

Registered No: 00464648

British Midland Airways Limited

Annual Report and Accounts
For the year ended 31 December 2019

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British Midland Airways Limited

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British Midland Airways Limited

Corporate information

Directors

S Davies

S Philcox

Company secretary

A Fleming

Auditor

Ernst & Young LLP

1 More London Place

London

SE1 2AF

Registered office

Waterside

PO Box 365

Speedbird Way

Harmondsworth

UB7 0GB

The Directors present their report and the audited Annual Report and Accounts ('financial statements') of British Midland Airways Limited for the year ended 31 December 2019.

Directors

The Directors of the Company during the year ended 31 December 2019 were as follows:

S. Davies

S. Philcox

Results and dividends

The profit after tax for the year amounted to £2,569 thousand (2018: loss £3,706 thousand). The Directors do not recommend the payment of a final dividend (2018: £nil).

Going concern

The Company has received confirmation from its parent company, British Airways Plc ('BA'), that it will provide financial support to the Company should it be required for a period of at least 12 months from the date of approval of these financial statements. Having made an assessment of the ability of BA to provide such support if required, the Directors have a reasonable expectation that the Company has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2019.

However, the Company's financial position is significantly affected by the level of operating activity of BA. The Directors note the publication on 13 November 2020 of BA's condensed consolidated interim financial statements for the nine-month period to 30 September 2020 in which a material uncertainty in relation to going concern was disclosed.

As a consequence, the Directors of the Company consider there is also a material uncertainty over BA's ability to provide financial support to the Company and this could cast significant doubt upon the Company ability to continue as a going concern. Refer to note 2.1 for further information.

Directors' and Officers' liability insurance

The ultimate parent company of the Group, International Consolidated Airlines Group S.A. ('IAG'), purchases insurance against Directors' and Officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and Officers of its subsidiary undertakings.

Political contributions

During the year, the Company made no political contributions (2018: £nil).

Post balance sheet events

On 1 January 2020, all remaining fleet assets were sold to BA for a profit on disposal of £1,540 thousand. In addition, all related provisions and ongoing costs have been transferred to BA.

The Directors have evaluated the potential impact of COVID-19 on the valuation of the Company's assets and concluded that there has been no material change from the balance sheet date.

Auditor

The Company's auditor, Ernst & Young LLP, will automatically continue in office in accordance with the terms of their appointment, as per section 487 of the Companies Act 2006.

Directors' statement as to disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Director's Report are listed above. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all steps a Director that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Information included in the Strategic Report

Financial risk management objectives and the exposure to financial risks and future developments are disclosed in the Strategic Report, in accordance with section 414C (11) of the Companies Act 2006.

The Directors' Report was approved by the Board and signed on its behalf by:



S Philcox
Director
15 December 2020

Principal activities

The Company, which is a wholly owned subsidiary undertaking of British Airways Plc ('BA'), leased both owned aircraft and those held under short term leases to BA. During the year, all remaining aircraft leases expired, the result being that at the balance sheet date the Company no longer held any leased assets. The remaining owned aircraft were subsequently transferred to BA on 1 January 2020.

Principal risks and uncertainties

The Company's exposure to price risk, credit risk, liquidity risk and cash flow risk are included in the consolidated accounts of the parent undertaking, BA.

Robust processes are in place at the Company to continually identify financial risks and opportunities and these are built into the monthly management accounts and forecasting processes.

Impact of COVID-19

Subsequent to the balance sheet date, the Company has been impacted by the outbreak and escalation of COVID-19. From late February, as the virus spread across the globe, many governments placed significant restrictions on the movement of people and on travel across international borders.

Subsequent to year end all fleet assets and associated costs have been transferred to BA. The result is that costs have reduced substantially. The Directors continue to monitor and review the Company's financial position regularly and will continue to take any necessary actions to support the Company's financial position.

Key performance indicators

Given the nature of the Company's activities, the Directors consider that the use of key performance indicators is not necessary in the presentation of the results for the year.

Future developments

The Directors do not expect any changes in the Company's activity in the foreseeable future.

Section 172 statement

During 2019, the Board acted in a way, it considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole based on information available to them at the time.

Following the transfer of the two remaining aircraft, the Company has no further operations and therefore does not have business relationships with customers or suppliers and has no employees.

The key investors of the Company are the shareholders such as the ultimate parent company, IAG. For IAG, return on invested capital, operating margins and free cash generated are important as value is created by generating strong and sustainable results that translate into dividends and share price appreciation. In addition to these financial measures, operating within the Group's policies and maintaining and enhancing brand and reputation are also important.

The communities in which the Company operates require it to operate in a socially responsible manner and protect the environment.

The Company's culture and commitment to corporate responsibility continues to grow. Sustainability is embedded into the Group's business plans that are reviewed and approved by the BA and IAG Boards. The Board Corporate Responsibility Committee meets at least twice a year to set and approve BA and its subsidiaries' corporate responsibility strategy and monitor progress on key initiatives.

The principal decisions in the year were for the Company's leased aircraft, which were sub-leased to BA, to be renewed directly by BA. Subsequent to the year end, the Company also sold its two remaining owned aircraft to BA. These actions were taken to enable BA to directly control the financing and use of these aircraft.

By order of the Board



S Philcox
Director
15 December 2020

British Midland Airways Limited

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report, Strategic 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 elected to prepare 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 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.

Independent Auditor's Report to the Members of British Midland Airways Limited

Opinion

We have audited the financial statements of British Midland Airways Limited for the year ended 31 December 2019 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty in relation to going concern

We draw attention to note 2.1 of the financial statements, which describe that the Company's financial position is significantly affected by the level of operating activity of its parent company, British Airways Plc ('BA'). BA has disclosed it may require additional funds above those contractually committed should the impact of COVID-19 be more severe than the BA Directors' expectations. As set out in note 2.1, this condition indicates that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report and the Strategic Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the Members of British Midland Airways Limited (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report or the Strategic Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

J I Gordon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 December 2020

British Midland Airways Limited
Income Statement
For the year ended 31 December 2019

£000	Note	2019	2018 (restated)
Turnover	3	4,723	10,586
Cost of sales		(542)	(5,894)
Gross profit		4,181	4,692
Administrative expenses		(1,922)	(9,334)
Operating profit/(loss)	4	2,259	(4,642)
Interest receivable and similar income	7	936	772
Profit/(loss) before taxation		3,195	(3,870)
Tax (charge)/credit	8	(626)	164
Profit/(loss) after taxation		2,569	(3,706)

The notes on pages 12 to 20 form part of these financial statements.

The above results are all in respect of continuing operations.

There is no other comprehensive income (2018: £nil) other than the profit amounting to £2,569,000 (2018: loss £3,706,000) in the year ended 31 December 2019. Therefore, no separate statement of comprehensive income has been presented.

British Midland Airways Limited
Balance Sheet
As at 31 December 2019

£000	Note	2019	2018 (restated)
Fixed assets			
Tangible assets	9	8,810	10,493
Current assets			
Debtors	10	118,755	124,989
Cash at bank and in hand		94	79
Total current assets		118,849	125,068
Creditors: amounts falling due within one year	11	(81,050)	(80,333)
Net current assets		37,799	44,735
Total assets less current liabilities		46,609	55,228
Provision for liabilities	12	-	(11,188)
Net assets		46,609	44,040
Capital and reserves			
Called up share capital	13	13,088	13,088
Profit and loss account		33,521	30,952
Total shareholders' funds		46,609	44,040

The financial statements on pages 9 to 20 were approved by the Board of Directors on 15 December 2020 and signed on its behalf by:



S Philcox
Director
15 December 2020

Registered number 00464648

British Midland Airways Limited
Statement of Changes in Equity
As at 31 December 2019

For the year ended 31 December 2019

£000	Called up share capital	Profit and loss account	Total shareholders' equity
At 1 January 2019	13,088	30,952	44,040
Profit for the year	-	2,569	2,569
At 31 December 2019	13,088	33,521	46,609

For the year ended 31 December 2018

£000	Called up share capital	Profit and loss account	Total shareholders' equity
At 1 January 2018	13,088	34,658	47,746
Loss for the year – as restated	-	(3,706)	(3,706)
At 31 December 2018 – as restated	13,088	30,952	44,040

British Midland Airways Limited

Notes to the financial statements

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of British Midland Airways Limited (the 'Company') for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 15 December 2020 and the Balance Sheet was signed on the Board's behalf by S Philcox. British Midland Airways Limited is a private limited company limited by shares and is incorporated and domiciled in England and Wales.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework* and the Companies Act 2006. These financial statements have been prepared under the historical cost convention.

The Company's financial statements are presented in pound sterling, which is the Company's functional currency, and all values are rounded to the nearest thousand pounds (£000), except where indicated otherwise.

FRS 101 allows companies to take advantage of certain disclosure exemptions. As allowed under the standard, the disclosure exemptions under paragraph 8 to 9 of FRS 101 *Reduced Disclosure Framework* have been applied as the Company is a wholly owned subsidiary undertaking of BA whose accounts include an equivalent disclosure of the following standards:

- a) the requirements in paragraph 38 in IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
 - i. Paragraph 79(a)(iv) of IAS 1;
 - ii. Paragraph 73 (e) of IAS 16 Property, Plant and Equipment; and
 - iii. Paragraph 118(e) of IAS 38 Intangible Assets,
- b) the requirements of paragraphs 10(d), 10(f), 16, 38A-38D, 40A-40S, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*,
- c) the requirements of IAS 7 *Statement of Cash Flows*,
- d) the requirements of 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,
- e) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a Group provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- f) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*,
- g) the requirements of IFRS 7 *Financial Instruments: Disclosures*,
- h) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*, and
- i) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*.

Prior year restatement

The comparative information has been restated to reflect the understated depreciation of owned asset in 2018. This restatement increased the loss after tax for the year ended 31 December 2018 by £206 thousand from £3,500 thousand to £3,706 thousand. As at 31 December 2018, the carrying value of fixed assets reduced by £270 thousand from £10,763 thousand to £10,493 thousand and the deferred tax liability reduced by £64 thousand from £167 thousand to £103 thousand. Retained earnings of the Company reduced by £206 thousand from £31,158 thousand to £30,952 thousand as at 31 December 2018.

Going concern

The Company has received confirmation from its parent company, British Airways Plc ('BA'), that it will provide financial support to the Company should it be required for a period of at least 12 months from the date of approval of these financial statements. Having made an assessment of the ability of BA to provide such support if required, the Directors have a reasonable expectation that the Company has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2019.

British Midland Airways Limited

Notes to the financial statements (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

However, the Company's financial position is significantly affected by the level of operating activity of BA. The Directors note the publication on 13 November 2020 of BA's condensed consolidated interim financial statements for the nine-month period ended 30 September 2020 in which a material uncertainty in relation to going concern was disclosed.

As disclosed in those condensed consolidated interim financial statements, given the economic uncertainty of the COVID-19 pandemic, BA modelled the impact of mitigating actions to offset further deteriorations in demand and capacity, including reductions in operating expenditure and capital expenditure. BA expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Furthermore, to add resilience to the liquidity position of BA, the Directors of BA have resolved to undertake a range of financing, including: renegotiations of existing financing arrangement and securing additional long term financing facilities to raise approximately £3 billion of additional liquidity. The Directors of BA have a reasonable expectation that BA has sufficient liquidity to continue in operational existence for the foreseeable future and hence adopted the going concern basis in preparing the condensed consolidated interim financial statements.

Due to the uncertainty created by COVID-19 and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, BA is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the sensitivities in relation to the capacity operated, yield and cost mitigations achievable. In the event that such a scenario were to occur, or in the event that certain other assumptions, outside management's control, are not met, including funding secured against aircraft, agreement for the deferral of pension contributions or the additional cash inflows from an associated Group undertaking, the Group will need to secure additional funding. As set out above, the sources of additional funding are expected to include the renegotiation of existing financing arrangements and securing additional long term financial facilities.

BA's ability to obtain additional funding represents a material uncertainty that could cast significant doubt upon BA's ability to continue as a going concern.

As a consequence, the Directors of the Company consider this also represents a material uncertainty over BA's ability to provide financial support to the Company and this could cast significant doubt upon the Company ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

2.2 Summary of significant accounting policies

New standards, amendments and IFRIC interpretations

The Company adopted IFRS 16 *Leases* from 1 January 2019 using the modified retrospective approach. All remaining leases in the Company at the transition date had a remaining lease term of less than 12 months and the practical expedient to treat these as short-term leases was taken. The Company also relied on the previous assessments as to whether leases were onerous as permitted under IFRS 16. There were no adjustments required as a result of the adoption of IFRS 16.

No other new accounting standards, or amendments to accounting standards, or IFRIC interpretations that were effective for the period ended 31 December 2019, have had a material impact on the Company.

Turnover

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.

British Midland Airways Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is held at cost. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment. An assessment as to whether impairment indicators exist is performed at each reporting date.

Fleet assets

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciate in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

British Midland Airways Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

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.

Foreign currencies

Transactions in foreign currencies are initially recorded in the Company's functional currency, pound sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All profits or losses arising on translation are dealt with through the income statement.

Financial instruments

In accordance with IFRS 9 *Financial Instruments*, financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Company determines the classification at initial recognition.

Financial assets

Financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transactions costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Loans and receivables are stated at amortised cost less allowances made for expected credit losses which approximates fair value given the short dated nature of these assets. A provision for expected credit losses (allowance for doubtful receivables) is established based on the calculation and recognition of lifetime expected credit losses.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Financial liabilities measured at amortised cost

Long-term borrowings are recorded at amortised cost.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

British Midland Airways Limited

Notes to the financial statements (continued)

2.3 Summary of significant accounting policies (continued)

Key accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

a Residual values and useful lives of assets

The Company exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives. Further details are provided in note 9.

b Expected credit losses for debtors

Following adoption of IFRS 9 and the associated necessary accounting policy, the impact of introducing an expected credit loss model has been reviewed on the Company's debtor provisioning. It was determined that there have been no material impacts on the Company's financial statements.

3. Turnover

Turnover from continuing operations comprises revenue from leasing activities with BA and is generated solely in the United Kingdom.

4. Operating profit/(loss)

Operating profit/(loss) is arrived at after charging/(crediting):

£000	2019	2018 (restated)
Depreciation of owned assets	1,683	1,686
Depreciation of finance leased assets	-	232
Hire of aircraft under short term leases (2018: operating leases)	543	5,894
Foreign exchange (gains)/losses	(243)	2,373

5. Auditor's remuneration

The Company's auditor Ernst & Young LLP received remuneration of £39,000 (2018: £37,500) in respect of audit services provided to the Company, which was borne wholly by BA.

British Midland Airways Limited

Notes to the financial statements (continued)

6. Employee costs and director emoluments

None of the Directors received any remuneration for their services to the Company during the year in respect of their services to the Company (2018: Nil).

Two Directors accrued benefits under a defined contribution pension scheme (2018: two), provided by the Company's parent undertaking during the year. Full disclosure of these schemes is made in the financial statements of BA.

Two Directors (2018: two) participated in IAG's Long Term Incentive Schemes and none exercised awards during the year (2018: none).

No loans or transactions were outstanding with the Directors of the Company at the end of the year, which need to be disclosed in accordance with the requirements of s412 and 413 of the Companies Act 2006.

There were no employees in the current or prior year.

7. Interest receivable

£000	2019	2018
Interest receivable and similar income		
Interest receivable from group undertakings	936	772

8. Tax

a) Tax on profit on ordinary activities

Tax charge/(credit) in the Income Statement:

£000	2019	2018 (restated)
Current tax		
UK corporation tax on profits for the current period	777	-
Deferred tax		
Movement in respect of the current year	(170)	(164)
Rate change	19	-
Total deferred tax	(151)	(164)
Total tax	626	(164)

b) Deferred tax

The deferred tax included in the Balance Sheet and the movement in the (liability)/asset is as follows:

£000	Opening balance (restated)	Movement in respect of the current year	Rate change	Closing balance
Property, plant and equipment	(103)	170	(19)	48
Total deferred tax (liability) / asset	(103)	170	(19)	48

British Midland Airways Limited

Notes to the financial statements (continued)

8. Tax (continued)

c) Reconciliation of the total tax charge/(credit) in the Income Statement

The total tax charge/(credit) is calculated at the standard rate of UK corporation tax. The tax charge on the profit (2018: credit on loss) for the year ended 31 December 2019 is higher (2018: lower) than the expected tax charge at the UK rate. The Company's effective tax rate is 19.6% (2018: 4.2%) and the differences to the UK rate are explained below:

£000	2019	2018 (restated)
Accounting profit/(loss) before tax	3,195	(3,870)
Tax calculated at the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	607	(735)
Effects of:		
Effects of tax rate changes	19	-
Group relief surrendered	-	571
Total tax charge/(credit) in the Income Statement	626	(164)

d) Factors that may affect future tax charges

The deferred tax on temporary differences at 31 December 2019 was calculated at the rate applicable to the year in which the temporary differences are expected to reverse. In the UK, as at 31 December 2019, the enacted tax rate effective 1 April 2020 was 17% and this was the rate used to calculate the deferred tax asset at the Balance Sheet date. In Finance Bill 2020, the UK government legislated that the UK corporation tax rate would remain at 19% on 1 April 2020. The deferred tax asset calculated at a rate of 19% would have been approximately £7,000 more than the amount included in the Balance Sheet as at 31 December 2019.

9. Tangible assets

£000	Fleet owned	Total
Cost:		
Balance 1 January 2019	23,608	23,608
At 31 December 2019	23,608	23,608
Depreciation:		
Balance 1 January 2019 – as reported	12,845	12,845
Prior year adjustment	270	270
Balance 1 January 2019 – as restated	13,115	13,115
Charge for the year	1,683	1,683
At 31 December 2019	14,798	14,798
Net book amounts:		
At 31 December 2019	8,810	8,810
At 31 December 2018 – as restated	10,493	10,493

Fleet is depreciated over 23 years, after making allowance for estimated residual values.

Owned aircraft at 31 December 2019 are leased to BA under operating leases.

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Notes to the financial statements (continued)

10. Debtors

Amounts falling due within one year:

£000	2019	2018
Amounts owed by group undertakings	118,530	124,745
Prepayments and accrued income	-	60
Deferred tax asset	48	-
Other debtors	177	184
	118,707	124,989

Amounts owed by group undertakings are unsecured and are repayable on demand. The interest is calculated at a rate of one month average GBP LIBOR (2018: one month average GBP LIBOR).

11. Creditors: amounts falling due within one year

£000	2019	2018
Amounts due to group undertakings	80,273	80,273
Accruals	-	60
Corporation tax liability	777	-
	81,050	80,333

Amount due to group undertakings did not attract interest in the current or preceding year and is repayable on demand.

12. Provision for liabilities

£000	Dilapidations	Handback	Deferred tax	Total
Balance at 1 January 2019 – as reported	743	10,342	167	11,252
Profit year adjustment	-	-	(64)	(64)
Balance at 1 January 2019 – as restated	743	10,342	103	11,188
Arising	-	439	-	439
Utilised	-	-	(103)	(103)
Foreign exchange	-	(247)	-	(247)
Unwinding	59	-	-	59
Transferred	(802)	(10,534)	-	(11,336)
As at 31 December 2019	-	-	-	-

Dilapidations

The terms of certain leased property contracts have committed the Company to dilapidations at the end of the relevant lease terms. The remaining lease was transferred to British Airways on 10 December 2019 and the dilapidations provision was also transferred.

Handback

This provision was for lessor handback compensation in respect of operating leased aircraft. All leases were renewed by BA in 2019 and the related provisions were transferred to BA.

British Midland Airways Limited

Notes to the financial statements (continued)

13. Share capital

		2019		2018
	No.	£ 000	No.	£ 000
Allotted, called up and fully paid				
Ordinary shares of £1 each	13,087,700	13,088	13,087,700	13,088

14. Related party transactions

As the Company is a wholly owned subsidiary of BA, the Company has taken advantage of the exemption in FRS 101 not to disclose related party transactions with fellow wholly owned group undertakings.

15. Post balance sheet events

On 1 January 2020, all remaining fleet assets were sold to BA for a profit on disposal of £1,540 thousand. In addition, all related provisions and ongoing costs have been transferred to BA.

The Directors have evaluated the potential impact of COVID-19 on the valuation of the Company's assets and concluded that there has been no material change from the balance sheet date.

16. Ultimate parent undertaking

The Company's immediate parent undertaking as at 31 December 2019 was British Midland Ltd, a company registered in England and Wales. As at 31 December 2019, the ultimate parent undertaking of the Company was International Consolidated Airlines Group S.A. ('IAG'), which is incorporated in Spain. Of the Group of which the Company is a member, IAG was the largest undertaking preparing group financial statements and British Airways Plc was the smallest undertaking preparing group financial statements.

Copies of the consolidated financial statements of IAG and British Airways Plc can be found on the website www.iagshares.com.