

DIRECTORS' REPORT AND ACCOUNTS
BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
MARCH 31, 2006
Company Number 590083



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BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT

Directors: A K Buchanan
K Williams

Secretary: A K Buchanan

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

The Directors present their report and the audited accounts for the year ended March 31, 2006.

DIRECTORS

The Directors of the Company during the year were A K Buchanan and K Williams.

RESULTS

The profit after tax amounted to £2,207,363 (2005: profit £1,878,890).

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

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. The Company intends to continue to act as an investment controlling and management Company.

DIRECTORS' INTERESTS

None of the Directors had any beneficial interest in the shares of the Company either at March 31, 2006 or March 31, 2005.

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:

Directors' Names	British Airways Plc				British Airways Capital Limited	
	Ordinary shares		Share Options		Convertible Capital Bonds	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005	March 31, 2006	April 1, 2005
A K Buchanan	3,728	3,728	344,423	368,981	0	0

Directors' Names	British Airways Plc			
	Conditional Share Options Performance Share Plan		Conditional Share Options Long Term Incentive Plan 1996	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
A K Buchanan	63,546	0	150,120	226,743

The interests of Keith Williams are disclosed in the accounts of British Airways Plc.

During the year Mr A Buchanan exercised 87,016 share options under the British Airways Share Option Plan 1999 that had been granted to him in July 2002.

The Directors' interests set out above are in each case beneficial. The options under The Executive Share Option Scheme are at prices ranging from £1.57 to £4.05.

POLITICAL AND CHARITABLE CONTRIBUTIONS

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

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 LLP will automatically continue in office as the Company's auditors.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all steps a director might reasonably be expected to have taken in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

BY ORDER OF THE BOARD


.....
SECRETARY

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. 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 period. 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

We have audited the Company's financial statements for the year ended 31 March 2006 which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 12. These financial statements have been prepared under 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its Profit and Loss account for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP

Registered auditor

London

22 JANUARY 2007

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2006

	Note	2006 £	2005 £
Operating profit	2	0	0
Income from interests in trade investments and other income	4	296,895	322,813
Interest receivable from parent undertaking		1,910,468	1,716,453
Provision against investment in associated undertakings		0	(160,376)
Profit on ordinary activities before taxation		2,207,363	1,878,890
Taxation	5	0	0
Retained profit for the financial year	9	2,207,363	1,878,890

There are no recognised gains or losses other than the profits amounting to £2,207,363 in the year ended March 31, 2006 and £1,878,890 in the year ended March 31, 2005.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

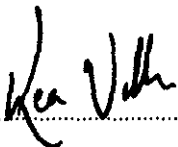
BALANCE SHEET

As At March 31, 2006

	Note	2006 £	2005 £
FIXED ASSETS			
Investments	6	932,975	932,975
CURRENT ASSETS			
Debtors	7	39,884,575	37,677,212
TOTAL ASSETS LESS CURRENT LIABILITIES		40,817,550	38,610,187
CAPITAL AND RESERVES			
Called up share capital	8	173,425,273	173,425,273
Profit and loss account	9	(132,607,723)	(134,815,086)
	9	40,817,550	38,610,187

The financial statements were approved by the Board of Directors on ²².....January 2007 and signed on behalf of the Board:

Director



BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED MARCH 31, 2006

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:

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised where the directors consider it more likely than not that there will be suitable profits from which the future reversal of underlying timing differences can be deducted. Deferred taxation is measured on a non-discounted basis at the 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.

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.

Cashflow statement:

Under the requirements of Financial Reporting Standard I (revised) the Company is exempt from the requirement to prepare a cashflow statement, as 90 per cent or more of the voting rights are controlled within the Group.

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 (2005: £Nil). The Directors qualify for a defined benefit pension scheme funded by the Company's parent undertaking. The emoluments of the directors are borne by the group company (British Airways Plc). The average number of employees during the year was nil (2005: nil).

4 INCOME FROM TRADE INVESTMENTS AND OTHER INCOME

	<u>2006</u>	<u>2005</u>
	£	£
Dividends	296,895	322,813
	<u>296,895</u>	<u>322,813</u>

5 TAXATION

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

	<u>2006</u>	<u>2005</u>
	£	£
Current Tax:		
Tax Charge for the year	0	0
	<u>0</u>	<u>0</u>

(b) Factors affecting tax debit / (credit) for the year

The current tax charge / (credited) for the period is less than the profit / (loss) at the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	<u>2006</u>	<u>2005</u>
	£	£
Profit on ordinary activities before tax	2,207,363	1,878,890
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	662,209	563,667
Expenses not deductible for tax purposes	0	48,113
Free Group relief (from) / to group members	(662,209)	(611,780)
Current tax charge for the year as above	<u>0</u>	<u>0</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED MARCH 31, 2006

6 INVESTMENTS

a)	Associated Undertakings £	Trade Investments £	Total Investments £
Cost			
At April 1, 2005	160,376	941,295	1,101,671
Disposed of in the period	(160,376)	0	(160,376)
At March 31, 2006	0	941,295	941,295
Amounts provided/written off			
At April 1, 2005	(160,376)	(8,320)	(168,696)
Amounts provided in the period	0	0	0
Disposed of in the period	160,376	0	160,376
At March 31, 2006	0	(8,320)	(8,320)
Net book value			
At March 31, 2006	0	932,975	932,975
<i>At March 31, 2005</i>	<i>0</i>	<i>932,975</i>	<i>932,975</i>

b) Associated undertakings

Beauvallon properties was sold during the year for SR1m (£105,263). The proceeds have been provided against, due to foreign exchange controls in the Seychelles.

c) Trade investments at March 31, 2006 comprise investments in the following companies:

Name of Company	Activity	Country of Incorporation	Proportion of Equity
Air Mauritius Limited	Listed Airline	Mauritius	11%
Air Mauritius Holding Limited	Unlisted Airline Holding	Mauritius	13%
Tourism Promotion Services (Uganda) Limited	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 10.5%, 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.

	2006 £	2005 £
Listed investments at net book value	932,975	932,975
Unlisted investments at net book value	0	0
	932,975	932,975
Market value of listed investments	4,370,894	4,289,952

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED MARCH 31, 2006

7 DEBTORS

	<u>2006</u>	<u>2005</u>
	£	£
Amounts owed by parent undertaking	39,884,347	37,676,984
Taxation	228	228
	<u>39,884,575</u>	<u>37,677,212</u>

8 SHARE CAPITAL

	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	No.	£	No.	£
Authorised:				
Ordinary shares of £1 each	200,000,000	200,000,000	200,000,000	200,000,000
	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
Allotted, called up and fully paid:				
At April 1, 2005	173,425,273	173,425,273	173,425,273	173,425,273
Balance at March 31, 2006	<u>173,425,273</u>	<u>173,425,273</u>	<u>173,425,273</u>	<u>173,425,273</u>

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

	<u>Share Capital</u>	<u>Profit & Loss</u>	<u>Total</u>
	£	£	£
At March 31, 2004	173,425,273	(136,693,976)	36,731,297
Profit for the Year	0	1,878,890	1,878,890
At March 31, 2005	<u>173,425,273</u>	<u>(134,815,086)</u>	<u>38,610,187</u>
Profit for the Year	0	2,207,363	2,207,363
At March 31, 2006	<u>173,425,273</u>	<u>(132,607,723)</u>	<u>40,817,550</u>

10 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.

11 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.

12 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.