

British Midland PLC and subsidiary undertakings

**Directors' report and consolidated
financial statements**

Registered number 2107441

31 December 1999



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Financial statements

Contents

Company information	1
Director's report	2
Statement of directors' responsibilities	5
Report of the auditors to the members of British Midland PLC	6
Consolidated profit and loss account	7
Statement of total recognised gains and losses	7
Consolidated balance sheet	8
Balance sheet	9
Consolidated cash flow statement	10
Reconciliation of net cash flow to movement in net funds/debt	10
Reconciliation of movements in shareholders' funds	11
Notes	12

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 - resigned 8 October 1999

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 consolidated financial statements for the year ended 31 December 1999.

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.

	1999	1998
	£000	As restated £000
Turnover	613,277	558,775
Profit before taxation	13,747	11,192
	<u> </u>	<u> </u>

Dividends and transfers to reserves

The company has proposed a dividend of £1,000,000 (1998: £2,000,000) in respect of the year ended 31 December 1999.

The retained profit for the financial year of £11,817,000 has been transferred to reserves (1998: as restated £6,622,000).

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 99	Ordinary shares as at 31 Dec 98
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	n/a	-

Directors' report *(continued)*

Directors and their interests *(continued)*

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.

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 (1998: £2,000).

Year 2000

The year 2000 computer problem is recognised as being a significant issue facing businesses throughout the world. British Midland, like every company, is affected by the issue. It therefore established a full time Year 2000 Program, 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 was put in place in 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 were minimised or eliminated as appropriate.

British Midland have spent £12.6 million on remedial action but no further costs are anticipated to be spent.

Whilst no Year 2000 related failures have been identified to date, it is the directors' intention that potential Year 2000 issues be constantly monitored during the course of the year.

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 group'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 1999 represented 42 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



TJ Bye
Secretary

28 April 2000

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 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, 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. 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 group 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 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 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

28 April 2000

*Chartered Accountants
Registered Auditors*

Consolidated profit and loss account
for the year ended 31 December 1999

	<i>Note</i>	1999 £000	1998 As restated £000
Turnover	2	613,277	558,775
Cost of sales		(512,354)	(466,854)
Gross profit		100,923	91,921
Administrative expenses		(97,428)	(81,899)
Operating profit		3,495	10,022
Profit on disposal of fixed assets	5	14,559	2,657
Other interest receivable and similar income	3	1,359	2,173
Interest payable and similar charges	4	(5,666)	(3,660)
Profit on ordinary activities before taxation	5	13,747	11,192
Tax on profit on ordinary activities	6	(930)	(2,570)
Profit on ordinary activities after taxation		12,817	8,622
Dividends	7	(1,000)	(2,000)
Retained profit for the financial year	22	11,817	6,622

In both the current and preceding years, the group made no material acquisitions and had no discontinued operations.

In both the current and preceding 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.

A statement of movements of reserves is given in note 22 to the financial statements.

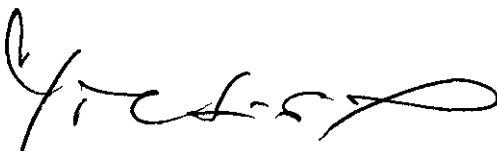
Statement of total recognised gains and losses

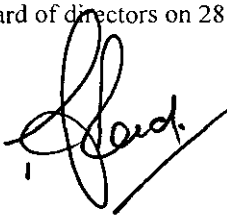
	1999 £000	1998 As restated £000
Profit for the financial year	11,817	6,622
Prior year adjustment (notes 1 and 22)	446	-
Total gains and losses recognised since last annual report	12,263	6,622

Consolidated balance sheet
at 31 December 1999

	Note	1999		1998	
		£000	£000	As restated £000	£000
Fixed assets					
Intangible assets	11	1,477		1,409	
Tangible assets	12	234,077		170,600	
Investments	13	8		2	
			235,562		172,011
Current assets					
Stock		11,115		9,971	
Debtors	14	71,769		74,950	
Cash at bank and in hand		36,187		34,389	
		119,071		119,310	
Creditors: amounts falling due within one year	15	(153,934)		(146,791)	
Net current (liabilities)/assets					
Due within one year		(39,931)		(33,524)	
Debtors due after one year	14	5,068		6,043	
			(34,863)		(27,481)
Total assets less current liabilities			200,699		144,530
Creditors: amounts falling due after more than one year	16		(113,904)		(75,806)
Provisions for liabilities and charges	19		(25,150)		(18,896)
Net assets			61,645		49,828
Capital and reserves					
Called up share capital	20		16,272		16,272
Balance arising on reorganisation	21		(12,143)		(12,143)
Share premium	22		7,568		7,568
Statutory reserve	22		387		387
Profit and loss account	22		49,561		37,744
Equity shareholders' funds			61,645		49,828

These financial statements were approved by the board of directors on 28 April 2000 and were signed on its behalf by:

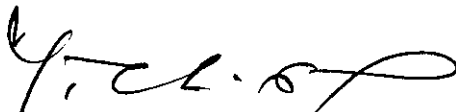

Sir Michael Bishop
Director


Austin Reid
Director

Balance sheet
at 31 December 1999

	Note	1999		1998	
		£000	£000	£000	£000
Fixed assets					
Investments	13		31,654		31,654
Current assets					
Debtors	14	2,337		2,825	
Creditors: amounts falling due within one year	15	<u>(8,016)</u>		<u>(7,340)</u>	
Net current liabilities			<u>(5,679)</u>		<u>(4,515)</u>
Net assets			<u>25,975</u>		<u>27,139</u>
Capital and reserves					
Called up share capital	20		16,272		16,272
Share premium	22		7,568		7,568
Profit and loss account	22		<u>2,135</u>		<u>3,299</u>
Equity shareholders' funds			<u>25,975</u>		<u>27,139</u>

These financial statements were approved by the board of directors on 28 April 2000 and were signed on its behalf by:


Sir Michael Bishop
Director


Austin Reid
Director

Consolidated cash flow statement
for the year ended 31 December 1999

	<i>Notes</i>	1999 £000	1998 As restated £000
Cash flow from operating activities	23	39,926	27,763
Returns on investments and servicing of finance	25	(4,176)	(1,877)
Taxation		(696)	(663)
Capital expenditure and financial investment	25	(72,889)	(80,010)
Acquisitions and disposals	25	(150)	-
Equity dividend paid		(2,000)	(1,500)
Cash outflow before use of liquid resources and financing		(39,985)	(56,287)
Financing	25	41,978	48,442
Increase/ (decrease) in cash		1,993	(7,845)

Reconciliation of net cash flow to movement in net debt

	1999 £000	1998 £000
Increase/ (decrease) in cash in the year	1,993	(7,845)
Cash inflow from increase in debt and lease financing	(41,978)	(48,442)
Change in net debt resulting from cash flows	(39,985)	(56,287)
Translation differences	(2,076)	2,527
Movement in net debt in year	(42,061)	(53,760)
Net debt at 1 January	(55,682)	(1,922)
Net debt at 31 December	24 (97,743)	(55,682)

Reconciliation of movements in equity shareholders' funds

	Group		Company	
	1999	1998 As restated	1999	1998
	£000	£000	£000	£000
Profit / (loss) for the financial year	12,817	8,622	(164)	3,362
Dividends	(1,000)	(2,000)	(1,000)	(2,000)
Net addition to/(reduction in) equity shareholders' funds	11,817	6,622	(1,164)	1,362
Opening equity shareholders' funds as previously reported	49,382	42,950	27,139	25,777
Prior year adjustment (notes 1 and 22)	446	256	-	-
Closing equity shareholders' funds	61,645	49,828	25,975	27,139

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 5.

Basis of consolidation

Details of subsidiaries are given in note 27. 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 1999. 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 written off by equal annual instalments over its estimated useful life.

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	15 - 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

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)

Aircraft maintenance costs

During the year the requirements of the accounting standard FRS 12 : Provisions, contingent liabilities and contingent assets, were implemented. For owned aircraft, the costs of periodic aircraft overhauls are now 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.

This represents a change in accounting policy. Previously, provisions were made for these costs with reference to the number of hours flown, in order to provide to the next major overhaul.

The change in accounting policy has been dealt with as a prior year adjustment. The opening balance sheet and the 1998 profit and loss account have been restated in accordance with this revised accounting policy. Further details are set out in note 22 to the financial statements.

Provisions for periodic overhaul costs on an aircraft held under an operating lease continue to be made with reference to the number of hours flown 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 5.

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.

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.

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 to the extent that they are not offset by contributions from suppliers
New routes	- within 1 year of commencement of passenger carrying services
Pilot training	- within 5 years of commencement of flying as BM

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.

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:

	1999 £000	1998 £000
Passenger scheduled services	505,149	481,329
Charter and leasing	44,692	24,375
Aircraft handling services	35,231	25,571
Cargo services	9,696	14,239
Other	18,509	13,261
	<u>613,277</u>	<u>558,775</u>

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

Analysis of turnover by geographical area:

	1999 £000	1998 £000
Within the British Isles	276,186	262,664
Between British Isles and Europe	335,107	295,198
Other	1,984	913
	<u>613,277</u>	<u>558,775</u>

Notes (continued)

2 Turnover (continued)

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. 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.

3 Other interest receivable and similar income

	1999 £000	1998 £000
Bank interest	1,359	2,173
	<u> </u>	<u> </u>

4 Interest payable and similar charges

	£000	£000
On bank loans and overdrafts whenever repayable and other loans wholly repayable within 5 years of the year end	6	53
On other loans repayable after more than 5 years from the year end	16	28
Aggregate finance charges and similar hire purchase interest	5,644	3,579
	<u>5,666</u>	<u>3,660</u>
	<u> </u>	<u> </u>

5 Profit on ordinary activities before taxation

	£000	As restated £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting) the following:</i>		
Amortisation of goodwill (note 11)	82	74
Depreciation of tangible fixed assets (note 12)	24,506	15,232
Amortisation of deferred expenditure	7,323	1,287
Hire of plant, machinery and aircraft	74,683	70,166
Other operating leases payable	11,121	8,351
Operating leases receivable	(346)	(144)
Auditors' remuneration: - audit fee	86	85
- other fees	182	117
Net loss on foreign currency exchange	1,628	2,449
Profit on disposal of fixed assets	(14,559)	(2,657)
	<u> </u>	<u> </u>

The fees paid to the auditors in respect of audit services for the company were £8,000 (1998: £6,000).

Exchange gains amounting to £2,627,000 arising from the translation of dollar denominated long term liabilities, were not credited to the profit and loss account in 1998 as would normally be required by SSAP 20, as the directors considered the US Dollar exchange rate prevailing at the balance sheet date to be unsustainable in the foreseeable future such that it would have been imprudent to recognise these unrealised gains in the profit and loss account.

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

Notes (continued)

6 Tax on profit on ordinary activities

	1999 £000	1998 £000
<i>Amounts credited/(charged) in year:</i>		
UK corporation tax at 30%/31% - current year	-	88
- prior year	2,286	-
Deferred taxation: - current year	(4,836)	(2,607)
- prior year	1,620	(135)
- change in rate	-	84
	<u>(930)</u>	<u>(2,570)</u>

The taxation charge for the year has been reduced by an estimated £912,000 (1998: £810,000) due to capital gains held over against future qualifying investment.

7 Dividends

	1999 £000	1998 £000
<i>Dividends on equity shares:</i>		
Final dividend proposed of 1.54p (1998: 3.07p) per share	<u>1,000</u>	<u>2,000</u>

8 (Loss)/profit on ordinary activities attributable to the shareholders

Of the group profit attributable to shareholders, a loss of £1,164,000 (1998: £1,362,000 profit) is dealt with in the financial statements of the holding company.

9 Staff numbers and costs

	Number	Number
<i>The average number of persons employed by the group during the year was:</i>		
Finance	300	284
Administration and personnel	80	98
IT	141	121
Service	3,948	3,384
Sales and marketing	225	213
Operations	703	696
Engineering	728	736
Cargo and commercial	70	84
	<u>6,195</u>	<u>5,616</u>
	£000	£000
<i>The aggregate payroll costs of these persons were:</i>		
Wages and salaries	124,214	107,726
Social security costs	11,613	10,204
Other pension costs	6,536	5,576
	<u>142,363</u>	<u>123,506</u>

Notes (continued)

10 Emoluments of directors

	1999 £000	1998 £000
Directors' emoluments	1,163	1,475
Company contributions to money purchase pension schemes	50	56
	<u>1,213</u>	<u>1,531</u>

The aggregate emoluments of the highest paid director were £330,000 (1998: £456,000). 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 £184,000 (1998: £97,000).

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

11 Intangible assets

	Goodwill £000
<i>Cost:</i>	
At 1 January 1999	1,483
Additions	150
	<u>1,633</u>
At 31 December 1999	
<i>Provisions for amortisation and impairment:</i>	
At 1 January 1999	74
Amortisation charged in the year	82
	<u>156</u>
At 31 December 1999	
<i>Net book value:</i>	
At 31 December 1999	1,477
	<u> </u>
At 31 December 1998	1,409
	<u> </u>

The additions to goodwill relate to deferred consideration on the purchase of Business Air Limited. This company was acquired by the group on 31 December 1997. The goodwill arising is being written off over 20 years.

Notes (continued)

12 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	Refurbishment of operating aircraft £000	Owned £000	Held under finance lease £000	Sub-total £000	Owned £000	Held under finance lease £000	Sub-total £000		
Cost:											
At 1 January 1999 as previously reported	11,009	18,390	18,595	108,991	1,114	128,700	51,545	14,227	65,772	12,334	236,845
Prior year adjustment (notes 1 and 22)	-	-	-	(2,286)	-	(2,286)	-	-	-	-	(2,286)
At 1 January 1999 as restated	11,009	18,390	18,595	106,705	1,114	126,414	51,545	14,227	65,772	12,334	234,559
Additions	42	8,649	14,640	127,430	-	142,070	17,717	-	17,717	13,183	181,689
Transfers	-	-	-	8,113	-	8,113	43	(43)	-	(8,113)	-
Disposals	-	-	-	(94,785)	-	(94,785)	(437)	-	(437)	-	(95,332)
At 31 December 1999	11,051	27,039	33,235	147,463	1,114	181,812	68,868	14,184	83,052	17,404	320,916
Depreciation:											
At 1 January 1999 as previously reported	2,610	6,140	6,733	14,424	1,114	22,271	19,603	10,050	29,653	-	61,108
Prior year adjustment (notes 1 and 22)	-	-	-	2,851	-	2,851	-	-	-	-	2,851
At 1 January 1999 as restated	2,610	6,140	6,733	17,275	1,114	25,122	19,603	10,050	29,653	-	63,959
Charged in year	193	2,430	5,400	8,336	-	13,736	7,539	539	8,078	-	24,506
Transfers	-	-	-	-	-	-	814	(814)	-	-	-
Disposals	-	-	-	(1,255)	-	(1,255)	(272)	-	(272)	-	(1,626)
At 31 December 1999	2,803	8,570	12,133	24,356	1,114	37,603	27,684	9,775	37,459	-	86,839
Net book value:											
At 31 December 1999	8,248	18,469	21,102	123,107	-	144,209	41,184	4,409	45,593	17,404	234,077
At 31 December 1998 as restated	8,399	12,250	11,862	89,430	-	101,292	31,942	4,177	36,119	12,334	170,600

Notes (continued)

12 Tangible fixed assets (continued)

- (a) At 31 December 1999 the group had authorised and contracted for capital commitments totalling £215,554,000 (1998: £216,228,000).
- (b) Within the category of plant and machinery there is an amount of £828,000 (1998: £828,000) included in cost in respect of capitalised interest.
- (c) Freehold property includes £1,360,000 (1998: £1,360,000) relating to land which is not depreciated.

13 Investments

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Cost at 1 January	1,206	1,206	31,663	33,147
Disposals	(1,214)	-	(9)	-
Transfer to group company	-	-	-	(1,484)
Transfer from current assets	16	-	-	-
Cost at 31 December	8	1,206	31,654	31,663
Provisions at 1 January	1,204	1,204	9	-
Charge in year	-	-	-	9
Disposals	(1,204)	-	(9)	-
Provisions at 31 December	-	1,204	-	9
Net book value at 31 December	8	2	31,654	31,654

Investments held by the company are shares in subsidiary undertakings.

The group's investment comprises 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 1999 their market value was £7,600,000.

Notes (continued)

14 Debtors

	Group		Company	
	1999	1998	1999	1998
	£000	£000	£000	£000
<i>Amounts falling due within one year:</i>				
Trade debtors	38,343	36,920	-	-
Amounts owed by subsidiary undertakings	-	-	2,331	2,820
Other debtors	2,286	2,371	6	5
Prepayments and accrued income	24,092	27,360	-	-
Deferred expenditure	1,980	2,256	-	-
	<u>66,701</u>	<u>68,907</u>	<u>2,337</u>	<u>2,825</u>
<i>Amounts falling due after more than one year:</i>				
Deferred expenditure	5,068	6,043	-	-
	<u>71,769</u>	<u>74,950</u>	<u>2,337</u>	<u>2,825</u>

15 Creditors: amounts falling due within one year

	£000	£000	£000	£000
Loans and obligations under finance leases and hire purchase contracts	20,026	14,265	-	-
Trade creditors	46,925	26,926	-	-
Amounts owed to subsidiary undertakings	-	-	4,992	4,848
Taxation	1,072	4,401	-	-
ACT payable	-	314	-	-
PAYE and NI deductions	3,371	3,373	-	-
Other creditors	817	963	454	456
Accruals and deferred income	80,723	94,549	1,570	36
Dividends	1,000	2,000	1,000	2,000
	<u>153,934</u>	<u>146,791</u>	<u>8,016</u>	<u>7,340</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.

16 Creditors: amounts falling due after more than one year

	Group		Company	
	1999	1998	1999	1998
	£000	£000	£000	£000
<i>Loans and obligations under finance leases and hire purchase contracts repayable:</i>				
Within one to two years	9,399	10,273	-	-
Within two to five years	29,827	17,618	-	-
After more than five years	74,678	47,915	-	-
	<u>113,904</u>	<u>75,806</u>	<u>-</u>	<u>-</u>

Notes (continued)

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

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 1999 in respect of loans and obligations under finance leases and hire purchase contracts which expire after more than five years is £118,650,000 (1998: £75,764,000) of which £74,678,000 (1998: £47,915,000) falls due after more than five years from the balance sheet date.

Interest on principal loans is at rates varying from 4.795% to 6.00% per annum.

17 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	
	1999	1998	1999	1998
	£000	£000	£000	£000
<i>Lease expiry within:</i>				
One year	1,009	1,115	8,119	6,948
Two to five years	1,759	1,294	45,300	33,677
More than five years	5,226	4,406	34,063	32,643
	<u>7,994</u>	<u>6,815</u>	<u>87,482</u>	<u>73,268</u>

18 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 1999 under finance lease obligations and hire purchase contracts are as follows:

	1999	1998
	£000	£000
<i>Payable within:</i>		
One year	737	767
One to two years	173	749
Two to five years	-	197
	<u>910</u>	<u>1,713</u>

Notes (continued)

19 Provisions for liabilities and charges

The Group	Mainten- ance £000	Deferred taxation £000	Total £000
At 1 January 1999 as previously reported	14,388	10,091	24,479
Prior year adjustment (notes 1 and 22)	(5,583)	-	(5,583)
At 1 January 1999 as restated	8,805	10,091	18,896
Profit and loss account	31,765	3,216	34,981
Utilised	(29,388)	-	(29,388)
ACT utilised in year	-	661	661
At 31 December 1999	11,182	13,968	25,150

Deferred taxation provided and unprovided, at 30% tax rate (1998: 30%), is analysed as follows:

	Amounts provided		Amounts unprovided	
	1999 £000	1998 £000	1999 £000	1998 £000
Excess of capital allowances over depreciation charged	14,429	11,600	-	-
Other timing differences	(253)	(640)	2,144	1,402
ACT recoverable	(208)	(869)	-	-
	13,968	10,091	2,144	1,402

The Company

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

20 Share capital

	1999 £000	1998 £000
<i>Authorised:</i>		
68,987,590 ordinary shares of 25p each	17,247	17,247
<i>Issued and fully paid:</i>		
65,088,293 ordinary shares of 25p each	16,272	16,272

21 Balance arising on reorganisation

	£000	£000
At 1 January and 31 December 1999	(12,143)	(12,143)

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)

22 Reserves

	Group and Company £000
Share premium account	
At 1 January and 31 December 1999	7,568
	<hr/>
Statutory reserve	Group £000
At 1 January and 31 December 1999	387
	<hr/>

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.

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Profit and loss account				
At 1 January as previously reported	37,298	30,866	3,299	1,937
Prior year adjustment (note 1)	446	256	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January as restated	37,744	31,122	3,299	1,937
Retained profit/(loss) for the financial year	11,817	6,622	(1,164)	1,362
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	49,561	37,744	2,135	3,299
	<hr/>	<hr/>	<hr/>	<hr/>

As set out in note 1, the requirements of accounting standard FRS 12 were implemented during the year, resulting in a prior year adjustment. The change in accounting policy has resulted in the following adjustments to the profit and loss account and balance sheet of the group for the year ended 31 December 1998:

	1998 per financial statements £000	Prior year adjustments £000	1998 as restated £000
Profit for the financial year	6,432	190	6,622
Tangible fixed assets	175,737	(5,137)	170,600
Maintenance provisions	(14,388)	5,583	(8,805)
Profit and loss account reserve	(37,298)	(446)	(37,744)
	<hr/>	<hr/>	<hr/>

The impact on the profit and loss account for the current year is a credit of £324,000.

Notes (continued)

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

	1999	1998
	£000	As restated £000
Operating profit	3,495	10,022
Depreciation	24,506	15,232
Amortisation of goodwill	82	74
Amortisation of deferred expenditure	7,323	1,287
Expenditure deferred	(6,072)	(6,899)
Maintenance charge	31,765	29,273
Maintenance provisions utilised	(29,388)	(28,404)
Increase in stock	(1,144)	(1,968)
Decrease in debtors	2,089	5,475
Increase in creditors	7,270	3,671
Net cash inflow from operating activities	<u>39,926</u>	<u>27,763</u>

24 Analysis of changes in net debt

	At 1 Jan 99 £000	Cash flows £000	Exchange rates £000	At 31 Dec 99 £000
Cash at bank and in hand	34,389	1,993	(195)	36,187
Debts due after one year	(75,806)	(36,613)	(1,485)	(113,904)
Debts due within one year	(14,265)	(5,365)	(396)	(20,026)
		<u>(41,978)</u>		
Total	<u>(55,682)</u>	<u>(39,985)</u>	<u>(2,076)</u>	<u>(97,743)</u>

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

	1999	1998
	£000	£000
Returns on investments and servicing of finance		
Interest received	1,184	2,109
Interest paid	(5,192)	(3,818)
Interest element of finance lease rental payment	(168)	(168)
Net cash outflow from returns on investments and servicing of finance	<u>(4,176)</u>	<u>(1,877)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(181,164)	(109,552)
Sales of tangible fixed assets	102,957	29,542
Sales of fixed asset investments	5,318	-
Net cash outflow for capital expenditure and financial investment	<u>(72,889)</u>	<u>(80,010)</u>

Notes (continued)

25 Analysis of cash flows for headings netted in the cash flow statement (continued)

	1999 £000	1998 £000
Acquisitions and disposals		
Deferred consideration for Business Air Limited	(150)	-
Net cash outflow from acquisitions and disposals	(150)	-
Financing		
New borrowings	58,437	59,065
Repayment of amounts borrowed	(15,656)	(9,633)
Capital element of finance lease rental payments	(803)	(990)
Net cash inflow from financing	41,978	48,442

26 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 at 1 August 1999. The results of this have not yet been finalised. The results of the previous valuation at 1 August 1996 are therefore shown. 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 charge for the period (excluding members own contributions) was £6,281,000 (1998: £5,468,000). At 31 December 1999 a pension prepayment of £116,000 (1998: £1,000,000) is included within debtors and a pension accrual of £nil (1998: £275,000) 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 9.1% respectively. At the date of the latest actuarial valuation the market value of the schemes' assets was £63,104,000.

Notes (continued)

27 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
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 Company 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.

International Cargo Marketing Limited ceased trading on 31 March 1999.

28 Related party transactions

Midland Airport Services Limited

During the year the group bought an aggregate of £2,022,000 (1998: £1,681,000) 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 1999 was £212,000 (1998: £116,000).

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

During 1999 the group undertook the following transactions with SAS and its subsidiary. SAS owns 40% of the company.

The group had net receipts of £11,778,000 (1998: £16,646,000) in respect of interline billing, handling and other services from SAS and its subsidiaries. The net balance owing to the group at 31 December 1999 was £1,552,000 (1998: £3,513,000).

29 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\$367 million (1998: US\$177 million) outstanding at 31 December 1999, have been placed to cover part of the exposure risk. In addition other costs are payable in ECUs. No forward purchase contracts for ECUs (1998: ECU2.4 million) were outstanding at 31 December 1999.

Capital commitments are disclosed in note 12.

Notes *(continued)*

30 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.