

**British Midland Airways Limited**

**Directors' report and financial  
statements**

**Registered number 464648**

**31 December 2001**



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## **Company information**

### **Directors**

Sir Michael Bishop CBE (Chairman)  
JT Wolfe (non-executive)  
SF Balmforth (non-executive)  
A Reid CA  
NO Turner  
GN Elliott CBE FCA (non-executive)  
JR Hogan (resigned 1 August 2001)

### **Secretary and registered office**

TJ Bye  
Donington Hall  
Castle Donington  
Derby  
DE74 2SB

### **Auditors**

KPMG  
St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

### **Bankers**

National Westminster Bank Plc  
Colmore Centre  
103 Colmore Row  
Birmingham  
B3 3NS

## **Directors' report**

The directors present their report and the financial statements for the year ended 31 December 2001.

### **Business review**

The principal activity of the company is that of an airline operator. On 21 March 2001 the handling operations of the company were sold.

	<b>2001</b> <b>£000</b>	<b>2000</b> <b>£000</b>
Turnover	739,544	721,726
Profit before taxation	10,783	6,658

### **Dividends and transfers to reserves**

The company has not proposed a final dividend in respect of the year ended 31 December 2001 (2000: £nil).

The retained profit for the financial year of £7,489,000 has been transferred to reserves (2000: £7,760,000).

### **Directors and their interests**

The directors who served during the year are as set out on page 1. None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company. The interests of the directors in the shares of British Midland PLC, the immediate parent company, and The BBW Partnership Limited, the ultimate parent company, are disclosed in the financial statements of those companies.

### **Employees**

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

The company continues to employ disabled persons and affords them the same training, career development and promotional opportunities as for all other employees and provides all possible assistance to persons temporarily or permanently disabled whilst in the company's employment.

### **Creditor payment policy**

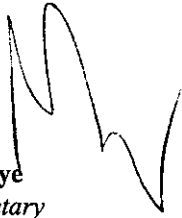
It is the company's policy to pay suppliers in accordance with the terms agreed provided that the supplier has also complied with the relevant terms and conditions. The trade creditors at 31 December 2001 represented 43 days of annual purchases.

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

**Auditors**

In accordance with section 385 of the Companies Act 1985 a resolution proposing the re-appointment of KPMG as auditors of the company will be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'TJ Bye', written over the printed name and title.

**TJ Bye**  
*Secretary*

25 April 2002

## **Statement of directors' responsibilities**

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

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

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



St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

## **Independent auditors' report to the members of British Midland Airways Limited**

We have audited the financial statements on pages 6 to 21.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

25 April 2002

*Chartered Accountants  
Registered Auditors*

**Profit and loss account**  
*for the year ended 31 December 2001*

	Note	£000	2001 £000	£000	2000 £000
<b>Turnover</b>	2		739,544		721,726
Continuing operations		731,310		686,579	
Discontinued operations		8,234		35,147	
<b>Cost of sales</b>	3		(651,834)		(624,010)
<b>Gross profit</b>			87,710		97,716
<b>Administrative expenses</b>	3		(101,307)		(91,272)
<b>Operating (loss)/profit before exceptional items</b>			(13,597)		6,444
<b>Administrative expenses - exceptional items</b>	3		(16,995)		(6,116)
<b>Operating (loss)/profit</b>			(30,592)		328
Continuing operations		(31,404)		(1,792)	
Discontinued operations		812		2,120	
<b>Profit on disposal of fixed assets – continuing operations</b>			2,709		13,327
<b>Profit on the sale of discontinued operations</b>			40,918		-
<b>Other interest receivable and similar income</b>	4		3,974		1,934
<b>Interest payable and similar charges</b>	5		(6,226)		(8,931)
<b>Profit on ordinary activities before taxation</b>	6		10,783		6,658
<b>Tax on profit on ordinary activities</b>	7		(3,294)		1,102
<b>Retained profit for the financial year</b>	19		7,489		7,760

In both the current and previous years, there was no material difference between the profit reported in the profit and loss account and the profit on an unmodified historical cost basis.

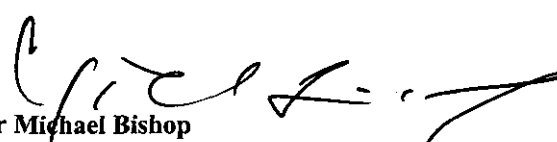

**Statement of total recognised gains and losses**  
*for the year ended 31 December 2001*

	2001 £000	2000 £000
Profit for the financial year	7,489	7,760
Exchange movements	3,604	442
Total recognised gains and losses relating to the year	<u>11,093</u>	<u>8,202</u>
Prior year adjustment	-	(3,896)
Total gains and losses recognised since last annual report	<u><u>11,093</u></u>	<u><u>4,306</u></u>

**Balance sheet**  
*as at 31 December 2001*

	Notes	2001 £000	2000 £000
<b>Fixed assets</b>			
Tangible assets	10	324,236	259,709
Investments	11	11,063	2,142
		<u>335,299</u>	<u>261,851</u>
<b>Current assets</b>			
Stocks		15,657	13,041
Debtors	12	93,508	81,722
Cash at bank and in hand		95,024	58,118
		<u>204,189</u>	<u>152,881</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(206,204)</u>	<u>(180,766)</u>
<b>Net current liabilities</b>			
Due within one year		(15,101)	(42,428)
Debtors due after one year	12	13,086	14,543
		<u>(2,015)</u>	<u>(27,885)</u>
<b>Total assets less current liabilities</b>		<u>333,284</u>	<u>233,966</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(217,200)</u>	<u>(133,175)</u>
<b>Provisions for liabilities and charges</b>	17	<u>(42,681)</u>	<u>(38,481)</u>
<b>Net assets</b>		<u>73,403</u>	<u>62,310</u>
<b>Capital and reserves</b>			
Called up share capital	18	13,080	13,080
Profit and loss account	19	60,323	49,230
<b>Equity shareholders' funds</b>		<u>73,403</u>	<u>62,310</u>

These financial statements were approved by the board of directors on 25 April 2002 and were signed on its behalf by:


  
**Sir Michael Bishop**      **Austin Reid**  
Director                      Director

**Reconciliation of movements in equity shareholders' funds**  
*for the year ended 31 December 2001*

	2001 £000	2000 £000
Profit for the financial year	7,489	7,760
Other recognised gains and losses relating to the year	3,604	442
	<hr/>	<hr/>
Net additions to shareholders' funds	11,093	8,202
Opening equity shareholders' funds as previously reported	62,310	58,004
Prior year adjustment	-	(3,896)
	<hr/>	<hr/>
Closing equity shareholders' funds	<u>73,403</u>	<u>62,310</u>

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

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

#### ***Basis of accounting***

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### ***Consolidation***

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual entity and not about its group.

#### ***Depreciation***

Aircraft and technical spares are depreciated using a straight line basis calculated to write down their cost to the current 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**

Aircraft	7 years to residual value
Rotables	5 - 15 years

The aircraft which the company owns are expected to have an operational life of between 15 and 20 years. However, the company has a policy of operating recently manufactured aircraft. Depreciation is charged to reduce the net book value of an aircraft to its estimated resale value at that time.

All other plant and equipment is depreciated on a straight line basis over five years except for motor vehicles (four years) and certain computer equipment which is depreciated over three years.

Freehold premises are being written down at 2% on cost per annum on the structure of the building and at 20% on cost per annum on refurbishments. Leasehold properties and improvements are written down over 5 to 20 years.

#### ***Stocks***

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

#### ***Aircraft maintenance costs***

For owned aircraft, the costs of periodic aircraft overhauls are capitalised within fixed assets. Depreciation, in addition to that charged against the original capital value is then charged against these maintenance assets at a variable rate dependant on the actual usage of the aircraft, such that, over time, the depreciation charge will match the related maintenance expenditure.

Provisions for periodic overhaul costs on an aircraft held under an operating lease are made with reference to the number of hours flown or similar basis over the period to the next major overhaul.

Routine maintenance is expensed in the year in which it is incurred.

## **Notes (continued)**

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

#### ***Foreign currency translations***

Monetary assets and liabilities denominated in foreign currencies are expressed 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. During 2000 the accounting policy in respect of owned aircraft was changed. Both owned aircraft and associated loans are now re-translated to the year end exchange rate with the resultant differences being taken to reserves. Previously, owned aircraft remained at their historic rate on the date of purchase, and the associated loans were re-translated to the year end rate, with any gain or loss going to the profit and loss account. This change in accounting policy was dealt with as a prior year adjustment within the financial statements for the year ended 31 December 2000.

#### ***Leased assets***

The cost of assets held under finance leases (or similar hire purchase contracts) is capitalised within the appropriate tangible fixed asset heading. The interest cost is charged over the term of the lease and the capital element of future lease payments is included in creditors.

Annual rentals payable or receivable under operating leases are charged or credited to the profit and loss account on a straight line basis over the lease term, unless another systematic and more rational basis is appropriate.

#### ***Deferred expenditure***

During 2000 the requirements of the accounting standard FRS 15 : 'Tangible Fixed Assets' were implemented. Introductory costs on aircraft fleet additions and new routes are now written off as incurred. This represented a change in accounting policy. Previously all such introductory costs were held in debtors and written off over their useful economic life. The change in accounting policy was dealt with as a prior year adjustment within the financial statements for the year ended 31 December 2000.

#### ***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. Provision is made for deferred taxation except to the extent that a liability is not expected to arise in the foreseeable future.

#### ***Pension costs***

The company operates a funded defined benefit pension scheme, and contributes to this scheme in accordance with recommendations from independent actuaries. Contributions are charged to the profit and loss account so as to spread the costs over the remaining working lives of the employees with the company.

#### ***Fixed asset investments***

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

#### ***Cash flow statement***

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

## Notes (continued)

### 2 Turnover

It is the view of the directors that all activities of the company fall within one class of business, that of airline operator.

Analysis of turnover by geographical area:

	2001 £000	2000 £000
Within the British Isles	308,796	314,597
Between the British Isles and Europe	403,047	405,596
Other	27,701	1,533
	<u>739,544</u>	<u>721,726</u>

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

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

### 3 Discontinued operations and exceptional items

	2001			2000		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Cost of sales	644,412	7,422	651,834	591,831	32,179	624,010
Administrative expenses	101,307	-	101,307	90,424	848	91,272
Administrative expenses - exceptional items	16,995	-	16,995	6,116	-	6,116
	<u>118,302</u>	<u>-</u>	<u>118,302</u>	<u>96,540</u>	<u>848</u>	<u>97,388</u>

Exceptional items in 2001 relate to restructuring charges (£13,442,000) (2000: £2,523,000) including redundancy costs, onerous lease obligations and accelerated depreciation on computer systems, and start-up costs incurred in respect of transatlantic operations (£3,553,000) (2000: £3,593,000).

A classification change between cost of sales and administrative expenses has been made in order to more fairly reflect the nature of the costs incurred. The 2000 figures have been adjusted to be comparable.

## Notes (continued)

### 4 Other interest receivable and similar income

	2001 £000	2000 £000
Bank interest	3,684	1,934
Other	290	-
	<u>3,974</u>	<u>1,934</u>

### 5 Interest payable and similar charges

	2001 £000	2000 £000
On bank loans and overdrafts whenever repayable and other loans wholly repayable within five years	783	628
On other loans repayable after more than five years	5,443	8,271
Aggregate finance charges and similar hire purchase interest	-	32
	<u>6,226</u>	<u>8,931</u>

### 6 Profit on ordinary activities before taxation

<i>Profit on ordinary activities before taxation is stated after charging/(crediting) the following:</i>	£000	£000
Depreciation of tangible fixed assets (note 10)	35,749	33,335
Hire of plant, machinery and aircraft	108,172	96,913
Other operating leases payable	11,080	11,965
Operating leases receivable	-	(366)
Auditors' remuneration - audit fee	64	74
- other fees	336	372
Net losses/(gains) on foreign currency	592	(1,823)
	<u></u>	<u></u>

### 7 Tax on profit on ordinary activities

<i>Amounts credited/(charged) in year:</i>	£000	£000
UK corporation tax at 30% - group relief current year	-	68
- UK corporation tax charge - prior year	-	(23)
Deferred taxation - current year	(4,596)	2,151
- prior year	1,302	(1,094)
	<u>(3,294)</u>	<u>1,102</u>

A deferred tax charge of £13.1 million resulted from the profit on sale of fixed assets and the profit on sale of discontinued operations. This has been offset by current year trading losses.

## Notes (continued)

### 8 Staff numbers and costs

	2001 Number	2000 Number
<i>The average number of persons employed by the company during the year was:</i>		
Flight deck and cabin crew	2,099	1,808
Service	1,766	3,099
Other	1,672	1,628
	<u>5,537</u>	<u>6,535</u>
	<u>£000</u>	<u>£000</u>
<i>The aggregate payroll costs of these persons were:</i>		
Wages and salaries	119,152	132,953
Social security costs	10,786	12,167
Other pension costs	8,823	8,134
	<u>138,761</u>	<u>153,254</u>

### 9 Emoluments of directors

	£000	£000
Directors' emoluments	1,499	1,457
Compensation for loss of office	292	-
	<u>1,791</u>	<u>1,457</u>

The aggregate emoluments of the highest paid director were £544,000 (2000: £421,000). He is a member of a defined benefit scheme, under which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end was £245,000 (2000: £211,000).

	Number of directors 2001	2000
<i>Retirement benefits are accruing to the following number of directors under:</i>		
Defined benefit schemes	<u>3</u>	<u>3</u>

# Notes (continued)

## 10 Tangible fixed assets

	Property		Aircraft, engines and spares			Plant and machinery			Motor vehicles	Payments on account	Total
	Freehold property £000	Short leasehold and leasehold improvements £000	Refurbishment of operating leased aircraft £000	Owned £000	Held under finance lease £000	Sub-total £000	Owned £000	Held under finance lease and hire purchase contracts £000	Sub-total £000		
<b>Cost:</b>											
At 1 January 2001	11,252	29,652	40,904	173,130	1,114	207,622	68,508	6,079	74,587	30,763	354,429
Exchange movements	-	-	33,378	2,799	-	2,799	-	-	-	-	2,799
Additions	9	1,593	16,817	153,132	-	169,949	12,764	-	12,764	8,975	193,431
Transfers	(36)	36	-	23,141	-	23,141	190	-	190	(23,331)	-
Disposals	(550)	(862)	(716)	(81,635)	-	(82,351)	(27,847)	-	(27,847)	-	(111,877)
At 31 December 2001	10,675	30,419	41,094	270,567	1,114	321,160	53,615	6,079	59,694	16,407	438,782
<b>Accumulated depreciation:</b>											
At 1 January 2001	3,038	11,426	14,464	19,211	1,114	37,556	36,226	6,079	42,305	-	94,720
Exchange movements	-	-	17,231	843	-	843	-	-	-	-	843
Charged in year	419	3,317	4,465	17,623	-	22,088	9,852	-	9,852	-	35,749
Disposals	-	(728)	(352)	-	-	(352)	(15,450)	-	(15,450)	-	(16,766)
At 31 December 2001	3,457	14,015	21,344	37,677	1,114	60,135	30,628	6,079	36,707	-	114,546
<b>Net book value:</b>											
At 31 December 2001	7,218	16,404	23,622	232,890	-	261,025	22,987	-	22,987	16,407	324,236
At 31 December 2000	8,214	18,226	26,440	153,919	-	170,066	32,282	-	32,282	30,763	259,709

## Notes (continued)

### 10 Tangible fixed assets (continued)

- (a) At 31 December 2001 the company had authorised and contracted for capital commitments totalling £114,234,000 (2000: £258,950,000).
- (b) Freehold property includes £1,360,000 (2000: £1,360,000) relating to land which is not depreciated.

### 11 Investments

	Unlisted investment £000	Subsidiary undertakings £000	Quoted investments £000	Total £000
Cost at 1 January 2001	-	2,134	8	2,142
Additions	8,921	-	-	8,921
Cost at 31 December 2001	8,921	2,134	8	11,063
Net book value at 31 December 2001	8,921	2,134	8	11,063
Net book value at 31 December 2000	-	2,134	8	2,142

During the year, the company invested £8.9 million in the Airline Group Limited, a company which was incorporated in order to bid to acquire 46% of National Air Traffic Services (No 2) Limited. The directors have considered the carrying value of this investment in light of both its strategic value for the airline and the long-term return that it is expected to generate. No adjustment to the carrying value has been proposed but this will continue to be monitored on an annual basis.

The company's quoted investment is a beneficial economic interest in shares of a listed company, held and controlled by independent trustees. Any future realisation is at the discretion of the trustees. At 31 December 2001 its market value was £946,000 (2000: £1,881,000).

### 12 Debtors

	2001 £000	2000 £000
<i>Amounts falling due within one year:</i>		
Trade debtors	62,417	47,045
Amounts owed by group undertaking	334	173
Other debtors	2,498	422
Prepayments and accrued income	15,173	19,539
	80,422	67,179
<i>Amounts falling due after more than one year:</i>		
Prepayments and accrued income	13,086	14,543
	93,508	81,722

## Notes (continued)

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

	2001 £000	2000 £000
Loans and obligations under finance leases and hire purchase contracts	23,928	21,084
Trade creditors	58,445	54,229
Amounts owed to group undertakings	8,725	6,615
Corporation tax	1,070	1,070
Other taxation and social security	2,696	3,341
Accruals and deferred income	111,340	94,427
	<u>206,204</u>	<u>180,766</u>

The loans, finance leases and hire purchase contracts are secured on the assets which form the object of the lease or contract.

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

	£000	£000
<i>Loans and obligations under finance leases and hire purchase contracts repayable:</i>		
In one to two years	14,350	16,718
In two to five years	49,716	39,777
After more than five years	151,402	76,680
	<u>215,468</u>	<u>133,175</u>
Accruals and deferred income	1,732	-
	<u>217,200</u>	<u>133,175</u>

The loans, finance leases and hire purchase contracts are secured on the assets which form the object of the lease or contract.

The total amount repayable by instalments after 31 December 2001 in respect of loans and obligations under finance leases and hire purchase contracts which expire after more than five years is £219,079,000 (2000: £124,004,000) of which £151,402,000 (2000: £76,680,000) falls due after more than five years from the balance sheet date.

Interest on principal loans is at rates varying from 2.10% to 7.38% per annum.

### 15 Operating lease 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	
	2001 £000	2000 £000	2001 £000	2000 £000
<i>Lease expiry within:</i>				
One year	1,218	991	2,120	1,613
Two to five years	959	337	60,661	57,242
More than five years	2,814	5,340	38,291	21,135
	<u>4,991</u>	<u>6,668</u>	<u>101,072</u>	<u>79,990</u>

## Notes (continued)

### 16 Commitments under finance leases and hire purchase contracts

The future minimum lease payments, net of related finance charges, to which the company was committed as at 31 December 2001 under finance lease obligations and hire purchase contracts are as follows:

	2001 £000	2000 £000
<i>Payable within:</i>		
One year	-	12
	<u>          </u>	<u>          </u>

### 17 Provisions for liabilities and charges

	Mainten- ance £000	Deferred taxation £000	Total £000
At 1 January 2001	25,570	12,911	38,481
Profit and loss account – charged/(credited) in the year	47,098	(314)	46,784
Utilised	(42,584)	-	(42,584)
<b>At 31 December 2001</b>	<b><u>30,084</u></b>	<b><u>12,597</u></b>	<b><u>42,681</u></b>

Deferred taxation provided and unprovided at 30% tax rate (2000: 30%), is analysed as follows:

	Amounts provided		Amounts unprovided	
	2001 £000	2000 £000	2001 £000	2000 £000
Excess of capital allowances over depreciation charged	11,613	12,908	7,543	7,485
Other timing differences	1,192	211	-	-
ACT recoverable	(208)	(208)	-	-
	<u>12,597</u>	<u>12,911</u>	<u>7,543</u>	<u>7,485</u>

### 18 Share capital

	2001 £000	2000 £000
<i>Authorised, issued and fully paid:</i>		
13,080,000 ordinary shares of £1 each	<b><u>13,080</u></b>	<b><u>13,080</u></b>

## Notes (continued)

### 19 Reserves

	2001 £000	2000 £000
<b>Profit and loss account</b>		
At 1 January as previously reported	49,230	44,924
Prior year adjustment	-	(3,896)
At 1 January as restated	49,230	41,028
Retained profit for the financial year	7,489	7,760
Exchange movements	3,604	442
At 31 December	<u>60,323</u>	<u>49,230</u>

### 20 Pensions

The company operates a funded defined benefit pension scheme. The assets of the scheme are held separately from those of the company and are invested with insurance companies / investment managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over the employees' remaining working lives with the company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the defined accrued benefit method. The most recent valuation was at 1 August 1999. The assumptions which have the most significant effect on the result of the valuation are those relating to the growth of investments and the rates of increases in salaries. It was assumed that investment returns would be 8.0%, that salaries would increase by 5.0% and that dividends would grow by 5.0% per annum.

The pension charge for the period (excluding members own contributions) was £8,823,000 (2000: £8,134,000). The SSAP 24 balance, included within debtors, at 31 December 2001 was £2,475,000 (2000: £nil) and is being spread over the remaining service lives of the employees in the scheme.

The most recent actuarial valuation showed that the value of the Schemes' investments was 90% of the value of the benefits that had accrued to members. The contributions of the company and employees during 2001, as a percentage of annual earnings, range between 10.9% and 16.5% and 5.6% and 9.1% respectively.

At the date of the latest actuarial valuation the market value of the Scheme's assets was £110,599,000.

#### **Additional FRS 17 disclosures**

Whilst the company continues to account for pension costs in accordance with SSAP 24 'Accounting for pension costs', under FRS 17 'Retirement benefits', the following transitional disclosures are required.

The company operates a defined benefit scheme called the British Midland Airways Limited Pension & Life Assurance Scheme and the funding assessment on it was carried out as at 31 July 2001. A qualified independent actuary updated the results of that valuation to obtain the figures in this disclosure note.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	At 31 Dec 01
Rate of increase in salaries	2.60%
Rate of increase in pensions in payment (where Limited Price Indexation)	2.60%
Discount rate	6.08%
Inflation assumption	2.60%
Increase to deferred benefits during deferment	2.60%

## Notes (continued)

### 20 Pensions (continued)

The assets of the scheme and the expected rates of return for FRS 17 purposes were:

	Long-term rate of return expected at 31 Dec 01	Value at 31 Dec 01 £000
Equities	7.04%	101,443
Gilts and bonds	5.56%	31,697
Cash	2.60%	3,638
		<hr/>
Total market value of assets		136,778
Present value of scheme liabilities		(155,943)
		<hr/>
Deficit in the scheme		(19,165)
Related deferred tax asset		5,750
		<hr/>
Net pension liability		(13,415)
		<hr/>

### 21 Subsidiary undertakings

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

	% owned	Where registered	Nature of business
BMI Airways Limited	100	England and Wales	Dormant
International Cargo Marketing Limited	100	England and Wales	Dormant
British Midland Regional Limited	100	Scotland	Airline operator

### 22 Related party transactions

As the company is a wholly owned subsidiary of British Midland PLC ('BM PLC') the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of BM PLC, within which this company is included, can be obtained from the address given in note 24.

#### *Midland Airport Services Limited*

During the year the company bought an aggregate of £771,000 (2000: £3,382,000) of handling services from Midland Airport Services Limited, a company owned by certain directors of the ultimate holding company until March 2001. The balance owing by British Midland Airways Limited at 31 December 2001 was £nil (2000: £248,000).

#### *Scandinavian Airlines System Denmark, Norway, Sweden ('SAS')*

The company had net receipts of £37,109,000 (2000: £11,650,000) in respect of interline billing, other passenger revenue sharing arrangements, handling and other services from SAS and its subsidiaries. The net balance owing to British Midland Airways Limited at 31 December 2001 was £13,178,000 (2000: £2,734,000).

## **Notes** *(continued)*

### **22 Related parties** *(continued)*

#### ***Deutsche Lufthansa Aktiengesellschaft ('Lufthansa')***

The company had net receipts of £26,142,000 (2000: £19,676,000) in respect of interline billing, handling and other passenger revenue sharing arrangements from Lufthansa and its subsidiaries. The net balance owing to British Midland Airways Limited at 31 December 2001 was £17,701,000 (2000: £9,902,000).

A loan taken out during the year for US\$43 million has been guaranteed by Lufthansa.

### **23 Commitments**

A substantial portion of capital expenditure, leasing commitments, fuel and other purchases are payable in US Dollars and Euros. Forward purchase contracts amounting in aggregate to US\$170,000,000 (2000: US\$233,000,000) and €32,000,000 (2000: *€nil*) outstanding at 31 December 2001, have been made to cover part of the exposure risk.

Capital commitments are disclosed in note 10.

### **24 Parent company and ultimate holding company**

The company is a wholly owned subsidiary of British Midland PLC, a company registered in England and Wales. The company is exempt from the requirement to prepare group financial statements because its results are included in the consolidated financial statements of that company.

The ultimate holding company and controlling party is The BBW Partnership Limited, a company registered in England and Wales, which also prepares consolidated financial statements.

Copies of the financial statements of British Midland PLC and The BBW Partnership Limited can be obtained from the Registrar of Companies, Crown Way, Cardiff.