

BRITANNIA AIRWAYS LIMITED

COMPANY REGISTRATION NUMBER: 444359

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2002



Britannia Airways Limited

Director's Report

The directors present their report together with the audited financial statements of the Company for the year ended 31 December 2002.

Results and dividends

The Company's profit before tax for the year was £109.9 million (2001: £63.3 million as restated). No interim dividend was paid during the year (2001: nil). The directors do not propose the payment of a final dividend (2001: nil).

During the year the Company changed its accounting policies in respect of Deferred Tax FRS 19. FRS 19 requires full provisioning for all timing and other differences between profits stated in the financial statements and profits computed for taxation purposes. For full disclosure 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 2002 were 8.0 million and the trading results have been satisfactory.

As at the year end, the fleet operated by the Company comprised nineteen Boeing 757s and twelve Boeing 767s.

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 appropriate 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 £11,823 (2001: £7,000). No political donations were made.

Britannia Airways Limited

Director's Report (continued)

Policy on payments to suppliers

The Company is responsible for agreeing terms and conditions under which business transactions with its suppliers are conducted. It is Company policy that payments to suppliers are made in accordance with these terms and conditions, provided that the supplier is also complying with all relevant terms and conditions.

Supplier payments days at 31 December 2002 were 37.0 (2001: 37.1).

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 with the exception of the changes arising on the adoption of new accounting standards in the year as explained in Note 1 'Accounting Policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 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 at 31 December 2002 were as follows: -

I Andrew

M Boyle

H Butler

N Fisk

A K Hatton

W Kurth (Resigned 19 March 2003)

R G Parker-Eaton OBE

C Sharples

K Baker (Appointed 20 November 2002)

R Hussey (Appointed 12 March 2002)

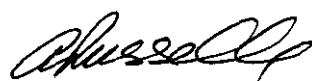
Nick White (Appointed 2 April 2002)

No director had any interest in the shares of the Company or the Group at 31 December 2002.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

By order of the Board



A Russell
Company Secretary
Registered Office
Greater London House
Hampstead Road
London
NW1 7SD

13 June 2003

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, the statement of total recognised gains and losses 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.

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 2002 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
Chartered Accountants and registered Auditors
London

13 June 2003

Britannia Airways Limited**Profit and loss account****For the Year ended 31 December 2002**

	<u>Notes</u>	<u>2002</u> £000s	<u>2001</u> (Restated) £000s
Turnover - continuing operations	3	823,531	788,845
Cost of sales		<u>(413,620)</u>	<u>(417,300)</u>
Gross profit		409,911	371,545
Administrative expenses		<u>(301,702)</u>	<u>(296,348)</u>
Operating profit	4	108,209	75,197
Loss on disposal of fixed assets	5	(341)	(3,491)
Fundamental restructuring costs	7	-	(8,521)
Net interest receivable	8	<u>2,016</u>	<u>73</u>
Profit on ordinary activities before taxation		109,884	63,258
Tax on profit on ordinary activities	9	<u>(18,648)</u>	<u>(14,910)</u>
Retained profit for the financial year	19	<u>91,236</u>	<u>48,348</u>

Britannia Airways Limited


Statement of total recognised gains and losses
For the Year ended 31 December 2002

	<u>Notes</u>	<u>2002</u> £000s	<u>2001</u> (Restated) £000s
Profit on ordinary activities after taxation		91,236	48,348
Prior year adjustments	1	(22,894)	(7,744)
Total gains recognised since last annual report		<u>68,342</u>	<u>40,604</u>

Britannia Airways Limited**Balance Sheet at 31 December 2002**

	<u>Notes</u>	<u>2002</u> £000s	<u>2002</u> £000s	<u>2001</u> (Restated) £000s	<u>2001</u> Restated) £000s
Fixed Assets					
Tangible assets	10		165,763		240,204
Investments	11		<u>9,589</u>		<u>9,589</u>
			<u>175,352</u>		<u>249,793</u>
Current Assets					
Stocks	13	3,881		11,964	
Debtors:					
- amounts falling due within one year	12	314,951		171,210	
- amounts falling due after more than one year	12	<u>2,160</u>		<u>2,950</u>	
		317,111		186,124	
Cash at bank and in hand		585		825	
Total current assets			317,696		186,949
Creditors - Amounts falling due within one year	14	(134,364)		(122,145)	
Net current assets			<u>187,213</u>		<u>64,804</u>
Total assets less current liabilities			362,565		314,597
Creditors - Amounts falling due after more than one year	15		(71,271)		(99,919)
Provisions for liabilities and charges	18		<u>(55,038)</u>		<u>(69,658)</u>
			<u>236,256</u>		<u>145,020</u>
Capital and reserves					
Called up share capital - equity	19 i)	118,615		118,615	
Profit & loss account	19 ii)	<u>117,641</u>		<u>26,405</u>	
Shareholder's funds	20		<u>236,256</u>		<u>145,020</u>

The financial statements on pages 5 to 23 were approved by the Board of Directors on 13 of June 2003 and were signed on its behalf by:


R Hussey
 Director

Britannia Airways Limited

Notes to the Accounts - 31 December 2002

1) Accounting policies

The principal accounting policies of the Group are summarised below. These policies have been applied consistently throughout the current and preceding years and are consistent with the policies of the ultimate parent company, Tui AG.

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, Auxiliary Power Units and landing gear, as a consequence of the legal obligation arising under the terms of the leases and is accrued on the basis of hours flown. The cost of major overhauls of owned engines, Auxiliary Power Units and landing gear, is capitalised and amortised over the planned period to the

Leased assets

Assets held under finance leases are included in fixed assets. The interest element of lease payments is charged to the profit and loss account in proportion to the outstanding finance lease obligation. All other leases are regarded as operating leases and 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.

Britannia Airways Limited

Notes to the Accounts - 31 December 2002 (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

The company has adopted FRS 19 'Deferred tax' in the financial statements. FRS 19 requires that deferred tax be recognised in respect of all timing differences that have originated, but not reversed, by the balance sheet date. The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly.

The impact for 2002 has been to increase the current profit after tax by £11,286,000. The 2001 comparative balance sheet and profit and loss have been restated for the change in policy. The impact has been to reduce the net assets at 31 December 2001 by £24,088,000. The overall impact on 2001 reported post-tax profit was a reduction of £1,194,000.

Investments

Investments in subsidiary undertakings are stated at cost less provisions for permanent diminution of value.

2) Cash flow statement and related party disclosures

The Company is a wholly-owned subsidiary of Thomson Travel Group (Holdings) Limited and is included in the consolidated financial statements of TUI Northern Europe Limited, which are publicly available from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ. The ultimate parent undertaking is TUI AG, as set out in note 22. Consequently, the company has taken 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

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)****3) Segmental analysis**

	<u>2002</u>	<u>2001</u>
	£000s	£000s
Turnover - Group companies	715,517	676,487
- Other companies	<u>108,014</u>	<u>112,358</u>
	<u>823,531</u>	<u>788,845</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>2002</u>	<u>2001</u>
	£000s	£000s
Depreciation and amounts written off tangible fixed assets	30,948	25,900
Hire of plant and equipment	1,909	2,055
Operating lease rentals for aircraft	112,598	122,916
Auditors' remuneration:-		
Audit fees	34	50
Other fees	-	25
Aircraft sub-lease income	(21,274)	(24,617)

5) Disposal of fixed assets and subsidiaries

	<u>2002</u>	<u>2001</u>
	£000s	£000s
Loss on disposal of tangible fixed assets	(341)	(2,490)
Write down of investments in subsidiaries	<u>-</u>	<u>(1,001)</u>
	<u>(341)</u>	<u>(3,491)</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)****6) Directors' and employees' emoluments**

(1) (i) The average number of persons employed by the Company during the year was as follows:

	<u>2002</u>	<u>2001</u>
	<u>Number</u>	<u>Number</u>
Engineering	597	682
Cabin Crew	1,390	1,425
Pilots	430	467
Other	<u>478</u>	<u>578</u>
United Kingdom total	<u>2,895</u>	<u>3,152</u>

(ii) Employee costs during the year amounted to:

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Wages and salaries	89,152	92,525
Social security costs	9,177	10,555
Other pension costs	<u>17,270</u>	<u>15,321</u>
	<u>115,599</u>	<u>118,401</u>

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

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Aggregate emoluments	1,730	1,771
Compensation paid to former directors	75	174
Aggregate pension contribution	110	119

Retirement benefits are accruing to 1 director under a defined benefit pension scheme (2001: 1) and 6 directors under a defined contribution scheme (2001: 6).

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

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Aggregate emoluments	495	443

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)****7) Fundamental restructuring costs**

Reorganisation costs are an exceptional item for 2001 relating to a significant company restructuring programme, arising from greater integration with Preussag AG.

The restructuring program continued during the year and is due for completion in 2003.

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Reorganisation costs	-	8,521
Tax effect	-	(2,556)
	<u>-</u>	<u>5,965</u>

8) Net interest receivable / (payable)

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Interest receivable from:		
Third parties	483	671
Group undertakings	<u>5,854</u>	<u>4,109</u>
	6,337	4,780
Interest payable to:		
Hire purchase and finance lease agreements	(4,292)	(4,730)
Interest payable to group undertakings	(103)	(134)
Third parties	<u>(144)</u>	<u>-</u>
	(4,539)	(4,864)
Discounting of debtors:		
Movement for the year	<u>218</u>	<u>157</u>
Net interest receivable	<u>2,016</u>	<u>73</u>

9) Taxation

The charge for taxation based on the profits for the year at 30% (2001: 30%) comprises:

Current taxation	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>(Restated)</u>
	<u>£000s</u>	<u>£000s</u>
Current year:		
Group relief at 30% (2001 30 %)	10,478	12,676
Corporation tax	21,007	900
Adjustments in respect of prior years	<u>(1,551)</u>	<u>140</u>
Current year tax charge	29,934	13,716
Deferred tax :		
Current year	(9,712)	1,763
Adjustments in respect of prior periods	<u>(1,574)</u>	<u>(569)</u>
Total deferred tax (note 18)	(11,286)	1,194
Tax on profit on ordinary activities	18,648	14,910

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)**

	<u>2002</u>	<u>2001</u>
	£000s	(Restated) £000s
9) Taxation (Continued)		
Factors affecting tax charge in the period.		
Profit on ordinary activities before taxation	109,884	63,258
Expected tax charge at 30%	32,966	18,977
Effects of :		
Expenses not deductible for tax purposes	979	(4,207)
Income not taxable	(12,172)	-
Accelerated capital allowances and other timing differences	9,712	(1,194)
Adjustments to UK tax charge in respect of prior periods	(1,551)	140
	<u>29,934</u>	<u>13,716</u>

Factors that may affect future tax charges :

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax liabilities have not been discounted.

Britannia Airways Limited
Notes to the Accounts - 31 December 2002 (continued)
10) Tangible assets

	Leasehold land and buildings	Aircraft and spares	Payments in advance	Fixtures, Equipment and motor vehicles	Total
	£000s	£000s	£000s	£000s	£000s
Cost:					
At 1 January 2002	22,363	274,426	14,414	73,175	384,378
Additions	16	14,179	-	6,461	20,656
Disposals	-	(73,565)	(7,206)	-	(80,771)
At 31 December 2002	<u>22,379</u>	<u>215,040</u>	<u>7,208</u>	<u>79,636</u>	<u>324,263</u>
Depreciation:					
At 1 January 2002	10,728	77,947	-	55,499	144,174
Charge for the year	852	22,154	-	7,942	30,948
Disposals	-	(16,622)	-	-	(16,622)
At 31 December 2002	<u>11,580</u>	<u>83,479</u>	<u>-</u>	<u>63,441</u>	<u>158,500</u>
Net book amount					
At 31 December 2002	<u>10,799</u>	<u>131,561</u>	<u>7,208</u>	<u>16,195</u>	<u>165,763</u>
At 31 December 2001	<u>11,635</u>	<u>196,479</u>	<u>14,414</u>	<u>17,676</u>	<u>240,204</u>

The net book amount of leasehold land and buildings comprises:

	<u>2002</u>	<u>2001</u>
	£000s	£000s
Long leaseholds	10,005	8,600
Short leaseholds	<u>794</u>	<u>3,035</u>
	<u>10,799</u>	<u>11,635</u>

Capital commitments comprise:

	<u>2002</u>	<u>2001</u>
	£000s	£000s
Capital expenditure contracted but not provided	<u>28,150</u>	<u>56,300</u>

At 31st December 2002, capital expenditure contracted was in respect of one Boeing 737-800 aircraft (net of progress payments already made) due for delivery in May 2003.

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)****11) Investments**

	<u>Investments</u> <u>in</u> <u>subsidiary</u>	<u>Other</u> <u>investments</u>	<u>Total</u>
	£000s	£000s	£000s
At 1 January 2002 and 31 December 2002	1,201	8,388	9,589

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.

Airlink International Limited *

Skylease Limited *

Skymead Leasing Limited

Skymead Limited *

Skymead Maintenance Limited

Orion Airways Limited

Britannia Airways (Catering) Limited

Britannia Airways GmbH

* - These companies were dormant in 2002

Group accounts have not been prepared because the Company is a wholly owned subsidiary undertaking of another Company incorporated in the European Union. (See note 22)

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 2002 (continued)****12) Debtors**

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Amounts falling due within one year:		
Trade debtors	20,552	4,187
Amounts owed by subsidiary undertakings	1,037	1,114
Amounts owed by fellow group undertakings	268,140	142,074
Other debtors	2,392	5,098
Prepayments and accrued income	<u>22,830</u>	<u>18,737</u>
	<u>314,951</u>	<u>171,210</u>
 Amounts falling due after more than one year:		
Lease deposits	2,572	3,580
Less discounts to present value	<u>(412)</u>	<u>(630)</u>
	<u>2,160</u>	<u>2,950</u>

13) Stocks

	<u>2002</u>	<u>2001</u>
	<u>£000s</u>	<u>£000s</u>
Raw materials and consumables	3,881	11,778
Finished goods	<u>-</u>	<u>186</u>
	<u>3,881</u>	<u>11,964</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)**

14) Creditors	<u>2002</u>	<u>2001</u>
	£000s	£000s
Amounts falling within one year:		
Loans (see note 16)	4,053	7,796
Trade creditors	40,515	45,224
Amounts owed to subsidiary undertakings	1,029	2,145
Amounts owed to fellow group undertakings	486	12,369
Taxation & social security	4,188	3,033
Corporation tax	24,701	2,679
Group relief payable	11,758	12,676
Accruals	31,691	27,189
Deferred income	7,512	7,187
Other creditors	<u>8,431</u>	<u>1,847</u>
	<u>134,364</u>	<u>122,145</u>

15) Creditors	<u>2002</u>	<u>2001</u>
	£000s	£000s
Amounts falling due after more than one year:		
Loans	66,286	90,599
Deferred income	<u>4,985</u>	<u>9,320</u>
	<u>71,271</u>	<u>99,919</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)****16) Loans**

	<u>2002</u>	<u>2001</u>
	£000s	£000s
Repayable by instalments:		
Instalments due within one year	4,053	7,796
Instalments due between two and five years	14,330	37,914
Instalments after more than five years	<u>51,956</u>	<u>52,685</u>
Total loans	<u>70,339</u>	<u>98,395</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.

17) Operating lease commitments

At 31 December 2002, the company had annual operating lease commitments which expire as follows:

	<u>2002</u>	<u>2001</u>
	£000s	£000s
Aircraft, plant and equipment		
Operating lease commitments which expire:		
Within one year	23,766	25,551
Between two and five years	73,393	74,059
After five years	<u>5,849</u>	<u>26,139</u>
	<u>103,008</u>	<u>125,749</u>
 Land and buildings		
Operating lease commitments which expire:		
Within one year	13	482
Between two and five years	71	192
After five years	<u>1,516</u>	<u>784</u>
	<u>1,600</u>	<u>1,458</u>

Britannia Airways Limited**Notes to the Accounts - 31 December 2002 (continued)****18) Provisions for liabilities and charges**

	Maintenance provision	Fundamental restructuring costs	Deferred Tax	Total
	£000s	£000s	£000s	£000s
At 1 January 2002	37,049	8,521	24,088	69,658
Charge to the profit and loss account	19,259	-	(11,286)	7,973
Utilised during the year	<u>(16,667)</u>	<u>(5,926)</u>	<u>-</u>	<u>(22,593)</u>
At 31 December 2002	<u>39,641</u>	<u>2,595</u>	<u>12,802</u>	<u>55,038</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.

Restructuring costs relate to the exceptional item for 2001 being a company restructuring programme (see Note 7) and are expected to be utilised over the next year.

Deferred tax:

Deferred taxation provided in the accounts is as follows :

	<u>2002</u>	<u>2001</u>
	£000s	<u>(Restated)</u>
	£000s	£000s
At 1 January as restated (note 1)	24,088	22,894
Adjustments in respect of prior periods	(1,574)	(569)
(Credited)/charged to the profit and loss account	(9,712)	1,763
At 31 December	<u>12,802</u>	<u>24,088</u>
	2002	2,001
	£000	£000
Provision for deferred tax :		
Accelerated capital allowances	15,075	27,204
Other timing differences	(2,273)	(3,116)
Total provision for deferred tax	<u>12,802</u>	<u>24,088</u>

Britannia Airways Limited

Notes to the Accounts - 31 December 2002 (continued)

19) **Capital and reserves**

	<u>2002</u>	<u>2001</u>
	£000s	£000s
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>2002</u>	<u>2001</u>
	£000s	(Restated) £000s
At 1 January	49,299	8,695
Restatement of opening balance	<u>(22,894)</u>	<u>(7,744)</u>
As restated	26,405	951
Profit for the financial year	<u>91,236</u>	<u>48,348</u>
At 31 December	<u>117,641</u>	<u>49,299</u>

20) **Reconciliation of movements in equity shareholder's funds**

	<u>2002</u>	<u>2001</u>
	£000s	(Restated) £000s
Restated equity shareholder's funds: (originally £169,108,000 before deducting prior year adjustment of £24,088,000. - note	145,020	96,672
Profit on ordinary activities after taxation	<u>91,236</u>	<u>48,348</u>
Net increase in shareholder's funds	<u>91,236</u>	<u>145,020</u>
Equity shareholder's funds at 31 December	<u>236,256</u>	<u>145,020</u>

Britannia Airways Limited

Notes to the Accounts - 31 December 2002 (continued)

21) 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 Britannia pilots. Pension costs of the scheme are assessed in accordance with the advice of an independent professionally qualified actuary on the basis of 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 2002. At 31st March, the market value of the scheme assets was £305.7m and covered 75.4% of projected scheme liabilities. The current agreed employers' contribution rate is 56.35%, plus a lump sum of £450,000 per month, and is not envisaged to change.

A full actuarial valuation was carried out at 31st March 2002 by a qualified independent actuary. The major assumptions used by the actuary were:-

Rate of increase in pensionable salaries	Progressive salary scales effective 1st January 2002 plus 3.40 per cent
Rate of increase in pensions in payment	
Pre 97 members	5.0 per cent
Post 97 members	2.5 per cent
Discount rate	5.60 per cent
Inflation assumption	2.40 per cent

Britannia Airways Limited

Notes to the Accounts - 31 December 2002 (continued)

21) Pensions (continued)

FRS 17 Disclosure requirements:

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

	<u>Long term rate of return expected at 31 December 2002</u>	<u>Value at 31 December 2002 £m</u>
Equities	8.75%	191.0
Bonds	5.00%	35.0
Property	6.50%	2.4
Cash	4.00%	<u>13.2</u>
		<u>241.6</u>
Total market value of assets		241.6
Present value of scheme liabilities		<u>438.5</u>
Deficiency in the scheme		<u>196.9</u>
		<u>£m</u>
Net assets excluding pension deficit		236.3
Pension deficit		<u>(196.9)</u>
Net assets including pension deficit		<u>39.4</u>
Profit and loss reserve excluding pension deficit		117.6
Pension deficit		<u>(196.9)</u>
Profit and loss reserve		<u>(79.3)</u>

Defined contribution scheme

All other employees are entitled to join the Thomson Travel Pension Scheme (the 'TT Scheme'). The assets of the TT Scheme are funded through independent trustee-administered funds separate from the assets of the Group.

The particulars of the actuarial valuation of the TT Scheme are set out in the financial statements of TUI Northern Europe Limited.

Britannia Airways Limited

Notes to the Accounts - 31 December 2002 (continued)

22) 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 Tui website address: www.tui.com