

British Midland PLC and subsidiary undertakings

**Directors' report and consolidated
financial statements**

31 December 1998
Registered number 2107441



Financial statements

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Company information

Directors

Sir Michael Bishop CBE (Chairman)
JT Wolfe
SF Balmforth
A Reid CA
GN Elliott CBE FCA (non-executive)
G Reitan (Nor) (non-executive)
JG Stenberg (Swe) (non-executive)
F Turner

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 1998.

Business review

The activities of the group fall within one class of business, that of airline operator.

There has been no change in the nature of these activities during the year.

	1998	1997
	£000	£000
Turnover	558,775	576,000
Profit before taxation	11,002	16,760

Dividends and transfers to reserves

The company has proposed a dividend of £2,000,000 (1997: £4,000,000) in respect of the year ended 31 December 1998.

The retained profit for the financial year of £6,432,000 has been transferred to reserves (1997: £7,669,000).

Employees

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

The group 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 group's employment.

Directors and their interests

The directors who served during the year are as set out on page 1. The interests of the directors in the shares of the company were as follows:

	Ordinary shares as at 31 Dec 98	Ordinary shares as at 31 Dec 97
Sir Michael Bishop CBE	36,100,220	36,100,220
JT Wolfe	1,294,697	1,294,697
SF Balmforth	1,294,696	1,294,696
A Reid	193,363	193,363
GN Elliott CBE	170,000	170,000
G Reitan	-	-
JG Stenberg	-	-
F Turner	-	-

The interest of The BBW Partnership Limited in the issued share capital of British Midland PLC has been ascribed to Sir Michael Bishop CBE by virtue of the provisions of section 13 paragraph 5 of the Companies Act 1985.

Directors' report *(continued)*

Directors and their interests*(continued)*

The interests of the directors in the shares of The BBW Partnership Limited, the ultimate parent company, are disclosed in the financial statements of that company.

Substantial shareholding

There is an interest in the company totalling 40% of the issued shares held by Scandinavian Airlines System Denmark Norway Sweden.

Donations

Donations for charitable purposes amounted to £2,000 (1997: £1,000).

Year 2000

The year 2000 computer problem is generally recognised as being the most significant issue currently facing businesses throughout the world. British Midland, like every group, is affected by the issue. It has, therefore, established a full time Year 2000 Programme, to assist business continuity before, during and beyond the millennium date change.

This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to a significant degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issue.

A project has been in place since 1997 to address the Year 2000 issue. This established a team to identify the risks arising due to Year 2000 and to formulate a strategy and procedures to ensure risks are minimised or eliminated as appropriate.

At this stage £7.9 million has been expended on remedial action and it is estimate that a further £10.6 million is to be spent.

EMU

The directors have assessed the likely impact on the group in respect of monetary union. They do not feel that there will be any initial effect on the operations of the business and any potential costs of adoption are not anticipated to be material to the group's financial statements.

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 company does not have any trade creditors and accordingly no calculation of creditors' days is possible.

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



TJ Bye
Secretary

14 April 1999

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 group and of the profit 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 group 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 group 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 group and to prevent and detect fraud and other irregularities.



St Nicholas House
Park Row
Nottingham
NG1 6FQ

Report of the auditors to the members of British Midland PLC

We have audited the financial statements on pages 7 to 28.

Respective responsibilities of directors and auditors

As described on page 5, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

14 April 1999

*Chartered Accountants
Registered Auditors*

Consolidated profit and loss account
for the year ended 31 December 1998

	Note	1998		1997	
		£000	£000	£000	£000
Turnover	2				
Continuing operations		558,775		542,930	
Discontinued operations		-		33,070	
			558,775		576,000
Cost of sales	3		(467,044)		(478,299)
Gross profit			91,731		97,701
Administrative expenses	3		(81,899)		(80,778)
Operating profit					
Continuing operations		9,832		18,246	
Discontinued operations		-		(1,323)	
			9,832		16,923
Profit on disposal of fixed assets	7		2,657		-
Net profit on disposal of subsidiary undertakings	4		-		147
Interest receivable and similar income	5		2,173		2,587
Interest payable and similar charges	6		(3,660)		(2,897)
Profit on ordinary activities before taxation	7		11,002		16,760
Taxation	8		(2,570)		(5,091)
Profit on ordinary activities after taxation			8,432		11,669
Dividends	9		(2,000)		(4,000)
Retained profit for the financial year	24		6,432		7,669

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.

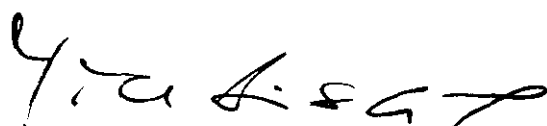
There were no recognised gains or losses in either the current or preceding years, other than those disclosed in the profit and loss account.

A statement of movements of reserves is given in note 24 to the financial statements.

Consolidated balance sheet
at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Intangible assets	13	1,409	-
Tangible assets	14	175,737	110,138
Investments	15	2	2
		<u>177,148</u>	<u>110,140</u>
Current assets			
Stock		9,971	8,165
Debtors	16	74,950	76,211
Cash at bank and in hand		34,389	42,608
		<u>119,310</u>	<u>126,984</u>
Creditors: amounts falling due within one year	17	<u>(146,791)</u>	<u>(137,204)</u>
Net current (liabilities)/assets			
Due within one year		(33,524)	(17,698)
Debtors due after one year		6,043	7,478
		<u>(27,481)</u>	<u>(10,220)</u>
Total assets less current liabilities		<u>149,667</u>	<u>99,920</u>
Creditors: amounts falling due after more than one year	18	<u>(75,806)</u>	<u>(35,339)</u>
Provisions for liabilities and charges	21	<u>(24,479)</u>	<u>(21,631)</u>
Net assets		<u>49,382</u>	<u>42,950</u>
Capital and reserves			
Called up share capital	22	16,272	16,272
Balance arising on reorganisation	23	(12,143)	(12,143)
Share premium	24	7,568	7,568
Statutory reserve	24	387	387
Profit and loss account	24	37,298	30,866
Equity shareholders' funds		<u>49,382</u>	<u>42,950</u>

These financial statements were approved by the board of directors on 14 April 1999 and were signed on its behalf by:


Sir Michael Bishop
Director


Austin Reid
Director

Balance sheet
at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	14	-	3
Investments	15	31,654	33,147
		<u>31,654</u>	<u>33,150</u>
Current assets			
Debtors	16	2,825	2,122
Cash at bank and in hand		-	32
		<u>2,825</u>	<u>2,154</u>
Creditors: amounts falling due within one year	17	(7,340)	(9,272)
Net current (liabilities)/assets			
Due within one year		(4,515)	(7,773)
Debtors due after one year		-	655
		<u>(4,515)</u>	<u>(7,118)</u>
Total assets less current liabilities		<u>27,139</u>	<u>26,032</u>
Creditors: amounts falling due after more than one year	18	-	(255)
Net assets		<u>27,139</u>	<u>25,777</u>
Capital and reserves			
Called up share capital	22	16,272	16,272
Share premium	24	7,568	7,568
Profit and loss account	24	3,299	1,937
Equity shareholders' funds		<u>27,139</u>	<u>25,777</u>

These financial statements were approved by the board of directors on 14 April 1999 and were signed on its behalf by:


Sir Michael Bishop
Director


Austin Reid
Director

Consolidated cash flow statement
for the year ended 31 December 1998

	<i>Notes</i>	1998 £000	1997 £000
Cash flow from operating activities	25	27,763	32,392
Returns on investments and servicing of finance	27	(1,877)	155
Taxation		(663)	-
Dividends		(1,500)	(2,500)
Capital expenditure and financial investment	27	(80,010)	(32,038)
Acquisitions and disposals	27	-	(3,505)
Cash outflow before use of liquid resources and financing		(56,287)	(5,496)
Financing	27	48,442	6,659
(Decrease)/increase in cash		(7,845)	1,163

Reconciliation of net cash flow to movement in net funds/debt

	1998 £000	1997 £000
(Decrease)/increase in cash in the year	(7,845)	1,163
Cash inflow from increase in debt and lease financing	(48,442)	(6,659)
Change in net debt resulting from cash flows	(56,287)	(5,496)
Loans associated with disposal of subsidiaries	-	17,674
Translation differences	2,527	(2,492)
Movement in net funds/debt in year	(53,760)	9,686
Net debt at 1 January	(1,922)	(11,608)
Net debt at 31 December	26	(55,682)

Reconciliation of movements in shareholders' funds

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Profit for the financial year	8,432	11,669	3,362	1,034
Dividends	(2,000)	(4,000)	(2,000)	(4,000)
Net addition to/(reduction in) shareholders' funds	6,432	7,669	1,362	(2,966)
Opening shareholders' funds (1997: originally £32,601,000 before prior period adjustment of £2,680,000)	42,950	35,281	25,777	28,743
Closing shareholders' funds	49,382	42,950	27,139	25,777

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 and the group.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards except for the treatment of certain gains on long term foreign currency loans, as described in note 7.

Basis of consolidation

Details of subsidiaries are given in note 29. The consolidated financial statements have been prepared from the financial statements of the company and its subsidiaries, all of which have been drawn up for the period ended 31 December 1998. As permitted by section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the holding company only has not been presented.

Except where merger accounting is adopted any difference between the assets of subsidiaries acquired and the purchase consideration is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. This represents a change in accounting policy which has arisen due to the adoption of Financial Reporting Standard Number 10. In the previous year, positive goodwill was written off directly to reserves.

The effect of this change in accounting policy is to decrease the profit for the year by £74,000 (1997: £nil) and to increase the profit and loss reserve by £1,409,000 (1997: £nil).

Aircraft maintenance costs

Future expenditure on each aircraft's next major airframe and engine overhaul is estimated and an accrual made on a flying hour or other appropriate basis so as to spread the cost of the maintenance over the period to the next major overhaul.

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

Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies are expressed at the rates 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 rates prevailing at the date the transaction occurred, or at the contracted rate where applicable. Exchange adjustments due to fluctuations arising in the normal course of business are included in the profit or loss before tax except as explained in note 7.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

The current estimates of economic life are as follows:

Asset type	Economic life
Aircraft	19 years from date of construction
Rotables	5 to 15 years
Simulator	15 years

All other plant and equipment is depreciated on a straight line basis over 5 years except handling equipment, motor vehicles and certain computer equipment which are 7, 4 and 3 years respectively.

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 at 20% on cost per annum.

Pension costs

The group operates a number of funded defined benefit pension schemes, and contributes to these schemes 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 within the group.

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off.

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.

Stocks

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

Notes (continued)

1 Accounting policies (continued)

Deferred expenditure

Expenditure on new operations and aircraft introductory costs are charged over the following periods:

Introductory costs on aircraft fleet additions	- within 2 years of commencement of passenger carrying services
New routes	- within 1 year of commencement of passenger carrying services
Pilot training	- within 5 years of commencement of flying

2 Turnover

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

The activities of the group may be analysed as follows:

	1998		1997	
	Continuing	Continuing	Discontinued	Total
	operations	operations	operations	
	£000	£000	£000	£000
Passenger scheduled services	481,329	464,823	31,497	496,320
Charter and leasing	24,375	29,413	777	30,190
Aircraft handling services	25,571	22,405	-	22,405
Cargo services	14,239	15,821	365	16,186
Bar sales	1,296	3,909	105	4,014
Other	11,965	6,559	326	6,885
	<u>558,775</u>	<u>542,930</u>	<u>33,070</u>	<u>576,000</u>

Revenue from passenger scheduled services is gross of travel agents' commission.

Analysis of turnover by geographical area:

	1998		1997	
	Continuing	Continuing	Discontinued	Total
	operations	operations	operations	
	£000	£000	£000	£000
Within the British Isles	262,664	236,079	27,465	263,544
Between British Isles and Europe	295,198	305,743	1,391	307,134
Between British Isles and Middle East	-	1,108	-	1,108
Other	913	-	4,214	4,214
	<u>558,775</u>	<u>542,930</u>	<u>33,070</u>	<u>576,000</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 group are managed and administered on a central basis within the British Isles following the sale of the Regional Airline companies. As a result it would not be possible to provide a meaningful analysis of the operating results and net assets of the group on a route by route basis. Consequently the operating results and net assets of the group are not shown across the geographical areas defined.

Notes (continued)

3 Net operating expenses

	1998 Continuing operations £000	Continuing operations £000	1997 Discontinued operations £000	Total £000
Cost of sales	467,044	447,502	30,797	478,299
Administrative expenses	81,899	77,182	3,596	80,778

4 Net profit on disposal of subsidiary undertakings

	1998 £000	1997 £000
Profit on sale of Regional Airlines	-	147

5 Interest receivable and similar income

	1998 £000	1997 £000
Interest receivable	2,173	2,587

6 Interest payable and similar charges

	1998 £000	1997 £000
On bank loans and overdrafts whenever repayable and other loans wholly repayable within 5 years of the year end	53	204
On other loans repayable after more than 5 years from the year end	28	46
Aggregate finance charges and similar hire purchase interest	3,579	2,647
	3,660	2,897

Notes (continued)

7 Profit on ordinary activities before taxation

	1998	1997
	£000	£000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting) the following:</i>		
Amortisation of goodwill	74	-
Depreciation of tangible fixed assets (note 14)	15,232	12,404
Amortisation of deferred expenditure	1,287	3,535
Hire of plant, machinery and aircraft	70,166	65,434
Other operating leases payable	8,351	6,945
Operating leases receivable	(144)	(144)
Auditors' remuneration: - audit fee	85	82
- other fees	117	281
Net loss on foreign currency exchange	2,449	4,586
(Profit)/loss on sale of fixed assets	(2,657)	180
	<u> </u>	<u> </u>

The fees paid to the auditors in respect of audit services for the company were £6,000 (1997: £10,000).

Exchange gains amounting to £2,627,000 arising from the translation of dollar denominated long term liabilities, have not been credited to the profit and loss account as would normally be required by SSAP 20, as the directors consider the US Dollar exchange rate prevailing at the balance sheet date to be unsustainable in the foreseeable future such that it would be imprudent to recognise these unrealised gains in the profit and loss account.

The long term liabilities have been retranslated in accordance with the accounting policy but the resulting gains have been deferred and are included within accruals and deferred income.

8 Taxation

	1998	1997
	£000	£000
<i>Amounts credited/(charged) in year:</i>		
UK Corporation tax at 31% - current year	88	(3,241)
- prior year	-	(492)
Deferred taxation: - current year	(2,607)	(2,320)
- prior year	(135)	432
- change in rate	84	530
	<u> </u>	<u> </u>
	(2,570)	(5,091)
	<u> </u>	<u> </u>

An exceptional profit of £2,699,000 arose on the sale of an asset during the year. The capital gain relating to this disposal has been held over against future qualifying investment.

Deferred taxation has been provided at 30% (1997: 31%) to the extent that such liability is expected to arise in the foreseeable future. Detailed analysis is contained in note 21.

Notes (continued)

9 Dividends

	1998 £000	1997 £000
<i>Dividends on equity shares:</i>		
Interim dividend paid of nil (1997: 9.6p) per share	-	2,500
Final dividend proposed of 3.1p (1997: 2.3p) per share	2,000	1,500
	<u>2,000</u>	<u>4,000</u>

In 1997 the interim dividend paid of £2,500,000 represented 40% of the total dividend of £6,250,000. The remaining 60%, ie £3,750,000, was waived by the shareholders.

10 Profit on ordinary activities attributable to the shareholders

Of the group profit attributable to shareholders, a profit of £1,362,000 (1997: loss of £2,966,000) is dealt with in the financial statements of the holding company.

11 Staff numbers and costs

	1998 Number	1997 Number
<i>The average number of persons employed by the group during the year was:</i>		
Finance	284	315
Administration and personnel	98	80
IT	121	88
Service	3,384	2,888
Sales and marketing	213	197
Operations	696	686
Engineering	736	750
Cargo and commercial	84	75
	<u>5,616</u>	<u>5,079</u>
	<u>£000</u>	<u>£000</u>
<i>The aggregate payroll costs of these persons were:</i>		
Wages and salaries	107,726	94,920
Social security costs	10,204	8,958
Other pension costs	5,576	4,781
	<u>123,506</u>	<u>108,659</u>

Notes (continued)

12 Emoluments of directors

	1998 £000	1997 £000
Directors' emoluments	1,475	1,360
Company contributions to money purchase pension schemes	56	27
	<u>1,531</u>	<u>1,387</u>

The aggregate emoluments of the highest paid director were £456,000 (1997: £436,000). 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 £97,000 (1997: £73,000).

	Number of directors 1998	1997
<i>Retirement benefits are accruing to the following number of directors under:</i>		
Money purchase scheme	1	1
Defined benefit schemes	3	3

13 Intangible assets

	Positive goodwill £000
<i>Cost:</i>	
At 1 January 1998	-
Additions	1,483
At 31 December 1998	<u>1,483</u>
<i>Provisions for amortisation and impairment:</i>	
At 1 January 1998	-
Amortisation charged in the year	74
At 31 December 1998	<u>74</u>
<i>Net book value:</i>	
At 31 December 1998	<u>1,409</u>
At 31 December 1997	<u>-</u>

The positive goodwill arose upon the reassessment of the estimated net assets of Business Air Limited. This company was acquired by the group on 31 December 1997.

The goodwill arising as a result of this transaction is being amortised over a period of 20 years. The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises.

Notes (continued)

14 Tangible fixed assets

The Group

	Property		Aircraft engines and spares		Plant and machinery		Motor vehicles	Payments on account	Total
	Freehold property £000	Short leasehold and leasehold improvements £000	Capitalised maintenance and refurbishment of operating leased aircraft £000	Owned £000	Held under finance lease £000	Owned £000	Sub-total £000		
Cost:									
At 1 January 1998	11,082	9,412	8,308	62,791	1,114	38,103	52,330	10,770	156,439
Additions	-	8,978	10,287	67,572	-	14,128	14,128	6,696	107,716
Transfers	-	-	-	5,132	-	-	5,132	(5,132)	-
Disposals	(73)	-	-	(26,504)	-	(686)	(686)	-	(27,310)
At 31 December 1998	11,009	18,390	18,595	108,991	1,114	51,545	65,772	12,334	236,845
Depreciation:									
At 1 January 1998	2,437	4,500	4,065	9,440	1,114	15,872	24,379	-	46,301
Charged in year	173	1,640	2,668	5,183	-	3,946	5,489	-	15,232
Disposals	-	-	-	(199)	-	(215)	(215)	-	(425)
At 31 December 1998	2,610	6,140	6,733	14,424	1,114	19,603	29,653	-	61,108
Net book value:									
At 31 December 1998	8,367	12,282	12,024	94,405	-	31,942	36,119	12,334	175,737
At 31 December 1997	8,645	4,912	4,243	53,351	-	22,231	27,951	10,770	110,138

Notes (continued)

14 Tangible fixed assets (continued)

The Company	Plant and machinery Owned £000
<i>Cost and net book value:</i>	
At 1 January 1998	3
Disposals	(3)
	<hr/>
At 31 December 1998	-
	<hr/> <hr/>

- (a) At 31 December 1998 the group had authorised and contracted for capital commitments totalling £216,228,000 (1997: £252,639,000).
- (b) Within the category of plant and machinery there is an amount of £828,222 (1997: £828,000) included in cost in respect of capitalised interest.
- (c) Freehold property includes £1,360,000 (1997: £1,360,000) relating to land which is not depreciated.

15 Investments

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Cost at 1 January 1998	1,206	1,224	33,147	41,835
Additions	-	-	-	1,484
Disposals	-	(18)	-	-
Transfer to group company	-	-	(1,484)	(10,172)
	<hr/>	<hr/>	<hr/>	<hr/>
Cost at 31 December 1998	1,206	1,206	31,663	33,147
	<hr/>	<hr/>	<hr/>	<hr/>
Provisions at 1 January 1998	1,204	1,204	-	5,000
Charge in year	-	-	9	-
Disposals	-	-	-	(5,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Provisions at 31 December 1998	1,204	1,204	9	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cost less provisions	2	2	31,654	33,147
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Investments held by the company are shares in subsidiary undertakings.

Notes (continued)

16 Debtors

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
<i>Amounts falling due within one year:</i>				
Trade debtors	36,920	35,111	-	-
Amounts owed by subsidiary undertakings	-	-	2,820	732
Other debtors	2,371	10,754	5	360
Prepayments and accrued income	27,360	20,568	-	-
Deferred expenditure	2,256	1,370	-	-
ACT recoverable	-	930	-	375
	<u>68,907</u>	<u>68,733</u>	<u>2,825</u>	<u>1,467</u>
<i>Amounts falling due after more than one year:</i>				
Deferred expenditure	6,043	1,317	-	-
Other debtors	-	6,161	-	655
	<u>6,043</u>	<u>7,478</u>	<u>-</u>	<u>655</u>
	<u>74,950</u>	<u>76,211</u>	<u>2,825</u>	<u>2,122</u>

17 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Loans and obligations under finance leases and hire purchase contracts	14,265	9,191	-	351
Trade creditors	26,926	23,363	-	-
Amounts owed to subsidiary undertakings	-	-	4,848	4,833
Taxation	4,401	5,152	-	665
ACT Payable	314	375	-	375
PAYE and NI deductions	3,373	3,534	-	-
Other creditors	963	3,525	456	1,486
Accruals and deferred income	94,549	90,564	36	62
Dividends	2,000	1,500	2,000	1,500
	<u>146,791</u>	<u>137,204</u>	<u>7,340</u>	<u>9,272</u>

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

Notes (continued)

18 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
<i>Loans and obligations under finance leases and hire purchase contracts repayable:</i>				
Within one to two years	10,273	5,765	-	255
Within two to five years	17,618	5,684	-	-
After more than five years	47,915	23,890	-	-
	<u>75,806</u>	<u>35,339</u>	<u>-</u>	<u>255</u>

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

The total amount repayable by instalments after 31 December 1998 in respect of loans and obligations under finance leases and hire purchase contracts which expire after more than five years is £75,764,000 (1997: £32,202,000) of which £47,915,000 (1997: £23,890,000) falls due after more than five years from the balance sheet date.

Interest on principal loans is at rates varying from 5.5625% to 7.75% per annum.

19 Operating lease commitments

The minimum non-cancellable operating lease payments to which the group 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	
	1998	1997	1998	1997
	£000	£000	£000	£000
<i>Lease expiry within:</i>				
One year	1,115	861	6,948	4,545
Two to five years	1,294	1,168	33,677	39,971
More than five years	4,406	2,947	32,643	31,608
	<u>6,815</u>	<u>4,976</u>	<u>73,268</u>	<u>76,124</u>

20 Commitments under finance lease and hire purchase contracts

The future minimum lease payments, net of related finance charges, to which the group was committed as at 31 December 1998 under finance lease obligations and hire purchase contracts are as follows:

	1998	1997
	£000	£000
<i>Payable within:</i>		
One year	767	990
One to two years	749	759
Two to five years	197	954
More than five years	-	-
	<u>1,713</u>	<u>2,703</u>

Notes (continued)

21 Provisions for liabilities and charges

The Group	Mainten- ance £000	Deferred taxation £000	Total £000
At 1 January 1998	13,329	8,302	21,631
Profit and loss account	29,273	2,658	31,931
Utilised	(28,214)	-	(28,214)
ACT recoverable	-	(869)	(869)
At 31 December 1998	<u>14,388</u>	<u>10,091</u>	<u>24,479</u>

Deferred taxation provided, and the full potential liability, at 30% tax rate (1997: 31%), is analysed as follows:

	Amounts provided		Full potential liability	
	1998 £000	1997 £000	1998 £000	1997 £000
Excess of capital allowances over depreciation charged	11,600	8,280	11,600	8,280
Other timing differences	(640)	22	762	22
ACT recoverable	(869)	-	(869)	-
	<u>10,091</u>	<u>8,302</u>	<u>11,493</u>	<u>8,302</u>

The Company

There is no liability for deferred taxation either provided or not provided.

22 Share capital

	1998 £000	1997 £000
<i>Authorised:</i>		
68,987,590 ordinary shares of 25p each	<u>17,247</u>	<u>17,247</u>
<i>Issued and fully paid:</i>		
65,088,293 ordinary shares of 25p each	<u>16,272</u>	<u>16,272</u>

23 Balance arising on reorganisation

	1998 £000	1997 £000
At 1 January and 31 December 1998	<u>(12,143)</u>	<u>(12,143)</u>

The balance arose in 1987 following the reorganisation of the group and formation of British Midland PLC. It represents the difference between the nominal value of shares issued in British Midland PLC and the nominal value of shares in British Midland Holdings Limited acquired in exchange.

Notes (continued)

24 Reserves

Share premium account	Group and Company	
	1998 £000	1997 £000
At 1 January	7,568	19,827
Capital reduction	-	(12,259)
At 31 December	<u>7,568</u>	<u>7,568</u>

On 20 July 1997 the company reduced its share premium account by £12,259,000 by Order of the High Court of Justice.

Statutory reserve	Group	
	1998 £000	1997 £000
At 1 January and 31 December	<u>387</u>	<u>387</u>

This reserve arises as a result of a statutory transfer from the profit and loss account reserve of the group's insurance subsidiary. It may only be distributed upon the fulfilment of certain conditions with the approval of the Isle of Man Insurance Authority.

Profit and loss account	Group		Company	
	1998 £000	1997 As restated £000	1998 £000	1997 £000
At 1 January (as previously reported)	30,866	8,258	1,937	(7,356)
Prior period adjustment	-	2,680	-	-
As restated	<u>30,866</u>	<u>10,938</u>	<u>1,937</u>	<u>(7,356)</u>
Retained profit/(loss) for the financial year	6,432	7,669	1,362	(2,966)
Capital reduction	-	12,259	-	12,259
At 31 December	<u>37,298</u>	<u>30,866</u>	<u>3,299</u>	<u>1,937</u>

The prior year adjustment represents the reinstatement of goodwill as a result of the change in accounting policy detailed in note 1. In the previous year this goodwill was charged to the profit and loss account upon the disposal of the businesses to which it related. Consequently this goodwill does not form part of the intangible assets shown on the balance sheet at 31 December 1997. No amortisation of goodwill was charged in the year of disposal.

Notes (continued)

25 Reconciliation of operating profit to net cash inflow from operating activities

	1998 Continuing operations £000	Continuing operations £000	1997 Discontinued operations £000	Total £000
Operating profit	9,832	18,246	(1,323)	16,923
Loss on sale of fixed assets	-	180	-	180
Depreciation	15,232	11,657	747	12,404
Amortisation of goodwill	74	-	-	-
Amortisation of deferred expenditure	1,287	3,483	52	3,535
Expenditure deferred	(6,899)	(1,370)	-	(1,370)
Maintenance charge	29,273	27,418	2,439	29,857
Maintenance provisions utilised	(28,214)	(27,950)	(2,983)	(30,933)
Decrease/(increase) in stock	(1,968)	(663)	393	(270)
Decrease/(Increase) in debtors	5,475	(6,604)	(18,561)	(25,165)
Increase in creditors	3,671	20,014	7,217	27,231
Net cash inflow from operating activities	<u>27,763</u>	<u>44,411</u>	<u>(12,019)</u>	<u>32,392</u>

26 Analysis of changes in net debt

	At 1 Jan 98 £000	Cash flows £000	Exchange rates £000	At 31 Dec 98 £000
Cash at bank and in hand	42,608	(7,845)	(374)	34,389
Debts due after one year	(35,339)	(42,914)	2,447	(75,806)
Debts due within one year	(9,191)	(5,528)	454	(14,265)
		(48,442)		
Total	<u>(1,922)</u>	<u>(56,287)</u>	<u>2,527</u>	<u>(55,682)</u>

Notes (continued)

27 Analysis of cash flows for headings netted in the cash flow statement

	1998 £000	1997 £000
Returns on investments and servicing of finance		
Interest received	2,109	2,555
Interest paid	(3,818)	(2,196)
Interest element of finance lease rental payment	(168)	(204)
Net cash inflow/(outflow) from returns on investments and servicing of finance	(1,877)	155
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(109,552)	(32,805)
Sales of tangible fixed assets	29,542	767
Net cash outflow for capital expenditure and financial investment	(80,010)	(32,038)
Acquisitions and disposals		
Net cash disposed of with subsidiaries	-	(3,979)
Net cash acquired with subsidiaries	-	474
Net cash outflow from acquisitions and disposals	-	(3,505)
Financing		
New borrowings	59,065	11,639
Repayment of amounts borrowed	(9,633)	(3,419)
Capital element of finance lease rental payments	(990)	(1,561)
Net cash inflow from financing	48,442	6,659

28 Pensions

The group operates a number of funded defined benefit pension schemes. Contributions to the schemes 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 group. The contributions are determined by a qualified actuary on the basis of valuations conducted within the last three years using the defined accrued benefit method. The most recent valuation was as at 1 August 1996. The assumptions used in the valuations were that investment returns would be 9.0%, that salaries would increase by 6.5% and that dividends would grow by 4.5% per annum.

The pension charges for the period (excluding members own contributions) was £5,576,000 (1997: £4,781,000). As at 31 December 1998 a pension prepayment of £1,000,000 (1997: £1,000,000) is included within debtors and a pension accrual of £275,000 (1997: £602,000) is included within creditors.

The most recent actuarial valuation showed that the value of the schemes' investments was 103% of the value of the benefits that had accrued to members. The contributions of the group and employees, as a percentage of annual earnings, range between 9.0% and 14.6%, and 5.6% and 9.7% respectively.

At the date of the latest actuarial valuation the market value of the schemes' assets was £63,104,000.

Notes (continued)

29 Subsidiary undertakings

British Midland PLC has the following interests in the ordinary share capital of its subsidiary undertakings, all of which have contributed to the assets and results of the group:

	Direct or indirect % owned	Where registered	Nature of business
ABH Leasing AB (In liquidation)	100	Sweden	Leasing company
British Midland (Acceptances) Limited *	100	England and Wales	Non trading company
British Midland Airways Limited	100	England and Wales	Civil airline operator
British Midland Holdings Limited	100	England and Wales	Investment company
Diamond Insurance Limited	100	I.o.M.	Insurance underwriting company
International Cargo Marketing Limited *	100	England and Wales	Air cargo broker
BM Handling Services Limited *	100	England and Wales	Dormant
British Midland Engineering Limited *	100	England and Wales	Dormant
BM Aviation Services Limited	100	England and Wales	Dormant
Business Air Limited *	100	Scotland	Civil airline operator

* Indirect subsidiary undertaking of British Midland PLC.

30 Related party transactions

Midland Airport Services Limited

During the year the group bought an aggregate of £1,681,000 (1997: £1,835,000) of handling services from Midland Airport Services Limited, a company owned by certain directors of the ultimate holding company. The balance owing by the group at 31 December 1998 was £116,000 (1997: £109,000).

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

During 1998 the group undertook the following transactions with SAS and its subsidiary. SAS owns 40% of the company.

The group had net receipts of £16,646,000 (1997: £11,802,000) in respect of interline billing, handling and other services from SAS and its subsidiaries. The net balance owing to the group at 31 December 1998 was £3,513,000 (1997: £3,384,000).

The BBW Partnership Limited

As at 31 December 1998 a net amount of £nil (1997: £237,000) was due from The BBW Partnership Limited. As explained in note 32, The BBW Partnership Limited is the company's ultimate holding company.

British Regional Airlines Group PLC ('BRAG')

On 27 March 1997 certain subsidiaries of British Midland PLC, namely British Regional Airline (Holdings) Limited ('BRA(H)') and its subsidiaries, British Regional Airlines (Scotland) Limited ('BRA(S)'), London City Airways Limited ('LCA'), London City Airways Holdings PLC ('LCA(H)') were sold to the BRAG group for a total consideration of £4. The subsidiaries of BRA(H) were Business Air Limited, Manx Airlines Limited and British Regional Airlines Limited.

Notes (continued)

30 Related party transactions (continued)

During 1998, the group undertook the following transactions with BRAG and its subsidiary companies (British Regional Airlines (Holdings) Limited ('BRA(H)'), British Regional Airlines (Scotland) Limited ('BRA(S)'), Manx Airlines Limited and British Regional Airlines Limited).

BRAG underwent a flotation on the London Stock Exchange during the year. Prior to flotation, BRAG and its subsidiaries were related parties as BRAG was owned by certain directors of the ultimate holding company. Subsequent to flotation, certain directors of the ultimate holding company have retained both an interest in the share capital of BRAG and a position on the board.

Financing

During the year, a loan outstanding between the group and BRAG was repaid. The balance on this loan at 1 January 1998 was £8,078,000. Interest paid during 1998 totalled £346,000. The capital was repaid on 30 June 1998.

Purchase/Sales

The group had net receipts of £1,301,000 (1997: payments £444,000) in respect of interline billing, handling and other services to Manx Airlines Limited. The net balance owing to the group at 31 December 1998 was £361,000 (1997: £144,000).

The group had net receipts of £1,803,000 (1997: £2,191,000) in respect of interline billing, handling and other services to British Regional Airlines Limited. The net balance owing to the group at 31 December 1998 was £70,000 (1997: £336,000).

The group had a balance owing from and to BRA(H) and BRA(S) of £39,000 (1997: £33,000) and £12,000 (1997: £12,000) respectively at 31 December 1998.

31 Commitments

A substantial portion of capital expenditure, leasing commitments and fuel purchases are payable in US Dollars. Forward purchase contracts amounting in aggregate to US\$177 million (1997: US\$166 million) outstanding at 31 December 1998, have been placed to cover part of the exposure risk. In addition other costs are payable in ECUs and DMs. Forward purchase contracts amounting to ECU2.4 million (1997: ECU30 million) and DM Nil (1997: DM13 million) were outstanding at 31 December 1998.

Capital commitments are disclosed in note 14.

32 Ultimate holding company

The ultimate holding company is The BBW Partnership Limited, registered in England and Wales. The results of the group are included in the consolidated financial statements of that company, and copies of the financial statements can be obtained from the Registrar of Companies, Crown Way, Cardiff.

33 Post balance sheet events

British Midland Airways Limited held 168,300 Depository Certificates in the Sita Foundation as at 31 December 1998. The depository certificates give holders certain rights to an equivalent number of shares in Equant NV and on 16 February 1999 British Midland sold 49,645 shares in Equant NV which yielded net proceeds and profit of £2,207,000.