

DIRECTORS' REPORT AND ACCOUNTS
BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
MARCH 31, 1999
Company Number 590083



Directors: R Ayling
D M Stevens
Mrs G F Redwood

Secretary: P H Jarvis

Registered office: Waterside, PO Box 365
Harmondsworth UB7 0GB

DIRECTORS

The Directors of the Company during the year were R Ayling, D M Stevens and Mrs G F Redwood.

The loss after tax amounted to £47,262,900 (1998: loss £87,706,745).

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

On July 7, 1999 the authorised share capital of the Company was increased by a further £60 million, by the creation of 60,000,000 ordinary shares of £1 each.

On July 7, 1999 35,167,498 shares of £1 nominal value were allotted to British Airways Plc and fully paid up to support recapitalisation of subsidiary undertakings.

None of the Directors had any beneficial interest in the shares of the Company either at March 31, 1999 or March 31, 1998.

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:

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 £1.92 to £4.19.

During the year, the Company made no political or charitable contributions.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT

(Continued)

YEAR 2000 COMPLIANCE

The Company is a subsidiary of British Airways Plc and is included in the British Airways Group programme addressing the impact of the year 2000. Details of this programme can be found in the report and accounts of British Airways Plc, which can be obtained by writing to the Secretary, British Airways Plc, Waterside, PO Box 365, Harmondsworth UB7 0GB.

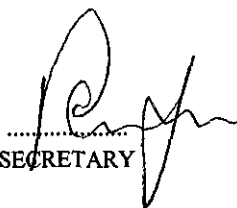
LIABILITY INSURANCE

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.

Company law requires the directors to prepare accounts 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 that period.

In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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 accounts comply with the Companies Act 1985.

The Directors 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.

REPORT OF THE AUDITORS

to the members of **BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

We have audited the accounts on pages 5 to 10, 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 Directors are responsible for the preparation of the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 accounts, 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 the information specified by the law regarding Directors' remuneration and transactions with the Company is not disclosed.

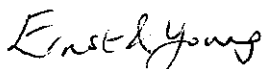
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 March 31, 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
LONDON

17 January 2000

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 1999

	Note	1999 £	1998 £
Administrative expenses		(844)	(682)
Operating profit	2	844	682
Provision against shares in subsidiary undertaking	5a	(47,561,652)	(88,121,707)
Income from interests in trade investments	5e	78,910	343,162
Net interest receivable from parent undertaking		242,102	257,255
Exchange difference on loan revaluation		(23,456)	-
Loss on ordinary activities before taxation		(47,263,252)	(87,520,608)
Taxation	4	352	(186,137)
Retained loss for the financial year	10	(47,262,900)	(87,706,745)

There are no recognised gains or losses other than the losses amounting to £47,262,900 in the year ended March 31, 1999 and losses of £87,706,745 in the year ended March 31, 1998.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

BALANCE SHEET

As At March 31, 1999

	Note	1999 £	1998 £
FIXED ASSETS			
Investments	5	1,093,351	1,093,351
CURRENT ASSETS			
Debtors	6	4,219,908	3,837,872
Creditors: Amounts falling due within one year	7	(7,795)	(176,548)
NET CURRENT ASSETS		<u>4,212,113</u>	<u>3,661,324</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,305,464</u>	<u>4,754,675</u>
Creditors: Amounts falling due after more than one year	8	(252,035)	-
		<u>5,053,429</u>	<u>4,754,675</u>
CAPITAL AND RESERVES			
Called up share capital	9	136,358,361	88,796,707
Profit and loss account	10	(131,304,932)	(84,042,032)
	10	<u>5,053,429</u>	<u>4,754,675</u>

The financial statements were approved by the Board of Directors on17/11..... 2000 and signed on behalf of the Board:

Director*G. McDonald*.....

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED MARCH 31, 1999

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:

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.

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 in the foreseeable future.

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 OPERATING PROFIT

The Auditors' remuneration is borne by British Airways Plc.

3 DIRECTORS' REMUNERATION

The Directors did not receive remuneration for their services to the Company during the year (1998: £Nil). The Directors qualify for a defined benefit pension scheme funded by the Company's parent undertaking.

4 TAXATION

	<u>1999</u>	<u>1998</u>
	£	£
Payment for Group relief at 31% (1998 31%)	-	176,548
Overseas Tax	100	9,717
Prior year adjustments	(452)	(128)
	<u>(352)</u>	<u>186,137</u>

There is no tax charge for the current year. Taxable profits will be sheltered in full by Group relief from the parent company, for which no payment is to be made.

If full provision for deferred taxation had been made, there would have been no additional charge/(credit).

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED MARCH 31, 1999

5 INVESTMENTS

a)	Subsidiary Undertakings £	Associated Undertakings £	Trade Investments £	Total Investments £
Cost				
At April 1, 1998	88,411,720	160,376	941,295	89,513,391
Additions	47,561,652	-	-	47,561,652
At March 31, 1999	<u>135,973,372</u>	<u>160,376</u>	<u>941,295</u>	<u>137,075,043</u>
Amounts provided/written off				
At April 1, 1998	(88,411,720)	-	(8,320)	(88,420,040)
Additions	(47,561,652)	-	-	(47,561,652)
At March 31, 1999	<u>(135,973,372)</u>	<u>-</u>	<u>(8,320)</u>	<u>(135,981,692)</u>
Net book value				
March 31, 1999	<u>-</u>	<u>160,376</u>	<u>932,975</u>	<u>1,093,351</u>
March 31, 1998	<u>-</u>	<u>160,376</u>	<u>932,975</u>	<u>1,093,351</u>

b) Subsidiary undertakings at March 31, 1999 comprise investments in the following unlisted companies:

Name of Company	Activity	Country of Incorporation	Proportion of Equity
British Air Services Limited	Dormant	England	100%
Scottish Airways Limited	Dormant	Scotland	100%
Jersey Airways Limited	Dormant	Jersey	100%
Participations Aeronautiques S.A.	Holding Co.	France	84%

c) Associated undertakings at March 31, 1999 comprise investments in the following unlisted companies:

Name of Company	Activity	Country of Incorporation	Proportion of Equity
Beau Vallon Properties Limited	Hotels and catering	Seychelles	35%

d) Trade investments at March 31, 1999 comprise investments in the following companies:

Name of Company	Activity	Country of Incorporation	Proportion of Equity
Air Mauritius Ltd	Listed Airline	Mauritius	11%
Air Mauritius Holding Ltd	Unlisted Airline	Mauritius	13%
Tourism Promotion Services (Uganda) Ltd	Unlisted Dormant	Uganda	8%

The Company has an investment of 13.2% in Air Mauritius Holding 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.

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.

	1999 £	1998 £
Listed investments at net book value	932,975	932,975
Unlisted investments at net book value	-	-
	<u>932,975</u>	<u>932,975</u>
Market value of listed investments	<u>3,534,648</u>	<u>3,795,075</u>

e) Income from interests in trade investments:

	1999 £	1998 £
Dividends	<u>78,910</u>	<u>343,162</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED MARCH 31, 1999

6 DEBTORS

	<u>1999</u>	<u>1998</u>
	£	£
Amounts owed by parent undertaking	3,277,735	3,837,872
Amounts owed by subsidiary undertaking	941,821	-
Taxation	352	-
	<u>4,219,908</u>	<u>3,837,872</u>

7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1999</u>	<u>1998</u>
	£	£
Taxation	-	176,548
Accruals and deferred income	7,795	-
	<u>7,795</u>	<u>176,548</u>

8 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1999</u>	<u>1998</u>
	£	£
Accruals and deferred income	252,035	-
	<u>252,035</u>	<u>-</u>

9 SHARE CAPITAL

	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1998</u>
	No.	£	No.	£
Authorised:				
Ordinary shares of £1 each	90,000,000	90,000,000	1,000,000	1,000,000
Increase approved by shareholders.	50,000,000	50,000,000	89,000,000	89,000,000
	<u>140,000,000</u>	<u>140,000,000</u>	<u>90,000,000</u>	<u>90,000,000</u>
Allotted, called up and fully paid:				
At April 1, 1998	88,796,707	88,796,707	675,000	675,000
Issued during the year	47,561,654	47,561,654	88,121,707	88,121,707
Balance at March 31, 1999	<u>136,358,361</u>	<u>136,358,361</u>	<u>88,796,707</u>	<u>88,796,707</u>

During the year 47,561,654 ordinary shares were allotted and fully paid up at par to provide capital for investment in subsidiary undertakings.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED MARCH 31, 1999

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

	<u>Share Capital</u>	<u>Profit & Loss</u>	<u>Total</u>
	£	£	£
At April 1, 1997	675,000	3,664,713	4,339,713
Additions	88,121,707	-	88,121,707
Loss for the Year	-	(87,706,745)	(87,706,745)
At March 31, 1998	<u>88,796,707</u>	<u>(84,042,032)</u>	<u>4,754,675</u>
Additions	47,561,654	-	47,561,654
Loss for the Year	-	(47,262,900)	(47,262,900)
At March 31, 1999	<u>136,358,361</u>	<u>(131,304,932)</u>	<u>5,053,429</u>

11 DIRECTORS' LOANS AND TRANSACTIONS

No loans or transactions were outstanding with Directors of the Company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

12 RELATED PARTIES

The Company has taken advantage of the exemption in FRS8 not to disclose related party transactions as 90 per cent or more of the voting rights are controlled within the Group.

13 PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is British Airways Plc.

The Company is a wholly owned subsidiary undertaking of British Airways Plc, a Company incorporated in England. Copies of the Group accounts of British Airways Plc, which include the Company, can be obtained by writing to the Secretary, British Airways Plc, Waterside, PO Box 365, Harmondsworth UB7 0GB.