

# **British Airways Travel Shops Limited**

## **Report and Financial Statements**

31 March 2004

 **ERNST & YOUNG**



# British Airways Travel Shops Limited

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Registered No: 2524175

## **Directors**

A Swaffield  
H Drewett  
D Noyes

## **Secretary**

K Dosanjh

## **Auditors**


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

## **Bankers**

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

## **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 2004.

### Results and dividends

The profit for the year amounted to £1,069,000. The directors do not recommend the payment of any dividends.

### 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:

D A Moss	(resigned 30 June 2004)
T A Hall	(resigned 1 September 2004)
A Swaffield	
S Gunning	(served from 23 May 2003 to 2 August 2004)
P A Kemp	(resigned 30 April 2003)

Subsequent to the year end, the following were appointed as directors of the company:

H Drewett (appointed 2 August 2004)  
D Noyes (appointed 1 September 2004)

## 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>Long Term Incentive Plan (LTIPs)</i>	
	<i>31 March 2004</i>	<i>1 April 2003 or at date of appointment</i>	<i>31 March 2004</i>	<i>1 April 2003 or at date of appointment</i>	<i>31 March 2004</i>	<i>1 April 2003 or at date of appointment</i>
D A Moss	-	-	449,221	305,909	278,867	186,432
T A Hall	7,886	7,886	295,926	191,977	76,818	31,794
A Swaffield	10	10	98,433	57,012	-	-
S Gunning	-	-	78,540	44,322	-	-

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 2004 in respect of the Company is calculated as 67 days (2003: 51 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



Secretary

23 / 9 2004

## 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 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 18. 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
London

2004

23 SEP 2004

## Profit and loss account

for the year ended 31 March 2004

		2004	2003
	Notes	£000	(restated) £000
<b>Turnover</b>	2	13,990	17,390
Cost of sales		(10,333)	(14,579)
<b>Gross profit</b>		3,657	2,811
Administrative expenses		(2,870)	(3,077)
<b>Operating profit/(loss)</b>	3	787	(266)
Interest receivable	6	274	320
<b>Profit on ordinary activities before taxation</b>		1,061	54
Tax on profit on ordinary activities	7	8	(30)
<b>Profit on ordinary activities after taxation</b>		1,069	24
Dividends:			
ordinary dividends on equity shares	8	—	(400)
<b>Profit retained/(loss) for the financial year</b>		1,069	(376)



# Statement of total recognised gains and losses

for the year ended 31 March 2004

	2004	2003 (restated)
	£000	£000
Profit for the financial year	1,069	24
Total recognised gains and losses relating to the year	1,069	24
Prior year adjustment (see note 9)	—	(684)
Total gains and losses recognised since the last annual report	1,069	(660)

**Balance sheet**

at 31 March 2004

	Notes	2004 £000	2003 (restated) £000
<b>Fixed assets</b>			
Tangible assets	10	—	—
<b>Current assets</b>			
Debtors	11	3,302	4,106
Cash at bank and in hand		7,346	5,342
		10,648	9,448
<b>Creditors:</b> amounts falling due within one year	12	8,119	7,988
<b>Net current assets</b>		2,529	1,460
<b>Total assets less current liabilities</b>		2,529	1,460
<b>Capital and reserves</b>			
Called up share capital	16	2,000	2,000
Profit and loss account	17	529	(540)
<b>Equity shareholders' funds</b>	17	2,529	1,460

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23/9/2004

DIRECTION

# Notes to the financial statements

at 31 March 2004

## 1. Accounting policies

### *Basis of preparation*

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

The comparative profit and loss account and balance sheet have been restated for a change in accounting policy (see note 9).

### *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 - 2-3 years

### *Deferred taxation*

Full provision is made for deferred tax on all timing differences that have originated but not reversed at the balance sheet date. 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 a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### *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. Sale 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 profit/(loss)

This is stated after charging:

	2004 £000	2003 £000
Auditors' remuneration - audit services	21	20
Property costs	3,677	5,609

## Notes to the financial statements

at 31 March 2004

### 4. Staff costs

	2004 £000	2003 £000
Wages and salaries	6,007	7,318
Social security costs	424	529
Other pension costs	406	351
	<u>6,837</u>	<u>8,198</u>

The monthly average number of employees during the year amounted to 308 (2003 - 367).

### 5. Directors' remuneration

The remuneration paid to directors amounts to £nil (2003 - £nil).

### 6. Interest receivable

	2004 £000	2003 £000
Interest receivable from parent undertaking	<u>274</u>	<u>320</u>

### 7. Taxation on ordinary activities

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

	2004 £000	2003 £000
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*Deferred tax:*

Origination and reversal of timing differences	<u>(8)</u>	<u>30</u>
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(b) Factors affecting current tax charge

The differences are reconciled below:

	2004 £000	2003 (restated) £000
Profit on ordinary activities before taxation	<u>1,061</u>	<u>54</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	318	16
Expenses not deductible for tax purposes	10	19
Depreciation (less than)/ in excess of capital allowances	—	(8)
Other differences	—	39
Prior year adjustment	(266)	—
Group relief from group members	<u>(62)</u>	<u>(66)</u>
Total current tax (note 7(a))	<u>—</u>	<u>—</u>

## Notes to the financial statements

at 31 March 2004

### 7. Taxation on ordinary activities (continued)

(c) Deferred tax

	2004 £000	2003 £000
Depreciation in excess of capital allowances	31	23
Deferred taxation asset	31	23
		£000
At 1 April 2003		23
Profit and loss account movement arising during the year		8
At 31 March 2004		31

### 8. Dividends

No dividend has been recommended for the year ended 31 March 2004.

### 9. Prior year adjustment

The prior year balances have been restated to reflect a change in accounting policy to recognise revenue on a departure date basis. The effect of the prior year adjustment was to decrease opening reserves at 1 April 2002 by £684,000, decrease 2003 profit by £203,000, reduce debtors at 31 March 2003 by £387,000 and increase creditors at 31 March 2003 by £500,000.

### 10. Tangible fixed assets

	Computer Equipment £000
Cost:	
At 1 April 2003	174
Disposals	(174)
At 31 March 2004	—
Depreciation:	
At 1 April 2003	174
Disposals	(174)
At 31 March 2004	—
Net book value:	
At 31 March 2004	—
At 1 April 2003	—

## Notes to the financial statements

at 31 March 2004

### 11. Debtors

	2004	2003 (restated)
	£000	£000
Trade debtors	2,619	2,186
Other debtors	19	65
Prepayments and accrued income	76	815
Amounts due from parent undertaking	322	608
Amounts due from fellow subsidiary undertakings	—	9
VAT	235	400
Deferred taxation (note 7)	31	23
	<u>3,302</u>	<u>4,106</u>

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

	2004	2003 (restated)
	£000	£000
Trade creditors	1,886	2,046
Amounts owed to group undertakings	1,755	—
Other taxation and social security	—	100
Other creditors	993	739
Accruals and deferred income	3,485	5,103
	<u>8,119</u>	<u>7,988</u>

## Notes to the financial statements

at 31 March 2004

### 13. 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 2004 were £406,000 (2003: £351,000).

## Notes to the financial statements

### at 31 March 2004

#### FRS 17 Disclosures for the year ended 31 March 2004

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 2004 the balance was as follows

	<i>APS and NAPS</i>	
	<i>2004</i>	<i>2003</i>
	<i>£m</i>	<i>£m</i>
Equities	4,669	3,571
Bonds	4,456	4,472
Others	642	567
Total	<u>9,767</u>	<u>8,610</u>

Expected rate of return per cent per annum:

	<i>31 March 2004</i>		<i>31 March 2003</i>	
	<i>APS</i>	<i>NAPS</i>	<i>APS</i>	<i>NAPS</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Equities	8.4	8.4	8.5	8.5
Bonds	4.4	4.7	4.5	4.5
Others	5.9	5.6	6.4	6.1
Total	5.8	7.3	5.8	7.2

Had British Airways accounted for pensions in accordance with FRS 17, the defined benefit costs for the year ended 31 March 2004 would be as follows:

	<i>APS and NAPS</i>	
	<i>2004</i>	<i>2003</i>
	<i>£m</i>	<i>£m</i>
Current service cost	162	148
Past service cost	15	12
Total charged to operating profit	<u>177</u>	<u>160</u>
Amounts charged to other finance income:		
Interest on pension scheme liabilities	545	525
Expected return on assets in the pension scheme	(522)	(581)
Net charge/(income) to other finance income	<u>23</u>	<u>(56)</u>
Total profit and loss charge before deduction for tax	<u>200</u>	<u>104</u>



## Notes to the financial statements

at 31 March 2004

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 2004 would have been:

	<i>APS and NAPS</i>	
	<i>2004</i>	<i>2003</i>
	<i>£m</i>	<i>£m</i>
Differences between actual and expected returns on assets	(885)	1,421
Experience loss on liabilities	625	370
Loss on change of assumptions (financial and demographic)	310	114
Total loss recognised in statement of total recognised		
gains and losses before adjustment for tax	<u>50</u>	<u>1,905</u>

The following amounts for the year ended 31 March 2004 were measured in accordance with the requirements of FRS 17:

	<i>APS and NAPS</i>	
	<i>2004</i>	<i>2003</i>
	<i>£m</i>	<i>£m</i>
(Gain)/Loss on scheme assets:		
Amount (£ million)	(885)	1,421
Percentage of scheme assets at year end	(9.1)%	16.5%
Experience (gain)/Loss on scheme liabilities:		
Amount (£ million)	625	370
Percentage of scheme liabilities at year end	5.7%	3.8%
Total actuarial (gain)/loss recognised in statement of total recognised gains and losses:		
Amount (£ million)	50	1,905
Percentage of scheme liabilities at year end	0.5%	19.7%

## Notes to the financial statements

at 31 March 2004

The following amounts at 31 March 2004 were measured in accordance with the requirements of FRS 17:

	<i>APS and NAPS 2004 £m</i>	<i>APS and NAPS 2003 £m</i>
Total market value of assets	9,767	8,610
Present value of liabilities	10,907	9,674
(Deficit)/surplus	(1,140)	(1,064)
Less: APS irrecoverable surplus	(385)	(418)
Pension liability (before allowance for deferred tax)	(1,525)	(1,482)
Related deferred tax	458	445
Net pension liability	<u>(1,067)</u>	<u>(1,037)</u>

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 2004 would be as follows:

	<i>At 31 March 2004 £m</i>	<i>At 31 March 2003 £m</i>
Net assets excluding pension liability	2,428	2,274
Pension liability	(1,163)	(1,175)
Net assets including pension liability	<u>1,265</u>	<u>1,099</u>
Profit and loss reserve excluding pension liability	897	729
Pension liability	(1,163)	(1,175)
Profit and loss reserve	<u>(266)</u>	<u>(446)</u>

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 2004

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

	<i>At 31 March 2004 £m</i>	<i>At 31 March 2003 £m</i>
Surplus before irrecoverable surplus and impact of deferred tax at 1 April	(1,064)	813
Contributions paid	174	132
Current service costs	(162)	(148)
Past service costs	(15)	(12)
Other finance income	(23)	56
Actuarial loss	(50)	(1,905)
Deficit before irrecoverable surplus and impact of deferred tax at 31 March	<u>(1,140)</u>	<u>(1,064)</u>

### 14. Contingent liability

The company has given bonds of £743,492 in respect of ABTA (2003 - £701,608) and £700,902 in respect of the Civil Aviation Authority (2003 - £812,788). The company has also given a bond to Hoverspeed for £2,250 (2003 - £2,250), Alamo Rent-a-car for £5,000 (2003 - £5,000), Aloha Airlines for \$10,000 (2003 - US\$10,000), Singapore Airlines for £20,000 (2003 - £20,000), Malaysian Airlines for £nil (2003 - £50,000) and Cunard Seabourne Line for £22,500 (2003 - £22,500).

### 15. 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.

### 16. Share capital

	<i>2004 £000</i>	<i>Authorised 2003 £000</i>
Ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>
	<i>Allotted, called up and fully paid</i>	
	<i>2004 £000</i>	<i>2003 £000</i>
	<i>No.</i>	<i>No.</i>
Ordinary shares of £1 each	2,000,000	2,000,000

## Notes to the financial statements

at 31 March 2004

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

	<i>Share capital</i> £000	<i>Profit and loss account</i> £000	<i>Total share- holders' funds</i> £000
At 1 April 2002 as previously reported	2,000	520	2,520
Prior year adjustment (note 9)	–	(684)	(684)
Restated balance as at 1 April 2002	2,000	(164)	1,836
Restated profit for the year	–	24	24
Dividends	–	(400)	(400)
Restated balance at 31 March 2003	2,000	(540)	1,460
Profit for the year	–	1,069	1,069
At 31 March 2004	2,000	529	2,529

### 18. 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.