

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 MARCH 1997

Company number 590083



BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT

Directors: R Ayling
D M Stevens
Mrs G F Redwood

Secretary P H Jarvis

Registered office: Speedbird House, Heathrow Airport (London)
Hounslow, Middlesex TW6 2JA

The Directors present their report and the audited accounts for the year ended 31 March 1997.

DIRECTORS

The Directors of the Company during the year were Sir Colin Marshall, R Ayling, D M Stevens and Mrs G F Redwood. Sir Colin Marshall resigned on 1 February 1997 and R Ayling was appointed on that date.

ACCOUNTS AND RESULTS

The profit after tax, attributable to shareholders, amounted to £209,381 (1996: profit £297,738). The Directors do not propose payment of a dividend (1996: £Nil) and accordingly the profit for the year has been carried forward in retained profits.

PRINCIPAL ACTIVITIES

The Company, which is a wholly owned subsidiary undertaking of British Airways Plc, forms an integral part of British Airways' activity. During the year it was responsible for controlling and managing investments in other airlines and hotel companies.

EVENTS SINCE THE BALANCE SHEET DATE

On 1 April 1997 the authorised share capital of the Company was increased by £90 million, by the creation of 90,000,000 ordinary shares of £1 each.

Since the year end 65,173,499 shares of £1 nominal value have been allotted to British Airways Plc fully paid, to provide for investment in subsidiary undertakings. This included conversion of £36 million of the balance on the parent company account at 31 March 1997.

DIRECTORS' INTERESTS

None of the Directors had any beneficial interest in the shares of the Company either at 31 March 1997 or 31 March 1996. According to the register maintained as required under the Companies Act 1985, the Directors' interests in the share capital of British Airways Plc and in the 9.75% Convertible Capital Bonds 2005 of British Airways Capital Limited which require disclosure in these accounts were as follows:

	<u>Mrs G F Redwood</u>	
	31 March 1997	1 April 1996
<u>Interests in British Airways Plc:</u>		
Ordinary shares subject to no restrictions	15,586	17,412
Ordinary shares subject to restrictions	2,873	1,594
Options Executive and SAYE Share Schemes	39,698	39,698
<u>Interests in British Airways Capital Limited:</u>		
9.75% Convertible Capital Bonds 2005	-	53

The interests of R Ayling and D M Stevens are disclosed in the accounts of British Airways Plc. The Directors' interests set out above are in each case beneficial. The options under The Executive Share Scheme and SAYE Share Schemes are at prices ranging from £2.86 to £4.19.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT

(Continued)

LIABILITY INSURANCE

The ultimate parent undertaking, British Airways Plc, holds a Directors' and Officers' liability insurance policy covering the Directors' and Officers' of its subsidiary undertakings.

AUDITORS

The Company has passed elective resolutions in accordance with the provisions of sections 386(1) and 379(A) of the Companies Act 1985 and Ernst & Young will automatically continue in office as the Company's auditors.

BY ORDER OF THE BOARD

SECRETARY

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the auditors set out on Page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the financial year.

The Directors consider that in preparing the financial statements on Pages 5 to 11, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

REPORT OF THE AUDITORS

to the members of British Airways Associated Companies Limited

We have audited the accounts on pages 5 to 11, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of Directors and Auditors

As described on page 3, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Ernst & Young
Chartered Accountants
Registered Auditor
LONDON

26 January 1997

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1997

	Note	1997 £	1996 £
TURNOVER	2,3	-	1,797
GROSS PROFIT		-	1,797
Administrative expenses	4	1,706	1,000
OPERATING PROFIT		1,706	797
Loss on disposal of trade investments	8d	(30,740)	-
Interest receivable from parent undertaking		164,670	117,306
Income from interests in:			
Trade investments	8c	191,758	196,643
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		327,394	314,746
Taxation	9	(118,013)	(17,008)
RETAINED PROFIT FOR THE FINANCIAL YEAR		209,381	297,738

There are no recognised gains or losses other than the profits attributable to shareholders of the Company of £209,381 in the year ended 31 March 1997 and £297,738 in the year ended 31 March 1996.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

BALANCE SHEET

AS AT 31 MARCH 1997

	Note	1997 £	1996 £
FIXED ASSETS			
Investments:			
Subsidiary undertakings	6a	36,061,318	-
Associated undertakings	7a	160,376	160,376
Trade investments	8a	1,025,832	2,068,842
		<u>37,247,526</u>	<u>2,229,218</u>
CURRENT ASSETS			
Amounts owed (to)/by ultimate parent undertaking		(32,773,217)	1,956,680
		<u>(32,773,217)</u>	<u>1,956,680</u>
CREDITORS			
Amounts falling due within one year	11	(134,596)	(25,363)
		<u>(134,596)</u>	<u>(25,363)</u>
NET CURRENT ASSETS		<u>(32,907,813)</u>	<u>1,931,317</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,339,713</u>	<u>4,160,535</u>
CREDITORS			
Amounts falling due after more than one year	11	-	(30,203)
		<u>-</u>	<u>(30,203)</u>
CAPITAL AND RESERVES		<u>4,339,713</u>	<u>4,130,332</u>
Called up share capital	12,13	675,000	675,000
Profit and loss account	13	3,664,713	3,455,332
Approved by the Board	13	<u>4,339,713</u>	<u>4,130,332</u>

J. Greenwood

Director

26/1/98

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1997

1 ACCOUNTING POLICIES

Accounting convention:

The accounts are prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards.

As the Company is a wholly owned subsidiary undertaking of a company incorporated in England, group accounts have not been prepared.

Investments:

Income

Dividend income is included in the accounts in the year in which the dividends are receivable. Interest receivable on loans is included on an accruals basis.

Investments

Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

Provisions for diminution in value of investments

Provisions for the diminution in value of the cost of investments in subsidiary undertakings, associated undertakings and trade investments are based on the Company's share of attributable net tangible assets as shown in the latest available accounts of the Company in which investments are held.

Deferred taxation:

Provisions are made for deferred taxation, using the liability method, on short-term timing differences and all other material timing differences to the extent that it is probable that the liabilities will crystallise.

Foreign currencies:

Normal trading activities denominated in foreign currencies are recorded in sterling at actual rates of exchange as at the date of the transaction. Monetary assets and liabilities denominated in currencies other than sterling are translated to sterling at rates of exchange ruling at the end of the financial year. All currency gains and losses arising are included in the profit and loss account.

2 TURNOVER

Turnover comprises the invoice value of business development and management fees exclusive of Value Added Tax.

3 GEOGRAPHICAL ANALYSIS OF TURNOVER

	1997	1996
	£	£
Africa, Middle East, and Indian sub - continent	-	1,797

4 ADMINISTRATION EXPENSES AND OPERATING PROFIT

	1997	1996
	£	£
Administration expenses	(1,706)	1,000
(Release of accrual brought forward 01.04.96)		

The auditors remuneration is borne by British Airways plc.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

(continued)

FOR THE YEAR ENDED 31 MARCH 1997

5 DIRECTORS' REMUNERATION

The Directors received no remuneration or other emoluments from the Company during the year ended 31 March 1997 (1996 : £Nil).

All of the directors qualify for a defined benefit pension scheme funded by the Companys parent undertaking.

6 INTERESTS IN SUBSIDIARY UNDERTAKINGS

a)	Shares at Cost £	Amounts Written off £	Net Book Value £
At 1 April 1996	290,013	(290,013)	0
Additions	36,061,318	0	36,061,318
At 31 March 1997	<u>36,351,331</u>	<u>(290,013)</u>	<u>36,061,318</u>

b) Subsidiary undertakings at 31 March 1997 comprise the following equity interests in unlisted companies:

	Activity	Country of Incorporation	Percentage of Equity
British Air Services Limited	Dormant	England	100%
Scottish Airways Limited	Dormant	Scotland	100%
Jersey Airways Limited	Dormant	Jersey	100%
Participations Aeronautiques	Holding Co.	France	74.15%

7 INTERESTS IN ASSOCIATED UNDERTAKINGS

	Shares at Cost £	Amounts Written off £	Net Book Value £
a) At 1 April 1996 and 31 March 1997	<u>160,376</u>	<u>0</u>	<u>160,376</u>

b) Associated undertakings at 31 March 1997 comprise the following equity interests in unlisted companies:

	Activity	Country of incorporation	Percentage of equity
Beau Vallon Properties Limited	Hotels and catering	Seychelles	35%

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

(continued)

FOR THE YEAR ENDED 31 MARCH 1997

8 INTERESTS IN TRADE INVESTMENTS

	Shares at Cost £	Amounts Written off £	Net Book Value £
a) At 1 April 1996	2,077,162	(8,320)	2,068,842
Disposals (note 8d)	(1,043,010)	0	(1,043,010)
At 31 March 1997	<u>1,034,152</u>	<u>(8,320)</u>	<u>1,025,832</u>
			1997
			£
Listed investment on Mauritius Stock Exchange			932,975
Unlisted investments			92,857
			<u>1,025,832</u>

b) Trade investments at 31 March 1997 comprise equity interests in the following companies:

		Activity	Country of incorporation	Percentage of equity
Air Mauritius Ltd	Listed	Airline	Mauritius	10.6%
Air Mauritius Holding Ltd	Unlisted	Airline	Mauritius	13.2%
Tourism Promotion Services (Kenya) Ltd	Unlisted	Hotels	Kenya	12.0%
Tourism Promotion Services (Uganda) Ltd	Unlisted	Hotels	Uganda	8.0%

The Company has an investment of 13.2% in Air Mauritius Holdings Limited and its investment in Air Mauritius Limited of 10.6%, consists of a 3.8% direct shareholding and a 6.8% indirect shareholding through its 13.2% shareholding in Air Mauritius Holding Limited.

Air Mauritius Limited is a listed company quoted on the Mauritius Stock Exchange. The stock exchange valuation of our interest in Air Mauritius at 31 March 1997 was £6.9 million.

No provision has been made in these accounts for the liability to taxation on capital gains, which would arise if the investment in Air Mauritius Limited were to be sold at market value, as any gain on the disposal of the investment in Air Mauritius Limited would be fully relieved by capital losses available within the British Airways group, and no tax would be payable.

c) Income from interests in trade investments:

	1997 £	1996 £
Dividends	<u>191,758</u>	<u>196,643</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

(continued)

FOR THE YEAR ENDED 31 MARCH 1997

8 INTERESTS IN TRADE INVESTMENTS (cont)

	1997
d) Disposal of trade investment: (note 8a)	£
Brussels Europa S.A.	
Shares at cost	1,043,010
Less provision	<u>(30,203)</u>
	1,012,807
Proceeds	(1,000,000)
Cost of disposal	<u>17,933</u>
Loss on disposal	<u><u>30,740</u></u>

9 TAXATION

	1997	1996
	£	£
Overseas Tax	1,447	20,199
Overseas Tax prior year adjustment	(127)	(3,191)
Payment for Group Relief at 33%	116,693	Nil
	<u>118,013</u>	<u>17,008</u>

In previous years no charge was made for Group Relief.

10 DEFERRED TAXATION

If full provision for deferred tax had been made there would have been no additional charge for the year
(1996: nil)

11 CREDITORS

	1997	1996
	£	£
a) Due within one year:		
Taxation	116,663	23,363
Accruals	<u>17,933</u>	<u>2,000</u>
	<u>134,596</u>	<u>25,363</u>
b) Due after more than one year:		
Other creditors	<u>-</u>	<u>30,203</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

(continued)

FOR THE YEAR ENDED 31 MARCH 1997

12 CALLED UP SHARE CAPITAL	1997	1996
	£	£
Authorised:		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid:		
675,000 ordinary shares of £1 each	<u>675,000</u>	<u>675,000</u>

**13 RECONCILIATION OF SHAREHOLDERS' FUNDS
AND MOVEMENTS ON RESERVES**

	Share Capital	Profit & Loss	Total
	£	£	£
At 1 April 1995	675,000	3,157,594	3,832,594
Profit for the year	<u>-</u>	<u>297,738</u>	<u>297,738</u>
At 1 April 1996	675,000	3,455,332	4,130,332
Profit for the year	<u>-</u>	<u>209,381</u>	<u>209,381</u>
At 31 March 1997	<u>675,000</u>	<u>3,664,713</u>	<u>4,339,713</u>

14 ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary undertaking of British Airways Plc, a company incorporated in England. Copies of the accounts of British Airways Plc can be obtained in writing to the Secretary, British Airways Plc Speedbird House, Heathrow Airport (London), Hounslow, Middlesex TW6 2JA.