets less overdrafts	726	1,073	995	636	390
	1,043	1,001	1,148	1,110	958
Provisions and long term creditors	(1,117)	(702)	(357)	(290)	(311)
ASSETS EMPLOYED	2,432	1,295	1,457	1,451	1,227
Loans	(318)	(276)	(237)	(265)	(308)
SHAREHOLDERS' FUNDS	2,114	1,019	1,220	1,186	919
OTHER INFORMATION					
PERSONNEL AT YEAR END	131,300	93,000	74,900	75,800	75,800
EARNINGS PER SHARE	62.0p	(43.9)p	51.4p	56.4p	53.5p
DIVIDENDS PER SHARE	20.6p	18.7p	17.4p	15.8p	13.65p



VERSATILE EXERCISE MINE SYSTEM

Provides facilities for the assessment of the effectiveness of ground mine sweeping systems. Enables the best tactics to be employed for the clearance of such weapons.



WIND TURBINE GENERATORS

Our expertise in propeller design and construction is being applied to wind turbine generators. Business is developing in the UK and the US.



WOLVERINE

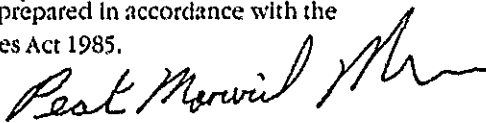
Wolverine is a close area defence system which will provide an effective active defence capability against the short range ballistic missile threat. The concept is based on the mature technology of the Vertical Launch SeaWolf.

AUDITORS' REPORT

Report of the Auditors to the members of
British Aerospace Public Limited Company.

We have audited the accounts on pages 34 to 56
in accordance with Auditing Standards.

In our opinion the accounts give a true and fair
view of the state of affairs of the Company and of
the Group at 31st December, 1988 and of the
profit and source and application of funds of the
Group for the year then ended and have been
properly prepared in accordance with the
Companies Act 1985.



Peat Marwick McLintock
Chartered Accountants
London
15th March, 1989

British Aerospace
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1988

		1988	1987
	<i>Note</i>	<u>£m</u>	<u>£m</u>
TURNOVER	2	5,639	4,075
Cost of sales	3	<u>(5,328)</u>	<u>(3,858)</u>
TRADING PROFIT	2	311	217
Launching costs	4	(26)	(42)
Share of profits of related companies		17	4
Net interest payable	5	<u>(66)</u>	<u>(18)</u>
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEM		236	161
Exceptional item	8	<u>-</u>	<u>(320)</u>
PROFIT/(LOSS) BEFORE TAXATION	9	236	(159)
Taxation	10	<u>(80)</u>	<u>49</u>
PROFIT/(LOSS) AFTER TAXATION	9	156	(110)
Dividends	11	<u>(53)</u>	<u>(47)</u>
BALANCE TRANSFERRED TO/(FROM) RESERVES	28	<u>103</u>	<u>(157)</u>
EARNINGS/(LOSS) PER SHARE	12	<u>62.0p</u>	<u>(43.9)p</u>

The notes on pages 37 to 56 form part of these accounts

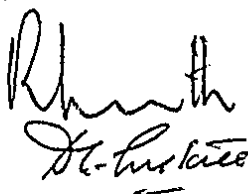
British Aerospace
BALANCE SHEETS
as at 31st December, 1988

35

		Group		Company	
	Note	1988 £m	1987 £m	1988 £m	1987 £m
FIXED ASSETS					
Tangible assets	14	2,322	956	924	614
Investments	16	184	40	642	374
		<u>2,506</u>	<u>996</u>	<u>1,566</u>	<u>988</u>
CURRENT ASSETS					
Stocks	18	2,037	1,388	1,180	1,099
Debtors	19	1,144	818	753	657
Investments	20	610	924	594	912
Cash at bank and in hand		197	203	92	160
		<u>3,988</u>	<u>3,333</u>	<u>2,619</u>	<u>2,828</u>
CURRENT LIABILITIES					
Loans and overdrafts	21	81	54	2	2
Creditors	22	2,864	2,278	2,308	2,177
		<u>1,043</u>	<u>1,001</u>	<u>309</u>	<u>649</u>
NET CURRENT ASSETS					
		<u>3,549</u>	<u>1,997</u>	<u>1,875</u>	<u>1,637</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>3,549</u>	<u>1,997</u>	<u>1,875</u>	<u>1,637</u>
LIABILITIES FALLING DUE AFTER ONE YEAR					
Loans	21	318	276	174	112
Creditors	22	376	309	327	267
PROVISIONS FOR LIABILITIES AND CHARGES					
	23	741	393	209	231
		<u>2,114</u>	<u>1,019</u>	<u>1,165</u>	<u>1,027</u>
CAPITAL AND RESERVES					
Called up share capital	27	128	125	128	125
Share premium account	28	231	221	231	221
Statutory reserve	29	202	202	202	202
Revaluation reserve	28	234	91	234	91
Capital reserve	28	894	65	105	105
Profit and loss account	28	425	315	265	283
		<u>2,114</u>	<u>1,019</u>	<u>1,165</u>	<u>1,027</u>

Approved by the Board on 15th March, 1989

Professor Roland Smith *Chairman*
D G Eustace *Director of Finance*



The notes on pages 37 to 56 form part of these accounts

British Aerospace
**CONSOLIDATED STATEMENT OF SOURCE AND
 APPLICATION OF FUNDS**
 for the year ended 31st December, 1988

	1988 <u>£m</u>	1987 <u>£m</u>
SOURCE OF FUNDS		
Profit/(loss) before taxation	236	(159)
Adjustments for items not involving the movement of funds:		
Depreciation	194	116
Provisions	(68)	(9)
Other	(16)	(25)
Issue of shares under share option schemes	13	1
Disposals of fixed assets	46	57
Funds from/(utilised by) operations	<u>405</u>	<u>(19)</u>
(Increases)/decreases in working capital:		
Stocks	(147)	16
Debtors	250	(6)
Creditors	445	169
Advances	(716)	524
	<u>(168)</u>	<u>703</u>
TOTAL SOURCE OF FUNDS	<u>237</u>	<u>684</u>
APPLICATION OF FUNDS		
Purchase of net assets in subsidiaries (excluding cash and loans)*	32	345
Additions to other fixed assets	490	210
Taxation paid	55	46
Dividends paid	49	44
TOTAL APPLICATION OF FUNDS	<u>626</u>	<u>645</u>
MOVEMENT IN NET LIQUID ASSETS AND LOANS	<u>(389)</u>	<u>39</u>
COST OF SUBSIDIARIES ACQUIRED		
Fixed assets	1,118	279
(Capital reserve)/goodwill	(849)	29
Stocks	502	229
Debtors	616	201
Creditors	(939)	(177)
Advances	-	(44)
Provisions	(416)	(172)
Purchase of net assets (excluding cash and loans)*	32	345
Net cash/(loans) acquired	<u>133</u>	<u>(88)</u>
Consideration paid	<u>165</u>	<u>257</u>

The notes on pages 37 to 56 form part of these accounts

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

The accounts are drawn up under the historical cost convention as modified by the revaluation of land and buildings.

BASIS OF CONSOLIDATION

The consolidated accounts of the Company incorporate the accounts of the Company and its subsidiary and related companies, all of which were made up to 31st December.

The results of companies purchased during the year are incorporated from the date of acquisition.

Goodwill arising on consolidation is written off directly against reserves in the year of acquisition.

TRADING PROFIT

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

In arriving at the estimated overall profitability of contracts with extended delivery programmes, account is taken of interest attributed to customer advances as these form an integral part of the contract.

DEPRECIATION

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

Buildings, plant, machinery, fixtures, fittings and equipment are written off over their useful lives, or if leasehold and the term of the lease is shorter, such shorter term. Buildings erected specifically and exclusively for a research or production programme are written off over the expected life of the programme.

LEASED ASSETS

Assets obtained under finance leases are included at cost less depreciation and the related obligations are included in creditors.

Depreciation is based on the shorter of the useful life and the lease term. Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease. This is a change to the policy adopted in previous years, when these assets were not capitalised and the rental payments were charged to the profit and loss account. Comparative balance sheet figures have been restated. The effect on the profit and loss account is not material.

LAUNCH COSTS

The costs of launching a new commercial aircraft project fall into three principal categories: design and development, jigs and tools, and education.

Design and development expenditure arises mainly in the early years of a project and is written off as incurred as launching costs, except in the case of certain Airbus programmes where such expenditure is offset by HM Government launch aid.

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

Education costs arise early in the production cycle of a new aircraft when project skills and expertise are being acquired and unit costs are therefore relatively high. They comprise 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, tools and education is carried forward in stocks for amortisation in respect of each project by reference to an appropriate assessment of sales, subject to the status of the project and the overriding concept of financial prudence. The amortisation of jigs, tools and education is charged in arriving at trading profit.

1 ACCOUNTING POLICIES (CONTINUED)**RESEARCH AND DEVELOPMENT**

Expenditure on research and development, other than that on buildings or specifically recoverable under contract, is written off as incurred and charged in arriving at trading profit.

STOCKS

Stocks are stated at the lower of cost (including all relevant overhead expenditure) and net realisable value. Progress payments and HM Government launch aid are deducted.

EXCHANGE RATES

Transactions in overseas currencies are converted into sterling at the rates then ruling and assets and liabilities at the balance sheet date are translated into sterling at the rates ruling at that date. The resulting gains and losses are dealt with in the profit and loss account except where they relate to borrowings made to hedge future overseas currency revenues, in which case they are credited or charged to the relevant contract or project, and carried forward until realised.

The sales and profits of overseas subsidiaries are translated at the average rates for the year. Differences on translation of the net assets of overseas subsidiaries and related companies, arising from the use of exchange rates ruling at the balance sheet date, are taken direct to reserves.

TAXATION

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

AIRBUS INDUSTRIE

As a member of Airbus Industrie, British Aerospace participates in the Airbus commercial aircraft programmes. The Company is responsible for the overall design of the wings, production of wing boxes and the purchase of certain components from other manufacturers.

The Company also shares in 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.

Since the Company's participation in Airbus Industrie relates to particular Airbus production programmes which are effectively carried out on a joint venture basis, profits or losses on the British Aerospace work are consolidated with the Company's share in the overall results of Airbus Industrie in assessing both the trading profits and the realisable value of work undertaken by the Company for Airbus Industrie. Outstanding amounts relating to the participation are carried forward in stocks.

2 TURNOVER AND TRADING PROFIT

Turnover represents the net value of deliveries made, work completed or services rendered during the year and includes adjustments arising from the use of estimated prices in previous years.

Overseas sales include sales to overseas related companies under collaborative contracts, some of which relate to work on products delivered to the United Kingdom.

Turnover comprised:

	1988			1987		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Military aircraft and support services	412	1,247	1,659	521	1,335	1,854
Weapons and electronic systems	817	524	1,341	684	618	1,302
Commercial aircraft	160	758	918	33	720	753
Motor vehicles	735	444	1,179	-	-	-
Property development and construction	5	378	383	-	-	-
Space systems	25	108	133	36	117	153
Other enterprises	4	22	26	-	15	15
	<u>2,158</u>	<u>3,481</u>	<u>5,639</u>	<u>1,274</u>	<u>2,801</u>	<u>4,075</u>

The geographical distribution of overseas sales comprised:

	1988 £m	1987 £m
Europe	1,271	711
Africa	73	39
Middle East	1,280	1,208
Far East	214	229
Australasia	65	32
USA and Canada	541	562
Central and South America	37	20
	<u>3,481</u>	<u>2,801</u>

Trading profit comprised:

Military aircraft and support services	195	155
Weapons and electronic systems	176	198
Commercial aircraft	(49)	(68)
Motor vehicles	35	-
Property development and construction	17	-
Space systems	12	4
Other enterprises	1	1
Company funded product development	(76)	(73)
	<u>311</u>	<u>217</u>

Interest attributed to customer advances which has been allocated to trading profit amounted to £143 million (1987 £38 million).

NOTES TO THE ACCOUNTS

3 COST OF SALES

Cost of sales comprised.

	1988 £m	1987 £m
EXPENSES		
Raw materials and consumables	695	338
Purchases of bought out equipment, components and other external charges	3,326	2,509
Staff costs (note 6)	1,516	1,140
Depreciation	194	116
Other operating charges	270	84
	<u>6,001</u>	<u>4,187</u>
Less:		
Increase in stocks of finished goods and work in progress, after amortisation of jigs, tools and education	401	205
Other operating income	103	44
Interest on customer advances	143	38
	<u>5,354</u>	<u>3,900</u>
Less:		
Design and development expenditure included above, charged to launching costs (note 4)	26	42
	<u>5,328</u>	<u>3,858</u>

Included within cost of sales were:

EXPENSES

Operating lease charges:

Plant and machinery	26	8
Other, including aircraft	52	36
Hire of plant and machinery, other than under operating leases	2	11
Company funded product development	76	73
Auditors' remuneration	2	1
Interest on finance leases	9	7

INCOME

Rental income from operating leases	50	34
-------------------------------------	----	----

4 LAUNCHING COSTS

	1988 £m	1987 £m
ATP	10	16
BAe 125	5	-
BAe 146	11	26
	<u>26</u>	<u>42</u>

The amortisation of jigs, tools and education has
been charged in arriving at cost of sales (note 3).

5 NET INTEREST PAYABLE

	1988 £m	1987 £m
Interest receivable and similar income	65	331
Interest on customer advances allocated to contracts	(85)	(107)
Interest payable:		
On bank overdrafts and loans repayable within 5 years	(27)	(3)
On other loans	(19)	(19)
	<u>(66)</u>	<u>(18)</u>

6 EMPLOYEES

The average weekly number of employees, including executive Directors was as follows:

	1988 Number	1987 Number
Military aircraft and support services	28,800	30,400
Weapons and electronic systems	32,000	30,500
Commercial aircraft	23,500	22,700
Motor vehicles (from acquisition)	42,300	-
Property development and construction	3,800	-
Space systems	1,900	2,100
Headquarters and other enterprises	1,300	1,100
	<u>133,600</u>	<u>86,800</u>

The aggregate payroll costs of these employees and Directors were:

	1988 £m	1987 £m
Wages and salaries	1,383	1,019
Social security costs	111	73
Other pension costs	22	48
	<u>1,516</u>	<u>1,140</u>

The emoluments, excluding pension contributions, of higher paid employees of the Company (other than Directors-see note 7) fell within the following ranges:

	1988 Number	1987 Number		1988 Number	1987 Number
£30,001 to £35,000	264	128	£70,001 to £75,000	1	2
£35,001 to £40,000	123	51	£75,001 to £80,000	2	1
£40,001 to £45,000	55	30	£80,001 to £85,000	3	1
£45,001 to £50,000	19	17	£85,001 to £90,000	1	1
£50,001 to £55,000	10	9	£90,001 to £95,000	4	-
£55,001 to £60,000	8	4	£95,001 to £100,000	1	-
£60,001 to £65,000	8	4	£105,001 to £110,000	1	-
£65,001 to £70,000	8	3			

7 DIRECTORS**EMOLUMENTS**

The emoluments of the Directors were as follows

	1988 £	1987 £
Fees	62,562	94,100
Performance related payments	216,730	93,300
Other emoluments	1,344,274	1,081,700
	<u>1,623,566</u>	<u>1,222,400</u>

Included above:

Chairman's (1987 Chairmen's) emoluments, excluding pension contributions (pension contributions to current Chairman - £NIL)
Highest paid Director, excluding pension contributions

240,303	193,500
258,076	210,500

The emoluments of the Chairman include consultancy fees of £231,033 (1987 £63,700) which were paid to Roland Smith Associates Limited in respect of the services Professor Roland Smith rendered as Chairman.

In addition, one Director received a payment

of £105,000 in connection with the severance of his service contract (1987 £100,000).

The emoluments, excluding pension contributions, of the Chairman and Directors fell within the following ranges:

	1988 Number	1987 Number		1988 Number	1987 Number
To £5,000	-	4	£105,001 to £110,000	1	2
£5,001 to £10,000	3	2	£110,001 to £115,000	1	-
£25,001 to £30,000	1	2	£115,001 to £120,000	1	-
£40,001 to £45,000	1	-	£120,001 to £125,000	1	1
£45,001 to £50,000	-	1	£130,001 to £135,000	1	-
£70,001 to £75,000	-	1	£170,001 to £175,000	1	-
£85,001 to £90,000	-	2	£210,001 to £215,000	-	1
£90,001 to £95,000	-	1	£240,001 to £245,000	1	-
£95,001 to £100,000	1	-	£255,001 to £260,000	1	-

TRANSACTIONS

Under a Housing Loan Scheme operated by the Company, Mr IR Yates and Mr S Gillibrand have bank loans, bearing interest at 5% per annum, incurred in buying their respective houses and entered into prior to their becoming Directors of the Company as a result of relocating at the Company's request. Mr Yates' loan is secured on his house and certain insurance policies; Mr Gillibrand's loan is secured by a mortgage on his house. For the duration of each loan the

Company maintains with the bank a deposit equal to the amount outstanding under the loan; such deposit bears interest at 3¾% per annum and is available as additional security for the loan. Mr Yates and Mr Gillibrand have each agreed to indemnify the Company against any liability to the bank by reason of their respective loans. Mr Yates' loan is repayable not later than 18th May, 1997 and Mr Gillibrand's not later than 9th February, 2002.

7 DIRECTORS (CONTINUED)

The amounts of principal and accrued interest outstanding under these loans were as follows

	At 31st December 1988		At 1st January 1989	
	Principal £	Interest £	Principal £	Interest £
Mr Yates	45,000	74	45,000	111
Mr Gillibrand	47,873	79	78,425	193

The maximum amount of principal and accrued interest outstanding at any time during 1988 under each loan was as follows:

	£
Mr Yates	45,604
Mr Gillibrand	79,279

All interest which has become payable under the loans has been paid.

The Rover Group plc, a subsidiary of the Company, owns a half interest in a flat in London in which Sir Graham Day, Chairman of Rover, owns the remaining interest. The flat is occupied by Sir Graham without payment to Rover, but he has full responsibility for the maintenance and all outgoings. Sir Graham has an option to purchase Rover's interest in the property at full market value with vacant possession at the time the option is exercised. Sir Graham entered into this transaction prior to the acquisition of Rover in 1988. The Companies Act 1985 requires accounts to state the 'value' of any such arrangement and provides that, if such value cannot be expressed as a specific sum of money it is deemed to

exceed £50,000. The Directors consider that Sir Graham's rights over the property cannot be expressed as a specific sum of money; however, they believe the real value of this right during 1988 was less than £50,000.

During the year Mr R H Evans, a Director of the Company, made use of a flat which was rented by the Company in London for business purposes. The cost of the flat to the Company was £30,000 for the year.

At 31st December, 1988 there was an aggregate balance of £448,899 outstanding on house purchase loans made to or arranged for 11 officers to assist with their relocation at the Company's request.

8 EXCEPTIONAL ITEM

The exceptional item in 1987 related to the anticipated impact of the fall in the US dollar. Most commercial aircraft sales are denominated in US dollars and the sharp decline in the value

of the dollar therefore affected the realisable value of commercial aircraft stocks (including unamortised launch costs).

9 PROFIT/(LOSS) BEFORE AND AFTER TAXATION

A separate profit and loss account dealing with the results of the Company only has not been presented. Of the consolidated profit after taxation of £156 million (1987 loss £110 million), a profit of £36 million (1987 loss £150 million) has been dealt with in the accounts of the Company.

The post acquisition trading profit of The Rover Group plc was £35 million and the post acquisition share of profits of related companies was £13 million.

NOTES TO THE ACCOUNTS

10 TAXATION

	1988 £m	1987 £m
UK corporation tax at 35%	31	59
Prior year adjustment	-	(6)
Deferred taxation	40	(105)
Related companies	4	2
Overseas taxation	5	1
	<u>80</u>	<u>(49)</u>

11 DIVIDENDS

	1988 £m	1987 £m
Interim paid 7.4p per ordinary share (1987 6.9p)	19	17
Final proposed 13.2p per ordinary share (1987 11.8p)	34	30
	<u>53</u>	<u>47</u>

12 EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share is calculated by reference to the profit/(loss) after taxation and the average number of 251,726,400 (1987 250,305,600) ordinary shares in issue during the year.

13 OPERATING LEASE COMMITMENTS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
Commitments under operating leases falling due:				
In one year or less	59	35	6	2
Between one and five years	198	136	5	5
Later years	409	304	3	2
	<u>666</u>	<u>475</u>	<u>14</u>	<u>9</u>

13 OPERATING LEASE COMMITMENTS (CONTINUED)

The majority of the operating lease commitments shown above, together with certain finance lease commitments, relate to commercial aircraft sold to lessors and leased back to the company or its subsidiaries. These commitments are broadly matched by

income due under sub-leases of the aircraft to customers for periods which range from 5 to 12 years. The future sub-lease rentals receivable after 31st December, 1988 in respect of the minimum lease periods were as follows:

	Group	
	1988 £m	1987 £m
In one year or less	43	35
Between one and five years	176	152
Later years	337	286
	<u>556</u>	<u>473</u>

14 FIXED ASSETS – TANGIBLE ASSETS

14	FIXED ASSETS - Tangible Assets		Group		
	Land and buildings		Plant and machinery	Fixtures, fittings and equipment	Total
	Freehold £m	Leasehold £m	£m	£m	£m
COST OR VALUATION					
At 1st January, 1988	566	18	782	243	1,609
Exchange adjustment	(4)	—	(7)	1	(10)
Arising from acquisitions	512	11	1,003	471	1,997
Additions	75	2	190	188	455
Disposals	(4)	(1)	(48)	(46)	(99)
Surplus on revaluation	91	13	—	—	104
At 31st December, 1988	1,236	43	1,920	857	4,056
DEPRECIATION					
At 1st January, 1988	72	2	469	110	653
Exchange adjustment	(1)	—	(6)	—	(7)
Arising from acquisitions	19	—	676	301	996
Charge for the year	29	1	92	72	194
Disposals	—	—	(42)	(18)	(60)
Surplus on revaluation	(41)	(1)	—	—	(42)
At 31st December, 1988	78	2	1,189	465	1,734
NET BOOK VALUE					
At 31st December, 1988	1,158	41	731	392	2,322
At 31st December, 1987	494	16	313	133	956
The amounts at 31st December, 1988 include:					
Payments on account	28	—	47	78	153
Capitalised finance leases:					
Cost	—	—	255	287	542
Accumulated depreciation	—	—	137	160	297
Depreciation charged for the year	—	—	9	21	30
Short leaseholds	—	7	—	—	7
Assets let under operating leases:					
Cost	—	—	7	116	123
Accumulated depreciation	—	—	2	1	3

14 FIXED ASSETS – TANGIBLE ASSETS (CONTINUED)

	Company			
	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Fixtures fittings and equipment £m
COST OR VALUATION				
At 1st January, 1988	342	16	421	186
Additions	60	–	72	140
Disposals	–	(1)	(3)	(10)
Surplus on revaluation	91	13	–	–
At 31st December, 1988	493	28	490	316
DEPRECIATION				
At 1st January, 1988	30	2	227	92
Charge for the year	17	1	45	38
Disposals	–	–	(1)	(6)
Surplus on revaluation	(41)	(1)	–	–
At 31st December, 1988	6	2	271	124
NET BOOK VALUE				
At 31st December, 1988	487	26	219	192
At 31st December, 1987	312	14	194	94

Buildings are depreciated over 25 to 40 years, or the lease term if shorter. Other fixed assets are depreciated over 4 to 12 years.

Land and buildings comprise:

Assets required by the Company for its continuing operations which are included at Directors' valuation at 31st December, 1988, taking account of independent professional advice, on the basis of open market value for existing use or depreciated replacement cost where this is considered most appropriate;

Assets owned by subsidiaries acquired since 1984 which are included at fair value at the date of acquisition; and

Other assets which are included at 1984 valuation or, in the case of subsequent additions, at cost.

	Group £m	Company £m
Land and buildings at 31st December, 1988:		
At valuation – 1984	83	83
– 1988	438	438
At cost/fair value at acquisition	758	–
	<u>1,279</u>	<u>521</u>

The historic cost of land and buildings was as follows:

	Group		Company	
	Freehold £m	Leasehold £m	Freehold £m	Leasehold £m
Cost	1,091	25	348	14
Depreciation	141	6	68	4
NET BOOK VALUE				
At 31st December, 1988	950	19	280	10
At 31st December, 1987	406	12	229	9

15 CAPITAL COMMITMENTS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
Capital expenditure not provided for in the accounts:				
Firm orders	112	86	36	66
Approved but not ordered	204	51	20	33
	<u>316</u>	<u>137</u>	<u>56</u>	<u>99</u>

16 FIXED ASSETS — INVESTMENTS

	Group			Company			
	Invest ments £m	Related companies £m	Total £m	Subsidiary companies £m	Invest ments £m	Related companies £m	Total £m
COST							
At 1st January, 1988	31	5	36	488	31	1	520
Exchange adjustment	—	—	—	(2)	—	—	(2)
Arising from acquisitions	—	117	117	—	—	—	—
Goodwill written off	—	(20)	(20)	—	—	—	—
Inter group transfer	—	—	—	—	(1)	—	(1)
Additions	4	31	35	279	—	18	297
Reclassifications	(25)	25	—	—	(25)	25	—
At 31st December, 1988	10	158	168	765	5	44	814
RETAINED PROFITS							
Share of post acquisition reserves at 1st January, 1988		4	4				
Share of retained profits for the year		12	12				
		16	16				
LOANS TO SUBSIDIARIES							
At 1st January, 1988				41			41
At 31st December, 1988				—			—
LOANS FROM SUBSIDIARIES							
At 1st January, 1988				(187)			(187)
At 31st December, 1988				(172)			(172)
NET BOOK VALUE							
At 31st December, 1988	10	174	184	593	5	44	642
At 31st December, 1987	31	9	40	342	31	1	374

16 FIXED ASSETS —

INVESTMENTS (CONTINUED)

Included in investments are investments listed on the UK Stock Exchange at cost £41 million (1987 £24 million) - market value £39 million (1987 £20 million).

Included in fixed assets - investments is the Company's interest in non trading subsidiaries

whose assets comprise loans to the Company totalling £172 million which have been offset against the cost of the Company's investment. The principal operating subsidiaries (all of which were owned directly by the Company) and related companies were as follows:

	Country of incorporation and principal operation	Issued share capital	Proportion held
PRINCIPAL SUBSIDIARY COMPANIES			
<i>Ballast Nedam BV</i>			
International construction operations.	Holland	DF1126,000,000	100%
<i>British Aerospace Holdings Inc</i>			
Marketing, product support and financing activities.	USA	US\$21,900,000	100%
<i>Royal Ordnance plc</i>			
Manufacturer of ammunition and weapon systems.	England	£60,000,000	100%
<i>The Rover Group plc</i>			
Manufacturer of motor vehicles.	England	£2,762,200,000	100%
PRINCIPAL RELATED COMPANIES			
<i>Austin Rover Finance Limited</i>			
Provider of vehicle finance.	England	£2,000,000	20%
<i>DAF BV</i>			
Manufacturer of commercial vehicles.	Holland	DF1142,330,000	40%
<i>SD-Scicon plc</i>			
International systems consultancy group.	England	£76,000,000	23%

17 GROUPEMENTS D'INTERET
ECONOMIQUE

At 31st December, 1988 the Company had interests in three Groupements d'Intérêt Economique ('GIEs') as follows:

Airbus Industrie	20%
Euromissile Dynamics Group	33⅓%
Satcom International	50%

A GIE is an organisation incorporated under French law with separate legal personality. It has certain similarities with a partnership formed under English law (see also note 24). The accounting policy relating to Airbus Industrie is set out in note 1.

18 STOCKS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
Raw materials and consumables	157	109	82	82
Work in progress	1,222	1,050	916	887
Airbus work in progress and participation	92	64	92	64
Finished goods and goods for resale	529	119	33	26
	<u>1,980</u>	<u>1,348</u>	<u>1,123</u>	<u>1,059</u>
Unamortised launch costs:				
Design and development	236	175	236	175
Jigs and tools	38	42	38	42
Education	51	45	51	45
Launch aid receivable	(268)	(222)	(268)	(222)
	<u>57</u>	<u>40</u>	<u>57</u>	<u>40</u>
	<u>2,037</u>	<u>1,388</u>	<u>1,180</u>	<u>1,099</u>

Stocks are shown net of progress payments received amounting to £2,653 million (1987 £1,763 million) for the Group and £1,434 million (1987 £1,271 million) for the Company only.

The balance on the Airbus Industrie account is included above in accordance with the accounting policy set out in note 1.

Unamortised launch costs, which relate to commercial aircraft programmes with long production cycles, are expected to be realised over a number of years. In accordance with normal practice in the aerospace industry, jigs and tools are included within stocks.

HM Government has provided £250 million to the Company in launch aid for the A320 project and has agreed to provide a total of

£450 million for the A330 and A340 projects. As part of the A320 agreement, British Aerospace has agreed to make to HM Government payments aggregating £50 million over the three years 1990 to 1992 and accordingly £50 million of launch aid received is included in creditors falling due after more than one year with the balance carried forward and offset against stocks. Under these agreements, British Aerospace is to pay levies on aircraft sales, which are designed to enable HM Government to recover the launch aid together with a return thereon. The levies will be charged to trading profits as incurred. In accordance with the accounting policy set out in note 1, design and development expenditure on these projects is carried forward in stocks.

NOTES TO THE ACCOUNTS

19 DEBTORS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Trade debtors	740	870	377	295
Amounts owed by subsidiaries	-	-	127	76
Amounts owed by related companies	39	9	5	9
Other debtors	153	94	93	71
Prepayments and accrued income	63	73	35	65
	<u>995</u>	<u>646</u>	<u>637</u>	<u>516</u>
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Trade debtors	16	31	16	30
Other debtors	62	30	29	-
Deferred tax (note 26)	71	111	71	111
	<u>149</u>	<u>172</u>	<u>116</u>	<u>141</u>
	<u>1,144</u>	<u>818</u>	<u>753</u>	<u>657</u>

20 CURRENT ASSETS - INVESTMENTS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
Government securities:				
Fixed interest	44	124	44	124
Index linked	-	34	-	34
Floating rate notes and Eurobonds	38	57	38	57
Term deposits with banks	383	571	367	571
Other deposits	145	138	145	126
	<u>610</u>	<u>924</u>	<u>594</u>	<u>912</u>

Fixed interest Government securities are stated at the lower of cost and market value (1988 cost £46 million; 1987 market value £126 million).

In 1987, index-linked Government securities were stated at market value - cost £31 million.

21 LOANS AND OVERDRAFTS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
LOANS FALLING DUE WITHIN ONE YEAR				
Bank loans and overdrafts	79	52	-	-
National Loans Fund	2	2	2	2
	<u>81</u>	<u>54</u>	<u>2</u>	<u>2</u>

The bank loans and overdrafts include £8 million (1987 £5 million) secured by charges on assets.

LOANS FALLING DUE AFTER ONE YEAR

14 3/4% sterling bank loan, final instalment 1992	50	50	50	50
US Commercial Paper	82	52	-	-
US dollar revolving bank loans	16	59	16	59
European Investment Bank 10.4% loan, final instalment 2006	50	-	50	-
Other loans	120	115	58	3
	<u>318</u>	<u>276</u>	<u>174</u>	<u>112</u>

Other loans include £81 million (1987 £41 million) secured by a fixed charge.

US Commercial Paper with a maximum period to maturity of 270 days is included in loans falling due after one year as it is the intention to issue further paper on maturity or to re-finance the borrowing through existing

undrawn committed medium term bank facilities.

US dollar revolving bank loans and US Commercial Paper are at variable market rates of interest and at 31st December, 1988 were between 8.6% and 9.8%. Other bank loans are at variable rates of interest, between 5.9% and 9.0%.

The above loans and overdrafts are repayable as follows:

In one year or less	81	54	2	2
Between one and two years	9	49	1	2
Between two and five years	102	75	79	51
Later years	207	152	94	59
	<u>399</u>	<u>330</u>	<u>176</u>	<u>114</u>

In the case of US Commercial Paper and loans drawn under revolving credit facilities, the date of repayment shown above is the date of the expiry of the facility.

NOTES TO THE ACCOUNTS

22 CREDITORS

	Group		Company	
	1988 £m	1987 £m	1988 £m	1987 £m
CREDITORS FALLING DUE WITHIN ONE YEAR				
Advances	620	1,219	587	1,181
Trade creditors	1,188	566	643	507
Obligations under finance leases	57	27	25	22
Amounts owed to subsidiaries	-	-	741	171
Amounts owed to related companies	-	2	-	2
Corporation tax	48	67	9	44
Other taxes and social security costs	101	32	35	32
Dividend	34	30	34	30
Other creditors	176	60	108	41
Accruals and deferred income	640	275	126	147
	<u>2,864</u>	<u>2,278</u>	<u>2,308</u>	<u>2,177</u>
CREDITORS FALLING DUE AFTER ONE YEAR				
Advances	33	150	33	142
Obligations under finance leases falling due:				
Between one and five years inclusive	85	43	44	36
In more than five years	34	7	34	5
Trade creditors	4	14	3	14
Other creditors	208	51	206	51
Accruals and deferred income	12	44	7	19
	<u>376</u>	<u>309</u>	<u>327</u>	<u>267</u>

Advances represent deposits received and receivable in advance of work carried out and are deducted from work in progress as costs are incurred.

23 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		
	Product and contract	Closure and reorganisation costs	Total
	£ m	£ m	£ m
At 1st January, 1988	261	132	393
Expenditure charged against provisions	(56)	(51)	(107)
Arising from acquisitions	122	294	416
Provisions created/(released)	44	(5)	39
At 31st December, 1988	371	370	741

	Company		
	Product and contract	Closure and reorganisation costs	Total
	£ m	£ m	£ m
At 1st January, 1988	206	25	231
Expenditure charged against provisions	(3)	(14)	(17)
Provisions created/(released)	(6)	1	(5)
At 31st December, 1988	197	12	209

24 CONTINGENT LIABILITIES

Contingent liabilities of £31 million (1987 £30 million), relating to sales of commercial aircraft, exist in respect of both guarantees and residual credit risk on supplier credit agreements entered into under Export Credits Guarantee Department arrangements.

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 (see note 25).

25 COMMERCIAL AIRCRAFT FINANCING

Commercial aircraft are frequently subject to the arrangement of finance (including lease finance) on extended terms, provided either by the manufacturer or by third parties, where the terms may involve recourse to the manufacturer in certain circumstances. In addition to its own commercial aircraft projects, British Aerospace has obligations in relation to certain transactions entered into by Airbus Industrie.

At 31st December, 1988 the total amount of

customer debt, lease commitments and third party recourse in respect of commercial aircraft sales, including British Aerospace's share of Airbus Industrie transactions, after deducting the estimated realisable value of the underlying security, generally the related aircraft, was £215 million (1987 £170 million). This figure includes the lease commitments shown in note 13 and the contingent liabilities shown in note 24. No individual airline customer accounted for more than 11%.

26 DEFERRED TAXATION

The recoverable amounts of deferred taxation, calculated at 35%, were as follows:

Accelerated capital allowances and other timing differences
Advance corporation tax recoverable

Company and Group	
1988 £m	1987 £m
60	100
11	11
<u>71</u>	<u>111</u>

No deferred tax is provided in respect of the surplus arising in the 1988 revaluation of land and buildings.

The Group potential liability for unrealised gains on fixed assets amounted to £207 million (1987 £77 million).

In respect of the other components of deferred tax, the potential liability does not exceed the amount provided.

Recoverable deferred taxation of £71 million (1987 £111 million) is included within debtors (note 19).

27 SHARE CAPITAL

	Special share of £1	Ordinary shares of 50p	Nominal value £m
AUTHORISED			
At 1st January, 1988 and 31st December, 1988	1	300,000,000	150
ISSUED AND FULLY PAID			
At 1st January, 1988	1	250,440,252	125
Exercise of options under share option schemes	—	4,567,194	2
Issue of shares to The Rover Group plc minority shareholders under a Scheme of Arrangement	—	417,548	1
At 31st December, 1988	1	255,430,994	128

Under the British Aerospace SAYE Share Option Scheme for employees, options to purchase ordinary shares of 50p each are exercisable normally on completion of the related five year savings contracts. The number of options

exercised (in accordance with the Rules of the Scheme) and outstanding at 31st December, 1988, together with their exercise prices, was as follows:

Granted	Exercise price	Exercised	Outstanding
1983	£2.00	4,526,705	496,542
1984	£2.00	22,112	559,161
1985	£3.80	15,905	868,861
1986	£5.25	330	867,934
1987	£5.65	—	3,453,257
		4,365,052	6,243,855

Under the British Aerospace Executive Share Option Scheme, options to purchase ordinary shares of 50p each are exercisable not later than ten years and normally not earlier than three

years from the date of the grant. The number of options outstanding at 31st December, 1988, together with their exercise prices, was as follows:

Granted	Exercise price	Exercised	Outstanding
1985	£3.85	483,406	542,414
1986	£5.87	—	271,337
1987 (April)	£6.33	—	351,978
1987 (October)	£4.90	—	103,125
1988	£4.05	—	626,034
		483,406	1,894,888

28 OTHER RESERVES

	Group			
	Share premium £m	Re- valuation reserve £m	Capital reserve £m	Profit and loss account £m
At 1st January, 1988	221	91	65	315
Profit for the year	-	-	-	103
Exchange adjustment	-	-	-	4
Surplus on revaluation (note 14)	-	146	-	-
Depreciation on 1984 valuation surplus	-	(3)	-	3
Capital reserve arising from acquisitions	-	-	829	-
Other	10	-	-	-
At 31st December, 1988	231	234	894	425

	Company			
	Share premium £m	Re- valuation reserve £m	Capital reserve £m	Profit and loss account £m
At 1st January, 1988	221	91	105	283
Loss for the year	-	-	-	(17)
Exchange adjustment	-	-	-	(4)
Surplus on revaluation (note 14)	-	146	-	-
Depreciation on 1984 valuation surplus	-	(3)	-	3
Other	10	-	-	-
At 31st December, 1988	231	234	105	265

29 STATUTORY RESERVE

The balance of the former HM Government investment, following the issue on 2nd January, 1981 of fully paid ordinary shares in the Company to HM Government under Section 3 of the British Aerospace Act 1980, was designated as 'the statutory reserve' in

accordance with Section 4 of the Act. This 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.

30 PENSION SCHEME

Most employees in the UK are members of occupational pension schemes. Actuarial valuations of The British Aerospace Pension Scheme and The Rover Group Pension Schemes at 6th April, 1987 showed that accrued liabilities were fully funded on a discontinuance basis and also on the basis of the security targets then adopted by the relevant company and trustee

of the Schemes. Indeed, the Schemes were sufficiently well funded to justify the suspension of the Employers' contributions, notwithstanding the falls in the stock market experienced in late 1987 and a number of improvements in Scheme benefits. The next valuations of the Schemes are due to be carried out as at 6th April, 1989.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Financial year end	31st December
Ninth Annual General Meeting	10th May, 1989
1988 final dividend payable	5th June, 1989
1989 interim results announcement	September 1989
1989 interim dividend payable	November 1989
1989 full year results preliminary announcement	March 1990
report and accounts	April 1990
1989 final dividend payable	June 1990

ANALYSIS OF ORDINARY SHARE REGISTER AT 31ST DECEMBER, 1988

	Accounts		Ordinary shares of 50p each	
	Number 000	% of total	Number 000	% of total
BY CATEGORY OF SHAREHOLDER				
Individual holders	100.6	95.1	23,806	9.3
Banks	0.4	0.4	48,380	18.9
Nominee companies	1.4	1.3	29,061	11.4
Insurance companies and pension funds	2.5	2.4	135,481	53.1
Other limited companies	0.7	0.6	8,220	3.2
Other	0.2	0.2	10,483	4.1
	105.8	100.0	255,431	100.0
BY SIZE OF HOLDING				
1 - 499	90.9	85.9	11,690	4.6
500 - 4,999	13.4	12.7	14,510	5.7
5,000 - 49,999	0.9	0.9	14,595	5.7
50,000 - 99,999	0.2	0.2	13,305	5.2
100,000 - 999,999	0.3	0.3	91,696	35.9
1,000,000 and over	0.1	-	109,635	42.9
	105.8	100.0	255,431	100.0

GROUP COMPANIES AND INVESTMENTS

as at 15th March, 1989

BALLAST NEDAM BV

Ballast Nedam Groep NV

Ballast Nedam Construction International BV

Ballast Nedam International BV

Ballast Nedam Bouw BV (Civil Engineering)

Ballast Nedam Handel & Industrie BV

(Manufacturing & Trading)

Amsterdamse Ballast Bagger en Grond BV

(Amsterdam Ballast Dredging)

Ballast Nedam Engineering BV

North American Trailing Company Inc (20%)

BRITISH AEROSPACE

(COMMERCIAL AIRCRAFT) LIMITED

Airbus Industrie (20%) (GIE)

BRITISH AEROSPACE

(CONSULTANCY SERVICES) LIMITED

BRITISH AEROSPACE (DYNAMICS) LIMITED

Euromissile Dynamics Group (33½%) (GIE)

BRITISH AEROSPACE ENTERPRISES LIMITED

Aerostructures Hamble Limited

Arab British Dynamics Limited (30%)

AWA Micro Electronics Pty Limited (25%)

British Aerospace Australia Limited

British Aerospace Flying College Limited

British Aerospace Simulation Limited

Competence Center Informatik GmbH (30%)

SD - Scicon plc (23%)

Singapore British Engineering Pte

Limited (49%)

Steinheil Optronik GmbH

Wind Energy Group Limited (50%)

BRITISH AEROSPACE HOLDINGS INC

Arkansas Modification Center Inc

Austin Rover Cars of North America Inc

Austin Rover USA Inc

British Aerospace Inc

British Aerospace Finance Inc

Jet Acceptance Corporation

Range Rover of North America Inc

Reflectone Inc (38%)

Rover Group USA Inc

Royal Ordnance Inc

US Wind Energy Group Inc (33½%)

BRITISH AEROSPACE

(MILITARY AIRCRAFT) LIMITED

Panavia GmbH (42.5%)

Eurofighter Jagdflugzeug GmbH (33%)

BRITISH AEROSPACE

(SPACE SYSTEMS) LIMITED

British Aerospace Telecommunications Limited

Satcom International (50%) (GIE)

BRITISH SCANDINAVIAN AVIATION AB**THE ROVER GROUP PLC**

Austin Rover Finance Limited (20%)

Austin Rover Group Limited

DAF BV (40%)

Istel Holdings Limited (25%)

JRA Holdings Limited (20%)

Land Rover UK Limited

UGC Limited (22%)

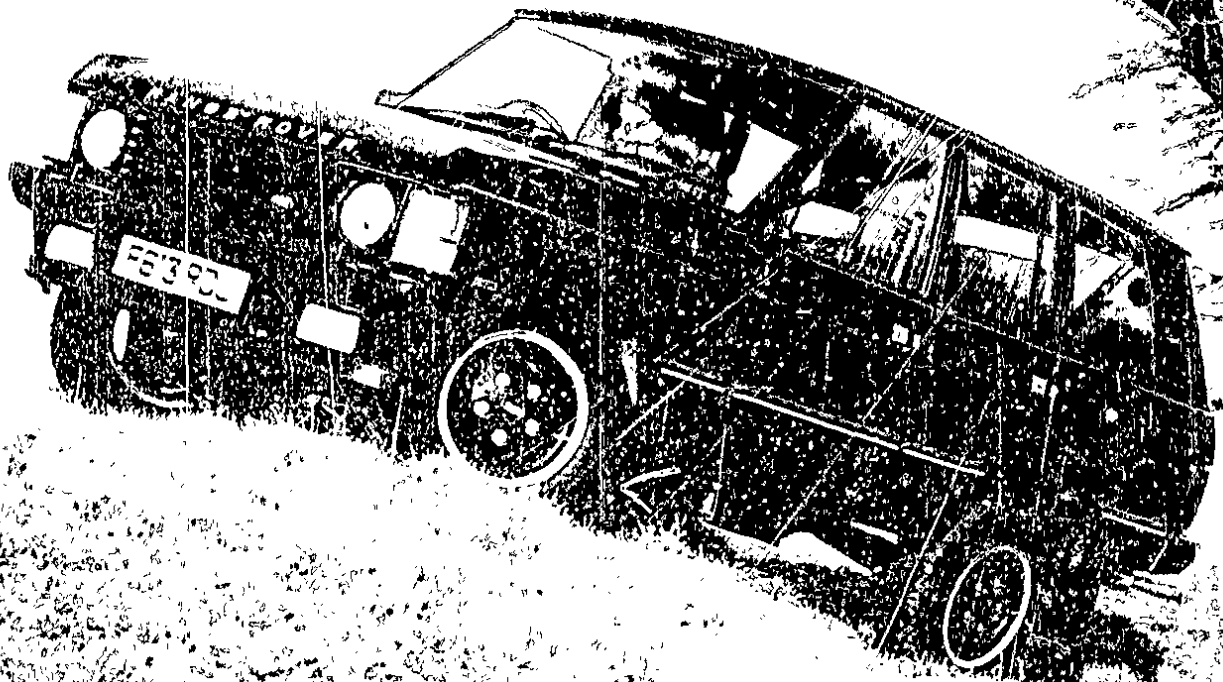
ROYAL ORDNANCE PLC

Royal Ordnance Speciality Metals Limited (85%)

TRAFALGAR BROOKMOUNT (BROOKLANDS)

LIMITED (50%)

Note: Shareholding 100% unless otherwise stated.





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NOTICE OF ILLEGIBLE DOCUMENT ON THE MICROFICHE RECORD

Companies House regrets that the microfiche record for this company contain some documents which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause.