

BRITANNIA AIRWAYS LIMITED

COMPANY REGISTRATION NUMBER: 444359

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2004



Britannia Airways Limited

Director's Report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2004.

Results and dividends

The Company's profit before tax for the year was £155.8 million (2003: £150.7 million). The directors declared that an interim dividend of £80 million (2003: £139.2m) should be paid for the year ended 31st December 2004.

During the year there has been no change in accounting policies. For a full disclosure of accounting policies see note 1.

Principal activity and review of the business

The Company's principal activity during the year continued to be the operation of a charter airline.

The number of passengers carried in 2004 were 8.6 million and the trading results have been satisfactory.

As at the year end, the fleet operated by the Company comprised twenty Boeing 757s, thirteen Boeing 767s and four Boeing 737s.

Disabled employees

The policy of the Company is to give full and fair consideration to applications for employment from disabled persons having regard to their particular aptitudes and abilities. Whenever possible the Company continues to employ those employees who have become disabled. The Company makes arrangements for the training and career development of all disabled employees.

Employee involvement

The policy of the Company is to ensure that employees are kept well informed by way of briefings, staff reports, newsletters and notices describing the activities and performance of group undertakings.

Charitable and political donations

Charitable donations made during the year amounted to £23,000 (2003: £20,148). No political donations were made.

Britannia Airways Limited

Director's Report (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and 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.

Britannia Airways Limited

Director's Report (continued)

Directors and directors' interests in shares

The directors of the Company who held office during the year are given as follows :-

K Baker

M Boyle

N Fisk

A K Hatton

R Hussey

C Sharples

N White

N Winspear (Appointed 1 January 2004)

I Andrew (Resigned 7 January 2004)

H Butler (Resigned 31 October 2004)

R G Parker-Eaton OBE (Resigned 4 June 2004)

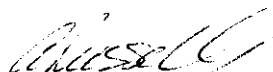
The following directors had an interest in the shares of a group company as follows:-

	As at 1.1.04 and 31.12.04 A ordinary shares of £0.01
Lorimer Investments Limited	
Maurice Boyle	615
Nick Fisk	331
Kevin Hatton	3,031
Nick White	426

Auditors

The auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

By order of the Board



A Russell

Company Secretary

Registered Office

Greater London House

Hampstead Road

London

NW1 7SD

18 March 2005

Britannia Airways Limited

Auditors' report to the Members of Britannia Airways Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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. 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Director's Report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosure 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



PricewaterhouseCoopers LLP

24th March 2005

Chartered Accountants and registered Auditors
St. Albans

Britannia Airways Limited

Profit and loss account

For the Year ended 31 December 2004

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
		<u>£000s</u>	<u>£000s</u>
Turnover	3	898,491	872,031
Cost of sales		<u>(470,945)</u>	<u>(442,011)</u>
Gross profit		427,546	430,020
Administrative expenses		<u>(274,518)</u>	<u>(284,124)</u>
Operating profit	4	153,028	145,896
Loss on disposal of fixed assets	5	(2,232)	(1,080)
Net interest receivable	7	<u>4,976</u>	<u>5,927</u>
Profit on ordinary activities before taxation		155,772	150,743
Tax on profit on ordinary activities	8	<u>(38,014)</u>	<u>(44,819)</u>
Profit on ordinary activities after taxation		117,758	105,924
Dividends receivable		1,054	-
Dividends payable		<u>(80,000)</u>	<u>(139,237)</u>
Retained profit/(loss) for the financial year	18	<u>38,812</u>	<u>(33,313)</u>

The company has no recognised gains or losses attributable to the shareholder other than its results for the year disclosed above. All results relate to continuing activities.

The accompanying notes form part of the financial statements.

Britannia Airways Limited

Balance Sheet at 31 December 2004

	<u>Notes</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
		<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Fixed Assets					
Tangible assets	9		150,388		152,339
Investments	10		<u>9,589</u>		<u>9,589</u>
			<u>159,977</u>		<u>161,928</u>
Current Assets					
Stocks	11	3,678		2,685	
Debtors:					
- amounts falling due within one year	12	302,294		296,301	
- amounts falling due after more than one year	12	<u>2,554</u>		<u>2,768</u>	
		308,526		301,754	
Cash at bank and in hand		<u>5,372</u>		<u>726</u>	
Total current assets			313,898		302,480
Creditors - Amounts falling due within one year	13		<u>(135,289)</u>		<u>(149,209)</u>
Net current assets			<u>178,609</u>		<u>153,271</u>
Total assets less current liabilities			338,586		315,199
Creditors - Amounts falling due after more than one year	14		(43,158)		(54,104)
Provisions for liabilities and charges	17		<u>(53,673)</u>		<u>(58,152)</u>
			<u>241,755</u>		<u>202,943</u>
Capital and reserves					
Called up share capital - equity	18 i)		118,615		118,615
Profit & loss account	18 ii)		<u>123,140</u>		<u>84,328</u>
Equity Shareholder's funds	19		<u>241,755</u>		<u>202,943</u>

The financial statements on pages 5 to 23 were approved by the Board of Directors on 18 of March 2005 and were signed on its behalf by:


R Hussey
 Director

1) Accounting policies

The principal accounting policies of the Company are summarised below. These policies have been applied consistently throughout the current and preceding years.

Basis of preparation

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

Turnover

Turnover represents the aggregate value of revenue receivable from chartering aircraft and related sales. Revenue is recognised on the date of departure of the flight.

Fixed assets and depreciation

Fixed assets are recorded at cost and are depreciated on a straight line basis over their estimated useful lives:

Aircraft and spares: 5 - 18 years to a 20% residual value.

Buildings: up to a maximum of 50 years.

Short Leaseholds: over period of lease.

Fixtures, fittings, machinery and equipment: 3 - 10 years.

Repairable stocks are depreciated within the category of aircraft and spares over 5 years.

Aircraft overhaul and maintenance provision

Provision is made for major overhauls of leased engines including auxiliary power units (APU's), and landing gear, as a consequence of the legal obligation arising under the terms of the leases. Accrual is based on the number of hours or cycles flown in the case of engines & APU's, or elapsed time for landing gear.

The cost of major overhauls of owned engines including APU's, and landing gear is capitalised. Amortisation is over the planned hours or cycles to the next overhaul, in the case of engines & APU's, or planned elapsed time for landing gear.

Leased assets

All leases are regarded as operating leases and costs are charged to the profit and loss account as incurred.

Stock

Stock is stated at the lower of cost and net realisable value.

Debtors falling due after more than one year

Loans and deposits not bearing interest are discounted to their net present value.

Notes to the Accounts - 31 December 2004 (continued)

1) Accounting policies (continued)

Pensions

The cost of providing pensions, including past service costs, is charged to the profit and loss account over the periods benefiting from the employee's services. Variations from the regular cost are allocated by equal installments over the average remaining service of current employees.

Foreign currency translation

Assets and liabilities expressed in currencies other than pounds sterling are translated at year end rates of exchange. To the extent that foreign currency denominated assets and liabilities are covered by forward exchange contracts, these are translated at the appropriate contract rate.

Differences arising from changes in exchange rates are included in trading profits, except those which relate to advance payments for aircraft subsequently subject to operating leases. These exchange differences are amortised over the initial lease periods.

Aircraft deferred income

This comprises:

- (i) certain aircraft manufacturer credits relating to new aircraft which are included in earnings over five to ten years from the date of delivery.
- (ii) the net present value benefits arising on the financing of finance leased aircraft, where the lease obligation is defeased immediately, which are included in earnings over a primary lease period of between ten and fifteen years.
- (iii) fees received from support agreements in respect of operating leased aircraft, which are included in earnings over a lease period of up to ten years.

Deferred taxation

Deferred taxation has been recognised as a liability or asset if a transaction has occurred at the balance sheet date that gives rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is recognised to the extent that the transfer of economic benefits in the future are more likely than not to occur. Deferred tax assets and liabilities have not been discounted.

Investments

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

2) Cash flow statement, group accounts and related party disclosures

The Company is a wholly-owned subsidiary subsidiary of Thomson Travel Group (Holdings) Limited and is included in the consolidated financial statements of TUI Northern Europe Limited, which are publicly available. Consequently, the company has taken the advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of TUI Northern Europe Limited. The company has also taken advantage of the exemption available under s228(2) Companies Act and has not prepared group accounts.

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)****3) Segmental analysis**

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Turnover - Group companies	795,336	757,108
- Other companies	<u>103,155</u>	<u>114,923</u>
	<u>898,491</u>	<u>872,031</u>

All profits arise in the UK and total net assets are located in the UK.

4) Operating profit

Operating profit is stated after charging / (crediting):

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Depreciation and amounts written off tangible fixed assets	23,635	22,558
Hire of plant and equipment	287	316
Operating lease rentals for aircraft	72,954	106,240
Auditors' remuneration:-		
Audit fees	54	51
Aircraft sub-lease income	(17,783)	(21,117)
Net Amount of Exchange Loss	1,000	-

5) Disposal of fixed assets and subsidiaries

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Loss on disposal of tangible fixed assets	<u>(2,232)</u>	<u>(1,080)</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)****6) Directors' and employees' emoluments**

(1) (i) The average monthly number of employees during the year was as follows:

	<u>2004</u>	<u>2003</u>
	Number	Number
Engineering	473	551
Cabin Crew	1,397	1,393
Pilots	489	430
Other	<u>450</u>	<u>449</u>
	<u>2,809</u>	<u>2,823</u>

(ii) Employee costs during the year amounted to:

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Wages and salaries	94,595	72,074
Social security costs	9,304	9,459
Other pension costs	<u>22,161</u>	<u>20,452</u>
	<u>126,060</u>	<u>101,985</u>

(2) The details of directors' emoluments are as follows:

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Aggregate emoluments	1,866	1,943
Compensation paid to former directors	113	-
Aggregate pension contribution	83	87

Retirement benefits are accruing to 7 directors under a defined benefit pension scheme (2003: 1)

The emoluments, excluding pension contributions, relating to the highest paid director are:

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Aggregate emoluments	553	506

Britannia Airways Limited

Notes to the Accounts - 31 December 2004 (continued)

7) Net interest receivable

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Interest receivable from:		
Third parties	-	70
Group undertakings	<u>7,432</u>	<u>8,634</u>
	7,432	8,704
Interest payable to:		
Hire purchase and finance lease agreements	(2,342)	(2,768)
Discounting of debtors:		
Movement for the year	<u>(114)</u>	<u>(9)</u>
Net interest receivable	<u>4,976</u>	<u>5,927</u>

8) Taxation

The charge for taxation based on the profits for the year at 30% (2003: 30%) comprises:

Current taxation	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Current year:		
Group relief at 30% (2003: 30%)	37,341	14,527
Corporation tax at 30% (2003: 30%)	6,830	28,749
Adjustments in respect of prior years	<u>(9,364)</u>	<u>(1,875)</u>
Current year tax charge	<u>34,807</u>	<u>41,401</u>
Deferred tax (note 17):		
Current year	4,771	2,330
Adjustments in respect of prior periods	<u>(1,564)</u>	<u>1,088</u>
Total deferred tax	<u>3,207</u>	<u>3,418</u>
Tax on profit on ordinary activities	<u><u>38,014</u></u>	<u><u>44,819</u></u>

Britannia Airways Limited

Notes to the Accounts - 31 December 2004 (continued)

	<u>2004</u>	<u>2003</u>
8)	<u>£000s</u>	<u>£000s</u>
Taxation (Continued)		
<i>Factors affecting tax charge in the period.</i>		
Profit on ordinary activities before taxation	155,772	150,743
Expected tax charge at 30%	46,732	45,223
Effects of :		
Expenses not deductible for tax purposes	2,229	383
Income not taxable	(19)	-
Accelerated capital allowances and other timing differences	(4,771)	(2,330)
Adjustments to UK tax charge in respect of prior periods	(9,364)	(1,875)
	<u>34,807</u>	<u>41,401</u>

Deferred tax liabilities have not been discounted.

Britannia Airways Limited

Notes to the Accounts - 31 December 2004 (continued)

9) Tangible assets

	Leasehold land and buildings	Aircraft and spares	Fixtures, Equipment and motor vehicles	Total
	£000s	£000s	£000s	£000s
Cost:				
At 1 January 2004	22,393	215,220	87,230	324,843
Additions	-	19,661	5,031	24,692
Disposals	-	(40,407)	(31,410)	(71,817)
Reclassifications	(152)	-	152	-
At 31 December 2004	<u>22,241</u>	<u>194,474</u>	<u>61,003</u>	<u>277,718</u>
Depreciation:				
At 1 January 2004	12,063	90,880	69,561	172,504
Charge for the year	1,256	16,239	6,140	23,635
Disposals	-	(38,016)	(30,793)	(68,809)
Reclassifications	(86)	-	86	-
At 31 December 2004	<u>13,233</u>	<u>69,103</u>	<u>44,994</u>	<u>127,330</u>
Net book amount				
At 31 December 2004	<u>9,008</u>	<u>125,371</u>	<u>16,009</u>	<u>150,388</u>
At 31 December 2003	<u>10,330</u>	<u>124,340</u>	<u>17,669</u>	<u>152,339</u>

The net book amount of leasehold land and buildings comprises:

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Long leaseholds	4,506	8,811
Short leaseholds	<u>4,502</u>	<u>1,519</u>
	<u>9,008</u>	<u>10,330</u>

Britannia Airways Limited

Notes to the Accounts - 31 December 2004 (continued)

10) Investments

	<u>Investments in subsidiary undertakings</u>	<u>Other investments</u>	<u>Total</u>
	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
At 1 January 2004 and 31 December 2004	<u>1,201</u>	<u>8,388</u>	<u>9,589</u>

Included in other investments is an investment in National Air Traffic Services of £8.2M (2003 : £8.2M)

Investment in subsidiary undertakings

The following companies are wholly owned subsidiary undertakings of the Company and were involved in supporting the operations of the charter airline. They are registered in England and Wales, with the exception of Britannia Airways GmbH, which is incorporated in the Federal Republic of Germany.

Skymead Leasing Limited
Skymead Maintenance Limited
Orion Airways Limited
Britannia Airways GmbH

The following companies are wholly owned subsidiary undertakings of the Company that are currently dormant. They are registered in England and Wales.

Skylease Limited
Skymead Limited
Airlink International Limited
Britannia Airways (Catering) Limited

In the opinion of the directors, the value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet.

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)****11) Stocks**

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Raw materials and consumables	<u>3,678</u>	<u>2,685</u>

12) Debtors

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Amounts falling due within one year:		
Trade debtors	2,764	19,157
Amounts owed by subsidiary undertakings	7,618	6,785
Amounts owed by fellow group undertakings	268,813	250,120
Other debtors	2,940	4,837
Prepayments and accrued income	<u>20,159</u>	<u>15,402</u>
	<u>302,294</u>	<u>296,301</u>

Amounts falling due after more than one year:

Lease deposits	3,036	3,188
Less discounts to present value	<u>(482)</u>	<u>(420)</u>
	<u>2,554</u>	<u>2,768</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)**

13) Creditors	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Amounts falling within one year:		
Loans (see note 15)	2,808	3,813
Trade creditors	41,406	47,719
Amounts owed to group undertakings	-	1,713
Other taxation and social security	6,428	5,998
UK Corporation tax	6,452	17,675
Group relief payable	32,899	19,267
Accruals	38,490	27,138
Deferred income	5,277	18,663
Other creditors	<u>1,529</u>	<u>7,223</u>
	<u>135,289</u>	<u>149,209</u>

14) Creditors	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Amounts falling due after more than one year:		
Loans (see note 15)	41,534	50,882
Deferred income	<u>1,624</u>	<u>3,222</u>
	<u>43,158</u>	<u>54,104</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)****15) Loans**

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Repayable by instalments:		
Instalments due within one year	2,808	3,813
Instalments due between two and five years	13,489	12,792
Instalments after more than five years	<u>28,045</u>	<u>38,090</u>
Total loans	<u>44,342</u>	<u>54,695</u>

The loans relate to a mortgage arrangement on two Boeing 767 aircraft included within fixed assets. Interest is payable at a variable rate of LIBOR + 0.5% and the mortgage is repayable by 2012.

16) Operating lease commitments

At 31 December 2004, the Company had future annual operating lease commitments which expire as follows:

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Aircraft, plant and equipment		
Operating lease commitments which expire:		
Within one year	3,573	-
Between two and five years	60,902	45,650
After five years	<u>-</u>	<u>1,246</u>
	<u>64,475</u>	<u>46,896</u>

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Land and buildings		
Operating lease commitments which expire:		
Within one year	52	-
Between two and five years	47	-
After five years	<u>1,464</u>	<u>1,661</u>
	<u>1,563</u>	<u>1,661</u>

Britannia Airways Limited

Notes to the Accounts - 31 December 2004 (continued)

17) Provisions for liabilities and charges

	Maintenance provision	Orion pension provision	Fundamental Restructuring Costs	Deferred tax	Total
	£000s	£000s	£000s	£000s	£000s
At 1 January 2004	39,822	450	1,660	16,220	58,152
Adjustments in respect of prior periods	-	-	-	(1,564)	(1,564)
Charge to the profit and loss account	14,800	-	-	4,771	19,571
Utilised during the year	<u>(20,826)</u>	<u>-</u>	<u>(1,660)</u>	<u>-</u>	<u>(22,486)</u>
At 31 December 2004	<u>33,796</u>	<u>450</u>	<u>-</u>	<u>19,427</u>	<u>53,673</u>

The aircraft overhaul and maintenance provision represents the expected cost of maintaining the Company's leased aircraft and spares. Exact determination of the value and timing of the related expenditure is not possible, but the provision is based upon past experience of the length of time between, and cost of, overhauls.

Deferred tax:

Deferred taxation provided in the accounts is as follows :

	<u>2004</u>	<u>2003</u>
	£000s	£000s
At 1 January	16,220	12,802
Adjustments in respect of prior periods	(1,564)	1,088
Charged/(credited) to the profit and loss account	4,771	2,330
At 31 December	<u>19,427</u>	<u>16,220</u>

	<u>2004</u>	<u>2003</u>
	£000s	£000s
Provision for deferred tax :		
Accelerated capital allowances	18,050	16,633
Other timing differences	1,377	(413)
Total provision for deferred tax	<u>19,427</u>	<u>16,220</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)****18) Capital and reserves**

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
i) <u>Share capital</u>		
Authorised:		
150,000,000 Ordinary shares of £1 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
118,615,001 Ordinary shares of £1 each	<u>118,615</u>	<u>118,615</u>

ii) Reserves

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
At 1 January	84,328	117,640
Profit/(Loss)profit for the financial year	<u>38,812</u>	<u>(33,312)</u>
At 31 December	<u>123,140</u>	<u>84,328</u>

19) Reconciliation of movements in equity shareholder's funds

	<u>2004</u>	<u>2003</u>
	<u>£000s</u>	<u>£000s</u>
Opening Equity shareholder's funds	202,943	236,256
Profit for the financial year	117,758	105,924
Dividends receivable	1,054	-
Dividends payable	<u>(80,000)</u>	<u>(139,237)</u>
Net increase/(decrease) in shareholder's funds	<u>38,812</u>	<u>(33,313)</u>
Equity shareholder's funds at 31 December	<u>241,755</u>	<u>202,943</u>

20) Pensions

Defined benefits scheme

The company operates a defined benefit scheme namely the Britannia Airways Limited Superannuation and Life Assurance Scheme (BAL Scheme). This scheme is designed to provide retirement benefits for the company's pilots. Pension costs of the scheme are assessed in accordance with the advice of an independent professionally qualified actuary on the basis of bi-annual valuations using the projected unit credit method. The assets of the scheme are funded through independent trustee-administered funds separate from the assets of the Company.

The most recent actuarial valuation of the BAL scheme was at 31st March 2004. At 31st March, the market value of the scheme assets was £301.4m and covered 71.4% of projected scheme liabilities. The current agreed employers' contribution rate is 68.4% on average over the different membership categories, some of which is allocated to remove the deficit in the scheme.

Pension charge

Under SSAP 24 the profit and loss account has been charged with £14.4m (2003: £13.9m).

Actuarial Assumptions

For the purposes of SSAP 24, actuarial assumptions are consistent with the Bi-annual scheme valuations, and are unchanged from the respective scheme valuations.

	2004
Rate of increase in pensionable salaries:	3.50 per cent + scale progression
Rate of increase in pensions in payment:	2.5 to 5 per cent
Investment return – pre retirement	6.25 per cent
Investment return – post retirement	6.25 per cent
Interest rate for balance sheet items	6.25 per cent

FRS 17 Disclosure requirements:

FRS 17 Actuarial Assumptions:

Progressive salary scales effective 1st January plus:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Rate of increase in pensionable salaries	3.90 per cent	3.80 per cent	3.40 per cent
Rate of increase in pensions in payment	<u>2004</u>	<u>2003</u>	<u>2002</u>
Pre 97 members	5.00 per cent	5.00 per cent	5.00 per cent
Post 97 members	2.50 per cent	2.50 per cent	2.50 per cent
Discount rate	5.40 per cent	5.40 per cent	5.60 per cent
Inflation assumption	2.90 per cent	2.80 per cent	2.40 per cent

Notes to the Accounts - 31 December 2004 (continued)

20) Pensions (continued)

FRS 17 Disclosure requirements (continued):

The assets in the scheme and the expected rate of return were:

	<u>Long term rate of return expected at 31 December</u>	
	<u>2004</u>	<u>2003</u>
Equities	8.25%	8.25%
Bonds	5.10%	5.10%
Property	5.10%	5.50%
Cash	4.80%	4.00%

	<u>Value at 31 December</u>	
	<u>2004</u>	<u>2003</u>
	<u>£m</u>	<u>£m</u>
Equities	268.7	248.2
Bonds	48.3	35.4
Property	0.3	1.5
Cash	15.6	10.3
Total market value of assets	332.9	295.4
Present value of scheme liabilities	(531.2)	(492.7)
Deficiency in the scheme	(198.3)	(197.3)
Related deferred tax asset	59.5	59.2
Net pension liability	(138.8)	(138.1)

If the deficit had been recognised the impact would have been as follows:

	<u>Net Assets</u>	
	<u>Value at 31 December</u>	
	<u>2004</u>	<u>2003</u>
	<u>£m</u>	<u>£m</u>
Net assets as per Balance Sheet	241.8	202.9
assets	(5.6)	(2.5)
Net assets excluding pension liability under SSAP 24	236.2	200.4
Pension Liability	(138.8)	(138.1)
Net assets including pension liability under FRS 17	97.4	62.3

	<u>Reserves</u>	
	<u>Value at 31 December</u>	
	<u>2004</u>	<u>2003</u>
	<u>£m</u>	<u>£m</u>
Profit and loss reserve	123.1	84.3
assets	(5.6)	(2.5)
Profit and loss reserve excluding pension liability under	117.5	81.8
Pension reserve	(138.8)	(138.1)
Profit and loss reserve including pension liability under	(21.3)	(56.3)

The impact on the profit and loss account would have been £8.9m (2003 : 8.9m).

Britannia Airways Limited**Notes to the Accounts - 31 December 2004 (continued)****20) Pensions (continued)****FRS 17 Disclosure requirements (continued):**

Analysis of the amount credited to other finance income:

	2004	2003
	£m	£m
Expected return on pension scheme assets	23.0	19.4
Interest on pension scheme liabilities	<u>(26.5)</u>	<u>(24.6)</u>
Net return	(3.5)	(5.2)

Movement in deficit during the year:

	2004	2003
	£m	£m
Loss in the scheme at the beginning of the year	(197.3)	(196.9)
Movement in year:		
Current service cost	(8.9)	(8.9)
Employer contributions	18.8	18.9
Net return	(3.5)	(5.2)
Actuarial losses	<u>(7.4)</u>	<u>(5.2)</u>
Loss in the scheme at the end of the year	(198.3)	(197.3)

History of experience gains and losses:

	2004	2003	2002
	£m	£m	£m
Difference between the expected and actual return on scheme assets	7.1	25.2	(73.2)
Value of plan assets (£m)	332.9	295.4	241.6
Percentage of scheme assets (%)	2.1	8.5	(30.3)
Experience gains/(losses) on scheme liabilities (£m)	(11.3)	2.2	(42.4)
Present value of scheme liabilities (£m)	531.2	492.7	438.5
Percentage of the present value of scheme liabilities (%)	(2.1)	0.4	(9.7)
Actuarial gains/ (losses) in STRGL (£m)	(7.4)	(5.2)	(141.1)
Present value of scheme liabilities (£m)	531.2	492.7	438.5
Percentage of the present value of scheme liabilities (%)	(1.4)	(1.1)	(32.2)

21) Ultimate parent undertaking

Within the meaning of the Companies Act 1985 TUI AG is regarded by the directors of the company as being the company's ultimate parent company. Within the meaning of the said Act TUI AG is the parent undertaking of the largest group of undertakings for which the group accounts are drawn up and of which the company is a member and TUI Northern Europe Limited is the parent undertaking of the smallest group of undertakings for which group accounts are drawn up and of which the company is a member. TUI AG is incorporated under the laws of Germany. TUI Northern Europe Limited is registered in England and Wales.

Copies of TUI AG's accounts are available from: Investor relations, TUI AG Karl-Wiechert-Allee 4, D-3605 Hanover or on the website address: www.tui.com