

Airways Aero Associations Limited

Report and Accounts

For the year ended 31 March 2003



Airways Aero Associations Limited

Registered No: 447296

Directors

W D Lowe
T J Orchard
D Hyde
D Maizey
G Want

Secretary

A K Buchanan

Auditors

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

Registered office

Waterside
PO Box 365
Harmondsworth
UB7 0GB

Directors' report

The directors present their report and financial statements for the year ended 31 March 2003.

Results and dividends

The profit for the year, after taxation, amounted to £92,255. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continued to be recreational flying and aerodrome operation.

Future developments

The company will continue to promote recreational flying at the best possible terms and to provide facilities in the field of light aviation.

Directors and their interests

The directors at 31 March 2003 and their interests in the share capital of the parent company were as follows:

	Ordinary shares of 25p				Options under	
	Subject to no		Subject to		Executive and SAYE	
	31/3/03	31/3/02	31/3/03	31/3/02	31/3/03	31/3/02
W D Lowe	11,568	11,568	-	-	-	-
T Orchard	10,996	10,996	-	-	-	-
D Hyde	16,961	17,762	-	-	-	88,425
D Maizey	5,550	5,550	-	-	186,730	106,620
G Want	-	-	-	-	175,955	93,083

The directors' interests set out above are in each case beneficial. The interests in ordinary shares are subject to no restrictions. The options under the Executive and Save as You Earn Schemes are at prices varying between 181p and 405p per share.

Directors' and Officers' Liability Insurance

The parent undertaking maintains a directors' and officers' liability insurance for its subsidiary undertakings' directors and officers as permitted by Section 310(3) of the Companies Act 1985.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



A K Buchanan
Secretary

8 January 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 year. 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; 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 Airways Aero Associations Limited

We have audited the company's financial statements for the year ended 31 March 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 17. 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 Airways Aero Associations 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 2003 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

19/1/ 2004

Profit and loss account

for the year ended 31 March 2003

	Notes	2003 £	2002 £
Turnover	2	1,548,548	1,609,744
Cost of sales		1,196,873	1,196,389
Gross profit		351,675	413,355
Administrative expenses		289,958	259,755
Operating profit	3	61,717	153,600
Interest receivable and similar income	5	30,547	34,437
Profit on ordinary activities before taxation		92,264	188,037
Tax on profit on ordinary activities	6	9	(6,061)
Profit retained for the financial year		92,255	194,098

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £92,255 attributable to the shareholders for the year ended 31 March 2003 (2002 - profit of £194,098).

Balance sheet

at 31 March 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	7	1,241,059	1,247,003
Current assets			
Stocks	8	51,609	59,102
Debtors	9	1,063,207	1,159,621
Cash at bank and in hand		463,381	213,685
		1,578,197	1,432,408
Creditors: amounts falling due within one year	10	467,163	419,573
Net current assets		1,111,034	1,012,835
Total assets less current liabilities		2,352,093	2,259,838
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account	15	2,351,993	2,259,738
Equity shareholders' funds	15	2,352,093	2,259,838



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D Maizey
Director

8 January 2004

Notes to the financial statements

at 31 March 2003

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

The cost of fixed assets is written off by equal annual instalments over their expected useful lives, except engine and top overhauls, which are capitalised and amounts written off to the profit and loss account by reference to the number of hours flown.

Short leasehold property & improvements	-	10 – 20 years or the period of the lease
Aircraft fleet	-	4 – 10 years
Other fixed assets	-	5 – 10 years

Aircraft overhaul

Top overhaul	-	1,000 – 1,200 hours
Engine overhaul	-	1,500 – 2,400 hours

Stocks

Stocks are valued at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at a balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

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.

Deferred tax is measured on an undiscounted basis at 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.

Operating lease agreements

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight-line basis over the lease term.

Pensions

Two employees are members of the Airways Pension Scheme. This is a defined benefit pension scheme operated by British Airways Plc. The assets of the scheme are held in a separate trustee administered fund. Contributions to the scheme 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. The contributions to the scheme are determined on the basis of triennial valuations using the attained age method.

Notes to the financial statements

at 31 March 2003

2. Turnover

Turnover comprises income from flying subscriptions, entrance fees, flying fees, sale of fuel and oil, rentals and hangarage, excluding intra-company items. All activities are continuing. Turnover and pre-tax profit is attributable to the activities of recreational flying and airfield operations. All operations are within the United Kingdom.

	<i>Recreational flying £</i>	<i>Airfield operations £</i>	<i>Total £</i>
Total sales	510,306	1,154,360	1,664,666
Inter segmental sales	-	(116,118)	(116,118)
Sales to third parties	510,306	1,038,242	1,548,548
Segmental profit	(11,043)	72,760	61,717

3. Operating profit

This is stated after charging:

	<i>2003 £</i>	<i>2002 £</i>
Auditors' remuneration - audit services	8,172	7,302
Directors' emoluments	38,000	38,000
Depreciation of owned fixed assets	145,000	144,660
Operating lease rentals - land and buildings	42,800	42,800

The directors' emoluments are included in a management charge by British Airways plc. No directors are paid by the company.

4. Staff costs

	<i>2003 £</i>	<i>2002 £</i>
Wages and salaries	510,538	498,474
Social security costs	39,415	39,454
Other pension costs	7,045	8,956
	556,998	546,884

The monthly average number of employees during the year amounted to 18 (2002 - 17).

Notes to the financial statements

at 31 March 2003

5. Interest receivable

	2003	2002
	£	£
Bank interest receivable	2,972	1,994
Interest from group companies	27,575	32,443
	<u>30,547</u>	<u>34,437</u>

6. Tax

(a) Analysis of debit/(credit) for the year

The tax charge/(credit) is made up as follows:

	2003	2002
	£	£
<i>Current tax:</i>		
United Kingdom corporation tax @ 30%	-	-
<i>Deferred tax:</i>		
Accelerated Capital Allowances	(14,662)	(6,706)
Other Timing Differences	87	645
Previous Year Adjustment	<u>14,584</u>	<u>-</u>
	<u>9</u>	<u>(6,061)</u>

(b) Factors affecting current tax charge

The current tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2002 - 30%). The differences are reconciled below:

	2003	2002
	£	£
Profit on ordinary activities before taxation	<u>92,264</u>	<u>188,037</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	27,679	56,411
Expenses not deductible for tax purposes	7,934	7,340
Depreciation in excess of capital allowances	14,542	6,706
Other differences	(87)	(645)
Free group relief from group members	<u>(50,068)</u>	<u>(69,812)</u>
Total current tax (note 6(a))	<u>-</u>	<u>-</u>

Notes to the financial statements

at 31 March 2003

6. Tax (continued)

(c) Provision for Deferred tax

	2003 £	2002 £
Accelerated Capital allowances	65,457	65,379
Other timing differences	877	964
Provision for deferred taxation	<u>66,334</u>	<u>66,343</u>
	£	£
Provision at start of period	66,343	60,282
P&L charge/(credit) for the period – current	14,575	6,061
P&L charge/(credit) for the period – prior	(14,584)	-
Provision at end of period	<u>66,334</u>	<u>66,343</u>

7. Tangible fixed assets

	Short leasehold property & improvements £	Assets in the course of construction £	Operating ground equipment £	Office & commercial equipment £	Aircraft fleet £	Aircraft overhaul £	Total £
Cost:							
At 1 Apr 2002	1,669,895	-	83,835	52,766	317,918	110,967	2,235,381
Additions	2,899	107,554	-	-	14,980	13,623	139,056
Disposals	-	-	-	-	-	(12,394)	(12,394)
At 31 Mar 2003	<u>1,672,794</u>	<u>107,554</u>	<u>83,835</u>	<u>52,766</u>	<u>332,898</u>	<u>112,196</u>	<u>2,362,043</u>
Depreciation:							
At 1 Apr 2002	605,830	-	77,378	17,865	234,503	52,802	988,378
Provided during the year	101,683	-	2,418	7,573	18,496	14,830	145,000
Disposals	-	-	-	-	-	(12,394)	(12,394)
At 31 Mar 2003	<u>707,513</u>	<u>-</u>	<u>79,796</u>	<u>25,438</u>	<u>252,999</u>	<u>55,238</u>	<u>1,120,984</u>
Net book value:							
At 31 Mar 2003	<u>965,281</u>	<u>107,554</u>	<u>4,039</u>	<u>27,328</u>	<u>79,899</u>	<u>56,958</u>	<u>1,241,059</u>
At 1 Apr 2002	<u>1,064,065</u>	<u>-</u>	<u>6,457</u>	<u>34,901</u>	<u>58,165</u>	<u>83,415</u>	<u>1,247,003</u>

Notes to the financial statements

at 31 March 2003

8. Stocks

	2003 £	2002 £
General stores - shop	7,479	6,025
Aircraft spares	37,476	38,225
Aviation fuel	6,654	14,852
	<u>51,609</u>	<u>59,102</u>

9. Debtors

	2003 £	2002 £
Trade debtors	279,766	401,147
Amounts owed by group undertakings	701,349	673,773
Prepayments and accrued income	15,758	18,358
Deferred taxation (note 6)	66,334	66,343
	<u>1,063,207</u>	<u>1,159,621</u>

10. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	119,509	155,476
Amounts owed to group undertakings	43,630	41,488
Other taxation and social security	21,308	13,661
Accruals and deferred income	282,716	208,948
	<u>467,163</u>	<u>419,573</u>

11. Pensions

The company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme, operated by British Airways plc. Details of the scheme as a whole, taken from the Annual Report and Accounts of British Airways Plc, are set out below. The company is a member of the Airways Pension Scheme (APS).

British Airways operates two funded principal defined benefit pension 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 March 31, 1984 and NAPS closed to new members on March 31, 2003. From April 1, 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 fund. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index. 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 Retail Price Index increases in payment up to a maximum of 5 per cent in any one year.

Notes to the financial statements

at 31 March 2003

11. Pensions (continued)

Most employees engaged outside the United Kingdom are covered by appropriate local arrangements. 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 March 31, 2000 by an independent firm of qualified actuaries, Watson Wyatt Partners, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no further employers' contributions were required in respect of APS while for NAPS an employers' contribution equal to an average of 3.0 times the standard employees' contribution with effect for the period January 1, 2001 to March 31, 2003 (2.35 times for the period April 1, 2000 to December 31, 2000) was appropriate. The actuarial valuations of APS and NAPS for March 31, 2003 have commenced and are due to be completed by autumn 2003.

All amounts recognised as costs were either funded or paid directly.

Employer's contributions (calculated as set out above for APS and NAPS), including pension augmentation payments charged in the accounts were:

<i>£million</i>	2003	<i>Group</i> 2002
Airways Pension Scheme	5	-
New Airways Pension Scheme	127	127
Other pension schemes and provident funds – mainly outside the United Kingdom	29	20
	<u>161</u>	<u>147</u>

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £6,687 million and £3,796 million respectively. The value of the assets represented 114 per cent (APS) and 93 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. In the case of APS, the market value of the assets together with future contributions from employees was sufficient to cover both past and future service liabilities. In the case of NAPS, the actuarial value of the assets together with future contributions from employees was sufficient to cover past service liabilities and some future service liabilities. The employer's contribution is intended to make up the balance of future service liabilities. The principal assumptions used in the actuarial valuations were that, over the long term, the annual increase in earnings and (NAPS only) in dividends would be 1.5 per cent higher than annual increases in price inflation. The annual return on investments was assumed to be 0.59 per cent (APS) or 2.75 per cent (NAPS) higher than the onward increase in earnings. Annual pension increases, over the long term, were assumed to be equal to price inflation for APS and 0.25 per cent less than price inflation for NAPS.

Under the projected unit method, the current service cost will increase as the members of the schemes approach retirement.

Employer's contributions in respect of overseas employees have been determined in accordance with best local practice.

Notes to the financial statements

at 31 March 2003

11. Pensions (continued)

FRS 17 Disclosures for the Year Ended March 31, 2003

The group has continued to account for pensions in accordance with SSAP24. The following additional disclosures are required in accordance with FRS 17 'Retirement benefits'.

<i>per cent p.a.</i>	<i>Group</i>			<i>Group</i>	
	<i>At March 31</i>			<i>At March 31</i>	
	<i>2003</i>			<i>2002</i>	
	<i>APS and NAPS</i>	<i>Other Schemes</i>		<i>APS and NAPS</i>	<i>Other Schemes</i>
Inflation	2.25	2.5 – 4.0		2.50	2.0 – 3.0
Rate of increase in salaries	3.75	1.5 – 6.0		4.00	2.5 – 6.0
Rate of increase of pensions in payment	2.25	2.0 – 8.0		2.50	2.0 – 8.0
Rate of increase in deferred pension	2.25	2.5 – 5.5		2.50	2.5 – 5.5
Discount rate	5.70	2.0 – 8.0		6.00	3.0 – 8.0

Market values of the schemes' assets at March 31, 2003 were

<i>£ million</i>	<i>Group</i>			<i>Group</i>		
	<i>At March 31, 2003</i>			<i>At March 31, 2002</i>		
	<i>APS and NAPS</i>	<i>Other Schemes</i>	<i>Total</i>	<i>APS and NAPS</i>	<i>Other Schemes</i>	<i>Total</i>
Equities	3,571	123	3,694	5,024	153	5,177
Bonds	4,472	67	4,539	3,854	77	3,931
Others	567	58	625	796	49	845
	8,610	248	8,858	9,674	279	9,953

Expected rate of return per cent per annum:

<i>£ million</i>	<i>Group</i>			<i>Group</i>		
	<i>At March 31, 2003</i>			<i>At March 31, 2002</i>		
	<i>APS</i>	<i>NAPS</i>	<i>Other Schemes</i>	<i>APS</i>	<i>NAPS</i>	<i>Other Schemes</i>
Equities	8.5	8.5	6.0 – 9.5	8.2	8.2	6.3 – 9.0
Bonds	4.5	4.5	3.0 – 9.0	5.1	5.1	3.3 – 10.0
Others	6.4	6.1	2.6 – 5.0	6.4	6.4	1.5 – 5.0

Notes to the financial statements

at 31 March 2003

11. Pensions (continued)

The following amounts at March 31 2002 were measured in accordance with FRS17:

<i>£ million</i>	<i>Group</i>			<i>Group</i>		
	<i>At March 31, 2003</i>			<i>At March 31, 2002</i>		
	<i>APS and NAPS</i>	<i>Other Schemes</i>	<i>Total</i>	<i>APS and NAPS</i>	<i>Other Schemes</i>	<i>Total</i>
Total market value of assets	8,610	248	8,858	9,674	279	9,953
Present value of liabilities	9,674	445	10,119	8,861	373	9,234
(Deficit)/surplus	(1,064)	(197)	(1,261)	813	(94)	719
Less: APS irrecoverable surplus	(418)	-	(418)	(1,207)	-	(1,207)
Pension liability (before allowance for deferred tax)	(1,482)	(197)	(1,679)	(394)	(94)	(488)
Related deferred tax	445	59	504	118	28	146
Net pension liability	(1,037)	(138)	(1,175)	(276)	(66)	(342)

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

	<i>Group</i>		
	<i>2003</i>		
	<i>APS and NAPS</i>	<i>Other Schemes</i>	<i>Total</i>
Surplus/(deficit) before irrecoverable surplus and impact of deferred			
Tax at April 1, 2002	813	(94)	719
Contributions paid	132	25	157
Current service cost	(148)	(5)	(153)
Past service cost	(12)	(1)	(13)
Other finance income/(charge)	56	(9)	47
Actuarial loss	(1,905)	(113)	(2,018)
Deficit before irrecoverable surplus and impact of deferred tax			
At March 31, 2003	(1,064)	(197)	(1,261)

12. Commitments under operating leases

At 31 March 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	<i>Land and buildings</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Operating leases which expire:		
In over five years	42,800	42,800

Notes to the financial statements

at 31 March 2003

13. Related party transactions

The company has taken advantage of the exemption under Financial Reporting Standard 8 not to disclose related party transactions, consolidated in the group accounts of British Airways Plc.

14. Share capital

	<i>Authorised</i>	
	2003	2002
	£	£
Ordinary shares of £1 each	100	100

	<i>Allotted, called up and fully paid</i>			
	2003		2002	
	No.	£	No.	£
Ordinary shares of £1 each	100	100	100	100

15. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss</i>	<i>Total share-</i>
	£	account	holders' funds
		£	£
At 1 April 2001	100	2,065,640	2,065,740
Profit for the year	—	194,098	194,098
At 31 March 2002	100	2,259,738	2,259,838
Profit for the year	—	92,255	92,255
At 31 March 2003	100	2,351,993	2,352,093

16. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £140,236 (2002 - £Nil).

17. Ultimate parent company

The ultimate parent undertaking and controlling party of the group of undertakings for which group accounts are drawn up and of which the company is a member is British Airways Plc, registered in England and Wales. This is also the smallest group in which the results of the company are consolidated. Copies of British Airways Plc's accounts can be obtained from Waterside, PO Box 365, Harmondsworth, UB7 OGB.