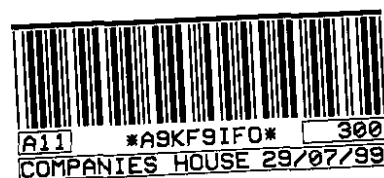


Company Number: 212802

BRITISH AEROSPACE PENSION FUNDS
INVESTMENT MANAGEMENT LIMITED

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
5th April 1999



BRITISH AEROSPACE PENSION FUNDS
INVESTMENT MANAGEMENT LIMITED

REPORT OF THE DIRECTORS

The Directors present their report for the year ended 5th April 1999.

Activities

The Company is the appointed investment manager of the invested assets of British Aerospace Plc's occupational pensions schemes. The Company has been a member of the Investment Management Regulatory Organisation Limited ("IMRO") since 28th April 1988.

Directors

The Directors of the Company in the last year were:

Mr. J.W. Gibbon
Mr. R.D. Lapthorne (resigned 11.1.99)
Mr. S.R. Burley
Mr. S.P. Carroll (resigned 26.2.99)
Mr. G.W. Rose (appointed 11.1.99)

None of the Directors has (or has had) any beneficial interest in the share capital of the Company, (or any subsidiary company of the British Aerospace group of companies). The Directors who held office at the end of the financial year had the following interests in the share capital of the Company's ultimate holding company, British Aerospace Public Limited Company:

Directors	Ord. Shares of 2.5p		Share Options			
	6.4.98*	5.4.99	6.4.98*	Exercised	Granted	5.4.99
J.W. Gibbon	2739	16,000	79,776	23,828	17,271	73219
G.W. Rose	16,212	96,211	164,968	Nil	79,233	244,201
S.R. Burley	Nil	8,500	Nil	Nil	Nil	Nil

* or later date of appointment.

Conditional Grants of Shares under British Aerospace Performance Share Plan

	Ordinary Shares of 2.5p		
Directors	6.4.98	Granted	5.4.99
G.W. Rose	59,188	85,093	144,281

Mr. G.W. Rose was also granted Matching Shares of 11,304 Ordinary Shares of 2.5p on the 15th March 1999 under the British Aerospace Restricted Share Plan.

Year 2000

The Company, along with all other companies within the British Aerospace Group, recognised in 1994 that the Year 2000 (Y2K) date change could pose a risk to its business. In response, a programme, sponsored by the current Chief Executive, was established to address the impact of Y2K on its products, IT systems and infrastructure. An inventory of systems has now been made and an impact analysis is largely complete, with major risk areas identified and understood. Remedial work is well progressed in having business critical systems, where appropriate, Y2K compliant.

Given the complexity of the millennium problem, no programme can guarantee complete Y2K compliance. Supply chain management with respect of Y2K is particularly important as most of the systems and equipment used on our products is acquired from third party vendors. We have a dependency on the millennium programmes of both our suppliers and customers. Our contingency plans are therefore being developed to minimise the risk of material business interruption arising from Y2K non-compliance, taking into account these dependencies.

As with all of the Company's expenditure, the costs associated with the Year 2000 will be borne by British Aerospace plc's Occupational Pension Schemes, for whom the Company acts as fund manager.

Statement of Director's Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements the Directors are required to:

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

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as Auditors of the Company.

BY ORDER OF THE BOARD



L.S. Goodge
Secretary

**REPORT OF THE AUDITOR, KPMG AUDIT PLC, TO THE MEMBERS OF
BRITISH AEROSPACE PENSION FUNDS INVESTMENT MANAGEMENT
LIMITED**

We have audited the financial statements on pages 6 and 7.

Respective responsibilities of Directors and Auditor

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the Company's affairs as at 5th April 1999 and have been properly prepared in accordance with the provisions of the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc,
Registered Auditor
Chartered Accountants
London

23 July 1999

BRITISH AEROSPACE PENSION FUNDS
INVESTMENT MANAGEMENT LIMITED

BALANCE SHEET AS AT 5th April 1999

	5th April 1999 £	5th April 1998 £
Amounts owed by group companies (Note 5)	<u>15,166,941</u>	<u>15,166,941</u>
Financed by:		
CAPITAL AND RESERVES		
Called up Share Capital		
Authorised, issued and fully paid: 5,015,000 Ordinary Shares of £1 each	5,015,000	5,015,000
Share Premium Account	1,302,104	1,302,104
Capital Redemption Reserve	2,699,235	2,699,235
Profit and Loss Account	<u>6,150,602</u>	<u>6,150,602</u>
	<u>15,166,941</u>	<u>15,166,941</u>

These accounts were approved by the Board of Directors on 19th July 1999.

Director

J. V. Gilman

The notes on page 7 form part of these accounts.

BRITISH AEROSPACE PENSION FUNDS
INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

1. **Accounting Policies**

These accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

2. **Profit and Loss Account**

The Company has not traded during the accounting period, has received no income and incurred no expenditure, and consequently has made neither a profit nor a loss. A profit and loss account has therefore not been prepared.

3. **Ultimate Holding Company**

The ultimate holding company is British Aerospace Public Limited Company, a company incorporated in Great Britain, and registered in England and Wales. This is the only company which consolidates the Company's accounts into its accounts. Copies of the Annual Report and Accounts of British Aerospace Plc can be obtained from the Company Secretary, Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hants, GU14 6YU.

4. **Directors' Emoluments**

No Director received any emoluments from the Company during the year.

5. **Amount Owed by Group Companies**

The amount owed by group companies is in respect of a loan to British Aerospace Public Limited Company. The loan bears no interest and is repayable on demand.

6. **Contingent Liabilities**

There were no contingent liabilities at the balance sheet date.