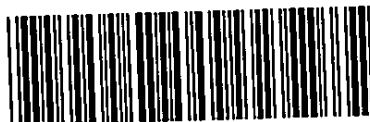


British Midland Limited

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

Registered number 02107441

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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2012

Principal activities and business review

The principal activity of the Company is to act as a holding company

The results for the year ended 31 December 2012 are set out in the profit and loss account on page 6

Increase in share capital

On 19 April 2012, the Company issued 6,200 shares in to its then parent company LHBD Holding Limited, in exchange for funding of £71.3 million

This funding was paid in cash to one of the Company's subsidiary undertakings. Due to the continuing uncertainty as to the future of the bmi group, the directors assessed the recoverability of the resulting intercompany balances and provided against them in full

Given the nature of the principal activities of the Company, the directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development or performance of the business. The directors consider that the principal risks and uncertainties of the Company relate to the activities of its subsidiaries and these are disclosed in the financial statements of the relevant subsidiaries

Sale of the bmi group to BA

On 22 December 2011 the Company's former ultimate parent company, Deutsche Lufthansa AG ("Lufthansa") entered into a Sale and Purchase Agreement ("SPA") with International Consolidated Airlines Group S A ("IAG") for the sale of the group headed by the Company (the "bmi group"), with British Airways Plc ("BA"), a subsidiary of IAG as the purchasing entity

Following the satisfaction of a number of conditions, including EU Merger Regulation Clearance from the European Commission, the sale completed on 19 April 2012

Sale of subsidiary undertaking

On 31 July 2012, the Company entered into an agreement with Speedbird Insurance Company Limited, a subsidiary of BA, to sell the Company's subsidiary undertaking Diamond Insurance Limited for £956,000. This transaction led to a gain on disposal of £956,000, since the cost of this investment had previously been fully provided against

Directors

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

H Hatty (resigned 19 April 2012)

J O G Hennemann (resigned 19 April 2012)

S Menne (resigned 25 May 2012)

N O Turner (resigned 19 April 2012)

W Prock-Schauer (resigned 19 April 2012)

V O Sorensen (resigned 30 March 2012)

C Haynes (appointed 19 April 2012)

L Embleton (appointed 19 April 2012)

P Simpson (appointed 19 April 2012)

N Swift (appointed 19 April 2012)

C Denley (appointed 25 May 2012)

Directors' report (continued)

Auditors

Each of the persons who are a director at the date of approval of this report confirms that:

(a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Director's indemnities

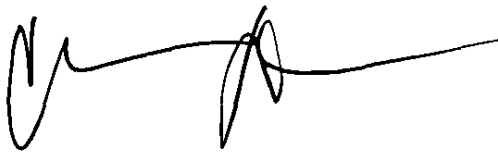
A qualifying third party indemnity provision is in place for the directors of the Company. This is in the form of an insurance policy which covers liability for the actions of directors and officers of the Company.

Dividends

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

The directors' report has been prepared in accordance with the special provisions relating to small companies within part 15 of the Companies Act 2006.

By order of the board 29 January 2013



C Denley

Director

Waterside
PO Box 365
Speedbird Way
Harmondsworth
UB7 0GB

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of British Midland Limited

We have audited the financial statements of British Midland Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006


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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report



Andrew Hammond (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

29 January 2013

Profit and loss account
for the year ended 31 December 2012

	<i>Notes</i>	2012 £'000	2011 £'000
Administrative expenses		(45,624)	-
Operating loss		(45,624)	-
Profit on sale of investments		956	-
Income from fixed asset investments		500	-
Amounts written off fixed asset investments		-	(301,200)
Finance income arising on waiver of amounts due to subsidiaries		-	4,706
Loss on ordinary activities before taxation	2	(44,168)	(296,494)
Tax on loss on ordinary activities	3	-	-
Loss on ordinary activities after taxation	10	(44,168)	(296,494)

All results in the current and prior year are derived from continuing operations

There are no recognised gains or losses other than those presented above, and therefore no separate statement of total recognised gains and losses has been presented

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

Balance sheet
as at 31 December 2012

	Note	2012 £'000	£'000	2011 £'000	£'000
Fixed assets					
Investments	5	-	-	-	-
Debtors	6	-	-	-	-
Creditors: amounts falling due within one year	7	-	(27,132)		
Net current assets / liabilities			-	(27,132)	
Net liabilities			-	(27,132)	
Capital and reserves					
Called up share capital	8	16,281	16,280		
Share premium	9	425,059	353,760		
Profit and loss account	10	(441,340)	(397,172)		
Shareholders' deficit	11	-	(27,132)		

The notes on pages 8 to 13 form part of these financial statements

These financial statements on pages 6 to 13 were approved by the board of directors on 29 January 2013 and were signed on its behalf by



N Swift
Director

Registered Number 02107441

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 2006

Related party transactions

The Company is a wholly owned subsidiary of BA and has therefore taken advantage of the exemption in FRS 8 not to disclose transactions or balances with other wholly owned entities within the BA group

Basis of consolidation

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements because its results are included in the consolidated financial statements of BA. These financial statements present information about the Company as an individual entity and not about its group.

Cashflow statement

Under FRS 1 the company is exempt from the requirement to present a cashflow statement as its cash flows are included in the publicly available consolidated financial statements of BA.

Fixed asset investments

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

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Notes

(forming part of the financial statements) (continued)

2 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting) the following

	2012 £'000	2011 £'000
Profit on sale of investments	956	-
Impairment of amounts receivable from subsidiary	45,624	-
Impairment of investments	-	301,200
Income arising on waiver of amounts due to subsidiaries	-	(4,706)

In September 2011 British Midland Holdings Limited, a wholly owned subsidiary of the Company, waived a balance owed to it from the Company of £4,706,165. The waiver gave rise to a gain in the Company of £4,706,165

Audit fees for the Company are borne by British Midland Airways Limited

3 Tax on loss on ordinary activities

	2012 £'000	2011 £'000
Amounts charged in the year		
Total current tax charge	-	-
Total tax charge on loss on ordinary activities	-	-

Factors affecting charge for the current year

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

	2012 £'000	2011 £'000
Current tax reconciliation		
Loss on ordinary activities before tax	(44,168)	(296,494)
Current tax at 24.5% (2011 26.5%)	(10,821)	(78,571)
Effects of		
Expenses not deductible	-	79,818
Income not chargeable	(11,178)	(1,247)
Group relief not paid for	357	-
Total current tax charge	-	-

Factors affecting charge for the future year

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

Notes

(forming part of the financial statements) (continued)

The difference from the application of 24% instead of 23% for the three month period to 31 March 2013 is not expected to be material. As further planned reductions to the main rate of corporation tax by a further two per cent from 1 April 2014 to 21% had not been substantively enacted at the balance sheet date, the effect has not been included in these financial statements. However, these further changes would not have a material impact on the Company as there are currently no recognised deferred tax assets or liabilities.

4 Staff numbers and costs

There were no employees in the current or prior year.

Directors' emoluments in respect of service to the Company were £nil (2011 £28,000). The directors received emoluments in respect of services to subsidiaries of the Company, which were borne by those subsidiaries.

	2012 £'000	2011 £'000
Directors' emoluments	316	671
Compensation for loss of office	138	-
	<u>454</u>	<u>671</u>

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

	Number of directors 2012	2011
<i>Retirement benefits are accruing to the following number of directors under</i>		
Defined benefit schemes	-	-

5 Investments

	Subsidiary Undertakings £'000
<i>Cost</i>	
At 1 January 2012	408,318
Disposal and strike off of subsidiary undertaking	(12,395)
Disposal of subsidiary undertaking	(150)
At 31 December 2012	<u>395,773</u>
<i>Provisions</i>	
At 1 January 2012	(408,318)
Disposal and strike off of subsidiary undertakings	12,545
At 31 December 2012	<u>(395,773)</u>
Net Book Value at 1 January 2012 and 31 December 2012	<u>-</u>

Notes

(forming part of the financial statements) (continued)

5 Investments (continued)

On 31 July 2012, the Company disposed of Diamond Insurance Limited, a 100% subsidiary, to Speedbird Insurance Limited, a fellow BA group company

In September 2011, the Company's indirect subsidiaries BMI Airways Limited, International Cargo Marketing Limited, BM Handling Services Limited and British Midland Engineering Limited applied for strike off from the register of companies at Companies House. These strike offs were confirmed in January 2012. Since the investment balances in these companies had previously been fully provided, no loss on strike off was incurred.

In January 2012, the strike off of British Midland Holdings Limited, the company's 100% subsidiary was confirmed. This gave rise to a disposal of the cost of investment in this entity of £12,395,250. Since this investment had previously been fully impaired, there is no effect in the profit and loss account for the year.

The Company has the following interests in the ordinary share capital of its subsidiary undertakings

	Direct or Indirect % owned	Where Registered	Nature of business
British Midland Airways Limited	100	England and Wales	Airline operator
bmbaby Limited	100	England and Wales	Non-trading
British Mediterranean Airways Limited	89	England and Wales	Non-trading

The Company also holds 100% of the preferred ordinary share capital, and none of the deferred share capital, of British Mediterranean Airways Limited. The voting rights for the preferred ordinary shares are 1,000 times greater per share than the ordinary shares. The deferred shares do not carry any voting rights and the holders of deferred shares are not entitled to any participation in the profits of the Company. This in effect gives British Midland Limited 99% control of British Mediterranean Airways Limited.

6 Debtors

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	-	-

Amounts owed by subsidiary undertakings of £45,624,000 (2011: £nil) are stated net of a provision of £45,624,000 (2011: £nil).

Amounts owed by subsidiary undertaking are unsecured, repayable on demand and do not bear interest.

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

7 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	-	27,132

Amounts owed to subsidiary undertaking are unsecured, repayable on demand and do not bear interest.

8 Share capital

	2012 £'000
<i>Issued and fully paid</i>	
At 1 January 2012 65,119,093 ordinary shares of 25p each	16,280
Issue of 6,200 ordinary shares of 25p each	1
At 31 December 2012 65,125,293 ordinary shares of 25p each	16,281

On 19 April 2012, the Company issued 6,200 ordinary shares of 25p each to its parent undertaking LHBD Holding Limited, in exchange for further funding. The shares were issued for total consideration of £71,300,000, at a premium of £11,499.75 each

9 Share premium

	2012 £'000
At 1 January 2012	353,760
On issue of Shares (See note 7)	71,299
At 31 December 2012	425,059

10 Profit and loss account

	£'000
At 1 January 2012	(397,172)
Loss for the financial year	(44,168)
At 31 December 2012	(441,340)

Notes

(forming part of the financial statements) (continued)

11 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Loss for the financial year	(44,168)	(296,494)
Issue of share capital	71,300	301,200
	<hr/>	<hr/>
Net increase in shareholders' funds	27,132	4,706
Opening shareholders' deficit	(27,132)	(31,838)
	<hr/>	<hr/>
Closing shareholders' deficit	-	(27,132)
	<hr/>	<hr/>

12 Ultimate parent undertaking

The Company is a wholly owned subsidiary of British Airways plc ("BA"), a UK company which is a subsidiary of International Consolidated Airlines Group SA ("IAG"), a company incorporated in Spain

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

Copies of the financial statements of IAG can be obtained from

Company Secretary
 International Consolidated Airlines Group S A
 Calle Velázquez 130
 28006 Madrid
 Spain