

**KLM UK Holdings Limited**

**Directors' report and consolidated  
financial statements**

**Registered number 2496522**

**31 March 2008**

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2008.

### Principal activities

Following the cessation of the provision of scheduled airline services in 2003, the group's principal business activity is now the leasing out of aircraft.

### Business review and dividends

The group owns two Bae 146 aircraft. During the financial year both aircraft were leased to Cityjet on a power by the hour basis. In January 2008 one of the aircraft (DEX) was returned, whilst the other aircraft (DEW) remained in service for Cityjet.

Under FRS 17 rules a provision of £7,469,572 for the future liability of the pension scheme has been made. The liability for the group has been determined as 48.4% of the total liability of the Air UK Pension scheme – see note 12.

The results for the year ended 31 March 2008 are set out in the attached financial statements.

The directors do not recommend the payment of a dividend (2007: £nil).

### Principal risks & uncertainties

The group operates in a difficult market of limited scale leasing activities.

The group has a pension fund deficit, of which measures are in place to deal with. However the company could potentially be exposed to risks in the event of future changes in government legislation.

### Future prospects

For 2008-09 the group expects a sale of the two Bae 146 aircraft to a third party. The group will search for alternative assets to replace the aircraft sold, either to continue leasing within the group or leasing to other interested parties.

### Directors and directors' interests

The directors who held office during the year were as follows:

D Neelis (appointed 31 March 2008)

M Coumans

M Hamelink (resigned 31 March 2008)

No director in office at 31 March 2008 had any disclosable interest in the shares of KLM Royal Dutch Airlines NV, KLM UK Limited or any other group company during the year.

### Employee involvement

During the year the group continued its policy of ensuring that regular meetings were held with employees and their representatives within the limitations of commercial confidentiality and security.

### Disabled persons

In compliance with current legislation, a group policy is in existence for encouraging the employment of disabled persons, where this is practical. Endeavours are made to ensure that disabled employees benefit from training and other development programmes in common with all employees.

## **Directors' report** *(continued)*

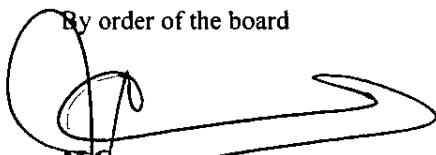
### **Disclosure of information to auditors**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Auditors**

In accordance with section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M. Coumans  
Director

Skyway House  
Parsonage Road  
Takeley  
Bishop's Stortford  
Herts  
CM22 6PU

28 January

2009

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss 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 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 the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.



KPMG LLP  
PO Box 695  
8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

## **Independent auditors' report to the members of KLM UK Holdings Limited**

We have audited the group and parent company financial statements (the "financial statements") of KLM UK Holdings Limited for the year ended 31 March 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses, and the related notes. 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 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 auditors**

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 whether in our opinion the information given in 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 group's and company's circumstances, consistently applied and adequately disclosed.

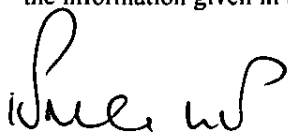
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

**Independent auditors' report to the members of KLM UK Holdings Limited**  
*(continued)*

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's loss for the year 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.



KPMG LLP  
Chartered Accountants  
Registered Auditor

30 January 2009

**Consolidated profit and loss account**  
*for the year ended 31 March 2008*

		2008	2007
	Notes	£000	£000
<b>Turnover</b>	2	<b>640</b>	<b>966</b>
Cost of sales		(310)	(3,916)
		<hr/>	<hr/>
<b>Gross profit/(loss)</b>		<b>330</b>	<b>(2,950)</b>
Administrative expenses			
- normal	3	(383)	(837)
- exceptional	12	(10,774)	(7,575)
		<hr/>	<hr/>
<b>Operating loss</b>		<b>(10,827)</b>	<b>(11,362)</b>
Interest payable and similar charges	6	-	(1,368)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		<b>(10,827)</b>	<b>(12,730)</b>
Tax on loss on ordinary activities	7	57	124
		<hr/>	<hr/>
<b>Loss on ordinary activities after taxation and retained for the financial year</b>	14	<b>(10,770)</b>	<b>(12,606)</b>
		<hr/>	<hr/>

The results for the year are derived from continuing operations.

The notes on pages 10 to 23 form part of these financial statements.

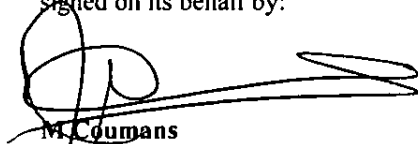
## Consolidated balance sheet

At 31 March 2008

	Note	2008 £000	2007 £000
<b>Fixed assets</b>			
Tangible fixed assets	8	677	977
Investments	9	-	-
		<u>677</u>	<u>977</u>
<b>Current assets</b>			
Debtors due within one year	10	27,821	27,813
Cash at bank and in hand		-	-
		<u>27,821</u>	<u>27,813</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(99,070)</u>	<u>(96,062)</u>
<b>Net current liabilities</b>		<u>(71,249)</u>	<u>(68,249)</u>
<b>Total assets less current liabilities</b>		<u>(70,572)</u>	<u>(67,272)</u>
<b>Pension liability</b>	12	<u>(7,470)</u>	<u>-</u>
<b>Net liabilities</b>		<u>(78,042)</u>	<u>(67,272)</u>
<b>Capital and reserves</b>			
Called up share capital	13	36,980	36,980
Share premium account	14	11,920	11,920
Capital redemption reserve	14	2,495	2,495
Profit and loss account	14	(168,437)	(157,667)
		<u>(117,042)</u>	<u>(106,272)</u>
<b>Shareholders' deficit</b>	16	<u>(117,042)</u>	<u>(106,272)</u>
Minority interest	15	39,000	39,000
<b>Shareholders' deficit</b>		<u>(78,042)</u>	<u>(67,272)</u>

The notes on pages 10 to 23 form part of these financial statements.

These financial statements were approved by the board of directors on 28 January 2009 and were signed on its behalf by:

  
M. Coumans  
Director

## Company balance sheet

At 31 March 2008

	Note	2008 £000	2007 £000
<b>Fixed assets</b>			
Investments	9	-	-
<b>Current assets</b>			
Debtors	10	46,517	46,517
<b>Net assets</b>		<u>46,517</u>	<u>46,517</u>
<b>Capital and reserves</b>			
Called up share capital	13	36,980	36,980
Share premium account	14	11,920	11,920
Profit and loss account	14	(2,383)	(2,383)
<b>Shareholders' funds</b>		<u>46,517</u>	<u>46,517</u>

The notes on pages 10 to 23 form part of these financial statements.

These financial statements were approved by the board of directors on  
 on its behalf by:

2009 and were signed

**M Coumans**  
 Director

**Consolidated Statement of total recognised gains and losses**  
*for the year ended 31 March 2008*

	2008 £000	2007 £000
Loss for the financial year	(10,770)	(12,606)
Total recognised gains and losses relating to the year	(10,770)	(12,606)
Total gains and losses recognised since last annual report	(10,770)	(12,606)

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, as modified to include the revaluation of certain assets. The financial statements have been prepared on a going concern basis as the company has received assurances from its parent company that it will be provided with adequate funding to meet its liabilities as they fall due for the foreseeable future, including but not limited to, any amount becoming payable under similar support that the company has given to its subsidiary KLM UK Limited.

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

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

#### ***Cash flow statement***

Under Financial Reporting Standard No. 1 (Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the company in its own published consolidated financial statements.

#### ***Aircraft repair accruals***

The maintenance costs of owned or finance leased fixed wing aircraft are capitalised and depreciated over the period between periodic checks. Other component overhaul costs are charged to operating costs as incurred.

Provision is made for repair and maintenance on an hourly basis in respect of the major components of certain fixed wing aircraft leased on an operating lease basis.

#### ***Depreciation of tangible fixed assets***

Depreciation is provided on a straight-line basis to depreciate each asset to its residual value over its estimated useful economic life, which, for the principal classes are:

Aircraft and related engines	-	5 - 20 years
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The directors of the company on the adoption of Financial Reporting Standard No. 15 - Tangible Fixed Assets, have decided to adopt the transitional arrangements permitted under the standard, under which the previous revaluations (which were carried out in 1994) are retained as the book values of the tangible fixed assets and under which no future revaluations of the tangible fixed assets are to be carried out.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Leases*

Leases are treated as finance leases and capitalised where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset. In respect of finance leases the asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life or the lease term. Future instalments under such leases, net of finance charges, are categorised, as appropriate, under creditors due within or after one year. Finance charges are allocated to accounting periods over the period of the leases to produce a constant rate of return on the outstanding balance. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### *Taxation*

The charge for taxation is based on the result 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, without 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.

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Pensions*

The cost of providing pension benefits is charged to the profit and loss account over the periods benefiting from the employee's service. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. (See note 12).

## Notes (continued)

### 1 Accounting policies (continued)

#### Turnover

Turnover derives from the sub-leasing of aircraft.

### 2 Turnover

Turnover (excluding value added tax) arises predominantly in the United Kingdom and is derived from the group's principal activity.

### 3 Loss on ordinary activities before taxation

	2008 £000	2007 £000
<i>Loss on ordinary activities before taxation is stated after charging/(crediting):</i>		
Operating lease rentals:		
- Property	88	90
Auditors' remuneration:		
- Audit services	10	20
- Non-audit services	12	10
Exchange loss/(gain)	6	(35)
Depreciation of tangible fixed assets		
- owned	300	1,132
Impairment of tangible fixed assets	-	2,078
Gain on termination of finance leases	-	(700)
Loss on buy off of swap contract	-	1,267
	<hr/>	<hr/>

The audit fee for the company was £2,500 (2007: £2,500).

The company's retained result in 2008 was a loss of £Nil (2007: Nil).

## Notes (continued)

### 4 Staff numbers

The average number of persons employed by the Group (including directors) during the period was as follows:

	Number of employees	
	2008	2007
Ground staff and administration	3	4
	<u>3</u>	<u>4</u>

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	71	156
Social security costs	7	10
Other pension costs	5	4
	<u>83</u>	<u>170</u>

**Notes** *(continued)*

**5 Remuneration of directors**

	2008 £000	2007 £000
Directors' emoluments excluding pension contributions (included in staff costs – note 4) all of which relate to service as directors	16	13

The number of directors who accrued retirement benefits in the period is as follows:

	Number of directors 2008	2007
Defined benefit scheme	-	-

**6 Interest payable and similar charges**

	2008 £000	2007 £000
On finance leases and hire purchase contracts	-	1,147
Other interest	-	221
	-	1,368

**7 Taxation**

	2008 £000	2007 £000
Current tax credit	(57)	(124)
Deferred tax	-	-
	(57)	(124)

The standard rate of UK corporation tax is 30% (2007: 30%).

## Notes (continued)

### 7 Taxation (continued)

Factors affecting the tax charge for the current period are set out in the following reconciliation.

The current tax credit for the period is lower (2007: lower) than the standard rate of corporation tax in the UK. The differences are explained below.

	2008 £000	2007 £000
Loss on ordinary activities before taxation	(10,827)	(12,730)
Tax at the standard rate at 30%	(3,248)	(3,819)
Non utilisation of tax losses	1,098	2,443
Depreciation in excess of capital allowances	90	964
Other timing differences	2,060	412
Surrender of tax losses	(57)	(124)
	<u>(57)</u>	<u>(124)</u>

At 31 March 2008, there were no accumulated tax losses available to the company. Accumulated losses available to the group for set off against profits of the same trade have not been recognised in full as a deferred tax asset due to the uncertainty of the future profit stream of the group.

**Notes (continued)**

**8 Tangible fixed assets (Group)**

	<b>Aircraft and engines £000</b>	<b>Total £000</b>
<i><b>Cost or valuation</b></i>		
At 1 April 2007 and 31 March 2008	32,446	32,446
At cost	29,951	29,951
At valuation	2,495	2,495
	32,446	32,446
<i><b>Depreciation</b></i>		
At 1 April 2007	31,469	31,469
Charge for the year	300	300
At 31 March 2008	31,769	31,769
<i><b>Net book value</b></i>		
At 31 March 2008	677	677
At 31 March 2007	977	977

Certain of the company's aircraft engines were revalued at 31 December 1994 on the basis of open market value. If the engines had not been revalued they would be included in the balance sheet at £nil (2007: £nil).

## Notes (continued)

### 9 Investments

	Shares in group Undertakings
	£000
<i>Cost</i>	
At 1 April 2007 and 31 March 2008	7,900
<i>Provision</i>	
At 1 April 2007 and 31 March 2008	7,900
<i>Net book value</i>	
At 31 March 2008	-
At 31 March 2007	-

Subsidiaries	Activity	Country of incorporation	Group interest in equity shares
KLM UK Limited	Aircraft leasing	England and Wales	100%
Air UK Leasing Limited	Aircraft leasing (dormant)	England and Wales	*100%

\* held by subsidiary undertaking

The above subsidiaries are consolidated within the Group accounts.

### 10 Debtors

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Due within one year</b>				
Trade debtors	50	13	-	-
Amount owed by subsidiary undertakings	-	-	46,517	46,517
Amounts owed by fellow subsidiary undertakings	27,677	27,744	-	-
Other debtors	81	31	-	-
Prepayments and accrued income	13	25	-	-
	<b>27,821</b>	<b>27,813</b>	<b>46,517</b>	<b>46,517</b>

**Notes (continued)**

**11 Creditors: amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors	7	4	-	-
Amount owed to parent undertaking	98,067	95,343	-	-
Other creditors	511	79	-	-
Accruals and deferred income	485	636	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	99,070	96,062	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 12 Pension scheme

The group participates in the Air UK Group pension scheme which provides benefits based on final pensionable pay. The assets of the scheme are held separately. Contributions to the scheme are charged in the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

In the past, the group has been unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reliable basis, and has therefore treated the scheme as a defined contribution scheme. The group is one of a number of participating employers and the implications of any surplus or deficit in the scheme are considered on a Group basis. However, an exercise has been undertaken at the year end, which has enabled the company to successfully identify its share of the underlying assets and liabilities of the scheme on a consistent and reliable basis. The company has therefore recognised its share of the scheme deficit at the balance sheet date, and the scheme will be accounted for on a full defined benefit basis from 2009 onwards.

The FRS 17 disclosure is reproduced below. The valuation was updated by the actuary on an FRS 17 basis as at 31 March 2008.

The major assumptions used in this valuation were:

	2008
Rate of increase in salaries:	4.6%
Rate of increase in pensions in payment and deferred pensions	3.1%
Discount rate applied to scheme liabilities	6.5%
Inflation assumption	3.1%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The estimates have applied the following mortality tables in both years.

Pre-retirement	PA(92) c2010	
Post-retirement	PA(92) c2010	Current pensioners
	PA(92) c2020	Others

In addition to recognising the group's share of the deficit at the year end, amounting to £7,470,000, an additional amount of £3,304,000 was charged as a past service deficit payment to the pension scheme. The group's share of the deficit payments has been calculated by the Actuary of the Air UK Group pension scheme.

**Notes** *(continued)*

**12 Pension scheme** *(continued)*

***Scheme assets***

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2008	Value at 2008 £000
Investments		61,051
Insured pensioners		9,192
Trustee bank account		177
		<hr/>
Present value of scheme liabilities	6.7%	70,420 (77,890)
		<hr/>
Deficit in the scheme		(7,470)
Related deferred tax asset		-
		<hr/>
Net pension liability		(7,470)
		<hr/>

## Notes (continued)

### 13 Called up share capital

	2008 £000	2007 £000
<i>Authorised, allotted, called up and fully paid:</i>		
36,979,818 ordinary shares of £1 each	36,980	36,980
	<u>36,980</u>	<u>36,980</u>

### 14 Reserves

	Profit and Loss Account £000	Share Premium £000	Capital Redemption Reserve £000
<b>Group</b>			
At 1 April 2007	(157,667)	11,920	2,495
Retained loss for the year	(10,770)		
	<u>(168,437)</u>	<u>11,920</u>	<u>2,495</u>
<b>At 31 March 2008</b>	<u>(168,437)</u>	<u>11,920</u>	<u>2,495</u>
<b>Company</b>			
At 1 April 2007	(2,383)	11,920	
Result for the year	-		
	<u>(2,383)</u>	<u>11,920</u>	
<b>At 31 March 2008</b>	<u>(2,383)</u>	<u>11,920</u>	

## Notes (continued)

### 15 Minority interest

The minority interest represents share capital of 39 million 6 per cent non-cumulative redeemable preference shares of £1 each held in KLM UK Limited by KLM Royal Dutch Airlines N.V. (2007: 39 million).

Dividends are only payable if profits are available for distribution and the directors resolve to pay the fixed 6% rate.

### 16 Reconciliation of movement in shareholders' deficit – group

	2008 £000	2007 £000
Loss for the financial year	(10,770)	(12,606)
Opening shareholders' deficit	(106,272)	(93,666)
Closing shareholders' deficit	(117,042)	(106,272)

### 17 Commitments

At 31 March 2008 the Group had annual commitments in respect of non cancellable operating leases expiring:

	2008 Property £000	Total £000	2007 Total £000
Within one year	-	-	-
Between two and five years	33	33	33
In more than five years	38	38	54
	71	71	87

## **Notes** *(continued)*

### **18 Related party transactions**

As the Company is a wholly owned subsidiary of KLM Royal Dutch Airlines N.V., the Company has taken advantage of the exemption contained in Financial Reporting Standard No. 8 and has therefore not disclosed transactions or balances with entities which form part of the group headed by KLM Royal Dutch Airlines N.V.

The consolidated financial statements of KLM Royal Dutch Airlines N.V., within which this Company is included, can be obtained from the address below.

### **19 Ultimate parent undertaking**

At 31 March 2008 the directors considered the company's ultimate parent undertaking to be AIR FRANCE-KLM, which is registered in France, which is the largest group in which the results of the company are consolidated.

The directors also consider that this is the largest group for which group accounts including KLM UK Holdings Limited are drawn up.

The financial statements of the ultimate and immediate parent undertaking can be obtained from Skyway House, Parsonage Road, Takeley, Bishop's Stortford, Herts, CM22 6PU.