

The Airline Seat Company Limited

Report and Financial Statements

31 October 2011



The Airline Seat Company Limited

Directors

A Rayner
I Willatt
J M Eustache
A De Montigny

Secretary

B Bussieres

Auditors

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

Registered Office

Hillgate House
13 Hillgate Street
London W8 7SP

Directors' report

The directors present their report and the financial statements of The Airline Seat Company Limited for the year ended 31 October 2011

Results and dividends

As shown in the profit and loss account on page 7, the company's profit before taxation is £21,575,764 (2010 – profit of £22 067,203). The profit for the year after taxation, amounted to £15 783 706 (2010 – profit of £16 168 297)

The directors paid during the year, an interim and final dividend for the year ended 31 October 2011 on the ordinary shares of £471.25 per share amounting to £37,700,000

Principal activities and review of the business

The company's principal activities continued to be acting as a travel specialist in airline seat sales and ancillary services. Our contract with Thomas Cook Airlines was not renewed on 31 October 2011 so going forward all our flights will be operated by Air Transat

Principal risks and uncertainties

The external commercial environment is expected to remain competitive in 2011. However, we remain confident that we will maintain our current level of performance in the future by providing added value services to the customers

Terrorist activity and economic uncertainty continue to be risks for the company, which could result in lost sales. The company is working closely with the parent company to manage this risk by identifying and managing key issues

Key performance indicators

Turnover has increased by 0.51% to £177 166,245 (2010 – £176 267 204) and operating profit by 3.9% to £22 708 210 (2010 – £21 862 557), primarily as a result of improved pricing strategy

Going concern

The directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual reports and accounts

Directors

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

A Rayner
I Willatt
J M Eustache
A De Montigny

Disclosure of information to the auditors


So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Directors' report

Auditors

The company has elected by elective resolution to dispense with the annual reappointment of auditors Accordingly Ernst & Young LLP will continue as auditors within the provisions of s485 of the Companies Act 2006

On behalf of the board



27 January 2012

Ian Willatt

Director

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and that 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 and 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of The Airline Seat Company Limited

We have audited the financial statements of The Airline Seat Company Limited for the year ended 31 October 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of The Airline Seat Company Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Julie Carlyle (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP Statutory Auditor
London

27 January 2012

Profit and loss account

for the year ended 31 October 2011

	Notes	2011 £	2010 £
Turnover		177,166,245	176,267,204
External charges		(150,341,498)	(150,111,732)
Staff costs		(2,668,225)	(2,735,636)
Depreciation		(160,956)	(135,587)
Other operating charges		(1,287,356)	(1,421,692)
Operating Profit	3	22 708,210	21 862 557
Interest (payable)/ receivable and similar income		(1,132,446)	204 646
Profit on ordinary activities before taxation		21,575 764	22 067 203
Tax	6	(5,792,058)	(5,898,906)
Profit for the financial year	14	15,783,706	16,168 297

Turnover and the result for the year arise from the company's continuing operations

Statement of total recognised gains and losses

for the year ended 31 October 2011

	2011 £	2010 £
Profit for the financial year	15,783,706	16 168,297
Total profit recognised since last annual report	15 783,706	16 168,297

Balance sheet

at 31 October 2011

	Notes	2011 £	2010 £
Fixed assets			
Tangible assets	8	448,014	372,319
Intangible assets	9	500,000	-
Investments	10	-	8,613
		<u>948 014</u>	<u>380,932</u>
Current assets			
Debtors	11	2 972,013	3,376,050
Cash at bank and in hand		36,137 645	41,147 632
		<u>39,109,658</u>	<u>44,523 682</u>
Creditors amounts falling due within one year	12	(12,768,289)	(16,398,937)
Net current assets		<u>26,341,369</u>	<u>28,124,745</u>
Total assets less current liabilities		<u>27,289,383</u>	<u>28,505,677</u>
Creditors Amounts falling due after more than one year		(20,700,000)	-
		<u>6,589,383</u>	<u>28,505 677</u>
Capital and reserves			
Called up share capital	13	80,000	80 000
Profit and loss account	14	6 509,383	28,425,677
Shareholders' funds	15	<u>6,589 383</u>	<u>28,505,677</u>



27 January 2012

Ian Willatt

Director

Notes to the financial statements

at 31 October 2011

1 Accounting policies

Basis of preparation

The financial statements of the Airline Seat Company Limited were approved for issue by the board of directors on 27 January 2012

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

Group financial statements

The financial statements contain information about "The Airline Seat Company Limited" as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare group financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent company, Transat AT Inc, registered in Canada

Statement of cash flows

The company has taken advantage of the exemption afforded by FRS 1 because during the year it was a wholly owned subsidiary of Transat AT Inc which prepares group financial statements which are publicly available. On this basis the company was exempt from the requirement of FRS 1 to present a statement of cash flows

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Leasehold premium	—	length of lease
Plant and machinery	—	25% or 33 1/3% straight line basis

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Investments

Fixed asset investments are stated at cost. Provisions are made for permanent diminutions in value

The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

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 result in an obligation to pay more or a right to pay less or to receive more tax in the future, with the following exceptions:

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

Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements

Notes to the financial statements

at 31 October 2011

1 Accounting policies (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Operating leases

The annual rentals on operating leases are charged to the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

Pensions

The company operates one defined contribution pension scheme. Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, VAT and other sales tax or duty. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue generated from the provision of services to customers is recognised on the date of departure. Revenue generated from the provision of all other services is recognised upon delivery of that service.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Share based payments

Restricted share unit plan

Restricted share unit plans ("RSUs") are awarded annually by the parent company, Air Transat Inc, to eligible employees under the new restricted share unit plan. Under this plan, each employee receives a portion of his or her compensation in the form of RSUs. The value of an RSU is determined based on the weighted average closing price of the Class B shares for the five trading days prior to the award of the RSUs. The rights related to RSUs are acquired over a period of three years. When acquired, the RSUs are immediately repurchased by the Corporation, subject to certain conditions and certain provisions relating to the Corporation's financial performance. For the purpose of repurchasing RSUs, the value of an RSU is determined based on the weighted average closing price of the Class B shares for the five trading days prior to the repurchase of the RSUs.

The Airline Seat Company Limited recognises the amount as recharged from the parent company.

2 Turnover

Turnover represents the amounts derived from the provision of services which fall within the company's ordinary activities, stated net of value added tax. All turnover is derived from operations carried out in the United Kingdom, Europe and Canada.

Notes to the financial statements

at 31 October 2011

3 Operating profit

This is stated after charging

	2011	2010
	£	£
Auditors remuneration – audit	30,000	29,000
– non audit	9,300	4,500
	<u>39,300</u>	<u>33,500</u>
Rentals under operating leases		
Plant and machinery	47,701	67,083
Other operating leases	171,403	309,637
Aircraft charter	69,796,890	93,003,497
Depreciation	160,956	135,587
	<u>171,403</u>	<u>309,637</u>

4 Directors' remuneration

	2011	2010
	£	£
Remuneration	600,310	443,350
Contributions to money purchase pension schemes	15,350	14,972
	<u>615,660</u>	<u>458,322</u>

During the year 1 director (2010 – 1) accrued benefits under money purchase pension schemes

No options were exercised during the year (2010 – none)

	2011	2010
	£	£
Remuneration in respect of the highest paid director amounted to		
Remuneration	433,028	294,663
	<u>433,028</u>	<u>294,663</u>

Two of the directors are remunerated by the parent company. The directors have assessed the related qualifying services to the Company and determined those services are negligible comparative to those directors' primary roles in the parent company, therefore their remuneration pertaining to qualifying services is £nil.

5 Staff costs

	2011	2010
	£	£
Wages and salaries (including bonus payment)	2,351,386	2,318,787
Social security costs	244,689	274,658
Other pension costs	111,274	94,424
Share-based payment expense	(39,124)	47,767
	<u>2,668,225</u>	<u>2,735,636</u>

Notes to the financial statements

at 31 October 2011

5 Staff cost (continued)

The average monthly number of persons (including directors) employed by the company during the year was

	2011 No	2010 No
Office and management	9	9
Sales	58	61
	<u>67</u>	<u>70</u>

6 Tax

(a) Tax on profit of ordinary activities

The tax charge is made up as follows

	2011 £	2010 £
Current tax		
UK corporation tax on profits of the period	5,769,413	5,871,630
Adjustments in respect of previous periods		8,493
Total current tax (note 6(b))	<u>5,769,413</u>	<u>5,880,123</u>
Deferred tax		
Origination and reversal of timing differences (note 6(c))	22,645	18,783
Tax on profit on ordinary activities	<u>5,792,058</u>	<u>5,898,906</u>

(b) Factors affecting current tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 26.8% (2010 – 28%). The differences are explained below

	2011 £	2010 £
Profit on ordinary activities before tax	21,575,764	22,067,203
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.8% (2010 – 28%)	<u>5,782,305</u>	<u>6,178,737</u>
Effects of		
Expenses not deductible for tax purposes	2,941	559
Capital allowances in excess of depreciation	(5,846)	(12,752)
Non taxable income	(10,485)	-
Other tax adjustments (group relief)	-	(296,488)
Adjustments to tax charge in respect of previous periods	-	8,493
Other timing differences	498	1,574

Notes to the financial statements

at 31 October 2011

6 Tax (continued)

Tax current tax (note 6(a))	5,769,413	5,880,123
(c) Deferred tax		
Provision for deferred tax has been made as follows		
	2011	2010
	£	£
Accelerated/(decelerated) capital allowances	14,631	(7,181)
Other timing differences	(5,784)	(6,617)
Deferred tax liability/(asset)	8,847	(13,798)
At 1 November 2011		(13,798)
Deferred tax charge in profit and loss account		22,645
Closing deferred tax liability (note 11)		8,847

The UK Government announced a phased reduction in the main UK corporation tax rate from 28% to 23% with the first 2% reduction taking effect from 1 April 2011. A further 1% was enacted during 2011 reducing the rate to 25% from 1 April 2012, these changes were enacted on 5 July 2011. Deferred tax assets and liabilities are measured at the rate that is expected to apply to the period when the asset is realised or the liability is settled based on the rates that have been enacted or substantively enacted at the balance sheet date. Therefore, at 31 October 2011, deferred tax assets and liabilities have been calculated based on the rates that have been substantively enacted by the balance sheet date.

The future reductions to 23% have not been enacted at the balance sheet date so the effect of these has not been reflected in these financial statements however it is not expected that these changes would have a significant effect on the value of the company's deferred tax balances at the balance sheet date.

7 Dividend

	2011	2010
	£	£
Declared and paid during the year		
Interim and final dividend for 2011 – £471.25	37,700,000	2,980,000

Notes to the financial statements

at 31 October 2011

8 Tangible fixed assets

	<i>Short Leasehold £</i>	<i>Plant and machinery £</i>	<i>Total £</i>
Cost			
At 1 November 2010	62,024	1 455,725	1,517,749
Addition	-	236,648	236,648
At 31 October 2011	62,024	1,692,373	1 754,397
Depreciation			
At 1 November 2010	62,024	1,083,406	1 145,430
Charged in the year	-	160,956	160,956
At 31 October 2011	62,024	1 244,362	1,306,386
Net book value			
At 31 October 2011	-	448 011	448,011
At 1 November 2010	-	372,319	372 319

9 Intangible fixed assets

	<i>Goodwill £</i>	<i>Trademarks £</i>	<i>Total £</i>
Cost			
At 1 November 2010	-	-	-
Addition	365,000	135,000	500 000
At 31 October 2011	365,000	135,000	500,000
Depreciation			
At 1 November 2010	-	-	-
Charged in the year	-	-	-
At 31 October 2011	-	-	-
Net book value			
At 31 October 2011	365 000	135,000	500,000
At 1 November 2010	-	-	-

Notes to the financial statements

at 31 October 2011

10 Investments

	<i>Shares in subsidiary undertakings £</i>
Cost	
At 1 November 2010	8,613
Disposals	(8,613)
31 October 2011	<u> </u>
	<u> </u>

The company's subsidiaries are as follows

	<i>Class of share incorporation</i>	<i>Country of incorporation</i>	<i>Proportion held</i>	<i>Nature of business</i>
ASC The Airline Seat Company Limited	Ordinary	Canada	100%	Dormant
Australian Affair Limited	Ordinary	England	100%	Dormant
French Affair Limited	Ordinary	England	100%	Dormant

On 31 October 2011, the company's wholly owned subsidiary ASC The Airline Seat Company Ltd was wound up and all of its assets were acquired by the Company at a net asset value of £18,431, with a related gain in this amount recorded to the profit & loss account. In the year ASC The Airline Seat Company Ltd recorded a pre tax profit of £82,773 (2010 - £19,000). As a result of this transaction a disposal amount of £8,513 was recorded representing 100% of the carrying cost of the Company's investment in ASC The Airline Seat Company Limited.

On the same date an agreement was entered into between The Airline Seat Company Ltd and its wholly owned subsidiary French Affair Ltd, under which the entire business of French Affair Ltd was acquired as a going concern at net asset value of £278,759, representing intangibles such as trade name, marketing, and client lists all of which were wholly subsumed as purchased goodwill. The acquisition has been accounted for as a group reorganisation. The Airline Seat Company Ltd originally acquired the business and assets of French Affair Ltd on 28 October 2010. As a result of this transaction the company recorded a disposal of £100 representing 100% of the carrying cost of the company's investment in French Affair Ltd.

11 Debtors

	<i>2011 £</i>	<i>2010 £</i>
Due within one year		
Trade debtors	1,203,846	202,017
Amount due from subsidiary undertakings	-	218,425
Amount due from fellow subsidiaries	890,051	2,232,130
Other debtors	292,588	319,782
Prepayments and accrued income	585,528	389,898
Deferred taxation asset (note 6(c))	-	13,798
	<u>2,972,013</u>	<u>3,376,050</u>

Notes to the financial statements

at 31 October 2011

12 Creditors' amounts falling due within one year

	2011 £	2010 £
Trade creditors	2 691 062	7 097,856
Other taxation and social security costs	62,017	55,202
Accruals and deferred income	2,363,735	4,950,399
Share-based payment liability	-	39,124
Corporation tax	3,322,891	3 271 572
Amount due to fellow subsidiaries	4,022 648	984,784
Amount due to subsidiary undertakings	297,090	-
Deferred taxation	8,846	-
	<u>12 768 289</u>	<u>16 398 937</u>

13 Issued share capital

		2011 £		2010 £
Allotted, called up and fully paid	No		No	
39 200 'A' ordinary shares of £1 each	39,200	39,200	39 200	39 200
40,800 'B' ordinary shares of £1 each	40,800	40,800	40,800	40,800
	<u>80 000</u>	<u>80,000</u>	<u>80 000</u>	<u>80 000</u>

The 'A' and 'B' ordinary shares rank pari passu in all respects

14 Profit and loss account

	£
At 1 November 2010	28 425 677
Profit for the year	15 783 706
Dividends paid	(37,700,000)
At 31 October 2011	<u>6,509 383</u>

15 Reconciliation of movement in shareholders' funds

	2011 £	2010 £
Opening shareholders' funds	28 505 677	15 317 380
Profit for the financial year	15 783,706	16,168,297
Dividends paid in the year	(37,700,000)	(2 980,000)
Closing shareholders' funds	<u>6 589 383</u>	<u>28 505 677</u>

Notes to the financial statements

at 31 October 2011

16 Other financial commitments

At 31 October 2011 the company had annual commitments under non-cancellable operating leases as set out below

	2011			2010		
	<i>Aircraft charter</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Aircraft charter</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£	£	£
Operating leases which expire						
Within one year	-	16,230	1,676	66,131,638	-	-
In two to five years	-	-	8,679	-	16 230	10 838

17 Guarantees

The company has granted a charge to its bank over bank deposits totalling £15,031,056 (2010 – £15,028,244) in connection with certain letters of credit and guarantees given by the bank on behalf of the company

The company together with the parent company and two companies under common control are jointly and severally guarantors of the revolving credit facilities of the ultimate parent undertaking and two companies under common control. As at October, 31, 2011 the amounts of the revolving credit facilities of those entities amounted to \$15 000 000. The company believes that the likelihood of having to pay a significant amount in respect to this security is low.

18 Related party transactions

As a subsidiary undertaking of Transat AT Inc, the company has taken advantage of the exception in FRS 8 not to disclose transactions with other members of the group as group financial statements which include the company, are publicly available.

19 Ultimate parent undertaking and controlling party

The directors consider the ultimate parent undertaking and controlling party to be Transat Europe Ltd a company incorporated in England and Wales.

The ultimate parent undertaking of the company is Transat AT Inc. This also represents both the largest and smallest group of which the company is a member and for which group financial statements are prepared. Copies of the financial statements can be obtained from Place du Parc, 300 rue Leo-Pariseau Bureau 600 Montreal (Quebec), H2X 4C2.