

# **British Airways Travel Shops Limited**

## **Report and Financial Statements**

31 March 2005



# British Airways Travel Shops Limited

Registered No: 2524175

## Directors

A Burnett  
M Waldner

## Secretary


K Dosanjh

## Bankers

Barclays Bank PLC  
90/92 High Street  
Crawley  
West Sussex  
RH10 IBP

## Registered office

Waterside  
PO Box 365  
Harmondsworth  
UB7 0GB

 ERNST & YOUNG

## Directors' report

The directors present their report and financial statements for the year ended 31 March 2005.

### Results and dividends

The profit for the year, after taxation, amounted to £990,000. Ordinary dividends of £529,000 were paid during the year.

### Principal activities and review of the business

The company acts as a travel agency selling a range of products including airline tickets, holidays, car hire and rail tickets. This is not expected to change.

### Disabled employees

British Airways Travel Shops Limited is an equal opportunity employer and gives full and fair consideration to applications for employment by disabled persons. The company's policy is to provide continuous employment to employees who have become disabled during their employment by the company. The company's comprehensive training, career development and promotion opportunities are available to all disabled employees.

### Employee involvement

The company's policy is to communicate openly and honestly with all employees. Company financial information is made available to all employees on a weekly and monthly basis and the company's objectives and targets are communicated at quarterly forums and at the commencement of the financial year.

Regular open forums are held by directors of the company with groups of staff representing all levels within the company with the aim of taking into account the views of all employees.

The company involves staff in the company performance through a profit share scheme and individual incentive targets.

### Directors

The directors who served the company during the year were as follows:

H Drewett	(served from 2 August 2004 to 2 August 2005)
A Burnett	(appointed 20 January 2005)
D A Moss	(resigned 30 June 2004)
T A Hall	(resigned 1 September 2004)
S Gunning	(resigned 2 August 2004)
A Swaffield	(resigned 22 October 2004)
D Noyes	(served from 1 September 2004 to 20 January 2005)

M Waldner was appointed as a director of the company on 2 August 2005.

## Directors' report

The directors' interests in the share capital of British Airways Plc, the ultimate parent undertaking, were as follows:

	<i>Ordinary shares</i>		<i>Share Options</i>		<i>Conditional Share Options - Long Term Incentive Plan 1996 (LTIPs)</i>	
	<i>31 March 2005</i>	<i>1 April 2004 or at date of appointment</i>	<i>31 March 2005</i>	<i>1 April 2004 or at date of appointment</i>	<i>31 March 2005</i>	<i>1 April 2004 or at date of appointment</i>
H Drewett	-	-	148,739	148,739	-	-
A Burnett	2,779	2,779	252,386	252,386	80,813	80,813

The options under the Executive Share Schemes and the SAYE Share Schemes are at prices ranging from £1.57 to £4.05. No options were exercised during the year.

### Liability Insurance

The ultimate parent undertaking has entered into a directors' and officers' liability insurance policy covering the directors and officers of its subsidiary undertakings.


### Creditor payment policy and practice

The company is part of the British Airways group. British Airways is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. Further information in respect of this code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU. The number of days purchases in creditors as at 31 March 2005 in respect of the Company is calculated as 60 days (2004: 67 days).

### Auditors

The company has passed elective resolutions in accordance with the provisions of section 386(1) and 379(A) of the Companies Act 1985, and Ernst and Young LLP will automatically continue in office as auditors.

By order of the board

  
27/09/2005

## Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 British Airways Travel Shops Limited**

We have audited the company's financial statements for the year ended 31 March 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared on the basis of 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**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 British Airways Travel Shops Limited** (continued)

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Registered Auditor

London

27 SEPTEMBER 2005

## Profit and loss account

for the year ended 31 March 2005

	Notes	2005 £000	2004 £000
<b>Turnover</b>	2	13,443	13,990
Cost of sales		(10,030)	(10,333)
<b>Gross profit</b>		3,413	3,657
Administrative expenses		(2,853)	(2,870)
<b>Operating profit</b>	3	560	787
Interest receivable	6	447	274
<b>Profit on ordinary activities before taxation</b>		1,007	1,061
Tax on profit on ordinary activities	7	(17)	8
<b>Profit on ordinary activities after taxation</b>		990	1,069
Dividends:			
ordinary dividends on equity shares	8	(529)	—
<b>Profit retained for the financial year</b>		461	1,069

## Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £990,000 attributable to the shareholders for the year ended 31 March 2005 (2004 - profit of £1,069,000).



# British Airways Travel Shops Limited

## Balance sheet

at 31 March 2005

	Notes	2005 £000	2004 £000
<b>Fixed assets</b>			
Tangible assets	9	138	—
<b>Current assets</b>			
Debtors	10	2,928	3,302
Cash at bank and in hand		9,558	7,346
		12,486	10,648
<b>Creditors: amounts falling due within one year</b>	11	9,634	8,119
<b>Net current assets</b>		2,852	2,529
<b>Total assets less current liabilities</b>		2,990	2,529
<b>Capital and reserves</b>			
Called up share capital	15	2,000	2,000
Profit and loss account	16	990	529
<b>Equity shareholders' funds</b>	16	2,990	2,529



M Waldner  
Director

27/09/2005

## Notes to the financial statements

at 31 March 2005

### 1. Accounting policies

#### **Basis of preparation**

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

#### **Cash flow statement**

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its parent undertaking publishes a consolidated statement of cash flows.

#### **Depreciation**

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Computer Equipment - 4 years

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised where the directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted 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.

#### **Pension costs**

Retirement benefits are payable through separately funded UK pension schemes. Contributions to pension funds are made on the basis of independent actuarial advice and charged to the profit and loss account so as to spread the cost over the remaining service lives of the employees.

### 2. Turnover

Turnover represents commission earned on the sale of holidays and ancillary services and sales and marketing income. Commission earned on the sale of holidays and ancillary services is recognised on the date of departure. Sales and marketing income is recognised over the period to which it relates. Turnover is attributable to one continuing activity representing travel agency business and all arises in the United Kingdom.

## Notes to the financial statements

at 31 March 2005

### 3. Operating profit

This is stated after charging:

	2005 £000	2004 £000
Auditors' remuneration - audit services	24	21
Property costs	3,312	3,677
Depreciation	6	-

### 4. Staff costs

	2005 £000	2004 £000
Wages and salaries	6,033	6,007
Social security costs	460	424
Other pension costs (note 12)	575	406
	<u>7,068</u>	<u>6,837</u>

The monthly average number of employees during the year amounted to 280 (2004 - 308).

### 5. Directors' remuneration

The remuneration paid to directors amounts to £nil (2004 - £nil).

### 6. Interest receivable

	2005 £000	2004 £000
Interest receivable from deposits with parent undertaking	<u>447</u>	<u>274</u>

### 7. Taxation on ordinary activities

(a) Tax on profit on ordinary activities  
The tax charge/(credit) is made up as follows:

	2005 £000	2004 £000
<i>Deferred tax:</i>		
Origination and reversal of timing differences	<u>17</u>	<u>(8)</u>

## Notes to the financial statements

at 31 March 2005

### 7. Taxation on ordinary activities

#### (b) Factors affecting current tax charge

The differences are reconciled below:

	2005 £000	2004 £000
Profit on ordinary activities before taxation	<u>1,007</u>	<u>1,061</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	302	318
Expenses not deductible for tax purposes	1	10
Capital allowances in excess of depreciation	(17)	—
Prior year adjustment	—	(266)
Group relief from group members	<u>(286)</u>	<u>(62)</u>
Total current tax (note 7(a))	<u>—</u>	<u>—</u>

#### (c) Deferred tax asset

	2005 £000	2004 £000
Depreciation in advance of capital allowances	<u>14</u>	<u>31</u>
Deferred tax asset	<u>14</u>	<u>31</u>
		£000
At 1 April 2004		31
Profit and loss account movement arising during the year		<u>(17)</u>
At 31 March 2005		<u>14</u>

### 8. Dividends

	2005 £000	2004 £000
Equity dividends on ordinary shares:		
Interim paid	<u>529</u>	<u>—</u>

## Notes to the financial statements

at 31 March 2005

### 9. Tangible fixed assets

*Computer Equipment*  
*£000*

Cost:	
At 1 April 2004	-
Additions	144
At 31 March 2005	144
Depreciation:	
At 1 April 2004	-
Provided during the year	6
At 31 March 2005	6
Net book value:	
At 31 March 2005	138
At 1 April 2004	-

### 10. Debtors

	<i>2005</i> <i>£000</i>	<i>2004</i> <i>£000</i>
Trade debtors	2,744	2,619
Other debtors	21	19
Prepayments and accrued income	149	76
Amounts due from parent undertaking	-	322
VAT	-	235
Deferred taxation (note 7)	14	31
	<u>2,928</u>	<u>3,302</u>

### 11. Creditors: amounts falling due within one year

	<i>2005</i> <i>£000</i>	<i>2004</i> <i>£000</i>
Trade creditors	1,638	1,886
Amounts owed to group undertakings	1,608	1,755
Other taxation and social security	61	-
Other creditors	850	993
Amounts owed to parent undertakings	1,680	-
Accruals and deferred income	3,797	3,485
	<u>9,634</u>	<u>8,119</u>

## Notes to the financial statements

at 31 March 2005

### 12. Pensions

As a subsidiary British Airways Travel Shops Limited participates in the British Airways Plc group pension schemes and contributions are based upon pension costs across the group as a whole.

British Airways operates two funded principal defined benefits schemes in the United Kingdom, the Airways Pension Scheme (APS), and the New Airways Pension Scheme (NAPS), both of which are closed to new members. APS has been closed to new members since 31 March 1984 and NAPS closed to new members on 31 March 2003. From 1 April 2003 British Airways commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 18 employed by the company and certain subsidiary undertakings in the United Kingdom may become members. The assets of these schemes are held in separate trustee-administered funds. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in line with the Retail Price Index (RPI). Those provided under NAPS are based on final average pensionable pay reduced by an amount (the "abatement") not exceeding one and a half times the Government's lower earnings limit. NAPS benefits are subject to RPI increases in payment up to a maximum of five per cent in any one year.

Standard employees' contributions range from 5.75 per cent to 8.5 per cent of full pensionable pay in APS, and from 3.75 per cent to 6.5 per cent of full pensionable pay less the abatement in NAPS.

The latest actuarial valuations of APS and NAPS were made as at 31 March 2003 by an independent firm of qualified actuaries, Watson Wyatt LLP, using the attained age method for APS and the projected unit method for NAPS. At the date of the actuarial valuation the market values of the assets of APS and NAPS amounted to £5,421 million and £3,184 million respectively. The value of the assets represented 101% (APS) and 78% (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations showed that an employers' contribution equal to an average of 3.75 times the standard employee's contributions from 1 November 2003 (nil prior to 1 November 2003) was appropriate for APS. For NAPS the corresponding regular employers' contribution was 2.8 times the standard employees' contribution from 1 January 2004 (3.0 times from 1 April 2003 to 31 December 2003, including a multiple of 0.5 to cover the deficit contributions) in addition to deficit contributions of £9.56 million per month increasing each April in line with inflation for a period of 10 years.

The pension costs for the Schemes are assessed in accordance with the advice of an independent qualified actuary. For these purposes valuations of the Schemes were carried out as at 31 March 2003 using the attained aged method for APS and the projected until method for NAPS. The principal assumptions adopted were that investments would return 3.1% per annum in real terms (ahead of price inflation assumed to be 2.5% per annum) for APS and 4.6% per annum in real terms for NAPS. Annual increases in earnings were assumed to remain level with price inflation for the five years following 31 March 2003 and thereafter at 1.5% ahead of price inflation. Limited Price Indexation increases awarded to pensions in payment are assumed on average to follow the rate of inflation. On this basis the regular cost is 24.71% of pensionable pay for APS and 13.31% of pensionable pay for NAPS. Any SSAP 24 surplus or deficit has been amortised over the remaining service lives of members of the scheme and this leads to a variation in cost of (19.65%) of pensionable pay for APS and 9.46% of pensionable pay for NAPS.

The company's pension costs for the year ended 31 March 2005 were £575,000 (2004: £406,000).

## Notes to the financial statements

at 31 March 2005

### FRS 17 Disclosures for the year ended 31 March 2005

In accordance with FRS 17 the company accounts for its contributions to the British Airways Plc pension schemes as if the schemes were defined contribution schemes. This is because it is not possible to identify the company's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis.

The following additional disclosures required in accordance with FRS 17 'Retirement Benefits' are given for the British Airways Plc group financial statements.

As at 31 March 2005 the balance was as follows

	2005 £m	APS and NAPS 2004 £m	2003 £m
Equities	5,054	4,669	3,571
Bonds	4,627	4,456	4,472
Others	914	642	567
Total	<u>10,595</u>	<u>9,767</u>	<u>8,610</u>

Expected rate of return per cent per annum:

	31 March 2005		31 March 2004		31 March 2003	
	APS %	NAPS %	APS %	NAPS %	APS %	NAPS %
Equities	8.5	8.5	8.4	8.4	8.5	8.5
Bonds	4.7	4.8	4.4	4.7	4.5	4.5
Others	5.6	5.3	5.9	5.6	6.4	6.1

Had British Airways accounted for pensions in accordance with FRS 17, the defined benefit costs for the year ended 31 March 2005 would be as follows:

	2005 £m	APS and NAPS 2004 £m
Current service cost	178	162
Past service cost	5	15
Total charged to operating profit	<u>183</u>	<u>177</u>
Amounts charged to other finance income:		
Interest on pension scheme liabilities	603	545
Expected return on assets in the pension scheme	(599)	(522)
Net charge/(income) to other finance income	<u>4</u>	<u>23</u>
Total profit and loss charge before deduction for tax	<u>187</u>	<u>200</u>

## Notes to the financial statements

at 31 March 2005

If the requirements of FRS 17 had been recognised in the financial statements of British Airways Plc, the amounts recognised in the groups's statement of total recognised gains and losses for the year ended 31 March 2005 would have been:

	2005 £m	APS and NAPS 2004 £m
Differences between actual and expected returns on assets	(389)	(885)
Experience loss on liabilities	108	625
Loss on change of assumptions (financial and demographic)	746	310
Total loss recognised in statement of total recognised	<u>465</u>	<u>50</u>
Gains and losses before adjustment for tax		

The following amounts for the year ended 31 March 2005 were measured in accordance with the requirements of FRS 17:

	2005 £m	APS and NAPS 2004 £m
Gain on scheme assets:		
Amount (£ million)	(389)	(885)
Percentage of scheme assets at year end	(3.7)%	(9.1)%
Experience Loss on scheme liabilities:		
Amount (£ million)	108	625
Percentage of scheme liabilities at year end	0.9%	5.7%
Total actuarial loss recognised in statement of total recognised gains and losses:		
Amount (£ million)	465	50
Percentage of scheme liabilities at year end	3.8%	0.5%



## Notes to the financial statements

at 31 March 2005

The following amounts at 31 March 2005 were measured in accordance with the requirements of FRS 17:

	<i>APS and NAPS 2005 £m</i>	<i>APS and NAPS 2004 £m</i>
Total market value of assets	10,595	9,767
Present value of liabilities	12,126	10,907
Surplus	(1,531)	(1,140)
Less: APS irrecoverable surplus	(301)	(385)
Pension liability (before allowance for deferred tax)	(301)	(385)
Related deferred tax	550	458
Net pension liability	(1,282)	(1,067)

If the above amounts had been recognised in the financial statements of British Airways Plc, the groups net assets and profit and loss reserve at 31 March 2005 would be as follows:

	<i>At 31 March 2005 £m</i>	<i>At 31 March 2004 £m</i>
Net assets excluding pension liability	2,684	2,428
Pension liability	(1,442)	(1,163)
Net assets including pension liability	1,242	1,265
Profit and loss reserve excluding pension liability	1,177	897
Pension liability	(1,442)	(1,163)
Profit and loss reserve	(265)	(266)

The amounts above have been calculated after taking into account of pension prepayments and provisions for pension and other post retirement benefits, not of related deferred tax.

## Notes to the financial statements

at 31 March 2005

Analysis of the movement in deficit in the schemes during the year:

	At 31 March 2005 £m	At 31 March 2004 £m
Deficit before irrecoverable surplus and impact of deferred tax at 1 April	(1,140)	(1,064)
Contributions paid	261	174
Current service costs	(178)	(162)
Past service costs	(5)	(15)
Other finance income	(4)	(23)
Actuarial loss	(465)	(50)
Deficit before irrecoverable surplus and impact of deferred tax at 31 March	<u>(1,531)</u>	<u>(1,140)</u>

**13. Contingent liability**

The company has given bonds of £775,585 in respect of ABTA (2004 - £743,492) and £nil in respect of the Civil Aviation Authority (2004 - £700,902). The company has also given a bond to Hoverspeed for £2,250 (2004 - £2,250), Alamo Rent-a-car for £5,000 (2004 - £5,000), Aloha Airlines for \$10,000 (2004 - US\$10,000), Singapore Airlines for £20,000 (2004 - £20,000), and Cunard Seabourne Line for £22,500 (2004 - £22,500).

**14. Related party transactions**

The company is a wholly owned subsidiary of British Airways Plc and has taken advantage of the exemption in FRS 8 from making additional disclosures of related party transactions with the British Airways group or investees of the group.

**15. Share capital**

	2005 £000	Authorised 2004 £000
Ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

	No.	Allotted, called up and fully paid 2005 £000	No.	2004 £000
Ordinary shares of £1 each	2,000,000	<u>2,000</u>	2,000,000	<u>2,000</u>

## Notes to the financial statements

at 31 March 2005

### 16. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i> £000	<i>Profit and loss</i> <i>account</i> £000	<i>Total share-</i> <i>holders' funds</i> £000
At 1 April 2003	2,000	(540)	1,460
Profit for the year	—	1,069	1,069
At 31 March 2004	2,000	529	2,529
Profit for the year	—	990	990
Dividends	—	(529)	(529)
At 31 March 2005	2,000	990	2,990

### 17. Ultimate parent company

The ultimate parent company is British Airways Plc, registered in England and Wales.

The parent undertaking of the group of undertakings for which group financial statements are drawn up and of which the company is a member is British Airways Plc, registered in England and Wales. Copies of British Airways Plc's financial statements can be obtained from Waterside, PO Box 365, Harmondsworth, UB7 0GB.