

**DIRECTORS' REPORT AND ACCOUNTS**  
**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**31 MARCH 1998**

**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: Waterside, PO Box 365  
Harmondsworth UB7 0GB

The Directors present their report and the audited accounts for the year ended 31 March 1998.

#### DIRECTORS

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

#### ACCOUNTS AND RESULTS

The loss after tax amounted to £87,706,745 (1997: profit £209,381). The Directors do not propose payment of a dividend.

#### 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 1998 the authorised share capital of the Company was increased by £50 million, by the creation of 50,000,000 ordinary shares of £1 each.

Since the year end 10,277,492 shares of £1 nominal value have been allotted to British Airways Plc fully paid, to provide for investment in subsidiary undertakings.

#### DIRECTORS' INTERESTS

None of the Directors had any beneficial interest in the shares of the Company either at 31 March 1998 or 31 March 1997. 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-Mar-98	1-Apr-97
<u>Interests in British Airways Plc:</u>		
Ordinary shares subject to no restrictions	12,459	15,586
Ordinary shares subject to restrictions	3,638	2,873
Options Executive and SAYE Share Schemes	40,257	39,698
<u>Interests in British Airways Capital Limited:</u>		
9.75% Convertible Capital Bonds 2005	-	-

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. None of the Directors exercised share options during the year.

**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.

**YEAR 2000**

In line with the Ultimate Parent Undertaking, the Company has in place a structured and systematic programme to identify potential Year 2000 risks to its systems and to take action where necessary.

**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 1998 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

16 October 1998  
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**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 MARCH 1998**

	Note	1998 £	1997 £
Administrative expenses		(682)	(1,706)
<b>OPERATING PROFIT</b>		<b>682</b>	<b>1,706</b>
Provision against shares in subsidiary undertakings	4a	(88,121,707)	-
Gain/(Loss) on disposal of trade investments	6d	-	(30,740)
Interest receivable from parent undertaking		257,255	164,670
Income from interests in trade investments	6c	343,162	191,758
<b>(LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(87,520,608)</b>	<b>327,394</b>
Taxation	7	(186,137)	(118,013)
<b>RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	11	<b>(87,706,745)</b>	<b>209,381</b>

There are no recognised gains or losses other than the losses amounting to (£87,706,745) in the year ended 31 March 1998 and profits of £209,381 in the year ended 31 March 1997.

**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**BALANCE SHEET**

**AS AT 31 MARCH 1998**

	Note	1998 £	1997 £
<b>FIXED ASSETS</b>			
Investments:			
Subsidiary undertakings	4a	-	36,061,318
Associated undertakings	5a	160,376	160,376
Trade investments	6a	932,975	1,025,832
		<u>1,093,351</u>	<u>37,247,526</u>
<b>CURRENT ASSETS</b>			
Amounts owed by ultimate parent undertaking		3,837,872	-
<b>CREDITORS</b>			
Amounts falling due within one year	9	(176,548)	(32,907,813)
<b>NET CURRENT ASSETS</b>		<u>3,661,324</u>	<u>(32,907,813)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,754,675</u>	<u>4,339,713</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	88,796,707	675,000
Profit and loss account	11	(84,042,032)	3,664,713
	11	<u>4,754,675</u>	<u>4,339,713</u>

Approved by the Board

*J Medhurst* Director

16/10/98 Date

**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 1998**

**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 AUDITORS REMUNERATION**

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 1998**

**3 DIRECTORS' REMUNERATION**

The Directors received no remuneration or other emoluments from the Company during the year ended 31 March 1998 (1997 : £Nil).

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

**4 INTERESTS IN SUBSIDIARY UNDERTAKINGS**

a)	Shares at Cost £	Provision £	Net Book Value £
At 1 April 1997	36,351,331	(290,013)	36,061,318
Additions	52,060,389	(88,121,707)	(36,061,318)
At 31 March 1998	<u>88,411,720</u>	<u>(88,411,720)</u>	<u>-</u>

b) Subsidiary undertakings at 31 March 1998 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 S.A.	Holding Co.	France	76%

**5 INTERESTS IN ASSOCIATED UNDERTAKINGS**

	Shares at Cost £	Amounts Written off £	Net Book Value £
a) At 1 April 1997 and 31 March 1998	<u>160,376</u>	<u>-</u>	<u>160,376</u>
b) Associated undertakings at 31 March 1998 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 1998**

**6 INTERESTS IN TRADE INVESTMENTS**

	Shares at Cost £	Amounts Written off £	Net Book Value £
a) At 1 April 1997	1,034,152	(8,320)	1,025,832
Disposals (note 6d)	(92,857)	-	(92,857)
At 31 March 1998	<u>941,295</u>	<u>(8,320)</u>	<u>932,975</u>
			<b>1998</b>
			<b>£</b>
Listed investments at net book value include:			
Listed investment on Mauritius Stock Exchange			<u><b>932,975</b></u>

b) Trade investments at 31 March 1998 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 (Uganda) Ltd	Unlisted	Dormant	Uganda	8.0%

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.

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 1998 was £3.8 million, (1997: £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:

	1998 £	1997 £
Dividends	<u>343,162</u>	<u>191,758</u>

**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**NOTES TO THE ACCOUNTS**

*(continued)*

**FOR THE YEAR ENDED 31 MARCH 1998**

**6 INTERESTS IN TRADE INVESTMENTS (cont)**

	<b>1998</b>
	<b>£</b>
d) Disposal of trade investment: (note 6a)	
TPS (Kenya) Ltd	
Shares at cost	<b>92,857</b>
Proceeds	<b>92,857</b>
Profit on disposal	<u><u>-</u></u>

**7 TAXATION**

	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Overseas Tax	<b>9,717</b>	<b>1,447</b>
Payment for Group Relief at 31% (1997 33%)	<b>176,548</b>	<b>116,693</b>
Over provided in earlier years	<b>(128)</b>	<b>(127)</b>
	<u><u>186,137</u></u>	<u><u>118,013</u></u>

**8 DEFERRED TAXATION**

If full provision for deferred tax had been made there would have been no additional charge for the year  
(1997: nil)

**9 CREDITORS**

	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Due within one year:		
Amount owed to ultimate parent undertaking	<b>176,548</b>	<b>32,889,880</b>
Accruals	<b>-</b>	<b>17,933</b>
	<u><u>176,548</u></u>	<u><u>32,907,813</u></u>

**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**NOTES TO THE ACCOUNTS**

*(continued)*

**FOR THE YEAR ENDED 31 MARCH 1998**

10 CALLED UP SHARE CAPITAL	1998	1997
	£	£
Authorised:		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Increase approved by shareholders on 1 April 1997	89,000,000	-
	<u>90,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid:		
At 1 April 1997	675,000	675,000
88,121,707 ordinary shares of £1 each allotted to BA Plc	88,121,707	-
	<u>88,796,707</u>	<u>675,000</u>

During the year 88,121,707 ordinary shares were allotted and fully paid up at par to provide capital for investment in subsidiary undertakings

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

	Share Capital	Profit & Loss	Total
	£	£	£
At 1 April 1996	675,000	3,455,332	4,130,332
Profit for the Year	-	209,381	209,381
	<u>675,000</u>	<u>3,664,713</u>	<u>4,339,713</u>
At 1 April 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 31 March 1998	<u>88,796,707</u>	<u>(84,042,032)</u>	<u>4,754,675</u>

**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 ULTIMATE PARENT UNDERTAKING**

The Ultimate Parent Undertaking is British Airways Plc, a company incorporated in England. The smallest and largest group of undertakings for which group accounts are drawn up and of which the Company is a member is British Airways Plc. Copies of British Airways' Annual Report and Accounts for the year ended 31 March 1998 can be obtained from:- The Investor Relations Dept., British Airways Plc, Waterside, Asia House, HDB3, PO Box 365, Harmondsworth UB7 0GB.

**BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 MARCH 1998**

	1998 £	1997 £
(INCOME)/EXPENDITURE		
Auditors' remuneration	-	(2,000)
Professional fees (income) / expenditure	<u>(682)</u>	<u>294</u>
TOTAL NET INCOME	<u>(682)</u>	<u>(1,706)</u>
OPERATING PROFIT	682	1,706
Provision against subsidiaries	(88,121,707)	
(Loss)/Profit on sale of investments	-	(30,740)
Interest receivable	257,255	164,670
Dividends receivable	<u>343,162</u>	<u>191,758</u>
(LOSS) / PROFIT BEFORE TAXATION	(87,520,608)	327,394
Taxation	<u>(186,137)</u>	<u>(118,013)</u>
NET (LOSS) / PROFIT FOR THE YEAR	<u>(87,706,745)</u>	<u>209,381</u>

THIS PAGE DOES NOT FORM PART

OF THE STATUTORY ACCOUNTS OF THE COMPANY