

Registered No: 00464648

British Midland Airways Limited

Annual Report and Accounts
For the year ended 31 December 2016



British Midland Airways Limited

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British Midland Airways Limited

Corporate information

DIRECTORS

S Davies

S Philcox

COMPANY SECRETARY

A Fleming

AUDITORS

Ernst & Young LLP

1 More London Place

London

SE1 2AF

REGISTERED OFFICE

Waterside

PO Box 365

Harmondsworth

UB7 0GB

The Directors present their report and the audited financial statements of British Midland Airways Limited for the year ended 31 December 2016.

DIRECTORS

The Directors of the Company during the year ended 31 December 2016 were C. Denley, L. Embleton and N. Swift.

N. Swift resigned as a Director of the Company on 26 February 2016. C. Denley and L. Embleton resigned and S. Davies and S. Philcox were appointed as Directors of the Company on 25 April 2017.

RESULTS AND DIVIDENDS

The profit after tax for the year amounted to £3.0m (2015: £3.2m loss). The Directors do not recommend the payment of a final dividend (2015: £nil).

GOING CONCERN

No material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors. On the basis of their assessment of the Company's financial position, including the recoverability of the amounts owed by its parent company, British Airways Plc ("BA"), the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The ultimate parent company of the group, International Consolidated Airlines Group S.A. ("IAG"), purchases insurance against Directors' and Officers' Liability as permitted by the Companies Act 2006 for the benefit of the Directors and officers of its subsidiary undertakings.

POLITICAL CONTRIBUTIONS

During the year, the Company made no political contributions (2015: £nil).

British Midland Airways Limited

Directors' report (continued)

EVENTS SINCE THE BALANCE SHEET DATE

No material post balance sheet events.

AUDITORS

The Company's auditors Ernst & Young LLP, will automatically continue in office in accordance with the terms of their appointment, as per section 487 of the Companies Act 2006.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's 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.

By order of the Board


.....

S Philcox

Director

Date

27/9/17

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The Company, which is a wholly owned subsidiary undertaking of BA, leases two owned, nine operating leased and one finance leased Airbus aircraft to BA under operating lease agreements and the Directors expect this to remain the activity of the Company for the remaining lease terms of the leased aircraft.

On 31 August 2016 the Company announced to members the closure of the Diamond Club loyalty programme, which closed on 30 November 2016.

PRINCIPAL RISKS AND UNCERTAINTIES

Liquidity risk

The liabilities of the Company are settled on its behalf by its immediate parent entity, BA, as they fall due. Cash due on the realisation of assets recognised by the Company are collected by BA on behalf of the Company.

Currency risk

The Company is exposed to the impact of fluctuations in foreign exchange rates. The potential exposure is reviewed and monitored on a regular basis.

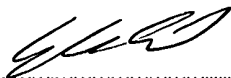
KEY PERFORMANCE INDICATORS

Given the nature of the Company's activities, the Directors consider that the use of key performance indicators is not necessary in the presentation of the results for the year.

FUTURE DEVELOPMENTS

The Directors do not expect any changes in the Company's activity in the foreseeable future.

By order of the Board



S Philcox
Director

Date 27/9/17

British Midland Airways Limited

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 elected to prepare 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 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 judgments 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; 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 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.

British Midland Airways Limited

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

We have audited the financial statements of British Midland Airways Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, 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.

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 Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
 - The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.
-

British Midland Airways Limited

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

Matters on which we are required to report by exception

In light of the knowledge and understandings of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report and Directors' Report. 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.

Ernst & Young LLP

J I Gordon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 SEPTEMBER 2017

British Midland Airways Limited
Statement of Comprehensive Income
For the year ended 31 December 2016

£m	Note	2016	2015
Turnover	3	34.8	36.5
Cost of sales		(27.9)	(30.3)
Gross profit		6.9	6.2
Administrative expenses		(3.1)	(9.3)
Operating profit/(loss)	4	3.8	(3.1)
Interest receivable and similar income	7	0.6	0.8
Interest payable and similar charges	7	(0.6)	(0.7)
Profit/(loss) on ordinary activities before taxation		3.8	(3.0)
Tax charge on ordinary activities	8	(0.8)	(0.2)
Profit/(loss) on ordinary activities after taxation		3.0	(3.2)
Total comprehensive income/(loss) – continuing operations		3.0	(3.2)
Total comprehensive income – discontinued operations	9	-	0.3
Total comprehensive income/(loss)		3.0	(2.9)

British Midland Airways Limited

Balance Sheet

As at 31 December 2016

£m	Note	2016	2015
Fixed assets			
Tangible assets	10	24.4	27.1
Total fixed assets		24.4	27.1
Current assets			
Debtors	11	161.8	181.5
Cash at bank and in hand		0.6	0.2
Total current assets		162.4	181.7
Creditors: amounts falling due within one year	12	(88.1)	(87.2)
Net current assets		74.3	94.5
Total assets less current liabilities		98.7	121.6
Creditors: amounts falling due after more than one year	13	(0.8)	(3.1)
Provision for liabilities	15	(45.5)	(69.1)
Net assets		52.4	49.4
Capital and Reserves			
Called up share capital	16	13.1	13.1
Share premium account		-	-
Profit and loss account		39.3	36.3
		52.4	49.4

The financial statements on pages 8 to 21 were approved by the Board of Directors on 27 September 2017 and signed on its behalf by:



S Philcox

Director

Date 27/9/17

British Midland Airways Limited

Statement of Changes in Equity

For the year ended 31 December 2016

£m	Issued capital	Share premium account	Profit and loss account	Total shareholders' equity
At 1 January 2016	13.1	-	36.3	49.4
Profit for the year	-	-	3.0	3.0
Total comprehensive income for the year	-	-	3.0	3.0
At 31 December 2016	13.1	-	39.3	52.4

For the year ended 31 December 2015

£m	Called up share capital	Share premium account	Profit and loss account	Total shareholders' equity
At 1 January 2015	13.1	346.2	(307.0)	52.3
Loss for the year	-	-	(2.9)	(2.9)
Total comprehensive loss for the year	-	-	(2.9)	(2.9)
Share capital reduction	-	(346.2)	346.2	-
At 31 December 2015	13.1	-	36.3	49.4

British Midland Airways Limited

Notes to the financial statements

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of British Midland Airways Limited (the "Company") for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 27 September 2017 and the balance sheet was signed on the Board's behalf by S Philcox. British Midland Airways Limited is a private limited company, limited by shares, incorporated and domiciled in England and Wales.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting Policies

2.1 Basis of preparation

These financial statements were prepared in accordance with FRS 101 and in accordance with the Companies Act 2006. The financial statements of this entity do not comply with all of the requirements of EU-adopted IFRS and therefore do not contain the unreserved statement of compliance set out in paragraph 3 of IFRS 1 First Time Adoption of International Financial Reporting Standards and paragraph 16 of IAS 1 Presentation of Financial Statements.

The Company's financial statements are presented in pound sterling and all values are rounded to the nearest million pounds (£m), except where indicated otherwise.

FRS 101 allows companies to take advantage of certain disclosure exemptions. As allowed under the standard, the disclosure exemptions under paragraph 8 to 9 of FRS 101 have been applied as the Company is a wholly owned subsidiary undertaking of British Airways Plc whose accounts include an equivalent disclosure of the following standards:

- a) the requirements of IFRS 7 *Financial Instruments: Disclosures*
- b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*,
- c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - I. paragraph 79(a)(iv) of IAS 1;
 - II. paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- d) the requirements of paragraphs 10(d), 10(f), 16, 38A-D, 40A-D and 134-136 of IAS 1 *Presentation of Financial Statements*,
- e) the requirements of IAS 7 *Statement of Cash Flows*,
- f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,
- g) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*,
- h) (i) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

British Midland Airways Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies

Turnover

Turnover arising from the Company's continuing sublease activity is recognised for rentals receivable under operating leases in the period to which the rentals relate.

Revenue from the sale of frequent flyer points is deferred as a liability at the fair value of the points after an adjustment for breakage and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points were issued.

Operating leases

Rentals paid or received under operating leases are charged or credited to the profit and loss account on a straight line basis over the lease term.

Property, plant and equipment

Property, plant and equipment is held at cost. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

The carrying value is reviewed for impairment when there is an indicator for impairment such that the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment. An assessment as to whether impairment indicators exist is performed at each reporting date.

a Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance lease, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciate in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

b Leased assets

Where assets are financed through finance leases arrangements, under which substantially all the risks and rewards of ownership are transferred to the Company, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings.

The amount included in the cost of tangible fixed assets is depreciated on the basis described in the preceding paragraphs and the interest element of lease payments made is included in interest payable in the income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease.

British Midland Airways Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Provisions for periodic overhaul costs and lease handback costs of operating leased aircraft are established such as to spread the cost of maintenance over the period of the lease with reference to the number of hours flown or other relevant basis.

Routine maintenance is expensed as incurred. All provisions including those relating to the maintenance of the leased fleet are escalated to reflect expected cost rates at the point of expenditure.

British Midland Airways Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded in the Company's functional currency, pound sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All profits or losses arising on translation are dealt with through the income statement.

Financial instruments

In accordance with IAS 39 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Company determines the classification at initial recognition and re-evaluates this designation at each period end except for those financial instruments measured at fair value through the income statement.

a Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is insignificant. This category of financial assets includes trade and other receivables. Interest income on trade and other receivables is recognised as interest accrues using the effective interest method.

b Financial liabilities measured at amortised cost

Long-term borrowings are recorded at amortised cost.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

British Midland Airways Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Key accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

a Residual values and useful lives of assets

The Company exercises judgment to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives. Further details are provided in note 10.

3. Turnover

Turnover from continuing operations comprises revenue from leasing activities with BA and the redemption of frequent flyer points and is generated solely in the United Kingdom.

4. Operating Profit

Operating profit/(loss) is arrived at after charging:

Depreciation of fixed assets:

£m	2016	2015
Depreciation		
- owned assets	2.0	2.7
- finance leased assets	0.7	2.4
	<u>2.7</u>	<u>5.1</u>

Operating lease costs:

£m	2016	2015
Minimum lease rentals:		
Hire of aircraft under operating leases	23.5	27.9
	<u>23.5</u>	<u>27.9</u>

5. Auditor's remuneration

The Company's auditor Ernst & Young LLP received remuneration of £37,500 (2015: £42,500) in respect of audit services provided to the Company, which was borne wholly by BA.

British Midland Airways Limited

Notes to the financial statements (continued)

6. Employee costs and director emoluments

The Directors received no remuneration for their services to the Company in the year ended 31 December 2016 (2015: £nil).

One of the Directors qualified for a defined benefit pension scheme (2015: one) but opted to receive cash in lieu. Two Directors qualified for a defined contribution scheme provided by BA (2015: three), of which one Director opted to receive cash in lieu. Full disclosure of the schemes is made in the financial statements of BA.

During the year, three Directors participated in IAG's Long Term Incentive Scheme during the year (2015: four). Three of the Directors exercised their awards under the IAG Long Term Incentive Scheme (2015: three). No loans or transactions were outstanding with the Directors of the Company at the end of the year, which need to be disclosed in accordance with the requirements of s412 and 413 of the Companies Act 2006.

There were no employees in the current or prior year.

7. Interest receivable and payable

£m	2016	2015
Interest payable and similar charges		
On finance leases	(0.6)	(0.7)
	(0.6)	(0.7)

£m	2016	2015
Interest receivable and similar income		
Interest receivable from parent company	0.6	0.8
	0.6	0.8

British Midland Airways Limited

Notes to the financial statements (continued)

8. Tax

a) Tax on profit on ordinary activities

Tax charge/(credit) in the Statement of Comprehensive Income:

£m	2016	2015
Current tax		
Movement in respect of current year	0.9	0.8
Movement in respect of prior years	0.2	-
Total current income tax charge	1.1	0.8
Deferred tax		
Movement in respect of current year	(0.2)	(0.6)
Movement in respect of prior year	0.1	-
Rate change	(0.2)	-
Total deferred tax credit	(0.3)	(0.6)
Tax charge on profit or loss on ordinary activities	0.8	0.2

b) Detailed deferred tax

The deferred tax included in the balance sheet and the movement in the asset / (liability) is as follows:

£m	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
Property, plant and equipment	(2.5)	(0.1)	0.2	0.2	(2.2)
Total deferred tax	(2.5)	(0.1)	0.2	0.2	(2.2)

c) Reconciliation of the total tax charge in the Statement of Comprehensive Income

The total charge is calculated at the standard rate of UK corporation tax. The tax charge (2015: charge) on the profit for the year (2015: loss) ended 31 December 2016 is higher (2015: higher) than the expected tax charge at the UK rate. The Company's effective tax rate is 22% (2015: -7.4%) and the differences to the UK rate are explained below:

£m	2016	2015
Profit/(loss) before tax		
Continuing operations	3.8	(3.0)
Discontinued operations	-	0.3
	3.8	(2.7)
Tax calculated at the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	0.7	(0.5)
Effects of:		
Non- assessable income - recurring items	-	(0.2)
Non-deductible expenses - non-recurring items	-	0.8
Tax losses brought forward	-	0.1
Adjustments in respect of prior years	0.3	-
Effects of tax rate changes	(0.2)	-
Total tax charge for the year (note 8(a))	0.8	0.2

British Midland Airways Limited

Notes to the financial statements (continued)

8. Tax (continued)

d) Factors that may affect future tax charges

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax on temporary differences as at 31 December 2016 has been calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

9. Discontinued operations

£m	2016	2015
Profit on termination of airline business	-	0.3
Profit on ordinary activities before taxation	-	0.3
Tax charge on ordinary activities	-	-
Profit on ordinary activities after taxation	-	0.3
	-	-
Total comprehensive income	-	0.3

Discontinued operation on termination of the airline business

Following the acquisition of the Company by BA, the Directors took the decision to close down the airline operations and consequently the Company ceased to trade as an airline from 28 October 2012. The Directors made an assessment of a number of contractual obligations relating to the closure of the airline business, some of which were subject to significant uncertainty as to the timing and extent of cash outflow. The Directors made these assessments on the basis of the best estimate of obligations based on the available information at the time.

During the prior year the Company repatriated funds from overseas bank accounts leading to realised exchange losses of £0.6m. The Company also received deferred consideration from the sale of BMI Regional of £0.9m.

10. Tangible assets

£m	Fleet Owned	Fleet Leased	Total
Cost:			
At 1 January 2016 and 31 December 2016	23.6	15.9	39.5
Depreciation:			
Balance 1 January 2016	7.3	5.1	12.4
Charge for the period	2.0	0.7	2.7
At 31 December 2016	9.3	5.8	15.1
Net book amounts:			
At 31 December 2016	14.3	10.1	24.4
At 31 December 2015	16.3	10.8	27.1

Fleet is depreciated over 23 years after making allowance for estimated residual values.

Owned aircraft at 31 December 2016 are leased to BA under operating leases.

British Midland Airways Limited

Notes to the financial statements (continued)

11. Debtors

£m	2016	2015
Amount owed by parent company	134.4	162.5
Amount owed by fellow group undertaking	-	1.1
Prepayments and accrued income	27.2	17.7
Other debtors	0.2	0.2
At 31 December	161.8	181.5

12. Creditors: amounts falling due within one year

£m	2016	2015
Obligation under finance lease	2.9	2.2
Amounts due to group undertakings	82.8	80.3
Accruals and deferred income	1.3	3.9
Corporation tax	1.1	0.8
At 31 December	88.1	87.2

13. Creditors: amounts falling due after more than one year

£m	2016	2015
Obligation under finance lease	0.8	3.1
At 31 December	0.8	3.1

a) Obligations under finance leases

The Company uses finance leases principally to acquire aircraft. These leases have both renewal options and purchase options. These are at the option of the Company. Future minimum lease payments under finance leases are as follows:

£m	2016	2015
Future minimum payments due:		
Within one year	3.2	2.7
After more than one year but within five years	0.8	3.3
	4.0	6.0
Less: finance charges	(0.3)	(0.7)
Present value of minimum lease and hire purchase payments	3.7	5.3
Present value of minimum lease and hire purchase payments is analysed as follows:		
Within one year	2.9	2.2
After more than one year but within five years	0.8	3.1
As at 31 December	3.7	5.3

British Midland Airways Limited

Notes to the financial statements (continued)

14. Operating Leases

The Company has entered into commercial leases on certain aircraft. Certain leases contain options for renewal.

a Fleet

The aggregate payments, for which there are commitments under operating leases fall due as follows:

£m	2016	2015
Within one year	15.9	20.1
Between one and five years	7.8	19.7
Over five years	-	-
At 31 December	23.7	39.8

15. Provision for liabilities

	Frequent Flyer Programme	Dilapidations	Handback	Deferred tax	Other	Total
Balance at 1 January 2016	4.3	1.2	60.8	2.5	0.3	69.1
Arising during the year	-	0.1	2.4	-	0.1	2.6
Utilised	(2.2)	-	-	-	(0.3)	(2.5)
Transferred on assignment of lease	-	-	(22.8)	-	-	(22.8)
Release of unused amounts	(2.1)	(0.6)	(6.8)	(0.3)	-	(9.8)
Foreign exchange retranslation	-	-	8.9	-	-	8.9
As at 31 December	-	0.7	42.5	2.2	0.1	45.5

Frequent Flyer Programme

The Company entered into an agreement to compensate Avios for miles transferred from the Company's Frequent Flyer Programme to the BA Executive Club. The provision reflects the cost of transfers at the forecast rate. The provision was fully utilised when the Diamond Club closed on 30 November 2016.

Dilapidations

The terms of certain leased property contracts have committed the Company to dilapidations at the end of the relevant lease terms. All leases are due to expire by 2020.

Handback

This provision is for lessor handback compensation in respect of operating leased aircraft. The handback provision will be utilised against costs incurred to return the aircraft at the standard required by the lease contract to the lessor. All leases are due to expire by 2019.

Other

This provision represents amounts recognised in respect of a number of legal disputes and commercial claims.

British Midland Airways Limited

Notes to the financial statements (continued)

16. Share capital

		2016		2015
	Shares (m)	£m	Shares (m)	£m
Allotted, called up and fully paid				
Ordinary £1 shares	13.1	13.1	13.1	13.1
	13.1	13.1	13.1	13.1

17. Related party transactions

No loans were outstanding with Directors or officers of the Company as of 31 December 2016 or arose during the year that needed to be disclosed in accordance with the requirements of Sections 412 and 413 of the Companies Act 2006.

During the year there were the following transactions with Avios Group Limited (AGL) which manages the Diamond Club on behalf of BMI.

£m	2016	2015
Purchases	4.4	2.3
Amounts owed (to)/from fellow group undertaking	(2.5)	1.1

18. Post balance sheet event

No material post balance sheet events.

19. Ultimate parent undertaking

The Company's immediate parent undertaking as at 31 December 2016 was British Airways Plc, a company registered in England and Wales. As at 31 December 2016, the ultimate parent undertaking of the Company was International Consolidated Airlines Group S.A. ('IAG'), which is incorporated in Spain. Of the Group of which the Company is a member, IAG was the largest undertaking preparing group financial statements and British Airways Plc was the smallest undertaking.

Copies of the consolidated financial statements of IAG and British Airways Plc can be found on the website www.iagshares.com.