

2524175

British Airways Travel Shops Limited

Report and Financial Statements

31 March 2006

 ERNST & YOUNG



British Airways Travel Shops Limited

Registered No. 2524175

Directors

A Buchanan
M Waldner

Secretary

K Dosanjh

Auditors


Ernst & Young LLP
1 More London Place
London
SE1 2AT

Bankers

Barclays Bank PLC
90/92 High Street
Crawley
West Sussex
RH10 1BP

Registered Office

Waterside
PO Box 365
Harmondsworth
UB7 0GB

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Directors' report

The directors present their report and financial statements for the year ended 31 March 2006.

Results and dividends

The loss for the year, after taxation, amounted to £2,176,000. No dividends 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 year has seen a decline in all product sales, due to an increased shift to online sales channels.

Following a strategic review, it was announced on 15 March 2006 that, subject to a 90 day consultation period, the company would cease trading. This was confirmed on 31 May 2006. The travel agency activity ceased trading on 31 October 2006, but some staff remain and are being subcontracted to British Airways Plc.

As at 31 March 2006, the company has recognised £2,090,000 of redundancy costs in respect of the proposed closure of the company's trading outlets.

Key performance indicators

The results for the company show sales to customers of £119,615,000 (2005 – £132,099,000), generating turnover of £11,779,000 (2005 – £13,443,000) and a pre-tax loss of £2,174,000 (2005 – profit of £1,007,000).

Directors and their interests

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

H Drewett (resigned 2 August 2005)
 A Burnett (resigned 31 March 2006)
 M Waldner (appointed 2 August 2005)
 A Buchanan (appointed 31 March 2006)

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

	<i>Subject to no restrictions</i>		<i>Options executive share option schemes</i>		<i>Conditional share options- performance plan</i>		<i>Conditional options - long term incentive plan</i>	
	<i>31 March 2006</i>	<i>1 April 2005</i>	<i>31 March 2006</i>	<i>1 April 2005</i>	<i>31 March 2006</i>	<i>1 April 2005</i>	<i>31 March 2006</i>	<i>1 April 2005</i>
M Waldner*	399	399	112,217	120,004	–	–	–	–
A Buchanan*	3,728	3,728	344,423	344,423	63,546	63,546	150,120	150,120

* As at date of appointment

The options under the Executive Share Option Scheme are at prices ranging from £1.57 to £4.05.

During the year, A Buchanan exercised 87,016 share options and M Waldner exercised 33,149 share options both under the British Airways Share Option Plan 1999 that had been granted in July 2002.

Directors' report

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.

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's parent undertaking is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment, and the company itself 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. It is the company's policy to ensure that suppliers are made aware of the company's terms of payment.

At 31 March 2006, the company had an average of 60 days purchases outstanding in trade creditors (2005 – 60 days).

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 the directors confirms that:

- To the best of each director's knowledge and belief, there is not relevant audit information of which the company's auditors are unaware; and
- Each director has taken all the steps a director might be reasonable expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of the information.

Directors' report (continued)

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



Secretary DIRECTOR

26 January 2007

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

In addition 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.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with *International Standards on Auditing (UK and Ireland)* issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report

to the members of British Airways Travel Shops Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

26 JANUARY 2007

Profit and loss account

for the year ended 31 March 2006

	Notes	2006 £000	2005 £000
Turnover	2	11,779	13,443
Cost of sales		(9,790)	(10,030)
Gross profit		1,989	3,413
Administrative expenses		(2,486)	(2,853)
Gross operating (loss)/profit	3	(497)	560
Costs of a fundamental reorganisation of the business	6	(2,090)	–
Operating (loss)/profit from ordinary activities		(2,587)	560
Interest receivable	7	413	447
(Loss)/profit on ordinary activities before taxation		(2,174)	1,007
Tax on loss on ordinary activities	8	(2)	(17)
(Loss)/profit for the financial year		(2,176)	990
Dividends:			
Ordinary dividends on equity shares	9	–	(529)
(Loss)/profit retained for the financial year		(2,176)	461

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Statement of total recognised gains and losses

for the year ended 31 March 2006

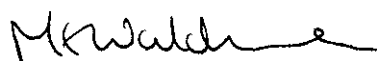
There are no recognised gains or losses other than the loss of £2,176,000 attributable to the shareholders for the year ended 31 March 2006 (2005 – profit of £990,000).

Balance sheet

at 31 March 2006

	Notes	2006 £000	2005 £000
Fixed assets	10	171	138
Current assets			
Debtors	11	2,295	2,928
Cash at bank and in hand		5,635	9,558
		7,930	12,486
Creditors: amounts falling due within one year	12	(5,197)	(9,634)
Net current assets		2,733	2,852
Provisions for liabilities and charges		(2,090)	-
Total assets less current liabilities		814	2,990
Capital and reserves			
Called up share capital	17	2,000	2,000
Profit and loss account	18	(1,186)	990
Equity shareholders' funds	18	814	2,990

The financial statements were approved by the Board of Directors on 26 January 2007 and signed on behalf of the Board:



Director

26 January 2007

Notes to the financial statements

at 31 March 2006

1. Accounting policies

Basis of preparation

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

The company has adopted FRS 21 'Events after the balance sheet date', the presentation requirements of FRS 25 'Finance Instruments Disclosure and Presentation', and FRS 28 'Corresponding amounts'. No restatement has resulted from the adoption of these standards.

All other accounting policies are consistent with the prior year.

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
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Following the announcement of the intention to cease trading, depreciation of all assets was accelerated to reflect the reduction in the useful life of the assets.

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 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.

Notes to the financial statements

at 31 March 2006

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.

3. Operating (loss)/profit

This is stated after charging:

	2006 £000	2005 £000
Auditors' remuneration – audit services	26	24
Property costs	3,317	3,312
Depreciation	36	6

4. Staff costs

	2006 £000	2005 £000
Wages and salaries	5,693	6,033
Social security costs	508	460
Other pension costs (note 13)	510	575
	<u>6,711</u>	<u>7,068</u>

The monthly average number of employees during the year amounted to 270 (2005 – 280).

5. Directors' remuneration

The remuneration paid to directors amounts to £nil (2005 – £nil).

6. Costs of a fundamental reorganisation of the business

Following a strategic review, it was announced on 15 March 2006 that, subject to a 90 day consultation period, the company would cease trading. This was confirmed on 31 May 2006. The travel agency activity ceased trading on 31 October 2006, but some staff remain and are being subcontracted to British Airways Plc.

Following the announcement of the proposed closure of the company's trading operations, the company has recognised £2,090,000 of redundancy costs (note 13).

7. Interest receivable

	2006 £000	2005 £000
Interest receivable from deposits with parent undertaking	<u>413</u>	<u>447</u>

Notes to the financial statements

at 31 March 2006

8. Taxation on ordinary activities

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2006 £000	2005 £000
<i>Deferred tax:</i>		
Accelerated capital allowances	2	17

(b) Factors affecting current tax charge

The differences are reconciled below:

	2006 £000	2005 £000
(Loss)/Profit on ordinary activities before tax	(2,174)	1,007
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	(652)	302
Expenses not deductible for tax purposes	1	1
Capital allowances in excess of depreciation	(8)	(17)
Other differences	6	–
Group relief to/(from) group members	653	(286)
Total current tax (note 8(a))	–	–

(c) Deferred tax asset

	2006 £000	2005 £000
Accelerated capital allowances	6	14
Other timing differences	6	–
Deferred tax asset (Note 11)	12	14
At 1 April 2005		14
Profit and loss account movement arising during the year		(2)
At 31 March 2006		12

Notes to the financial statements

at 31 March 2006

9. Dividends

	2006 £000	2005 £000
Equity dividends on ordinary shares:		
Interim paid	—	529
	<u> </u>	<u> </u>

10. Tangible fixed assets

	Computer equipment £000
Cost:	
At 31 March 2005	144
Additions	69
	<u> </u>
At 31 March 2006	213
	<u> </u>
Depreciation:	
At 31 March 2005	6
Provided during the year	36
	<u> </u>
At 31 March 2006	42
	<u> </u>
Net book value:	
At 31 March 2006	171
	<u> </u>
	<u> </u>
At 31 March 2005	138
	<u> </u>

11. Debtors

	2006 £000	2005 £000
Trade debtors	2,084	2,744
Other debtors	13	21
Prepayments and accrued income	90	149
Deferred taxation (note 8)	12	14
Other taxation and social security	96	—
	<u> </u>	<u> </u>
	2,295	2,928
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 March 2006

12. Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	1,618	1,638
Amounts owed to group undertakings	169	1,608
Other taxation and social security	—	61
Other creditors	653	850
Amounts owed to parent undertakings	113	1,680
Accruals and deferred income	2,644	3,797
	<u>5,197</u>	<u>9,634</u>

13. Provisions for liabilities and charges

	Redundancy provision £000
As at 1 April 2005	—
Arising during the year (note 6)	2,090
As at 31 March 2006	<u>2,090</u>

The provision is expected to be fully utilised within one year.

14. 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.

As at 31 March 2006, British Airways Plc recognised a net pension liability of £2,153 million and full disclosure under International Financial Reporting Standards IAS 19 'Employee Benefits' is provided in the statutory accounts of British Airways Plc.

FRS 17 Disclosures for the year ended 31 March 2006

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 company's pension costs for the year ended 31 March 2006 were £510,000 (2005 – £575,000).

Under the closure of the company's operations announced on 15 March 2006 (note 6), British Airways Travel Shops Limited will be obliged under Section 75 of the Pensions Act 1995 to make a payment to NAPS as a result of the cessation of its membership of the scheme. As the company recognises pension obligations as if the schemes were defined contribution schemes this liability will be recognised when the amount is payable following withdrawal from the scheme. The amount of the obligation payable is yet to be determined.

Notes to the financial statements

at 31 March 2006

15. Contingent liability

The company has given bonds of £873,074 in respect of ABTA (2005 – £775,585) and £nil in respect of the Civil Aviation Authority (2005 – £nil). The company has also given a bond to Hoverspeed for £2,250 (2005 – £2,250), Alamo Rent-a-car for £5,000 (2005 – £5,000), Aloha Airlines for US\$ 10,000 (2005 – US\$10,000), Singapore Airlines for £20,000 (2004 – £20,000), and Cunard Seabourne Line for £22,500 (2005 – £22,500).

16. 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.

17. Share capital

	2006		2005	
	£000		£000	
<i>Authorised</i>				
Ordinary shares of £1 each	2,000		2,000	
	2006	2005	2006	2005
	No.	£000	No.	£000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	2,000,000	2,000	2,000,000	2,000

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital	Profit and loss account	Total shareholder's funds
	£000	£000	£000
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
Loss for the year	–	(2,176)	(2,176)
At 31 March 2006	2,000	(1,186)	814

19. Ultimate parent undertaking

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.