

British Midland Airways Limited

Directors' report and financial statements  
for the year ended 31 December 2012

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 2012

### **Principal activities and business review**

#### *Company overview*

British Midland Airways Limited ("BMAL", "the Company") has historically incorporated the trading activities of three airlines – bmi Mainline, bmi Regional and bmibaby, which each covered specific markets and customer groups. Following the events described below, the Company is now a lessor of two owned and 21 leased Airbus aircraft to British Airways Plc ("BA"), and the directors expect this to remain the activity of the Company for the remaining lease terms of the leased aircraft

Given the change in activities of the Company during the year, and the focus of activities at the year end, the directors consider that the use of key performance indicators is not appropriate in the presentation of the results for the year

#### *Events prior to the sale of the bmi group to BA*

##### *Sale of investment*

In January 2012, the Company disposed of its shareholding in The Airline Group Limited to its then ultimate parent company, Deutsche Lufthansa AG ("Lufthansa") Consideration was £45 million, resulting in a gain of £33.1 million

##### *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 BA, in exchange for cash consideration which was payable 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 £45 million in January and February 2012.

During the year, the Company completed slot exchanges with other third party airlines resulting in a gain on disposal of £6.1 million

##### *Sale of the bmi group to BA*

On 22 December 2011 Lufthansa entered into a sale and purchase agreement ("SPA") with International Consolidated Airlines Group S A ("IAG") for the sale of the group headed by the Company's parent company, British Midland Limited ("BML") (the "bmi group"), with BA, a subsidiary of IAG, as the purchasing entity

Following 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") to the Pension Protection Fund, the sale completed on 19 April 2012

Since the bmibaby and bmi Regional businesses, together with the bmi group companies which held their aircraft operating licences and certain other key contracts, were owned by BML and the Company respectively on 19 April 2012, they were included in the sale to BA

## **Directors' report (continued)**

### *Events subsequent to the sale of the bmi group to BA*

#### *Sale of bmi Regional*

On 31 May 2012, the Company entered into agreements with Sector Aviation Holdings Limited (Sector) for the sale of the bmi Regional business. The agreements involved firstly the sale of the Embraer aircraft operated by Regional, together with inventory associated with these aircraft, from the Company to a newly incorporated subsidiary of the Company, Sector Aviation Leasing Limited (SALL)

Following the sale of assets to SALL, the Company entered into a sale and purchase agreement with Sector for the sale of 100% of the issued share capital of both SALL and British Midland Regional Limited ("BMRL"). Since BMRL holds the employment contracts of Regional staff, together with aircraft operating certificates, this represented the sale of the bmi Regional business. The Company realised a loss of £16.4 million on the sale of these subsidiaries.

#### *Closure of bmibaby*

Following a period of consultation, and following a continuation of existing efforts to sell the business to third parties which were unsuccessful, the directors took the decision to close down the bmibaby business. The costs associated with the closure totalled £47 million, and are included within exceptional costs. They mainly relate to employee redundancy costs and provision for the expected costs of settling the remaining contractual obligations, including aircraft leasing obligations.

The final bmibaby flight operated on 9 September 2012. As at 31 December 2012, the close down activities are complete, and amounts totalling £50.7 million are held within provisions, relating to the expected costs of settling existing contractual obligations.

#### *Integration of bmi Mainline to BA*

Following completion of the sale to BA, and after a period of consultation beginning in April 2012, it was decided that the most effective option for the IAG group was the integration of bmi Mainline into BA. This process involved the transfer of 1,512 flight and operational staff into BA. A further 1,333 staff were made redundant, following the transfer of their employment contracts to BA. As at 31 December 2012, the integration process was complete.

#### *Impact of integration on these financial statements*

The integration of Mainline into BA involved two main workstreams, being the transfer of routes and the transfer of aircraft operation. Flights operating on certain routes took on BA designators in a phased approach between June and October 2012. Following transfer of designator, revenue on these routes was primarily earned by BA rather than bmi.

Aircraft operation transferred from bmi to BA following crew training, in a phased approach between June and December 2012. At certain times, bmi aircraft were operating on BA designated routes. During these periods, the Company entered into wet leases with BA to provide the aircraft, crew and associated services. Income from these wet leases is presented within turnover.

Once aircraft owned or leased by the Company were being operated by BA under BA's Air Operator's Certificate (AOC), the wet leases ceased and were replaced by subleases under which the Company recovers the lease costs of leased aircraft or a market rate for owned aircraft. Since these subleases represent the ongoing activity of the Company, this income is also shown within turnover, of continuing activities.

These subleases mirror the obligations of the Company to the lessor of the aircraft in respect of lease payments, maintenance obligations and aircraft return condition obligations. Therefore, no significant additional net costs are expected to be incurred by the Company in relation to the leased aircraft.

## **Directors' report (continued)**

### *Continuing and discontinued operations*

The sublease and lease income referred to above is expected to continue as long as the Company itself continues to lease or own these aircraft. This lease activity is therefore the ongoing trade of the Company at the year end. Lease income and associated costs are presented within continuing activities.

The airline operation activity previously carried on by the Company, representing the trade of bmi Mainline, bmi Regional and bmi baby, is classified in these financial statements as discontinued.

### *Sale of Mainline assets to BA*

As at 30 November 2012, the Company agreed with BA the sale of the trading assets and liabilities of the Mainline business to BA. The tangible and intangible assets sold comprised primarily of the landing and departure slots at Heathrow airport, two Airbus aircraft, engineering inventory associated with the Airbus fleet, engineering ground equipment, and the customer lists of bmi Mainline.

As part of the same agreement, the working capital of the Mainline business was sold at book value to BA, comprising mainly of trade debtors and prepayments, trade creditors and accruals, and creditors relating to unflown revenue.

The tangible and intangible assets of the business were sold to BA at fair value, realising a net gain against book value of £417 million, primarily arising from the sale of landing and departure slots.

Following the sale of these assets, certain assets and liabilities remain in the Company. The remaining assets are primarily freehold property, two owned aircraft which have been used as security for loan finance, and leasehold aircraft.

Liabilities remaining in the Company following the asset sale primarily include provisions for historical legal and commercial disputes, provisions for the cost of future transfers of frequent flyer programme points to fellow group companies, maintenance and return liabilities on leased aircraft, and onerous lease provisions.

The directors have made an assessment of a number of contractual obligations relating to the closure of the Mainline business. Some of these are subject to significant uncertainty as to the timing and extent of cash outflow. The directors have considered all available information in making provisions which they believe to represent the best estimate of these liabilities.

As the Company ceased to trade as an airline from 28 October 2012, the remaining assets were reviewed for impairment and the remaining liabilities have been assessed based on the expected costs to settle the obligations. This exercise has resulted in exceptional costs of £104.4 million being recognised, mainly in relation to onerous contracts, increase in frequent flyer programme liability and impairment of assets which are no longer to be used in continuing activities.

Impairment provisions included amounts in respect of bmi's former head office at Donington Hall, which the directors have impaired to their best estimate of realisable market value, based partly on a report by CBRE, a firm of accredited property surveyors.

### *Transfer of defined benefit scheme*

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 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.

## ***Directors' report (continued)***

The Trustees of the Scheme agreed to the Transfer, and, the Pensions Regulator having granted clearance on 20 March 2012, the legal documentation to affect 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 ceased to be the principal employer and have been fully discharged of all liabilities to the Scheme. This has resulted in the recognition of a result on settlement of £200.6 million in these financial statements.

### ***Frequent flyer programme***

Due to the cessation of the Company's flying operations, opportunities for Diamond Club members to earn or redeem frequent flyer points on the Company's network became progressively more restricted. In May 2012, bmi left the Star Alliance, and earning and redemption on the Star Alliance network ceased. To recognise this and to compensate Diamond Club members, from July 2012 members were permitted to transfer their points into the British Airways Executive Club scheme. This scheme allows its members frequent flyer benefits on the Oneworld alliance network.

The Company has entered into an agreement with BA to compensate BA for points of members transferring into the Executive Club scheme at a market rate. The costs of these transfers in the year have been recognised within administrative expenses. At the year end, the directors have assessed the remaining untransferred population of members, including the likelihood of further transfers into the Executive Club, and have made a provision to recognise their best estimate of the future liability in respect of these transfers. The level of future transfers is inherently uncertain, and this value will be re-assessed in future years to take account of actual experience.

### ***Overview of 2012***

Due to the transfer of Mainline routes to BA during the year, and due to the closure of bmi baby and the sale of bmi Regional, overall revenue and activity in 2012 has been significantly reduced versus previous years. This has been offset by gains on the transfer of tangible and intangible assets of bmi Mainline to BA as part of the asset sale agreement, and gain on the extinguishment of the defined benefit pension scheme obligation.

### ***Staff***

Throughout the challenges of both ongoing operation and integration during 2012, bmi staff continued to exert exceptional efforts on both the ground and in the air.

At 31 December 2012, the integration process was complete, and the Company had no remaining employees.

### ***Future outlook***

The Company's operations for the next several years are expected to comprise of the sublease activities referred to above. No other new activity is expected in the foreseeable future.

### ***Going concern***

The directors have prepared their assessment of the funds required for the Company to operate in the foreseeable future, which has included a review of the cash requirements for 2013 and 2014. This assessment has demonstrated that there are sufficient funds (in the form of both cash and intercompany balances due from BA) available to the Company to meet its obligations as they fall due in this period.

## ***Directors' report (continued)***

However, due to the inherent uncertainty around the extinguishment of certain of the Company's remaining liabilities, the directors have sought comfort from the Board of the Company's ultimate parent company, British Airways Plc, that financial support will be provided to the Company to enable it to meet its liabilities as and when they fall due, for the foreseeable future, to the extent that resources to meet these liabilities are not otherwise available to the Company. This support has been confirmed in a letter to the directors of the Company.

On this basis, the directors consider the Company to be a going concern.

### **Principal risks and uncertainties**

#### ***Credit risk***

The Company's assets include 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, shown as cash in the balance sheet, net of provision for non recovery. At 31 December 2012, £14.1 million (2011: £7.8 million) of cash as disclosed in the balance sheet is subject to such restrictions, against which a provision of £14.1 million has been recognised in 2012 (2011: £1.0 million).

#### ***Environmental issues***

From January 2012, emissions from all domestic and international flights that arrived at or departed from an EU airport were covered by the EU Emissions Trading Scheme. Airlines are required to pay for their annual emissions through a combination of free allowances and EUA certificates purchased on the open market if necessary. The cost of purchasing certificates and settling this obligation has been estimated and provided in these financial statements.

#### ***Settlement of outstanding obligations***

As a result of cessation of the Company's flying operations a number of ongoing obligations remain. Provisions have been recognised for these obligations based on the Directors' best estimates as detailed in note 16 of these financial statements. However there is an uncertainty regarding the ultimate timing and amounts in respect of the cash outflows associated with these obligations.

### **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 average payment terms during the year represented 45 days (2011: 42 days).

### **Dividends**

No dividend was paid or is proposed in respect of the year ended 31 December 2012 (2011: £nil).

### **Directors**

The directors who served during the year and subsequently are set out below:

J O G Hennemann (resigned 19 April 2012)  
S Menne (resigned 23 May 2012)  
N O Turner (resigned 19 April 2012)  
W Prock-Schauer (resigned 19 April 2012)  
V O Sorensen (appointed 7 March 2012, resigned 30 March 2012)  
L Embleton (appointed 19 April 2012)  
C Haynes (appointed 19 April 2012)  
P Simpson (appointed 19 April 2012)  
N Swift (appointed 19 April 2012)  
C Denley (appointed 25 May 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.

### **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 29 January 2013



C Denley  
Director

Waterside  
PO Box 365  
Speedbird Way  
Harmondsworth  
UB7 0GB



**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 2012 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 7) 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 2012 and of its profit 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

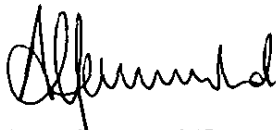
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### **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

29 January 2013

**Profit and loss account**  
*for the year ended 31 December 2012*

	Notes	£m Continuing	2012 £m Discontinued	£m Total	2011 £m
Turnover	2	13.1	465.4	478.5	771.3
Cost of sales		(12.1)	(475.4)	(487.5)	(756.8)
Gross (loss)/profit		1.0	(10.0)	(9.0)	14.5
Administrative expenses		(0.4)	(44.2)	(44.6)	(189.8)
<b>Operating loss before exceptional items</b>		<b>0.6</b>	<b>(54.2)</b>	<b>(53.6)</b>	<b>(166.1)</b>
<b>Exceptional items included in operating loss</b>	6	-	-	-	(9.2)
<b>Operating loss after exceptional items</b>		<b>0.6</b>	<b>(54.2)</b>	<b>(53.6)</b>	<b>(175.3)</b>
Profit on disposal of fixed assets	7	-	84.2	84.2	75.2
Profit on the termination of the airline business	7	-	466.2	466.2	-
Loss on disposal of the bmi Regional airline	7	-	(16.4)	(16.4)	-
<b>Profit/(loss) on ordinary activities before interest and taxation</b>		<b>0.6</b>	<b>479.8</b>	<b>480.4</b>	<b>(100.1)</b>
Interest receivable and similar income	3			1.7	4.0
Interest payable and similar charges	4			(5.5)	(8.5)
Other finance costs	5			(6.7)	(6.2)
<b>Profit/(loss) on ordinary activities before taxation</b>	6			<b>469.9</b>	<b>(110.8)</b>
Tax on profit/(loss) on ordinary activities	8			(0.6)	-
<b>Profit/(loss) on ordinary activities after taxation</b>	17			<b>469.3</b>	<b>(110.8)</b>

All results in the prior year are derived from operations which are classified in the current year as discontinued

There is no significant difference between the results as set out above and those on a historical cost basis

**Statement of total recognised gains and losses**  
*for the year ended 31 December 2012*

	<i>Note</i>	<b>2012</b> £m	2011 £m
Profit/(loss) for the financial year		<b>469.3</b>	(110.8)
Recognised Actuarial loss recognised in the pension scheme	20	<b>(11.3)</b>	(73.7)
Total recognised gains/(losses) relating to the year		<u><b>458.0</b></u>	<u>(184.5)</u>

**Balance sheet**  
**as at 31 December 2012**

	Note	2012 £m	2011 £m
<b>Fixed assets</b>			
Tangible assets	10	32.7	157.7
Investments	11	-	11.9
		<hr/>	<hr/>
		32.7	169.6
<b>Current assets</b>			
Stocks		-	7.5
Debtors	12	301.0	81.9
Cash at bank and in hand		8.2	38.2
		<hr/>	<hr/>
		309.2	127.6
<b>Creditors: amounts falling due within one year</b>	13	(97.2)	(363.2)
		<hr/>	<hr/>
<b>Net current assets/(liabilities)</b>		212.0	(235.6)
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		244.7	(66.0)
<b>Creditors: amounts falling due after more than one year</b>	14	(51.6)	(80.2)
<b>Provisions for liabilities and charges</b>	16	(184.9)	(112.0)
		<hr/>	<hr/>
<b>Net assets/(liabilities) excluding pension deficit</b>		8.2	(258.2)
Pension scheme deficit	20	-	(191.6)
		<hr/>	<hr/>
<b>Net assets/(liabilities) including pension deficit</b>		8.2	(449.8)
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	18	13.1	13.1
Share premium	19	346.2	346.2
Profit and loss account	17	(351.1)	(809.1)
		<hr/>	<hr/>
<b>Shareholders' funds/(deficit)</b>		8.2	(449.8)
		<hr/>	<hr/>

The notes on pages 14 to 34 form part of these financial statements

These financial statements were approved by the board of directors on 29 January 2013 and were signed on its behalf by

  
N Swift  
Director

Registered number 00464648

**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 December 2012*

	2012 £m	2011 £m
Profit/(loss) for the financial year	469.3	(110.8)
Other recognised gains and losses relating to the year	(11.3)	(73.7)
Issue of share capital	-	301.2
	<hr/>	<hr/>
Net increase in shareholders' funds	458.0	116.7
	<hr/>	<hr/>
Opening shareholders deficit	(449.8)	(566.5)
	<hr/>	<hr/>
Closing shareholders' funds/(deficit)	8.2	(449.8)
	<hr/>	<hr/>

## 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**

The directors have prepared their assessment of the funds required for the Company to operate in the foreseeable future, which has included a review of the cash requirements for 2013 and 2014. This assessment has demonstrated that there are sufficient funds (in the form of both cash and intercompany balances due from the Company's ultimate parent company, British Airways Plc ("BA")) available to the Company to meet its obligations as they fall due in this period.

However, due to the inherent uncertainty around the extinguishment of certain of the Company's remaining liabilities, the directors have sought comfort from the Board of BA, that financial support will be provided to the Company to enable it to meet its liabilities as and when they fall due, for the foreseeable future, to the extent that resources to meet these liabilities are not otherwise available to the Company. This support has been confirmed in a letter to the directors of the Company.

On this basis, the directors consider the Company to be a going concern.

#### ***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 BA.

#### ***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)*

### **1 Accounting policies (continued)**

#### **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 and lease handback 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

#### **Equipment leased to customers**

Debtors under finance leases represent outstanding amounts due under agreements to lease equipment to customers where the risks and rewards of ownership transfer to the customer. The net investment in finance leases is recognised within debtors net of finance charges allocated to future periods. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments. Equipment leased to customers under finance leases is deemed to be sold at normal selling value which is taken to turnover at the inception of the lease

#### **Leased assets**

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

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

Where the company is a lessor of assets under a finance lease amounts receivable under the lease are recognised as a receivable and interest receivable is recognised over the period of the lease to achieve a consistent rate of return on the net investment

#### **Turnover**

Up to the cessation of the airline business, turnover represented revenue from scheduled services, freight and other activities net of Air Passenger Duty and other similar taxes. Revenues were recognised when the service was provided or when the risk passed to the customer. Passenger and freight revenue was recognised once a passenger ticket or freight coupon was used. Unused tickets were recognised as revenue using estimates based on the terms and conditions of the ticket and historical trends.

Turnover arising from the Company's continuing sublease activity is recognised for rentals receivable under operating leases in the period to which the rentals relate

#### **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

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies (continued)**

#### **Pension costs**

Up to April 2012, the Company operated a funded defined benefit pension scheme, and contributed to this scheme in accordance with recommendations from independent actuaries

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

Pension scheme assets were measured using market values. Pension scheme liabilities were 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 was recognised in full. The movement in the surplus/deficit was split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

During the year the Company ceased to be the principal employer in the scheme, and as such a result on settlement was triggered. This amount has been recognised in the profit and loss account

The Company also operates four defined contribution pension schemes. Contributions are charged to the profit and loss account in the period to which they relate

#### **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.

#### **Agency agreements**

The Company has acted during the year 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**

The Company's assets include 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, shown as cash in the balance sheet, net of provision for non recovery. At 31 December 2012, £14.1 million (2011: £7.8 million) of cash as disclosed in the balance sheet is subject to such restrictions, against which a provision of £14.1 million has been recognised in 2012 (2011: £1.0 million).

## Notes

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

### 2 Turnover

It is the view of the directors that up to 24 May 2012 all activities of the Company fell within one class of business, that of airline operator. Subsequent to the acquisition of the Company, turnover was also generated by the leasing of aircraft to BA. Analysis of turnover by geographical area is as follows:

	2012		2011
	Continuing	Discontinued	£m
			£m
Within the British Isles	13.1	224.0	237.1
Between the British Isles and			
Europe	-	55.2	55.2
Asia, Middle East and Africa	-	186.2	186.2
	<u>13.1</u>	<u>465.4</u>	<u>478.5</u>
			<u>771.3</u>

Turnover within the British Isles comprises revenue from domestic flights and leasing activities from BA. 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 were 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

	2012	2011
	£m	£m
Bank interest receivable	1.5	0.2
Other	-	2.9
Gain on settlement of derivatives	0.2	-
Gain on waiver of amounts due to subsidiary and fellow group undertakings	-	0.9
	<u>1.7</u>	<u>4.0</u>

### 4 Interest payable and similar charges

	2012	2011
	£m	£m
Bank loans	0.3	0.9
Loans from group undertakings	0.3	2.6
Finance leases	4.6	5.0
Other	0.3	-
	<u>5.5</u>	<u>8.5</u>

## Notes

(forming part of the financial statements) (continued)

### 5 Other finance costs

	2012 £m	2011 £m
Expected return on pension scheme assets	(4.9)	(20.4)
Interest cost on pension scheme liabilities	7.1	24.6
	<hr/> 2.2	<hr/> 4.2
Unwinding of discount in provisions (see note 16)	4.5	2.0
	<hr/> 6.7	<hr/> 6.2
	<hr/> <hr/>	<hr/> <hr/>

### 6 Profit/(loss) on ordinary activities before taxation

	2012 £m	2011 £m
<i>Profit/(Loss) on ordinary activities before taxation is stated after charging/(crediting) the following</i>		
Depreciation of owned tangible fixed assets	22.2	15.9
Depreciation of tangible fixed assets held under finance leases	8.3	10.5
Hire of plant, machinery and aircraft	81.4	56.7
Other operating leases payable	7.9	15.7
Auditors' remuneration - audit fee	0.1	0.2
Gain on disposal of fixed assets	-	(0.5)
Exceptional items charged within operating loss -		
Impairment of tangible fixed assets	-	9.2
Exceptional items charged after operating loss (note 7)	534.0	75.2
	<hr/> 534.0	<hr/> 75.2
	<hr/> <hr/>	<hr/> <hr/>

### 7 Exceptional costs

	2012 £m	2011 £m
Profit on disposal of fixed assets investments	33.1	-
Profit on disposal of airport landing/departure slots	51.1	75.2
	<hr/> 84.2	<hr/> 75.2
<b>Total profit on disposal of fixed assets</b>	84.2	75.2
Result on settlement of pension liability	200.6	-
Cost of providing for contractual obligations	(151.4)	-
Gain on sale of assets	417.0	-
	<hr/> 466.2	<hr/> -
<b>Total profit on termination of the airline business</b>	466.2	-
<b>Loss on disposal of the bmi Regional airline</b>	(16.4)	-
	<hr/> 534.0	<hr/> 75.2
	<hr/> <hr/>	<hr/> <hr/>

## **Notes**

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

### **Total profit on disposal of fixed assets**

#### Profit on disposal of fixed assets investments

In January 2012, the Company disposed of its shareholding in The Airline Group Limited to its then ultimate parent company, Deutsche Lufthansa AG ("Lufthansa"). Consideration was £45 million, resulting in a gain of £33.1 million.

#### Profit on disposal of airport landing/departure slots

In December 2011, the Company entered into an agreement with Lufthansa whereby certain landing and departure slots at London Heathrow Airport (Heathrow) 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 £45 million in January and February 2012.

During the year the Company completed slot exchanges with other third party airlines resulting in a gain on disposal of £6.1 million.

### **Total profit on termination of the airline business**

#### Result on settlement of pension liability

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 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 affect 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 ceased to be the principal employer and have been fully discharged of all liabilities to the Scheme. This has resulted in the recognition of a result on settlement of £200.6 million in these financial statements.

#### Cost of providing for contractual obligations

Following a period of consultation, and following a continuation of existing efforts to sell the business to third parties which was unsuccessful, the directors took the decision to close down the bmi baby business. The costs associated with the closure totalled £47 million relating primarily to employee redundancy costs and provision for the expected costs of settling the remaining contractual obligations, including aircraft leasing obligations.

The directors have made an assessment of a number of contractual obligations relating to the closure of the Mainline business. Some of these are subject to significant uncertainty as to the timing and extent of cash outflow. The directors have considered all available information in making provisions which they believe to represent the best estimate of these obligations.

## **Notes**

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

As the Company ceased to trade as an airline from 28 October 2012, these remaining assets were reviewed for impairment and the remaining liabilities have been assessed based on the expected costs to settle the obligations. This exercise has resulted in exceptional costs of £104.4 million being recognised, mainly in relation to onerous contracts, increase in liability relating to the frequent flyer programme and impairment of assets which are no longer to be used in continuing activities.

#### **Gain on sale of assets**

As at 30 November 2012, the Company agreed with BA the sale of certain trading assets and liabilities of the Mainline business to BA. The tangible and intangible assets sold comprised primarily of the landing and departure slots at Heathrow airport, two Airbus aircraft, engineering inventory associated with the Airbus fleet, engineering ground equipment, and the customer lists of bmi Mainline.

As part of the same agreement, the working capital of the Mainline business was sold at book value to BA, comprising mainly of trade debtors and prepayments, trade creditors and accruals, and creditors relating to unflown revenue.

The tangible and intangible assets of the business were sold to BA at fair value, realising a net gain against book value of £417 million, primarily arising from the sale of landing and departure slots.

#### **Loss on disposal of bmi Regional airline**

On 31 May 2012, the Company entered into agreements with Sector Aviation Holdings Limited (Sector) for the sale of the bmi group's Regional business. The agreements involved firstly the sale of the Embraer aircraft operated by Regional, together with inventory associated with these aircraft, from the Company to a newly incorporated subsidiary of the Company, Sector Aviation Leasing Limited (SALL). The assets were sold in exchange for issue of shares in SALL with nominal value of £0.2 million and in exchange for Sector taking on BMAL's liability to pay the Company's subsidiary undertaking British Midland Regional Limited (BMRL) an intercompany debt of £6.8 million. Since the assets had an estimated fair value at sale equivalent to their book value of £25.9 million, the shares issued by SALL were valued at £19.1 million, and the sale of assets gave rise to no gain or loss in the Company.

Following the sale of assets to SALL, the Company entered into a sale and purchase agreement with Sector for the sale of 100% of the issued share capital of both SALL and BMRL. Since BMRL holds the employment contracts of Regional staff, together with aircraft operating certificates, this transfer represented the sale of the bmi Regional business. The Company realised a loss of £16.4 million on the sale of these subsidiaries.

## Notes

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

### 8 Tax on loss on ordinary activities

	2012 £m <i>Total</i>	2011 £m
Amounts charged /(credited) in the year		
Overseas tax	0.6	-

### Factors affecting tax charge for the current year

The tax charge for the year is lower (2011 lower) than the standard rate of corporation tax in the UK of 24.5% (2011 26.5%). The differences are explained below

	2012 £m <i>Total</i>	2011 £m
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	469.9	(110.8)
Current tax at 24.5% (2011 26.5%)	115.1	(29.4)
<i>Effects of</i>		
Expenses not deductible	6.1	1.3
Non-taxable gain on disposal of investments	(8.1)	-
Non-taxable gain on termination of the airline business and disposal of the bmi Regional business	(143.0)	-
Depreciation in excess of capital allowances	2.1	4.1
Other timing differences	(0.4)	(1.8)
Impairment of assets	0.6	2.4
Transfer of tax losses with the Mainline trade	15.7	-
Current year tax losses	11.9	23.4
Overseas tax in relation to branches	0.6	-
Total current tax charge	0.6	-

### 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

	2012 £m	2011 £m
Unrecognised losses	-	115.1
Fixed asset timing differences	-	17.5
Other timing differences	-	5.3
ACT recoverable	0.7	0.7
On pension deficit	-	47.9
	0.7	186.5

## Notes

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

### 8 Tax on loss on ordinary activities (continued)

Following the termination of the airline business and the sale of certain assets of Mainline to BA Plc and the disposal of the Regional airline, the unrecognised timing differences from 2011 have either

- (i) reversed, or
- (ii) transferred to the acquirer, or
- (iii) it is more likely than not that the asset is not recoverable

Further reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 26% to 24% effective from 1 April 2012. The provision for deferred tax on timing differences as at 31 December 2012 was calculated at 23%, the corporation tax rate effective from 1 April 2013 as substantively enacted at 31st December 2012.

The difference from the application of 24% instead of 23% for the three month period to 31 March 2013 is not expected to be material. As further planned reductions to the main rate of corporation tax by a further two per cent from 1 April 2014 to 21% had not been substantively enacted at the balance sheet date, the effect has not been included in these financial statements.

However, these further changes would not have a material impact on the Company as there are currently no recognised deferred tax assets or liabilities.

### 9 Staff numbers and costs

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

	2012	2011
Flight deck and cabin crew	1,087	1,799
Service	542	709
Administrative and other	879	1,082
	<u>2,508</u>	<u>3,590</u>

*The aggregate payroll costs of these persons were*

	2012 £m	2011 £m
Wages and salaries	97.6	121.1
Social security costs	9.5	12.4
Other pension costs	4.2	5.0
	<u>111.3</u>	<u>138.5</u>



## Notes

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

### 9 Staff numbers and costs (continued)

	2012 £m	2011 £m
Directors' emoluments	0.3	0.6
Compensation for loss of office	0.1	-
	<hr/> 0.4	<hr/> 0.6
	<hr/>	<hr/>

The aggregate emoluments of the highest paid director were £312,000 (2011 £315,000)

Those directors of the Company who were employed by British Airways Plc received no emoluments in respect of services to the Company

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	Total
	Freehold property	Leasehold improvements	Sub-Total	Refurbishment of operating leased aircraft	Finance leased	Owned	Sub-Total	Owned	£m
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost									
At 1 January 2012	9.5	17.9	27.4	19.5	77.3	298.6	395.4	51.1	474.3
Additions	-	-	-	18.6	1.4	0.3	20.3	10.6	30.9
Disposals	-	(17.9)	(17.9)	(36.7)	-	(247.6)	(284.3)	(61.7)	(364.3)
Transfer to net lease investment	-	-	-	(1.4)	(72.9)	-	(74.3)	-	(74.3)
At 31 December 2012	9.5	-	9.5	-	5.8	51.3	57.1	-	66.6
Accumulated depreciation									
At 1 January 2012	4.6	17.9	22.5	15.8	12.3	214.5	242.6	51.1	316.6
Charged in year	-	-	-	3.3	8.3	8.3	19.9	10.6	30.5
Impairment charge	2.5	-	2.5	-	3.3	-	3.3	-	5.8
Disposals	-	(17.9)	(17.9)	(19.1)	(18.1)	(201.8)	(220.9)	(61.7)	(300.9)
Transfer to net lease investment	-	-	-	-	-	-	(18.1)	(0.4)	(18.1)
At 31 December 2012	7.1	-	7.1	-	5.8	21.0	26.8	-	33.9
Net book value									
At 31 December 2012	2.4	-	2.4	-	-	30.3	30.3	-	32.7
At 31 December 2011	4.9	-	4.9	3.7	65.0	84.1	152.8	-	157.7

At 31 December 2012 authorised and contracted for capital commitments totalled £15.1m (2011 £45.9m) BA is expected to acquire the assets resulting from these commitments from the Company as they arise, as BA leases the aircraft to which the commitments relate. Freehold property includes £1.0m (2011 £1.0m) relating to land which is not depreciated. During the year the directors assessed the trading performance of the company and the impact of recoverability of fixed assets. As a result impairment provisions have been recognised against certain fixed assets. Owned aircraft at 31 December 2012 are leased to BA under operating leases.

## Notes

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

### 11 Investments

	Unlisted investment £m	Subsidiary Undertakings £m	Total £m
<i>Cost</i>			
At 1 January 2012	11.9	2.1	14.0
Additions	-	19.1	19.1
Disposals	(11.9)	(21.2)	(33.1)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2012</b>	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Provisions for impairment</i>			
At 1 January 2012	-	2.1	2.1
Disposals	-	(2.1)	(2.1)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2012</b>	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Net book value at 31 December 2012</b>	-	-	-
	<hr/>	<hr/>	<hr/>
Net book value at 1 January 2012	11.9	-	11.9
	<hr/>	<hr/>	<hr/>

The unlisted investment represented a 14.52% holding in the ordinary share capital of The Airline Group Limited. The Company also held loan notes due from The Airline Group Limited within the investment balance. On 16 January 2012, the Company disposed of its entire holding of shares and loan notes to Lufthansa for consideration of £45 million, realising a gain of £33.1 million.

Additions to subsidiary undertakings represents the shares in Sector Aviation Leasing Limited ("SALL") issued to the Company in exchange for the sale of Regional fixed assets, immediately before sale of SALL to Sector Aviation Holdings Limited ("SAHL"), a third party. At the same time, the Company also sold its subsidiary British Midland Regional Limited to SAHL, leading to a disposal of both the cost of investment of £1.6 million and the associated impairment provision.

In September 2011, the Company's former subsidiary undertaking 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 gave rise to a disposal of the Company's shareholding in BMI Airways Limited of £500,000, which had previously been fully impaired and therefore did not give rise to a further loss.

In September 2011, the Company's former subsidiary undertaking 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 gave rise to a disposal of the Company's shareholding in International Cargo Marketing Limited of £2 in 2012, which had previously been fully impaired and therefore did not give rise to a further loss.

## Notes

(forming part of the financial statements) (continued)

### 12 Debtors

	2012 £m	2011 £m
Net investment in finance leases	49.7	-
Trade debtors	-	47.1
Amounts owed by group undertakings	239.8	3.8
Other debtors	2.1	8.5
Prepayments and accrued income	9.4	22.5
	<u>301.0</u>	<u>81.9</u>

During the year the company entered into lease agreements with BA, which are assessed as finance leases and assets with a value of £49.7m were reclassified from tangible fixed assets to net investment in finance leases. £41.6m of this amount is receivable after one year.

Rentals receivable during the year in respect of finance leases amounted to £3.3 million (2011: £nil) and in respect of operating leases £12.1m (2011: £nil).

Amounts owed by group undertakings of £239.8m (2011: £30.9m) are stated net of a provision of £nil (2011: £27.1m) and are unsecured, repayable on demand and do not bear interest. Presented within the net amount owed by group undertakings is an amount payable to BA of £166.4m which bears interest at a rate based on LIBOR.

Working capital balances including trade debtors were sold to BA during the year.

### 13 Creditors: amounts falling due within one year

	2012 £m	2011 £m
Bank loans	4.0	4.1
Trade creditors	-	29.9
Amounts owed to group undertakings	79.3	73.2
Amounts due under finance leases	9.6	10.5
Accruals and deferred income	4.3	245.5
	<u>97.2</u>	<u>363.2</u>

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.

Working capital balances including trade creditors and certain accruals and deferred income were sold to BA during the year.

### 14 Creditors: amounts falling due after more than one year

	2012 £m	2011 £m
Bank loans	7.9	12.4
Amounts due under finance leases	43.7	55.7
Accruals and deferred income	-	12.1
	<u>51.6</u>	<u>80.2</u>

## Notes

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

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

	2012 £m	2011 £m
<i>Loans from banks and group undertakings are repayable</i>		
Within one year	4.0	30.5
In one to two years	4.0	12.4
In two to five years	3.9	-
After more than five years	-	-
	<u>11.9</u>	<u>42.9</u>

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 of 0.98% (2011 0.3 to 0.47%)

### 15 Finance leases

	2012 £m	2011 £m
<i>Future minimum payments under finance leases are as follows</i>		
Within one year	13.5	15.2
In more than one year but less than five years	45.8	52.0
After five years	5.5	15.6
	<u>64.8</u>	<u>82.8</u>
Total gross payments	64.8	82.8
	<u>(11.5)</u>	<u>(16.6)</u>
Less finance charges included above	(11.5)	(16.6)
	<u>53.3</u>	<u>66.2</u>

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

### 16 Provisions for liabilities and charges

	Onerous Lease Commitments	Frequent Flyer Programme	Dilapidations	Maintenance	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At beginning of year	6.7	-	3.8	88.5	0.3	12.7	112.0
Transferred from deferred income	-	16.8	-	-	-	-	16.8
Charged in the year	34.8	52.7	1.7	9.7	5.9	22.5	127.3
Utilised	(6.9)	(36.0)	(1.1)	(8.5)	(6.2)	(13.0)	(71.7)
Unwinding of discount	0.1	-	-	4.4	-	-	4.5
Foreign exchange retranslation	(0.3)	-	-	(3.7)	-	-	(4.0)
<b>At end of year</b>	<b>34.4</b>	<b>33.5</b>	<b>4.4</b>	<b>90.4</b>	<b>-</b>	<b>22.2</b>	<b>184.9</b>

The directors have made an assessment of a number of contractual obligations relating to the closure of the Mainline business. Some of these are subject to significant uncertainty as to the timing and extent of cash outflow. The directors have considered all available information in making provisions which they believe to represent the best estimate of these liabilities.

#### Onerous lease commitments

This provision covers the rent, rates and other running costs of vacant leasehold buildings and for the future lease costs of the bmbaby aircraft and the A330 aircraft from the point at which they ceased flying. The provision is discounted and is expected to be fully utilised by 2049. Amounts charged in the year are recognised within exceptional items.

#### Frequent Flyer Programme

The Company has entered into an agreement to compensate BA for miles transferred from the Company's Frequent Flyer Programme to the BA Executive Club programme. Since no further income will be earned from these members, the provision reflects the cost of transfers at the forecast transfer rate. The provision is expected to be fully utilised by 2014.

#### Dilapidations

The terms of certain leased property contracts have committed the Company to dilapidation costs at the end of the relevant lease terms, up to 2049.

#### Maintenance

This provision is for maintenance costs and lessor handback compensation in respect of operating leased aircraft. The provision is discounted and will be utilised against maintenance events over the remaining life of leased aircraft up to 2019.

#### Restructuring

This provision reflects the redundancy obligations and other contractual obligations arising from the termination of the bmbaby business.

#### Other

This provision 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 2012	(809.1)
Profit for the year	469.3
Actuarial loss recognised in relation to the pension scheme	(11.3)
	<hr/>
At 31 December 2012	(351.1)
	<hr/>

### 18 Share Capital

	2012 £m
<i>Issued and fully paid</i>	
At 1 January 2012 and 31 December 2012 13,087,700 ordinary shares of £1 each	13.1
	<hr/>

### 19 Share Premium

	2012 £m
At 1 January 2012 and 31 December 2012	346.2
	<hr/>

## Notes

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

### 20 Pensions

Up to April 2012, the Company was 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.

On 18 April 2012, the Company's parent undertaking, British Midland Limited, was sold from Lufthansa to BA. As part of the sale, the Company ceased to be the principal employer of the Scheme at that date, and as such a result on settlement was triggered. The result is based on the balance sheet shortfall at 18 April 2012. A section 75 debt was triggered following cessation of the Company's participation in the Scheme, and the statutory debt arising was apportioned to the new principal employer, Donington Pensions No 2 Limited, which is not part of the group headed by British Midland Limited. No allowance has been made in respect of the debt as this is no longer a debt of the Company. The balance sheet at 31 December 2012 therefore shows no liability in respect of the scheme.

The pension cost disclosures below exclude 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.

	2012 £m	2011 £m
Present value of funded defined benefit obligations	-	(504.9)
Fair value of scheme assets	-	314.5
Present value of unfunded defined benefit obligations	-	(1.2)
	<hr/>	<hr/>
Deficit	-	(191.6)
Related deferred tax asset	-	-
	<hr/>	<hr/>
Net liability	-	(191.6)
	<hr/>	<hr/>

#### *Movements in present value of defined benefit obligation*

	2012 £m	2011 £m
At 1 January	(506.1)	(452.8)
Current service cost	-	-
Past service cost	-	-
Interest cost	(7.1)	(24.6)
Actuarial losses	(21.5)	(42.1)
Contributions by members	-	-
Benefits paid	3.4	13.4
Transfer to accruals	1.3	-
Plan settlements	530.0	-
	<hr/>	<hr/>
At 31 December	-	(506.1)
	<hr/>	<hr/>



## Notes

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

### 20 Pensions (continued)

#### *Analysis of defined benefit obligation*

	2012 £m	2011 £m
Schemes that are wholly or partly funded	-	(504.9)
Schemes that are wholly unfunded	-	(1.2)
Total	-	(506.1)

#### *Movements in fair value of scheme assets*

	2012 £m	2011 £m
At 1 January	314.5	327.7
Expected return on scheme assets	4.9	20.4
Actuarial gains/(losses)	10.2	(31.6)
Contributions by employer	3.2	11.4
Contributions by members	-	-
Benefits paid	(3.4)	(13.4)
Plan settlements	(329.4)	-
At 31 December	-	314.5

#### *Credit/(charge) recognised in the profit and loss account*

	2012 £m	2011 £m
Current service cost	-	-
Past service cost	-	-
Interest on defined benefit pension scheme obligation	7.1	24.6
Expected return on defined benefit pension scheme assets	(4.9)	(20.4)
Result on settlement	(200.6)	-
Total net credit/(charge)	(198.4)	4.2

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

	2012 £m	2011 £m
Exceptional items – result on settlement on termination of the airline business	(200.6)	-
Charged to other finance costs	2.2	4.2
	(198.4)	4.2

## Notes

(forming part of the financial statements) (continued)

### 20 Pensions (continued)

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

	2012 Fair value £m	2011 Fair value £m
Equities	-	235.9
Gilts	-	15.7
Government debt and corporate bonds	-	62.9
	<u>-</u>	<u>314.5</u>
Actual return on scheme assets	<u>15.1</u>	<u>(11.2)</u>

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

	At 18 April 2012 %	2011 %
Discount rate	4.75	4.75
Expected rate of return on scheme assets	5.50	5.25
Rate of compensation increase	-	-
Rate of increase in payment (5% LPI)	3.00	3.00
Rate of increase in payment (3% LPI 5%)	3.50	3.50
Rate of increase in payment (3% fixed)	3.00	3.00
Inflation	<u>3.00</u>	<u>3.00</u>

### History of schemes

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

#### Balance sheet

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of scheme liabilities	-	(506.1)	(452.8)	(433.7)	(303.5)
Fair value of scheme assets	-	314.5	327.7	287.4	223.8
Deficit	<u>-</u>	<u>(191.6)</u>	<u>(125.1)</u>	<u>(146.3)</u>	<u>(79.7)</u>

#### Experience adjustments

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience losses/(gains) on scheme liabilities	2.0	(1.2)	0.6	3.5	8.5
Experience (losses)/gains on scheme assets	(10.2)	(31.6)	29.3	40.8	(65.5)

## 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 £4.2 million (2011 £5 million). At the year end there were £0.4 million outstanding contributions held on the balance sheet (2011 £0.8 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	
	2012	2011	2012	2011
	£m	£m	£m	£m
<i>Lease expiry within</i>				
One year	0.2	0.4	4.8	0.1
Two to five years	2.5	2.2	30.3	45.9
More than five years	4.5	4.2	3.8	12.2
	<u>7.2</u>	<u>6.8</u>	<u>38.9</u>	<u>58.2</u>

### 22 Transactions with related parties

Between 1 January 2012 and 19 April 2012, the date of the sale of the Company's parent company to British Airways Plc, the Company had transactions with fellow group companies within the Lufthansa group as follows,

- Wet lease, handling and other revenue of £10.7 million
- Aircraft maintenance, systems and other expenses of £15.8 million
- Interest payable on loans from group undertakings £0.1 million
- Gains on derivative instruments £2.0 million
- Purchase of tangible and intangible fixed assets £0.6 million

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 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 £45 million in January and February 2012.

The company has taken advantage of the exemption under FRS 8 not to disclose related party transactions with IAG group companies.

There were no other disclosable transactions with related parties.

## **Notes**

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

### **23 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 British Airways Plc ("BA"), a UK company which is a subsidiary of International Consolidated Airlines Group SA ("IAG"), a company incorporated in Spain

The smallest group into which the Company is consolidated into is BA IAG is the ultimate parent company and ultimate controlling party

Copies of the financial statements of IAG can be obtained from [www.IAGshares.com](http://www.IAGshares.com) or

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