

DIRECTORS' REPORT AND ACCOUNTS

BA European Limited (trading as OpenSkies)

MARCH 31, 2008

Company Number 6346489

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DIRECTORS' REPORT

Directors: R Maynard (appointed August 20, 2007)
R Boyle (appointed August 20, 2007)
D Moss (appointed September 3, 2007)
K Williams (appointed August 20, 2007)

Secretary: K Dosanjh (appointed August 20, 2007)

Auditors: Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered office: Indigo House
Mulberry Business Park
Fishponds Road
Wokingham
RG41 2GY
UK

Directors' Report

The Directors present their report and financial statements for the period August 17, 2007, the date of incorporation, to March 31, 2008.

Results and dividends

The loss after tax amounted to £1,106,000 for the period ended March 31, 2008. The Directors do not recommend the payment of any dividends.

Principal activities and future developments

The Company, a wholly owned subsidiary undertaking of British Airways Plc, was incorporated on August 17, 2007. The principal activity of the Company is one of an airline operator, established to take advantage of the Open Skies Agreement, which liberalised the aviation market between the European Union and the United States of America. During the period from August 17, 2008 to March 31, 2008, the Company took possession of its first 757 aircraft and began work to make it fit for the purpose of flying long-haul. The Company also set up a back office and started the recruitment process for cabin and flight crew. The Company successfully launched its first operation on June 19, 2008 from Paris to New York using this aircraft. A second aircraft was delivered during Autumn 2008, and commenced operations from Amsterdam to New York on October 15, 2008.

Subsequent events

Subsequent to March 31, 2008, British Airways agreed to fund BA European Limited's acquisition of a French airline, L'Avion, for €68 million (£54 million). The acquisition price included L'Avion's cash reserves of approximately €28 million (£22 million). In addition, contingent consideration of €10 million may be payable to the previous shareholders of L'Avion. This payment is subject to a fall in the price of oil across a period of six consecutive months during the three years subsequent to the date of the acquisition. L'Avion commenced operations in January 2007 and focuses on the point to point premium travel market. The acquisition was completed on July 25, 2008. To finance the acquisition, British Airways increased its investment in OpenSkies by a further £40 million and provided an additional loan facility of £5 million. These events resulted in the authorised share capital increasing to £100 million in April 2008 and the allotted share capital increasing to £57 million in July 2008.

During August 2008 BA European Limited announced the launch of further operations from Amsterdam to New York JFK which subsequently commenced on October 15, 2008.

Political and charitable contributions

There were no political or charitable contributions during the period.

Liability insurance

The parent undertaking maintains a Directors and Officers' liability insurance policy covering its subsidiary undertakings.

Auditors

A resolution to appoint Ernst and Young as auditors was put to the members at the Annual General Meeting (AGM) on 19 September 2008. Ernst & Young will continue in office as the Company's auditors until the date of the next AGM.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the board at the time of approving the Director's Report are listed above.

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- To the best of each Directors' knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- Each Director has taken all steps a Director might reasonably be expected to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

On behalf of the board

Secretary: 

Date: 18 December 2008

BA European Limited (trading as OpenSkies)

Statement of Directors' responsibilities in relation to financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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 auditors' report

to the members of the Board of BA European Limited (trading as OpenSkies)

We have audited the Company's financial statements for the period August 17, 2007 to March 31, 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at March 31, 2008 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



Ernst & Young LLP
Registered auditor
London
18 DECEMBER 2008

BA European Limited (trading as OpenSkies)
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED MARCH 31, 2008

	Note	Period from August 17, 2007 to March 31, 2008 £ '000
Employee costs	3	125
Aircraft operating lease costs		175
Selling costs		95
Accommodation and other costs		1,417
Operating expenditure		1,812
Operating loss	2	(1,812)
Interest receivable	4	199
Loss on ordinary activities before tax		(1,613)
Tax	5	507
Loss for the period	11	(1,106)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the loss amounting to £1,106,000 for the period ended March 31, 2008.

BA European Limited (trading as OpenSkies)

**BALANCE SHEET
AS AT MARCH 31, 2008**

	Note	2008 £ '000
FIXED ASSETS		
Tangible assets	7	1,741
		<u>1,741</u>
CURRENT ASSETS		
Debtors	8	14,822
Deferred tax asset	5	507
		<u>15,329</u>
CREDITORS		
Amounts falling due within one year	9	(1,176)
		<u>14,152</u>
NET CURRENT ASSETS		
		<u>15,894</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		
		<u>15,894</u>
CAPITAL AND RESERVES		
Called up share capital	10	17,000
Profit and loss account	11	(1,106)
		<u>15,894</u>

The financial statements were approved by the Board of Directors on 18 December 2008 and signed on behalf of the Board:

Director 

BA European Limited (trading as OpenSkies)
NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM AUGUST 17, 2007 TO MARCH 31, 2008

1 ACCOUNTING POLICIES

Accounting convention:

The accounts are prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards.

Tangible fixed assets:

Tangible fixed assets are stated at cost. Depreciation is calculated to write off the cost, less estimated residual value, on a straight line basis - with aircraft related assets being depreciated over five years, and IT assets over four years. There were no depreciation charges in the current period as all assets are work in progress. The assets will be depreciated once the business starts operating in the year ending March 31, 2009.

Foreign currencies:

Trading activities denominated in foreign currencies are recorded in sterling at actual rates of exchange as at the date of the transaction. Monetary assets and liabilities denominated in currencies other than sterling are translated to sterling at rates of exchange ruling at the end of the financial period. All currency gains and losses arising are included in the profit and loss account.

Deferred tax:

Full provision is made for deferred tax on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised where the Directors consider it more likely than not there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating leases:

Total minimum payments, measured at inception, of operating leases are charged to profit and loss in equal annual amounts over the period of the lease.

Cash flow statement:

The Directors have taken advantage of the exemption in FRS1 (revised) from including a cash flow statement in the financial statements on the grounds that the Company is wholly owned and its parent company publishes a consolidated cashflow.

2 OPERATING LOSS

Operating loss is arrived at after charging:

Period from August 17, 2007 to March 31, 2008	
	£ '000
Operating lease rentals – aircraft	175
	<hr/>
	175
	<hr/>

The auditor's remuneration of £3,000 for the period ended March 31, 2008 is borne by British Airways Plc.

3 STAFF COSTS

Period from August 17, 2007 to March 31, 2008	
	£ '000
Wages and salaries	99
Social security costs	3
Other pension costs	5
Other staff costs	18
	<hr/>
	125
	<hr/>

The other staff costs comprise staff duty travel and training costs.

The average monthly number of employees during the period was as follows:

United Kingdom	<hr/>
	9
	<hr/>

DIRECTORS' REMUNERATION

One Director received remuneration for his services to the Company during the period. These remunerations were borne by the parent undertaking. The aggregate emoluments paid to the Director for his services were £218,367. No Company pension contributions were made to the Director in the period. The remaining Directors received no remuneration or other emoluments for their services to the Company during the period.

BA European Limited (trading as OpenSkies)
NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM AUGUST 17, 2007 TO MARCH 31, 2008

4 INTEREST RECEIVABLE

**Period from August 17, 2007
to March 31, 2008**

£ '000

Interest receivable from other group companies

199

199

5 TAX

(a) Analysis of credit for the year

**Period from August 17, 2007
to March 31, 2008**

£'000

Current tax:

United Kingdom corporation tax

-

Deferred tax:

Other timing differences (pre-trading expenditure)

(507)

TOTAL

(507)

(b) Factors affecting tax credit for the year

The current tax credit for the period is less than the loss at the standard rate of corporation tax in the UK (30%). The differences are explained below:

**Period from August 17, 2007
to March 31, 2008**

£'000

Loss on ordinary activities before tax

(1,613)

Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007: 30%)

(484)

Timing Differences:

Other differences (pre-trading expenditure)

544

Free Group relief from group members

(60)

Current tax for the period

-

(c) Provision for deferred taxation

**Period from August 17, 2007
to March 31, 2008**

£'000

Losses

(507)

(507)

Deferred tax asset at the start of period

-

Profit and loss credit for the period

507

Deferred tax asset at the end of period

507

The UK corporation tax rate reduced from 30% to 28% from April 1, 2008.

BA European Limited (trading as OpenSkies)
NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM AUGUST 17, 2007 TO MARCH 31, 2008

6 OPERATING LEASE COMMITMENTS

	<u>2008</u>
	<u>£ '000</u>
AIRCRAFT	
Between one and five years	4,221
	<u>4,221</u>

7 TANGIBLE FIXED ASSETS

	<u>Aircraft</u>	<u>Equipment</u>	<u>Total</u>
	<u>£ '000</u>	<u>£ '000</u>	<u>£ '000</u>
Cost			
On incorporation - August 17, 2007	-	-	-
Transfers from group companies	896	845	1,741
Balance March 31, 2008	<u>896</u>	<u>845</u>	<u>1,741</u>
Depreciation			
Incorporation - August 17, 2007	-	-	-
Charge for the period	-	-	-
Balance at March 31, 2008	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at March 31, 2008	<u>896</u>	<u>845</u>	<u>1,741</u>

8 DEBTORS

	<u>2008</u>
	<u>£ '000</u>
Amounts owed from other group companies	14,812
Other debtors	6
Prepayments and accrued income	4
	<u>14,822</u>

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>2008</u>
	<u>£ '000</u>
Trade creditors	41
Other creditors	1,135
	<u>1,176</u>

BA European Limited (trading as OpenSkies)
NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM AUGUST 17, 2007 TO MARCH 31, 2008

10 SHARE CAPITAL

	2008	2008
	No.	£ '000
Authorised:		
Ordinary shares of £1 each	50,000,000	50,000
	17,000,000	17,000
Allotted, called up and fully paid	17,000,000	17,000

11 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital	Profit & loss account	Total
	£ '000	£ '000	£ '000
On incorporation - August 17, 2007	-	-	-
Shares issued	17,000	-	17,000
Loss for the period	-	(1,106)	(1,106)
At March 31, 2008	17,000	(1,106)	15,894

12 SUBSEQUENT EVENTS

Subsequent to March 31, 2008, British Airways agreed to fund BA European Limited's acquisition of a French airline, L'Avion, for €68 million (£54 million). The acquisition price included L'Avion's cash reserves of approximately €28 million (£22 million). In addition, contingent consideration of €10 million may be payable to the previous shareholders of L'Avion. This payment is subject to a fall in the price of oil across a period of six consecutive months during the three years subsequent to the date of the acquisition. L'Avion commenced operations in January 2007 and focuses on the point to point premium travel market. The acquisition was completed on July 25, 2008. To finance the acquisition, British Airways increased its investment in OpenSkies by a further £40 million and provided an additional loan facility of £5 million. These events resulted in the authorised share capital increasing to £100 million in April 2008 and the allotted share capital increasing to £57 million in July 2008.

During August 2008 BA European Limited announced the launch of further operations from Amsterdam to New York JFK which subsequently commenced on October 15, 2008.

13 RELATED PARTIES

The Company has taken advantage of the exemption in FRS8 not to disclose related party transactions as 90 per cent or more of the voting rights are controlled within the Group.

14 PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is British Airways Plc.

The Company is a wholly owned subsidiary undertaking of British Airways Plc, a company incorporated in England. Copies of the group accounts of British Airways Plc, which include the Company, can be obtained by writing to the Secretary, British Airways Plc, Waterside, PO Box 365, Harmondsworth UB7 0GB.