British Midland Airways Limited

Directors' report and financial statements for the year ended 31 December 2011

Registered number 00464648

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2011

Principal activities and business review

Company overview

British Midland Airways Limited ("BMAL", "the Company") incorporates the trading activities of three airlines – bmi Mainline, bmi Regional and bmibaby, which each cover specific markets and customer groups

bmi Mainline uses Airbus A320 and A330 family aircraft to cover destinations in the domestic UK market, Europe, the CIS states, the Middle East and Africa, operating mainly from London Heathrow

bmi Regional offers short-haul flights within the UK and Europe using Embraer aircraft Its high quality product and excellent punctuality are aimed particularly at business travellers

bmibaby operates as a low-cost airline, primarily from East Midlands airport and Birmingham airport, where it has a strong market presence bmibaby operates Boeing 737 family aircraft

During 2011 the Company's ultimate parent company, Deutsche Lufthansa AG ("Lufthansa") explored options for the sale of some or all of the group headed by the Company's parent company, British Midland Limited ("BML") (the "bmi group") Lufthansa concluded negotiations with International Consolidated Airlines Group S A ("IAG") for the sale of 100% of the issued share capital of BML, and both parties entered into a sale and purchase agreement ("SPA") to this effect on 22 December 2011 The purchasing entity will be British Airways plc ("BA"), a subsidiary of IAG

Since the bmibaby and bmi Regional businesses, together with the bmi group companies which hold their aircraft operating licences and certain other key contracts, are owned by BML and the Company respectively, they are included in the sale to BA However, the directors of BML and the Company have also been engaged in separate negotiations for the sale of these businesses and companies either before or after completion of the sale to BA (as contemplated in the SPA), and these negotiations have progressed during 2011 and into 2012 These negotiations are currently being conducted by IAG

The Regional negotiations are at an advanced stage with a potential purchaser

The bmibaby negotiations are at a relatively early stage with a number of potential purchasers, but show encouraging progress

Going concern

Sale of the bmi group to BA

Successful completion of a sale of 100% of the issued share capital of BML to BA is considered fundamental to the future of the Company and the bmi group, and is therefore crucial to the directors' assessment of the going concern status of the Company and the bmi group Completion of the sale is conditional on the satisfaction of a number of conditions, including EU Merger Regulation Clearance from the European Commission and clearance by the UK Pensions Regulator for the transfer of the Company's defined benefit pension scheme, the British Midland Airways Pension and Life Assurance Scheme ("the Scheme") from the Company and the bmi group, as envisaged in the SPA

EU Merger Regulation Clearance from the European Commission for the sale was received on 30 March 2012

Directors' report (continued)

On 20 March 2012, Lufthansa applied to the Pensions Regulator for clearance (on behalf of the Lufthansa group and the Company) in respect of a series of steps to transfer the Scheme out of the bmi group and into a newly incorporated entity within the Lufthansa group (including a regulated apportionment arrangement (RAA) (the "Transfer")) This newly incorporated entity would shortly thereafter enter insolvency proceedings, at which point the Scheme would enter a Pension Protection Fund assessment period As a condition of the Transfer, Lufthansa has agreed to pay contributions to support the assets of the Scheme and to provide additional benefits for members outside the defined benefit section of the Scheme

The Trustees of the Scheme agreed to the Transfer, and, the Pensions Regulator having granted clearance on 20 March 2012, the legal documentation to effect the Transfer was signed on 16 April 2012 The Pensions Regulator considered comments on the proposed RAA from interested parties during the 28 day statutory notice period, and approved the RAA on 17 April 2012 The pensions condition in the SPA was also satisfied as at that date and the Transfer took effect on 18 April 2012 Following the transfer of the Scheme to the new principal employer, the Company and the bmi group have been fully discharged of all liabilities to the Scheme

The Company's position

The directors consider, based on confirmations received from Lufthansa, that no outstanding condition precedents for the sale remain and therefore that completion of the sale will therefore become effective on 19 April 2012

The directors consider that the Company has sufficient funding in place (primarily in the form of cash at bank) to enable the Company to meet its liabilities as they fall due in the course of ordinary business until the expected completion of the sale to BA on 19 April 2012 The Company expects to issue share capital during April 2012 in exchange for further funding from Lufthansa of approximately £71 million However the Company will require further funding subsequent to the sale to enable it to continue trading for the foreseeable future

The directors have considered the nature of discussions with IAG and BA throughout the sales process and the terms and conditions of the SPA, including commitments set out in the SPA for BA to maintain the Company as a solvent entity for at least 12 months from the date of completion of the sale, and believe that, following completion, sufficient funding will be made available by IAG and/or BA to enable the Company to continue in operation for the foreseeable future

The directors note that there are inherent uncertainties regarding both the ultimate level of funding required post completion of the sale and the timing and extent of the provision of such funding by IAG and/or BA These constitute material uncertainties as to the Company's ability to continue as a going concern As a result, there remains a risk that the Company may be unable to realise its assets and discharge its liabilities in the normal course of business

However, on the basis of the likely future plans of BA post completion, the terms and conditions of the SPA, trading experience to date in 2012 and the funding position of the Company and of the bmi group as at the date of these financial statements, the directors consider that, whilst the material uncertainties mentioned above exist, there is a realistic prospect that the Company and the bmi group will have sufficient funding to continue in operation for the foreseeable future

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern

Overview of 2011

Revenue targets were not fully met in 2011, largely due to external factors including the uprisings and civil unrest in the Middle East, and the eurozone crisis in the latter part of the year These factors together with the continued strong competition in the domestic UK transport market that we have seen continued pressure on the average yields

Directors' report (continued)

During the year and subsequently, the Company exchanged a number of airport landing and departure slots, with both third party airlines and fellow group undertakings These exchanges resulted in net cash adjustments in favour of the Company

In June 2011, a further £150 million of funding was received from Lufthansa, via the Company's immediate parent company, in exchange for the issue of share capital At the same time, £151 2 million of loans due to Lufthansa were converted into equity through the issue of share capital

In January 2012, the Company disposed of its shareholding in The Airline Group Limited to Lufthansa Consideration was £45 million, resulting in a gain to the Company of £33 1 million

In April 2012, the Company began consultation with bmi Mainline employees regarding the future integration of the bmi Mainline business into BA

Key operational and financial data for the business is as follows

	2011	2010
Year ended 31 December		
Turnover (£ million)	£771 3	£777 3
Operating loss before exceptional items (£ million)	£(166 1)	£(146 2)
Number of passengers (thousands)	6,686	6,194
At 31 December		
Number of aircraft		
bmi Mainline	27	27
bmi regional	19	18
Bmibaby	14	14

Carrying value of assets

During the year the directors assessed the trading performance of the Company, and the impact on recoverability of fixed assets As a result, impairment provisions have been recognised against certain fixed assets

Development of the business and future prospects

bmi Mainline

Throughout 2011 bmi Mainline has continued to develop its mid-haul services and its position as a network carrier Our mid-haul destinations are fed by both the short haul bmi network and through code share alliances with other carriers, most notably United Airlines, Lufthansa and Air Canada This was further enhanced through affiliate membership of the Atlantic ++ commercial cooperation agreement during 2011

In March 2011, a service to Basel launched as a cooperation with Swiss along with new routes commencing between Heathrow and Stavanger, Bergen, Marrakesh and Casablanca To support this expansion and to reduce domestic risk and losses, Heathrow to Glasgow terminated in late March 2011 In August 2011 a further destination to Nice was launched, increasing to double daily from November 2011 Routes to Amritsar and Agadir were launched in October 2011

Due to a shift in activity towards the Middle East, Asia and Africa, the average sector distance has increased by 3% compared to 2010 A second A330 aircraft returned for the summer season and was used on the Freetown route from June 2011 increasing service offered to customers and cargo opportunities

Directors' report (continued)

Significant progress was made on major projects during 2011

The Host project covers the migration from the old Multi-Host environment onto the Amadeus CITP/Altéa inventory, codeshare and ticketing platform Inventory sharing was completed successfully and on schedule in November 2011

The refit programme is to standardise the cabin configuration on the shorthaul airbus fleet (11 A319 144 seats / 5 A320 168 seats) This involves fitting new generation seats, seat covers, new galleys and refreshing of interiors Initial refits were completed on 12 aircraft and the full programme is expected to be completed by end of 2012 Retrofit of 7 midhaul A321 aircraft is envisaged with fully-flat beds in business class, new economy seats and AVOD In-flight entertainment system throughout the aircraft First layover is expected for June 2012

bmi's mid-haul network operated during 2011 consisted of the following 21 destinations

Destination	Country
Addis Ababa	Ethiopia
Agadir	Morocco
Almaty	Kazakhstan
Amman	Jordan
Amritsar	India
Baku	Azerbaijan
Beirut	Lebanon
Bishkek	Kyrgyzstan
Cairo	Egypt
Casablanca	Morocco
Damascus	Syria
Dammam	Saudi Arabia
Freetown	Sierra Leone
Jeddah	Saudi Arabia
Khartoum	Sudan
Marrakesh	Morocco
Moscow	Russia
Riyadh	Saudi Arabia
Tbilisi	Georgia
Tehran	Iran
Yerevan	Armenia

bmibaby

bmibaby operates a fleet of classic Boeing 737 aircraft, mainly from the Midlands, offering a network of short business and leisure routes

2011 saw a significant restructure of the bmibaby network removing underperforming locations, focusing on key markets and reducing the airlines cost base As a result Manchester and Cardiff bases were closed in October 2011 and the aircraft were redeployed to the East Midlands, Birmingham and Belfast City Airport

Following a strategic review of the business a leasehold property was exited and the costs of the ongoing lease and dilapidations have been provided for

Since bmibaby Limited is a subsidiary of BML, the sale to BA will include bmibaby Limited and the bmibaby brand and trade However, IAG is also in negotiations with a number of third parties for the separate and subsequent sale of bmibaby Limited and the bmibaby brand and trade

Directors' report (continued)

These negotiations are at a relatively early stage with a number of potential purchasers, but show encouraging progress

Any sale of bmibaby Limited and the bmibaby brand and trade would be to a purchaser with the intent and financial resources to take on bmibaby as a going concern and to run it for the foreseeable future, restructuring and refocusing as necessary

bmi Regional

bmi Regional operates Embraer 135 and 145 aircraft from the following UK airports, on scheduled service operations Aberdeen, Edinburgh, Glasgow, Leeds Bradford, Manchester, and East Midlands, to a variety of UK and European destinations It also operates this fleet on charter and wet-lease operations from other bases across the UK

The economic conditions continued to be very demanding on the regional business in 2011, particularly on the domestic market in the UK The scheduled part of the business is heavily targeted towards corporate and business purpose customers, and recovery in this area continues to be slow, with demand in some particular sectors still continuing to fall Regional continued to operate its charter and wet-lease operations, which helped mitigate the reduced scheduled demand

Regional's scheduled operation remained relatively static during the year, albeit production was tailored to meet demand on a route by route basis No scheduled routes were cancelled in 2011, however Regional did launch a new scheduled route, East Midlands – Frankfurt, following a detailed study into Frankfurt opportunities Frankfurt airport opened up new capacity in 2011 following investment in a new runway and infrastructure and will gradually release capacity over the next few years This was a good opportunity for Regional to attain sought after slots

Regional once again reported a successful year of operations and it continued to achieve an extremely high standard of punctuality and reliability Regional was officially named as the UK's most punctual airline for a sixth successive year in 2010 and the latest published data shows that it continued to hold that position in Q1-Q3 2011 (full year results expected in Q2 2012)

Since British Midland Regional Limited (BMRL) is a subsidiary of BMAL, the sale to BA will include BMRL and the bmi Regional brand and trade However IAG is also in negotiations for the separate sale of BMRL and the bmi Regional brand and trade

These negotiations are at an advanced stage with a potential purchaser

Any sale of BMRL and the bmi Regional brand and trade would be to a purchaser with the intent and financial resources to take on bmi Regional as a going concern and to run it for the foreseeable future, restructuring and refocusing as necessary

Staff

Throughout another challenging year, our staff continued to exert exceptional efforts on both the ground and in the air

The Company recognises the importance of promoting and maintaining good communications with its employees During the year regular meetings were held with employee representatives

The Company continues to employ disabled persons All employees are afforded the same training, career development and promotion opportunities The Company provides all possible assistance to persons temporarily or permanently disabled whilst in employment

Directors' report (continued)

Principal risks and uncertainties

Funding

The going concern section starting on page 1 sets out the Company's funding position, together with envisaged future funding and the associated risks

Demand for air travel

bmi is dependent on the demand for air travel in a number of different global markets, but is predominantly exposed to demand within the UK The business can be affected by macro issues out of bmi's control such as global or local economic conditions, political stability, extreme weather and the willingness of customers to fly Changes in any of these will affect the demand for airline services and could have a material effect on the financial results of the business

Competition

bmi's three airlines – bmi Mainline, bmi Regional and bmibaby - cover different market and consumer groups, all of which operate in competitive market places with a wide range of direct and indirect competitors An increase in competition from any of these sources could result in an adverse impact on bmi's performance

Terrorism and catastrophic loss

bmi's business is exposed to potential terrorist attacks Even if bmi is not a direct target, and even if an attack is not successful, there could still be negative consequences for demand for air travel

Closure of airspace

Recent experience of severe weather and volcanic activity has resulted in unprecedented closure of the UK airspace impacting the financial results of bmi bmi remains exposed to the unpredictable impact of natural events on earnings

Political risks

bmi's business, and in particular bmi Mainline, includes flying to countries in the Middle East, Africa and Asia which are prone to political unrest and other events which may cause disruption to bmi's services

Highly regulated business

bmi's business is highly regulated In particular, bmi's mid-haul operations are often to countries where access is restricted by way of bilateral arrangements or other similar devices These can be withdrawn, and may also prevent the expansion of bmi's business

Foreign currency risk

bmi seeks to match, as far as possible, receipts and payments in each individual currency This is broadly possible with all currencies except the US dollar A substantial proportion of the Company's capital expenditure, leasing commitments, fuel and other purchases are payable in US dollar, with little revenue generated in that currency Results may be significantly affected, either beneficially or adversely, by US dollar exchange rate movements Hedging is undertaken to minimise the short term impact of exchange rate fluctuations

Liquidity risk

In order to ensure that sufficient funds are available for ongoing operations and future developments the Company has a mixture of long term and short term debt finance

Fuel price risk

Fuel is a significant cost to bmi The price of fuel is subject to significant volatility Hedging is undertaken to minimise the short term impact of fuel price fluctuation Whilst hedging activities can provide some degree of protection over the short term, there is no protection against longer term movements which may substantially increase the cost base

Directors' report (continued)

Credit risk

The Company's financial assets are cash, trade and other receivables Trade receivables are presented in the balance sheet net of an allowance for impairment made where there is an identified loss event or where, based on previous experience, there is evidence of a reduction in the recoverability of the asset

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies

Cash which is subject to restrictions, being held in overseas bank accounts which may only be fully accessible to the business following a predetermined process through the relevant authorities, is included as cash in the balance sheet At 31 December 2011, £7 8 million *(2010 £2 1 million)* of cash as disclosed in the balance sheet is subject to such restrictions, against which a provision against potential costs of recovery of £1 0 million has been recognised in 2011 *(2010 £nil)*

Environmental issues

Certain government legislation has been enacted with a view to reducing the impact of UK companies' carbon footprint on the environment

From January 2012, emissions from all domestic and international flights that arrive at or depart from an EU airport will be covered by the EU Emissions Trading Scheme Airlines will be required to pay from 2013 for their annual emissions through a combination of free allowances and EUA certificates purchased on the open market if necessary

EU-ETS (aviation) became live on 1st January 2012 All 3 bmi Group airlines are well prepared with open EU Registry Accounts bmi Mainline, bmibaby and bmi Regional have all received the free EUA allocation for 2011 from the Commission Although there is an expected shortfall between free allowances and total required allowances, this is understood and plans to mitigate are in place

The CRC Energy Efficiency Scheme is the UK's mandatory climate change and energy saving scheme The scheme is designed to tackle CO2 emissions not already covered by Climate Change Agreements (CCAs) and the EU Emissions Trading Scheme As a primary member, bmi are still progressing the registration with the environment agency and are currently on schedule to comply with the timescales and the requirements set out within the scheme

Industrial action

A large part of the bmi workforce is unionised Whilst good relations are maintained, operations could be disrupted if there is a breakdown in this process

Creditors' payment policy

It is the Company's policy to pay suppliers in accordance with the terms agreed provided that the supplier has also complied with the relevant terms and conditions The trade creditors at 31 December 2011 represented 42 days *(2010 38 days)* of annual purchases

Dividends

No dividend was paid or is proposed in respect of the year ended 31 December 2011 *(2010 £nil)*

Directors

The directors who served during the year and subsequently are set out below
J O G Hennemann
S Menne
N O Turner
W Prock-Schauer
V Sørensen (appointed 7 March 2012, resigned 30 March 2012)

Directors' report (continued)

Directors' indemnities

A qualifying third party indemnity provision is in place for the directors of the Company This is in the form of an insurance policy which covers liability for the actions of directors and officers of the Company

Compensation for loss of office

Compensation for loss of office is payable in accordance with the directors contracts These include compensation for two directors should their appointments be terminated by the relevant group company prior to the end of their fixed term service agreements (dated 13 November 2009 and 11 April 2010 respectively), such compensation being

(a) 130% of basic salary for the remainder of the fixed term, which expires on 31 October 2012, and
(b) 125% of salary for the remainder of the fixed term, which expires on 31 May 2013

Auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the board 18 April 2012

W Prock-Schauer

Director
Donington Hall
Castle Donington
Derby
DE74 2SB

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's report to the members of British Midland Airways Limited

We have audited the financial statements of British Midland Airways Limited for the year ended 31 December 2011 which comprise the Profit and Loss account, the Statement of total recognised gains and losses, the Balance sheet, the Reconciliation of movements in shareholders' funds and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 9) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures given in Note 1 to the financial statements concerning the ability of the company to continue as a going concern The uncertainty over the level of funding required post completion of the sale and the timing and extent of the provision of such funding by IAG and/or BA indicate the existence of a material uncertainty which may cast significant doubt over the ability of the company to continue as a going concern The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

Independent auditor's report to the members of British Midland Airways Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Andrew Hammond (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

18 April 2012

Profit and loss account
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Turnover	2	**771.3**	777 3
Cost of sales		**(756 8)**	(746 7)
Gross profit		**14 5**	30 6
Admınıstratıve expenses		**(189 8)**	(170 4)
Operatıng loss before exceptional items		**(166 1)**	(146 2)
Exceptional items	6	**(9 2)**	6 4
Operatıng loss after exceptıonal items		**(175 3)**	(139 8)
Profit on sale of aırport landıng/departure slots	7	**75 2**	-
Interest receıvable and sımılar ıncome	3	**4 0**	1 5
Interest payable and sımılar charges	4	**(8 5)**	(4 9)
Other finance costs	5	**(6.2)**	(10 3)
Loss on ordınary actıvitles before taxation	6	**(110 8)**	(153 5)
Tax on loss on ordınary actıvıtıes	8	**-**	-
Loss on ordınary activities after taxatıon	17	**(110 8)**	(153 5)

All results ın the current and prıor year are derıved from contınuıng operatıons

There ıs no sıgnıficant dıfference between the results as set out above and those on a hıstorıcal cost basıs

Statement of total recognised gains and losses
for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Loss for the financial year		**(110 8)**	(153 5)
Recognised			
Actuarial (loss)/gain recognised in the pension scheme	20	**(73 7)**	7 2
Total recognised losses relating to the year		**(184.5)**	(146 3)

Balance sheet
as at 31 December 2011

	Note	2011 £m	2011 £m	2010 £m	2010 £m
Fixed assets					
Tangible assets	*10*	157 7		156 0	
Investments	*11*	11 9		13 9	
			169 6		169 9
Current assets					
Stocks		7 5		5 8	
Debtors	*12*	81 9		89 6	
Cash at bank and in hand		38 2		18 8	
		127.6		114 2	
Creditors amounts falling due within one year	*13*	(363 2)		(346 3)	
Net current liabilities			(235 6)		(232 1)
Total assets less current liabilities			(66 0)		(62 2)
Creditors amounts falling due after more than one year	*14*		(80 2)		(265 8)
Provisions for liabilities and charges	*16*		(112 0)		(113 4)
Net liabilities excluding pension deficit			(258 2)		(441 4)
Pension scheme deficit	*20*		(191 6)		(125 1)
Net liabilities including pension deficit			(449 8)		(566 5)
Capital and reserves					
Called up share capital	*18*		13 1		13 1
Share premium	*19*		346 2		45 0
Profit and loss account	*17*		(809 1)		(624 6)
Shareholders' deficit			(449 8)		(566 5)

The notes on pages 16 to 36 form part of these financial statements

These financial statements were approved by the board of directors on 18 April 2012 and were signed on its behalf by

w. hw

W Prock-Schauer

Director

Registered number 00464648

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2011

	2011 **£m**	2010 £m
Loss for the financial year	**(110 8)**	(153 5)
Other recognised gains and losses relating to the year	**(73.7)**	7 2
Issue of share capital (see note 18 and 19)	**301 2**	45 0
Net increase/(decrease) in shareholders' funds	**116 7**	(101 3)
Opening shareholders deficit	**(566 5)**	(465 2)
Closing shareholders' deficit	**(449 8)**	(566 5)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards, and the Companies Act 2006

Going concern

Sale of the bmi group to BA

Successful completion of a sale of 100% of the issued share capital of BML to BA is considered fundamental to the future of the Company and the bmi group, and is therefore crucial to the directors' assessment of the going concern status of the Company and the bmi group Completion of the sale is conditional on the satisfaction of a number of conditions, including EU Merger Regulation Clearance from the European Commission and clearance by the UK Pensions Regulator for the transfer of the Company's defined benefit pension scheme, the British Midland Airways Pension and Life Assurance Scheme ("the Scheme") from the Company and the bmi group, as envisaged in the SPA

EU Merger Regulation Clearance from the European Commission for the sale was received on 30 March 2012

On 20 March 2012, Lufthansa applied to the Pensions Regulator for clearance (on behalf of the Lufthansa group and the Company) in respect of a series of steps to transfer the Scheme out of the bmi group and into a newly incorporated entity within the Lufthansa group (including a regulated apportionment arrangement (RAA) (the "Transfer")) This newly incorporated entity would shortly thereafter enter insolvency proceedings, at which point the Scheme would enter a Pension Protection Fund assessment period As a condition of the Transfer, Lufthansa has agreed to pay contributions to support the assets of the Scheme and to provide additional benefits for members outside the defined benefit section of the Scheme

The Trustees of the Scheme agreed to the Transfer, and, the Pensions Regulator having granted clearance on 20 March 2012, the legal documentation to effect the Transfer was signed on 16 April 2012 The Pensions Regulator considered comments on the proposed RAA from interested parties during the 28 day statutory notice period, and approved the RAA on 17 April 2012 The pensions condition in the SPA was also satisfied as at that date and the Transfer took effect on 18 April 2012 Following the transfer of the Scheme to the new principal employer, the Company and the bmi group have been fully discharged of all liabilities to the Scheme

The Company's position

The directors consider that no outstanding condition precedents for the sale remain Completion of the sale will therefore become effective on 19 April 2012

The directors consider that the Company has sufficient funding in place (primarily in the form of cash at bank) to enable the Company to meet its liabilities as they fall due in the course of ordinary business until the expected completion of the sale to BA on 19 April 2012 The Company expects to issue share capital during April 2012 in exchange for further funding from Lufthansa of approximately £71 million However the Company will require further funding subsequent to the sale to enable it to continue trading for the foreseeable future

Notes
(forming part of the financial statements) (continued)

1 Accounting policies *(continued)*

The directors have considered the nature of discussions with IAG and BA throughout the sales process and the terms and conditions of the SPA, including commitments set out in the SPA for BA to maintain the Company as a solvent entity for at least 12 months from the date of completion of the sale, and believe that, following completion, sufficient funding will be made available by IAG and/or BA to enable the Company to continue in operation for the foreseeable future

The directors note that there are inherent uncertainties regarding both the ultimate level of funding required post completion of the sale and the timing and extent of the provision of such funding by IAG and/or BA These constitute material uncertainties as to the Company's ability to continue as a going concern As a result, there remains a risk that the Company may be unable to realise its assets and discharge its liabilities in the normal course of business

However, on the basis of the likely future plans of BA post completion, the terms and conditions of the SPA, trading experience to date in 2012 and the funding position of the Company and of the bmi group as at the date of these financial statements, the directors consider that, whilst the material uncertainties mentioned above exist, there is a realistic prospect that the Company and the bmi group will have sufficient funding to continue in operation for the foreseeable future

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern

Basis of consolidation

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements because its results are included in the consolidated financial statements of Deutsche Lufthansa AG These financial statements present information about the Company as an individual entity and not about its group

Cash flow statement

Under FRS 1 the Company is exempt from the requirement to present a cashflow statement as its cash flows are included in the publicly available consolidated financial statements of Lufthansa

Depreciation

Fixed assets are depreciated using a straight line basis calculated to write down their cost to the estimated residual values on the anticipated date of withdrawal from service or disposal These estimates are reviewed regularly and adjusted as appropriate

Depreciation rates

Asset type	
Freehold premises	50 years
Leasehold improvements	5-50 years or life of lease if shorter
Aircraft refurbishment	5 years or life of lease if shorter
Aircraft	10-23 years to residual value
Motor vehicles	3 -10 years
Plant and machinery	3-10 years

Freehold land is not depreciated

Fixed assets are reviewed for impairment when an indication of possible reduction in recoverable value is identified, and if necessary fixed assets are impaired to recoverable value

Notes

(forming part of the financial statements) (continued)

1 Accounting policies *(continued)*

Rotables (repairable spare parts) are assigned to individual aircraft fleets and are depreciated at the same rate as the aircraft models for which they can be used

Stocks

Stocks consist of raw materials, consumable spares and sundry supplies, and are valued at the lower of cost or net realisable value

Airport landing slots

Airport landing and departure slots are recognised as intangible assets only where net cash consideration has been expended to acquire them from another airline They are held at cost less a provision for impairment to market value as required

Aircraft maintenance costs

For owned and finance leased aircraft, the costs of periodic aircraft overhauls are capitalised and depreciated over the period to the next overhaul

Provisions for periodic overhaul costs of operating leased aircraft are established such as to spread the cost of maintenance over the period of the lease with reference to the number of hours flown or other relevant basis

Routine maintenance is expensed as incurred All provisions including those relating to the maintenance of the leased fleet are escalated to reflect expected cost rates at the point of expenditure and then discounted to present value

Leased assets

Rentals payable or receivable under operating leases are charged or credited to the profit and loss account on a straight line basis until the next rent review

For leases under which risk and rewards of the associated assets pass to the Company, the leased assets are recognised at the lower of market value or net present value of minimum lease payments A liability is recognised for minimum lease payments due, discounted at the rate implicit in the lease

Assets held under finance lease are depreciated over the shorter of the lease term or their useful economic life

Interest is charged to the profit and loss account over the term of the lease

Fixed asset investments

Fixed asset investments are stated at cost less provision made for any impairment in the carrying value

Turnover

Turnover represents revenue from scheduled services, freight and other activities net of Air Passenger Duty and other similar taxes Revenues are recognised when the service has been provided or when the risk has passed to the customer Passenger and freight revenue is recognised once a passenger ticket or freight coupon is used Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket and historical trends

Frequent flyer programmes

The Company operates a frequent flyer scheme, the 'Diamond Club' Diamond Club members earn 'miles' that entitle them to a choice of rewards The fair value of such rewards is charged to the profit and loss account as a deferral of revenue or an operating expense based on the fair value of the miles earned and the estimated future redemption of miles

Notes
(forming part of the financial statements) (continued)

1 Accounting policies *(continued)*

Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date or at the contracted rate where applicable Transactions during the year denominated in foreign currencies are translated using the rate prevailing at the date the transaction occurred, or at the contracted rate where applicable

Pension costs

The Company operates a funded defined benefit pension scheme, and contributes to this scheme in accordance with recommendations from independent actuaries

The assets of the scheme are held separately from those of the Company

Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full The movement in the surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

The Company also operates four defined contribution pension schemes Contributions are charged to the profit and loss account as they are incurred

Deferred taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 An asset is recognised where its recoverability is assessed as reasonably certain in the foreseeable future Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted at the balance sheet date

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the requirements set out within the standard

Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and fuel price risk The Company does not hold or issue derivative financial instruments for speculative purposes Gains and losses arising on these contracts are recognised in the profit and loss account when the hedged transaction itself is reflected in the Company's financial statements, or on settlement where a contract is terminated prior to maturity

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are only disclosed in the notes to the financial statements

Notes
(forming part of the financial statements) (continued)

1 Accounting policies *(continued)*

Agency agreements

The Company acts as principal in agency agreements which are in place in respect of certain contracts entered into by other subsidiary undertakings As such, the trade relating to these contracts is included within these financial statements

Cash

Cash which is subject to restrictions, being held in overseas bank accounts which may only be fully accessible to the business following a predetermined process through the relevant authorities, is included as cash in the balance sheet At 31 December 2011, £7 8 million *(2010 £2 1 million)* of cash as disclosed in the balance sheet is subject to such restrictions, against which a provision against potential costs of recovery of £1 0 million has been recognised in 2011 *(2010 £nil)*

2 Turnover

It is the view of the directors that all activities of the Company fall within one class of business, that of airline operator Analysis of turnover by geographical area is as follows

	2011	2010
	£m	£m
Within the British Isles	**197 4**	229 6
Between the British Isles and		
Europe	**376 9**	333 3
Asia, Middle East and Africa	**197 0**	214 4
	771 3	777 3

Turnover within the British Isles comprises revenue from domestic flights Turnover between the British Isles and other areas comprises revenue from inbound and outbound flights between the British Isles and other areas

The activities of the Company are managed and administered on a central basis within the British Isles As a result it would not be possible to provide a meaningful analysis of the operating results and net assets of the Company on a route by route basis Consequently the operating results and net assets of the Company are not shown across the geographical areas defined

3 Interest receivable and similar income

	2011	2010
	£m	£m
Bank interest receivable	**0 2**	0 1
Other	**2 9**	1 4
Gain on waiver of amounts due to subsidiary and fellow group undertakings	**0 9**	-
	4.0	1 5

Notes
(forming part of the financial statements) (continued)

3 Interest receivable and similar income (continued)

Included within other interest is £1 1million earned on loan notes *(2010 £1 2million)* issued by The Airline Group Limited (see note 11)

In September 2011 BMI Airways Limited, a wholly owned subsidiary of the Company, waived a balance owed to it from the Company of £511,150 The waiver gave rise to a gain in the Company of £511,150

In September 2011 International Cargo Marketing Limited, a wholly owned subsidiary of the Company, waived a balance owed to it from the Company of £332,857 The waiver gave rise to a gain in the Company of £332,857

In September 2011, one of the Company's fellow subsidiary undertakings, British Midland Holdings Limited, waived a balance owed to it from the Company of £13,435 The waiver gave rise to a gain in the Company of £13,435

4 Interest payable and similar charges

	2011 £m	2010 £m
Bank loans	**0 9**	0 7
Loans from group undertakings	**2 6**	3 0
Finance leases	**5 0**	1 2
	8 5	4 9

5 Other finance costs

	2011 £m	2010 £m
Expected return on pension scheme assets	**(20 4)**	(17 9)
Interest cost on pension scheme liabilities	**24 6**	24 9
	4.2	7 0
Unwinding of discount in provisions (see note 16)	**2 0**	3 3
	6 2	10 3

Notes
(forming part of the financial statements) (continued)

6 Loss on ordinary activities before taxation

	2011	2010
Loss on ordinary activities before taxation is stated after charging/(crediting) the following	£m	£m
Depreciation of owned tangible fixed assets	**15 9**	22 2
Depreciation of tangible fixed assets held under finance leases	**10 5**	1 8
Hire of plant, machinery and aircraft	**56 7**	85 5
Other operating leases payable	**15 7**	12 0
Auditors' remuneration - audit fee	**0 2**	0 3
- taxation services	**-**	0 1
(Gain)/loss on disposal of fixed assets	**(0 5)**	2 5
Profit on sale of airport landing/departure slots (note 7)	**(75 2)**	-
Exceptional items	**9 2**	(6 4)

Analysis of exceptional items above	2011	2010
	£m	£m
Gain on curtailment of pension scheme	**-**	(17 6)
Impairment of tangible fixed assets	**9 2**	11 2
	9 2	(6 4)

7 Profit on sale of airport landing / departure slots

During 2011, the Company exchanged a number of airport landing and departure slots, with both third party airlines and fellow group undertakings These exchanges resulted in net cash adjustments in favour of the Company Since these slot assets were previously unrecognised in these financial statements the entire cash consideration received in respect of the transferred slots represents a gain to the Company of £75 2 million The gain was offset by other trading losses, resulting in a nil tax charge

8 Tax on loss on ordinary activities

	2011 £m	2010 £m
Amounts charged /(credited) in the year		
Corporation tax - current year tax credit being		
Total tax charge on loss on ordinary activities	**-**	-

Notes
(forming part of the financial statements) (continued)

8 Tax on loss on ordinary activities (continued)

Factors affecting tax credit for the current year

The tax credit for the year is lower *(2010 lower)* than the standard rate of corporation tax in the UK of 26 5% *(2010 28%)* The differences are explained below

	2011 £m	2010 £m
Current tax reconciliation		
Loss on ordinary activities before tax	**(110 8)**	(153 5)
Current tax at 26 5% *(2010 28%)*	**(29 4)**	(43 0)
Effects of		
Expenses not deductible for tax purposes	**1 3**	0 6
Difference between depreciation and capital allowances claimed	**4 1**	6 7
Other timing differences	**(1 8)**	(3 5)
Impairment of assets	**2.4**	3 1
Tax losses carried forward	**23 4**	36 1
Total current tax credit	**-**	-

Factors affecting the future tax charge

The Company has tax amounts available to offset future taxable profits, on which the unrecognised deferred tax asset is summarised below In accordance with FRS 19, no deferred tax asset has been recognised due to uncertainty regarding the quantum and timing of future years' taxable profits

	2011 £m	2010 £m
Unrecognised losses	**115 1**	102 1
Fixed asset timing differences	**17 5**	12 6
Other timing differences	**5 3**	6 3
ACT recoverable	**0 7**	0 7
On pension deficit	**47 9**	33 8
	186 5	155 5

In addition to the changes in rates of Corporation tax that were substantively enacted during the year, a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012 Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012 A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014 None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements These further changes would not have a material impact on the Company as there are currently no recognised deferred tax assets or liabilities

Notes
(forming part of the financial statements) (continued)

9 Staff numbers and costs

The average number of persons employed by the Company including directors during the year was

	2011	2010
Flight deck and cabin crew	**1,799**	1,810
Service	**709**	755
Administrative and other	**1,082**	1,252
	3,590	3,817

The aggregate payroll costs of these persons were

	2011 £m	2010 £m
Wages and salaries	**121 1**	126 7
Social security costs	**12 4**	12 1
Defined benefit scheme curtailment gain	**-**	(17 6)
Other pension costs (see note 20)	**5 0**	11 9
	138 5	133 1

	2011 £m	2010 £m
Directors' emoluments	**0.6**	0 6

The aggregate emoluments of the highest paid director were £315,000 *(2010 £324,000)*

No directors accrued benefits under defined benefit retirement schemes in the current or preceding financial year

Notes
(forming part of the financial statements) (continued)

10 Tangible fixed assets

	Property			Aircraft, engines and spares				Plant and machinery	Motor vehicles	Payments on account	Total
	Freehold property	*Short leasehold and leasehold improvements*	*Sub-Total*	*Refurbishment of operating leased aircraft*	*Finance leased*	*Owned*	*Sub-Total*	*Owned*	*Owned*		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost											
At 1 January 2011	9 5	17 8	27 3	14 8	57 5	290 1	362 4	42 4	0 4	5 4	437 9
Additions	-	0 1	0 1	4 9	19 8	11 9	36 6	8 7	-	8 1	53 5
Disposals	-	-	-	(0 2)	-	(3 4)	(3 6)	-	-	(13 5)	(17 1)
At 31 December 2011	**9 5**	**17 9**	**27 4**	**19 5**	**77 3**	**298 6**	**395 4**	**51 1**	**0 4**	**-**	**474 3**
Accumulated depreciation											
At 1 January 2011	4 4	17 8	22 2	14 8	1 8	200 3	216 9	42 4	0 4	-	281 9
Charged in year	0 2	-	0 2	0 6	10 5	15 1	26 2	-	-	-	26 4
Impairment charge	-	0 1	0 1	0 4	-	-	0 4	8 7	-	-	9 2
Disposals	-	-	-	-	-	(0 9)	(0 9)	-	-	-	(0 9)
At 31 December 2011	**4 6**	**17 9**	**22 5**	**15 8**	**12 3**	**214 5**	**242 6**	**51 1**	**0 4**	**-**	**316 6**
Net book value											
At 31 December 2011	**4 9**	**-**	**4 9**	**3 7**	**65 0**	**84 1**	**152 8**	**-**	**-**	**-**	**157 7**
At 31 December 2010	5 1	-	5 1	-	55 7	89 8	145 5	-	-	5 4	156 0

At 31 December 2011 authorised and contracted for capital commitments totalled £45 9m *(2010 £113m)*
Freehold property includes £1 0m *(2010 £1 0m)* relating to land which is not depreciated
During the year the directors assessed the trading performance of the Company, and the impact on recoverability of fixed assets As a result, impairment provisions have been recognised against certain fixed assets

Notes
(forming part of the financial statements) (continued)

11 Investments

	Unlisted investment £m	Subsidiary Undertakings £m	Total £m
Cost			
At 1 January 2011	13 9	2 1	16 0
Additions	0 6	-	0 6
Repayments	(2 6)	-	(2 6)
At 31 December 2011	**11 9**	**2 1**	**14 0**
Provisions for impairment			
At 1 January 2011 and 31 December 2011	-	2 1	2 1
Net book value at 31 December 2011	**11 9**	**-**	**11.9**
Net book value at 1 January 2011	13 9	-	13 9

The unlisted investment represents a 14 52% holding (11,179 shares) in the ordinary share capital of The Airline Group Limited These shares are stated at cost of £11,179 The Company also held loan notes due from The Airline Group Limited within the investment balance as described below

The Company held 11 9 million 8% loan notes of £1 nominal value *(2010 13 9 million)* Additions in the year represent new loan notes issued by The Airline Group Limited where no cash payment is made in respect of interest Repayments represent cash received in respect of interest previously rolled up by issue of new notes, thereby settling these notes

On 16 January 2012, the Company disposed of its entire holding of shares and loan notes and interest accrued thereon to Lufthansa for consideration of £45 million, realising a gain of £33 1 million (see note 23)

British Midland Airways Limited has the following direct interests in the ordinary share capital of its subsidiary undertakings

	% owned	Where registered	Nature of business
BMI Airways Limited	100	England and Wales	Non-trading
International Cargo Marketing Limited	100	England and Wales	Non-trading
British Midland Regional Limited	100	Scotland	Non-trading

In September 2011 BMI Airways Limited applied for strike off from the register of companies at Companies House This strike off was confirmed in January 2012 The strike off is expected to give rise to a disposal of the Company's shareholding in BMI Airways Limited of £500,000 in 2012, which has previously been fully impaired and therefore would not give rise to a further loss

In September 2011 International Cargo Marketing Limited also applied for strike off from the register of companies at Companies House This strike off was confirmed in January 2012 The strike off is expected to give rise to a disposal of the Company's shareholding in International Cargo Marketing Limited of £2 in 2012, which has previously been fully impaired and therefore would not give rise to a further loss

Notes
(forming part of the financial statements) (continued)

12 Debtors

	2011 £m	2010 £m
Amounts falling due within one year		
Trade debtors	**47 1**	64 8
Amounts owed by group undertakings	**3 8**	1 5
Other debtors	**8.5**	4 4
Prepayments and accrued income	**22 5**	18 9
	81 9	89 6

Amounts owed by group undertakings of £30 9m *(2010 £28 6m)* are stated net of a provision of £27 1m *(2010 £27 1m)* and are unsecured, repayable on demand and do not bear interest

13 Creditors amounts falling due within one year

	2011 £m	2010 £m
Bank loans	**4 1**	30 4
Trade creditors	**29 9**	19 1
Amounts owed to group undertakings	**73 2**	51 3
Amounts due under finance leases	**10 5**	7 1
Accruals and deferred income	**245 5**	238 4
	363 2	346 3

Bank loans are secured on the aircraft to which they relate Amounts owed to group undertakings are unsecured, repayable on demand and do not bear interest Included in amounts due to group undertakings is a loan balance of £26 4 million which is due on the earlier of completion of sale or 31 December 2012 This loan is unsecured and carries interest at 6 month US LIBOR plus 1 39%

14 Creditors: amounts falling due after more than one year

	2011 £m	2010 £m
Bank loans	**12 4**	16 6
Finance lease liabilities	**55.7**	49 9
Loans from group undertakings	**-**	187 4
	68 1	253 9
Accruals and deferred income	**12.1**	11 9
	80.2	265 8

Notes
(forming part of the financial statements) (continued)

14 Creditors amounts falling due after more than one year (continued)

	2011	2010
	£m	£m
Loans from banks and group undertakings are repayable		
Within one year	**30.5**	30 4
In one to two years	**12 4**	16 6
In two to five years	**-**	-
After more than five years	**-**	187 4
	42 9	234 4

Loans relating to the purchase of aircraft are secured on the aircraft to which they relate Interest on loans is calculated as a margin above LIBOR, ranging from 0 3 to 0 47% *(2010 0 25 to 3 2%)* In 2011 $11,500,000 was repaid on a loan provided by a Lufthansa undertaking

15 Finance leases

	2011	2010
	£m	£m
Future minimum payments under finance leases are as follows		
Within one year	**15 2**	13 6
In more than one year but less than five years	**52.0**	49 2
After five years	**15 6**	25 9
Total gross payments	**82 8**	88 7
Less finance charges included above	**(16 6)**	(31 7)
	66 2	57 0

Notes *(forming part of the financial statements) (continued)*

16 Provisions for liabilities and charges

	Onerous Property commitments	Dilapidations	Maintenance	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	6 5	4 1	95 4	0 3	7 1	113 4
Charged in the year	1 1	0 1	20 9	0 9	6 9	29 9
Utilised	(1 1)	(0 4)	(28 9)	(0 9)	(1 3)	(32 6)
Unwinding of discount	0 2	-	1 8	-	-	2 0
Foreign exchange retranslation	-	-	(0 7)	-	-	(0 7)
At end of year	**6 7**	**3.8**	**88 5**	**0 3**	**12 7**	**112 0**

Onerous property commitments
This provision exists to cover the rent, rates and other running costs of unutilised leased buildings up to the end of the lease commitments The provision will be fully utilised by 2020

Dilapidations
The terms of certain leased property contracts have committed the Company to dilapidation costs at the end of the relevant lease terms The provision relates to a number of properties and will be fully utilised by 2049

Maintenance

The Company incurs liabilities for maintenance costs in respect of its operating leased aircraft during the course of the lease term These are a result of obligations in the lease contract in respect of the return conditions applied by lessors A provision is made for the next required maintenance event, and for handback at the end of the lease The provision will be utilised against maintenance events over the remaining life of leased aircraft

Restructuring
This provision relates to redundancy costs and onerous contracts arising from previous restructuring exercises, and is expected to be fully utilised by the end of 2012

Other
Other provisions represents amounts recognised in respect of a number of legal disputes and commercial claims

Notes
(forming part of the financial statements) (continued)

17 Reserves

	Profit and Loss account £m
At 1 January 2011	**(624.6)**
Loss for the year	**(110 8**
Actuarial loss recognised in the pension scheme	**(73 7)**
At 31 December 2011	**(809 1)**

18 Share Capital

	2011 £m
Issued and fully paid	
At 1 January 2011 13,082,000 ordinary shares of £1 each	**13 1**
Issue of 6,700 ordinary shares of £1 each	-
At 31 December 2011 13,088,700 ordinary shares of £1 each	**13 1**

On 16 June 2011, the company issued 6,700 ordinary shares of £1 each to its parent undertaking British Midland Limited The shares were issued in settlement of loans due of £151,200,000 and for consideration of £150,000,000, leading to a premium of £301,193,300

19 Share Premium

	2011 £m
At 1 January 2011	**45 0**
On issue of shares (see note 18)	**301 2**
At 31 December 2011	**346.2**

Notes

(forming part of the financial statements) (continued)

20 Pensions

The Company is the sponsoring employer of a funded defined benefit pension scheme, the British Midland Airways Pension and Life Assurance Scheme ("the Scheme") The latest full triennial actuarial valuation of the Scheme was carried out as at 31 December 2010 by a qualified independent actuary

The Scheme has been closed to new members since 3 October 2001 On 1 March 2010 the Scheme closed to future benefit accrual The current practice of increasing pensions in line with inflation is included in the measurement of the defined benefit obligation

The disclosures below include both the long-term benefits payable from the Scheme and an unfunded benefit promise to a former executive director of the Company, which is a liability of the Company rather than of the Scheme The pension cost in this disclosure excludes Pension Protection Fund levies due which are payable separately by the Company The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the time scales involved, may not necessarily be borne out in practice

	2011	2010
	£m	£m
Present value of funded defined benefit obligations	**(504.9)**	(451 7)
Fair value of scheme assets	**314 5**	327 7
Present value of unfunded defined benefit obligations	**(1 2)**	(1 1)
Deficit	**(191.6)**	(125 1)
Related deferred tax asset	**-**	-
Net liability	**(191 6)**	(125 1)

Movements in present value of defined benefit obligation

	2011	2010
	£m	£m
At 1 January	**(452 8)**	(433 7)
Current service cost	**-**	(1 1)
Past service cost	**-**	(6 3)
Interest cost	**(24 6)**	(24 9)
Actuarial losses	**(42 1)**	(22 1)
Contributions by members	**-**	(0 6)
Benefits paid	**13 4**	18 3
Plan curtailments	**-**	17 6
At 31 December	**(506 1)**	(452 8)

Analysis of defined benefit obligation

	2011	2010
	£m	£m
Schemes that are wholly or partly funded	**(504 9)**	(451 7)
Schemes that are wholly unfunded	**(1 2)**	(1 1)
Total	**(506 1)**	(452 8)

Notes
(forming part of the financial statements) (continued)

20 Pensions (continued)

Movements in fair value of scheme assets

	2011 £m	2010 £m
At 1 January	**327.7**	287 4
Expected return on scheme assets	**20 4**	17 9
Actuanal (losses)/gains	**(31 6)**	29 3
Contributions by employer	**11.4**	10 8
Contributions by members	**-**	0 6
Benefits paid	**(13 4)**	(18 3)
At 31 December	**314.5**	327 7

Charge/(credit) recognised in the profit and loss account

	2011 £m	2010 £m
Current service cost	**-**	1 1
Past service cost	**-**	6 3
Interest on defined benefit pension scheme obligation	**24 6**	24 9
Expected return on defined benefit pension scheme assets	**(20 4)**	(17 9)
Curtailment gain recognised	**-**	(17 6)
Total net charge/(credit)	**4 2**	(3 2)

The expense is recognised in the following line items in the profit and loss account

	2011 £m	2010 £m
Operating credit	**-**	(10 2)
Charged to other finance costs	**4 2**	7 0
	4 2	(3 2)

The total losses recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses are £73 7 million *(2010 gains of £7 2 million)*, the cumulative losses recognised are £164 7m *(2010 £91 0m)*

The fair value of the scheme assets and the return on those assets were as follows

	2011 Fair value £m	2010 Fair value £m
Equities	**235.9**	245 7
Gilts	**15 7**	16 5
Government debt and corporate bonds	**62 9**	65 5
	314 5	327 7
Actual return on scheme assets	**(11 2)**	47 2

Notes
(forming part of the financial statements) (continued)

20 Pensions (continued)

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on low risk investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio, plus an additional allowance to account for the Scheme's holdings in diversified investments

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows

	2011	2010
	%	%
Discount rate	**4.75**	5 50
Expected rate of return on scheme assets	**5 25**	6 25
Rate of compensation increase	**-**	-
Rate of increase in payment (5% LPI)	**3 00**	3 50
Rate of increase in payment (3% LPI 5%)	**3.50**	3 70
Rate of increase in payment (3% fixed)	**3 00**	3 00
Inflation	**3 00**	3 50

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables (PCA00 Long Cohort Year of Birth with 1% underpin) The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65 23 9 years (male), 26 3 years (female) *(2010 23 8 and 26 2 years)*
- Future retiree upon reaching 65 26 4 years (male), 28 6 years (female) *(2010 26 3 and 28 6 years)*

History of schemes

The history of the schemes for the current and prior periods is as follows

Balance sheet

	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Present value of scheme liabilities	**(506 1)**	(452 8)	(433 7)	(303 5)	(323 6)
Fair value of scheme assets	**314.5**	327 7	287 4	223 8	260 0
Deficit	**(191 6)**	(125 1)	(146 3)	(79 7)	(63 6)

Experience adjustments

	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Experience losses on scheme liabilities	**(1 2)**	0 6	3 5	8 5	3 7
Experience gains / (losses) on scheme assets	**(31 6)**	29 3	40 8	(65 5)	(1 3)

The Company expects to contribute approximately £9 5 million to the Scheme in the next financial year

Notes

(forming part of the financial statements) (continued)

20 Pensions (continued)

Defined contribution schemes

The Company also operates four defined contribution pension schemes, the British Midland Airways Ltd Stakeholder Pension Plan, the bmi international pension scheme, the British Midland Airways Ltd PRSA Plan and British Mediterranean Airways Pension Scheme The pension charge for the year (excluding members' own contributions) was £5 million *(2010 £4 5 million)* At the year end there were £0 8 million outstanding contributions held on the balance sheet (*2010 £0 4 million)*

21 Financial commitments

The minimum non-cancellable operating lease payments to which the Company was committed, as at 31 December, to pay during the following year, analysed into the year in which the lease commitment expires, are as follows

	Land and buildings		**Other assets**	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Lease expiry within				
One year	**0 4**	0 9	**0 1**	7 1
Two to five years	**2 2**	1 0	**45 9**	65 2
More than five years	**4.2**	4 5	**12 2**	5 1
	6 8	6 4	**58 2**	77 4

22 Financial Instruments

Financial risks faced by the Company include interest rates, foreign currency, funding, liquidity, fuel price and credit risks

The board regularly reviews these risks and has an approved strategy coordinated through the treasury function of Lufthansa to manage such risks as far as practical

The Company held derivatives at the year end with the following fair values,

	2011	2010
	£m	£m
Foreign currency contracts	**3.9**	(0 9)
Fuel price contracts	**1.0**	6 7
Forward commitments to purchase Emissions Trading Scheme Certificates	**(0 9)**	-
	4 0	5 8

Notes

(forming part of the financial statements) (continued)

23 Subsequent events

Sale of landing and departure slots

In December 2011, the Company entered into an agreement with Lufthansa whereby certain landing and departure slots at London Heathrow Airport were transferred to Lufthansa Other agreements then provided for Lufthansa to exchange these slots for other slots with British Airways plc (BA), in exchange for cash consideration which is transferred from BA to the Company The Company has recognised the disposal of these slots at the point of the transfer of cash from BA, resulting in a gain of £15 million recognised in these financial statements A further £45 million has been received and accounted for as a gain in January and February 2012

Strike off of subsidiaries

In September 2011 BMI Airways Limited applied for strike off from the register of companies at Companies House This strike off was confirmed in January 2012 The strike off is expected to give rise to a disposal of the Company's shareholding in BMI Airways Limited of £500,000 in 2012, which has previously been fully impaired and therefore would not give rise to a further loss

In September 2011 International Cargo Marketing Limited also applied for strike off from the register of companies at Companies House This strike off was confirmed in January 2012 The strike off is expected to give rise to a disposal of the Company's shareholding in International Cargo Marketing Limited of £2 in 2012, which has previously been fully impaired and therefore would not give rise to a further loss

Sale of shareholding

In January 2012, the Company disposed of its shareholding in The Airline Group Limited to Lufthansa Consideration was £45 million, resulting in a gain to the Company of £33 1 million

Pension scheme

On 20 March 2012, Lufthansa applied to the Pensions Regulator for clearance (on behalf of the Lufthansa group and the Company) for a regulated apportionment arrangement (RAA) in relation to the Scheme, which proposed the transfer of the Scheme from the Company to a newly incorporated entity within the Lufthansa group This entity would shortly thereafter enter insolvency proceedings, at which point the Scheme would enter the Pension Protection Fund As a condition of the RAA, Lufthansa has agreed to pay contributions to support the assets of the Scheme and to provide additional benefits for members outside the Scheme

The Trustees of the Scheme agreed to the RAA, and, the Pensions Regulator having granted clearance on 20 March 2012, it was signed on 16 April 2012 The Pensions Regulator considered comments on the proposed RAA from interested parties during the 28 day statutory notice period, and approved the RAA on 17 April 2012 The pensions condition in the SPA was therefore satisfied as at that date and the transfer of the Scheme took effect on 18 April 2012 Following the transfer of the Scheme to the new principal employer, the Company and the bmi group have been fully discharged of all liabilities to the Scheme

Notes

(forming part of the financial statements) (continued)

24 Parent company and ultimate parent company

The Company is a wholly owned subsidiary of British Midland Limited, a company registered in England and Wales

British Midland Limited is wholly owned by LHBD Holding Limited, a UK based company economically controlled by Deutsche Lufthansa AG ('Lufthansa'), a company incorporated in Germany

The smallest group into which the Company is consolidated into is Lufthansa Lufthansa is the ultimate parent company and ultimate controlling party, as Lufthansa has economic control of the Company

Copies of the financial statements of Deutsche Lufthansa AG can be obtained from Deutsche Lufthansa AG, Investor Relations, FRA IR, Lufthansa Aviation Center, Airportring, 60546 Frankfurt / Main, Germany